



House of Commons  
International Development  
Committee

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# **Fair Trade and Development**

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**Seventh Report of Session 2006–07**

*Volume I*





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*Report, together with formal minutes*

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## International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Development and its associated public bodies.

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John Barrett MP (*Liberal Democrat, Edinburgh West*) was also a member of the Committee during the inquiry.

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### Committee staff

The staff of the Committee are Carol Oxborough (Clerk), Matthew Hedges (Second Clerk), Anna Dickson (Committee Specialist), Chlöe Challender (Committee Specialist), Ian Hook (Committee Assistant), Jennifer Steele (Secretary), Alex Paterson (Media Officer) and James Bowman (Senior Office Clerk).

### Contacts

All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1223; the Committee's email address is [indcom@parliament.uk](mailto:indcom@parliament.uk)

### Footnotes

In the footnotes for this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by the page number as in 'Ev 12'.

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## Summary

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Fair trade has been recognised by the European Parliament as a key tool for development, helping poor producers capture more of the gains from trade and trade their way out of poverty. It does this by offering producers a price which covers the cost of production, and providing long-term contracts which assist predictable planning.

Growth in awareness of fair trade in the UK has led to increased demand for fair trade products and an increase in the number of companies and retailers offering them. Fair trade has also had an impact on raising levels of corporate social responsibility across the board. However some retailers in the UK are engaged in fierce price competition to gain a greater share of the market. This takes place amidst reports of low wages and poor working conditions for many workers and farmers supplying UK retailers and raises questions about whether the monitoring of such standards is sufficiently robust.

The costs and benefits of international trade are unevenly distributed with Africa gaining a smaller share of world trade now than it did 20 years ago. Recognising that African countries face severe supply side constraints in increasing their capacity to trade, the Commission for Africa called for increased investment to expand opportunities for developing country producers to enter fair trade markets. While fair trade is not a panacea for an international trading system which serves the interests of developing countries, it can deliver benefits in terms of access to and knowledge of international markets.

The fair trade movement has made enormous progress in recent years: growing beyond expectations in terms of product coverage as well as increasing engagement of consumers, especially in the UK. But there is still room to grow. Fair trade could expand its activities, for example by developing standards for garment manufacturing. Additionally fair trade could have a deeper impact on poverty if it were to target more consciously the poorest of the poor. Such initiatives require investment. The Government has declared its support for fair trade, and for working more closely with the private sector in development. It now needs to reassess how it can best advance both these objectives.



# 1 Introduction

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## Why fair trade?

1. In 2006 the Secretary of State for International Development, Rt Hon Hilary Benn wrote “Taking action at home to help people in the developing world is exactly what fair trade is all about. Buying a fair trade product changes lives—I’ve seen it for myself.”<sup>1</sup> The now annual Fair Trade Fortnight held in the UK brings fair trade into supermarkets, homes, churches and offices throughout the country. Recent surveys indicate that recognition of the FAIRTRADE mark<sup>2</sup> in the UK is now 57%. This is a significant increase from 52% in 2006 and 12% in 2000.<sup>3</sup> The UK is also the largest single market for fairly traded products with some retailers switching entire product lines to fair trade.

2. As the latest results of the growth in awareness of fair trade were revealed, the supermarket Asda announced it was cutting the price of bananas, the most frequently consumed fruit in the UK, by 15 pence per kilogram. Tesco followed Asda with a similar price cut.<sup>4</sup> While it is not known whether these recent price cuts will be borne by banana growers, suppliers or supermarket profit margins, a report by ActionAid illustrates how previous banana price wars have impacted negatively on workers’ rights, pay and conditions.<sup>5</sup> A recent report on working conditions of migrant workers preparing fair trade fruit for the domestic market highlights that these issues are not restricted to developing country workers.<sup>6</sup> In contrast Sainsbury’s will have converted all its bananas to fair trade by the summer of 2007.<sup>7</sup> The farmers supplying them will be assured of a stable, pre-agreed price and continuity of contract whether or not Sainsbury’s decides to cut prices to consumers.

3. The international trading system provides the context in which fair trade and other ethical schemes operate. It is often said that international trade can play an important role in helping to meet the Millennium Development Goals.<sup>8</sup> Yet despite general increases in trade at the international level, Africa’s share of world trade has dropped by nearly 60% over the past three decades,<sup>9</sup> although recent fuel and commodity price increases in 2006 have seen a small growth in export volumes.<sup>10</sup> Recognising that African countries face severe supply-side constraints in increasing their capacity to trade, the 2005 Report of the Commission for Africa called for increased investment to expand opportunities for

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1 *The Sunday Telegraph*, 5 March 2006.

2 The FAIRTRADE mark is the label awarded by the Fairtrade Foundation in the UK to products which meet agreed fair trade standards.

