



Capturing the gains: Redefining trading fairly

How might we inject fairness into global food supply chains?

A report of the Business Forum
meeting on 17th September 2013

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About the Business Forum

Ethical questions around climate change, obesity and new technologies are becoming core concerns for food businesses. The Business Forum is a seminar series intended to help senior executives learn about these issues. Membership is by invitation only and numbers are strictly limited.

The Business Forum meets six times a year for in-depth discussion over an early dinner at a London restaurant.

To read reports of previous meetings, visit foodethicscouncil.org/businessforum.

For further information contact:

Dan Crossley
Food Ethics Council
39-41 Surrey Street
Brighton BN1 3PB

Phone: +44 1273 766654

dan@foodethicscouncil.org

www.foodethicscouncil.org

Introduction

Global food supply chains are often complex and opaque. Employment opportunities and wellbeing of workers in developing countries are hugely variable. The recent tragedy at a clothing factory in Bangladesh provided a wake-up call to all businesses that ethical standards in supply chains must not be compromised, and food is no exception to this.

The September 2013 meeting of the Food Ethics Council Business Forum considered how fairness might be injected into global food supply chains. The discussion was anchored by a report on the outcome of a major international project “Capturing the Gains” which considered policies and interventions for fairer trade. It explores opportunities and challenges for “promoting economic and social upgrading within global production networks, in order to capture more of the gains for poorer producers and workers.”

We are grateful to our speakers, Stephanie Barrientos, Professor at the Institute of Development Policy and Management and Associate Director of the Brooks World Policy Institute at the University of Manchester; and Ada Igboemeka, Head of Trade and Development Policy and Programmes at the Department for International Development (DFID). The meeting was chaired by David Croft, Director of Food Technology at Waitrose and a member of the Food Ethics Council.

The report was prepared by Chris Ritson and Dan Crossley and outlines points raised during the meeting. The report does not necessarily represent the views of the Food Ethics Council, the Business Forum, or its members.

Key points

- It was argued that the traditional approach to trade and development is no longer valid and that a “whole food chain” approach must be adopted. That in turn needs to be placed in the broader food system context
- Local markets in the ‘South’ now require quality and value, and the rapidly growing economies in Asia have provided new competition for retailers in the North
- The importance of quality standards at the primary level involves increasing need for training and skills development in primary production. Local Governments in the South have typically not recognised this and this role is being assumed by many companies at the head of the global supply chain
- Investing in the product base is important. Improving the supplying population’s welfare is now regarded as “good business”
- Developing the welfare of the supply base can lead to Social Upgrading and this in turn may provide opportunities for the primary producer to become involved in added value higher up the chain – “capturing the gains”
- There is a clear ethical case for working to get a fairer distribution of value along the supply chain, but the short-term businesses case is problematic. However, there is a clearer long-term business case around security of supply – demonstrated by recent sizeable investments in cocoa communities for example. Taking a long-term view is critical in decisions relating to agriculture.
- South-South supply chains are likely to become more prominent in the future. So ‘trading fairly’ should not be narrowly thought of in terms of South-North interactions.

The Issue

The traditional approach to trade and development has concentrated on the problem of barriers to commodity exports from developing countries (for shorthand “the South”); and focussed on improving productivity of, usually small scale, farming. Trade involved a “market” in which primary producers sold products to importers in the North. Increasingly however, the small farmer or plantation worker in the South is at the bottom of a value chain ladder which eventually reaches the supermarket in the North, with complex linkages throughout the chain. The Department for International Development is becoming increasingly aware that it needs to be involved in the whole supply chain.

The primary producers, often women, are vulnerable to power exercised further up the chain and the way linkages in the chain operate. A major feature of this development is an increasing requirement for quality standards throughout the chain, including at the primary level. This in turn requires an increasing skills base amongst the primary producers.

So, there is a drive for higher quality in much more diverse and complex markets than before, at the same time as costs going up and competitive pressures increasing.

Quality

The development of global food chains has been fostered by the emergence of a middle class in supplying countries and new demand driven by rising incomes in South and East Asia. Specific characteristics of consumers in new markets may increase the intensity of competition – for example the preference in China for dark chocolate (which requires more cocoa). The old assumption that only price mattered in local markets is no longer valid. Indeed the often poor

quality of the cool chain (cold supply chain) in Africa means that product quality has to be high.

There is now intense competition for quality food in all emerging markets and the major retailers in the developing world are waking up to the fact that they need to secure their supply base and become involved in improving the skills required to achieve quality production by primary producers. Marks & Spencer, Waitrose and Mondelez are just a few examples of those involved in substantial training programs for their primary suppliers. Local Governments in the South have not yet recognised this requirement for improvements in their agricultural sectors – the new Global food chains have assumed this role.

It was suggested that this might reflect a return to the “Caring Capitalism” of the late 19th century, e.g. Lever Bros and Cadbury. Companies now regard this involvement in primary producer welfare as a serious issue – it has become “Good Business” – “you must invest in the base, not just the middle”.

Capturing the Gains in Value Added

Economic growth does have a strong link to poverty reduction, it was argued.

The terms “economic upgrading” and “social upgrading” have been developed in recent years. These describe the opportunities for developing countries to capture some of the benefits from this drive for ‘better quality’. Economic upgrading – essentially rising incomes in rural areas – requires social upgrading – building skills, education, infrastructure, employment terms and conditions. Economic upgrading can in turn help drive social upgrading.

