

Which way to market?

Exploring opportunities for marginalised producers in developing countries to supply mainstream commercial companies in the UK

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Traidcraft

Fighting poverty through trade

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Glossary of acronyms

ACP	African Caribbean and Pacific countries
AMO	Alternative Marketing Organisation
APFTI	Associated Partners for Fair Trade International
ATO	Alternative Trading Organisation
CBI	Centre for the promotion of imports from developing countries (CBI is abbreviated from the Dutch)
EFTA	European Fair Trade Association
ETI	Ethical Trading Initiative
EU	European Union
FINE	Umbrella organisation of FLO, IFAT, NEWS and EFTA
FLO	Fairtrade Labelling Organisation
FOB	Free on board
GTZ	German Technical Assistance (abbreviated from the German) – the German Government aid agency
IFAT	International Federation for Alternative Trade
IRFT	International Resources for Fairer Trade
MFA	Multi-fibre Arrangement
NEWS	Network of European World Shops
NGO	Non-governmental organisation
PWBLF	Prince of Wales Business Leaders Forum
SME	Small and Medium-sized enterprise
UK	United Kingdom
VITA	Volunteers in Technical Assistance
WTO	World Trade Organisation
WWF	Worldwide Fund for Nature

Executive summary

Amid the current wave of interest in ‘corporate citizenship’, more companies are being asked to use their power to take on board responsibility for the impact of their operations on the communities where they operate or trade. One approach is for companies to source their products from businesses that are marginalised by the international trading system because of a need for external resources to achieve market entry and overcome the lack of development in their country. This report looks at the practical side of creating export opportunities for ‘marginalised’ producers in developing countries *while not exposing them to exploitation* through their lack of bargaining power in view of the risks they face, and to ensure that the increased trade has *a beneficial impact on poverty*.

For over three decades, the fair trade movement has been working to create opportunities for marginalised businesses under more equitable trading terms. Fair trade operates as a separate niche market but in the last few years has begun to expand sales into mainstream commercial businesses. The objectives of the report are to:

- Document the experience of fair trade organisations (also known as alternative trade organisations or ATOs)
- Outline the difficulties in trading with marginalised businesses
- Look at what initiatives have been tried as solutions
- Generate recommendations for action by the Traidcraft policy unit which will reduce the barriers to market entry so that the idea of buying from marginalised businesses can be encouraged among mainstream companies.

In addition to allowing market access for businesses that might not otherwise be able to make international trading links, fair trade is often described as paying a mutually agreed fair price where there are visible benefits to the producer group and/or their community. Typical benefits can include access to advance payments, a better return for labour, improved and non-exploitative working conditions and community development projects. The trading relationship must also be long term and based on a spirit of co-operation. Approaches to fair trade differ between ATOs, and for different product types from varying countries of origin. There are strict internationally defined standards for a number of commodity products while for other items, especially hand-crafted gifts and interiors, a more flexible framework is needed to fit the variety of products. Some ATOs believe that fair trade principles can never truly be applied in the mainstream because of the inevitable exposure of producers to market fluctuations in taste and demand when the fair trade niche is built on long term trading relationships.

However, all ATOs are value-driven to achieve social development objectives using trade as a means, not an end. Therefore, the ATO niche generally takes a more sympathetic approach towards suppliers than mainstream companies in that they are prepared to work with businesses that have less resources at their disposal. That said, the product still has to be appropriate to the target market and be of the required standard. To be considered ‘export ready’ without the need for the external inputs offered in the fair trade package, a producer must also have the capacity for a product delivery service to the buyer that maintains confidence in continuing the trading relationship.

At the outset of the fair trade movement, the emphasis was on finding an outlet for what the producer could supply. Now there is a much sharper focus on the market, and product development in line with current trends in the destination country is a crucial part of the fair trade package of support for business capacity building. In addition, buyer initiated requests to find a fair trade source for ready developed products are now being received.

The Fairtrade Mark is the only label in the UK which guarantees adherence to strict criteria developed by the Fairtrade Labelling Organisation, and is one way of distinguishing fair trade products from conventionally sourced goods sold in the mainstream. The Fairtrade Mark is available for coffee, tea, cocoa, honey, sugar and bananas. Products falling outside the scope of the Fairtrade Mark can be promoted through an ATO brand, and some products are both branded and labelled.

Such a wide range of products requires separate analysis to develop a workable market entry strategy. But consumers and businesses can still be segmented according to their ethical priorities. While fair trade addresses the terms of trade, commercial companies are increasingly taking an interest in implementing codes of conduct to achieve minimum labour standards, an approach known as ethical trade. Approaches to fair and ethical trade can be put on a continuum ranging from:

- ATOs interested in the terms of trade – these are small scale businesses relative to, say, high street retailers;
- Companies with values sympathetic to the fair trade movement, especially environmentally driven community businesses;
- Commercial businesses with an ethical foundation (such as The Body Shop)
- Commercial companies who have pro-actively taken up the challenge of social responsibility through strong interest in fair trade and/or ethical sourcing
- Companies who have become involved in ethical trade (codes of conduct) because it makes business sense to do so in the current climate
- Those with little or no interest in fair trade or ethical trade.

It is important to note that if a company or consumer is not interested in social development, there might still be a sales opportunity if the product is what the consumer or buyer wants. Some hand-crafted interiors are sold to the designer end of the market through fair trade channels and are not distinguished as fair trade goods. The products sell themselves.

Although there is a trend to buy more products directly from the producers, intermediaries or ‘middlemen’ can play an essential co-ordinating role in consolidating volumes for exporting or importing before reaching the buyer and end market. Mainstream companies with a high stock turnover do not have the time to source from a large number of small marginalised businesses, while the primary producers rarely have the production capacity or the resources to make market links with commercial buyers. The key to minimising exploitation of the producer is to find an intermediary who does not extort maximum commercial advantage.

Volumes appropriate to the mainstream can be achieved through second level co-operatives – a co-operative or union of co-operatives – which perform an intermediary consolidating role while maintaining an owner-producer structure. But fair trade suppliers are not all producer co-operatives – many are community owned or privately

owned businesses. Traidcraft suppliers are often intermediary organisations run on a commercial basis which specifically buy from some of the poorest groups and offer them favourable terms of trade.

How does a company go about sourcing or procuring products from marginalised businesses on fair trade terms? There are currently three main routes to market for fair trade products:

- *ATOs as wholesalers*, where the retailer buys the goods from an ATO who provides the verification of the fair trade relationship through the brand and/or the Fairtrade Mark. In this case, the trading relationship with the producer is connected more closely with and managed by the fair trade wholesaler.
- *NGO facilitated sales*, where a marketing NGO (non-governmental organisation) provides business development training and advice to the producer when needed, as well as making contacts with appropriate buyers. The NGO acts as an agent without taking a fixed commission so that the price remains viable. These organisations can also be called ‘alternative marketing organisations’ or AMOs.
- *Fairtrade Mark product lines*: Some conventional commercial companies have established distinct product lines that qualify for the Fairtrade Mark. This route is available for certain commodities only, as described above.

But while social responsibility and ethical issues are given far more attention in business circles than just a few years ago, efforts by marginalised businesses to achieve access to export markets are plagued by a combination of obstacles. One of the major barriers to entry is that the price of labelled or branded ‘fair trade’ products is often higher than the competition from conventional sources. A look at the difficulties faced gives some insight into why this is so.

1. Dilemmas between commercial and social objectives. Using commercial means to create direct social development benefits is extremely complicated and riddled with contradictions. For example, choosing suppliers can sometimes mean a balance between the potential for trading success and targeting groups based on the need for social benefits delivered by the trading relationship.

2. Market preparation. Reaching the point of being ‘export ready’ requires rigorous preparation. In an ideal situation, a business will have already proved its success in the domestic market before planning to export. But for some products – especially certain commodities grown as cash crops – there is little or no domestic market in the country of origin, and therefore this shield is not available.

One of the main areas of work in export preparation is obtaining information about and gaining real understanding of the destination market. This is the problem most frequently identified and voiced by producers in developing countries. In response, some European countries have established government run services that specifically provide information and support for suppliers in developing countries. However, there is still a need to train producers on how to interpret and apply the information in an effective way, especially in the context of hand crafted interiors and gifts products

where design innovation is essential. The need for adaptation and change within the producer business in order to achieve export success is often underestimated.

3. Achieving standards of quality, consistency, product safety, timeliness, and other market requirements is essentially part of market preparation, but it is separated out to emphasise its importance. Quality and consistency of product is a fundamental concern for a buyer. The domestic market in a developing country is rarely as demanding of quality requirements, partly because of different standards and norms, and partly because the goods do not have to travel as far to the point of sale, and have less chance of being damaged. The cultural context of the producer can be a natural barrier to understanding why certain features are important.

Other standards – such as organic certification - may currently be a way to distinguish a product from the competition but have the potential of becoming the norm in future years. In this case, it can be a barrier for smallholder farmers who have the right product but no means to gain the proof that the market demands. The growing popularity of ethical trade could also prove to be a barrier to market entry because the informal sector is difficult to audit.

4. Market linkages with appropriate buyers who are also interested in marginalised businesses needs to be matched with the supply of good products. A first time meeting with a UK buyer would be virtually impossible for a marginalised business based in a developing country to arrange without assistance. Even intermediary marketing organisations in the country of production find this difficult; buyers are busy, pressured and have the power to pick and choose. The Trade Facilitation team at Traidcraft provide a sales service through Traidcraft's partner network using a sales strategy based on the quality of the products which 'happen to be fair trade' as well. However, most development donors are reluctant to fund this type of 'northern based' sales work.

One way of making sales contact is through attending trade fairs. Research and preparation as to the appropriateness of trade fairs is essential to avoid costly and frustrating experiences. Commercial buyers are under too much pressure to visit showrooms – and therefore, product sellers have to take their goods to the buyer.

5. Credit, technology and infrastructure within a country are the underpinning of commercial operations, and a major contributing factor to the timeliness of product delivery. E commerce is a significant trend that could cause further marginalisation because of low technological capacity. The expectations of short lead times on electronic transactions are often not possible for micro-businesses and fair trade producers because of transport infrastructure and other factors described here. Exposure of design led interior products opens the risk of massed produced copies by those with higher capacity, but e commerce might be possible for commodities with the Fairtrade Mark.

6. International Trade policy: The World Trade Organisation (WTO) was set up to reconcile national and regional policies on international trade with the principles of free trade for all, but discrepancies still exist. High import tariffs on processed goods into Europe can be problematic, and means that the lucrative processing business often remains in the EU because the final product would be priced out of the market

by the tariffs. Protocols on specific products give preferential treatment to certain countries. Sourcing outside the scope of a protocol can mean high tariffs even if the goods are fairly traded and from an area in need of development. Fairtrade labelling has so far not been an issue at the WTO because it is a voluntary initiative and specifically targeted at businesses that can be marginalised by WTO rules.

On a positive note, the new EU-ACP agreement which will supersede the Lome Convention from June 2000 specifically supports trade development activities, including the promotion of fair trade.

7. Marketing and communication of fair trade principles has been built on a simple message: Buy fair trade and make your contribution to the reduction of poverty in developing countries, but the picture is more complex in practice. The different approaches of ATOs can contribute to mixed messages; closer strategic co-operation is needed as well as literature aimed at a commercial audience.

The scope of the Fairtrade Mark can undermine consumer reassurance of fair trade for products not covered by the Mark. Resources to develop Fairtrade Mark criteria for other products would help this as well as clear communication about which products can qualify and which cannot. Also, the registers for tea and coffee are already full and this is a real barrier for newcomers to the market because they cannot get access to officially labelled channels.

But perhaps the biggest risk of confusion is where large commercial companies choose to include marginalised smallholders in their supply chains and generate publicity without addressing the trading relationship in terms of power balance and social development needs. A comprehensive evaluation system linking fair trade to the social benefits generated would be a useful learning exercise as well as an endorsement to the advantages of fair trade for the producers.

Conclusions

The difficulties facing marginalised businesses are usually the commercial reasons why mainstream companies have not traditionally sourced products from them. But active support of fair trade and marginalised producers can be a way of enhancing corporate reputation to support a branding strategy – although a balance is needed between actual input and marketing mileage. Some companies have already found pro-active engagement with social development requirements in countries of operation brings practical advantages aside from reputation management. One example is that buying from smallholder farmers can spread the risk of pest attack and climatic conditions compared with monoculture plantations.

