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Promoting Responsible and Sustainable Sourcing Through Fair Trade

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Promoting Responsible and Sustainable Sourcing Through Fair Trade

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1. Introduction

Rationale

The term “Fair Trade” (FT) has various meanings. In this Reader, it is used to indicate the “Fair Trade movement”, represented in particular by Fairtrade Labelling Organisations International (FLO) and its associate organisations (and hence the use of “Fair Trade” in this note is with capital letters). These groups aim to provide an alternative business which attempts to redistribute returns to factors of production in a manner that is “fairer” for developing-country producers. In this sense, conventional trading relations involving developing country producers are deemed “unfair” insofar as the returns to those producers are abnormally low in an economic, environmental and/or social sense. Hence, Fair Trade seeks to secure higher earnings for developing country small-producers that will allow them to cover production costs, earn higher returns and address potential market failures such as environmental degradation and/or low labour standards.¹ Fair Trade, therefore, seeks to connect low-income producers and consumers in large markets in more equitable and sustainable ways. It originates in a growing interest among consumers in large markets in the development of socially responsible traders, that would allow for a “social value added” in their commercial transactions. This value added is generated when the purchase of a product, besides its intrinsic value, gives the final consumer the benefit of knowing that it contributes to improve the quality of life of a group of low-income producers.²

The range and functions of standards and certification methods have changed, to cover new areas of commerce beyond those traditionally concerned with FT, for example public procurement or services. This necessitates a broader analysis of the trading regime between developing and developed countries further to the activities of the FLO and its associate organisations. In this regard, equitable trade is not in and of itself a specific standard framework, but rather encompasses all the principles of a more balanced, fairer and sustainable trade commercial relationship between producers and consumers, the former largely constituting farmers or other service providers from developing countries. This has changed, and there is a growing recognition and validation in the EU at least, that considerations that are not purely about trade can be taken into account in commercial activities, regulation and partnerships.³

Historical background

The fair trade concept has been developing in western nations throughout the past 40 years or so, in response to a growing recognition that benefits accruing from trading and trade growth are not necessarily shared by all countries and all layers of the population within each country in a comparable manner.

Fair or equitable trading has its roots in the Italian and British cooperative movement of the 19th Century, which was then followed by religious and political movements in the 1950s and 60s in Britain and the US, seeking alternative trade models. Religious organisations and development

agencies were also involved in actively working to support producers in the Global South to reduce inequality and poverty in their livelihoods.⁴

The commercialisation of fair trade started in the United States, where Ten Thousand Villages (formerly Self Help Crafts) began buying needlework from Puerto Rico in 1946, and SERRV began to trade with poor communities in the South in the late 1940s. The first formal “Fair Trade” shop which sold these and other items opened in 1958 in the USA.

The retail development of Fair Trade in Europe date from the late 1950s when Oxfam UK started to sell crafts made by Chinese refugees in Oxfam shops. In 1964 it created the first Fair Trade Organization. Parallel initiatives were taking place in the Netherlands and in 1967 the importing organization, Fair Trade Original, was established. At the same time, Dutch third world groups began to sell cane sugar with the message “by buying cane sugar you give people in poor countries a place in the sun of prosperity”. These groups went on to sell handicrafts from the South, and in 1969 the first “Third World Shop” opened. World Shops, or Fair Trade shops as they are called in other parts in the world, have played (and still play) a crucial role in the Fair Trade movement. They constitute not only points of sales but are also very active in campaigning and awareness-raising.

During the 1960s and 1970s, NGOs and socially motivated individuals in many countries in Asia, Africa and Latin America perceived the need for fair marketing organizations which

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would provide advice, assistance and support to disadvantaged producers. Many such Southern Fair Trade Organizations were established, and links were made with the new organizations in the North. These relationships were based on partnership, dialogue, transparency and respect. The goal was greater equity in international trade.

Parallel to this citizens' movement, the developing countries were addressing international political fora such as the second UNCTAD conference (United Nations Conference on Trade and Development) in Delhi in 1968, to communicate the message "Trade not Aid". This approach put the emphasis on the establishment of equitable trade relations with the South, instead of seeing the North appropriate all the benefits and only returning a small part of these benefits in the form of development aid.

The growth of Fair Trade (or alternative trade as it was called in the early days) from the late 60s onwards grew as a response to poverty and sometimes disaster in the South and focused on the marketing of craft products. Its founders were often NGOs, working with their counterparts in countries in the South, assisting them to establish Southern Fair Trade Organizations that organize producers and production, provide social services to producers, and export to the North. Alongside the development trade there was also a branch of solidarity trade. Organizations were set up to import goods from progressive countries in the South that were both politically and economically marginalised⁵.

As its name indicates, Fair Trade has always been closely linked to developments in international trade,

and the need to respond to changing global commodity prices and trade regimes. In this regard, severe price volatility and instability in coffee trade which led to the dismantling of the International Coffee Agreement 1989, necessitated a rethink in coffee marketing and retail. In this context, Solidaridad, the Dutch development agency, spearheaded the foundation of the first ever Fair Trade label and FT organisation, Max Havelaar in 1988, whose first FT labelled product was coffee.

Fair Trade in the ACP-EU context

Fair Trade has repeatedly been recognized by the European Commission and EU member governments for its contribution to poverty reduction and sustainable development. In 1998, the European Parliament adopted the "Resolution on Fair Trade"⁶, which was followed in 1999 by the "Communication from the Commission to the Council on "Fair Trade"⁷. In 2000, the ACP-EU Cotonou Agreement made specific reference to the promotion of Fair Trade⁸. In 2001 and 2002, several other EU documents explicitly mentioned Fair Trade, most notably the 2001 Green Paper on Corporate Social Responsibility and the 2002 Communication on Trade and Development. In 2004, the EU adopted the "Agricultural Commodity Chains, Dependence and Poverty - A proposal for an EU Action Plan", with a specific reference to the Fair Trade movement which has "been setting the trend for a more socio-economically responsible trade."⁹ In 2005, in the EC communication "Policy Coherence for Development - Accelerating progress towards attaining the Millennium Development Goals"¹⁰, Fair Trade is mentioned as "a tool for

poverty reduction and sustainable development". Finally, in 2006, the European Parliament unanimously adopted a resolution on Fair Trade, recognizing the benefits achieved by the Fair Trade movement, suggesting the development of an EU-wide policy on Fair Trade¹¹.

Two very notable developments in the ACP-EU trade relations took place between 2010 and 2015. Firstly, the second revision of the Cotonou Agreement, which was concluded in 2010, saw significant revisions and new provisions being made for economic and trade provision between the ACP and the EU (title II Cotonou Agreement, 2010), which amongst other things now recognises the dependence of ACP countries on "commodities and a few key products, including value-added agro-industry products". Furthermore, agriculture has for the first time been inserted as a target policy area for EU support under the economic sector development article.¹² Lastly, Policy Coherence for Development (PDC) was also made a legal obligation for ACP-EU cooperation under Article 12, which also states that "the [European] Union acknowledges that Union policies, other than development policy, can support the development priorities of ACP States in line with the objectives of this Agreement". The Economic Partnership Agreements which the EU has concluded with the Caribbean Region (EU-CARIFORUM EPA) and more recently, with a number of African regions (EU-Central Africa, EU-Eastern and Southern Africa, EU-ECOWAS, EU-SADC, EU-EAC EPAs) seek to liberalise trade between ACP countries and the EU, and were mandated under the Cotonou Agreement. In the texts of the agreements which have been published (CARIFORUM, Central Africa and EAC), no explicit

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reference is made to fair or equitable trade, and the extent to which the EPAs are bound by the reference in the Cotonou Agreement to fair trade is arguable. A key area of concern in this context has been the policy space which ACP and EU Member States will have to exercise if they wish to legislate to promote or secure provisions which concern certain policy issues associated with fair or equitable trade, such as labour, health, environment, education and so on. As FT and ET are inherently and essentially concerned with exports, and therefore also secure access to export markets (in this case, the EU market for ACP goods) it is arguable that the EPAs present an attractive proposition for ACP producers insofar as they ensure as stable and long-term market access regime.

Furthermore, 2010 also saw changes to the EU's trade and development legal regime through the Lisbon Treaty, which for example granted the EU exclusive competency with regards foreign direct investment and for the first time made an explicit link between trade and development in EU external action. A key provision is Article 3(1) which states that in its relations with the wider world, the EU shall contribute to sustainable development, free and fair trade and the eradication of poverty. In this sense, the EU and its Member States are therefore obliged to contribute to greater fairness in EU-ACP trade. In this case, it is arguable that fairness can be taken to signify both trade that is fairer for EU partners, including developing countries and their producers, as well as trade that is fairer in the sense that it reduces trade distortion and measures which promote unfair trading practices. According to some analysis, "[a] careful reading of these provisions indicates that the general trade objectives are not only limited

to trade liberalization, which is the only objective provided in Article 206 TFEU [Treaty on the Functioning of the EU] but include other trade-related objectives."¹³

In 2015, the European Commission published a trade and investment strategy titled "Trade for All: Towards a more responsible trade and investment policy"¹⁴ where it made commitments to promote fair and ethical trade schemes, particularly in order to facilitate connections between fair trade producers and consumers, and more broadly to raise awareness on supply and demand side issues relevant to fair trade. According to the Commission, it will:

- use the existing structure for implementation of FTAs to promote fair trade and other sustainability assurance schemes, like the EU organic scheme;
- address fair and ethical trade more systematically in the upcoming review of the EU 'Aid for trade' strategy and report on fair trade-related projects as part of its annual 'Aid for trade' report;
- promote through the EU delegations and in cooperation with the High Representative, fair and ethical trade schemes to small producers in third countries, building on existing best practice initiatives;
- step up support to work in international fora, such as the International Trade Centre, to gather market data in relation to fair and ethical trade markets, which could then serve as a basis to follow the evolution of the markets; and
- develop awareness-raising activities in the EU, in particular

working with local authorities in the EU via the possible launch of an 'EU City for Fair and Ethical Trade' award.¹⁵

Notwithstanding these developments, preference erosion continues to be a longstanding area of concern for ACP producers, especially those exporting produce that is already subject to a substantial amount of FT certification such as banana or sugar. Whereas there is considerable recognition in the revised Cotonou Agreement of the risks of preference erosion, and furthermore, obligations are in place for it to be addressed in the context of ACP-EU cooperation, it is still a topic which creates a high degree of uncertainty, notably in the agricultural sector, as it can undermine one of the key tenets of FT certification, namely the guaranteed price which producers get based on FT premium.

The positive trajectory of FT and its recognition in the EU context suffered a blow as a result of the 2008 financial crisis, the subsequent global economic recession and the resulting euro-crisis.¹⁶ The general drop in consumer demand and shift in policy perspective, made it imperative for the Fairtrade institutions and commercial regime to re-state their value-added for consumers as well as producers in a context where generally EU institutions, Member States and governments were arguing for a decrease in support to developing countries. Strong responses from FT stakeholders in some Member States, notably the Netherlands, Belgium and the UK meant that not only did sales in FT certified products recover since the crisis, but with certain products the growth in sales is higher than at pre-crisis levels. Furthermore, certain Member States, such as Belgium, maintain

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a strong engagement within their development cooperation portfolio to support FT, for example the Trade for Development Centre, which is part of the Belgian Development Agency (BTC) programme, and promotes fair trade, sustainable trade and organic farming in partner countries.

Fair Trade as a means to Responsible Agricultural Supply Chains

The contribution of the global trading system to sustainable development can only be realised if more people are lifted out of poverty through trade,¹⁷ and the private sector and consumers play a critical role in transforming value chains and commercial behaviour in favour of fairer and sustainable practices. Ending poverty is the first sustainable development goal, followed by SDG2 which is to end hunger, achieve food security and improved nutrition and promote sustainable agriculture. Notably, the majority of the targets of SDG2 specifically call for global agricultural systems and trade which contribute more towards fairer, sustainable growth; target 2.3 specifically calls for a doubling of smallholder farmers' income and productivity by 2030.¹⁸ The 12th SDG concerns ensuring sustainable consumption and production patterns, with specific targets dealing with companies and multinationals (target 12.6) and public procurement (target 12.7).¹⁹

Voluntary sustainability standards (VSS), such as Fair Trade, can act as important catalysts and vectors to promote sustainable development agriculture and trade, but setting and enforcing minimum standards relating to agricultural production

and social rights, including for labour, health, safety and education. Fairtrade's certification system is particularly aligned to SDG 2's targets in that it also sets minimum pricing and premium floors for produce that is sold as Fairtrade, which ingrains within the Fair Trade value chain an understanding that farmers and producers should have a greater share in economic value of the goods that they produce.

Although they started out as a niche market, VSS certified goods have now become mainstream, and in 2014 over USD 7.8 billion in retail sales was achieved by Fairtrade International, and as this figure doesn't include the US market, the real value of Fairtrade sales globally is likely to be much higher.²⁰ Europe, particularly the United Kingdom, Germany and France continue to be leading markets for Fairtrade, but retail sales continue to expand. In terms of Fairtrade production, African, Caribbean and Pacific countries make a significant contribution to the global volume of Fairtrade products, particularly in respect to certain commodities such as cocoa, bananas, coffee, tea and sugar. ACP countries were within the top five countries with the highest shares of Fairtrade area of total agricultural area in 2013, and have experienced continued growth in Fairtrade production over the past decade.

Along with an increase in the number of products for which Fairtrade certification has developed standards (increasingly non-food agricultural products e.g. textiles, and also minerals), there is a greater scope for the contribution of Fair Trade to sustainable and responsible procurement through policy and legal developments that are increasingly recognising the role of VSS in sustainable trade and development, particularly in the area

of procurement and sourcing.

A critical development for Fair Trade, and other VSS and eco labels is that they are now legally recognised in all EU Member States through the EU Procurement Directive passed in 2014 (Directive 2014/24/EU) as acceptable instruments by which to define technical standards for public procurement tenders. According to paragraph 74 of the Directive "contracting authorities that wish to purchase works, supplies or services with specific environmental, social or other characteristics should be able to refer to particular labels, such as the European Eco-label, (multi-) national eco-labels or any other label provided that the requirements for the label are linked to the subject-matter of the contract, such as the description of the product and its presentation, including packaging requirements." As a result, public authorities in the EU are for the first time ever, Fair Trade and other VSS can directly contribute through a legal framework to responsible and sustainable sourcing by third parties (public bodies).

The scale of the public or government procurement markets is very significant, and it presents an immense opportunity for both buyers and producers of certified goods. In the EU alone, the total public procurement spending (including state-owned enterprises) accounted for EUR 2.4 trillion, corresponding to nearly 19% of EU GDP in 2011, and it contributes to over 10% of GDP in the United States.²¹ Whereas procurement for food and non-food agricultural products and services has often been a matter of concern for development and aid agencies, which have developed programmes to increase local procurement,²² goods and services related to food and other agricultural products also play a significant role in public

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procurement – from catering for public institutions to food supporting social programmes and so on.²³ Although global data is scant,

according to the UK Department for Environment, Food and Rural Affairs (DEFRA), the UK spends some GBP 2.4 billion per year (approx.

USD 3 billion or EUR 3.16 billion) on public catering, which represents approximately 5.5% of UK food service sector sales.²⁴

2. What is Fair Trade?

2.1 Definition and definitional issues

Fair Trade is a particular type of relationship between 'ethical consumers' and low-income producer households through international trade. The accepted definition of FT makes it clear:

"Fair Trade is a trading partnership based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade."²⁵

Equity lies at the core of what FT seeks to achieve, and which responds directly to the fact that notwithstanding the contribution made by producers in developing countries to global trade in goods, and particularly smallholder farmers in regards to agricultural produce, the benefits they derive from this volume of trade in pecuniary and developmental terms has historically always been marginal in both absolute and relative terms.

FT, Ethical trade and environmentally-driven trade

It is important to relate definitions of FT to other alternative trade approaches.

Fair Trade may be viewed as one part along a continuum of related non-governmental activities, which aim at promoting "sustainable trade" and "ethical trade"²⁶. What distinguishes Fair Trade is that this movement focuses on producer groups and involves paying participating producers a pre-determined price for their labelled products. "Ethical trade" focuses on production methods and results, and has a corporate focus in that it attempts to ensure that labour, environmental, and human rights standards are upheld within a corporation's supply chain. In particular, ethical trade promotes adherence to core labour standards for employees and currently has no specific concern with the terms of trade or seeking to overcome the marginalisation of producers²⁷. As noted by the European Commission²⁸, the FT concept could be taken as applying to trading situations and commodities where social and environmental standards are not, or cannot be (because of the way in which production is organised), enshrined in law. Environmentally-driven trade is concerned with ensuring that traded products are produced using environmentally sustainable techniques.

There is a considerable overlap of issues and attitudes between different types of alternative trade. On the demand side, individuals and organisations sensitive to environmental issues are also likely to be concerned about social justice. On the supply side, there is a significant level of overlap between the standards of different parts of the alternative trade movement. In particular, FT labelling criteria

relating to agricultural commodities produced on plantations (particularly tea) include stipulations regarding labour standards. About two-thirds of FT product lines are also certified as organic²⁹.

2.2 Key players in Fair Trade

The Fair Trade scheme involves the following three categories of actors:

- **Fair Trade producers** usually represent co-operatives or associations in developing countries. To participate in the Fair Trade scheme, they have to join their regional Fair Trade network. The three producer networks are: Fairtrade Africa, Coordinator of Fairtrade Latin America and the Caribbean (CLAC) and Network of Asia and Pacific Producers (NAPP). These producer networks generally constitute the first point of contact between smallholder farmers and producers, and the FT system. Producer networks are in turn part of the international Fairtrade system, e.g. their producers are certified by the Fairtrade Labelling Organisation (FLO/FLOCERT), and are also part of the Fair Trade Federation (FTF) and the World Fair Trade Organization (WFTO). Participation commits producers to abide by Fair Trade standards, pay annual fees and supply products at pre-determined prices.
- **Traders** are importers, exporters or processors who deal in Fair Trade products, replacing so called middlemen. They are associated with Fair Trade membership organisations and subject to the standards, predetermined prices

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and monitoring requirements of the organisations which they join. Prime traders include Solidar'Monde (France), Oxfam (UK), Oxfam Wereldwinkels (Belgium) and Claro (Switzerland), to mention a few.

- **Retailers** interface with the end consumers of Fair Trade products. World Shops represent the most common outlets for Fair Trade products. Recently, however, Fair Trade products have begun to make their way into general retailers, such as supermarket chains³⁰.

Presently, (2014), the international Fairtrade system includes three producer networks, 25 Fairtrade organizations, Fairtrade International, and FLOCERT, the independent certification body of the global Fairtrade system.

Moreover, there are *five key networking or membership organizations* that seek to bring Fair Trade organizations together. Each services a different group of Fair Trade organizations and therefore takes a different perspective on the nature of Fair Trade.