Retaining a skilled workforce in rural areas is a problem now being shared with the South. Everyone has a mobile phone and alternative

employment opportunities are well known. A more skilled workforce brings with it the possibility of the primary producer moving up the value chain – for example taking over responsibility for packaging, introducing branding or ownership of transport.

Moving up the value chain ladder can involve a gradual transition from local product statutory standards only to stringent, ethical, global product and process standards.

Economic and social upgrading does not just ‘happen’ however – companies involved need to do more than just ‘participate’. It needs deliberate actions.

Examples

Some examples were highlighted of success in social and economic upgrading. These included supporting cocoa farmers in Ghana, working with citrus growers in South Africa (which resulted in staff turnover being cut to just 2.5% per year); sections of the Kenyan flower industry; and Co-operative introducing packaging at source in selected markets.

There are problems though – simply “how to fold a box” required substantial training; packaging must have shelf appeal; many final products represent blends of primary commodities. The opposite can happen – for example Starbucks in South America where all the value added occurs in the US and is then re-exported to the supplying country.

Fair trade

The role of the Fair trade movement complements global value chain initiatives. A major development has been “relinquishing power to producers” so that they become owners of the fair trade standards. Divine Chocolate, which has a farmers’ cooperative as a major

shareholder, was cited as a good example of upgrading in the value chain.

Distribution of value

There is an unequal distribution of value in the supply chain. There is a clear ethical case to push for a more equal distribution of value. There is a need to look at power in supply chains, power flows and the pressures they cause.

The question was posed as to whether there is a business case for working with firms in the developing world to bring them into higher value added tasks? It was argued that, whilst there are indicators and measurable standards for social upgrading, it is difficult to put a commercial value on it. However, business cases do exist, as is shown by Cadbury investing £50m a few years ago and Mondelez (owner of Cadbury brands) more recently committing to invest \$400m over ten years to help those in cocoa farming communities - to cite one of a number of examples.

It was suggested that there are similarities between this push for ‘higher value add’ in the South and what many in UK farming have been arguing for. The difference is the relative conditions between the South and the North, and the presence of a safety net in countries like the UK.

Investing in communities?

It is not just the skills of workers on the farm or the factory floor that are important – it is also the surrounding villages, environment and communities. Worker welfare and productivity is adversely affected by lack of schools, clinics and/or transport. That is why some international companies get involved in running schools or crèches in the communities which they are sourcing from for example. It can be beneficial for actors from outside the country to invest in

helping to address wider societal issues. However, there are some important caveats. Firstly, the private sector can not – and should not – try to do everything themselves, for example take over running schools. It was argued that there is a need for public-private collaboration. Secondly, and critically, any investments should be to foster independence, rather than to create dependence.

What next?

A number of recommendations were put forward. Firstly, private sector initiatives supporting economic and social upgrading should continue – albeit they on their own are not sufficient.

Secondly, Governments (local and donor) need to understand the importance of taking a value chain approach, rather than seeing their responsibility stop at the border. Donors have an important role to play, not least in helping make rural agriculture attractive. Governments need to develop appropriate trade policies and strategies.

Thirdly, broader long-term alliances are needed to help accelerate progress and to share the risks. One company can not develop a resilient supply chain and improve the welfare and incomes of its supply base (including smallholder farmers) in isolation.

Fourthly, it was argued that firms in the South should be given the opportunity to do higher value aspects of the supply chain – not just processing and logistics, but also marketing and retailing.

Reflections

There is still a tendency to focus on South-North supply chains, which can potentially lead to paternalistic solutions. However, the growth of South-South supply chains is likely to accelerate

and in doing so, create very different dynamics in the future.

Getting fairness into global supply chains is not a one-off injection into the system. If ‘trading fairly’ is to become the norm, then all actors in the food system – and many of those outside of it – will need to engage much more creatively and collaboratively over a sustained period.

Speaker biographies



David Croft is Director of Food Technology at Waitrose. David previously worked for Kraft Foods, Cadbury and the Co-operative Group, where his senior roles have included leading technical and marketing functions in environmental sustainability, ethical sourcing and retail standards. David also previously served as a director of the Ethical Trading Initiative, and as a council member at the Campden & Chorleywood Food Research Association. He has also contributed significantly to the development of the UK fair trade market, launching new products and ranges, and by developing consumer awareness and marketing campaigns. He has been involved in numerous initiatives to improve supply chain standards across the food sector, engaging extensively with government departments and NGOs.



Professor Stephanie Barrientos lectures in the Institute of Development Policy and Management and is Associate Director of the Brooks World Poverty Institute at The University of Manchester. She has researched and published widely on gender, global production, employment, decent work, trade and labour standards, corporate social responsibility, fair trade, and ethical trade. She is co-coordinator with Professor Gary Gereffi (Duke University) of the DFID funded international research network 'Capturing the Gains: Economic and Social Upgrading in Global Production Networks' that links researchers in US, Europe, Africa, Asia and Latin America (www.capturingthegains.org). She has advised and provided training for a number of companies, NGOs and international organisations on issues concerning gender, agribusiness, ethical trade, decent work, and impact assessment and has undertaken research in Africa, Asia, Latin America and the UK.



Ada Igboemeka is currently Head of Trade and Development Policy and Programmes at the Department for International Development (DFID). This includes responsibility for DFID's global Aid for Trade programmes and for DFID's policy on trade and global value chains. Her team also leads on the development aspects of the World Trade Organisation's multilateral trade negotiations and on EU negotiations with developing countries. She has previously worked as a trade policy adviser at DFID, has advised on the UK's strategy on international development for the G8 and G20 Summits, and has worked on various development projects in Africa and Asia.



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