In reviewing the activities and experience of fair trade organisations and the barriers to market entry faced by marginalised producers, work to improve market access needs to be conducted both internally and externally of the fair trade movement. Priority activities for the Traidcraft policy unit are:

- To facilitate closer working relations among fair trade organisations, including co-ordinated discussions on the future of fair trade

- To implement projects to assess the impact of fair trade, to examine where more emphasis is needed and give systematic weight to fair trade marketing claims
- To initiate a programme to include small producers in the ETI
- To generate awareness of fair trade aimed at a commercial audience, both at a general level (including business schools) and in more detail targeted at specific sectors

Other ideas and themes raised in the report are:

- To work towards expanding the scope of the Fairtrade Mark, possibly as a collaborative project with several ATOs
- To explore creative partnerships with companies and business related organisations which are willing to get involved in social development activities and which can offer beneficial services to marginalised producers
- To consider an import promotion agency in the UK along the lines of the Dutch organisation CBI.
- To build links with business schools and design schools
- To monitor the trends in e commerce

Some specific points are put forward for consideration by donor agencies:

- Impact assessment projects are essential as a broad strategic method of targeting and supporting fair trade activities
- ‘Northern’ based work on trade links is important to complement input in the country of origin. This includes market awareness tours, making buyer linkages and attending trade fairs.
- One way of improving market access for marginalised producers is to encourage more benevolent marketing intermediary organisations. However, these are long term projects and a medium term time scale is needed to measure sales success.
- Marketing intermediaries working with marginalised producers cannot be expected to be viable independent of external funding because the service they provide is correcting a market failure. Some funds can be generated through diversifying activities into other areas e.g. social auditing services, but these need to be recognised as long term business aims, and may not be applicable in all circumstances.

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1. Introduction

The power of retail buyers has never been greater. Tight competition among rival high street names and supermarkets, and the demand for high quality products created by effective marketing of brands have led to very particular product specifications which suppliers need to meet in order to win business. Reports in the media -- such as the documentary shown in the UK two years ago exposing the demanding approach of a munge tout buyer from a major supermarket -- have brought buying power to the attention of the public. At the same time, there has been increasing interest in minimum labour standards implemented through codes of conduct, known as 'ethical trade'. This has led companies to pursue social auditing and productive engagement with non-governmental organisations (NGOs) who can advise on appropriate standards for the workers who are employed to supply the retail trade. In this climate, momentum is gathering for more companies to use their power to take on board responsibility for the impact of their operations on the communities where they operate or trade, and to ensure that they have a positive effect where there is an opportunity to do so.

This report is about one aspect of the huge discussion on 'corporate citizenship' -- how big companies, particularly retailers, can make a positive contribution to social development by sourcing products from 'marginalised' businesses. Marginalised refers to those who do not have sufficient financial or other assets for the initial investment needed for export trading, and are put at further disadvantage due to the lack of development in their country. The producers in question could be farmers or artisans and may be self employed or part of a business. They are usually small or micro enterprises based around a village or community although it is not so much their size that defines them as their circumstances; that they are poor or operating in situations of market failure. However, the crux of this proposition is to increase export opportunities for the producers *while not exposing them to exploitation* through their lack of bargaining power in view of the risks they face, and to ensure that the increased trade has *a beneficial impact on poverty*.

In practical terms, the ground covered by this suggestion is huge. First, the product has to be appropriate for the target market in order to generate sales and maintain the export venture. But the process is much more complex than making links with a buyer and supplying the right product. In addition, a producer business needs to have reached the stage of being 'export ready', meaning they have developed the capacity for a good product delivery service, covering factors such as consistency and quality of product, a timely shipment, and clear communication. All of these aspects need attention to gain and retain a buyer's interest, which is particularly difficult for marginalised producers in developing countries given the limited resources at their disposal. This is also why many producers rely on intermediaries or 'middlemen' to provide some of the buyer services and sell the products into the export markets. And while intermediaries play an essential role in creating a channel to market, the key to

minimising exploitation of the producer is to find an intermediary who does not extort maximum commercial advantage.

The 'fair trade' movement in the UK started out during the 1960s with the aim of developing export opportunities for marginalised businesses through an 'alternative' approach to trading. 'Fair trade' principles offer solutions to problems faced by producers by paying a mutually agreed fair price, making a long term commitment to a trading relationship, providing advanced payments to the producer, and enabling wider benefits relevant to the community concerned. Other inputs can include business support services such as design input, product development support, market awareness training and/or business counselling. Buyers in fair trade companies (also known as alternative trade organisations – or ATOs) are also sympathetic and supportive of producers where circumstances affect their ability to achieve deadlines.

ATOs have built their businesses on the selling point that purchases of their products will make an improvement in the lives of those who supplied them, and this venture has evolved into a specialised niche market. However, the ATOs also recognise that the benefits brought about by their business activities are concentrated in the hands of the relatively small number of producers that the fair trade market can support. To widen the distribution of those benefits, orders need to be for a larger volume of goods. And this can only realistically be achieved by finding a route into the mainstream 'mass' market.

Easier said than done. First, attracting the interest of UK retail or wholesale buyers to develop links with marginalised producers requires building up the confidence of the customer that the supplier can deliver quality goods to the required schedule. Although many long term suppliers to the fair trade niche (as well as some newcomers) have gained sufficient experience of export trading to meet the specifications of the mainstream, the risk might still seem too great for buyers who face harsh commercial pressures and stock delivery deadlines. Second, fair trade products are generally more expensive than like products bought under conventional terms because the costs of competing are higher for marginalised businesses, and products with internationally set fair trade criteria always carry a premium to be used for the benefit of the producer community. Purchasing policies commit buyers to tight margins that are not compromised, and so the higher price is passed on to the consumer, potentially reducing the appeal of the product.

Third, fair trade is also about redefining the terms on which trade is conducted. The cornerstone of ATO businesses is to avoid exposing producers to exploitation and fluctuations in the market. Yet commercial businesses are primarily market led and despite good intentions will simply discontinue a product line if and when tastes change – and if the supplier has not been able to adapt their products quickly enough, they will not win orders. Is this fair trade in the mainstream or continued exploitation? The underlying tensions between commercial realities and social development objectives appear throughout the report.

But the ideological jungle of fair trade is generally not interesting to buyers who are focused on whether a product will sell. There are a number of sound practical reasons why some retailers have already bought products that have been supplied by marginalised producers on fair trade terms, including:

- Concern for corporate reputation linked with the impact of company operations on social development in the ‘developing world’
- Rising consumer demand for fair trade products
- A recognition of the potential for originality in hand-crafted artisan products for the ‘fashion gifts and home’ market
- A recognition of the advantages of smallholder agricultural production such as better protection from climatic problems and pest attack than large monoculture plantations, and a solution to land availability issues.
- Changing perceptions of product quality and reliability of supply
- A genuine willingness to engage with community businesses and a recognition that this can have positive effects on corporate culture and image

This is an enormous subject – an attempt to cover the supply of such a wide range of products originating from any developing country means that generalisations have to be made. The following section gives further details on the nature of fair trade as it operates within its niche market. Section 3 introduces some examples of the products available on a fair trade basis, and an overview of the mechanisms that drive fair trade product development and marketing. Section 4 takes a closer look at the retail sector to identify which companies might or have already shown an interest in buying from marginalised community businesses. The crucial middle links of the chain are then outlined in a section on routes to market.

Despite the positive reasons for ‘fair trade’ listed above, there are a large number of barriers facing marginalised producers, and these often become the commercial reasons why buyers do not consider using smaller and less accessible suppliers. The main objective of this paper is to make recommendations on future actions which will reduce these barriers or find ways of overcoming them so that the idea of buying from marginalised businesses can be encouraged among mainstream companies. The crucial first step in this process is to identify the scope of difficulties and find out what initiatives have been tried as solutions. This will highlight where companies can make a difference as well as generating recommendations for action points which could be taken up by different types of institution.

The discussion draws heavily on the experience of Traidcraft which is both a commercial trading company (Traidcraft plc) and a non-profit organisation (Traidcraft Exchange). The plc operates a catalogue attracting individual mail order customers and a network of ‘fair traders’ who voluntarily run small stalls selling Traidcraft merchandise. The business – which does not receive external funding - also sells some goods on a wholesale basis to larger companies. Traidcraft Exchange offers business support services to marginalised producers and facilitates sales to a wide range of businesses, including commercial companies as well as ATOs. It also incorporates a small policy unit to promote socially responsible business practices among the wider business community. The conclusions of the report will feed directly into the strategy of the policy unit, part of which deals with improving market access for community and ‘fair trade’ businesses by raising awareness of the concept and its possibilities among commercial companies.

There has been extensive input to the report from Traidcraft personnel, including Jenny File, Margaret Gardner, Rob Lake, Helen McCree, Andy Redfern, Nicky Robinson, Paul Snedker and many others. In addition, other organisations and

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2. What is fair trade?

Fair trade is about creating market opportunities for producers who would not normally have access to exporting on their own limited resources, so that the resulting business dealings enable producers to make improvements in their lives. A more detailed definition agreed by representatives of the fair trade movement through the FINE¹ alliance is shown in box 1.

Box 1: The FINE definition of fair trade

Fair Trade is an alternative approach to conventional international trade. It is a trading partnership which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning.

The goals of Fair Trade are:

1. 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.
2. To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3. To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively
4. To set an example of partnership in trade through dialogue, transparency and respect.
5. To campaign for changes in the rules and practice of conventional international trade.
6. To protect human rights by promoting social justice, sound environmental practices and economic security.

The FINE definition is written in the policy language of international development, and can be interpreted and applied in different ways. From a practical perspective, the concept of fair trade can be envisaged in terms of:

- The package of assistance offered by fair trade companies e.g. credit, product development support, business capacity building and so on.
- Risk sharing: Proportionally, a poor farmer or artisan has to invest a large percentage of his or her assets to enter into trade, and on conventional terms, this carries no guarantee of a return. By sharing some of this risk through the provision of support services, buyers can make a considerable difference in the lives of the producers.
- A reasonable correlation between costs incurred by a company and the value added to the product by the activities of that company. One way to measure exploitation is the extent to which an organisation along the supply chain adds little or no value to a product but drastically increases the price to reflect their bargaining power.

- Social benefits to the producers: Communication about the improvements in the lives of the producers helps consumers and buyers to visualise the merit of trading for development objectives. Currently, this is often reported as personal stories from the producers.
- A simple assurance to buyer and consumer that the product has not involved someone being ‘ripped off’.

The fair trade movement and the niche market it supplies is the foundation of this alternative approach to trading, and remains the central reference point as more fair trade products enter mainstream markets. A glossary of fair trade organisations mentioned in this report is given in appendix 1. However, interpretation of the meaning of fair trade also differs between ATOs, ranging from strict adherence to internationally defined principles to a more elastic approach for different product types from varying countries of origin. At the same time, all ATOs operate within value-driven parameters to achieve social development objectives using trade as a means, not an end.

But what is the difference between fair trade as practiced by these ‘alternative’ companies, and sourcing from marginalised businesses to produce social benefits? It is an ongoing debate as to whether the principles of fair trade can ever be fully applied to the mainstream due, among other factors, to the inevitable exposure of producers to market fluctuations when dealing with commercial companies. While greater penetration into mainstream markets is arguably the only way forward for the fair trade movement, it must be recognised that mainstream business demands a different approach to the ATO niche. In most companies, buyers will not tolerate late delivery and poor communication of changes to an arrangement, for whatever reason this might occur. Therefore, there is a risk that the gain of a broader distribution of benefits gained through the supply of greater volumes will be countered by the lessening of the quality of those benefits. This gap can be filled through business support services such as those offered by Traidcraft Exchange, but business development is a slow, long term process and export readiness cannot be achieved immediately.

Another frequently asked question is about the relationship between fair trade and ethical trade². As introduced earlier, ethical trade is about improving the conditions of employees working in supplier companies within the existing framework of international trade. This can be contrasted with the creation of new opportunities, and the alternative terms of the business relationship emphasised by fair trade. Furthermore, where many ATOs feel that fair trade cannot really be fully applied to the mainstream, a commercial company sourcing from marginalised businesses to produce visible social benefits for that community might be referred to as ‘ethical’.

The theoretical background can get very confusing without real examples of how fair trade operates on the ground. The discussion of the conceptual background will be revisited after an overview of how fair trade is applied in practice. This will also illustrate the possibilities and pitfalls of expanding operations into the mainstream.

3. Product Focus

Whatever the principles by which a buyer operates, they are primarily interested in good products. Therefore, what items could a retailer look to stock that have originated from marginalised businesses? This section looks at some examples from the product range found in the fair trade niche market, some of the mechanisms driving new developments and ways in which fair trade products can be differentiated when sold through mainstream retail outlets.

3.1 Product types

From a market perspective, products traded by ATOs can be divided into two main categories – foods and beverages, and ‘fashion, gifts and home’ products (see table 1). The table is intended to give an overview of the range rather than an exhaustive list.