WFTO—World Fair Trade Organisation (formerly IFAT - International Federation for Alternative Trade then International Fair Trade Association)

WFTO is the only worldwide Fair Trade networking organization that brings producers and Alternative Trade Organizations (ATOs) together in a single organization. The WFTO has three goals: market development, advocacy and building trust. WFTO aims to improve the livelihood of disadvantaged people in developing countries by linking and strengthening organizations that offer “just” alternatives to unfair trade structures and practices. It is a

federation to promote Fair Trade and a forum for exchanging information to help members increase benefit to producers. From the mid-1970s onwards, a group of 30 ATOs met regularly to support each other and share ideas. A meeting of that group in 1989 decided to formalize the grouping and create an inclusive global network. It is the largest International Fair Trade Association for fair trade organizations with over 300 members. Southern organisations began joining after the 1991 biennial IFAT conference, and now represent more 60 per cent of the membership of the WFTO. It allows accredited members to use its FTO Mark—which it emphasises is distinct from the FLO product label. The WFTO Fair Trade Organization Mark was launched in January 2004. The Mark is available to member organizations that meet the requirements of the WFTO monitoring system and identifies them as registered Fair Trade Organizations. WFTO is working with FLO on a Quality Management System for Fair Trade.

FLO/FLO-Cert—The Fairtrade Labelling Organisation

Following on from the successful launch of Max Havelaar coffees in 1988, a number of independent Fairtrade certification bodies were created. To coordinate the monitoring and standards of these National labelling Initiatives (NIs), a common approach to monitoring producers was agreed. Each agency would monitor a list of producers and share that information across Europe. In 1997 this cooperation was formalized through the creation of FLO. There are now 20 NIs that use the shared monitoring and standard setting service that FLO offers. The NI then licence a local FLO endorsed mark to businesses in their geographic area³¹.

Currently, FLO takes a very rigorous product-by-product approach to register development. The criteria are complex to develop for each sub-sector and the registers expensive to maintain—worth noting that Fairtrade labelling is the only labelling scheme in the world where the consumer pays for the monitoring of the producers.

From May 25th 2007, the Producer Networks CLAC (Coordinadora Latinoamericana y del Caribe de Comercio Justo), AFN (African Fairtrade Network) and NAP (Network of Asian Producers) officially became full members of FLO too³².

NEWS—The Network of World Shops

NEWS coordinates the cooperation between World Shops all over Western Europe. The network consists of 15 national World Shops associations in 13 different countries and in total represents 2,500 World Shops.³⁰ NEWS was established in 1994 and much of its focus is around maximizing the campaigning voice of the shops and their customers. The European World Shops day is held in May every year and focuses on shop-based activities ranging from product-tasting to campaigns.

EFTA—The European Fair Trade Association

EFTA was set up in 1990 as a trade association to enable cooperation between the European ATOs to be coordinated and effective. EFTA has 13 members who pay a significant membership fee (around \$10,000) to resource a small secretariat headquartered in Maastricht (Netherlands) with other staff based elsewhere in Europe. There are three key ways that the

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cooperation has developed. First, EFTA acting as trade association represents the European ATOs in various fora and seeks to agree a common line on issues external to the movement. Through a small advocacy office in Brussels, EFTA has raised the profile significantly of Fair Trade with the European Parliament and Commission. Second, through creating an environment for working together, particularly in the food sectors, the EFTA members share manufacturing and importing of key commodities. For example, the Swiss Fair Trade organization, Claro, coordinates the production of chocolate for all of the EFTA members. The economies of scale derived from this make the product reasonably successful in all of the European markets. Finally, because FLO only monitors against the seven agricultural commodities that it has registers for, EFTA has developed a system called Fair Data that shares monitoring information among all of the participants. This covers hundreds of non-FLO producers enabling the cost of monitoring Fair Trade suppliers to be shared.

FINE

In an effort to unite standards and approaches the four key Fair Trade networking organizations began to meet together in an effort to unite the movement around the things that could be readily agreed on. The FINE—FLO, IFAT, NEWS and EFTA—group was established to build relationships and common approaches. The key success so far is the FINE definition of Fair Trade that was agreed by all of the participants in 1999. This definition has been revised further and is to be agreed among all the members during 2001. Although short on radical action, FINE has created an environment of trust and cooperation. As common approaches are coordinated among

the members, some bilateral arrangements will help to pull the Fair Trade players more closely together. For example, the WFTO has a self-monitoring scheme to prove you are a Fair Trade organization. The next step would be introduce external monitoring—a role that FLO could play. Although by no means certain that these steps will be taken, if they are then FINE may need to become more of institution to support this increased cooperation³³.

2.3 Other fair trade certification schemes

With the increase in popularity of the fair trade approach, there has been a replication of the approach operated by non-FLO organisations.

EcoCert Fair Trade

The most well-known are EcoCert Fair Trade, which provides certification through auditing and vouching for fair trade operators. The ESR standard which it enforces and owns concerns Fairness, Solidarity, Responsibility (Equitable, Solidaire, Responsable in French). This is the standard against which operators are certified. It applies its certification services broadly, covering foodstuffs as well as cosmetics and detergents and home perfumes. EcoCert does not work exclusively of Fair Trade, but is also provides other certification services based on sustainable agriculture and production, including organic certification.

Fair for Life

The Fair for Life Social & Fair Trade Certification Programme is engaged with producers in developing countries to provide a range of certification services under three

broad themes: For Life - Social Responsibility Certification, air for Life - Social & Fair Trade Certification and Individual Performance Rating. The Social & Fair Trade Certification, which is supported by a Fair Trade Development Fund, is concerned with the typical Fair Trade values, such as fair trade relationships, fair prices and direct support of marginalised groups and also audits according to Social Responsibility standards like fair working conditions, environmental performance and community relations.

UTZ

Founded in 2002, UTZ Certified is a multistakeholder initiative operating in the food and agriculture sector across 33 countries. Originally an idea of a Guatemalan coffee grower and a Dutch coffee roaster, UTZ Certified has grown into an independent, nongovernmental, not-for-profit organization dedicated to creating a world where sustainable farming is the norm. Farmers who work with UTZ Certified in the global marketplace receive a premium for their crop and they don't have to pay for taking part in the program.

2.4 The routes of commercialisation of Fair Trade products

Fair Trade products are commercialised under two different routes. The traditional or integrated route is the route where products (mainly crafts) are produced, imported and/or distributed by a Fair Trade Organisation. Another marketing route is through Fair Trade labelling initiatives and certification. In this case, goods are labelled by specialised Fair Trade certification agencies to testify that their production chains respect Fair



Trade standards. The importers and traders can be traditional commercial companies, and the distribution channels can be regular retail outlets.

The integrated route

Fair Trade products are made available to consumers through Fair Trade Organisations which identify and source products directly from small producers and co-operatives, and import and market them in specialised outlets such as Worldshops.

All aspects of their commercial operations are based on a Fair Trade ethos, and as much of the final price as possible is passed back to the producers. In many cases profits generated are devoted to development causes. The majority of products marketed through Worldshops are not labelled as such; the purchase is done on the basis of confidence. The “brand names” or Fair Trade Mark of these organisations are in themselves a signal to consumers that the products and business practices are in accordance with Fair Trade principles. Most of the Fair Trade Organisations and producer organisations are members of the World Fair Trade Organization (WFTO, formerly IFAT). The use of a Fair Trade Organisation (FTO) Mark is granted to a Fair Trade Organisation which has successfully met the requirements of the WFTO Standards and Monitoring system³⁴.

The Fair Trade labelling route

Under this route, national labelling initiatives monitor the compliance with Fair Trade standards by producers or traders against a set of internationally harmonized standards.

The objective here is to follow normal distribution patterns in order

to facilitate greater access to fair trade products. There is therefore, no longer the confidence of the close link between producer and outlet as with the traditional fair trade movement. Here, the importers and traders are normal commercial companies, and the goods are sold through normal retail outlets, but a fair trade label, awarded by a fair trade certification agency, signifies to the consumer that the goods and the marketing chain respect fair trade principles. The four fair trade labels used within the EU are “Max Havelaar”, “Transfair”, the “Fairtrade Mark” and “Rättvisemärkt”.

A fair trade symbol is displayed on the packaging, certifying that the production and marketing processes respect fair trade criteria. The label is additional to other labelling information requirements, such as quality classification and origin, which are governed by the normal statutory rules³⁵.

In 1997, the various national FT labelling initiatives formed an umbrella organization called Fairtrade Labelling Organizations International (FLO). FLO is responsible for certifying and monitoring producers, accrediting a single organization to certify FT practices in each country and coordinating work among its members.

Under the FLO system, producers do not pay for their certification. Distinct from other schemes, the consumer pays for the Fair Trade system. Traders pass on to consumers the higher FT price and premium that they pay producers. The financial resources flow all the way back from the consumer who buys the product, to the producer. The national entity in each country charges the Licensee a fee for using the Fair Trade label. This pays for all of FLO’s certification

and monitoring costs and for the National Initiatives marketing expenses. So the cost of the system is included in the retail price, making Fair Trade labelling sustainable³⁶. These organisations are all members of FLO (Fairtrade Labelling Organisations International), the Fair Trade standard-setting and certification organisation. The International Fairtrade Standards are developed and regularly reviewed and monitored independently³⁷.

2.5 The role of retailers

Retailers will point to a commitment to FAIRTRADE labelled (FT) goods that are certified against Fairtrade standards as a sign of commitment to fairness and justice in their trading relationships.

‘Getting’ Fairtrade has been part of a trend since the mid-1990s in which supermarkets and food companies have sought to de-commodify their mainstream lines, with organic, Fairtrade and ‘local’ branding offering both reputational and profit benefits. Major supermarket chains not only stock Fairtrade products but have introduced Fairtrade lines amongst their own brands in products such as coffee, tea and chocolate, contributing to both the growth in sales and increased public awareness of the concept of Fairtrade. Similarly, some major branded food companies, both processors and food service, offer the consumer a fair trade choice.

In northern Europe the range of fair trade products available continues to expand and more conventional companies offer a product with a fair trade label³⁸.

Fair Trade and the mainstream market

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Fair Trade is engaged in the mainstream market both in terms of actively marketing products through mainstream outlets and encouraging conventional companies to use the Fair Trade label and thereby adopt Fair Trade practices. Whilst this is becoming an increasingly important strategy for Fair Trade in some markets, it should be recognised that not all Fair Trade products are appropriate for the mainstream market. To date, Fair Trade products in the mainstream have largely been commodity-based food products such as tea and coffee. This is largely because of the supermarket demand for large volumes and guarantee year-round availability, which can only be accommodated by sourcing from a relatively large number of producers that are well organised. Crafts have faced many difficulties in accessing the mainstream home-ware and interiors market, partly because of the short life-span of products (due to changing fashions) and the high up-front costs of professional

design. Many products are likely to remain in a Fair Trade niche.

There is a complex inter-relationship between the positive influence of Fair Trade on the behaviour of conventional companies on the one hand, and the impact of the new ethical approaches on the profile of Fair Trade itself. It is frequently argued that a major contribution of Fair Trade has been to influence the behaviour of mainstream companies (e.g. Ethical Trading Initiative, adoption of “responsible business” practices and codes of conduct). Whilst the more empowering elements of the Fair Trade approach are not always taken on board, the different needs of smallholders in terms of meeting ethical standards is increasingly being considered.

However, the increasing trend for conventional companies to espouse ethical principles --from ethical sourcing of supermarkets to cause-related marketing whereby companies donate a percentage

of the consumer price to a charity or environmental group -- has also created increased competition for Fair Trade products. The increasing number of ethical claims in the market place may cloud the Fair Trade message to consumers.

Some argue that competition between an increasing number of Fair Trade brands and the adoption of more ethical practices on the part of conventional companies can only be a good thing. The competitive process may encourage more firms to adopt ethical practices, or even Fair Trade practices. However, as we noted above, the complex decision-making processes that lead to ethical consumption and the influence that this has on the sourcing strategies of companies is as yet incompletely understood. Moreover, it is not clear if there is in practice a competitive process between ethical and conventional lines, which would drive non-Fair Trade companies to consider ethical approaches. Supermarkets tend not to stock more than one or two ‘ethical lines’ so that the whole range of Fair Trade brands are not necessarily on offer in particular chains or localities. This can make it less easy for the consumer to consistently choose a Fair Trade product³⁹.

The Case of Fairtrade Bananas in the UK (Alvarez, A (2014)
The inclusion of market-driven supermarkets in Fairtrade: concerns and implications for farmers)⁴⁰

A person in the UK on average consumes about 100 bananas a year and the market for bananas in the UK is about £700 million (Fairtrade Foundation 2014), and the UK is the second largest market for FT bananas after Switzerland (Raynolds 2007). Fairtrade bananas make one-third of all bananas consumed in the UK (Fairtrade Foundation 2014).

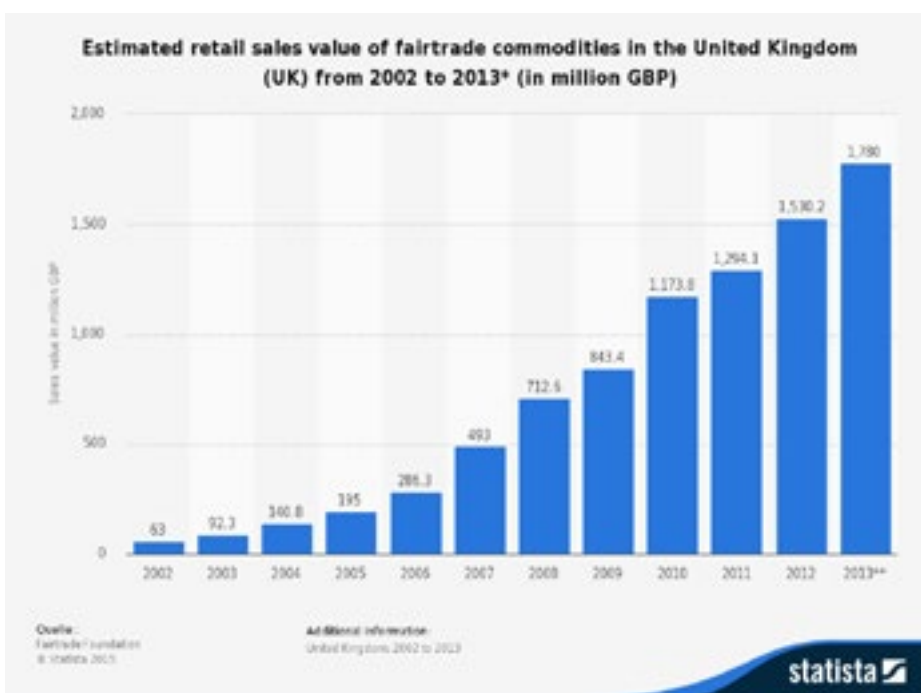


Figure 1

Promoting Responsible and Sustainable Sourcing Through Fair Trade



Highly concentrated food retailing industry

The point of sale of food in the UK is highly concentrated in a handful of supermarkets. Four supermarkets dominate the banana chain: Tesco, Asda, Sainsbury's, and Morrison, which combined account for 76% of the UK grocery retail market (Kantar Web 2014). This puts supermarkets in a better bargaining position relative to the suppliers, and makes the suppliers dependent on them for sales since there are very few places to sell their products other than supermarkets. According to Smith (2010),

suppliers are forced to accept terms of supply that include last minute changes to orders, giving retrospective rebates, and paying for in-store promotions, as well as sudden change in payment terms.

Supermarkets pass the responsibilities of production to category managers (a small number of first tier suppliers), which are responsible of ensuring that FT standards are met as well as any other demands of the supermarkets (Barrientos and Smith 2007). At the same time supermarkets add their store brand to the bananas, and therefore keep all the reputational benefits (ibid). Supermarkets do not give FT banana producers long-term contracts or any other sort of guarantee which can result in some FT bananas being sold in conventional markets and without the FT benefits to the producers.

Special pricing of Fairtrade bananas

The minimum guaranteed price for FT banana differs from other FT products in that it is not constant across regions. The added premium of \$1 USD per 18.14 kilo-box is constant for all producers, but the

minimum guaranteed price for bananas varies by region and is "based on the cost of sustainable production" (Fairtrade International). The price variation can result in supermarkets sourcing their bananas from the cheapest place and leaving out those producers whose production costs are higher, causing a race to the bottom (Smith 2010). For example, bananas produced in the Windward Islands, the Dominican Republic and Costa Rica have a minimum price for every box of 18.14kg set at \$9.65 USD, \$9.60 and \$9.25 respectively, while Ghana and Cameroon's minimum price is \$8.30 and \$8.50 respectively (Fairtrade International 2013).

Furthermore, the four super markets engaged in a 'banana price wars,' with ASDA lowering their price of bananas in 2002 and the other three responded by lowering their prices as well, and then sending the costs down the production chain to the producers (Robinson 2009). In 2002 a kilo of conventional bananas cost £1.08, but today a kilo of both conventional and FT bananas costs a mere 68p in Tesco, Asda and Sainsbury's (Blythman 2014). Suppliers still get a guaranteed minimum price and supermarkets paid the difference, but the problem is the extent of supermarkets willing to continue to absorb this loss before demanding a lower minimum price, as well as consumers perceiving that that 68p/kg is the actual "fair" price of bananas (Balch 2013).

A different approach to Fairtrade bananas

But not all supermarkets approaches to FT are bleak. Sainsbury's, Waitrose and the Co-Op are good example of supermarkets taking FT ideals more seriously. Sainsbury's and Waitrose became the first supermarkets in the UK to replace

all their bananas with FT bananas in 2007 (Sainsbury's). Furthermore in 2007, Sainsbury's established a £1 million Development Fund managed by the Comic Relief charity, with the aim of helping marginalized producers enter the FT system (ibid). The Co-Op was the first supermarket to sell FT bananas in 2000 and since 2012 all of their bananas are 100% FT, and it also offer support to co-operatives in Panama and Dominican Republic (The Co-Operative). These supermarkets investment in selling only FT bananas means that they will promote and create awareness of FT ideals in order to ensure that the bananas sells and it also makes it harder for them to go back to selling conventional bananas (Smith 2010). These supermarkets' commitment to FT bananas, symbolizes the potential of FT to transform the trading system in a way that is fair to the poor and marginalized workers in the South.