3 Fairtrade Foundation, TNS Omnimas, Topline Results, April 2007.

4 On 17 April 2007. [www.fairtrade.org.uk](http://www.fairtrade.org.uk)

5 ActionAid, *Who Pays? How British supermarkets are keeping women workers in poverty*, April 2007.

6 23 May 2007, [www.bbc.co.uk/radio4/today](http://www.bbc.co.uk/radio4/today)

7 Ev 116 [Sainsbury’s]

8 Ev 71 [DFID]

9 G. Nankini, *Out of Africa: a needed surge of exports to spur growth and cut poverty, 2005*, [www.go.worldbank.org](http://www.go.worldbank.org)

10 WTO, *World Trade 2006, prospects for 2007*, [www.wto.org](http://www.wto.org)

developing country producers to enter fair trade markets.<sup>11</sup> Subsequently the G8 also acknowledged that infrastructure and supply-side weaknesses often prevent the poorest countries from exploiting their trading opportunities. The final Gleneagles communiqué welcomed the growing market for fair trade goods and its positive effect in supporting livelihoods and committed the members to increasing public awareness of the positive role of ethical trade in development.<sup>12</sup>

## Our inquiry

4. We have previously emphasised that agreement on a development round in the World Trade Organisation (WTO) may be the most important gain for developing countries, and we continue to encourage the Government to put trade at the service of development.<sup>13</sup> In the absence of a WTO agreement which prioritises the needs of developing countries we decided to begin an inquiry into fair trade to examine the contribution of fair and ethical trade to poverty reduction and sustainable development.

5. Fair trade has been recognised by the European Parliament as a key tool for development.<sup>14</sup> In March 2006 Gareth Thomas, Parliamentary Under Secretary of State at the Department for International Development said, “fair trade can make a real contribution to helping poor people trade their way out of poverty [...] Fair trade is helping poor producers capture more of the gains from trade, which is a key objective of the Department for International Development.”<sup>15</sup> Given the growing awareness of fair trade, and the declared commitment to fair trade by the UK Government and other donors, we decided the inquiry should examine how best donors, in particular the UK’s Department for International Development (DFID), can support fair trade in their development assistance.

6. The growth in the number of ‘ethical’ labels in the market place has created confusion for consumers. In this context a recent report by the Development Committee of the European Parliament called on the Commission and member states to “take appropriate measures to ensure that consumers have access to all the information they need in order to make informed choices.”<sup>16</sup> Our inquiry has therefore also sought to identify examples of best practice among supermarkets and other retailers with a view to helping consumers to make those choices.

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11 Commission for Africa, *Our Common Interest*, March 2005, p 273

12 G8 Gleneagles 2005 – Africa, p 11, [www.fco.gov.uk](http://www.fco.gov.uk)

13 International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730, and Fifth Report of Session 2006-07, *EU Development and Trade Policies: an update*, HC 271.

14 European Parliament, *Fair trade and development*, A6-0207/2006, 2006.

15 HC Deb, 17 March 2006, col 2570w

16 European Parliament, *Fair trade and development*.

7. We began the inquiry in February 2007 holding our first evidence session at the start of Fair Trade Fortnight. We held a total of four public sessions in which we took evidence from the Government, the Prime Minister of the Republic of Dominica, the Fair Trade Foundation, trade unions, non-governmental organisations (NGOs), fair trade organisations and companies, retailers, supermarkets and corporate organisations. We received written evidence from 31 organisations and individuals many of whom are engaged in fair trade.

8. The report is structured as follows: Chapter 2 provides an outline of what fair trade is and compares the approach of fair trade with other ethical schemes. This Chapter also looks at the growth in fair trade, in terms of the growth in the number of products being certified as fair trade and the number of producers using the fair trade label, as well as the growth in consumer awareness and sales in the UK market. Chapter 3 looks at the UK Government's approach to fair trade which it sees as a small but significant part of its international trade policy. Chapter 4 assesses the impact of fair trade on producers, consumers and companies. Chapter 5 looks at the challenges and limits of fair trade in terms of the range of products certified as well as the number of producers who benefit from it. Chapter 6 asks what the Government's response should be and whether or not donors should play a role in supporting initiatives such as fair trade.

9. The report's recommendations are primarily for the UK Government but there are also recommendations directed at the Fairtrade Foundation, supermarkets and other retailers. We also hope that consumers reading this report will be made more aware of the ways in which fair trade benefits producers in developing countries, as well as the contribution of other ethical schemes to poverty reduction.