At the producer level, it is often easier to group together all agricultural products to include food and non edibles like cotton, essential oils and beeswax. Also, items classed as handicrafts at the source represent such a wide variety of products that they become separated into the fashion, gifts and home market segments at the point of sale. In general the life cycle of interiors and gifts is shorter than for foods because they are closely linked to regular changes in fashion trends. Alterations in food tastes are much more gradual, especially because the main impact is on the processing method -- many fair trade foods are processed and packaged in Europe using ingredients from developing countries (see section 6).

Table 1: Some examples of products in the fair trade sector

<i>Foods and Beverages</i>	<i>Fashion, gifts and home</i>
Coffee	Household textiles
Tea	Essential oils
Chocolate	Interiors
Honey	Jewellery
Cashew nuts and peanuts	Clothing
Dried fruits	Accessories
Fruit juices	Christmas decorations
Muesli	Greetings cards

Over the 1990s, there has been a distinct change in fair trade sales patterns in that a greater volume of food is now sold compared to hand-crafted products. In 1979 100% of Traidcraft plc business was in the crafts sector, whereas in 1998/9, the plc bought £689,000 worth of crafts (34% of total) and £1.34 million foods and drinks (66%)³. This change was fuelled by increased competition in the handicrafts market during the early 1990s, when fair trade companies lost their ‘unique selling proposition’ or USP as more companies began to sell similar goods. Furthermore, food and drinks products have since diversified from commodity based products such as tea, coffee and chocolate into dried fruits and juices as shown in the table. New opportunities for composite food products - products made of more than one

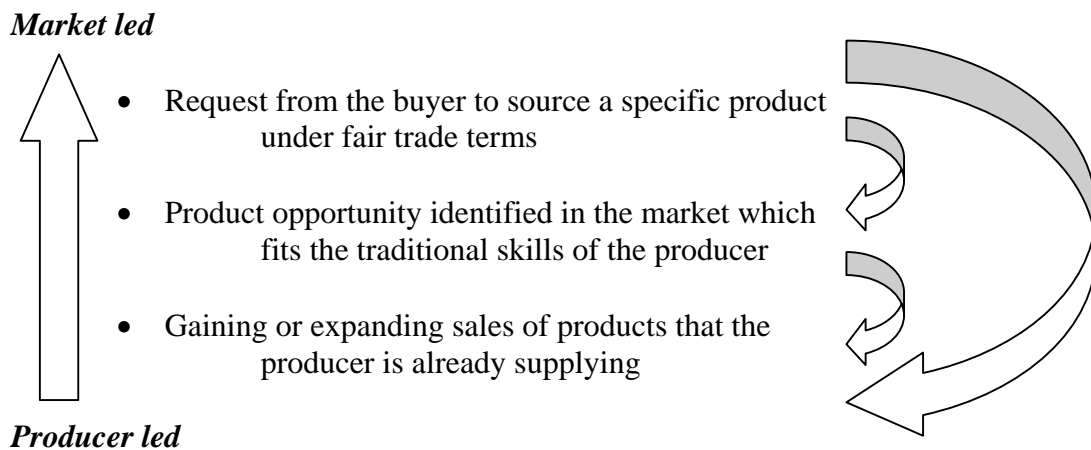
ingredient such as muesli and wholefood snack bars - have also proved an exciting area for Traidcraft. Meanwhile, fair trade foodstuffs of all types are doing well in the mainstream, including Cafédirect coffee and tea, Divine chocolate, Traidcraft's Geobar (a snack bar) and other labelled products from commercial companies (see section 3.3).

However, 'handicrafts' generally still bring higher returns per unit than food products even though their sales are not increasing within the fair trade niche. Quality improved dramatically after the 1990s sales plummet and fair trade companies and their producers were forced to re-evaluate their strategies to be more sensitive to the general demands of the market. But the shift in thinking resulting from the crisis has meant superior quality and product diversification - and a better match with the requirements of the mass market.

3.2 Drivers of Product Development

Product development in the fair trade sector involves a mixture of approaches along a continuum from producer led to market led as shown in figure 1. In the beginning, the emphasis was wholly on finding an outlet for what the producer could supply. Since the strategic rethink, there has been more emphasis on the market – including food products. Fair trade coffees, teas and chocolates can now compete with regular brands on taste and quality.

Figure 1: The dynamics of sourcing from marginalised businesses



For 'fashion, gifts and home' products, sensitivity to consumer trends means that the traditional crafts skills can be transferred to a product that is more widely marketable in the UK than the original handicraft item. An example is Jandami weaving from Bangladesh, which is conventionally used to weave intricate saris for the designer end of the domestic market. A Bangladeshi producer applied this weaving skill to create a delicate repeat motif for curtain material, and through a deal facilitated by Traidcraft and the local partner NGO, ECOTA Forum, this product now sells in the exclusive

Conran Shop in London. This represents a pragmatic approach that is sensitive to both the producer skills and market tastes.

Buyer driven market led product development is where buyers specifically want a 'fair trade' source for a product that they plan to include in their range. Traidcraft has started to receive this type of request from mainstream buyers, ranging from incense sticks to foods (especially if organically grown) to more specific handcrafted products where the buyer provides the prototype sample to be reproduced. The Bookchair, a stand for books designed like a mini deckchair that is currently sold in Waterstones - was sourced in this way and facilitated by Traidcraft.

All these developments create further opportunities for producers to find other outlets for their new products. This returns the cycle to the producer led approach – but the producer now has increased experience and market knowledge to expand their business.

3.3 Product identification

A perhaps surprising number of products sold to mainstream retailers from marginalised businesses are bought purely because they fit buyer requirements, and the social benefits brought about by the business are not highlighted (see section 4). But in many cases, a retailer will want to emphasise to consumers that the product was sourced on 'fair trade' terms so as to enhance the marketing strategy.

There are currently three main approaches to differentiating 'fair trade' products in the UK mainstream market:

- Fairtrade Mark
- ATO own brand
- A combination of the two

The Fairtrade Foundation is the body which co-ordinates and promotes the use of the only recognised fair trade label in the UK, the Fairtrade Mark. It is currently available for coffee, tea, cocoa (including chocolate), sugar, honey and bananas, while orange juice will be launched in the near future. Research is also underway to explore the possibilities of fair trade cotton.

The system is linked to an international register of approved producers administered by the Fair Trade Labelling Organisation (FLO), and inclusion on the registers is subject to compliance to a set of criteria specific to each product. All labelled products have to have been sourced from a producer listed on the registers. The label is available for both fair trade companies and for conventional companies whose brand is not directly associated with fair trade. Percol coffee and Premier Brands have product lines that are licensed to carry the Fairtrade Mark, without which there would be no recognition that the products had been sourced under socially responsible terms.

Where product criteria do not exist, this does not mean that the product cannot have been bought from a fair trade source. For example, the development of a register and related criteria for handicrafts is complicated because there is such a wide range of

products that are represented by the ‘fashion, gifts and home’ sector, and the costs of the setting up a Fairtrade Mark for handicrafts would be difficult to justify. There is further discussion of the Fairtrade Mark scope in section 6.

However, it is possible to brand the product with the name of the fair trade company that supplied it. The brand image is built directly from the reputation of the ATO within the dedicated fair trade niche – but may not initially be widely recognised. Consumer research for Traidcraft in 1998 showed that the name had a 19% recognition⁴. For the size of the company this is quite an achievement, but at the same time, a supermarket buyer might think twice about the saleability of the product. Waitrose were initially hesitant to stock the Traidcraft Geobar earlier in 1999, but this product has since achieved more than double the sales target.

Since its launch, the Geobar has been awarded the Fairtrade Mark so that it is both branded and labelled. All products supplied by Cafédirect – a marketing ATO⁵ - also carry the mark. However, from personal experience in explaining the mechanisms of fair trade, recognition is generally higher for the Cafédirect brand name than for the Fairtrade Mark.

4. Who will buy?

Moving away from a purely product focus, what are the target markets for products which can be supplied by marginalised businesses? In practice, each product is associated with a specific market segment requiring separate analysis. At a more general level, a first step to looking at the mainstream through an 'ethical' lens is to assess attitudes to socially responsible business practices. This can be examined in terms of product discrimination in end markets (consumers) and attitudes towards social factors among commercial buyers.

4.1 Consumers

During the last few years, there has been a rise in number of people who are willing and able to consider social factors as part of the value of a product. Consumer demand is a major reason why companies take an interest in fair trade products and more generally in buying from poor producers. Consumers can be roughly categorised according to their social conscience as follows:

- Loyal fair traders: Those dedicated to buying 'fair trade' or products from marginalised businesses where possible and can afford any price premium.
- Conscience with convenience: Those who choose 'fair trade' if available nearby but do not go out of their way to specifically buy fairly traded products
- Product first, ethics second: Those who buy with a product focus while ethical criteria may swing the choice of equivalent products in favour of the one which will bring social benefits.
- Product focus: Those for whom ethical criteria have no bearing on their purchasing choice. Some of this group may be deliberately disapproving of ethical claims because of a belief that the free market will deliver all requirements.

All categories are relevant in the context of expanding access to mainstream markets for marginalised producers, but the second, third and fourth consumer types arguably hold the most untapped potential⁶. Cafédirect is a powerful example of the extent of the second consumer group. The company's growing coffee range and tea brand, TeaDirect are now stocked by all the major supermarkets in addition to dedicated fair trade outlets. And as a consequence of high quality and widespread availability, Cafédirect claimed 4% of the UK roast and ground coffee market in 1998⁷.

It should be emphasised that consumers focused purely on the product are not necessarily out of reach because if the product is what the consumer wants, the source can be immaterial. This is especially true for the fashion, gifts and home product range – some of which are not identified as 'fair trade' at the point of sale even though they were bought using the services of an ATO. Furthermore, consumers may take a different attitude towards different products based on their knowledge about a particular trade or through awareness of product availability. For example, a customer might always buy fair trade coffee because it has a long history and is now widely stocked – but ethical criteria might not be considered for, say, incense sticks which would have no immediate association with buying fair trade as yet. Fair trade consumer awareness campaigns, such as the annual Fair trade Fortnight co-ordinated by the Fairtrade Foundation, aim to alert potential customers to what products are available and where they can be bought.

4.2 Commercial buyers

The power of a company to drive buying specifications depends on their size in terms of volume and turnover. This includes supermarkets, high street retailers and large wholesalers which either own brands or supply branded goods under licence. Examples of company names which may not be familiar to the UK consumer but are major commercial buyers include Premier Brands which owns Typhoo Tea and other lines, and the Pentland Group, a major supplier of own brand footwear for major retailers and other branded goods including Speedo and Berghaus.

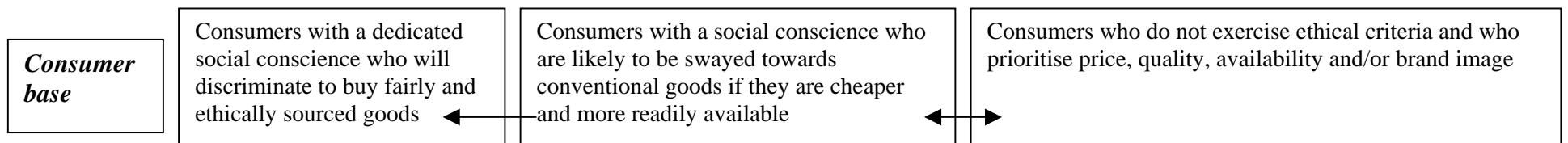
Table 2 (see page 13) maps out the approaches of different companies to fair and ethical trade along a continuum from a development focus to purely commercial operations, and is shown alongside a sketch of the socially conscious consumer base. There are also differences across the spectrum within all the categories, not excluding the views and approaches of fair trade organisations. Mainstream companies are often strong in one area of social responsibility and weak in others depending on internal priorities.

But while social responsibility and ethical issues are given far more attention in business circles than just a few years ago, does this translate into an opportunity for marginalised businesses to sell into the mainstream? As with most things, this is less clear cut than might first appear. Member companies of the Ethical Trading Initiative (see appendix 2) are generally a good target for fair trade salespeople. Yet one commentator during the research reported that fair trade ‘was not even on the map’ for some ETI companies because the ETI base code already involves significant changes to operations, and further work would not be considered at this stage. This was reinforced during interviews with other organisations.

That said, individual buyers within the companies are in a position to influence the criteria they use to decide which products to buy. But mainstream buyers are trained to make commercial decisions according to margins and as yet few have the time or interest to prioritise social considerations. In Traidcraft’s experience, buyers are primarily interested in the product, but – as with the third category of consumers described above – the final sway in favour of the product might be the beneficial impact to the producer. In some cases, the source is only relevant as a representation of uniqueness, such as the opportunities presented by the expensive ‘designer’ end of the fashion market. Liberty’s, for example, have bought silk scarves and cushion covers sourced by Traidcraft. Meanwhile, Trade Plus Aid is a wholesale ATO which specifically targets the high end of the market, supplying designer goods and ‘collectables’. These sorts of products come from artisans in developing countries whose high and unusual skills evolved from local traditions and inspire unique designs. The products sell themselves.

