

A review of ethical standards and labels: Is there a gap in the market for a new ‘Good for Development’ label?

Karen Ellis and Jodie Keane

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Results of ODI research presented
in preliminary form for discussion
and critical comment

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Development' label?**

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Acronyms

| | |
|-------|---|
| CSR | Corporate Social Responsibility |
| DEFRA | UK Department for Food and Agricultural Affairs |
| DFID | UK Department for International Development |
| EAOPS | East African Organic Product Standard |
| EC | European Commission |
| EMAS | Eco-Management and Audit Scheme |
| EU | European Union |
| FAO | UN Food and Agriculture Organisation |
| FSC | Forestry Stewardship Council |
| ETI | Ethical Trading Initiative |
| EU | European Union |
| FLO | Fair Trade Labelling Organisation |
| FSC | Forestry Stewardship Council |
| GAP | Good Agricultural Practice |
| GDP | Gross Domestic Product |
| GTZ | German Development Cooperation |
| HACCP | Hazard Analysis and Critical Control Point |
| ICI | International Cocoa Initiative |
| IIED | International Institute for Environment and Development |
| ICM | Integrated Crop Management |
| IPC | Integrated Pest Control |
| ILO | International Labour Organization |
| ISO | International Organization for Standardization |
| ITC | International Trade Centre |
| KOAN | Kenya Organic Agricultural Network |
| MSC | Marine Stewardship Council |
| MT | Metric Tonne |
| NGO | Non-Governmental Organisation |
| NRI | Natural Resource Institute |
| ODI | Overseas Development Institute |
| PMO | Produce Marketing Organisation |
| QMS | Quality Management System |
| SAN | Sustainable Agricultural Network |
| SEDEX | Suppliers Ethical Data Exchange |
| TBT | Technical Barriers to Trade |
| TNC | Transnational Corporation |
| UN | United Nations |
| UNEP | UN Environment Programme |
| UK | United Kingdom |
| US | United States |
| WTO | World Trade Organization |

Executive summary

Agricultural exports are a crucial source of growth and employment in many developing countries, and make an important contribution to poverty reduction and rural development. Indeed, agriculture is the main area of comparative advantage for many countries, which are keen to see an expansion in the market for their agricultural exports.

At the same time, consumers in the developed world want to use their purchasing power to help people in poor countries to lift themselves out of poverty, and the market for ethically traded products is growing fast. This study reviews a number of the existing ethical standards and labels in terms of their objectives, the scale and scope of their coverage, their impact on participating farmers, compliance costs and broader development impacts.

We have found that:

- The schemes have a range of different objectives, from providing a better deal to producers (e.g. Fair Trade), to improving environmental and labour standards (e.g. Rainforest Alliance), to encouraging the use of good agricultural practices and improved farm management techniques (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 Fair Trade scheme also provides minimum prices, access to finance and long-term contracts.
- The cost of complying with standards is usually borne to a large degree by the developing country producers themselves, rather than developed country buyers or retailers. Producers often have no guarantee of any financial benefits even if they do meet the necessary standards. If the standards are effectively mandatory for producers wishing to export to a certain market, and if the costs are too high for some producers to meet, then they can potentially be excluded from the market altogether, which jeopardises their livelihoods (as has happened in relation to GlobalGAP).
- For voluntary schemes, the high costs of compliance can constrain the size of the scheme, either because producers are unable to meet the standards (particularly those in the poorest countries), or because retailers and importers are unwilling to bear the higher costs associated with compliance. This means that the overall development impact of the schemes has remained rather low (in terms of the proportion of trade flows from the developing world that is covered), despite significant growth in consumer support of ethical trade in recent years.

The table below provides a very simplified summary of the features of the various schemes. It shows the trade-off between compliance costs (and hence potential impact in terms of raising standards), and scale of coverage in developing countries (except where the scheme is effectively a requirement for UK market access, as in the case of GlobalGAP). Further detail is given in the table at the end of the Executive Summary, which provides facts and figures on the scope, potential benefits, and costs of each scheme.

