



Partners against poverty?

Businesses and international development

A report of the Business Forum
meeting on 14th July 2009

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Introduction

As businesses and consumers try to make sense of competing certification schemes like Fairtrade and Rainforest Alliance, they need to consider the pros and cons of different labels, and wider questions over corporate accountability for international development claims and poverty reduction.

What are the advantages and disadvantages of different schemes, both for businesses and for the communities they work with? What part should accreditation schemes play within companies' overall commitments to contribute to tackling poverty? Which companies have been pioneering good practice as partners for international development? How can businesses assess the effects they have on poverty and develop their business models to address the needs of poor people? Should businesses be expected to 'do good' for international development, or just to 'do no harm'?

The July 2009 meeting of the Food Ethics Council's (FEC) Business Forum discussed such issues. We are very grateful to Bill Vorley, Head of the Sustainable Markets Group at the International Institute for Environment and Development, for speaking. The chair was Helen Browning OBE, Food and Farming Director of the Soil Association and chair of the FEC.

This report outlines points raised during the meeting. Contributions are not attributed. The report was prepared by Sean Roberts. It does not represent the views of the Food Ethics Council, the Business Forum or their members.

Key points

- Ethical standards and schemes have reshaped the public debate about **trade justice**.
- The impact of fair trade and similar schemes on international poverty reduction is open to question. One study showed that the price advantage and social premium generated **3%** of the market value extra for producers.
- Operating in a **buyer's market** has been a major factor in enabling retailers to impose standards on suppliers, but they are now increasingly facing **seller's markets**.
- Fair trade success stories have so far been limited to **niche markets**. Another **limitation** is that they are necessarily **selective**, addressing environmental concerns while ignoring employment problems, for example.
- Fair trade standards and schemes have **unintended adverse effects** – they are, for example, **exclusionary** by nature.
- To achieve greater impact on poverty reduction, the ethical principles behind fair trade need to be integrated into **core business models**.
- UK companies need to be more actively engaged in helping **smallholders** to surmount the difficulties that they face.
- We need to develop clear messages for **consumers**, which take account of the complexities of the issues at stake; and so move away from the current preoccupation with **labels**.
- Although we have learnt a lot from fair trade and similar schemes, there remain numerous unanswered **political, ethical and practical** questions about role of businesses in reducing world poverty.

The impact of ethical schemes

The emergence and evolution of trade-related ethical standards, codes and certification schemes – such as Fairtrade and the Rainforest Alliance – have reshaped the public debate about trade justice. They have been fostered by a convergence of interests across policy, civil society and business, with commercial concerns about brand protection and increasing public scrutiny pushing in the same direction as political commitments around rights, equity and environmental sustainability.

The extent to which this impact has been translated into real gains in terms of international development and poverty reduction is, however, open to question. One study found that in a fair trade market valued at US\$ 1.6 billion, the price advantage and social premium transferred to producers represented about US\$ 50 million – equivalent to just three percent extra value. If these figures are updated to reflect current global fair trade sales, that would amount to US \$100 million going to producers.

Given the importance attached to fair trade in the recent Department for International Trade and Development White Paper *Eliminating World Poverty: Building our Common Future*, we need to assess just what our experience to date tells us about the potential efficacy of ethical standards and schemes. In particular, we need to assess not only whether the approach to date is up to the task of poverty reduction, but also whether it can secure supply in what is increasingly a seller's market.

Limitations

A number of factors suggest that we should moderate our expectations of fair trade schemes. There have been real successes, but these have been limited to niche products where it is feasible to achieve an equitable spread of risk along the supply chain, and to maintain profitability despite low overall market share. Also, certification is likely to be most successful in areas of production that are already well-managed, and so reinforcing good practice rather than addressing the worst. And standards in general are necessarily selective, promoting environmental sustainability while tolerating poverty-level pay rates, for example.

The changing economic climate also has implications for the potential efficacy of fair trade. The fact that importers have for the most part been operating in a buyer's market has been fundamental to enabling them to impose standards on producers and suppliers – as we move towards a seller's market for many products, the power of buyers to insist on standards diminishes. Meanwhile, the squeeze on prices due to the general economic downturn constrains suppliers' ability to adopt higher standards of ethics and sustainability.

At the consumer end, provenance products have been hard hit by the recession, with the recent relative recovery at Tesco being attributed to the discounting of fair trade products. In other instances, the sale of fair trade products is dependent upon promotional activity.