The European Commission has recognised the specific role played by retailers in the Fair Trade system, in the Communication Retail market monitoring report "Towards more efficient and fairer retail services in the internal market for 2020":

An internal market in retail services which is more efficient and fairer for future generations must also fully account for its environmental impacts. It must be a gateway to the offer of a wide range of more environmentally-friendly and/or fair trade products, allowing "fair" firms, including those based in non-EU countries, to gain access to the internal market. It must also be based on lower energy consumption and on efficient logistics and waste collection and recycling systems. Competition within the sector must not only be gauged on economic factors but also on social, ethical and environmental ones.⁴¹

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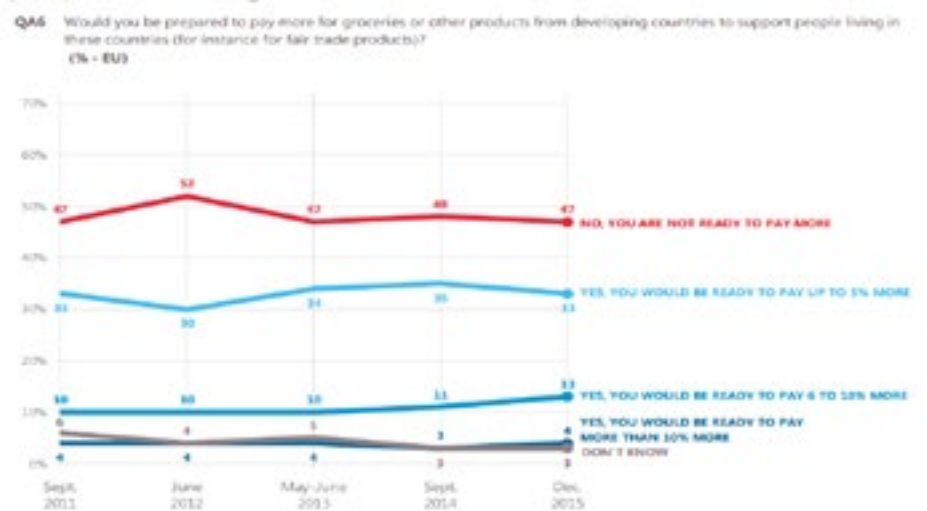
The Commission Staff Working Document (SWD) accompanying the Communication also recognises the diversity and asymmetry at the retail end of Fair Trade in the EU, whereby the Northern and Western European retailers are more strongly integrated into the value chain for Fair Trade and ethically sourced produce than those in other parts of Europe.⁴² In addition to variations in consumer expectations, the SWD notes that civil society and NGOs have also played a strong role in pressuring supermarkets and large retailers to address their ethical or environmental records when it comes to sourcing.⁴³

2.6. The role of the Consumer

From the beginning, the Fair Trade movement aimed to raise awareness among consumers of the problems caused by conventional trade, and to introduce changes to its rules. The sale of products always goes alongside with information on the production, producers and their conditions of living. It has become the role of World / Fair Trade Shops to mobilize consumers to participate in campaigning activities for more global justice.

The first European World Shops conference took place in 1984. This conference set the beginning of close cooperation between volunteers working in World Shops from all over Europe. The Network

Figure 2: Eurobarometer Survey on consumer willingness to pay more to support people living in developing countries



of European World Shops (NEWS!) was formally established in 1994 and now represents approximately 3,000 World Shops in close to 20 European countries.

The first World Fair Trade Day, which involves the worldwide Fair Trade movement, was celebrated on May 4, 2002. Now World Fair Trade Day takes place every year on the second Saturday of May.

Another tool was the establishment of the FINE Advocacy Office in Brussels, which focuses on influencing the (European) policy-makers. It is supported, managed and funded by the whole movement, represented in FLO, IFAT (now WFTO), NEWS and EFTA - hence its acronym FINE.

A TNS Omnimas survey done in 2007⁴⁴ showed 57% of adults can identify the independent Fairtrade consumer label, up five points in just one year, and 53% of respondents correctly associated the symbol with a better deal for producers in the developing world.⁴⁵ The 2009/2010 annual review revealed that the FAIRTRADE Mark is now recognized by almost three in four British adults.⁴⁶ A 2011 international consumer survey from GlobeScan found that Fairtrade is the most widely recognized ethical label in the world with almost 6 out of every 10 (57%) people seeing the Fairtrade certification mark. For those stating they recognized the mark, 9 in 10 found it trustworthy (Fairtrade International, 2011).⁴⁷

Fairtrade: there are four EU Member States where more than 80% of respondents recognise the Fairtrade logo: Sweden (84%, +7pp), the United Kingdom (83%, no change), Luxembourg (81%, +7pp) and Austria (81%, +4) have the highest awareness levels. There are however, eight countries where less than 10% of the respondents recognise it for example, Spain (4%, no change) and Romania (5%, no change). Countries with largest increases of the awareness level of the Fair trade logo since 2013 are Slovakia (20%, +8pp), Sweden (84%, +7pp), Luxembourg (81%, +7pp) and Finland (60%, +7pp). Croatia has also increased by eight percentage points, however only 14% of respondents are aware of the Fair trade logo.

Source: Special Eurobarometer 440 - Europeans, Agriculture and the CAP

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Most recently, in 2016 a Eurobarometer Survey found that half of the respondents were willing to pay more for groceries or other consumer products from developing countries if this supported people living in those countries. However, this was almost equally matched (47 per cent) by respondents who would not be willing to pay more.⁴⁸ In an earlier Eurobarometer Survey from 2015, the Fairtrade Mark was found to be the most widely

recognised private standards label by consumers, with 37 per cent of consumers recognising the Fair Trade logo.⁴⁹

Emerging economy consumers are increasing featuring in the picture of consumer awareness about Fair Trade. An investigation by Datamonitor into consumer attitudes toward both Fair Trade and Fairtrade and found that its influence has expanded beyond the traditional

European and North American bases and is now more pronounced in emerging markets like Brazil, Russia, India, and China, as well as Saudi Arabia and the United Arab Emirates (U.A.E.). Datamonitor has also tracked consumer interest in paying more for Fair Trade and Fairtrade and has generally found that in the last two years there has been a trend toward more agreement on this question in all countries, even in emerging markets.⁵⁰

Figure 3: How much influence does the 'Fairtrade' (or 'Fair Trade') claim have when making food and beverage choices?

	Very High	High	Medium	Low	Very Low
Brazil	21%	26%	25%	22%	7%
United States	10%	15%	32%	32%	22%
Canada	11%	20%	38%	29%	14%
Australia	11%	21%	37%	28%	12%
China	21%	40%	32%	5%	2%
India	31%	36%	28%	6%	2%
Japan	4%	12%	42%	31%	11%
Korea	14%	20%	37%	28%	9%
Singapore	13%	30%	41%	11%	9%
South Africa	12%	22%	37%	28%	11%
Saudi Arabia	27%	27%	21%	7%	0%
United Arab Emirates	25%	31%	21%	6%	7%
France	10%	20%	30%	30%	14%
Germany	10%	21%	37%	30%	14%
Italy	14%	33%	28%	9%	7%
Russia	22%	31%	26%	11%	0%
Sweden	11%	17%	32%	25%	15%
U.K.	11%	25%	30%	27%	14%
TOTAL	15%	24%	35%	25%	10%

Source: Datamonitor Consumer Research, May-June 2011.

Figure 4: To what extent do you agree or disagree with the following statement? "Fair trade or fair trade food and beverages are worth paying a little extra for."

Country	Strongly agree 2009	Strongly agree 2011	Tend to agree 2009	Tend to agree 2011	Neither agree nor disagree 2009	Neither agree nor disagree 2011
Brazil	9%	13%	28%	29%	43%	45%
United States	4%	9%	13%	38%	41%	38%
Canada	-	0%	-	19%	-	46%
Australia	9%	7%	17%	34%	43%	46%
China	0%	13%	28%	38%	49%	42%
India	9%	20%	22%	40%	43%	21%
Japan	1%	3%	12%	38%	55%	47%
Korea	4%	6%	20%	24%	48%	49%
Singapore	-	9%	-	28%	-	32%
South Africa	-	7%	-	22%	-	50%
Saudi Arabia	10%	23%	24%	29%	28%	22%
United Arab Emirates	3%	20%	24%	30%	42%	37%
France	9%	9%	28%	21%	34%	28%
Germany	9%	10%	28%	29%	38%	42%
Italy	5%	10%	25%	27%	41%	37%
Russia	3%	12%	14%	34%	45%	19%
Sweden	10%	15%	23%	28%	32%	37%
U.K.	5%	9%	24%	29%	38%	39%
OVERALL	6%	10%	24%	28%	40%	43%

Country	Tend to Disagree 2009	Tend to Disagree 2011	Strongly Disagree 2009	Strongly Disagree 2011
Brazil	17%	17%	9%	4%
United States	21%	13%	22%	12%
Canada	-	18%	-	10%
Australia	22%	17%	14%	0%
China	14%	6%	2%	2%
India	12%	6%	2%	2%
Japan	16%	11%	7%	2%
Korea	14%	17%	9%	6%
Singapore	-	11%	-	2%
South Africa	-	14%	-	3%
Saudi Arabia	22%	9%	14%	8%
United Arab Emirates	17%	6%	10%	5%
France	19%	16%	12%	9%
Germany	14%	11%	12%	8%
Italy	19%	12%	11%	6%
Russia	20%	11%	13%	6%
Sweden	18%	17%	17%	9%
U.K.	22%	15%	12%	9%
OVERALL	19%	13%	12%	6%

Source: Datamonitor Consumer Research 2009 and 2011.

3. Fairtrade as means to Responsible Sourcing

Agricultural value chains are more global and integrated than ever, and sourcing plays a critical role not just for production and processing, but increasingly also for sustainable growth and marketing. As consumer demand for information about the products they buy continues to grow, greater scrutiny is being placed on food and non-food agricultural sourcing practices by major retailers and brands. Sourcing has recently also grown to become a point of differentiation or distinction between brands which look to tap into the booming market of environmentally and socially responsible purchasing, and also those that wish to improve their supply chain governance and custody as the global economy looks to integrate sometimes high-risk, fragile or post-crisis countries into value chains. Failure to do so can represent a major liability for brands and retailers, resulting in significant reputational costs and occasionally have significant financial or legal ramifications.

There is no universal approach to ensuring responsible and sustainable sourcing, although more brands and retailers are beginning to recognise voluntary sustainability standards (VSS), such as that of Fairtrade, as a means of assuring compliance with key standards and values (e.g. on labour rights, gender rights etc.), in specific commodity value chains. This is particularly applicable for consumer products for which significant volumes or value of which is sourced from countries where there is either low enforcement of, or no actual laws pertaining to the protection of basic rights or rules related to employment or agricultural production, as may be

the case in a significant number of least developed countries producing important agricultural commodities. Even in those countries which do have basic rights protection, a number of VSS also look to address the inherent asymmetry in power between the two ends of the sourcing relationship, i.e. the producers on the one hand, and the buyers, be they retailers, processors or manufacturers.

It is estimated that the value of the global food and agricultural markets tops US\$ 5 trillion, and is responsible for 10 % of global consumer spending, 40 % of employment.⁵¹ As the trajectory for global population goes up, matched also by increasing urban consumers in emerging and developing economies, growth in niche food markets and a broader increase in caloric intake per person, it is no surprise then that global investment into the sector has grown to over USD\$ 100 billion in 2013. These emerging trends in agricultural trade and production represent challenges and opportunities for primary producers in developing countries as well as manufacturers in developed countries and retailers worldwide.

A key development has been the behavioural changes of consumers who are increasingly looking for healthier and more sustainably produced goods. This has resulted in both the private and public sectors looking more closely at the role of standards as a means of responding to consumer concerns – on the side of the public sector, mandatory standards on labelling, nutrition, production and on the private sector, on standards for traceability, sustainability and

social responsibility. Increasingly, governments are also beginning to take strides towards commitments on the latter, particularly in Europe, where public bodies such as towns and communities, and even whole countries, are committing to source in accordance with VSS. The McKinsey report on global agricultural trends captures this dynamic well with the case of Unilever, which in 2010 announced plans to source all of its agricultural raw materials sustainably by 2020, having had already reached 55% by the end of 2014.

3.1. Fairtrade Sourcing Programme

Fairtrade is one of the VSS which has recognised the opportunity to address this new dynamic by bridging the gap between buyers who are looking to source in a sustainable and responsible manner, and producers in developing countries who are certified Fairtrade and thus meet minimum criteria that consumers value, relating to labour and social rights. In January 2014 Fairtrade International introduced the “Fairtrade Sourcing Programs” which cover cotton, cocoa and sugar value chains, with the objective of allowing business who want to source specific Fairtrade commodities, such as cocoa and sugar, to be able to do so, and to communicate their commitments through the Fairtrade Sourcing Programs thus taking advantage of the value proposition of the Fairtrade scheme, even if they do not source all the ingredients of their final products under Fairtrade terms. The Fairtrade Sourcing Program is therefore a separate

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The FAIRTRADE Program Mark



The new Sourcing Programs have the same high standards of Fairtrade. Producers will receive all the same Fairtrade benefits, including the protection of a Minimum Price (wherever relevant) and the Fairtrade Premium. So we have developed a new Mark that represent a different approach by the businesses involved and gives Fairtrade Sourcing Programs their own identity. The new FAIRTRADE Program Mark:

- Supports businesses to communicate their Fairtrade sourcing commitment on pack, online and in corporate reports
- Lets shoppers know that the brands they love are part of the new Fairtrade Sourcing Programs.

There are some important rules about how businesses can communicate their commitment to the Fairtrade Sourcing Programs:

- COCOA AND SUGAR: companies will only be able to use the FAIRTRADE Program Mark on-pack if 100% of the focus ingredient for that product is bought on Fairtrade terms. Companies can also talk about their commitment to the Fairtrade Sourcing Programs in off-pack communications such as websites.
- COTTON: companies can use the new Program Mark once they've met an agreed volume of Fairtrade cotton. Companies can use the Program Mark on a swing-tag attached to items if they have sourced enough Fairtrade cotton to cover the equivalent of 100% of that product range or collection. They can also talk about their Fairtrade commitments in off-product communications.

Source: Fairtrade International

scheme with its own label (or mark, known as the Fairtrade Program Mark) that operates in parallel to the Fairtrade mark. Fairtrade International hopes that this Fairtrade Sourcing Program will encourage businesses to buy more Fairtrade certified products as it presents a new channel or entryway into the Fairtrade market.

Over 15 new businesses contracts for Fairtrade cocoa have been concluded since the Fairtrade Sourcing Programs were introduced, which have contributed to a 24% increase in coca sales and a Premium to the farmers valued at €950,560.

A notable commitment made under this framework was Mars Chocolate UK which agreed to source Fairtrade certified cocoa for all its MARS bars in the UK and Ireland by the end of 2015. Fairtrade International hopes that the new Fairtrade Sourcing Program will not only introduce a new avenue for manufacturers to enter into the Fairtrade market, but that it will also deepen companies' sourcing relationships with producers.⁵³

This is particularly relevant for the key commodities that Fairtrade is most invested in, such as coffee, cocoa bananas and sugar, as they also constitute at least for the

EU, some of the biggest value agricultural imports. According to the European Commission, "the top ranking product in EU agri-food imports in 2013 was coffee, although its share shrank to 7.2% (€7.4 billion) down from 8.9% in 2012".⁵⁵ Figures for 2014 showed a similar trend, with an increase in EU imports of 'tropical fruits, nut and spices', 'coffee and tea', cocoa products (beans and paste and powders) and preparations of vegetables.⁵⁶Up until 2014, import volumes of these class of products reflecting positive trends came off the back of lower prices in 2013,⁵⁷ but by 2015, the situation had reversed.⁵⁸

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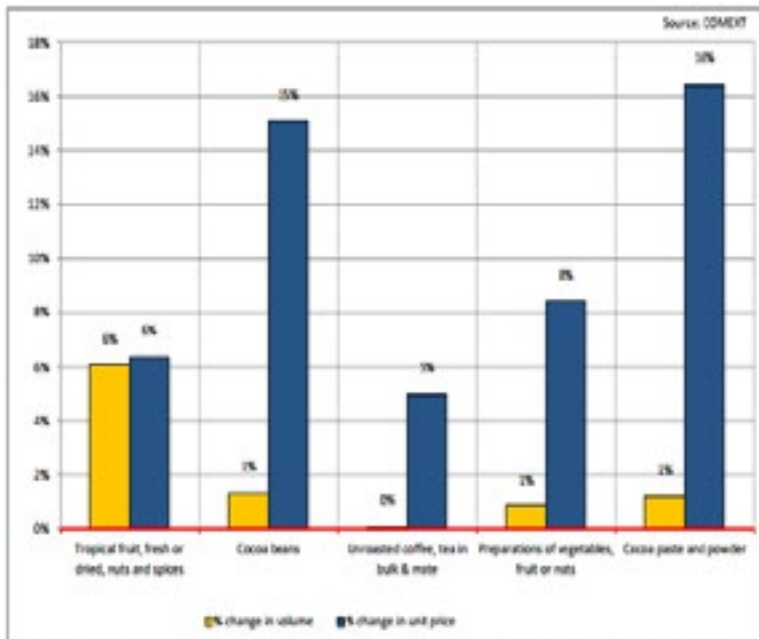
Commitments to the Fairtrade Sourcing Program

The first companies to announce commitments today under the Fairtrade Sourcing Program include:

- **Mars** will take a new step in their partnership with Fairtrade by sourcing all the cocoa for their Twix bar in the German market as Fairtrade. This builds on Mars' existing commitment to Fairtrade farmers through their Fairtrade Mark-labelled Maltesers in UK and Ireland. Mars is working towards sourcing 100% certified cocoa by 2020. German **Rewe Group** will increase cocoa purchases under the Fairtrade Cocoa Program for their own-brand products, in addition to their existing products with the FAIRTRADE Mark.
- German chocolate manufacturer **Riegelein** will work towards sourcing all the cocoa for their entire own-label 'Riegelein' assortment under the Fairtrade Cocoa Program by 2017, in addition to their existing Fairtrade certified Easter and Christmas chocolate assortments.
- **Coop**, the retailer with the largest selection of Fairtrade products in Switzerland, aims to source Fairtrade cocoa for all own-label products by 2017 in addition to their current Fairtrade commitments. The biscuit 'Chococroc' will be the first product on shelf, with more products to follow later this year.
- Japanese retailer **AEON**, which has been selling the Fairtrade coffee, chocolate and others under its own brand "TOPVALU" since 2004, will be the first in Asia to work with the Fairtrade Cocoa Program. They intend to increase their volumes of Fairtrade cocoa tenfold by 2020.
- Swiss premium biscuit manufacturer **Kambly**, a new Fairtrade partner, has committed to purchase all the cocoa for their new 'Knusper-Nuss' and 'Milch-Truffe' biscuits on Fairtrade terms.
- Retail chains **Lidl** and **Kaufland** will announce commitments under the Fairtrade Cocoa Program in Germany.
- Swiss apparel brand **Switcher**, a long-time Fairtrade supporter, will scale-up their purchases of Fairtrade cotton to 35% of their total cotton under the new Fairtrade Program Mark.