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, although they may not be explicitly recognised as such, as they may not qualify for any of the existing ethical labelling schemes.

Economic benefits of conventional exports may include:

- The creation of jobs, both directly for producers, and indirectly, for those in associated trades such as transportation;
- Higher incomes for producers and those in related work, resulting in a higher standard of living for themselves and their families;
- Knock-on benefits in other parts of the economy (e.g. agricultural extension services, infrastructure development, etc.);
- Tax revenue to the government; and
- Foreign exchange earnings.

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/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 |

One example is provided by Lundy (2007), who highlights the impact that Costco's purchases of French green beans have had on rural communities in Guatemala. In 2005–2006, the company purchased almost 2000 metric tonnes of French beans from Guatemala, with US\$1.5 million in total going directly to farmers, who earned an average of US\$779 per family. Interviews with families suggested that this money had helped to increase their access to health care, education and improved housing. The report concluded that most of the benefits from Costco purchases are captured by poor communities and small-scale farmers. However, if such products are unlabelled, consumers are likely to be unaware of the development benefits associated with them.

Some retailers and importers are already 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.

These findings provide support for the Overseas Development Institute (ODI) proposal (see ODI Opinion No. 88 (Ellis and Warner 2007) and No. 115 (Ellis and Keane 2008)) that a new kind of ‘Good for Development’ label may be required (the table above shows how this would differ from existing schemes). Such a label would not create new environmental or labour standards – there are many labels that already do that – but would indicate to consumers the positive development impacts associated with purchasing most conventional developing country produce (as long as it met some basic minimum standard e.g. to ensure compliance 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 underrepresented. It could, potentially, help to expand the market for such produce, supporting more livelihoods in the developing world. In addition, 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;
- Contributing to local infrastructure development;
- Long-term contracts;
- Investment in health care for workers;
- Compliance with best practice in supply chain management;
- 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, this could increase the willingness of companies to invest the necessary time and resources to make genuine improvements in their development impact.

The table below is designed to provide a broad brush picture of the scale, scope and costs associated with the various schemes reviewed in this paper. The data are based on publicly available figures from a range of sources, which are not always consistent with each other, and which may not have been computed on the same basis, thus may not be strictly comparable.

| Scheme objectives/ potential benefits | Products covered | Countries covered | Producers affected or potentially affected | Trade volumes affected | Compliance & certification costs |
|--|--|---|---|--|---|
| <p>Fair Trade</p> <ul style="list-style-type: none"> • Minimum price • Explicit price premium to producer groups • Long-term contracts • Access to finance • Provision of technical assistance • Encouragement of producer group formation • Labour standards • Environmental standards | <p>Tea, coffee, wine, cocoa, honey, nuts, bananas, cotton, dried fruit, fresh fruit and vegetables, juices, quinoa, rice, spices, sugar, cotton, cut flowers, plants, sports balls</p> | <p>Of total Fair Trade certified producers:</p> <ul style="list-style-type: none"> • Latin America – 54% • Africa – 28% • South Asia – 14% • Caribbean – 2% • 2 % Southeast Asia | <p>Fair Trade estimates:</p> <ul style="list-style-type: none"> • Directly affects – 1 million farmers • Indirectly affects – 7 million people • 569 Fair Trade producer organisations | <p>Global market for Fair Trade produce estimated at US\$3.6 billion in 2007.</p> <p>UK second largest market after US. Estimated percentage of UK imports that are Fair Trade (in 2007):</p> <ul style="list-style-type: none"> • Bananas – 18.4% • Fresh flowers – 9% • Coffee – 7% • Tea – 2.2% • Cocoa – 1% • Honey – 2% • Sugar – 0.5% • Rice – 0.3% • Sports balls – 0.01% <p>UK Fair Trade retail sales value was £286m in 2006 and £493m in 2007. This represents around 0.4% of total UK spending on food and non-alcoholic drinks.</p> <p>Fair Trade banana sales estimated at 1% of global sales in 2006.</p> <p>62,219 metric tonnes of Fair Trade certified coffee was sold in 2007.</p> | <p>No comparable estimates of compliance costs found. Likely to vary enormously case-by-case.</p> <p>Evidence suggests that costs are relatively low for producers but high for buyers, compared with other labelling schemes, as it involves the development of an alternative kind of trading relationship with the supplier.</p> <p>For Sainsbury's, switching to all Fair Trade bananas estimated to cost £4 million, paid by the buyer.</p> <p>Green & Black's note that the Fair Trade Foundation charges 2% commission on wholesale prices, and that the amount paid by producers for inspection visits totals 5% of their annual sales.</p> |

