

International Development Committee

Fair Trade and Development Inquiry

A. The importance of fair trade

1. As members of Business Action for Africa¹, we strongly welcome this inquiry on fair trade and development. From our own first-hand experience of Africa, we recognise the important contribution that fair trade can make in giving people the opportunity to lift themselves out of poverty.

2. Most importantly, fair trade centres on an enterprise-led solution to poverty reduction: wealth creation for poor people, not charity. It is the diverse private sector, large and small, that will deliver the growth, jobs and tax revenues needed to meet the UN's Millennium Development Goals. Building trade links with small enterprises can be a particularly powerful way to drive down poverty.

3. The "Fairtrade" mark and other initiatives such as Rainforest Alliance certification have done much to raise public awareness and engagement in trade and fair trade issues. Customers increasingly expect large companies to have responsible supply chain practices, and there has been a dramatic growth in the fair trade market. According to Mintel, sales of Fairtrade goods in the UK are expected to rise to £547 million by the end of the decade, up from £195 million in 2005.

B. The challenge of mainstreaming

4. A key challenge is achieving greater scale and impact. The Fairtrade mark and other initiatives, while growing very successfully, cover a relatively limited number of suppliers. The solution lies in mainstreaming the principles of fair trade across companies' core business operations, in the form of ethical and transparent sourcing and procurement approaches across the full length of the value chain: supply, distribution and retail.

5. We, and the large majority of our peers, recognise the strong business, as well as moral, case for treating all of our suppliers fairly. A successful and sustainable supplier base underpins our own ability to deliver quality products to our customers efficiently and cost-effectively and therefore to deliver shareholder value and business growth.

6. A number of us have conducted research that shows a strong demand among our customers to have the option to buy ethically sourced products. Recent moves by a number of major retailers to offer more fair trade products will help bring new consumer groups to the fair trade category.

7. In this context, the evidence on the environmental impact of sourcing products from developing countries needs to be more clearly communicated. In practice, the less capital intensive production methods in developing countries is likely to more than offset the impact of transporting products to developed country markets.

C. The bigger picture: trade

8. The fair trade discussion has usefully raised awareness about trade, but it is in no way a substitute for real trade reform. By far the greatest development impact can be achieved though enabling all African producers to trade – in the context of a fairer, rules-based, multilateral world trading system.

9. While precise estimates vary, a successful outcome of the currently stalled Doha Development Round of world trade talks will have dramatic benefits for developing countries. In 2006, the World Bank estimated potential overall welfare gains of US\$287 billion, with around a third (US\$90 billion) going to developing countries.

10. World leaders in the US, EU and larger emerging economies have an historic opportunity to deliver the trade conditions for growth and poverty reduction. Action is needed on market access to developed country markets, agricultural subsidies, rules of origin and tariff escalation. The lost opportunity that a failed trade round would represent could never be offset by the growth in “fair trade”.

D. The role of business

11. The greatest contribution that business can make to poverty reduction is by operating successful, profitable and responsible operations – generating trading opportunities for small enterprises and employment opportunities for individuals.

12. This includes building long-term, stable relationships with suppliers and distributors. And in the context of such partnerships, promoting responsible sourcing and procurement, as well as the growth of small and medium enterprises. Most businesses recognise the importance of promoting fair prices, fair wages and decent working conditions.

13. The “Fairtrade” mark has proven a very powerful way for engaging customers, and it works particularly well where farmers are already well organised with adequate basic infrastructure. A number of companies have very successfully introduced Fairtrade-certified products. There are very many others who share the basic objectives of Fairtrade but who are delivering these through other approaches.

14. Crucially, any initiatives must be embedded in the core business of a company, with a strong business case. This is far more sustainable than philanthropy. Increasingly, businesses are seeing the value of working collectively – with each other, with governments and with NGOs – to scale up their own impacts. Business-led collective action can take many forms – collective advocacy, joint projects and the exchange of ideas and good practice. We are involved in all three areas.