Source: Fairtrade International⁵⁴

Figure 5: Annual percentage change in volume and unit price for the product categories with the largest import increases 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

Source: European Commission

3.2. The role of Fair Trade Standards and standards setting in Sustainable Supply Chains

A significant number of the world's poor live in rural areas, of whom 70 per cent on average rely directly on agriculture for income and employment (IFAD, 2011). The agricultural sector can therefore make a significant impact on poverty reduction – according to the World Bank, “overall GDP growth originating in agriculture is, on average, at least twice as effective in benefiting the poorest half of a country's population as growth generated in non-agricultural sectors.”⁵⁹ Subsequently, agricultural trade can act as an important pathway to lift farmers out of poverty and more broadly, to promote sustainable development, but this

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outcome can only be realised through the conscious efforts of the different actors at the various levels of the agricultural supply and value chains.

Many African, Caribbean and Pacific countries have recognised agriculture as a critical sector for future economic growth and sustainable development. This will require greater integration into global agricultural value chains but also improving standards in production, processing and agricultural inputs and support services which ensure that producers can capture greater profits from the value chain.

Globalisation during the 20th and 21st century has led to the formation of global value chains for intermediary and final goods and services, including for agriculture. According to the OECD (2012), agri-food value chains are deeper and more economically valuable than ever before. Over half of the USD 100 billion worth of agricultural imports made by the United States in 2012 came from developing countries and the EU's member states imported annually close to Euro 60 billion worth of agricultural products from developing countries between 2008 and 2010.⁶⁰ These trends in global agricultural value chains have significant implications for developed and developing countries alike, particularly least developed countries, many of whom are in the ACP, for which agriculture contributed to more than 25% of GDP (FAO 2012)⁶¹.

Along with the opportunities that globalisation of value chains brings, significant costs and risks have also emerged, particularly in developing countries where producers, farmers and labourers are often the weakest party in the value chain and most vulnerable to exploitation. It is as

a result of growing awareness by consumers of the economic and social circumstances of producers in developing countries that VSS emerged in the second half of the 20th century as a means to introduce guarantees “fairer” trade, and avoidance of exploitation of producers by observance of minimum standards or practices, and the agricultural sector has been at the forefront of VSS.⁶² As a result, a significant motivating factor for sourcing through VSS such as Fair Trade for retailers and other downstream processors and buyers, is to strengthen governance in the supply chain and avoid incidents or risks that can lead to significant costs for reputation and investment. According to UNCTAD, “compliance with a given standard may offer a strategy for managing reputational risks or even supply risks.”⁶³

Responsible and sustainable sourcing applies to different stages of the agricultural supply chain to help overcome risks relating to human, labour and land rights, health, environmental protection, animal welfare, education and so forth.⁶⁴ These risks arise from a number of factors, including poor governance and enforcement of fundamental rights in certain countries of production, but also with the growing demand for food and non-food agricultural products comes a willingness for investors to seek new markets in countries which may have very limited capacity for oversight or regulation. Awareness and appreciation of these risks in the global supply chains has increased significantly, and interest has reawakened after events such as the collapse of the Rana Plaza factory in 2013⁶⁵; whereas the private sector was the major contributor of VSS and corporate social responsibility practices, these are also increasingly being recognised

by the public sector. The recently published OECD-FAO Guidance for Responsible Supply Chains represent a public, multi-stakeholder initiative to develop uniform, broadly applicable recommendations for all enterprises operating along supply chains, including domestic and foreign, private and public, small, medium and large-scale enterprises.” (OECD-FAO 2016).

In order to achieve Fairtrade certification, the holder of the certificate (a farmer, cooperative or producer company) will have to pass an audit by the FLO-CERT (formerly the Fairtrade Labelling Organisation, and owned by Fairtrade International members)⁶⁶ which takes place annually and ensures that the certificate holder is in compliance with a checklist standards (Fairtrade compliance criteria) which concern for example, minimum pricing, labour conditions, production practices, environment and so on. As a result, by sourcing through Fair Trade, an enterprise ensures that the goods procured meet minimum standards to protect the welfare of producers in the country of production. Certification is available for different activities in the supply chain, from production to onwards. It has also led to different classes of certification, for example Fair Trade Town initiative, which allows a town meeting minimum criteria to use the Fair Trade trademarks (name and logo), and promotes the Fair Trade principles and values in the activities of the town or city.⁶⁷

Responsible and sustainable sourcing has also recently become a specific focus and innovation of Fairtrade International, as reflected in their 2014-2015 annual report. In early 2014 Fairtrade International introduced the Fairtrade Sourcing Programs (FSP) for cocoa, sugar and cotton, designed to enable

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farmers to sell more of their crops on Fairtrade terms, meaning more benefits for their communities. Since its launch, there have been 15 new business contracts to source Fairtrade cocoa, contributing towards a 24 percent increase in cocoa sales and €950,560 in Premium for the farmers. The most recent commitment was by Mars Chocolate UK who will source Fairtrade certified cocoa for all MARS® Bars in the UK and Ireland by autumn 2015. This means that Mars globally will be paying more than €1.6 million per year in Fairtrade Premium to Fairtrade cocoa cooperatives in West Africa by 2016. While the program is designed to expand market access for producers, it is also about deepening companies' sourcing relationships with farmers. Extra funds generated through FSP sales so far are enabling us to invest in targeted programs for cocoa cooperatives, enabling them to strengthen their businesses and provide their farmers with more training and support. Additional field staff in West Africa are beginning to roll out the program in 2015.⁶⁸

Standards in Fair Trade

Compliance with standards is the primary means by which the Fair Trade certification is gained, and the standards themselves are set by the certifying body. As the certifying bodies or organisations are private, their standards are also considered private and are not publicly enforceable. Nevertheless, there is a strong public aspect to these standards as often they concern the compliance with some existing domestic legal obligations (on child labour and other illegal labour practices).

A standard can be generally defined as "a document that provides requirements, specifications,

guidelines or characteristics that can be used consistently to ensure that materials, products, processes and services are fit for their purpose."⁶⁹ The WTO Agreement on Technical Barriers to Trade goes further still and defines standards as document approved by a recognised body, that provides, for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods, with which compliance is not mandatory.⁷⁰ Therefore, unlike rules or regulations, standards are not mandatory and as such, are a suitable instrument for private certification.

However, standards, whether private or public, are not without their critics and are an issue that often raises contention between countries, both developed and developing alike. The most frequent contexts in which standards are questioned are at the WTO and other trade-related fora, and then also in the context of consumer affairs, including consumer rights and protection. Some of the criticisms which standards face include lack of transparency (in the development and application of standards), unfairness or discrimination (where standards apply to one group of economic entities but not another), legal uncertainty (in some cases, where a voluntary standard overlaps with a legal obligation, and parties may not be sure where a law ends and a standard begins), acting as a barrier to trade (where standards put additional burdens beyond legal obligations, for economic entities to trade in goods or services).

The two aforementioned routes to market Fair Trade products (traditional or integrated route and the Fair Trade labelling route) are reflected in two sets of Fair Trade Standards: international Fair Trade standards for labelled products have

been developed by FLO (Fairtrade Labelling Organizations International or Fairtrade International) and international standards for Fair Trade Organizations have been developed by WFTO (World Fair Trade Organization, formerly IFAT).

Both systems are based on the joint Fair Trade definition and principles.

3.2.a International Standards for Fairtrade labelled products

FLO is the leading Fairtrade standard setting body for labelled products. Its affiliated company FLO-Cert regularly inspects and certifies over 500 producer organizations in more than 50 countries in Africa, Asia and Latin America.⁷¹ Fairtrade Standards are developed by the FLO Standards Committee which is composed of FLO's labelling initiatives, producer organizations, traders and external experts.

Producers and traders need to comply with the applicable Generic Trade standards and Product Standards as well as Product Standards. All standards are divided into core and development standards.

Generic standards for Trade and Production

FLO stipulates three categories of generic *producer* standards, one for small farmers⁷², one for hired labour,⁷³ and another for contract production.⁷⁴

The first set applies to smallholders organised in cooperatives or other organisations with a democratic, participative structure. The second set applies to organisations that

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employ hired labour to supply particular Fairtrade products. Part of the standard also applies to the companies that trade with them. The final set applies to small-scale producers who are not yet democratically organised. As a temporary measure, they can join Fairtrade if they have a partnership with an organisation (such as an exporter or NGO) who will assist them to form an independent organisation.

In addition to these three producer standards, FLO also stipulates generic *trade* standards (GTS), which apply to those operators in the supply chain who 'trade (buy, sell or process) Fairtrade certified products, up to the point where the product is in its final packaging' as well as Fairtrade payers (being responsible for paying the Fairtrade Price and Fairtrade Premium) and conveyors (receiving or handling the Fairtrade price and Fairtrade Premium). Operators who are part of the processing of FT goods and products are certified against the GTS and their purpose is to strengthen the relationship between producers and traders of FT products in the context of the FT principles and especially to 'provide greater transparency of the flow of Fairtrade Premium and prices'.⁷⁵

As Fairtrade is also about development, the generic standards distinguish between *core standards*, which are minimum requirements that producers must meet to be certified Fairtrade, and *development standards* which constitute requirements for progress that encourage producer organisations continuously to improve working conditions and product quality, to increase the environmental sustainability of their activities and to invest in the development of the organisations and their producers/workers.⁷⁶

Standards for Small Farmer's Organisations

Two principles are outlined by FLO with regards this standard:

- Members must be small-scale producers. The majority of the members of the organisation must be smallholders who don't depend on hired workers all the time, but run their farm mainly by using their own and their family's labour.
- Democracy: Profits should be equally distributed among the producers. All members have a voice and vote in the decision-making process of the organisation.

These standards, which have been in application since 1 February 2014, cover the following issues (number of obligations in parentheses):

- **General Requirements**, which defines what Fairtrade understands by small producers and their organisations (4).
- **Trade**, which defines what producers can do to build fair trading practices. It covers traceability (8), sourcing (1), contracts (4), and use of the FT Trademark (2).
- **Production**, which defines what producers can do via production methods to better secure sustainable livelihoods. It covers management of production practices (5), environmental development (28), and labour conditions (36).
- **Business and Development**, which defines the unique Fairtrade approach to development. It explains how through social organisation producers can build a basis for empowerment

and sustainable livelihoods. Three issues are covered, non-discrimination (4), democracy, participation and transparency (13) and development potential (11).

Standards for Contract Production⁷⁷

The latest standards for contract production, in application since 1 March 2014, are cover two subjects of the Fairtrade contract production approach – promoting bodies⁷⁸ and producer organisations⁷⁹. Part A contains the requirements that the promoting body must comply with. Part B contains the requirements that the registered producers and producer organisation must comply with, with support from and under the responsibility of the promoting body. It is structured into the following sections (number of obligations in parentheses):

Part A:

- **General Requirements**, which defines Fairtrade small producers and lays out the prerequisites for promoting bodies (11).
- **Trade**, which defines what promoting bodies can do to build fair trading practices. It covers traceability (7), sourcing (1), contracts (10), and use of the FT Trademark (2).
- **Production**, which defines what producers can do via production methods to better secure sustainable livelihoods. There are provisions on monitoring systems (1), environmental development (26), and labour conditions (3).
- **Business and Development**, which defines the unique Fairtrade approach to development. It explains how, through social organisation, producers can build a basis for empowerment and sustainable livelihoods. This

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covers development potential (7), democracy, participation and transparency (7), non-discrimination (2), Fairtrade Price (2) and Fairtrade Premium (8).

Part B:

- **General Requirements**, which defines Fairtrade small producers and lays out the prerequisites for promoting bodies (1).
- **Trade**, (there are no trade obligations).
- **Production**, which defines what producers can do via production methods to better secure sustainable livelihoods. There are provisions on environmental development (15), and labour conditions (12).
- **Business and Development**, which defines the unique Fairtrade approach to development. It explains how, through social organisation, producers can build a basis for empowerment and sustainable livelihoods. This covers development potential (8), democracy, participation and transparency (5), non-discrimination (2), and Fairtrade Premium (2).

Standards for Hired Labour

Organisations which use hired labour are informed, in the application of this standard, by the following principles elaborated by FLO:

- **Management of the Fairtrade Premium:** The Joint Body, which includes workers and management, is responsible for the management of the Fairtrade Premium in accordance with Fairtrade standards.
- **Freedom of association & collective bargaining:** Workers have the right

to join an independent union to collectively negotiate their working conditions.

- **Working conditions:** Working conditions are equitable for all workers. Salaries must be equal or higher than the regional average or than the minimum wage in effect. Health and safety measures must be established in order to avoid work-related injuries.

The standards for hired labour, which came into force on 1 February 2014, and are structured as follows (number of obligations in parentheses):

- **General Requirements** set the requirements related to the certification process and to the scope of the standard (7).
- **Social Development** consists of requirements that are unique to Fairtrade and is intended to lay the foundations for empowerment and development to take place. The provisions relate to management of FT Premium (20), and capacity building (9)
- **Labour Conditions** requirements are intended to ensure decent working conditions. They are based on the 1998 ILO Declaration on Fundamental Principles and Rights at Work, as well as all other applicable ILO Conventions as references for decent working conditions. There are provisions on freedom from discrimination (9), freedom of labour (2), child labour and child protection (5), freedom of association and collective bargaining (12), conditions of employment (28), and occupational health and safety (31).
- **Environmental Development** requirements intend to make certain that agricultural and

environmental practices contribute to a more sustainable production system. It covers environmental management (2), pest management (15), soil and water (13), waste (3), genetically modified organisms (1) biodiversity (6), and energy and greenhouse gas emissions (2)

- **Trade** requirements define what must be done when you produce Fairtrade products and then sell them. Provisions are outlined on traceability (6), sourcing (1), contracts (3), and use of Fairtrade trademarks (2).

Generic Trade Standards

FLO defines a number of principles which underlie this standard, and meaning that traders must:

- Pay a price to producers that aims to cover the costs of sustainable production: the Fairtrade Minimum Price.
- Pay an additional sum that producers can invest in development: the Fairtrade Premium.
- Partially pay in advance, when producers ask for it.
- Sign contracts that allow for long-term planning and sustainable production practices.

The latest version of these standards was amended in July 2014, and covers the following issues (number of obligations in parentheses):

- **General Requirements**, which define requirements related to certification, and to the labelling and packaging of finished and unfinished products (8).
- **Trade**, which define requirements related to trading practices. It

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concerns traceability (14), product composition (5), and contracts (7).

- **Production**, which may only apply to product specific requirements. There are no generic production requirements.
- **Business and Development**, which defines requirements that make the unique Fairtrade approach to development more visible. They concern sustainable trade (3), pre-finance (7), and pricing (7).

3.2.b Product standards

Product standards have so far been developed for 17 classes food and non-food products, ranging from coffee, tea, sugar, cocoa, rice, and fruit to flowers, cotton and sportballs.⁸⁰ The product standards specify the minimum price and premium as well as other product-specific requirements. Certification of compliance with these standards is done by the independent organization FLO-Cert GmbH.⁸¹

The setting of standards or criteria, certification that those standards have been met, and labelling to indicate that the producer has been certified are critical elements for the operation of Fair Trade schemes. Fair Trade membership organisations certify and monitor producers, traders and retailers based on these standards and authorise them to use their labels or logos⁸².

Finally, there are a few product-specific Fairtrade standards for each product that determine such things as minimum quality, price, and processing requirements that have to be complied with.⁸³

The most notable development in relation to Product standards

was the introduction of gold and associated precious metals, including silver and platinum as a Fairtrade product in 2013.⁸⁴ This is the first time that mineral products can receive Fairtrade labelling, and the standard will be valid from November 2014. According to the FLO, the aim is for 'Fairtrade to offer a small, but scalable solution to companies looking to source gold from artisanal and small-scale miners that can demonstrate conformance with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Area'.⁸⁵

This initiative to develop fairly traded precious metals had also sought broad based partnerships to support the development of artisanal and small-scale miners through trade. Along with the FLO, there are numerous regional, international and multilateral institutions, as well as NGOs, and the private sector involved in engaging with stakeholders and to providing technical and non-technical inputs, including Fairtrade Africa, Environmental Women in Action for Development (EWAD) Uganda, Solidaridad East Africa, MTL Consulting, Estelle Levin Ltd and the Artisanal Gold Council.⁸⁶

3.3. International Standards for Fair Trade Organizations: what does Fair Trade mean for producers' organizations?

The World Fair Trade Organization (WFTO) is the global network of Fair Trade Organizations, with around 386 members in 71 countries.⁸⁷ The membership is very diverse, ranging from small producer organizations to

large cooperatives and from one person importers to retailers with turnover of several million Euros. Two thirds of WFTO members are located in developing countries. WFTO standards are developed in the Standards and Monitoring subcommittee with input from various stakeholders including producers, southern exporters, importers, retailers and Fair Trade support organizations, and approved by the Annual General Meeting.

WFTO has developed 10 international standards for Fair Trade Organizations (FTOs), namely:

Creating Opportunities for Economically Disadvantaged Producers

- Transparency and Accountability
- Fair trading practices
- Payment of a Fair Price
- Ensuring no Child Labour and Forced Labour
- Commitment to Non Discrimination, Gender Equity, Women's Economic Empowerment and Freedom of Association
- Ensuring good Working Conditions
- Providing Capacity Building
- Promoting Fair Trade
- Respect for the Environment

Each standard is accompanied by a set of measurable indicators and compliance criteria which differ between "entry" and "progress" level. FTOs in compliance with these standards can acquire the right to use the FTO Mark for their organisation⁸⁸.

3.2.a. Fair Price

The defining characteristic of Fair Trade in comparison to other private and voluntary standards is that it provides producers with a price

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guarantee for their goods, by virtue of the Fairtrade price premium.⁸⁹ Price premiums are a price which the producer of a FT good or product received in addition to the price for the product or good itself. The premium is ultimately paid by the consumer, on the price of the final consumer good into which the FT produce goes.

Definitions and Procedures

FLO has established a specific table for the calculation of the Fairtrade Premium which takes into account the product and its Fairtrade Minimum Price (where applicable), its Commercial or market price, which is the price is a negotiated price between the seller and the buyer. Most of the products are assigned a specific Fairtrade Minimum Price (for some, this is the Commercial Price) and Fairtrade Premium which is calculated as either a share of the Minimum or Commercial Price (10% to 15% on average), or it is calculated as ‘*Currency / Quantity x Unit*’ (for example, x US dollars or Euros per metric tonne or kilos).⁹⁰

According to the FLO “For Fairtrade products, a Fairtrade Minimum Price (where it exists) and a Fairtrade Premium have to be paid. Wherever the market price or negotiated price is higher than the Fairtrade Minimum Price, the relevant market price applies. In any case, the Fairtrade Premium has to be paid on top of the price.”

Below are some of the definitions provided by the FLO in relation to the Fairtrade price:

Fairtrade Minimum Price (where it exists) is the lowest possible price that may be paid by buyers to producers for a product to become certified against the Fairtrade standards.

