

Sustainability, Dependence and Fair Trade

Eileen Davenport
Research Director
Council for International Development

Will Low
Massey University

Introduction

The “fair trade” movement has grown substantially over the last two decades in terms of volume and value of sales worldwide. This research draws on visits to producers in India and Bangladesh who supply Northern fair/alternative trade organisations (ATOs) to explore the issue of sustainable livelihoods in the context of fair trade.

The issue of what constitutes sustainability is explored. The need to understand the dependence of individual producer groups on specific customers, and dependence at the level of the producer organisation and customers, is identified. Issues of accessing and retaining sales in domestic markets for producer groups are explored and the potential for supporting this difficult area of activity outlined.

Finally, we consider the pros and cons of producer organisations moving beyond the world of fair trade to supplying commercial organisations.

How Should Sustainability be Interpreted?

Definitions of sustainability vary. Within the projects funded by the New Zealand Ministry of Foreign Affairs and Trade under its VASS programme, sustainability is a key objective and refers to “continuing the benefits and positive impacts of the project after all funding ends”. The length of time needed to achieve sustainability will vary depending on the type of project and other factors. It is noted that key factors to consider in achieving sustainability include “economic and financial viability, gender equality, social, cultural and political sustainability, institutional capability and protection of the natural environment” (VASS Handbook, Part A3).

The issue of sustainability in the context of alternative trade is arguably quite different. One of the key factors in the definition of alternative trade is the notion of long term trade relations within the supply chain between the producer group, the producer organisation, and the retailer or wholesaler. Whilst business support should be considered a time limited element with very specific objectives, product purchase is by its nature ongoing.

None of the organisations in this study, Corr – the Juteworks, YWCA, MCC Job Creation, Equitable Marketing Association and Tara Projects, are financially dependent on external agencies, though in certain cases, strong links remain with the founding organisation.

Producer Organisations and Sustainability

It can be argued that sustainability and dependence are closely related concepts in fair trade. Producer organisations need to be able to sell products sourced from their producer groups on a regular basis. In order to ensure the long-term survival of the producer groups (at least as far as export markets are concerned) producer organisations need to be able to continue to supply these groups with export orders. The most effective way to do this is to have a group of customers who can be relied on to order year on year. However, while regular and loyal customers are important, producer organisations should not be dependent for orders on any one customer or small group of customers. A diversified customer base is an important component of long term sustainability.

A central question is the degree of dependence of producer groups on the producer organisations. This can vary quite significantly from almost total dependence to very limited dependence. An associated question is the extent to which producer groups have access to other forms of income generation, or are able to pursue other livelihood strategies.

Export and Domestic Markets

The question of export versus domestic markets for producer groups and the role of producer organisations in domestic and export markets remains a key issue for alternative trade organisations. As TARA notes:

It is widely said that the producers in the third world must not depend only on exports of their products, they must have an internal market also. In the unfortunate event of failure of exports, at least they can earn their livelihood by selling their products internally.

(Traders Tales, TARA Projects, undated, p.1).

However, the difficulties of producing for two markets often with diverse needs in terms of quality and design should not be underestimated. Oxfam Fair Trade identifies the problems facing producers who do move out of the domestic market where they have often produced for a contractor and move into ATO export markets. Having switched, it can be very difficult for them to access domestic markets again if export orders drop or fail completely. The domestic market is without doubt, highly competitive.

Questions of Capacity

The need most frequently expressed by producer groups was for more orders. In all of the organisations included in this study some variable percentage of producer groups were working at low levels compared to their capacity, and most were not working at full capacity. The rural producers at Corr-Juteworks that were visited, for example, currently have no orders. The ATOs, such as Trade Aid in New Zealand, are made aware by producer organisations of the need that particular groups have for orders. Sometimes, as Trade Aid has noted, the pressure exerted by producer organisations to try and get orders for vulnerable groups is considerable. The reasons that groups have low or no orders vary significantly. It might be that a particular raw material from which products are made is falling out of favour with northern consumers as in the case of jute; a particular style is no longer fashionable, or else the price at which a given product can be made is relatively expensive, and

the product is not sufficiently differentiated from many other similar products. There can also be problems for groups where quality levels are not high enough and ATOs do not re-order.

