Overseas Development Institute

Opinion 88

October 2007

Is The Time Ripe For A Good For Development Product Label?

Trade is an important driver of growth and poverty reduction and can have broad development impacts. Yet information about the potential impact that purchasing decisions have on developing country exports and the contribution they make to development is very limited. The Fairtrade labelling scheme, for example, represents a narrow definition of what is good for development, and seems to imply that other trade is unfair. At the same time, new labels on products which have been air-freighted may unfairly jeopardise export opportunities for over a million poor farmers in the developing world. The moment seems ripe to investigate how consumers can be given better information about the broad development impacts of their purchases.

Karen Ellis & Michael Warner

'While participation in a Fairtrade supply chain can improve things for developing country producers, it is by no means a necessary pre-condition for producers to benefit from export opportunities.'

Overseas Development Institute

ODI is the UK's leading independent think tank on international development and humanitarian issues.

Labelling is an increasingly popular mechanism for differentiating products on the basis of their production or origin characteristics, reflecting a growing trend towards ethical consumerism – where consumers make choices on the basis of, and/or are willing to pay a price premium for, goods which are produced in a particular way. Fairtrade, Organic, Against Animal Testing and energy efficiency labelling schemes have all seen significant growth in recent years.

Although still a minority interest, ethical consumerism is growing, and in today's affluent society, may well continue to grow. But what should the ethical consumer look for, and how should it be tested and labelled? The answers are not straightforward.

The Fairtrade Mark

The growing support for Fairtrade labelled products suggests that consumers are increasingly concerned about the development impact (or more precisely the impact on producers) of their purchases. But being 'Fairtrade' is not synonymous with being 'development friendly'. While participation in a Fairtrade supply chain can improve things for developing country producers, it is by no means a necessary pre-condition for producers to benefit from export opportunities. Over a million people in Africa rely on agricultural exports to the UK for their livelihoods – without these export opportunities they would have a much lower income – yet only a small proportion are part of a Fairtrade supply chain.

The positive impact of Fairtrade on the livelihoods of producers and the communities in which they live has been significant. Furthermore, the number of Fairtrade certified producer organisations (farmer cooperatives, associations and estates) is growing. The key problem, however, is one of scale. Worldwide, the total number of producer organisations for 2006 is just 569.[1] In addition, only a limited number of products are covered by the Fairtrade Mark, and the volume of Fairtrade sales relative to total merchandise trade is less than one hundredth of one percent despite significant growth in recent years. Part of the explanation lies in the requirements placed on Fairtrade purchasers e.g. to guarantee a minimum price above the market price, pay a community development premium, make credit available etc.

Another possible reason is the suggested practice of some retailers to mark-up prices beyond those justified by compliance with Fairtrade certification standards.[3] There is also some debate about the impact that Fairtrade schemes may, or may not, have on

the competitiveness of producers. For example, participation in a scheme may encourage oversupply in some markets, and may weaken the ability of producers to take advantage of new opportunities, such as growth in domestic urban markets where lower farm gate prices might be inadequate to support the established business model.

'Food Miles' Labelling

In response to consumer concerns about food miles, some retailers are planning to introduce labels indicating which products have been air-freighted. This labelling is designed to inform consumers about the potential carbon cost associated with food imports. But since this does not tell us the overall environmental cost of production it may be misleading. (As would the recent proposal by the Soil Association to remove organic certification from most air-freighted products, which would deny consumers information on many genuinely 'organic' developing country products.)

'A Good For Development label which encompasses a wide range of products from developing countries, which recognises the broader development benefits of trade, and which ensures the carbon footprint of such goods is placed in context, could stimulate a step-change in purchases from developing countries.'

A recent study shows that the emissions produced by growing flowers in Kenya – which is naturally warm and sunny – and flying them to the UK, can be less than a fifth of that from flowers grown in heated and lighted greenhouses in Holland.[4] Some retailers have acknowledged this and are developing more comprehensive approaches to assessing the environmental impact of a product through the entire supply chain.

While the environmental impacts of trade are clearly a valid concern for consumers, there is a risk that they are being overstated by some interest groups to enhance the attractiveness of buying locally grown produce. Compared to other sources of carbon emissions, the contribution from trade is small. In the UK, international freight is responsible for only 5% of air transport emissions whereas passenger flights account for 90%.[5] 95% of the UK's trade in goods is transported by ship, which is significantly less polluting than air or road transport.[6] UK emissions from shipping constitute less than 2% of the UK's total greenhouse gas emissions.[7] The environmental impacts of consumers shopping by car vastly outweigh those from transport within the food distribution network.

The potential damage to developing country producers from this kind of selective information should not be overlooked. Over one million people in rural Africa are supported by fresh fruit and vegetables exports to the UK. Yet it is estimated that not buying fresh produce air-freighted from Africa would reduce UK emissions by less than 0.1%.[8] But at the moment there is very little information available to consumers about the positive development impact of their purchases, which makes it difficult for them to weigh up the different factors.