Fairtrade payer means the buyer responsible for paying the Fairtrade Minimum Price and the Fairtrade Premium. Buyers must check their potential status as Fairtrade payer with the certification body.

- *Fairtrade Premium* is an amount paid to producers in addition to the payment for their products. The Fairtrade Premium is intended for investment in the producers’ business and community (for a small farmers’ organization or contract production set-up) or for the socio-economic development of the workers and their community (for a hired labour situation).

- *Fairtrade price* means the total price paid to producers and includes the Fairtrade Minimum Price (or relevant market price where applicable) and the Fairtrade Premium.

- *Farm Gate price* as used by FLO refers to the gate of the certified producer entity (e.g., the Small Producers’ Organization), and not the gate of the individual producer’s farm. Farm Gate

therefore means that the seller (the certified producer entity) delivers when they place the goods at the disposal of the buyer at the premises of the seller.

- *Market price* means the price calculated under normal/ordinary conditions (including any differentials due to quality, variety or other factors), with no reference to any additional Fairtrade Premium.

Additional considerations are also stipulated by FLO for the calculation of the Fairtrade price which may go to the producer, and the costs which may be involved, in addition to the products specific premium price. These include transport, specific packing or processing, for which the parties to the contract (producer and buyer in most instances), must stipulate who is responsible for such costs in the contract.⁹¹

The rules are also clear as to how the Fairtrade premium must be calculated for transformed or blended products, which, such as a chocolate bar, may contain Fairtrade produce (cocoa, sugar) and non-FT produce (milk, stabiliser). Only the raw FT ingredient serves as the basis of the calculation of the price and Fairtrade Premium.⁹² The Explanatory document for the Fairtrade Trade Standard provides an illustrated guide as to *how* the Fairtrade premium must be transferred down various value chains and finally to the producer:

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Fairtrade Payer and Conveyor

Fairtrade payers are responsible for paying to producers the Fairtrade Minimum Price or the relevant market or negotiated price whichever is higher. Which operator acts as the Fairtrade payer depends on the supply chain and may be different in each case. It is usually the trader who buys from the producer organization.

It is the exporter if the producers do not export directly and prices are set at ex works/ farmgate level.

When producers export directly, the importer is the Fairtrade payer.

When producers sell to the processor and prices are set at ex works/ farm-gate level, it is the processor.

In contrast to the Fairtrade payer, the Fairtrade conveyor only receives the Fairtrade

Premium money from the Fairtrade payer and passes it on to the certified producers. This

can happen for example where the applicable price is at FOB level but producers do not export themselves. In this case, there is a processor or exporter between the producers and the importer. The operator in-between just passes the Fairtrade Minimum Price and Fairtrade Premium from the Fairtrade payer to producers.

Box 1: Illustrating Fairtrade Premium transfer in the Product Value Chain (source: FLO)

Source: Fairtrade International⁵⁴

Fairtrade Payer and Conveyor

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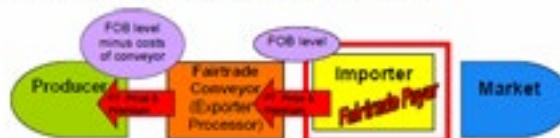
When producers export directly, the importer is the Fairtrade payer.



When producers sell to the processor and prices are set at ex works/ farm-gate level, it is the processor.



In contrast to the Fairtrade payer, the Fairtrade conveyor only receives the Fairtrade Premium money from the Fairtrade payer and passes it on to the certified producers. This can happen for example where the applicable price is at FOB level but producers do not export themselves. In this case, there is a processor or exporter between the producers and the importer. The operator in-between just passes the Fairtrade Minimum Price and Fairtrade Premium from the Fairtrade payer to producers.

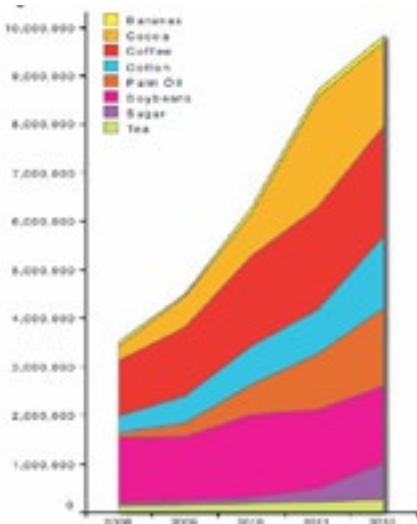


4. Fairtrade standards in the Global Supply Chains: Issues and Implications for the ACP

4.1 Fair Trade in the Global Supply Chains

There is a considerable volume of literature about Fairtrade in the context of analyses and critiques of private or voluntary standards and their effects on local, global and regional markets. The study of standards has also become an increasingly urgent issue in the food and agriculture sector, as growth of standard-compliant production across key commodities for smallholders has increased much more rapidly than for conventional commodity markets (2012: 41% increased growth for standard compliant productions vs. 2% growth for conventional commodity markets), across all commodity groups (sugar: 79%, cocoa: 69%, cotton 55% growth). As it stands, standard compliant products have also seen a strong growth in their market share⁹³, and constitute an ever increasing production system.⁹⁴

Figure 6: Growth of standard-compliant production (2008-2012, hectares compliant).



From the consumer perspective, it is estimated that there are more than 400 consumer facing eco-labels operating globally⁹⁵, and the European Commission's Directorate for Agriculture estimated that in 2010, there were also over 400 private certification schemes in the EU.⁹⁶

Within the broader scheme of private standards, Fairtrade can be categorised as a 'market-based private standard' (International Trade Centre (2011); Hiscox, M.J. 2007)

I. Fair Trade as a Means of Improving Transparency, Accountability and In Supply Chains

The legitimacy of Fair Trade as a private standard is a has spillover

Figure 7: Typology of Standards



effects in the supply chain, creating a positive feedback loop which looks to ensure that the principles that underpin the standard are also reflected by the certified producers. (See: International Trade Centre, 2011 97).

In this regard, several of the WFTO principles correspond strongly with responding to legitimacy, such as Transparency and Accountability. The issues of inclusiveness or accountability of the Fair Trade organisations and the WFTO have been subject to criticism and praise. For example, in a comparison between Fairtrade and the fifteen of the most important global standards initiatives currently covering the agriculture, forestry and biofuels sectors, Fairtrade was only one of two which only had civil society as stakeholders in their founding.

Figure 8: Elements of Legitimacy

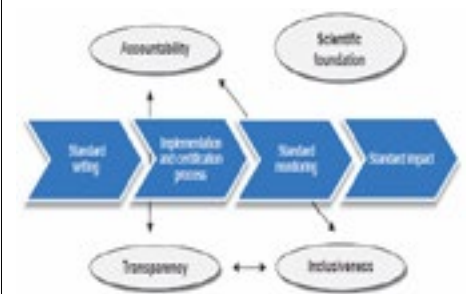


Figure 9: Founding stakeholders by initiative

Initiative (from date of establishment)	Stakeholder groups that established the initiative			
	Civil society	Producers	Private sector	Public sector
IFOAM	✓			
SANRA	✓			
FSC		✓		
ETP			✓	
Fairtrade	✓			
GLOBALG.A.P.			✓	
PEFC		✓		
UTZ Certified		✓		
RSPO		✓		
BCI		✓		
CMIA		✓		
4C Association			✓	
RTRS		✓		
RSB		✓		
Bonsucro		✓		
ProTerra		✓		

Source: SSI 2014

5. Fair Trade in ACP-EU Trade context: scale, opportunities, successes and Case Studies

Fairtrade plays a strong role in the EU and the ACP through different contexts. The EU has the biggest global retail and consumption rate of FT products, and the Fairtrade Mark is one of the most widely used and recognised private standards. In African, Caribbean and Pacific countries, Fair Trade is also well integrated into the key commodities as a voluntary production approach, particularly in key commodities such as cocoa, bananas, sugar, tea, coffee, with further potential expansion for non-food commodities and products. For the majority of ACP Fair Trade producers, the biggest export market is the EU.

The scope and potential for Fairtrade commerce in the context of ACP-EU trade has generally been understated, as dialogue between two groups on the trade front has more often than not centred around the reduction of tariffs (market liberalisation), the elimination of non-tariff barriers, compliance with mandatory standards and other forms of trade regulation (sanitary and phytosanitary measures in particular) and addressing preference erosion as the EU adopts changes to its generalised system of preferences and phases out preferential market access for the ACP Group.

Other dynamics are also leading to change for the Fair Trade system in the context of the ACP-EU relationship. First, the changes in demographics in developing countries, particularly in Africa, which is leading to a growing middle class, combined with the

increase and ongoing push towards regional trade in the ACP, has the result of opening new avenues for Fair Trade products to be exported within the region or to other developing countries (South-South trade) to satisfy the demand of this expanding demographic. Secondly, the EU public sector has increasingly become involved in Fairtrade, as a consumer but also as a stakeholder, whereas historically Fair Trade has always been in the domain of the private consumer and NGOs. Lastly, notwithstanding the Euro-crisis and the global economic downturn since 2008, consumers in the newer EU Member States from the Baltic, Central and Eastern Europe (EU 25 to EU 28 group) have also led to a strong increase in the demand for Fairtrade and other sustainably labelled products.

5.1 Fair Trade figures globally and in the EU

I. Data

According to the 2014-2015 Annual Report of Fairtrade International, global sales reached €5.9 billion in 2014, a 10 percent increase since 2013. Furthermore, steady growth was seen in mature Fairtrade markets, with Swedish and German shoppers significantly increased their ethical purchases, pushing sales up by 37 and 27 percent respectively. Figures for UK Fairtrade sales suffered due to the impact of intensified price competition and deflation in the mainstream grocery sector. This was made up by positive

Figure 14: Estimated sales of Fairtrade products by consumer country in 2014 (source: Fairtrade International, 2015)

Country	2014 (in €)	Growth
Austria	149,000,000	15%
Belgium	105,000,000	11%*
Czech Republic	7,400,000	15%
Denmark	91,419,268	13%
Estonia	2,221,404	26%
Finland	162,258,635	3%
France	390,391,290	10%
Germany	830,000,000	27%
Ireland	228,657,122	16%
Italy	90,002,000	18%
Latvia	1,192,212	22%
Lithuania	593,630	-30%
Luxembourg	10,707,698	11%
Netherlands	215,000,000	9%
Norway	68,312,802	7%*
Slovakia	1,131,053	n/a
Spain/Portugal	25,431,441	7%
Sweden	301,429,728	37%*
Switzerland	384,636,196	9%
UK	2,077,169,843	-4%*

Brazil	52,400
Canada	226,410,987
USA	See notes

Kenya	56,738
South Africa	20,422,161

Australia/New Zealand	211,364,267
Hong Kong	2,377,377
India	654,094
Japan	66,877,817
South Korea	4,195,400

Rest of world	63,425,983
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growth in newer and emerging markets: Canada and Hong Kong for example experienced increases of 40 and 42 percent respectively.

By comparison in 2013-2014 98, Fairtrade sales saw a steady growth within the EU, with the UK market breaking the €2 billion mark, reflecting a marked change in the dynamics of the UK retail sector. The total value of estimated Fairtrade retail sales in twenty EU countries in 2013 had amounted to €4,682,221,317. Two EU countries posted phenomenal growth rates: the Czech Republic saw a 142% growth in estimated retail sales between 2012 and 2013, and Estonia the figure was 65%. Of the total global estimated retail sales which stood at €5,500,317,789 in 2013, European countries made up 85% of this value.

Belgium99

The sale of Fairtrade products in Belgium, measured by volume, increased 7.5% in 2013, bringing the total estimated value of Belgium's Fairtrade market up to €94 million. The Fairtrade products with the greatest volume on the Belgian market are fresh bananas, followed by flowers, sugar, juice and coffee. In terms of market value, Fairtrade coffee tops the charts, followed by bananas and chocolate. The positive trend is mainly attributed to increased sales at Delhaize, Colruyt, Oxfam, Ethiquable, Miko and Café Liegeois.

Awareness of the Fairtrade logo among Belgians has also increased, from 67% in 2011 to 78 % in 2013, which indicates that an increasing number of consumers recognise the logo and know that it stands for products that meet agreed environmental, labour, and developmental standards.

Germany100

Certified products in Germany recorded revenue growth of 23 percent last year, which translates into a rise in sales of 654 million Euros. Of this amount, 95 million Euros directly benefit producer countries.

Fair trade goods are perceived as a viable alternative to conventional production, despite the price. As a result, these products have found a place on the shelves of large discount retail chains such as Lidl, Penny and Netto.

Last year, another retail outlet, Aldi, also successfully incorporated Fairtrade bananas and coffee in its regular list of products. Now that the products are more visible, customers are increasingly going for the good-conscience option: 50 percent of bananas sold at Aldi are fair trade, 26 percent of flowers and 20 percent of all coffee products.

While fair trade coffee currently has a market share of 2.5 percent, one out of every four roses sold in Germany and every other banana are already being supplied by certified businesses, and a new Fairtrade product is launched in the German market every day.

But sales of cocoa beans fell slightly in 2013 and the market share stood at just 0.2 percent. A "partnership" model is now expected to provide the solution. The model was previously used in cases of sugar and cotton, where companies were obliged to partially migrate to fair trade products.

Five major partners - Ferrero, Mars, and the supermarket chains Lidl, Rewe and Kaufland - have been found for cocoa. In the meanwhile, these retail outlets have been purchasing thousands of tons of cocoa according to fair criteria, leading to a sevenfold increase in sales in the first months of the year.

2014 saw a 28 percent increase in volumes of retail sales of Fairtrade cotton, a very positive trend after several years of declining sales. It was also a good year for gold as we reaped the reward of revising our model to enable goldsmiths to purchase Fairtrade gold. Cocoa sales grew by 24 percent with the Fairtrade Sourcing Programs driving almost half of the increase in volume sold. We are concerned about the upcoming sugar reform in the European Union (EU), which is already beginning to affect Fairtrade farmers' sales. We are calling for the EU to support these farmers and for shoppers to continue buying Fairtrade sugar.

Growth	Product	Total	Unit	Conventional	Organic
18%	Banana	438,474	MT	57%	43%
34%	Cocoa (cocoa beans)	65,086	MT	95%	14%
12%	Coffee (green beans)	93,154	MT	57%	43%
28%	Cotton (lint)	9,982	MT	79%	21%
42%	Dried & processed fruits	2,053	MT	48%	52%
8%	Flowers & plants	675,614	1,000 stems	100%	
-13%	Fresh fruit	11,660	MT	95%	16%
3%	Fruit juices	43,883	1,000 litres	97%	3%
250%	Gold	27,181	Gramms	100%	
30%	Herbs, herbal teas & spices	2,384	MT	20%	80%
38%	Honey	2,617	MT	70%	30%
-9%	Rice	603	MT	1%	96%
-8%	Quinoa	5,071	MT	56%	46%
27%	Sports balls	138	1,000 items	100%	
1%	Sugar (cane sugar)	196,361	MT	90%	12%
-2%	Tea	11,030	MT	50%	18%
67%	Vegetables	1,178	MT	93%	3%
6%	Wine	22,205	1,000 Litres	81%	19%

Source: Fairtrade International (2015)

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II. Policy on Fair Trade

Due to the status of Fair Trade as a voluntary private standard, the EU and EU Member States do not have a specific legal or regulatory framework that applies to Fairtrade. However, as Fairtrade has grown in both commercial and political importance, the EU, EU Member States and other public institutions in Europe have begun to develop specific policy positions on Fairtrade, initially in the context of their activities on development cooperation, but increasingly also with respect to the private sector as well as consumer affairs.

The cornerstone of the EU's approach to Fair Trade is the European Commission Communication on Fairtrade¹⁰¹, which outlines and clarifies the Commission's understanding of Fair Trade, and also discusses the EU's support of Fair Trade in the internal market and internationally. In the Communication, the Commission rightly makes the link between the objectives of the Fair Trade system, and the role which preferential market access could have in supporting FT and its outcomes, both generally through the EU's Generalised System of Preferences, and more specifically, for ACP Countries in the context of the Cotonou Agreement.

Since 2009, a number of other EU policy documents have made reference to Fair Trade, most notably those concerning trade and development. Furthermore, other EU institutions such as the European Parliament and the Committee of the Regions have also included Fair Trade and its support or promotion in their official documents.¹⁰² In the 2012 Communication on Trade Growth and Development,¹⁰³ the European Commission states that:

"Trade incentives arise not only from government action, but also from a shift in the market place towards more sustainable products. Private sustainability-bound schemes (e.g. fair, ethical or organic) can be an effective way to foster sustainable and inclusive growth in developing countries. Public authorities can promote these initiatives. We will strengthen our support for developing country producers taking part in sustainable trade schemes by further mobilising cooperation, including AfT measures, improve monitoring of related activities and continue to encourage our partner countries to promote fair and ethical trade. We also intend to further facilitate fair and ethical purchasing choices by public authorities in Europe in the context of the upcoming review of public procurement directives."

More recently, the European Commission issues a Communication on the Private Sector and Developing Countries, which noted that "[a]dherence to social, environmental and fiscal standards is also considered a precondition for any EU engagement with, or public support to, the private sector. Responsible business practices by companies will be reinforced through the promotion of consumer awareness concerning sustainable consumption and production patterns and practices, and the promotion of fair and ethical trade."¹⁰⁴

Many Member States have also included Fair Trade as a priority issue in both their internal and international affairs (in the context of trade and development cooperation). Northern and Western European countries, where consumer awareness of, and civil society advocacy for Fair Trade are the highest, also tend to have

the most advanced programmes and policy uptakes on Fair Trade. The private sector has also played an increasingly important role in demonstrating the value of Fair Trade, although not all parties or stakeholders in the debate – NGOs, civil society, consumers, private sector such as producers and retailers, government and public sector – see eye to eye on different aspects of Fair Trade.

It is further anticipated that the European Commission 2015 trade and investment strategy "Trade for All: Towards a more responsible trade and investment policy" will lead to the further action by the EU to promote fair trade, although the measures that are proposed target research and communication rather than providing any material support that can be accessed by producers in ACP countries.

(a) EU Support of Fair Trade

Following the Communication on Fair Trade, the EU has become more strongly and directly engaged in support of Fair Trade, either through funding or collaboration.

"Handicraft and Business through Regional Integration and Fair Trade Market"

Central Asia Crafts Support Associations' Resource Centre in Kyrgyzstan (CACSARC-kg) and Bishkek Business Club (BBC) were the chief organizers of the Festival, whose main components were funded by the European Union under the project "Handicraft and Business through Regional Integration and Fair Trade Market". The project has a 2-year duration and, as part of the EU Central Asia Invest Program, will reinforce the cooperation among Tajikistan and Kyrgyzstan in the handicraft sector.¹⁰⁵

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European Business Awards for the Environment: M&S delivers on Plan A commitments to become Responsible Retailer of the Year

Thanks to the achievements of Plan A – an ambitious environmental and ethical programme – the international retailer Marks & Spencer (M&S) has continued to meet its commitment to become carbon neutral. In addition to collecting the top prize in the management category of the EBAE 2012, the company has been named Responsible Retailer of the Year at the World Retailer Awards and Company of the Year in the Business Community's Awards for Excellence.