15. Examples of business action on fair and ethical trade are set out in the Annex.

E. The role of governments and donors

16. African governments must do more to facilitate intra-African and South-South trade. This means enhancing customs administration, improving infrastructure and, more broadly, improving the climate for business. A central issue – which the fair trade discussion risks missing – is that fundamentally the challenge for Africa is to improve its trade capacity and competitiveness.

17. African producers – particularly those in the agriculture sector, the sector where the majority of poor people are located – need targeted support in at least three areas. First they need help to improve their efficiency and the quality of their products – so that they can take advantage of supply chain opportunities, and compete effectively. In agriculture this could mean enhanced access to fertilisers, irrigation and infrastructure. Second, producers need support to diversify, with an emphasis on finding new sources of competitive advantage. And third, they need support in moving up the value-chain – so that more value-adding processing, such as manufacturing and packaging, can take place domestically. Again, these areas can be missed in the fair trade discussion.

18. The priority for donors should be support for African-led efforts to improve intra-African trade and trade capacity in these markets. We therefore welcome DFID's support for the Investment Climate Facility², Infrastructure Consortium for Africa³ and the proposed Africa Enterprise Challenge Fund. Where DFID engages in enterprise development, this should be demand-led – with a clear understanding of what enterprises need and what customers want.

19. Beyond that, we welcome DFID's support for fair trade initiatives, including for the Fairtrade Foundation to help it promote the Fairtrade mark. Further support should include capacity building for producers on the ground to help meet growing demand, and assistance to help fair trade systems become more efficient as fair trade moves from niche to mainstream.

20. In developing policies it is important to avoid any unintentional consequences that harm Africa's small scale producers or that overly distort international or national markets. The cost of meeting CSR codes, for example, must not be allowed to exclude small scale farmers.

21. We encourage DFID to work in partnership with businesses and business organisations, such as ours, to share good practice. A partnership with an emphasis on continuous learning and progress will ultimately be far more effective than regulation or a box-ticking, compliance-based approach.

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Annex: Business action on fair trade and ethical sourcing

British American Tobacco	On a global basis two thirds of the tobacco supplied is through direct contracts with farmers with the other one third purchased from third party suppliers. BAT works directly with 37,000 farmers in Africa providing direct technical and financial support to ensure that the farmer's full potential is realised. To promote sustainability throughout the entire leaf supply chain a programme pioneered and lead by BAT called Social Responsibility in Tobacco Production develops our suppliers as regards agriculture, environment, occupational health and safety and socio economic factors. We are working with NGOs on the impacts on ecosystems and environment. The management of forestry and biodiversity are components of the leaf strategy, encouraging the development of tree planting for tobacco curing fuel and minimising biodiversity impact of our operations. BAT is also an inaugural member the ECLT Foundation, a multi-stakeholder initiative that tackles labour issues in tobacco growing.
Business Action for Africa	The Business Action for Africa Enterprise Development Project is chaired by Anglo American, Barclays, Rio Tinto, SABMiller, Shell Foundation and Unilever. This is exploring the scope for collective action though companies' supply chains – from enterprise development through to advocacy, with an initial focus on Kenya, Ghana and Zambia.
Cadbury Schweppes	Cadbury Schweppes has two goals on sourcing: to maintain its ethical sourcing standards, and develop sustainable sourcing programmes for its agricultural raw materials. Its ethical sourcing strategy focuses on working with its suppliers to continue to improve workplace conditions and sustainable agriculture. The company shares with the fair trade movement a commitment to improve the livelihoods of cocoa farmers and their families. For nearly 100 years, the company has worked with colleagues in Ghana and now plays a leading role within the International Cocoa Initiative to help raise levels of working conditions, sustainable farming practices and community prosperity. The company's focus has been to help improve standards of living by developing sustainable high quality crops that generate a long term and higher return for all farmers. The company has helped establish programmes in this area, such as the Sustainable Tree Crops Programme.
Diageo	Since the 1980s when Guinness Nigeria pioneered the use of locally-grown sorghum and maize in brewing to replace more expensive imported grains, we have continued to invest in locally grown cereals and new technologies in West and East Africa to help local farmers increase their output and secure long-term sustainable income. More recently, in Ghana and Sierra Leone we are supporting the development of sorghum in areas where poverty is high. We also provide skills training and access to farming products to help local farmers improve their productivity.
Ethical Trading Initiative	The Ethical Trading Initiative (ETI) is an alliance of companies, non-governmental organisations (NGOs) and trade union organisations. ETI aims to improve working conditions by promoting and improving code implementation. Their NGO, trade union and corporate members work together to identify what constitutes "good practice" in code implementation, and then promote and share this good practice. ETI also encourages companies to adopt the "ETI Base Code" and implement it in their supply chains.
Marks and Spencer	Last year, M&S became the first major retailer to switch all the coffee and tea it sells to Fairtrade. This alone is estimated to have increased the value of all Fairtrade instant and ground coffee sold in UK supermarkets by 18 per cent, and increased the value of Fairtrade tea by around 30 per cent. This follows their decision in 2005 to sell only Fairtrade coffee and tea in their Café Revive coffee shops, the UK's third largest chain of coffee shops – a move that it is estimated will grow out-of-home sales of Fairtrade coffee and tea by 23 and 11 per cent respectively. In 2006, M&S was also the first major high street retailer to introduce a range of Fairtrade cotton clothing. Its "Look Behind the Label" campaign communicates its position on CSR issues of most concern to customers, including on ethical standards. M&S' research shows shoppers want to be able to buy more Fairtrade products.
Nestlé	In 2005, Nestlé UK launched a Fairtrade certified coffee – Nescafé Partners Blend – as part of a long-term commitment to developing sustainable agricultural practices. Its suppliers for Partners' Blend are all smallholders from El Salvador and Ethiopia who have been adversely affected by the regular fluctuations in coffee prices. Nestlé research indicates the product will appeal to a new consumer group that, while not currently regular purchasers of Fairtrade coffee, are predisposed to fair trade and/or sustainable products.