Table 2: A typology of approaches to fair and ethical trade

	Developmental objectives through trade →					Commercial objectives
<i>Approach</i>	Alternative trading organisations	Sympathisers	Commercial ethical businesses	Pro-active interest in ethical and/or fair trade	Reactive interest in ethical trade	No interest in ethical trade
<i>Drivers</i>	Fair trade focus where buyers are actively supportive of developmental aims	Value driven community businesses with a main priority other than poverty reduction, especially environmental businesses selling wholefood/organics	Value driven large scale business	Commercial businesses who have initiated their own projects and partnerships to improve standards in their supply chain and/or work with community businesses	Commercial businesses who have joined the recent wave of ethical interest because it makes business sense in an ethical climate	Commercial businesses who are practising business as usual with little or no reference to their social impact.
<i>Marketing and promotion of ethical interests</i>	Own brand labelling and/or use of the Fairtrade Mark	Some branded goods from ATOs. But the priority for marketing is with the main value of the business	The source is indicated through basic producer info on a swing tag	Some product related marketing but not extensive - interest is built into the company culture and brand. Some detailed reports of activities, including work with NGOs	Little or no product related marketing but code of conduct is usually made available Some companies may buy unique products for the designer end of the market from 'fair trade' sources but do not emphasise the development benefits of their decision	None. Defensive political lobbying in some cases.
<i>Examples</i>	Traidcraft Oxfam Fair Trade Co. TWIN Trading Cafédirect Equal Exchange	Out of this World Infinity Foods Suma foods And Albert	Body Shop Ben & Jerrys	B&Q Premier Brands (inc Typhoo Tea) CWS and CRS (the Co-op) Iceland	Monsoon M&S Adidas J Sainsbury	Nestle Disney Del Monte



5. Routes to Market

The target companies outlined in section 4 can become involved in trade with marginalised producers in a number of ways and to differing degrees. Each product reaches the end market through a unique supply route that follows the mechanisms prevalent in that particular sector. Supply chains are almost always more complex than might appear to the consumer or those outside the trade. But while generalisations are difficult across sectors, this section provides a guide to the types of organisations in the trading chains that can open opportunities for marginalised producers to join the supply base of large UK companies.

Firstly, a general point about the number of traders along the chain. Although there is a trend to buy more products directly from the producers, intermediaries or 'middlemen' can play an essential co-ordinating role in consolidating volumes for exporting or importing before reaching the buyer and end market. Mainstream companies with a high stock turnover do not have the time to source from a large number of small marginalised businesses, while the primary producers rarely have the production capacity or the resources to make market links with commercial buyers. Traidcraft believes that it is a lack of *benevolent* intermediaries which leaves producers open to exploitation when considering mainstream supply rather than the presence of middlemen per se. This includes supply to the fair trade niche market.

The available routes for products from marginalised businesses to reach mainstream markets include:

- Through an ATO wholesaler
- Through a relationship brokered by an enterprise development NGO
- Through an existing or new commercial relationship based on a purchasing policy which specifically includes marginalised groups.

5.1 ATOs as wholesalers

This is the route most obvious to the end consumer; where the goods are bought wholesale from an ATO who provides the verification of the fair trade relationship through the brand and/or the Fairtrade Mark. (There are also commercial companies which are licensed to use the Fairtrade Mark on products which have been verified, but this will be discussed in section 5.3.) Wholesaling also takes place between different fair trade companies – some of Oxfam Fair Trade's products are bought through Traidcraft and branded with the Oxfam name while Traidcraft also buys some products from Oxfam. Traidcraft plc is also involved in wholesale sales to retailers. Fenwicks and Bhs have bought doormats while Waitrose stock the Geobar and the newly developed Traidcraft chocolate chip cookie, and Sainsburys have agreed to trial the Geobar in some of their stores. There is also a new project for 2000 to wholesale fair trade hand-made paper to mainstream outlets.

This means that the trading relationship with the producer is connected more closely with and managed by the fair trade wholesaler. Therefore, how do ATOs source their products? A lot of food suppliers, especially commodities such as cocoa and coffee, are members of co-operatives which co-ordinate independent producer members and

consolidate the supply. But co-operatives alone are rarely big enough to produce the big volumes needed for mainstream supply. Volumes can be achieved through second level co-operatives – a co-operative or union of co-operatives – which perform an intermediary consolidating role while maintaining an owner-producer structure. CaféDirect uses second level co-operatives for their Kilimanjaro and Macchu Picchu Mountain Coffees. Buying from second level co-operatives is one option for commercial companies who plan to buy more produce from smallholders – as discussed in section 5.3. The Day Chocolate Company, which produces and manages the Divine chocolate brand, takes the co-operative model one step further so that the producers and marketing engine are all members of the same organisation.

Some handicraft producer companies are also co-operatives, such as Co-optex in India. But fair trade suppliers are not all producer co-operatives – many are community owned or privately owned businesses. Traidcraft suppliers are often intermediary organisations run on a commercial basis which specifically buy from some of the poorest groups and offer them favourable terms of trade. Examples are Agrocel in India, a supplier of agricultural products such as peanuts and rice which are grown by small farmers. Saffy handicrafts in the Philippines is also an intermediary that sells interiors and gifts products bought from independent groups for the Traidcraft catalogue.

Where the ATO is both a wholesaler and an end retailer, strategic decisions sometimes have to be made as to which range of products will be available for each set of customers. This is especially true for food products. Once product criteria have been met, supermarkets base their decision to stock a product on the projected sales per area of shelf space. For each new product chosen, another has to be taken off the shelf, and the line is only continued if sufficient sales are achieved. Therefore, where a product is being sold from an ATO into a supermarket, it is better that all consumers – included those dedicated to the fair trade niche - buy from the supermarket at least until the product is well established. To encourage this trend, the Geobar was initially not available to Traidcraft customers on mail order, while Cafédirect products are only sold in bulk.

5.2 NGO facilitated sales

One method of linking a marginalised business with the UK mainstream is with the support of business development services and marketing NGOs which also aim to create social benefits for the producers. These are sometimes referred to as ‘alternative marketing organisations’ or AMOs. In addition to offering training and advice when appropriate, the NGO can act as an agent without taking a fixed commission so that the price remains viable for the buyer. Examples of support activities that can be provided by the NGO are:

- Business counselling for the producer
- Design input
- Market information service
- Strategic market analysis for a particular product
- Making links and arranging meetings with relevant buyers
- A convenient contact point for any communications from the buyer

This list of activities cannot all be conducted from a UK base. Traidcraft recognises that there is a strong need for more organisations in the producer country who understand both how the destination market works *and* the social development needs of producer businesses. This was the motivation for the Traidcraft strategy agreed in the early 1990s to establish a network of partnerships to function as marketing intermediaries (see box 1).

Box 2: Traidcraft Partner Development

Traidcraft has a programme to build partnerships with intermediary NGOs either by linking up with existing organisations or by instigating the creation of a new project which is then ‘Southern’ driven. Currently, there are 6 partners:

- International Resources for Fairer Trade (IRFT), India
- ECOTA Forum, Bangladesh
- Associated Partners for Fair Trade International (APFTI), the Philippines
- Just Exchange, South Africa,
- Zambili, Zambia
- Amka, Tanzania.

Feasibility studies are also in progress for Pakistan, the Caribbean and Malawi.

Once the link is established, it becomes a channel for producer clients to market their products and a platform for training in market awareness and product development. The partner development team works on business capacity building and trains the personnel at the organisation where required, to enhance their ability to give appropriate advice to their clients. Market information is also passed on to the partner for distribution where relevant. The Trade Facilitation department then links the products to appropriate markets in the UK by arranging retail tours for the producers to explore the competition, offering support on strategy and making links with buyers. The services will be provided until such time when the business has enough experience and resources to manage the buyer relationship without external input.

While the partner organisations work with domestic markets, they also have access to the Traidcraft trade facilitation department to create export opportunities. The long term trade facilitation target is for 80% of sales to be through mainstream commercial outlets and 20% through ATOs⁸. Target companies are mainly wholesalers because this is the best match for volumes, while current end market sales are primarily through ‘half way houses’ – that is, either sympathiser businesses or value driven commercial companies as shown in table 2 (page 13). But some sales are being completed in other areas. The Jandami weaving curtain netting and the Bookchair mentioned earlier (page 9) are examples of successful trade facilitation ‘deals’ with commercial retailers

CORR Jute Works in Bangladesh now co-ordinates and buys from a network of 5,000 craftspeople, and was the first Traidcraft supplier of non-food products. They recently sold jute tie backs (ties to hold around opened curtains to the side of the window) directly to Ikea. Although they received design input from GTZ, the German aid agency, Jute Works had enough experience to sustain the relationship with the retailer without NGO support.

However, since the client base of any AMO is made up of producers who cannot pay for the business development inputs they receive, it would be unrealistic to expect marketing intermediaries with development aims to be financially self sustaining. A certain level of subsidy will always be required because the services are correcting a market failure, and in general the poorer the country of production, the more input will be required. Once established, there may be opportunities for the AMO to diversify into other areas such as social auditing services for the mainstream commercial sector. But this is a long term business plan and will contribute to rather than sustain financial independence of the marketing service organisation.

5.3 Commercial schemes to include marginalised producers

The most clearly defined way for conventional companies to become involved in fair trade is to establish fair trade lines of their products which qualify for the Fairtrade Mark. Commercial companies which are licensees of the Fairtrade Mark for selected products are Ridgways Teas (a division of Premier Brands), Clipper Teas and Percol fair trade coffee range. These ranges are supplied to retailers through conventional distribution channels, but are guaranteed to be sourced through a fair trade relationship.

However, the use of labelling does not appeal to all companies while the Fairtrade Mark is available only for certain commodities – these issues will be taken up in section 6. The focus here is on how companies can include marginalised producers in their supply base in a way which is moving towards the fair trade model. The Body

Box 3: Doormats with a difference

The Coir Development Project, Kerala, India was initiated by a local exporting house, Aspinwall & Co. at the request of the retail buyer in the chain, B&Q. Coir is the fibre on coconut husks, which is harvested, spun into threads and woven into doormats and indoor matting. The primary producers are 95% women working from within their villages; who then supply semi-finished products to a factory for finishing, screen printing and packing.

The project aimed to improve the organisation and working conditions of their semi-finished matting suppliers. International Resources for Fairer Trade, a Bombay based NGO and Traidcraft partner, conducted a social audit of production processes. As a result, the women were organised into 9 groups of 20 people to:

- Stimulate the exchange of ideas and encourage team working
- Allow workers to obtain credit through the group
- Make recommendations to Aspinwall about improvements and resource needs
- Co-ordinate health and safety concerns

The project has been a great success, and a pilot study is underway to build a tank in which to soak the coconut husks so as to curb the pollution this practice has caused in using local lagoons. Lessons from the pilot study will feed into further recommendations for the provision and administration of tanks for all 9 groups.

Shop Community Trade department is perhaps the best known example of a mainstream company sourcing from community businesses on a fair trade basis. They buy a combination of some ingredients for their cosmetic products (e.g. cocoa butter and brazil nuts) and accessories (combs, massagers) from fair trade sources, and 'sub-brand' their products as Community Trade. Although their activities have come under heavy criticism in the past, the Body Shop is an established and active player in the fair trade movement.

If retailer own brand goods and well known international brands were to take part in schemes to buy from marginalised businesses, the potential to make a difference at the producer level is huge. Boxes 3 and 4 are case studies of projects that are already in operation.

Box 4: Smallholder integration into supermarket supply chains⁹

Hortico in Zimbabwe, and **Homegrown** in Kenya are two of Africa's largest horticultural exporters. Both companies operate successful outgrower schemes using smallholder farmers whose produce is sold on to major supermarkets. Motivation for the schemes grew from a need to solve land availability problems. And by engaging with small farmers, there are added benefits of pest control from multi-cropping while micro climates in different areas means the entire crop is not exposed to any harsh weather conditions should they occur.

The schemes are intensely supervised by staff from the exporters who assume responsibility for the rigid enforcement of standards. Hortico have organised 3,000 farmers as part of their programme, who each farm plots of up to 600 m². Supervision staff operate from 19 service centres which co-ordinate production and harvesting for between 50-250 farmers each. 60% of their farmers are women, while the local communities are benefiting from improved roads and infrastructure resulting from the work, as well as better employment prospects.