M&S received the EBAE Management Award for its project 'Marks & Spencer Plan A - Doing the Right Thing', which outlined a strategy to reduce the company's resource impact by meeting 180 sustainable commitments. Launched in 2007, Plan A sets out objectives to be achieved in the areas of green procurement, fair trade, waste management, biodiversity conservation, corporate social responsibility, carbon emissions reduction and energy efficiency.

The company has made significant progress in terms of achieving the Plan A objectives. A report published in June 2012 confirms that M&S is the first major retailer to become carbon neutral. The '2012 How We Do Business Report' states that 138 of the Plan A commitments have already been achieved, while a further 30 are currently on schedule. According to the report, M&S now recycles 100% of its waste – ensuring nothing goes to landfill. It also states that 31% of M&S products now have a 'Plan A attribute' – meaning they are either free range, produced at an 'eco-factory' or made from recycled material.

In line with its Plan A commitments, M&S introduced a new clothes recycling policy known as 'Shwopping'. First launched in April 2012, the Shwopping initiative encourages customers to bring any brand of unwanted clothing to M&S clothes stores. The company believes that unwanted clothes should be put to good use, not just thrown away. It is therefore asking its customers to 'shwop' – donate an unwanted piece of clothing every time they buy a new one.¹⁰⁶

The EU Horizon 2020 Work Programme for 2014-2015, also aims to support Fair Trade under the chapter on Food security, sustainable agriculture and forestry, marine and maritime and inland water research and the bioeconomy.¹⁰⁷ The Call for Sustainable Food Security 'SFS-15-2014: Proteins of the future' is expected to have, as one of its impacts "A clear contribution to social innovation due to Fair Trade/fairer trade, as well as an increase in socio-economic and environmental sustainability." A budget of €128,000,000 was allocated to this Call.¹⁰⁸

Members States are also part of the EU equation when it comes to Fair Trade, and a number have increased their support via official development assistance programmes through their development cooperation institutions. This is in line with the shared competency between the European Commission and Members States on development cooperation, whereas the European Commission has exclusive competency with regards international trade in the EU, which since the Lisbon Treaty, has also included the area of foreign direct investment (FDI).¹⁰⁹

Belgium The Trade for Development Centre, which is a Belgian Development Agency (BTC) programme, supports Fair Trade through its work to promote fair

and sustainable trade as a means to decrease poverty.¹¹⁰ It works around three main themes:

- Trade Support
- Awareness Raising
- Spreading and exchanging information.

An example of one of their activities is the documentary in Fair Trade coffee. The Trade for Development Centre commissioned a documentary about fair trade coffee from Kivu for TV5Monde. The documentary is now available, with English subtitles. A camera crew visited three coffee organisations in Kivu: RAEK, Sopacdi and COOPAC. It shows how fair trade coffee can positively impact the living conditions of the local population, even when the circumstances are tough.¹¹¹

DFID The British Department for International Development provides financial support through grants to the Fairtrade Foundation (UK), which is the national Fairtrade Organisation of the UK. DFID has also signed a Programme Partnership Agreement of £12 million with FLO from 2011 to 2014¹¹² to help scale up DFID's work supporting farmers in developing countries to access better terms of trade in global markets. DFID's funding has also helped support smallholders directly in a number of ACP countries, such as Fintea Growers Co-operative Union in Kenya.¹¹³

Fairtrade International lists among its partners several other EU and European national development agencies and public institutions:¹¹⁴

- Agence Française de Développement (AFD)¹¹⁵
A project financed by French Development agency (AFD), the African Association of Cotton Producers (AProCA), an execution institution, and

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implementation partners like Fairtrade International, Max Havelaar France and Helvetas, work together to assist West African cotton producers to as they improve their competitiveness and access to markets.

- German Development Bank (KfW)¹¹⁶
KfW, the German Development Bank together with Incofin and Grameen Foundation and Fairtrade International work jointly to improve access to finance for Fairtrade certified producers through the Fairtrade Access Fund.
- German International Development Cooperation (GIZ)¹¹⁷
Fairtrade collaborates with GIZ to provide certification advice to cocoa farmers in Liberia.
- *Irish Aid*¹¹⁸ / Solidaridad
Fairtrade partnered with Irish Aid and Solidaridad to enhance the capacities of producer organizations in Central America (Guatemala, Honduras, Nicaragua and El Salvador) and East Africa (Kenya, Tanzania, Uganda, Ethiopia). The main emphasis of the partnership has been in the coffee sector supporting sustainable production for both Fairtrade and Utz certified producers.
- Swiss State Secretariat for Economic Affairs (SECO)¹¹⁹
SECO has supported Fairtrade International since 2008 in the framework of the Strategic Funding Consortium alongside DFID, IrishAid, ICCO and NORAD. SECO has now extended its funding to Fairtrade International, in particular assisting us in developing new markets and in the ongoing work

on Fairtrade gold. This work will conclude in 2015.

- UK's Department for International Development (DFID)¹²⁰
DFID provides longer-term funding for selected civil society organisations through its Programme Partnership Arrangements (PPAs). Fairtrade International currently receives PPA funding for 2011-2014, part of the Strategic Funding Consortium. An extension for the PPA funding until 2016 has been granted.

(b) Fair Trade and Public Procurement in the EU

Perhaps the most concrete example of the inroads that Fair Trade has made into EU policy has been the inclusion of Fair Trade in the EU Public Procurement Directive in 2014¹²¹. This development followed years of wrangling between EU institutions, Member States, public bodies and even led to a Member State being taken by the Commission before the European Court of Justice.

As a growing proportion of European citizens care more and more about contributing towards sustainable economic and social development in developing countries through their purchasing preferences, notably buying Fair Trade, this concern has also transferred to preoccupation about sourcing of goods and services by public bodies.

This concern of consumers for Fair Trade, more common in western European Member States than in the rest of the EU, has been relayed by civil society, local authorities, and also echoed at EU level by the EU institutions, notably the European Parliament.

Public authorities in the EU can play an active role in sustainable

development through their purchasing decisions, by promoting Fair Trade in their procedures, while respecting the fundamental principles of EU law. Some public authorities are already putting fair trade procurement into practice, by introducing Fair Trade considerations into the different stages of public procurement procedures.

The EU legal framework had been criticised for its lack of clarity as the European Parliament has repeatedly pointed out. As a result various interpretations of the legal framework exist, creating legal insecurity for contracting authorities and inhibiting expansion of fair trade public procurement. This resulted in the revision of EU public procurement directives could help bring clarity.¹²²

Some examples of the challenges that Member States faces are explored by Fisher, E. and Sheppard, H. (2012), in their overview of the case that the European Commission brought against the Netherlands concerning the terms of a tender brought by province in the Netherlands which made reference to Fair Trade:¹²³

An example of legal dynamism relates to a 2012 ruling from the Court of Justice of the European Union (CJEU), which is the first piece of European case law on fair trade (Fairtrade Foundation, 2012).⁸ In May 2010 the EC referred the Netherlands to the CJEU over a call for tender for the supply and management of automatic coffee machines by Noord-Holland Province (EC, 2010b), due to a complaint to the EC by Douwe Egberts (Scholten Verheijen, 2011). The Province wanted to procure sustainably with regards to environmental and socially responsible methods of production. The EC argued that it was infringing

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EC procurement regulations because the notice for tenders requested bidders to supply beverages with specific labels: EKO and/or Max Havelaar (EC, 2010b). Although equivalent labels were acceptable, the Province did not specify substantive criteria regarding which labels would be considered equivalent.

Passing judgement on the 10 May 2012, the CJEU concluded that the Province had not respected the current EU Public Procurement Directive by requiring products to bear a specific label and for the way it required bidders to prove suitability requirements and minimum capacity levels. However, the Court clarified that it is compatible with the current EU Public Procurement Directive to define the minimum requirements of products in the technical specifications plus to give extra points in the award criteria based on considerations of environmental or social nature and to products 'of fair trade origin' (CJEU, 2012). It also gave advice that to incorporate an ethical trade label, the underlying criteria should be identified and the label used as means of proof. This ruling is the subject of SMO advocacy for incorporation of a more progressive position on fair trade into procurement law (Fairtrade Foundation, 2012), assuming no legal appeal is successful.

Fisher and Sheppard (2012) also provide the examples of other initiatives where EU public bodies or governments had tried to promote Fair Trade without falling foul of procurement rules, for example the Welsh Government's initiative on Fair Trade procurement.

In 2010, the first major recognition of Fair Trade in EU public procurement came through the European Commission publication "Buying

Social: A Guide to Taking Account of Social Considerations in Public Procurement"¹²⁴. According to this publication, the existing Public Procurement Directive 2004/18/EC¹²⁵ allowed a contracting authority which wished to purchase goods which make a contribution to sustainable development (hereafter referred to as "ethical trade goods") to do so, provided it complied with certain rules. Such an authority was allowed to take appropriate considerations into account in the tender specifications, but it could not require the products to bear a specific ethical trade label/certification because this would limit access to the contract for products which are not certified but meet similar sustainable trade standards.

The revision of the Public Procurement Directive in 2014 led to a specific recognition that:

[...]with a view to the better integration of social and environmental considerations in the procurement procedures, contracting authorities should be allowed to use award criteria or contract performance conditions relating to the works, supplies or services to be provided under the public contract in any respect and at any stage of their life cycles from extraction of raw materials for the product to the stage of disposal of the product, including factors involved in the specific process of production, provision or trading and its conditions of those works, supplies or services or a specific process during a later stage of their life cycle, even where such factors do not form part of their material substance. Criteria and conditions referring to such a production or provision process are for example that the manufacturing of the purchased products did not involve toxic chemicals, or that the purchased services are provided

using energy-efficient machines. In accordance with the case-law of the Court of Justice of the European Union, this also includes award criteria or contract performance conditions relating to the supply or utilisation of fair trade products in the course of the performance of the contract to be awarded. Criteria and conditions relating to trading and its conditions can for instance refer to the fact that the product concerned is of fair trade origin, including the requirement to pay a minimum price and price premium to producers. Contract performance conditions pertaining to environmental considerations might include, for example, the delivery, package and disposal of products, and in respect of works and services contracts, waste minimisation or resource efficiency.

This finally established under EU law that Fair Trade could constitute a legal criteria or condition in EU public procurement provided it is framed in accordance with the decision of the EU Court of Justice. Namely, the social conditions concerned with the process by which the goods being procured was produced could be defined in a public tender, provided the conditions apply to specific goods, as opposed to being of a general nature.¹²⁶ A number of EU Member States, such as Belgium, Germany, the Netherlands, Sweden and the UK have included some aspects of Private Certification System, particularly relating to sustainability, in their public procurement and tenders¹²⁷. In the case of the UK, Sweden and the Netherlands, the criteria have included Fair Trade obligations.

Fair Trade is also included in the new Directive on concession contracts,¹²⁸ which also includes a paragraph permitting award criteria or

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conditions based on Fair Trade. EU Member States have until April 2016 to transpose the new rules into their national law.

5.2. Fair Trade in the ACP

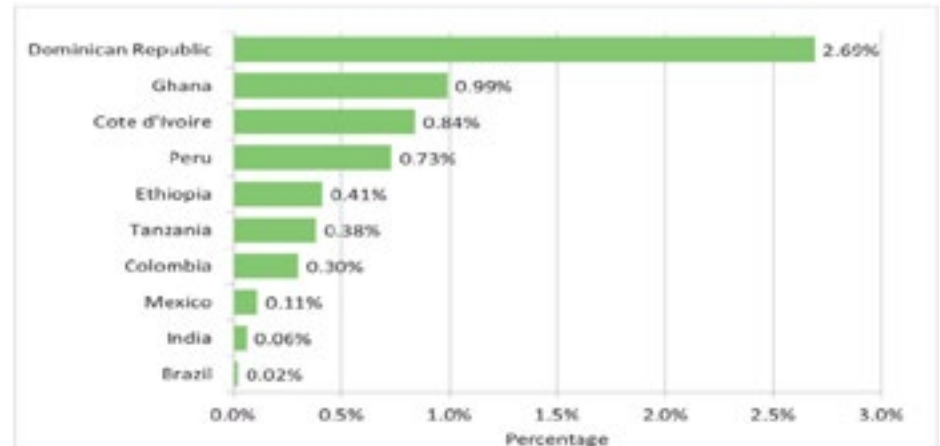
Fair Trade has had a long presence in the ACP region as far as certification of producers and production of FT goods are concerned. Furthermore, some of the NGOs and other institutions which have played a strong role in advocating in favour of Fair Trade at national, regional and international levels have come from Africa, the Caribbean and the Pacific. Needless to say, in the context of global commodities trade, the balance of power has often not been on the favour of producers or even countries in the ACP region, and so Fair Trade has presented an attractive opportunity for the producers and increasingly even for governments to leverage the critical role that the ACP region plays in the production of agricultural and non-agricultural commodities. The unique and very asymmetrical relationship between the ACP and the EU in trade terms has also been recognised by Fairtrade International, which has launched a number of initiatives to support ACP FT producers in the face of preference erosion and the changing trade dynamics with the EU.

I. Data

Fairtrade International 2014	
Area harvested [hectares] ¹⁴	2,426,563
Share of Fairtrade International area of global agricultural land [%]	0.06
Production value [million US\$]	1,253
Production volume [metric tons]	2,928,236
Production volume sold under the label [metric tons]	596,050
Full- and part-time employees/workers [no.]	210,932
Temporary employees/workers [no.]	18,595
Producer organizations [no.]	1,210
Global retail sales [million US\$]	7,843
Global retail sales: Growth rate 2013–2014 [%]	10

Source: Fairtrade International, 2015

Figure 15: Fairtrade International: Top 10 countries with the highest shares of Fairtrade area of the total agricultural area, 2013



Source: Fairtrade International / ITC

(a) Fair Trade Production

According to Fairtrade International, there are a total of 37 ACP countries which have certified FT production out a total of 79 countries in the Group, which constitutes almost half of the ACP.

The figures from the Fairtrade Monitoring Report¹²⁹ show that there are more Fairtrade farmers in Africa than in any other region in the world. Their data for 2012, shows that 61 percent of all farmers and workers within the Fairtrade system lived in Africa and the Middle East. Latin America and the Caribbean accounted for 21 percent of all farmers and workers within the Fairtrade system, and Asia and Oceania for 18 percent—similar to

the relative proportions in 2011¹³⁰. In fact, East Africa alone has 652,900 Fairtrade farmers and workers, the most of any sub-region in Africa or the rest of the world.

The Report also noted that Fairtrade in Kenya grew further in 2012, with several large smallholder coffee organizations entering Fairtrade. Combining all farmers and workers, 19 percent of all farmers and workers in the Fairtrade system are now found in Kenya. Côte d'Ivoire is a new entrant into the top ten lists in 2012, while numbers in Ghana also grew significantly, reflecting the rapid growth of certification within the cocoa industry in West Africa. India continues to have the largest number of workers among Fairtrade hired labour organizations, though Ethiopia showed strong growth in worker numbers since the 2012 report. The growth in certification of flower plantations makes Ethiopia the fourth most important country in the Fairtrade system in terms of worker numbers.

Africa also registered the fastest growth in the rate of Fairtrade certification in 2012, which increased by 23% as 74 new producer

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organisations were certified. Latin America and the Caribbean has the greatest number of certified organisations, at 588 or just over half (52%) of the global figure, followed by Africa and the Middle East (390 or 34%) and lastly Asia and Oceania (161 or 14%)

In the Asia and Oceania region, to which the ACP Pacific countries belong, there are three countries which have Fairtrade certified farmers organisations (FOs), namely Papua New Guinea (5), Fiji (3) and Timor Leste (1). Despite their limited numbers, these FOs are strong performers in the region. For example in terms of the five top premium receiving countries with FOs in this region between 2011 and 2012, Fiji and Papua New Guinea performed well, with 19% and 7% of the regional share respectively, putting them in second and third. Timor Leste and Fiji were also in the top-five countries with Fairtrade farmers and workers in 2012.

Latin America and the Caribbean is the most successful region in terms of FT Premium, receiving 66% of all Fairtrade Premium flows for their Fairtrade coffee, bananas, sugar, and fine-flavour cocoa. In total, there are eight ACP Caribbean countries which have Fairtrade certified small producer organisations: Belize (2) Cuba (18), Dominican Republic (21, with an additional 12 Hired Labour Organizations), Guyana (7), Haiti (5), Jamaica (2), Saint Lucia (1) and Saint Vincent and the Grenadines (1). From the ACP Group, Dominican Republic is sixth and Haiti eighth in the rankings of the top ten Latin American and Caribbean countries Fairtrade farmers and workers 2012. In terms of FT Premium receipts for 2012, Dominican Republic, Belize and the Windward Islands all feature

in the top ten, with the Dominican Republic boasting a 12% share of the entire region's Fairtrade Premium.

(b) Fair Trade Consumption in the ACP

The ACP region is emerging a consumer of Fair Trade products, in line with the growth of the middle class in select ACP countries, and also growing awareness of and consumer action in response to concerns about food production and the conditions of farmers and rural communities in their own or other developing countries.

South Africa represents the biggest consumer market in the ACP region¹³¹, with a Fairtrade retail sector worth approximately €23 million in 2013. After five years in operation, Fairtrade Label South Africa (FLSA), the national Fairtrade Organisation of South Africa, has led to the following milestones:

- 2010, May - FLSA starts actively promoting Fairtrade to local consumers. The first products to become available are some locally produced Fairtrade wines and one coffee brand made with Fairtrade beans from East African co-operatives.
- 2011, June - Kraft Foods SA announces that their Cadbury Dairy Milk [plain chocolate] is to achieve Fairtrade certification. The chocolates will appear in store in November 2011.
- 2011 - Over 15 South African companies are selling Fairtrade labelled products locally. Local Fairtrade sales increase fourfold, from ZAR 18.4m in 2010 to ZAR 73m as South African consumers choose Fairtrade.

- 2012, May - All coffee based beverages sold at Woolworths cafes are Fairtrade certified. Woolworths also launches a range of Fairtrade coffees in-store.
- 2012, Dec - The list of Fairtrade products available to consumers has grown. South Africans can now choose between a variety of wines, teas, coffees and some food products.
- 2013, May - The sales report for 2012 is ready: in 2012 South Africans bought R234m worth of Fairtrade products - a 220% growth from 2011.
- 2013, July - Protea Hotels switch to Fairtrade coffee - the first African hotel chain to make a Fairtrade commitment.
- 2014, Sep - One of South Africa's most loved wine company Fairview, owned by Charles Back, becomes Fairtrade certified.
- 2014, Mar - Fairtrade leads the research on sustainable consumerism and shows that 70% of South Africans are potential consumers of Fairtrade and other sustainable products.