| Scheme objectives/ potential benefits | Products covered | Countries covered | Producers affected or potentially affected | Trade volumes affected | Compliance & certification costs |
|---|---|--|---|---|--|
| <p>Rainforest Alliance</p> <ul style="list-style-type: none"> • Environmental standards • Labour standards • Social standards | <p>Coffee, bananas, cocoa, timber, flowers, tea, aloe vera, avocado, citrus, cupuacu, guava, heart of palm, mango, macadamia, passion fruit, pineapple, plantain, rubber, vanilla</p> | <p>Of total Rainforest Alliance-certified producer groups:</p> <ul style="list-style-type: none"> • Latin America – 93.6% • Africa – 3.9% • Asia – 2.4% • Caribbean – 0.2% | <ul style="list-style-type: none"> • 25,731 farms, affecting two million farmers • 2407 forestry businesses | <p>Bananas – 15% of global sales in 2007 – much higher than Fair Trade banana sales.</p> <p>1.3% of the world's coffee is certified. Certified coffee beans are projected to represent 5% of the global market for coffee in five years time.</p> <p>24,812 metric tonnes of coffee were sold by certified producers in 2006. This was projected to increase to 41,277 metric tonnes in 2007, which is lower than Fair Trade coffee sales.</p> <p>US\$1.2 billion worldwide sales of coffee, bananas and cocoa in 2007.</p> | <p>No comparable estimates of compliance costs found, although anecdotal evidence that they are lower than Fair Trade compliance costs for buyers, but higher for producers.</p> <p>Application fee, audit and inspection, and annual fee can be in the range of US\$500 for smallholders, to tens of thousands of dollars for larger producers.</p> <p>Average charge for forestry product certification to FSC criterion through the Rainforest Alliance is in the region of €30,000.</p> <p>No charge is made to buyers or retailers for the use of the logo.</p> |

| | | | | | |
|---|--|--|--|--|--|
| <p>Ethical Trading Initiative (not a label) Labour standards include requirement for a 'living wage' though that is not clearly defined.</p> | <p>All products purchased by ETI members (including food, clothing etc.)</p> | <p>All countries which export to UK buyers/ retailers who are members of ETI .</p> | <p>At least 20,000 suppliers are potentially affected by the scheme.</p> | <p>Scale: Members of ETI have combined annual turnover of more than £100 billion. 52 companies are currently members, including Tesco, Sainsbury's, Co-op, Marks and Spencer and ASDA and 9 food companies.</p> | <p>Adherence to the base code and core convention and ILO standards would potentially be very costly for some producers. However, the ETI does not monitor the achievement of standards; it only requires that a commitment has been made to progress towards achieving them. Thus in practice the cost of membership of ETI may be quite low. The costs are likely to be borne by producers to a significant degree. Annual membership fees range from £2,000 to £30,000 for companies with an annual turnover of £1 million to £1 billion.</p> |
| <p>Soil Association Organic Air Freight Proposed new requirement for all air freighted organic produce to be Fair Trade-certified or equivalent.</p> | <p>Organic, air-freighted fruit and vegetables.</p> | <p>Leading air freight export countries by volume in 2006 were: Egypt (20% of total air freight exports)); Kenya (13%); Morocco (11%); US (9%); and Zambia (8%).</p> <p>Highest no. of organic certified farms: Mexico, Italy, Uganda, Sri Lanka, Philippines, Tanzania, Peru, Austria, East Timor, Germany and Kenya.</p> | <p>Estimated 21,500 livelihoods rely on export of Soil Association-certified products.</p> <p>50–60 exporters of organic produce worldwide would be affected, 11–15 in sub-Saharan Africa.</p> <p>Only 1 producer is currently certified Fair Trade; the rest would need to work towards compliance.</p> | <p>Air-freighted goods account for 1.9% of all organic fresh produce imports into the UK by volume in 2006.</p> <p>Air-freighted organic imports of fruit and vegetables into the UK amounted to 6278 tonnes in 2006, equivalent to 0.04% of total UK imports of fruit and vegetables.</p> | <p>Costs associated with achieving Fair Trade certification are discussed above.</p> |