Homegrown work with farmers who have bigger plots of land – up to 50 hectares. Confidence in the smallholder producer is so high that the exporter encourages supermarkets to choose smallholders for random inspection.

Key requirements for the success of both schemes include

- Logistics and local facilities for product protection and collection
- Technical support such as an agronomist and spray teams
- Management and technical resources to ensure product traceability, documentation and reliable records
- Training (integrated crop management, hygiene, pesticide use, record keeping)
- Trust and commitment between all players in the supply chain

Mars is another interesting case because although they do not wish to work towards the Fairtrade Mark, they do have a sustainable cocoa growing programme which sources from second level co-operatives in Ivory Coast. The motivation for this strategy is economic – sourcing from smallholders is considered the best way to ensure continued supply of cocoa in the face of rising world consumption of chocolate. And to ensure that the cocoa they buy matches the required standard, the

programme includes quality and technical support from Mars staff. This does not address the terms of trade used, so it is impossible to judge from the outside whether the smallholders are better off than they were before Mars approached them.

Traidcraft would like to encourage more companies to implement projects along these lines, but it is important to recognise the balance between achieving real development benefits for the producers and the amount of cause-related marketing a company may wish to use. This will be addressed again in section 6.7.

6. Getting to Market: Roadblocks and Signposts

Efforts by marginalised businesses to achieve access to export markets are plagued by a combination of obstacles. One of the major barriers to entry is that the price of labelled or branded 'fair trade' products is higher than the competition from conventional sources. A detailed look at the difficulties facing marginalised producers gives an insight into the components of the higher prices as well as the reasons why commercial companies do not naturally migrate towards working with community based businesses in poor areas. A greater awareness of the problems at stake will point towards ways in which big companies can be part of the solution through the provision of support services to facilitate sales and/or the direct purchasing of goods.

The obstacles along the route to market have been divided into themes, and will cover the perspectives of different organisations along the supply chain as follows:

- Tensions between trade and social development
- Market preparation
- Achieving international standards
- Market links
- Credit, technology and infrastructure
- International trade policy
- Consumer marketing

Projects and ideas that aim to overcome some of the barriers, are introduced alongside the problem they are designed to tackle.

Many of the factors described are generic for exporters all over the developing world, but for marginalised producers, the problems are magnified. Also, not all of the barriers listed are experienced in all countries. Some of the points made are more prominent in certain regions or product sectors than others. For example, in South Asia there are well established networks of NGOs for internal information exchange, yet information and understanding about export markets is not readily available. In Africa, transport and telecommunications problems are generally more intense because of the low population density and the sheer distances usually involved to get the goods to port. In South America, exporters to Europe are faced with higher base costs because they are further from the point of sale regardless of transport services, and in this case the USA market may offer better opportunities.

That said, all projects that are designed to generate income for the social benefit of the worker face a series of unavoidable dilemmas. The discussion starts with a brief overview of the day to day operational difficulties of specifically improving peoples' lives through engagement in fair trade.

6.1 Reconciling different objectives

Using commercial means to create direct social development benefits is extremely complicated and riddled with contradictions. However benevolent its intentions, a business has to at least break even in order to maintain the benefits it brings to producers. Meanwhile, operating in situations of underdevelopment which companies

supplying industrialised consumer markets have overlooked because of practical difficulties is expensive and requires considerable investment. This means that there is a delicate balance between producer objectives and commercial realities. And the trade-offs are emphasised when expanding activities from the fair trade niche into mainstream business because the larger volumes needed can mean more risk for producers and a greater vulnerability to change.

Table 3 summarises some of the dilemmas of implementing ‘fair trade’ principles, many of which have already been highlighted. Choosing where the balance lies in each context of operation is a subjective decision, and is often the root of the ongoing ideological discussions about and within the fair trade movement.

Table 3: Some creative tensions of trading for developmental objectives

Working with producer businesses based on their potential for success	v	Working with producer businesses based on their social development needs which means they may need more resource input.
Market led product sourcing according to customer/buyer demand	v	Producer led trade: gaining access for ready developed products supplied under ‘fair trade’ terms
Continually developing products that suit the changing tastes of the market	v	Offering protection to producers to market fluctuations
Maintaining attractive prices for good quality products, including the standard mark up implemented by retailers	v	Paying a premium to smaller producers and maintaining high standards of working conditions without the advantage of economies of scale
Emphasis on a business approach reflected in commercial language e.g. markets, suppliers, value-added	v	Emphasis on social development as reflected by the vocabulary of sustainable development, livelihoods, empowerment
Investing in packaging and marketing strategies suitable for commercial markets	v	Minimising resource use to keep costs low and maximise the producer margin
Commercial sensitivity of information and competition in a tight market, including commercial and alternative trading companies.	v	The need for ATOs to work together for information dissemination and mutual learning to maximise social benefits
Passing on contact details of people within commercial companies who have an interest in fair and ethical sourcing to other ATOs	v	The risk of jeopardising interest in fair and ethical trade because the corporate representative is bombarded with an array of slightly different requests
Learning from mistakes, recognising pitfalls and sharing this learning openly in the wider business community	v	Maintaining a united front for alternative trade in the face of resistance and criticism from bigger, more powerful players
Using labelling to identify fair trade products (i.e. the Fairtrade Mark)	v	Promoting individual ATO brands as an endorsement of fair trade (Traidcraft, Oxfam)
Maintaining a strong fair trade niche to support the Fairtrade Mark and ATO brands in the mainstream	v	Restricting the availability of fair trade product lines to supermarkets so that sales are concentrated in mainstream retail outlets and reach the sales target to stay on the stocklists

6.2 Market Preparation

Reaching the point of being export ready (see box 5) requires rigorous preparation. In an ideal situation, a business will have already proved its success in the domestic market before planning to export. A solid base of domestic sales minimises the risk of new ventures in exporting - a mix of 70% of turnover from in country trade and 30% from exports is considered ideal¹⁰ Traidcraft's Indian partner, International Resources for Fairer Trade, is finding a strong case for some of their producer clients to target the local market, including hand-made paper, herbal medicines and textile products. But for some products – especially certain commodities grown as cash crops, but in some cases for handicrafts also – there is little or no domestic market in the country of origin, and therefore this shield is not available.

Box 5: Export readiness

The Traidcraft trade facilitation team developed a set of guidelines to describe when a business can be said to be export ready. They are:

- Consistent quality to the original sample or specification
- The ability to compete at market price subject to research prior to market experience
- The provision of reliable information – production capacity, lead times and prices provided in advance
- A willingness to provide samples
- A minimum sales target, and calculation of direct costs
- Logistics competency i.e. packaging, freight, legal requirements, export licences
- Appropriate product development capacity
- A maximum lead time of 3 months for non food products
- Ability to purchase raw material without advance payment
- Ability to provide good customer services and communication (returning communication within 3 days)

One of the main areas of work in export preparation is obtaining information about and gaining real understanding of the destination market. This is the problem most frequently identified and voiced by producers in developing countries. From outside an international commercial network, details about trends connected with your product over the coming season are difficult to come by. Furthermore, without regular contact with the retailing climate of a foreign country, it may be hard to imagine the fickle demands of export markets when local consumers react to very different influences.

In response, some European countries have established government run services that specifically provide information and support for suppliers in developing countries. The most prominent is The Centre for the Promotion of Imports from Developing Countries in the Netherlands. (This organisation is abbreviated in Dutch to CBI – not to be confused with the Confederation for British Industry which uses the same acronym.). CBI publications cover a range of sectors both generally and relating specifically to areas like technical, environmental, or documentation requirements. Although the main focus is the Dutch market, the reports also include sections on other European countries, and these are widely used by fair trade organisations to

provide for their members. For example, the International Federation for Alternative Trade (IFAT) stock all the reports relevant to products supplied by their members, as does the Traidcraft market information service. In addition, CBI funds activities of fair trade organisations, such as a foods seminar held in the Netherlands in 1999, and a crafts workshop in the UK later in 2000.

Box 6: An import promotion office in the UK?

Would it be possible to provide a general service to promote imports from developing countries in the UK? Some years ago, a support service known as DECTA (Developing Countries Trade Agency) was operated on a consultancy basis through The Crown Agents¹¹ in London, but this was discontinued as other projects were prioritised. While there may seem to be a clash of interests with the DTI which promotes British business at home and overseas, the information gap for smaller marginalised producers is very real, and a support service may be worthy of further research.

Import promotion agencies like the Dutch CBI and a German initiative, ProTrade have received mixed evaluations of their effectiveness in providing and delivering information and training. Further analysis of the successes and pitfalls of other support organisations would be essential lessons on which a UK based service could build.

Trade and consumer magazines are a lively source of market trend information, often giving background to companies (potential customers) and their stance on certain issues such as ethical trade, as well as product related information and changing consumer tastes. However, there is still a need to train producers on how to interpret and apply the information in an effective way, especially in the context of hand crafted interiors and gifts products where design innovation is essential. Each season, Traidcraft provides 'story boards' to all partner organisations, highlighting the main themes for the forthcoming season. Feedback from partners quickly pointed to the need for training workshops on interpretation of the information and how this can inspire product adaptations that appeal to the UK market.

Yet what may initially appear as a straight forward need for market information and linkages (see section 6.4) runs far deeper in practice. The need for adaptation and change within the producer business in order to achieve export success is often underestimated. The need for new skills such as knowledge of export documentation is easy to identify. However, other functions are part of the domestic supply process but require a different approach when considering exporting. Design and product development of hand crafted products is an area frequently in need of external input for export markets. Without good understanding of the destination market locally trained designers will often struggle to create a saleable product. Similarly, procedures in pesticide use for agricultural produce are usually far stricter for exporting than local sales, and retraining is needed. This issues will be discussed in greater detail in the next section on achieving standards.

Returning to the focus of the market, how can a producer deepen understanding of buyer and consumer behaviour in a destination country? There is no real substitute to personal experience, either through completing a first order or a visit to the country of

sale. The non-profit arm of Traidcraft runs market awareness tours for producers across the product range who have good potential to achieve export sales. The tours may last up to 10 days and involve visits to all retail outlets selling to the same market as their target. For a food producer, this might mean going to the major supermarkets where they can gain a first hand understanding of how products are displayed, what the competition looks like on the shelf and how people do their shopping. Similarly for interiors, a tour might visit Habitat, the Conran Shop, Monsoon Accessories or Next. All tours are then combined with strategy training and identification of relevant buyers. Yet despite the huge gains for producers from targeted visits to the destination market, development donors are usually reluctant to fund overseas trips, even if this is directly connected to small enterprise development projects.

Tours can also put costing and pricing into a market context – prices were a recurring problem for samples submitted for the Traidcraft Spring Fair 2000 stand. Many producers will calculate the price based on production costs. For an interiors range, this may mean that visually similar products (such as embroidered cushion covers of the same size designed along the same theme) are priced differently because one takes slightly longer to make, or contains more of an expensive input material than the other. But a buyer would sell the products for the same end price, so it is more appealing to them if a producer prices according to the market and balances differing profit margins.

Furthermore, compared to the FOB¹² price received by the exporter (sometimes the producer), an end price can seem astronomical in the context of the producing country. It is tempting to add to the price in hope of attracting a larger share of the mark up – but if this happens, the prices can be too high compared to the competition. As indicated in table 3, costing is a thorny issue in ‘fair trade’. While there has to be sensitivity to the going rate in the market in order to achieve sales appeal, the object of fair trade is completely defeated if the price does not give a return that is higher than the income the producer was receiving before going into exporting.

6.3 Achieving international product standards

Achieving standards of quality, consistency, product safety, timeliness and other market requirements is essentially part of market preparation, but it has been separated out to emphasise its importance. Ability to match the rigorous standards of the UK and other industrialised markets depends only to a certain extent on receiving information about those standards. There is also a close connection to the flexibility of the producer in adapting their skills for a different audience and responding to support if available.

Quality and consistency of product is a fundamental concern for a buyer. The domestic market in a developing country is rarely as demanding of quality requirements, partly because of different standards and norms, and partly because the goods do not have to travel as far to the point of sale, and have less chance of being damaged. This makes it difficult for marginalised businesses rooted in their home culture to visualise the importance of adhering to the export standard. The Hortico and Homegrown schemes described in box 4 illustrated how the exporter had assumed responsibility for all tasks which have a direct impact on the specification of the

harvested crop such as chemical usage and harvesting techniques to minimise damage to the produce. Fashion, gifts and home products have parallel issues. Some samples arrive at Traidcraft broken because they are not strong enough to last the journey (or not packed sufficiently well). Other samples are beautiful and very appealing to buyers but could not be replicated on a larger scale to the same quality or quantity.