## 2 Fair trade: a thriving and growing enterprise

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### Fair trade and ethical trade

10. Fair trade is one of many initiatives designed to engender responsible or ethical business practices between developed and developing countries. Marks & Spencer sees its commitment to fair trade as part of a wider commitment by the company to ethical trading.<sup>17</sup> The approach most commonly compared with fair trade is ethical trade, although there are important differences between the two. Fair trade focuses on the trading terms for producers, while the emphasis of ethical trade is on the conditions of production. In terms of objectives, fair trade seeks to change unequal relationships into partnerships which benefit producers; ethical trade seeks to improve the welfare of producers in the work-place. Ethical trade is more likely to be used for multinational brands and retailers and for complex production processes, often in factories. In contrast fair trade has become known for its work with small farmers in the agricultural commodity sector, although it has become more diverse in recent years.<sup>18</sup>

### Fair trade and conventional trade

11. It would be incorrect to assume that goods which do not bear a fair trade mark are produced or traded in an unfair way. Fair trade is commonly understood to be a means of giving farmers and producers in developing countries a better deal than conventional trading arrangements.<sup>19</sup> The assumption behind fair trade is that international markets are unfairly distorted and cannot be relied upon to produce fair outcomes.<sup>20</sup> However, fair trade does not seek to avoid the market, rather to harness it in such a way as to promote improved outcomes for producers on the basis of ethical principles. It is thus a particular way of engaging with the market. However, as discussed in Chapter 5, fair trade only has standards for a limited range of products and it would be impossible to create fair trade standards for some products because of the complex manner in which they are produced. In addition some of the smallest producers cannot afford to become fair trade certified. Thus we do not expect all producers or all products to become fair trade.

12. The four main international fair trade organisations have together developed the following definition of fair trade:<sup>21</sup>

“Fair trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized

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17 Ev 106 [Marks and Spencers]

18 The implications of this for fair and ethical trade are discussed in Sally Smith and Stephanie Barrientos, “Fair Trade and Ethical Trade: Are there moves towards convergence?”, *Sustainable Development* 13, 190-198, 2005.

19 Fairtrade Foundation, TNS Omnimas, Topline Results, April 2007.

20 Mayoux, L. *Impact assessment of fair trade and ethical enterprise development*, 2001.

21 The organisations are the International Fair Trade Association (IFAT), the Fairtrade Labelling Organisation (FLO), the European Fair Trade Association (EFTA) and the Network of European World Shops (NEWS).

producers and workers, especially in the South. Fair trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of international trade.”<sup>22</sup>

13. Fair trade labelling organisations issue fair trade marks or labels to products which meet certain criteria or standards set by the labelling organisation. There are two sets of generic producer standards, one for small farmers and another for workers on plantations and in factories. In addition there are product-specific criteria for certain food and non-food products. For traders wishing to use fair trade certified products the following trading standards apply:

- A price is paid to producers which covers the cost of sustainable production
- A social premium is paid which producers can invest in community development projects
- Partial payment in advance is available if requested
- Contracts allow for long term planning.<sup>23</sup>

A fair trade label thus tells consumers that a particular set of criteria has been met in the production and trading of a particular product. Consumers can purchase these products with confidence that they have been produced and traded in a certain way and that this has been independently verified.

14. The situation, however, is complex. There are increasing numbers of ethical initiatives, some independently verified and others which are not, which may seek to meet different sets of criteria. In coffee production, for example, there are a range of different schemes. The Rainforest Alliance’s main concern is environmental sustainability and biodiversity.<sup>24</sup> Another scheme is Utz certified coffee which has a 25–30% share of the Dutch coffee market.<sup>25</sup> Utz is not fair trade and does not pay farmers premium prices although it has similar social and environmental objectives. Starbucks coffee also has its own in-house ethical sourcing scheme, CAFÉ (coffee and farmer equity), with social and environmental objectives. Again there is no guaranteed price or social premium but Starbucks told us that they currently pay more than the world market price for coffee.<sup>26</sup> In response to the multiple schemes in the coffee industry the German Coffee Association took the initiative to create a Common Code for the Coffee Community. Nestlé, Sara Lee, Kraft and Tchibo, representing 40% of the world coffee-roasting market, have all signed the Common Code which seeks to improve working and environmental conditions on coffee farms. The Code requires producers to pay minimum wages to workers, not to use child labour, to allow union membership, and to protect the environment.<sup>27</sup>

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22 European Parliament, *Fair trade and development*.

23 [www.fairtrade.org.uk](http://www.fairtrade.org.uk)

24 [www.rainforest-alliance.org](http://www.rainforest-alliance.org)

25 Utz Certified, *Key points of value and difference*, March 2007.

26 Q 66 [Mr Burrows]

27 Ev 81 [DFID]

15. While these schemes may not share the same objectives as fair trade they do seek to raise standards in corporate purchasing practices. Moreover many of the same organisations which sell fair trade products will also sell other ethical labels, offering consumers a range of ethical products. **The rise in ethical labels demonstrates that both retailers and consumers are interested in ethical sourcing. It is important that fair trade organisations do not assume they have a monopoly on this although fair trade can be said to represent a gold standard in terms of trading relations with producers. With many different schemes pursuing different objectives it is vital that consumers are given the correct information in order to make informed choices.** Awareness-raising is one way of doing this and will be discussed in Chapter 6.