Kenya joined South Africa in 2012 to become the second retail market for Fairtrade in Africa, and along with India (which also became a new market in 2012) and Brazil, these four countries represent the emerging and growing South-South production and consumption markets, namely countries that both produce and consume a substantial amount of Fairtrade produce. The potential of South-South Fair Trade has also been explored in a report by BTC (a Belgian Development Agency (BTC) programme)¹³²

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Figure 16 : Estimated Fairtrade retail sales by country 2013

Country	2012 (in €)	2013 (in €)	Growth rate
Kenya	-	51,064	n/a
South Africa	22,263,619	22,573,605	22%*
Total	22,263,619	22,624,669	2%

* Growth rate is based on the percentage increase reported in the local currency, not the value converted into Euros.

5.4. Case studies of Fair Trade sourcing in the ACP – EU Context

The case studies in this section are taken directly from articles, journals, notes, presentations and other sources. They are structured in order to give an overview of the context, opportunities, challenges and lessons learnt on the application of Fair Trade in various contexts – at the producer, local, national or even regional level, and with regards specific commodities or markets. Although neither comprehensive nor definitive, they do provide a glance into some of the potential avenues for Fair Trade to develop within the ACP-EU trade and cooperation framework.

5.4.1 Fairtrade in EU Public Procurement

Public procurement represents the new frontier in Fair Trade, where the dynamic has changed from one of private consumer purchase choices, to one of public spending and the role of public authorities and bodies as consumers. A key outcome of this debate has been whether private standards are or can be compatible with global trade rules such as those concerning Government Procurement in the WTO (notwithstanding that the GPA is not obligatory to all WTO Member States, only signatories such as

the EU and numerous other OECD and middle income countries). This development goes some way towards breaking the historical “one or the other” dichotomy that marked concept and goals of Fair Trade vis-à-vis the reality of the global multilateral trading framework, and reinforces that the pursuit of Fair Trade is not a *priori* contrary to global multilateral trade rules or systems. As such, EU governments at national and state levels are free to influence the purchasing choices made with taxpayer money in favour of Fair Trade, bringing this concept to a broader audience, and likewise Fair Trade producers may now consider how to broach and pursue a new market which may demand the supply of Fair Trade products for extended periods of time.

Case Study 2: Fair Trade in EU Public Procurement – the approach of Bremen (Germany)

Sources: Sarter E.K., Sack D. and Fuchs S. (2014) “Public Procurement as Social Policy? An introduction to social criteria in public procurement in Germany” Working Paper No. 1 Working Paper Series Comparative Governance’ August 2014 Universität Bielefeld

Dr. Wiese, K. and Schmidt, T. (2014) “Bremen on its way to socially and ecologically responsible procurement” LANDMARK Bremen, Freie Hansestadt Bremen

Public Procurement – i.e. the purchase of goods and services by public sector bodies – accounts for nearly one fifth of GDP in the European Union (European Commission, 2012). In Germany, public procurement by general government and state-own utilities is estimated to account for about 17% of GDP (OECD, 2011). Until the reform of 2004 European regulations were largely characterized as neoliberal and focused on competition and the creation of the single market without focussing on social criteria (Rolfstam, 2009). In the beginning of the 20th century – and especially during the negotiations of a new Directive on public procurement, a debate on social standards in the economically based process of tendering gained momentum (Rolfstam 2009; Scherrer et al., 2010); this resulted in an intrusion of social criteria in Directive 2004/18 (Scherrer et al., 2010: 118). Also at the national level, social criteria became more important (Kahlenborn et al., 2011; Schulten et al., 2012; Sack, 2012). Seeing that public procurement is based in competition and market building these goals, however, are only taken into account up to a certain point and if they are treated rather restrictively.

In brief, public procurement is – as every purchase – based on a succession of decisions and choices: The first decision, which also lays ground for the purchase, is the decision to purchase a certain good

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or service. Secondly, the specific characteristics of that good or service to be purchased have to be decided. Thirdly, the criteria on which the choice between different options will be based have to be decided on: thus, how important will the price be and which other criteria will be taken into account and to which extend?

The criteria of public purchasing are of great interest not only to business but also politically: Due to the high volumina spent, public procurement can be used to influence economic and social outcomes. By purposefully and strategically choosing and purchasing, the authority can foster employment opportunities for distinct groups, distinct sorts of businesses (e.g. SMEs or minority run businesses) or societal goals. Public procurement thereby can be used as “a powerful tool for policy making.” (Bovis, 1998: 226)

Being placed in the context of competition law [legal regulation regarding the economy are (with the exception of certain areas) part of what is commonly referred to as “competitive legislation (‘konkurri-erende Gesetzgebung’)], public procurement is regulated at national as well as at subnational level. At national level the Anti-Trust Law (Gesetz gegen Wettbewerbsbeschränkungen, GWB) regulates public purchasing. At the Federal level as well as in some States, statutory decrees regulate public purchasing or specific aspects therefore even further. At sub-national level, the Federal States (Länder) are also entitled to adopt Federal State laws on public procurement, which, in 2014, 15 out of 16 Länder did. However, next to the GWB and the public procurement laws of the Länder, further regulations exist. Furthermore, in some Länder, decrees exist. [note: the Federal law is superior and

exceeds Federal States’ laws].

According to the stipulations of § 97.1 and §97.2 GWB the general principles of public procurement are defined as competition, transparency and non-discrimination. Within this framework, tenders are awarded to the “most economically advantageous tender” (§97.5 GWB). Since the reform of 2009, the GBW (which already had been in place since 1958), allows social and ecological criteria in public tendering are explicitly admitted as criteria in public tendering: §97.4 states that the criteria used may include ‘social, environmental or innovative aspects as long as these are related to the subject matter and made explicit in the specifications.’ [authors’ translation] While the GWB does not specify these criteria, today, specifications are to be found in the Federal States’ public procurement laws and the specific Federal States’ decrees.

In Germany, the inclusion of Fairtrade as a criterion in public procurement is relatively new. It was first introduced in North Rhine-Westphalia (§18.1 TVgG NRW) in 2012. The only other Land that holds a stipulation on Fairtrade in its public procurement laws until now is Schleswig-Holstein, where it was introduced one year later, in 2013 (§18.1 TTG).

Next to the specific criteria used in the distinct public procurement laws, their specific design varies. Thus, while some criteria tend to be mandatory requirements (e.g. the compliance with minimum wages), others (such as integration or reconciliation of work and family) tend to be optional for the procurer.

Furthermore, variance can be found regarding the type of proof of compliance with a certain stipulation; this differs heavily between different types of criteria and the different Federal States” laws. If specified, as a general line, four modes of proofs are to be found:

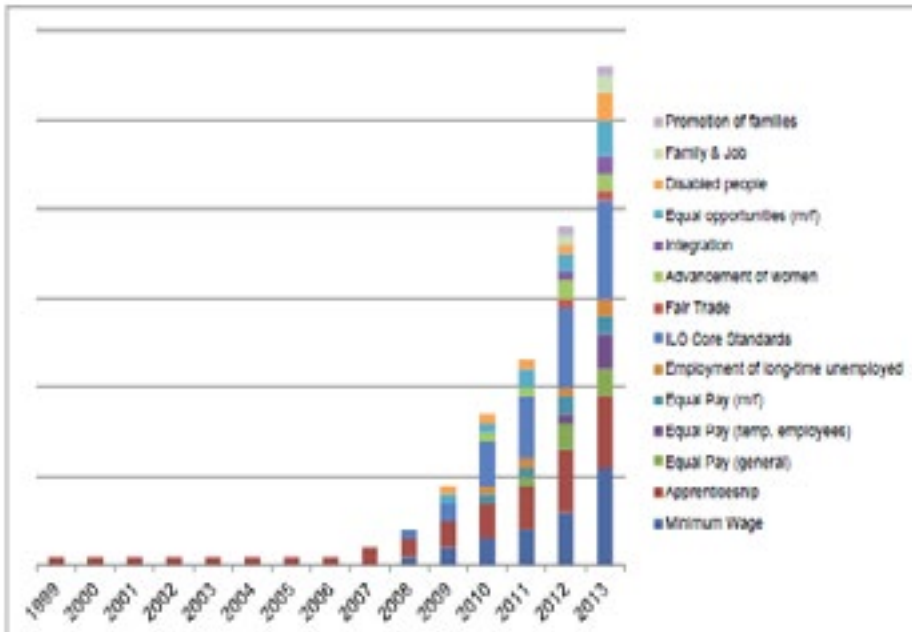
A third way to show compliance is to use labels and certificates. Given the fact that labels and certificates only exist for certain areas (e.g. Fairtrade), the use of labels is already structurally restricted. Therefore, it comes as no surprise that labels and certificates are mainly used in order to proof compliance with ILO Core Labour Standards and Fairtrade, despite the fact that the implementation of this principle differs in the single states: Bremen, for example, defines certain certificates that can be used in a dedicated decree (BremKernV) whereas Saxony-Anhalt only regulates, that “suitable certificates or self-declarations” can

Figure 17: Types of proofs

Type of proof	Mostly used for...	Issued by...
Provider's Declarations (Eigenerklärungen)	Minimum wages, minimum working conditions, compliance with collective agreements	Bidder
Statements on how compliance is reached	Gender equality, reconciliation, integration	Bidder
Certificates and Labels	ILO Core Labour Standards, Fairtrade	Independent agencies
Official attestations	Participation in Dual Vocational Training, employment of persons with disabilities	Public administration/Chambers of craft/Chambers of commerce/ Trade Unions

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Figure 18: Expansion of social criteria in German procurement law



Source: Own compilation. Notes: Criteria relating to the promotion of GMLs as well as ecological criteria were excluded.

be used as a proof of compliance with the ILO Core Labour Standards (§12.2 LVG LSA). This use of self-declarations or other not specified proofs is an alternative in all states with ILO or Fairtrade stipulations if no label exists for a group of products or if an independent proof cannot be found.

Today, 15 out of 16 German Federal States have public procurement laws; 14 of these included social criteria. However, it seems important to stress that this does not mean that the specific criteria or their

regulation are similar. Rather, the stipulations in the Federal States' laws are highly divergent regarding the number of social criteria as well as the specific criteria and their mode of regulation.

(c) Lessons on Fair Trade in public procurement

The case study demonstrates clearly that there is little uniformity in the social and environmental dimension of public procurement in the EU, let alone one country such as Germany. As a result of the latest Directive

on Public Procurement, the overall framework of public procurement in the EU has been clarified, insofar as it has made it explicitly clear that fair trade criteria can be included in a public tender, but the Directive does not go so far as to outline the way these criteria are to be set and evaluated. In Germany, the situation is made even more complex by the fact that both national and state (Federal States) authorities can legislate on public procurement.

Germany has demonstrated that Fair Trade has a strong potential in public procurement and that for certain tenders, for example those involving food and drinks, as well as textiles, ACP producers can now gain access to a potentially lucrative market. Some public authorities have approached social and environmental public procurement proactively, such as Bremen with the Landmark Project. In this case, a lot of effort has gone into not only establishing sustainability criteria into the tender process, but a substantial amount of outreach and events with stakeholders such as NGOs.

Sustainable public procurement also provides an incentive for both the private sector bidders and the producers of Fair Trade goods to enter into supply agreements for the purposes of delivering the services or goods under the tender.

Glossary

Aid for Trade - Aid for Trade is an initiative that aims to assist developing countries, particularly least-developed countries, in building their supply-side capacity and trade-related infrastructure to expand their trade opportunities, and to integrate better into the multilateral rules-based trading system. Launched at the World Trade Organization's (WTO) Hong Kong Ministerial Conference in December 2005, Aid for Trade has four pillars (Aid for Trade Agenda): trade policy and regulations, trade development, trade-related adjustment and infrastructure, and building productive capacity.

Certification Committee - Certification Committee (CC) is a body which controls and advises on the quality of certification decisions, policies and procedures of a certification body.

Certification of Trade - Certification of Trade (Or Trade transactions): the process by which a certification body determines operator's compliance with Fairtrade Standards for traders and related certification policies and contracts.

Certification system - Certification System is a system with its own rules, procedures and management for carrying out certification.

Certification Unit - Certification Unit (CU) is the unit which evaluates operator's compliance with Fairtrade Standards and certification policies and contracts. There are two Certification Units in FLO-CERT: Producer Certification and Trade Certification.

Chain of Custody - Chain of Custody are the steps from the start

of the primary production, including the growing, handling, processing and retailing up to buying by the consumer.

Child - Child means any person less than 15 years of age, unless otherwise defined by local legislation.

Child Labour - Child labour means any work carried out by a child.

Code of Practice/Conduct - Code of practice/conduct means, in the context of ethical trading, a set of rules concerning labour practices adopted by a company and meant to apply internationally, and, in particular, to the labour practices of its suppliers and subcontractors.

Collective Bargaining Agreement (CBA) - Collective Bargaining Agreement (CBA) means the right for workers' organisations to negotiate with employers or employers' organisations on behalf of their members to determine working conditions and terms of employment.

Commercial Price - For some products, no Fairtrade Minimum Price exists. The paid price is a negotiated price between the seller and the buyer.

Concession - A concession is a kind of partnership between the public sector and a (usually) private company whereby the company is remunerated mostly through being permitted to run and exploit the work or service and is exposed to a potential loss on its investment.

It differs from a public contract, where a company is paid a fixed amount for completing the required work or providing a service.

Example of a contract: a private company builds and manages a motorway for a fixed price.

Example of a concession: a private company builds and manages a motorway and is remunerated through tolls, running the risk that the revenue generated will not cover its investment and other costs incurred.

Conformity - Conformity is the fulfilment of a requirement.

Consensus - Consensus is an agreement supported by all parties concerned without using the rule of majority, but by taking into account the views of all parties concerned and by reconciliation of any conflicting arguments.

Constitution - Constitution is a legally binding document that defines how the power and authority are distributed and limited within an organisation or company.

Continuous Improvement - Continuous Improvement is, as a management concept, a system of constant or ongoing incremental improvements to a process or product based on constant or ongoing examination and evaluation of the process or product.

Contract Production - Contract Production (CP) means unorganised farmers who are contracted for performing specific production tasks to sell their products to a service provider. In the Fairtrade context, CP also means the partnership between the promoting body and the Fairtrade Producers.

Conventional Product - Conventional product is any product not

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produced or traded according to the requirements of Fairtrade Standards.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a concept of business ethics based on the idea that companies have stakeholders who are broadly defined as anyone or a group affected by the activities of the company. The idea of CSR is that a company should be accountable to its stakeholders. For this reason, the subjects of CSR focus on how companies should identify and “engage” stakeholders and how they should determine, measure and report the impact of their activities on others.

Corrective Action - Corrective Actions are measures taken to address existing non-conformance or to prevent recurrence of non-conformance.

Cost of Sustainable Production (COSP) - Cost of Sustainable Production (COSP) are the costs related to sustainably producing a product in a social, economic and environmental way in conformity with Fairtrade Standards.

Criteria Fairtrade Standards - Fairtrade Standards (Fairtrade Generic Standards and Fairtrade Product-specific Standards) are the set of requirements that producers and traders have to meet to be certified as Fairtrade Producers or Traders.

Cumulation - Cumulation allows producers from a Preferential Trade Agreement country to import non-originating materials from other member countries without the final product's originating status being affected. The EU's GSP rules of origin are, in principle, based on the concept of single-country origin, that is, the origin requirements must be fully met within one exporting

preference-receiving country, which must also be the country where the finished products are manufactured. Cumulation, however, permits beneficiary countries to consider inputs from other countries as originating content, and the European Union GSP rules of origin allow several possibilities for cumulation. There are three types of cumulation rules: bilateral, diagonal, regional and full cumulation. Bilateral cumulation applies to trade between two partners, allowing country A to use inputs from country B without the final good's originating status being affected, provided that the inputs themselves originate in country B (i.e. they satisfy the area's Rules of Origin). Under diagonal cumulation, producers can use materials originating in any member country of the PTA as if those materials originated in the country where the processing is undertaken. Regional cumulation is a form of diagonal cumulation, which only exists under the GSP and operates between members of a regional group of beneficiary countries (e.g. ASEAN). Finally, under full cumulation, all stages of processing or transformation of a product within the PTA can be counted as qualifying content regardless of whether the processing is sufficient to confer originating status on the materials themselves.

Distributor - Distributor means any operator or entity that purchases certified products for sale and does not transform that product in any way.

Draft Standards - Draft Standard is a proposed standard that is available generally for comment, voting or approval.

Empowerment - Empowerment means increased opportunity for women and men to control their life. It gives power to make decisions, to

have your voice heard, and/or put things on the agenda.

Ethical Trade - Ethical trade is trade that contributes to sustainable development.

Ethical trade label/ certification

- ethical trade label/certification' means any non-governmental trade related sustainability assurance scheme (for example, Fair Trade, Fairtrade, Max Havelaar, UTZ, Rainforest Alliance, etc.).

Evaluation - Evaluation means interpreting and analysing the monitoring data against requirements of Fairtrade Standards.

Fair Trade - 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 producers and workers – especially in the South. Fair Trade organisations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. (FINE's definition).

Fair Trade's rules guarantee: a living wage in the local context, offering employees opportunities for advancement, providing equal opportunities for all people, particularly the most disadvantaged, engaging in environmentally sustainable practices, being open to public accountability, building long-term trade relationships, providing healthy and safe working conditions within the local context, providing financial and technical assistance to producers whenever possible.

Fairtrade - Fairtrade (FT) means all or any part of the activities,

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standards and certification systems (in particular products or operators) of FLO e.V., FLO-CERT and its Labelling Initiatives.

Fairtrade benefits - Fairtrade benefits are those means created through the Fairtrade system that allow small farmers and workers to improve their standard of living.

Fairtrade benefits include amongst others facilitated market access, long-term trade relationships, better trading conditions and, in most cases, a Fairtrade minimum price for the product as well as a Fairtrade premium.

Fairtrade Bodies - Fairtrade Bodies is a term referring to any unit, organisation or decision-making body in the Fairtrade system; comprising, for example, the FLO Board, the Standards Committee, PBU, FLO CERT, Lis.

Fairtrade Certification - Fairtrade Certification is the process by which a certification body determines operator's compliance with relevant Fairtrade Standards and certification policies and contracts.

Fairtrade Certified - Fairtrade Certified means that a determination against Fairtrade Standards has been made and that an operator/a product is in compliance with Fairtrade Standards.

Fairtrade Certified Producer - Fairtrade Certified Producer is a Fairtrade Producer which has been certified against the Fairtrade Standards relevant to that organisation.