One of the difficulties of expanding fair trade from the niche to the mainstream is the temptation of the producer to over estimate production capacity to increase chances of clinching an order. This is really bad business practice, which can result in a negative experience for the buyer, producer and other similar producers. For example, an order for wooden bowls from Zambia was placed following the Birmingham Spring Fair 1999 but the producer could not fulfil the requirements. This was partly an oversight by Traidcraft and its local partner, but as a consequence of the situation, the wholesaler will be reluctant to deal with any producers through Traidcraft again. With a limited capacity to keep a close check at a distance, there is an automatic reliance on producers and partners to supply accurate information.

Trading standards are tied in with quality but can also be backed by legislation - Box 7 gives some examples of the trading standards that are linked to UK law. Part of the

Box 7: Legal Trading Standards

In the UK, there are two main areas of legislation covering all products: The General Safety Act requires that any product should be safe for its intended use, while the Consumer Protection Act is designed to ensure that no negligence is evident in the production process that might put the consumer at risk.

There is also legislation and guidelines relating to specific product types, including:

- *Food labelling* requires accurate descriptions, weights and measures, minimum date of durability. Certain foods such as sugar can only be sold in certain weights. Claims such as those relating to health benefits should be avoided.
- *Toy safety* – e.g. related to choking, flammability, toxicity, sharp edges
- *Child appeal* is important where the items are not toys but might appeal to children. These must be labelled as not suitable for children.
- *Clothing* must display fibre content. Nightwear must be flame retardant unless 100% cotton.
- *Home furnishings* need a statement of fibre content and flame retardancy
- If *food contact* is likely, there must be no chance of ‘migration of elements’. Alternatively the product must be labelled as not for food use.
- *Jewellery*: There is a specific directive on nickel which should not come into contact with the skin. There is no tolerance on metal purity claims and strict categories of silver types
- *Cosmetics* includes scented oils, soaps and make up. There are tight labelling regulations and all products are sold by an accurate weight or volume

Consider how a marginalised business might get to know or test for these standards without access to information, business support and testing facilities.

problem is a lack of information. But, as with quality specifications, the cultural context of the producer can also be a natural barrier to understanding why certain features are important. For gifts and interiors, if a product has been developed with external input, it might be something that the producers would never use or display daily and therefore cannot perceive the same end use and safety requirements.

Other standards may currently be a way to distinguish a product from the competition, but have the potential of becoming the norm in future years. Organic certification for food products grown without chemical use is an example of this. In a lot of cases, marginalised agricultural businesses are producing organic crops by default because they cannot afford the chemical inputs in the first place and therefore follow traditional growing techniques. Yet the certification process is expensive, prohibitively so for many without support from a sympathetic NGO or buying company. While organic production can present opportunities for market access, it can also be a barrier for smallholder farmers who have the right product but no means to gain the proof that the market demands. There is ongoing discussion about the merits of organic certification for fair trade farmers.

The growing popularity of ethical trade could also prove to be a barrier to market entry, and is sometimes perceived in developing countries to be another example of blind pursuit of well meaning but inappropriate ideals of industrialised consumers. As more companies implement codes of conduct, there are concerns that this will essentially exclude small informal businesses from the supply chains of the companies involved. If this proves to be correct, the ethical trade movement will be directly contradicting what fair trade is trying to achieve. This is recognised by the Ethical Trading Initiative, which has discussed the establishment of a working group to specifically think about ensuring small producers are still considered as suppliers. One solution is to have a small producer element in each pilot study conducted. Another would be to have a pilot project specifically based on sourcing from small producers along the lines of the doormat scheme described in Box 3. While many ETI members are miles away from releasing the resources for such a proposition, this is an area that Traidcraft can further explore with the ETI and potential corporate and NGO partners.

This section has been a long list of difficulties. Finding solutions and access to support for reaching all the standards requires is the next step. Box 8 overleaf is one suggestion based the experience of projects already implemented by organisations in various countries. Pursuing business to business partnerships could be a way to capture the experience accumulated in big companies and offer complementary support for those who cannot afford expensive consultants.

Box 8: Business Bridges in developing countries?

Business in the Community co-ordinates a scheme called Business Bridges in the UK and Business to Business Bridges in Northern Ireland. The programmes are designed to introduce small and medium sized enterprises (SMEs) with growth potential, to big businesses operating in the same area for advice and problem to help the SME achieve the market standards. The relationships established through the scheme are helpful to the SMEs, while offering an opportunity for big companies to give back to the communities where they operate.

The same principles have since been applied by the Institute of Grocery Distributors for their Small Food Producers Initiative¹³. Open only to UK businesses, potential areas for support include sales and marketing, finance, human resources, manufacturing and distribution and general management.

Can these schemes work in developing countries, especially to include marginalised businesses? There are already successful examples. 'Business Links Indonesia' was initiated through the Prince of Wales (PWBLF) to build big business-SME links. Also, Action Aid's Indian link organisation, Partners for Change¹⁴ has successfully applied the same principles.

What is the potential to apply this idea in other developing countries?

6.4 Market Linkages

Identifying and making links with appropriate buyers who are also interested in marginalised businesses is a real issue. From a commercial perspective, all new suppliers bring an overhead cost that is factored into the buying strategy, and sourcing product from a lot of small suppliers is less viable because it is more expensive. Over the last 5 years, many high street retailers have undergone a process of 'rationalising' their supply base by reducing the number of businesses they buy from – and alternative traders are no exception. In order to stay in business and thereby maintain the incomes and benefits enjoyed by fair trade producers, Oxfam Fair Trade and Traidcraft have also been forced to re-evaluate their activities. This trend reinforces the need for good products, and the importance of raising consumer awareness and demand to encourage buyers to see commercial purpose in sourcing from marginalised producers.

Once a company is established and has built up a core supply base, the opportunities to take on new suppliers depend very much on circumstances. It is often a case of being in the right place at the right time – but for producers who are marginalised anyway there is little chance of accessing the right place. If there is an opportunity, there can sometimes be a lack of risk assessment on the part of the producer, often due to limited exposure to the challenge of exporting and an underestimation of the need for organisational change. Negative prior experience on the part of the both producers and buyers can therefore be a deterrent to trying again.

But examples given in this report have shown that there are some buyers who are interested. The greater emphasis on quality goods in both interiors and foods has attracted attention and gone some way in changing previous perceptions that fair trade products might be substandard. However, the strategy adopted by the Trade Facilitation team at Traidcraft is to create links with buyers based on the quality of the products which ‘happen to be fair trade’ as well.

One way of making contact with buyers is through attending trade fairs, where there is the opportunity both to display products and look at the competition in the market. For the past three years, Traidcraft has had a stand at the Birmingham Spring Fair, the UK’s largest annual trade fair for fashion, gifts and home. The stand displays samples from all partners and their producers made to a specific theme. There was also a consortium stand representing the products sold by several fair trade companies at the Good Food Show 1999.

But for a representative of a small producer business to personally attend a trade fair, it is a substantial investment. Sometimes subsidies are available for the hire of the stand from trade promotion services or government donors, but the producer will often still have to pay their own travel costs. Therefore, good preparation is vital. Box 9 reports a producer’s experience of winning orders through trade fairs, and reiterates much of the discussion so far on market preparation and export readiness.

Box 9: Kibo Handicrafts - Reflections on successful exporting¹⁵

Kibo Handicrafts is a client of Traidcraft’s Tanzanian partner, Amka, and recently gave a presentation at an Amka product development workshop. Kibo had been trying to penetrate export markets for several years by attending trade fairs in Kenya and overseas, but did not win any orders. On reflection, they realised that they had displayed any product which they thought had potential without researching other areas of interest to buyers. They often did not have thorough information on production capacity, quality consistency, delivery times, legal requirements or modes of payment. They had also not considered the need for sales material such as brochures, catalogues, price lists and business cards.

However, Kibo have recently been much more successful. After export training and a market awareness tour arranged through Amka, they decided to narrow the product range to avoid confusing buyers. Kibo summarised their experience by identifying lessons for any small business interested in exporting:

- Products should be made to satisfy the needs of customers
- Delivery must be on time
- The price must be competitive
- Good quality is essential
- The right packaging has to be used
- Products should be properly labelled with all the required information
- Good communication is needed with the buyer to build in trust and confidence
- Investigate the best means of transport
- Ensure continuity in developing new products
- Be willing to share and learn
- Be flexible to keep pace and ready to make a change if necessary

However, producer organisations are not the only ones who learn through trade fairs. The mixed evaluations of import promotion services mentioned earlier have focused on the service delivery of the organisations rather than the information provision. One producer reported that they had been supported and encouraged to take part in a garden furniture trade fair in Germany. But while this was the right product area for them, it was primarily a retail fair where the volumes required were too big for their company to fulfil. What they needed was a wholesale fair where importers would be able to consolidate small orders to sell on to the retail trade. Research and preparation as to the appropriateness of the fair is essential to avoid costly and frustrating experiences.

This is partly a funding problem in that resources for the trade promotion organisations are confirmed too near the event. For non-foods, producers need six months for product development, the preparation of samples and analysis of production capacity in anticipation of orders. A last minute batch of money would be better spent on other producer support services in anticipation of future events than on sending representatives without thorough preparation. Producer businesses should also be encouraged to choose the most appropriate people to attend trade fairs. Language difficulties will hamper chances of communicating the right message while it is ideal to have 2 people on a stall to allow one to look around while the other works on the stand.

An idea for bringing appropriate buyers into contact with handicraft products was tried by the Artisan Trust. They set up showrooms for fair trade products in the centre of London in 1997, but these have been closed because they did not lead to sales. One interpretation of this is that commercial buyers are under too much pressure to visit showrooms – and therefore, product sellers have to take their goods to the buyer.

That means arranging an appointment. A first time meeting with a UK buyer would be virtually impossible for a marginalised business based in a developing country to arrange without assistance. Even intermediary marketing organisations in the country of production find this difficult; buyers are busy, pressured and have the power to pick and choose. Chasing buyers and arranging meetings is a key function of the trade facilitation department at Traidcraft. Annual targets are set in order to increase the number of personal contacts in commercial buying and therefore widen the opportunities for clients of Traidcraft partners. However, most development donors are reluctant to fund this type of ‘northern based’ sales work.

6.5 Credit, Technology and Infrastructure

While there has been a recent emphasis in UK international aid policy on the role of ‘ethical’ business practice in development, the basic infrastructure and technological capacity of a country is the underpinning of commercial interests. Conventional development work such as road building and improved services cannot be overlooked in favour of income generating projects because all business ventures need a solid supporting environment to be efficient. The availability of credit, relevant technology, and general infrastructure all contribute to the timeliness of product delivery. This

includes the both the arrival of input materials to the producer as well as the shipment of finished goods to the buyer. And the significance of timeliness is further emphasised by the tendency for mainstream retailers to work on a 'just-in-time' basis to avoid warehousing costs in the country of sale.

Credit is fundamental to most small businesses to enable investment in input materials and to cover costs before receiving payment from orders. Microcredit schemes that lend at reasonable interest rates on a small scale have become very popular in the last 10 years. There have been some questions about the benefits of providing just credit since business capacity building and training is often needed so that the money is put to the best commercial use¹⁶.

All members of the International Federation for Alternative Trade (IFAT) have access to the independent credit scheme Shared Interest. Meanwhile, credit is one element of the package of pure 'fair trade'. However, this is an arrangement that few commercial buyers are willing to follow, which is another reason why it is claimed that 'fair trade' is not possible in the mainstream. If this is the case, the only possibility of maintaining the fair trade relationship for the producer is by involving an ATO in the chain. And since commercial buyers are rarely willing to compromise their margins, the higher price is passed to the consumer with the danger of making the item uncompetitive.

Credit can also allow investment for better access to appropriate technology and equipment, which is closely connected with achieving standards as outlined earlier. For example, harvesting techniques affect the quality of agricultural produce while cold storage facilities are needed to preserve perishable goods to export standard before shipment. Communications technology is also fundamental to servicing a buyer, but some remote villages do not have a phone line and cannot respond quickly to changes in production and delivery or communicate any difficulties they might be having. Tropical Wholefoods, a fair trade wholesaler of healthy tropical food snacks and ingredients, reported that the opening up of the telecommunications market to mobile phone companies in Tanzania had enabled them to increase their volume of trade with Zanzibar. The use of mobile phones presents trade possibilities to more remote producers without the expense of installing a landline.

Advances in technology that will allow the use of mobile phones to link to e mail and internet service providers could also open opportunities. However, access to the technology is also dependent on the availability within the country and the quality of service maintenance. The same applies to computers. The internet (which currently also needs a phone line) promises a gateway to information and trade links *if* the facilities are accessible. Although limited, some IT support is available for marginalised business. The American NGO PeopLink provides assistance to 'fair trade' and other small producers in setting up a web page. Meanwhile, a new deal to bring low cost e mail to rural and remote areas was reached in December 1999 by a collaboration of commercial companies and the NGO Volunteers in Technical Assistance (VITA).