Unintended consequences

The long-term, large-scale viability of fair trade standards and schemes is further brought into question by their unintended, adverse consequences. They are by their nature exclusionary, narrowing the supply base and concentrating the market. This is partly because only some suppliers will be able to meet the necessary standards, and also because retailers may choose to reduce the numbers of suppliers they deal with in order to ensure effective oversight – Wal-Mart was one high-profile example of an organisation explicitly citing the objective of enforcing ethical standards as the reason for reducing the number of manufacturers they work with. Smallholders, indigenous groups and women will be among the groups most at risk of exclusion, thereby contributing to rural differentiation.

UK retailers' response to increased consumer concern over 'food miles' brings together several of the structural and contingent problems associated with sustainability standards and schemes. The new concern over food miles combined with established public awareness of climate change to single out air-freighted goods as the epitome of unsustainable development. In response, Tesco and Marks and Spencer announced their intention to label air-freighted products and stock more locally produced food. This 'knee-jerk' response took no account of the fact that around a quarter of the food that is air-freighted to the UK is fresh fruit and vegetables from Africa, with as many as 1.5 million livelihoods dependent upon

this supply chain. Marks and Spencer's decision to stock only Fairtrade bananas had comparable exclusionary effects on African exports. It is also noted that the major supermarkets have been disinclined to take similarly drastic action to direct consumer behaviour in areas where it could have more profound impact, such as consumption of meat and dairy products.

Core business models

If the business community is to make the contribution to poverty reduction that is envisaged, the principled and pragmatic motivations behind fair trade will somehow have to be integrated into wider corporate practice. Earlier points about the limitations of ethical standards and schemes notwithstanding, some companies have already been developing their approaches to sustainability along these lines, by incorporating certification into wider sustainability strategies. The Rainforest Alliance uses certification as a means to drive companies' mission, changing corporate culture in order to generate demand for sustainable products. When Unilever wanted to move to importing certified tea, for example, they found that none was available, and so had to actively promote certification with suppliers. On the other hand, food companies in general are perceived to be performing poorly in this area when compared to other industries, such as mining, where the provision of wider community support is a more common practice.

In what ways, then, will the next step towards integrated approaches to sustainable development differ from what we've seen so far? One key feature will need to be a focus on *inclusion*, in contrast to the exclusionary effects of standards and schemes. Above all else, this means smallholder inclusion, and a move away from compliance and corporate social responsibility agendas. And this in turn requires an emphasis on the organisation of supply, in order deal with factors such as the dispersion of producers, diseconomies of scale, and inconsistencies of volume and quality.

The current economic situation provides a strong business case for this more integrated approach. One of the attractions of fair trade has been to engender long-term trading relationships; a prime motivation in Cadbury's decision to move to Fairtrade for its Dairy Milk cocoa was the desire to secure supply. On the other hand, however, the imposition of onerous standards has potential adverse effects in terms of supply chain resilience, as seen in instances of suppliers switching to other export destinations because of overly-demanding UK standards. The development of longer-term, partnership-based relationships can address this, and so promise greater security of supply.

Challenges

The scale of the challenges entailed in the transition to more inclusive business models should not be underestimated. There is, for example, a marked lack of consensus within the

business community about how much stake UK companies have, or should have, in their supply chains; so there is a long way to go in fostering recognition of the interdependence of retailers and producers. One specific area of concern is the relative inexperience of many buyers, who can behave irresponsibly, and who need to be educated about wider issues around supply chains.

But it is not simply a matter of addressing inexperience and lack of knowledge with regard to specific individuals and roles. To bring about this kind of transformation in business models will require change at the level of organisational culture. Buy-in from top management will be essential, given the demands that are involved in developing a small provider supply base. One practical manifestation of the necessary senior-level support could be the inclusion of sustainability-related criteria in performance assessment procedures. It may be necessary to re-think the role of corporate social responsibility managers, who are sometimes perceived to have negligible impact, and possibly to develop new intermediary roles to ensure delivery across an organisation's operation.

Support for smallholders

As well as realigning internal corporate roles and attitudes to take account of the circumstances of smallholders, UK companies also need to be actively engaged in helping small suppliers to surmount the difficulties that they face. This means supporting access to patient capital, for example, and improved

information and communications systems and technology. Again, there are direct benefits to retailers, in terms of the improved supplier productivity and reduced costs that will follow.

