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How do ethical and fair trade schemes affect poor producers? Do we need a new 'Good for Development' label?

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'Ethical trade schemes can benefit producers but reach only a few. A 'Good for Development' label would highlight and enhance the development benefits of conventional trade.'

Agricultural exports are crucial for growth and employment in many developing countries, contributing to poverty reduction and rural development. Agriculture is the main area of comparative advantage for many countries wishing to expand the market for their exports.

At the same time, consumers in the developed world want to use their purchasing power to help people in poor countries lift themselves out of poverty, resulting in the huge growth in ethical trade initiatives seen in recent years.

A recent ODI study (Ellis and Keane, 2008) reviewed a range of existing ethical standards and labels, examining their objectives, scope, and scale of coverage, their impact on participating farmers, compliance costs, and broader development impacts. It found that:

- The schemes have a range of objectives, from providing a better deal to producers (e.g. Fair Trade), to improving environmental and labour standards (e.g. Rainforest Alliance), to encouraging good agricultural practices (e.g. GlobalGAP).
- Certification with these schemes can benefit participating producers, encouraging better working conditions, improved productivity, and reduced environmental costs. They can sometimes yield a higher price for producers. While this is an explicit requirement only for the Fair Trade scheme, certification with other schemes can generate a price premium by giving producers access to a higher value market niche.
- The cost of complying with standards is often borne by the developing country producers themselves, with no guarantee of the benefits they will reap in return. If the standards are a requirement for producers wishing to export to a certain market, and if the costs are too high, they can be excluded from the market altogether, which could jeopardise their livelihoods (as happened in relation to GlobalGAP);
- For voluntary schemes, the high costs of compliance can constrain the growth of the scheme, either because producers are unable to meet the standards (particularly in the poorest countries), or because retailers and importers will not pay the higher costs. So the overall development impact of the schemes has remained quite low, despite growing consumer support for ethical trade in recent years.

Table 1 (overleaf) provides a summary of the features of the various schemes. It shows the trade-off between compliance costs and scale of impact in developing countries. Only GlobalGap has high coverage despite high compliance costs, and that is because it is, effectively, a requirement for UK market access.

The focus of ethical and fair trade labelling schemes on improving standards gives the impression that other developing country exports are 'unethical' or 'unfair'. This is reflected in market research showing that consumers are concerned about the potential exploitation of developing country producers.

However, most conventional agricultural exports are of significant benefit to developing country producers and represent a crucial source of income, jobs, and export earnings, though they may not be explicitly recognised as such, as they may not qualify for any of the existing ethical labelling schemes.

For example, Lundy (2007) highlighted the impact that Costco's purchases of French green beans have had on rural communities in Guatemala, without fair trade labelling. In 2005-2006, the company bought almost 2,000 metric tonnes of Guatemalan French beans, with $1.5 million in total going directly to farmers, who earned an average of $779 per family. Families reported that this money had increased their access to health care, education and improved housing. If such products are unlabelled, consumers will not be aware of their development benefits.

Some retailers and importers are making an effort to strengthen their development impact, by engaging in a more supportive way with developing country producers. However, these efforts may go unrecognised and unrewarded if consumers are unaware of them.

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Table 1: Features of main existing ethical trade schemes, and the proposed new Good for Development label

Scheme	Required for UK market access	Labour standards	Environmental standards	Extra development contribution by retailers and importers	Compliance costs	Scope of coverage in developing countries
Fair Trade	x	✓	✓	✓	High	Low
Rainforest Alliance	x	✓	✓	x	High	Low
Utz Kapeh	x	✓	✓	x	High	Low
Marine Stewardship Council	x	x	✓	x	High	Low
Forestry Stewardship Council	x	x	✓	x	High	Low
GlobalGAP	✓	✓	✓	x	High	High
Ethical Trading Initiative	x	✓	x	x	Low	High
Proposed Good for Development label	x	x	x	✓	Graded for importers, zero for producers	High

These findings provide support for the ODI proposal (see ODI Opinion No. 88), for a new 'Good for Development' label (Table 1 shows how this would differ from existing schemes):

- it would not create new environmental or labour standards – there are many labels that already do that; but
- it would indicate to consumers the positive development impacts associated with purchasing most conventional developing country produce (as long as it met some basic minimum standards e.g. to comply with national laws). This would cover a much greater proportion of produce than existing labelling schemes, and include more producers in the poorest countries that are currently under-represented. It could, potentially, help to expand the market for such produce, supporting more livelihoods in the developing world; and
- it could create stronger incentives for developed country food retailers, manufacturers and importers to increase their contribution to development, by awarding additional 'points' for a range of pro-development contributions. These could include:
  - providing assistance in meeting standards imposed by other schemes i.e. bearing more of the compliance costs themselves;
  - the provision of free technical assistance or training;
  - the provision of access to finance;
  - contributions to local infrastructure development;
  - long-term contracts;
  - investment in healthcare for workers;
  - compliance with best practice in supply chain management; and
  - responsible resource management.

Providing this information in the form of a bronze, silver or gold 'Good for Development' label would enable consumers to compare at a glance, the development contribution made by competing suppliers and products at the point of purchase. It could, therefore, contribute to increased sales for those companies making the greatest efforts to improve their development contribution, boosting their profitability as well as their reputation, and helping to offset any associated costs. By turning development performance into a competitive advantage for the retailer/importer, it could increase the willingness of companies to invest the necessary time and resources to make genuine improvements in their development impact.

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