On a wider issue, e commerce is considered by many to be the way forward in international trade. This is a significant trend that could cause further marginalisation because of the low technological capacity of micro businesses and fair trade producers

generally. Box 10 summarises some of the points about e commerce that the fair trade movement might consider in relation to their efforts to improve market access for marginalised businesses.

Box 10: How will e commerce affect fair trade?

The internet could open up endless opportunities for export ready producer who have both access and the skills to ‘surf’ effectively. It could also quickly leave behind those who don’t. NGOs interested in small enterprise development and business in general need to keep up with prominent trends or risk further marginalisation of the producers they support.

Retail internet sales are growing rapidly in industrialised markets, including for fair trade companies. Traidcraft now provides an increasingly popular service offering goods through its web-page. But it is further down the chain where, with resources and business training, producer businesses could establish trade links with the domestic and international markets. PeopLink’s service to set up web pages gives its clients a presence on the web – but all information needs to be updated regularly to fit with changing trends, especially for the fast moving fashion, gifts and home sectors. Also, a major risk of displaying hand-crafted products on the web is the wide exposure of original ideas that are the commercial advantage of the producer business. Competing producers in countries such as China with its vast pool of cheap labour, have a huge capacity to reproduce the designs and undercut the price.

However, there may be more opportunities for agricultural produce. Products covered by international fair trade labelling systems already have producer registers – are there possibilities here? Other wholefood products that are also fairly traded but outside the scope of the labelling system might also be traded on the web. The experience of e commerce for small organic producers – for example, the GreenTrade website operated by ProTrade in Germany – might offer some insights into how this could be done.

But while the use of communications technology can speed up a transaction, it can not avoid the need for physical transportation of an order. The transit of products to the port of exit depends on the state of the roads and railways, and the maintenance of vehicles and trains. Once at the port, shipment or air consignments for small orders are easily bumped off the schedule in favour of a larger consignment from a customer who is of more commercial importance to the freight company. Partnerships between small companies can be mutually beneficial – for example Tropical Wholefoods and another like-minded organisation, Tropical Forest Products often share consignments to reduce their costs.

6.6 International Trade Policy

The World Trade Organisation (WTO) was set up to reconcile national and regional policies on international trade with the principles of free trade for all. However, during 1999, the WTO received widespread media attention as the Ministerial talks in

Seattle, USA broke down amid accusations of a lack of transparency in negotiations. Developing countries feel that WTO trade rules are generally stacked against them because of their relative lack of bargaining power in the face of economic giants such as the US and the EU. This has an effect of generally disadvantaging trade from developing countries – not just the marginalised producers who are the subject of this report.

Debates at WTO arise because of the differences between WTO rules and trade legislation imposed by bodies at a more regional level. Some of the main points related to ‘fair trade’ (taken in the context of this report rather than a wider, subjective meaning of fair) that recur at WTO discussions are:

- Targeted import duties to protect domestic industries
- Quota agreements
- Product labelling

While the EU and USA demand access to growing markets in developing countries, legislation on tariffs and quotas make competing imports unviable in their own markets. The European import tariff system is often problematic for would-be exporters in developing countries. While one of the secondary criteria laid down in Traidcraft plc’s purchasing policy is to maximise in country processing opportunities where possible, but this is often not a competitive option. For example, dried mangoes or mango pulp are duty free whereas mango puree carries a 25% import tax¹⁷. Pineapples carry even greater discrimination – 8% for raw fruit and 46% for processed. The consequence is that the lucrative processing business often remains in the EU because the final product would be priced out of the market by the tariffs. This is the reason why Traidcraft chocolate chip cookies are made in Belgium, and the Geobar is made in Wales – both from imported fair trade ingredients.

A quota system can mean that the importing country or trade bloc allocates a maximum annual quantity of a certain product for different countries of origin. The Multi-Fibre Arrangement (MFA) covering garment imports is one example. However, of more general relevance to fair trade are the Sugar and Banana Protocols which relate to the Lomé Convention between the EU and African, Caribbean and Pacific (ACP) countries¹⁸. ACP countries are granted a quota for *preferential* tariffs, and this is what has led to disputes at the WTO, particularly regarding bananas. Although both these products have internationally agreed fair trade standards, imports into the EU have to be from ACP countries to make the business worthwhile. For bananas this means a focus on the Caribbean and Ghana, which is a good match with the countries that would be chosen as sources in any case. On the other hand, Traidcraft have experienced frustration with sugar purchases because non quota countries are levied a 209% tariff while duty free status is given to countries in the ACP group. A purchase of Fairtrade Mark organic sugar from Paraguay worked out at \$1,200 a ton instead of the quota country price of around \$150 a ton¹⁹. This sugar can therefore only be used as an ingredient in fair trade products, and not as a stand alone sale.

On a more positive note, the new EU-ACP agreement which will supersede the Lomé Convention from June 2000 specifically supports trade development activities, including the promotion of fair trade.

Labelling disputes in the WTO were fuelled by environmental criteria imposed and subsequently withdrawn by some countries in the 1980s. A country or trade bloc cannot officially discriminate between like products on the basis of the process by which they were produced or grown as this would constitute a non-tariff barrier to trade. Traidcraft receives enquiries from people concerned with how this might affect goods carrying the Fairtrade Mark, but so far this has not been an issue because the Fairtrade Mark is voluntarily undertaken by the companies involved, and it is specifically pro-developing countries. However, if labour conditions were enshrined in WTO rules as was suggested at Seattle, this would be generally discriminatory against developing countries where businesses are more likely to need support from their buyers to reach the standards.

Other non-tariff barriers include subsidies given to farmers in the EU and USA to keep them in business in the face of imports. Many fair trade products require a tropical climate to grow and would only come against restrictions when they are processed in country, as described above.

6.7 Marketing and communication

Awareness raising and marketing of fair trade has been built on a simple message: Buy fair trade and make your contribution to the reduction of poverty in developing countries. Yet as this report has outlined, fair trade in practice is both difficult and complex – and this reality gives rise to confusion across commercial and consumer audiences. While this is an issue that has to be addressed in the end market context, mixed messages can inhibit the success of producer businesses selling into export markets because they require ‘Northern’ representatives to create a demand for their products and the trading principles of fair trade.

Some of the confusion lies in the way a product is identified as ‘fairly traded’²⁰. Section 3.3 outlined the Fairtrade Mark, the only label available in the UK that guarantees a better deal for developing country producers. To recap, the Fairtrade Mark is available for coffee, tea, sugar, honey, cocoa (chocolate) and bananas, and was set up to make a simple distinction of fair trade products in mainstream outlets. Companies buying and supplying products that are not covered by the scope of the Fairtrade Mark – for example dried fruits and all hand-crafted products – are often asked why they do not use the label. An explanation that there are no criteria or international producer register for a particular product is not reassuring, and still leaves the enquirer with doubts about claims of fair trade practice.

At the same time, there are difficulties in addressing the gaps left by the international system of fair trade labelling. A less rigorous set of criteria applicable more quickly to a wider variety of products would dilute the marketing power of the Fairtrade Mark and other schemes, when licensees who go beyond the standard are already dissatisfied. Meanwhile, despite the strict guidelines, the registers for tea and coffee are already full and this is a real barrier for newcomers to the market because they cannot get access to officially labelled channels.

Yet the system of labelling schemes such as the Fairtrade Mark has, without doubt, enabled greater penetration into mainstream retail channels. One change which might

clarify communications with consumers and traders in the UK would be to state the scope of the Fairtrade Mark more openly and regularly. In addition, always referring to the Fairtrade Mark rather than just the abbreviated Fairtrade would also help identification since the product scope of *'fair trade'* is wider than *'Fairtrade'* (as defined by the Fairtrade Mark). At the same time, the two are verbally indistinguishable, and barely different when written. Another proposal to explore is for ATOs to collaborate with the Fairtrade Foundation to develop Fairtrade Mark criteria for additional products. The choice of products would have to acknowledge that fair trade involvement in some products would not bring benefits to the producers themselves and is therefore not appropriate – for example where processing companies hold the power in the supply chain. Working towards a Fairtrade Mark for the sake of creating a label would defeat the object even if a retailer might wish to see the Mark on a particular product.

A further challenge in fair trade communications was illustrated recently with the Bookchair. The wholesaler set out to find a 'fair trade' source through Traidcraft's partner network in favour of the cheapest possible option in China, and wanted this to be recognised as a selling point. However, the producer received business support services and training as part of the fair trade package from the Traidcraft partner in the Philippines, but not the guaranteed long term relationship demanded by international fair trade standards for commodity products. The Traidcraft brand was not felt to be an appropriate marketing method, while a Bookchair is not eligible for the Fairtrade Mark. After much discussion internally and with the Fairtrade Foundation, it was agreed that a swing tag showing the Traidcraft logo could be used alongside the text 'sourced from a fair trade partnership through Traidcraft'. Commercial buyers are likely to find this approach cumbersome, yet the discussions were felt to be necessary because the circumstances under which the product was sourced were different to those used by Traidcraft plc and other ATOs. This is a reflection of the complexity of 'fair trade in the mainstream' which moves beyond relatively straight-forward commodities.

But perhaps the biggest risk of confusion is where large commercial companies choose to include marginalised smallholders in their supply chains and generate publicity without addressing the trading relationship in terms of power balance and social development needs. Nestlé argue that they have "been buying coffee direct from growers for over a decade and today buy[s] more coffee this way than all European fairtrade brands combined"²¹. While the company's interest in fair trade is a testament to the success of Cafédirect which threatens sales of Nescafé, the powerful lobbying activities of Nestlé and others was one of the factors leading to a UK government review of its funding for fair trade projects²². The outcome of this review was still unknown at the time of writing.

In the face of all the politicking and confusion, a strong way to support general fair trade communications would be to implement a comprehensive evaluation system to directly link fair trade to the social benefits brought about by this approach to trading. All ATO brands and Fairtrade Labelling systems are fundamentally weakened without a thorough assessment of the impact of their activities on community development and poverty. And while scattered evaluations have taken place, a formal system would point towards how to improve operations as well as provide better evidence to consumers (and funders) that buying fair trade products does make a difference.

Oxfam Fair Trade have embarked on such a project, which has proved to be a major undertaking because of all the different contexts where the company operates. The same would be true of all ATOs and external funding and support would be essential.

The Fairtrade Foundation has agreed to work with partners to establish an evaluation system as part of a Partnership Agreement signed in 1999²³. A further outcome of this agreement is that Traidcraft and Oxfam will apply the Fairtrade Mark to any qualifying product sold in or intended for sale in mainstream retail outlets. This has signalled the start of closer co-operation between ATOs, and there is an urgent need to build on this platform to balance work in areas of mutual benefit while respecting that ATOs are also competitors. Co-operation is essential to strengthen both the marketing message to potential buyers and consumers, and the power of the movement in lobbying commercial companies to take a closer interest in social responsibility.

7. Which way forward? Conclusions and recommendations

When considered altogether, there are multiple barriers for marginalised businesses to engage in export trading, and these are magnified when considering the volumes and specifications required by the mainstream mass market. While the fair trade movement has opened up opportunities for some producers, the key to widening the distribution of benefits is to increase sales by making stronger links with commercial buyers. Yet in the light of the need for up to date information and a deeper understanding of the market, the logistical constraints of transport and telecommunications services in some developing countries, and the business capacity and management challenges faced by would-be exporters, why should buyers bother with marginalised producers?

Until recently, there has been no call for a commercial company to pursue a sourcing strategy that includes any supplier who cannot independently provide a product delivery service according to buyer expectations. But in many ways fair trade is a concept that has now come of age. Consumers of the 21st century are increasingly exposed to a global perspective that can translate into demands to know that products are not associated with exploitation. Branding strategies are based on corporate reputation – and fair trade is a pro-active approach to engaging with social development requirements in countries of operation, which some companies have already found brings practical benefits aside from reputation management. There is also a growing band of consumers who exercise purchasing power to specifically buy fair trade products that have come from marginalised suppliers under supportive terms of trade.

But there is a need for a clearer understanding all round as to the operational complexities – or indeed possibilities – of fair trade in the mainstream. A simplistic analysis or economic model may be less cumbersome, but can easily miss the point since fair trade only exists because of market failures stemming from economic policies. It is therefore up to ATOs to discuss more widely both the triumphs and the difficulties of using trade as a means to achieve developmental aims, without falling into recurring discussions based on their different perspectives. More open discussion would prompt ATOs to identify their common concerns and strategies as a matter of urgency, while it would also inform donors, businesses, interested consumers and policy makers about how fair trade works in practice.