### **Fair trade organisations**

16. The fair trade movement emerged in the 1950s and 1960s with Alternative Trading Organisations selling mainly handicrafts from developing countries.<sup>28</sup> Subsequently fair trade labelling organisations emerged and oversaw the growth of fair trade across European markets.

17. Fair trade products are still marketed by two different routes. Under the first, goods—traditionally crafts—are imported by Alternative Trading Organisations (ATOs) and distributed mainly in small ‘world’ or fair trade shops, churches, or other community organisations. Most of the ATOs and producer organisations are members of the International Fair Trade Association (IFAT). The clothing company People Tree is a member of IFAT and its fair trade clothing range is licensed by the Association.

18. The second route is the labelling route where goods are labelled by national fair trade certification organisations. In 1997 the international Fairtrade Labelling Organisation (FLO) was formed as a coordinating body for various national fair trade initiatives. FLO is now responsible for setting international fair trade standards in each product category, certifying the production of the goods, auditing trade and labelling these products.

19. In 2003 a new international fair trade certification mark was launched. The FAIRTRADE mark is jointly owned by 21 National Labelling Initiatives and three regional producer networks in Asia, Africa and Latin America. In the UK the Fairtrade Foundation is the organisation which licenses the FAIRTRADE mark.

20. The transition to fair trade labelling has been crucial for expanding fair trade out of a niche market and into the mainstream retail market. Buyers must ensure that only products purchased from registered fair trade producers are labelled as fair trade. The Fairtrade Labelling Organisation also monitors the producers regularly to ensure they are meeting fair trade criteria. This independent certification is key to the credibility of the FAIRTRADE mark. As Marks & Spencer told us, “We believe that the ground-breaking work of the Fairtrade Foundation particularly with commodities—cocoa, cotton, sugar, coffee and tea—gives huge reassurance to the consumer [...]”<sup>29</sup> **We believe that fair trade labels have helped consumers to be reassured about the way in which fair trade**

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28 Anne Tallontire, “Challenges facing fair trade and ethical sourcing: which way now?”, *Social Enterprise Development*, pp12-24, September 2002.

29 Q 76 [Mr Barry]

products are traded. This is an important achievement for which the Fairtrade Foundation in the UK and the Fairtrade Labelling Organisation internationally are to be commended.

## Fair trade in the UK

### *Growth in consumer awareness*

21. There has been a significant increase in consumer recognition of the FAIRTRADE mark in the UK, from 12% in 2000 to 57% in 2007. The type of customer who purchases fair trade products is also changing. Sainsbury's told us that:

“if you look at our customers, historically this was the older customer, who bought tea and coffee [...] That customer has changed over the last 10 to 13 years and it is very much more a universal customer and younger customers who are buying into a whole breadth of products, for a number of reasons.”<sup>30</sup>

Harriet Lamb of the Fairtrade Foundation told the Committee,

“what is great about fair trade is that it is something very pragmatic that you, I and everybody can do [...] I believe the key to the success is that it is an idea that appeals to the public and it is an easy and an accessible way for everyone to play their part in tackling poverty.”<sup>31</sup>

The Fairtrade Foundation has worked hard to achieve this level of awareness, firstly through increasing the demand for fair trade certified products by raising public awareness and understanding of fair trade, and secondly by ensuring companies and retailers are offering a range of products so that consumption of fair trade products is easy and public demand can be met.<sup>32</sup> Fair trade organisations have also raised awareness by improving the quality of fair trade products.<sup>33</sup>

22. However the Foundation has not achieved this alone. The Foundation is made up of a number of non-governmental organisations such as Christian Aid and CAFOD who also engage in awareness-raising activities. In addition there are NGOs directly involved in fair trade such as Traidcraft. The Fairtrade Foundation has worked with these NGOs as well as with trade unions, schools, churches and community organisations to expand awareness of the fair trade movement.

### *Growth in UK sales*

23. Growth in awareness of fair trade has translated into growth in sales. Fair trade sales in the UK have been growing on average at 40% per year. The total value of fair trade products sold in the UK in 2006 was £284 million, up from £196 million in 2005, and

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30 Q 149 [Ms Batchelor]

31 Q 7 [Ms Lamb]

32 Ev 93 [Fairtrade Foundation]

33 Q 10 [Fairtrade Foundation], Q 149 [Ms Batchelor]







































