A more far-reaching option is shared equity schemes, one of the attractions of which is that they potentially resolve some of the problems around over-supply – because suppliers and retailers then have a shared interest in avoiding surpluses. Experience of shared equity to date is relatively limited, with one of the main examples being Divine chocolate, the future of which may be under threat as a result of Cadbury's move into fair trade. The Waitrose Foundation and Tesco's sustainable dairy group also provide models of financial partnership, although not amounting to shared ownership.

Conclusion

The next phase in the evolution of sustainability standards and schemes will be largely consumer-driven. Marketing and other communications will of course continue to have significant impacts on consumer behaviour, but it is difficult predict how both public and corporate priorities around sustainability messages will develop. To date, from the perspective of food businesses, there seems to have been a roughly three-year cycle, with an initial focus on employment through the Ethical Trading Initiative succeeded by fair trade (partly because it wasn't possible to get a label for good employment practice under the ETI); and with environmental standards

currently taking precedence over fair trade.

One can speculate as to what might be next in this sequence. But in order to promote consumer attitudes and behaviour that reflect current understandings of good sustainability practice, we need to develop clear communication messages that better convey the complexities of the issues at stake. This means moving beyond the current preoccupation with labelling, and focusing instead on issues such as purchasing and procurement. This represents a formidable challenge – how do you get deforestation recognised as a consumer brand, for example?

The experience to date of Fairtrade, Rainforest Alliance and similar standards and schemes, can tell us a great deal about what the future sustainability agenda holds. Nevertheless, numerous questions – political, ethical and practical – assail us as we contemplate the role of business in eliminating world poverty. Several of these involve difficult assessments about respective responsibilities: where, for example, does responsibility lie for addressing the fact that people in the UK have become used to unsustainably cheap food? When is it acceptable to import food from countries experiencing hunger? And how can we dampen retailer competition on price – can it be left to retailers themselves to develop some kind of national initiative, or is there a role for government?

One way of thinking about this is in terms of how we might *measure* whether business is 'good for development'. It is not sufficient, as some commentators

have suggested, simply to know that a product comes from a low-income country. In practical terms, we do not currently know what sort of supply chain arrangements, including the potential role of intermediaries, can best bridge the worlds of smallholders and of modern markets.

The UK business community needs to find ways of addressing these various and urgent questions. A promising model for how this might be done is

provided by the Procurement for Development Forum run by Chatham House and DFID, which focuses on how purchasing practices can help development in African countries. This kind of learning network has an important role to play in enabling business to meet the daunting challenge of securing supply in the new seller's market, and simultaneously reducing international poverty.

Speaker biographies



Helen Browning, who was awarded an OBE in 1998 for services to organic farming, runs a 1350 acre organic livestock and arable farm in Wiltshire. She supplies customers with organic meat through a nation-wide home delivery service and via multiple retailers. Helen is the Soil Association's Food and Farming Director and is chairman of the England Animal Health and Welfare Implementation Group. She was a member of the Agriculture and Environment Biotechnology Commission (AEBC) throughout its life (disbanded April 2005) and the Meat and Livestock Commission until its end. She has worked with many food and farming organisations over the last twenty years, and was a member of the Government's Policy Commission on the Future of Farming and Food ('the Curry Commission'). Helen is chair of the Food Ethics Council.



Bill Vorley is head of the Sustainable Markets Group at the International Institute for Environment and Development (IIED) in London. His research interests are market structure and governance, the position of small and family scale producers, the role of business in sustainable development, and the means to decouple food production and trade from the degradation of livelihoods and environment. He is coordinator of the international 'Regoverning Markets' programme, which has analysed the position of small scale producers in modern/restructured agrifood markets. Prior to joining IIED in 1999, Bill worked at the Institute for Agriculture and Trade Policy in Minneapolis, the Leopold Center for Sustainable Agriculture at Iowa State University, and spent many years in agribusiness after post-doctoral field research in Malaysia. He has a PhD from the University of Southampton, UK.

About the Business Forum

Ethical questions around climate change, obesity and new technologies are becoming core concerns for food businesses. We have launched the Business Forum to help senior executives gain expert insights into the big issues of the day. Membership is by invitation only and is strictly limited.

The Business Forum meets six times a year for in-depth discussion over an early dinner at a celebrated London restaurant. The forum members shape the meeting agenda.

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