There is a further fundamental question to address which has signalled the start of closer co-operation: Has fair trade really made a difference to the lives of the producers who have received support and/or orders over the last 20 years? The answer is an intuitive yes based on the personal reports of those involved, along with separate evaluations of individual projects. Systematic assessment of the impact fair trade has had on poverty and household well-being is one of the main gaps in activity for the movement as a whole. Lack of resources, an understandable pre-occupation with practical operations, and difficulties in constructing a framework for analysis have left fair trade dangerously exposed. From a developmental perspective, impact assessment based on a learning exercise and based on appropriate indicators would give a picture of how interventions can be made more effective. And from a business perspective, the success of fair trade has now created the need for systematic proof that fair trade meets its claims and brings more benefits to marginalised producers

than conventional trading. This forms the basis of brand building and ultimately sales appeal.

The topic of impact assessment has brought ATOs together for mutual discussions – and there is good potential in this area for collaborative practical work. Discussions have also led to the endorsement of a summit for members of the fair trade movement for a strategic discussion on ‘the future of fair trade’. This will be held in June 2000 – and Traidcraft recognise that solid preparation is needed to ensure a useful and practical outcome. This report will be used as a stimulus for discussion in preparatory meetings to map out priority areas of concern for different organisations.

But from a practical angle, improving access to UK and other European markets requires an increase in companies who wish to engage with the fair trade movement and marginalised producers. One route is through the Ethical Trading Initiative – by encouraging *inclusion* in a corporate supply base of smaller, community businesses which might fall outside the scope of the ETI audits. The ETI small producers task group is a forum that could encourage corporate partners to pursue a project to work with marginalised producers requiring organisational support to ensure standards are reached. As a member of the ETI, Traidcraft is in a position to pursue this issue directly.

That said, working with companies in the Ethical Trading Initiative is not the only available strategy. The overview of the practicalities of fair trade given in this report has consistently stated that generalisations are not possible across sectors. Such a diverse range of products is only interesting en masse to multi-sector operations like supermarkets and department stores. One approach to policy work to promote fair trade in the mainstream would be to focus on key sectors. For example, the Traidcraft paper project could be supported by work with trade associations and journals representing the paper sector. A sectoral focus would also give some boundaries to promotional work which would enable more detailed discussions relevant to the chosen sectors. This would seem to be a more effective approach than the risk of boring those involved in operations with generalisations that are irrelevant to their line of business.

Meanwhile, there is a need for more promotional material about fair trade targeted specifically at a business audience. Much of fair trade awareness raising activities have been focused on the end consumer. And while this is crucial to the popularity of fair trade products, there is a gap of material designed to appeal to commercial people. In addition, clear and widely available information is needed on the scope of the Fairtrade Mark to avoid confusion for products for which the label is not available.

Traidcraft has made a strategic decision to support campaigns for reform at the World Trade Organisation but not to actively engage in lobbying for reform. Although the future of the WTO is unclear, a large amount of resources is needed to affect change within such an enormous global institution. Organisations such as Christian Aid, Oxfam, Action Aid and Worldwide Fund for Nature (WWF) are working effectively in this area and with more resources to draw upon, are better placed to do so. However, lobbying work at a national level on market access issues could be taken up when specific opportunities arise.

Box 11 is a summary of priorities for work on market access on which the Traidcraft policy unit will focus during 2000, together with some points for donor agencies to consider.

Box 11: Summary of recommendations

For the Traidcraft policy unit:

- Seminar discussions between ATOs and more widely about the future of fair trade
- Facilitating closer working relations among fair trade organisations
- Impact assessment
- The inclusion of small producers in the ETI
- Focus on specific sectors
- Awareness raising tailored to a commercial audience
- Exploring creative partnerships with companies and business related organisations which are willing to get involved in social development activities and which can offer beneficial services to marginalised producers

Points for considerations by donors:

- Impact assessment projects are essential as a broad strategic method of supporting fair trade activities
- 'Northern' based work on trade links is important to complement input in the country of origin. This includes market awareness tours, making buyer linkages and attending trade fairs.
- One way of improving market access for marginalised producers is to encourage more benevolent marketing intermediary organisations. However, these are long term projects and a medium term time scale is needed to measure sales success.
- Marketing intermediaries working with marginalised producers cannot be expected to be viable independent of external funding because the service they provide is correcting a market failure. Some funds can be generated through diversifying activities into other areas e.g. social auditing services, but these need to be recognised as long term business aims, and may not be applicable in all circumstances.

This report has also highlighted other ideas that could be developed in the future either by Traidcraft or another organisation to maximise the opportunities offered by the current interest in corporate social responsibility. These include working towards expanding the scope of the Fairtrade Mark, possibly as a collaborative project with several ATOs. The establishment of an import promotion office for developing countries in the UK would provide an invaluable service. Big business to small business links, skill swaps and secondments would contribute to capacity building and raise awareness in mainstream business of the challenges faced by marginalised businesses through the experience gained by secondees. In addition, it may be possible to establish links with business schools to raise the profile of fair trade among the business leaders of tomorrow. Similarly, design students might be encouraged to base their work on artisanal skills from developing countries and work with producers to generate a contemporary interpretation for the UK market. Finally, promoting technology transfer and training in the use of the internet and e mail would

be beneficial, as would pressure to liberalise telecommunications industries to allow access to mobile phones. These possibilities could be explored through partnerships between non-profit organisations and corporate players.

The fair trade movement is at a crossroads. While alternative trade companies are driven primarily by social development objectives, the business community around them is also starting to take a stronger interest in international development. And although most of the activities in the commercial mainstream are driven by 'enlightened self interest', this should be viewed as a positive challenge and opportunity rather than a threat. It is essential for the movement to work together to promote and apply the valuable experience gained over the past 20 years. In doing so, current trends in private sector thinking and donor interest in business can form a good platform to create further market opportunities for marginalised producers which acknowledges commercial pressures without perpetuating a cycle of exploitation.

Appendix 1

Common objectives, different perspectives: A glossary of fair trade companies

The fair trade movement in the UK covers a spectrum of views and approaches which are united by a common goal: to bring positive social benefits to producers in developing countries through providing an opportunity to trade. The ATOs named in this report are listed below

- **Cafédirect** was established specifically to gain entry into supermarkets. It is a marketing organisation created from a consortium of Equal Exchange, Oxfam, Traidcraft and TWIN Trading.
- **The Day Chocolate Company** was set up in 1998 to supply Divine chocolate to mainstream retailers. Company shareholders include the producers in Ghana as well as the marketing engine in London and partners, the Body Shop.
- **Equal Exchange** is a fair trade organisation based in Edinburgh which specialises in organic fair trade products and wholesale supply to the independent health food market. They are also part of the Cafédirect consortium.
- **Oxfam Fair Trade Company** is the only ATO in the UK which operates a chain of retail stores as well as their mail order catalogue. They operate in 30 countries with the support of field personnel from the Oxfam development charity to provide assistance to artisans and food producers to access export markets. They are one of the four Cafédirect shareholders.
- **Tearcraft** is run by the Tear Fund and sells a small selection of fair trade products through church stalls.
- **Trade Plus Aid** is a fair trade wholesaler which specifically sells to the designer and collectable segment of the mainstream market. They have pioneered fair trade sourcing from China.
- **Traidcraft** is the UK's biggest multi-sector fair trade organisation, and it sells through a network of volunteer co-ordinators and small shopkeepers known as 'fair traders', as well as general distribution through the mail order catalogue. Traidcraft is also part of Cafédirect and source all the tea for Teadirect.
- **Tropical Forest Products** is a Ugandan fair trade organisation supplying dried tropical fruits and other products. It is a sister company of Tropical Wholefoods.
- **Tropical Wholefoods** is a health food importer of African produce for the UK health market. Their products include
- **TWIN Trading** is a fair trade supply company based in London. They specialise in commodity products and are a partner in Cafédirect, for whom they source all coffee products.

Appendix 2

Corporate members of the Ethical Trading Initiative (ETI)

As of April 2000, the members were listed as:

- Anchor Seafood
- Asda
- Co-operative Wholesale Society
- Fisher Foods
- J Sainsbury
- LambertHowarth
- Levi Strauss & Co.
- Littlewoods
- Marks & Spencer
- Monsoon
- Pentland Group Ltd
- Premier Brands
- Safeway
- Somerfield Stores
- Tea Sourcing Partnership
- Tesco
- The Body Shop

• Notes and References

¹ FINE brings together the Fair Trade Labelling Organisation (FLO), the International Federation for Alternative Trade (IFAT), the Network of European World Shops (NEWS) and the European Fair Trade Association (EFTA).

² Further explanation on the differences between fair trade and ethical trade can be found in the Traidcraft Briefing, 'Fair trade and Ethical trade: Distinct but Complementary'.

³ Traidcraft in house data from annual reports. A comparative graph of craft to foods purchases can be found in Traidcraft's 1999 Social Accounts (page 7).

⁴ The COG Research and Marketing 1998. 'Traidcraft: Understanding your fair traders and consumers'.

⁵ CafeDirect is owned by a consortium of ATOs including Oxfam, TWIN Trading, Traidcraft and Equal Exchange. TWIN Trading do all sourcing for coffee products while Traidcraft source the tea. However, CafeDirect is the marketing engine for all products, with offices based in London.

⁶ For many, the image of the fair trade niche market consumer is a segment of white, middle England. A major challenge for the fair trade movement is how to involve more people from the UK's ethnic minorities. At this stage, this is more about the expansion of the dedicated niche market than moving fair trade goods into the mainstream, although the two are closely connected because the higher the participation in the niche market, the more interest can be generated from the mainstream.

⁷ Please see CafeDirect information sheets

⁸ Further details about the trade facilitation programme at Traidcraft are given in 'Expanding market opportunities: Traidcraft's approach to trade facilitation' in the forthcoming issue of Trade Post (published by IFAT).

⁹ NRI and IDS 1999. 'Enhancing the Development Impact of Export Horticulture in Sub-Saharan Africa'. This document is a report of a workshop held at the Victoria Holiday Inn, February 3rd 1999, and was attended by exporters, importers, retailers and researchers.

¹⁰ For further elaboration, see 'Bad Reasons for exporting, bad luck for you' and 'Good reasons for exporting' in CBI Bulletin from the Centre for Promotion of Imports from Developing Countries, March and April 1999 respectively

¹¹ The Crown Agents provides, on commercial terms, services which assist in the process of development. These services covering international trade, procurement, finance and institutional development are implemented in partnership with both public and private sector clients with a growing focus on local capacity building. It serves clients in 130 countries.

¹² FOB stands for Free on Board and represents the price of the product including delivery to the port in the country of origin. From then on, costs are met by the importer, such as shipping and insurance. Another way of costing is by CIF. This is always higher than the FOB price because it includes 'cost, insurance and freight'. That is, the cost of the product and the shipping to the destination port is the responsibility of the exporter.

¹³ An information pack on the scheme is available from the Institute of Grocery Distribution on 01923 857141.

¹⁴ See the Partners for Change 1999 brochure for further details of the business partnerships they have set up.

¹⁵ This summary is taken from a presentation by Paul Njau of Kibo Handicrafts given at a product development workshop organised by Traidcraft's Tanzanian partner, AMKA in July 1999.

¹⁶ See Dawson J. and Jeans A. 1997 'Looking Beyond Credit: Business development services and the promotion of innovation among small producers' Intermediate Technology Working Paper.

¹⁷ Traidcraft Market Information Service research on behalf of a mango producer (November 1999)

¹⁸ The current version of the Lomé Convention (Lomé IV) expired on February 29th 2000. It will be replaced by the 'Suva' Agreement to be signed in June 2000. The Sugar Protocol was negotiated separately to Lomé and will expire in 2001.

¹⁹ These figures are derived from Traidcraft in-house calculations.

²⁰ A critical summary of this confusion can be found in Natural Product News Summer 1999, 'Fairtrade versus Fair Trade'. Since the time this article was written, Traidcraft has begun to use the Fairtrade Mark on those products that qualify to the criteria – whereas previously the company relied on the integrity of their brand.

²¹ This quote is from a leaflet published in 1998 by Nestlé entitled 'Nestlé and Coffee: A partnership for fair trade'

²² Nestlé "object to the implication that [their] brands...which do not have the fair trade logo are somehow 'unfair'" (see note 21 above). They also object to the government funding of trading projects which have social development goals, the products from which are now becoming successful in direct competition with their own products.

²³ Other elements of the Partnership Agreement are: To meet basic criteria of fair trade; to trade in accordance with internationally agreed standards; and to display the Fairtrade Mark in product catalogues.