SABMiller	By switching to an indigenous raw material – sorghum – and using small-scale farmers to supply it, Nile Breweries (Uganda) and Zambia Breweries have been able to replace expensive imported ingredients to produce Eagle Lager. Now an award winning product with market shares of 50 and 15 per cent in Uganda and Zambia, Eagle has brought significant financial benefits to the businesses and to farmers – with over 10,000 now with access to a new, credible and long-term market with guaranteed prices. More generally, SABMiller has adopted a set of responsible sourcing principles covering business conduct, working conditions, employment, child labour, wages, diversity and freedom of association.
Shell Foundation	Africa's entrepreneurs - not increased aid and debt relief - will drive the economic growth Africa requires to pull itself up. The Foundation's 'Trading UP' programme unlocks markets for developing world producers through the provision of appropriate finance, business development assistance and access to 'mainstream' markets through strategic partnerships with major retailers such as Marks & Spencer. Its vision is to transform retail supply chains - taking goods from the fields and workshops to the retailer's shelves - so that they positively contribute to poverty alleviation while still making commercial sense. The foundation supported one small Ugandan dried fruit company with some seed-capital to buy computers and train its staff, and helped it access financing from a local bank so that it could build a new processing plant. Three years on, one thousand jobs have been created and the company is selling its produce in more than 700 Tesco stores in Britain.
Unilever	Unilever works with thousands of small farmers and suppliers to manufacture and distribute food and household products. Together with The World Conservation Union, Netherlands Development Organisation and The World Agroforestry Centre, Unilever is helping local communities and small businesses to cultivate <i>Allanblackia</i> seeds, which are rich in an oil with unique properties that can be used to produce food products and soap.

¹ Business Action for Africa, set up at the time of the 2005 G8, is a business-led network of around 150 businesses, business organisations and non-business partners from Africa and around the world. The board of BAA includes Anglo American, De Beers, Diageo, Merck & Co., SABMiller, Shell, Unilever, Visa, DFID, DfES, UKTI and the Prince of Wales International Business Leaders Forum, which provides the administrative framework for BAA. BAA promotes collective action on advocacy, projects and knowledge sharing. It has 6 areas of focus: governance, trade, the climate for business, enterprise & employment, human development and perceptions of Africa. For more information, visit www.businessactionforafrica.org

² www.investmentclimatefacility.org

³ www.icafrica.org