The importance of support services, including marketing, required by small and medium sized enterprises is well documented in both the North and the South. Marketing support services have been considered particularly important for export and this is one of the roles played by producer organisations. However, there is a growing recognition of the importance of support services, including marketing, to enable small enterprises to be successful in domestic markets. The concept is particularly important in the early phases of enterprise start up and collective marketing (through marketing centres, craft organisations and support services) has been successfully adopted in a variety of “incubator” situations.

Increasingly, Government funding is being used to enhance the technical and managerial capacity of organisations involved in alternative trade in recognition of the developmental benefits that alternative trading can bring. U.S. Aid, for example, has recently provided funding to an e-commerce project “PeopLink” hosted in India by TARA projects, and operational worldwide. The aim of the project is to enable consumers to buy alternative trade products through a website, which at TARA is currently under construction. A relatively recent development is the emergence of a range of ATOs (including groups such as the US based “Aid to Artisans”) which concentrate on design and product development, and do not import or sell products.

The Commercial World

The problem of producer groups being unable to find sufficient orders, is paralleled by the potential problem of producer groups being unable to cope with very large orders. In some senses this is the problem that all producer groups would want the chance to grapple with. It has happened to a limited extent with Northern ATOs to date, and as the scale of operations of ATOs increases, it is increasingly likely that this will continue.

However, it is much more likely that it will happen with large-scale commercial enterprises in the future. Two large commercial organisations in particular, IKEA and Body Shop (Community Trade division) currently work with producer organisations in the South and provide large volume orders. All of the producer organisations included in this study indicated their interest in extending their customer base to include commercial organisations.

Working with commercial enterprises brings with a set of requirements that producer organisations may only just be learning to deal with. In particular, the need for high and consistent quality (if a dye batch is even slightly different from agreed samples, for example, it is likely to be rejected completely); the need to produce a wide range of samples quickly, most of which will not be taken up commercially; absolutely firm dates for delivery with penalties or rejection of product for failure to comply; and, very tight costings that allow slim margins on products compared to the margins allowed by ATO buyers. The reason for pursuing commercial contracts, therefore, is often perceived to be the much larger size of orders of a given product or products. The producer organisations also welcome, to a greater or lesser extent, the potential for

learning the requirements of the commercial market, which, they suggest, will help them to improve their standards across the board.

However, there is another issue that needs to be addressed and one that the recent report on the impact of Oxfam Fair Trade in India (Hopkins, 2000) brought out very clearly. This issue is the trade off between poverty alleviation and efficiency. In this recent impact assessment work, individual producer organisation studies suggested that the advantages of fair trade activities, particularly its distributional effects may be at the expense of efficiency. Should ATOs pay the same price for a (slightly) lower quality product, or a slightly higher price for a product of the same quality (an issue noted by Trade Aid) if this is the only way of reaching the poorest producers? The Oxfam report notes the slightly lower quality product, and longer learning times, from a producer group comprising mainly physically disabled people. Trade Aid points out the higher cost of product, as a result of geographical isolation, of very poor women weavers who were part of a producer group on the Highlands.

Clearly, in terms of market imperatives from commercial organisations, the notions of a higher unit cost (as compared to comparable products produced by groups who do not suffer the same levels of extreme disadvantage) or longer delivery times or slightly lower product quality, are not considerations that commercial organisations would be able to factor in. The logic of dealing in the commercial market for producer organisations however, means a move towards higher quality, consistency of product, shorter lead times and lower profit margins for the producer organisation and in turn the producer group workers. What this might mean for the more marginal groups is a debate which is still to be aired, leaving the big question, as Oxfam sees it, as “to what extent can producers meet product specifications and within the agreed timetable, and what can be done to help them if producers do not manage to meet product specifications”. This question applies equally to the world of commercial buyers and increasingly, given competitive pressures nationally and internationally, to ATOs.