A 'Good for Development' Label

A Good For Development label which encompasses a much wider range of products from developing countries than Fairtrade currently does, which recognises the broader development benefits of trade (including benefits from market-priced, non-Fairtrade, products), and which ensures the carbon footprint of such goods is placed in context, could potentially stimulate a step-change in purchases from developing countries, thus significantly expanding export opportunities.

One simple model for such a scheme would be to grant the label to all agricultural exports from developing countries that meet some basic minimum standard reflecting the beneficial development impact vis-à-vis a developed country substitute. This would be technically the least challenging option, but it might not provide information on the range of issues that ethical consumers may be interested in.

More ambitiously, the scheme could harness competitive forces to provide incentives for improvements in development impact. So, for example, while the 'basic' level of a Good For Development label may be easy to secure for developing country exporters, additional 'points' could be available for products which are likely to have particularly good macro and/or community-level development impacts, and could also potentially take into account environmental impacts. In other words, the labeling scheme could be graded according to performance against a range of criteria, rather than simply pass/fail. Purchasers and retailers could then report their grades in marketing literature or annual sustainability reports, which may be used by ethical investors seeking socially responsible investment opportunities.

Such a scheme would aim to generate additional sales for exporters who can show they bring broader development and perhaps environmental benefits to their country or area of origin or assembly, such as improvements in the investment climate, industrial diversification, on and off-farm employment opportunities, improved land security for smallholders, skills and local enterprise development,

more efficient water and soil conservation methods, improved access for poor producers to domestic and export markets, innovation in production and processing, affordable access to infrastructure, a relatively low carbon footprint, the use of environmentally sound production techniques, carbon off-setting, and even increased payments of taxes to the state.

It might even be possible to link the grading of products to their alignment with a country's unique development priorities, as defined in a country's national strategic development plan, national sustainable development plan, poverty reduction strategy paper, or relevant sector plans or country-specific Millennium Development Goals. This would represent a marked shift in product labelling, away from blanket criteria, towards differentiation that is context specific. Modern techniques for using expert, multi-sectoral, panels may provide part of the answer here.

The Way Ahead

Fairtrade sales are still growing strongly. At the same time new competitors are moving into the product labelling market, bringing with them less stringent criteria and thus potential for wider uptake. For example, Fairfood – a Dutch not-for-profit initiative – simply invites branded manufacturers to self-grade the 'fairness' of the principal ingredient in their branded products against a number of economic, labour and environmental standards, based on international conventions and agreement. The resulting rankings of products in the same class are then disclosed.

More specifically, it is conceivable that individual branded processors and manufacturers, or corporate retailers, may soon introduce their own 'good for development' product lines (or equivalent), similar to what the Nike Corporation has recently done with its 'green' footwear product line called 'Nike Considered'.

A Good for Development labelling scheme would need to take into account, and perhaps build on, these existing and planned initiatives. A first step is to systematically assess the advantages and disadvantages of each of these, and determine whether they can be strengthened or whether a new approach is required. If a new scheme *is* warranted, it would clearly require careful design, most crucially in defining qualifying criteria and verification, not least to avoid unintended consequences, such as creating standards that would be difficult for the poorest countries to meet. Further, the scheme would need to address pricing, for example by looking again at the prices paid to producers and ways to incentivise retailers to refrain from excessively raising the price of labelled products as a marketing strategy.

With corporate and consumer consciousness of development issues at an all time high, the time seems ripe to consider the merits of a broader 'Good For Development' label which addresses these challenging questions. If we can get the initial thinking right, the dividends for international development and poverty reduction could be substantial. It we do not, the trend towards new ethical trade barriers could seriously restrict development in some of the poorest countries in the world.

'It might even be possible to link the grading of products to their alignment with a country's unique development priorities, as defined in a country's national strategic development plan, for example.'

Endnotes

1. Fairtrade Labelling Organisations International (2007) *Shaping Global Partnerships*: www.fairtrade.net/uploads/media/Final_FLO_AR_2007_03.pdf
2. Fairtrade UK: www.fairtrade.org.uk/about_sales.htm
3. Harford, T (2007) *The Undercover Economist*, London: Abacus publishing
4. Williams, A. (2007) *Comparative Study of Cut Roses for the British Market Produced in Kenya and the Netherlands*, Cranfield: Cranfield University
5. MacGregor and Vorley (2006) *Fair Miles? The concept of "food miles" through a sustainable development lens*, IIED Sustainable Development Opinion Paper, London: International Institute for Environment and Development
6. DEFRA
7. Data from Department for Transport and World Resources Institute
8. Ibid, MacGregor and Vorley (2006)

Written by ODI Research Fellows:
Karen Ellis (k.ellis@odi.org.uk)
Michael Warner (m.warner@odi.org.uk)

For more ODI resources on business and development, visit: www.odi.org.uk/business

Overseas Development Institute

111 Westminster Bridge Road, London SE1 7JD

Tel: +44 (0)20 7922 0300

Fax: +44 (0)20 7922 0399

Email: publications@odi.org.uk

ODI Opinion Papers

are signed pieces by ODI researchers on current development and humanitarian topics

This and other ODI Opinions are available from www.odi.org.uk

© Overseas Development Institute 2007