Fairtrade Certified Trader - Fairtrade Certified Trader is an exporter, importer, manufacturer or processor which has been certified against the Fairtrade Standards relevant to that organisation.

Fairtrade Explanatory Documents - Fairtrade explanatory documents are documents which further detail how the Fairtrade Standards need to be interpreted and put into practice.

Fairtrade Generic Product Standards - Fairtrade Generic Product Standards are the set of requirements that producers or traders must meet irrespective of the product produced or traded to be certified as Fairtrade Producers or Traders.

Fairtrade Generic Standards - Fairtrade Generic Standards are the set of requirements that producers or traders of any Fairtrade Products have to meet to be certified as Fairtrade Producers or Traders.

Fairtrade Import - Fairtrade Import is the first purchase of a Fairtrade Product from the original producing country.

Fairtrade Label - Fairtrade Label means any product certification label owned by FLO or one or more of its members that is used to denote compliance with Fairtrade Standards.

Fairtrade Labelling - Fairtrade Labelling means FLO e.V., FLO-CERT and all Labelling Initiatives.

Fairtrade Minimum Price - Fairtrade Minimum Price (where it exists) is the minimum price that must be paid by buyers to producers for a product to become certified against the Fairtrade Standards. The FMP is a floor price which covers producers' average costs of production and allows them access to their product markets. The FMP represents a formal safety net that protects producers from being forced to sell their products at too low a price when the market price is below the FMP. It is therefore the lowest possible price that the Fairtrade

payer may pay to the producer. When the relevant market price for a product is higher than the Fairtrade minimum price, then at least the market price must be paid.

Fairtrade Premium - Fairtrade Premium is an amount paid to producers in addition to the payment for their products. The use of the Fairtrade Premium is restricted to investment in the producers' business, livelihood and community (for a small producer organization or contract production set-up) or to the socio-economic development of the workers and their community (for a hired labour situation). Its specific use is democratically decided by the producers.

The level of the Fairtrade Premium is set by FLO Standards Unit (SU) for each specific product and is available in the FLO product standards (see http://www.fairtrade.net/product_standards.html for more details). The amount of Fairtrade Premium that a Fairtrade organization receives will depend on the quantity of Fairtrade products that have been sold. The Fairtrade Premium is not paid to the company, but instead is paid directly into a separate bank account, managed by the Joint Body. The Fairtrade Premium is paid separately from payments for the product and the company does not own the Fairtrade Premium. The Fairtrade Premium is intended to be used for the benefit of the workers, their families and their communities, within the framework of Fairtrade Premium projects. The Fairtrade Premium may not be used for expenditure for which the company is legally responsible, nor may it be used to support the company's running costs or costs of compliance with Fairtrade standards.

Fairtrade Producer - Fairtrade Producer means any entity located in a producing country that has

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been certified under the Generic Standards for Small Farmers' Organizations, Generic Standards for Hired Labour Situations or Contract Production standards of FLO.

Fairtrade Sourcing Programs (FSP)

is a commodity-sourcing program applicable to cocoa, sugar and cotton which offers a model for using the FAIRTRADE Program Mark which is focused on raw commodities rather than finished products. Licensees for FSP are offered a range of communication options including on-pack or off-pack labelling and / or communications.

Fairtrade Standards - Fairtrade Standards (Fairtrade Generic Standards and Fairtrade Product-specific Standards) are the set of requirements that producers and traders have to meet to be certified as Fairtrade Producers or Traders.

FLO-CERT - FLO CERT/FLO-CERT GmbH is the wholly-owned subsidiary of FLO (including any body partly or wholly owned by FLO-CERT/FLO-CERT GmbH or contracted to provide services to it) responsible for the Fairtrade inspection and/or certification of producers and traders.

Forced Labour - Forced Labour means work or service undertaken by a person under duress or menace of penalty in circumstances where the person has not offered him/herself voluntarily.

Freedom of association - Freedom of association is the right of all workers to join or form a trade union of their own choosing and carry out trade union activities without interference from their employer or from public authorities.

Government Procurement - The Agreement on Government

Procurement (GPA) is a "plurilateral" WTO agreement and only binds signatory states. The GPA has currently 15 Parties, mainly major industrialised economies: Armenia, Canada, European Union, Hong Kong, Iceland, Israel, Japan, Korea, Liechtenstein, the Netherlands with respect to Aruba, Norway, Singapore, Switzerland, Chinese Taipei and the United States. The GPA lays down rules guaranteeing fair and non-discriminatory conditions for international competitive tendering. Participating governments are required to put in place domestic procedures by which aggrieved private bidders can challenge procurement decisions and obtain redress in the event such decisions are found to be inconsistent with the rules of the agreement

Hired Labour - Hired Labour (HL) means employed workers who work for somebody else, for example a commercial farm or a factory.

Horizon 2020 - Horizon 2020 is the financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. It is the biggest EU Research and Innovation programme ever with nearly €80 billion of funding available over 7 years (2014 to 2020). Europe 2020 is the European Union's ten-year growth and jobs strategy that was launched in 2010. Five headline targets have been set for the EU to achieve by the end of 2020. These cover employment; research and development; climate/energy; education; social inclusion and poverty reduction.

International Fairtrade Certification Mark - International Fairtrade Certification Mark (ICM) is a trademark owned by FLO and used by all Labelling Initiatives except for Max Havelaar Switzerland, Transfair Canada and Transfair USA. The mark

identifies the related product as being Fairtrade Certified.

International Labour Convention

International Labour Convention has the force of international law, and states that ratify them are required to incorporate the principles in national law and to ensure the implementation of the law. In addition, all ILO member states, regardless of ratification, are obliged to respect, promote and realise the principles contained in the core ILO Conventions, which address freedom of association and the right to collective bargaining, forced labour, discrimination and equal remuneration.

International Labour Organisation

International Labour Organisation (ILO) is the UN specialised agency which seeks the promotion of social justice and internationally recognised human and labour rights. It formulates international labour standards in the form of Conventions and Recommendations setting minimum standards of basic labour rights.

Labelling - Labelling means any words, particulars, trademarks, brand names, pictorial matter or symbol placed on any packaging, document, notice, label, ring or collar accompanying or referring to a product referred to as a certified product.

Labelling Initiative - Labelling Initiatives are national organizations which license companies to use the FAIRTRADE Mark on consumer products and promote Fairtrade in their countries. Labelling Initiative shall mean full member organisations of FLO with an exclusive, defined geographical territory whose main purpose is to licence a Fairtrade label and which are responsible for local licensing of a Fairtrade label as well as marketing, promoting sales of Fairtrade Products and education in respect of Fairtrade.

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Liaison Officer - Liaison Officer (LO) is a consultant working for FLO e.V. and carrying out information and support functions with Fairtrade Producers. Liaison officers assist Fairtrade Producers in understanding and meeting requirements (certification) and are involved in supporting market access and development.

License fee - License fee is the fee which Licensees pay to a Labelling Initiative for the use of the International Fairtrade Certification Mark on a Fairtrade Product.

Licensee - Licensee is an organisation licensed by a Labelling Initiative to use a Fairtrade label on Fairtrade Products.

Mass balance - Principle means that certified produce may be mixed with conventional produce. At any stage of the supply chain, certification systems require the respective actors to keep administration of the volume going in and out of the unit.

Membership fee - Fixed fee paid by a buyer in the supply chain on an annual basis.

Minimum Requirements - Minimum Requirements are Fairtrade Standards requirements which all producers must meet from the moment they join Fairtrade.

Monitoring - Monitoring means measuring a set of indicators that are tracked over time to identify trends

Organic Differential - For some certified organic products, a minimum organic differential is set. It is the lowest possible differential that producers must receive in addition to the Fairtrade Minimum Price or market price, whichever is higher. If a Premium is set for the conventional product variety, this Premium also

applies to the organic product, unless stated differently.

In the case of Fairtrade coffee for example, buyers pay the Fairtrade Minimum Price or the market price, whichever is higher, and a Premium for conventional coffee. For organic coffee, an organic differential needs to be paid on top of price and Premium.

Conventional coffee: Minimum Price or market price + Premium

Organic coffee: Minimum Price or market price + organic differential + Premium

Outgrowers - Outgrowers are understood as all small producers not yet certified under the Fairtrade Generic Standard for Small Producer Organizations from whom Fairtrade Fresh Vegetables are being sourced by the certified Hired Labour operator.

Policy Coherence for Development - Policy Coherence for Development (PCD) is a principle which obliges the EU to take into account of the objectives of development cooperation in all policies that it implements which are likely to affect developing countries, and that these policies support development objectives. It has three legal bases: Treaty of Maastricht (1992), Art. 130v. 'The 3 Cs'; the Lisbon Treaty (2009), Art. 208; and the Cotonou Agreement (2000; revised 2010), Art. 12.

Producer - Grower or farmer of Certified Fairtrade products

Producer Business Unit - Producer Business Unit (PBU) is the FLO business unit that advises producers on compliance with Fairtrade Standards and assists in market access and development.

Producer certification - Producer Certification (PC) is the certification of producers against the Fairtrade

Standards relevant to them.

Producer Executive Body (PEB)

- The producer executive body comprises elected representatives of all the registered producers. It is the intermediary between the registered producers and the promoting body until the producer organization can adequately represent the producers' interest and manage the Fairtrade Premium money. Once the producer organization has developed these capacities, the producer executive body can, if so wished, assume the function of a structure similar to an executive committee.

Producer Organization -

The producer organization is a group of registered producers contracted and/or supported by the promoting body. Its purpose is to enable the registered producers to democratically decide on the Fairtrade Premium use and negotiate with the promoting body over terms of trade. The producer organization is expected to become stronger over time and become an autonomous small producer organization which can comply with the Fairtrade Standard for Small Producer Organizations. When producer organization is referred to in the text, it can mean one or more than one producer organization.

Progress Requirements - For companies: these are requirements against which certified companies must demonstrate performance or efforts towards long-term improvement and which should be developed according to a plan agreed by the management of the company, some within a specified period of time.

For Small Farmers: these are requirements on which certified producers must show permanent improvement.

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Promoting Body (PB) - The promoting body is the intermediary organization that either contracts and/or supports small producers in producing and marketing one or more crops. It is responsible for supporting these producers to get organized. The promoting body can either be a trader (exporter/processor), or non-trader (NGO or private) which is a legal entity forming a partnership with the producers it contracts and/or supports, i.e. the registered producers. The promoting body is the holder of the Fairtrade certificate and is responsible for supporting the registered producers in complying with this standard.

Public procurement - Public procurement is the purchase of goods and services by governments and state-owned enterprises. It encompasses a sequence of related activities starting with the assessment of needs through award to the contract management and final payment.

Quick Entrance - Quick Entrance is the name of a procedure allowing new products in existing categories to enter Fairtrade without Fairtrade minimum price, only with a Fairtrade premium, during one full annual production and trading season. Meanwhile the paid price is a negotiated price between the seller and the buyer. The Fairtrade premium is paid in addition of the negotiated price. Sellers and buyers are explicitly asked to ensure that the negotiated price covers the costs of sustainable production (COSP).

After one full annual production and trading season thanks to the Quick Entrance, producers are asked to feedback data to the pricing unit of Fairtrade International. Currently, for almost all Herbs and Spices, this rule is extended without time limit.

Registered producers - Registered producers refer to all the small producers contracted and/or supported by the promoting body and participating in Fairtrade. The registered producers form the membership of the producer organization once it is established.

Requirement - Requirement is a provision that conveys criteria to be fulfilled.

Review - Review is an activity of checking a document or process to determine whether it is to be reaffirmed, changed or withdrawn.

Revision - Revision is an introduction of all necessary changes to the substance and presentation of a document or process.

Segregation - Principle implies that certified produce may not be mixed with conventional produce at any stage of the supply chain.

Smallholder farmer - The term 'smallholder' refers to the limited resource endowments of certain farmers relative to other larger scale and more commercial farmers. The precise definition differs among countries with variations in farm size, allocation of resources, use of external inputs and proportion of food crops that are marketed. Smallholder farmers characteristically have limited business skills, low financial literacy and financial management skills, little knowledge management and risk aversion.

Small Farmers - Small Farmers (SF) are producers who are not structurally dependent on permanent hired labour and who manage their production activity mainly with own and family labour.

Small farmers Organisation - Small Farmer Organisation (SFO)

is a group primarily consisting of organised small farmers who work for themselves, for example a co-operative or association.

Social Responsibility - Social responsibility means actions of an organisation to take responsibility for the impacts of its activities on society and the environment, where these actions are consistent with the interests of society and sustainable development; are based on ethical behaviour, compliance with applicable law and intergovernmental instruments and are integrated into the ongoing activities of an organisation.

Socially responsible public procurement (SRPP) - 'SRPP' means procurement operations that take into account one or more of the following social considerations: employment opportunities, decent work, compliance with social and labour rights, social inclusion (including persons with disabilities), equal opportunities, accessibility design for all, taking account of sustainability criteria, including ethical trade issues and wider voluntary compliance with corporate social responsibility (CSR), while observing the principles enshrined in the Treaty for the European Union (TFEU) and the Procurement Directives.

Socio-economic development - FLO considers socio-economic development to be a process resulting in changes which improve the capacity of a community to fulfil its aspirations. The aim is to empower individuals and groups with the skills they need to identify their needs and priorities and to develop plans and projects to address these. The Fairtrade Premium is intended to be used both for the empowerment of workers, and also for investing in plans and projects for social and economic improvement in the wider

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community. The Fairtrade Premium cannot solve all the social and economic problems and needs of the workers and the community. But if it is invested wisely and builds the capacity of workers to change their own lives, the Fairtrade Premium can have long-lasting benefits.

Standards - Standard is a set of defined criteria giving the requirements which must be attained. A standard provides, for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods. It may also include terminology, symbols, packaging, marking or labelling requirements. Standard requirements are meant to comply with and are based on stated objectives.

Standards Body - Standards Body is a recognised body at national, regional or international level that has as a principal function, by virtue of its statutes, the preparation, approval or adoption of standards that are made available to the public.

Standards Committee - Standards Committee (SC) is a committee created by the FLO Board and made up of representatives of the stakeholders for Fairtrade Standards. It acts as a decision maker and provides guidance in the development of Fairtrade Standards.

Standards Unit - Standards Unit (SU) is the FLO business unit that

manages the development of Fairtrade Standards.

Sustainability - Sustainability means the capacity of economic, social, institutional and environmental aspects of human activity, and the non-human environment, to continue into the long-term.

Traceability - Traceability is the ability to trace the history, application and/or location of a product.

Trade Certification - Trade Certification (TC) is the certification of traders against the Fairtrade Standards relevant to them

Trader - Buyer, seller, manufacturer, transformer of a Certified Fairtrade product

Transformer - Transformer means any operator or entity that alters the characteristics of a Fairtrade Product through the use of physical or chemical or similar processes.

Verification - Verification is the confirmation through the provision of evidence that specified requirements have been fulfilled. Verification can be first party/ internal (self assessment), second party (by an entity of the supply chain leading to approval) or third party/external (by an independent party leading to certification).

Worker - Worker refers to all workers contracted by a company

or producer organisation including migrant, temporary, seasonal, sub-contracted and permanent workers. It is not limited to field workers but includes all other hired labour personnel, e.g. employees working in the administration. The term, however, is limited to personnel which is entitled to join unions and therefore normally excludes middle and senior management.

Workers Committee - Workers Committee (WC) is a committee of representatives of workers of a company dealing with workers' rights and working conditions.

World Shop - A World Shop is defined as:

- A shop that endorses, through its own mission or values statements, publicity material and actions, the definition and principles of Fair Trade.
- The primary purpose for existing as a shop is to promote Fair Trade. Fairly traded products therefore take up the most important share of the shop's stock.
- The shop reinvests the profits from its sale of products into the Fair Trade system.
- The shop informs the public about its aims, the origin of the products, the producers and about world trade. It supports campaigns to improve the situation of producers, as well as to influence national and international and international policies.

Acronyms

ACP	African, Caribbean and Pacific group of States	FLO-CERT	Fairtrade Labelling Organizations International Certification Body
AfT	Aid for Trade	FLSA	Fairtrade Label South Africa
ATOs	Alternative Trade Organizations	FSC	Forest Stewardship Council
BCI	Better Cotton Initiative	FSP	Fairtrade Sourcing Programs
BTC	Belgian Development Agency	FT	Fair Trade
CARICOM	Caribbean Community and Common Market	GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German Agency for International Cooperation)
CARIFORUM	Forum of the Caribbean Group of African, Caribbean and Pacific (ACP) States	GMO	Genetically Modified Organism
CDE	Centre for the Development of Enterprise (ACP-EU)	GPA	Government Procurement Agreement (WTO)
CmiA	Cotton made in Africa	GPP	Green Public Procurement
CSR	Corporate Social Responsibility	GSP	Generalised System of Preferences
DFID	British Department for International Development	GTS	generic trade standards
EAC	East African Community	IADB	Inter American Development Bank
EBAE	European Business Awards for the Environment	IFAT	International Federation for Alternative Trade and International Fair Trade Association
ECOWAS	Economic Community of West African States	IFOAM	International Federation of Organic Agriculture Movements (“Organic”)
EDF	European Development Fund (ACP-EU)	IIED	International Institute for Environment and Development
EFTA	European Fair Trade Association	IISD	International Institute for Sustainable Development
EPA	Economic Partnership Agreement	ILO	International Labour Organisation
ET	Ethical Trade	ISEAL	International Social and Environmental Accreditation and Labelling Alliance
ETI	Ethical Trade Initiative	ISO	International Organization for Standardization
ETP	Ethical Tea Partnership	ITC	International Trade Centre
EWAD	Environmental Women in Action for Development, Uganda	NEWS	Network of World Shops
FAO	Food and Agriculture Organization of the United Nations	NGO	non-governmental organization
FINE	FLO, IFAT, NEWS and EFTA group	OECD	Organisation for Economic Co-operation and Development
FLO	Fairtrade Labelling Organizations International (“Fairtrade” or “Fairtrade International”)		

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PDC	Policy Coherence for Development (EU)	SRPP	Socially Responsible Public Procurement
PPM	production and processing method	SSI	State of Sustainability Initiatives
PSR	Producer Services and Relations	TFEU	Treaty on the Functioning of the EU
RA	Rainforest Alliance	UNCTAD	United Nations Conference on Trade and Development
RSB	Roundtable on Sustainable Biomaterials	VSS	voluntary sustainability standard
RSPO	Roundtable on Sustainable Palm Oil	WFTO	World Fair Trade Organization (formerly IFAT)
RTRS	Round Table on Responsible Soy	WTO	World Trade Organisation Agreement
SADC	Southern African Development Community	TBT	Technical Barriers to Trade
SAN	Sustainable Agriculture Network	ZAR	South African Rand
SDGs	Sustainable Development Goals		
SPS	Sanitary and Phyto-Sanitary Agreement		

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