

Mainstreaming Fair Trade Principles: Challenges for Small Producers

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Fair Trade: A Broad Definition

- Principle 1: Producers should be paid a price/wage that covers basic production, living and environmental costs within a competitive framework and which displays a measured degree of stability
- Principle 2: Employment relationships should be maintained in accordance with core ILO conventions and local law.
- Principle 3: Production practices should be environmentally sustainable
- Principle 4: The consumption side of the supply chain should actively promote the attainment of Principles 1-3

Fair Trade as an example of a “Supply Chain Sustainability Standard”

- Dictates social, economic and environmental practices (PPMs) along the supply chain
- Links non-product related PPMs to *products*
- Establishes an infrastructure for monitoring of supply chain practices and product traceability
- Creates a network for building and leveraging supply chain relationships
- Enables the creation of markets for preferable practices

Sustainability Chain Sustainability Standards for the Mainstream

- Eurepgap
- Common Code for the Coffee Community
- Rainforest Alliance Certified
- Forest Stewardship Council
- Marine Stewardship Council
- Roundtable on Sustainable Palm Oil
- Roundtable on Sustainable Soy
- Sugar, Cotton and Cocoa in the pipeline

Challenges to Small Producers

- Fair Trade Markets are Small
 - Producers of FT coffee, on average, only sell 25% of the total FT product they produce
 - Worldwide markets for FT coffee are less than 1% of world production
 - Market maturity at between 1% and 3%
 - Public Goods Problem: Consumer awareness and willingness to pay do not match actual market shares
- Mainstream Initiatives Promise Larger Markets but have uncertain returns

Challenges to Small Producers

- Costs associated with compliance
 - a. Transition costs
 - b. certification costs
 - c. maintenance costs
- Multiplication of transaction costs as # of initiatives grows
- Lack of access to credit and capital
- Lack of information on market conditions and impacts of compliance
- Absence of requisite infrastructure
- Unresponsive to regional conditions
- **Limited role in the development and administration of standards**

Opportunities for Regional Trade Agreements

- Passive
 - Recognize pursuit of sustainable development as a “legitimate objective” and basis for “exception” to product related obligations
 - Allow preferential government procurement policies
 - Permissive subsidies rules for standards compliant products
 - Prohibit interpretation of pro-standards-based policy as expropriation

Opportunities for Regional Trade Agreements

- Active
 - Zero tariff rates/export duties or faster phase out for standards compliant goods
 - Quota expansion for standards compliant goods
 - Proactive recognition of supply chain sustainability standards within Cooperation Agreements
 - Compilation of regional market information (CIMS)
 - Facilitate regional participation in standards development
 - Development of regionally based standards and/or corresponding certification/implementation institutions (CCMCS)
 - Mobilization of regional capacity building funds and financing instruments: Sustainable Products Guarantee Fund; Fondo Ecologico (Banamex/CEC)
 - Link with global processes (ICBs; ITC; GRI; OECD Guidelines; ISEAL; SCP)