| | | | | | |
|---|---|---|---|---|---|
| <p>GlobalGAP (not a label)</p> <ul style="list-style-type: none"> • Good agricultural practices • Environmental standards • Worker health, safety and welfare standards • Animal welfare standards | <p>Most agricultural exports to European markets.</p> | <p>Most countries that export fresh fruit and vegetables to European markets.</p> | <p>Over 68,000 producers are now GlobalGAP-certified globally. This includes 12,799 producers in developing countries, of which 2,254 are in sub-Saharan Africa (including 1538 in South Africa).</p> <p>It has also affected the economic opportunities faced by many other farmers who have been unable to achieve certification.</p> | <p>Most European retailers require certification. 275 companies registered as members.</p> | <p>One study estimates initial costs are on average £1,000 per small-scale grower, with only 36% borne by producers themselves (the rest covered by exporters and donors). Recurrent costs are on average £175 p.a., 14% paid by growers themselves on average. This amounts to 21% of turnover on average.</p> <p>Another study estimates non-recurring costs range from US\$500 to \$100,000 depending on producer size: 4% of annual sales for producer/exporters; 6–11% of annual sales for small producers. Recurring costs on average are less than 1% of the value of annual sales.</p> <p>It is estimated that many smallholders have been unable to meet the requirements, e.g. 60% of Kenyan growers were dropped from compliance schemes between 2003 and 2006 owing to implementation problems.</p> |
| <p>Utz Certified</p> <ul style="list-style-type: none"> • GlobalGAP standards • Additional labour standards • Provision of market information to help producers negotiate better prices | <p>Coffee</p> | <p>Of total Utz Certified producers:</p> <ul style="list-style-type: none"> • Latin America – 75.9% • Africa – 15.2% • Asia – 9% | <p>By 2007, 312 Utz certificates had been issued, covering an estimated 60,100 separate producers.</p> | <p>53,000 metric tonnes of Utz certified coffee sales in 2007. This is more than Rainforest Alliance, but less than Fair Trade.</p> | <p>No comparable estimates of compliance costs found. Costs associated with GlobalGAP compliance are discussed above.</p> |

| | | | | | |
|--|------------------------------------|---|---|---|--|
| <p>Marine Stewardship Council Environmental standards</p> | <p>Wild catch and farmed fish.</p> | <p>As of 2006/2007, 16 countries had certified fisheries, of which five were developing countries:</p> <ul style="list-style-type: none"> • Mexico • South Africa • Vietnam • Chile • Argentina | <p>There were 7 certified fisheries in developing countries in 2006/07.</p> <p>Combined, developing countries account for less than 15% of all certified fisheries, though developing countries account for nearly half of total global fish exports.</p> | <p>Estimates of the percentage of total global catch that is certified range from 3% to 7%.</p> <p>89% of certified products contain either Alaskan Salmon or New Zealand Hoki.</p> | <p>Costs for a full assessment range from \$35,000 for a small simple fishery to \$350,000 for a large complex fishery. The overall cost depends on what the assessment uncovers, for which no average estimates were found.</p> <p>The annual licence fee required of the buyer/ manufacturer depends on the level of sales of the MSC-labelled product sold by the licensee from US\$250–2000 or 0.5% of annual sales.</p> |
| <p>Forestry Stewardship Council</p> <ul style="list-style-type: none"> • Environmental standards • Labour standards | <p>Wood and forestry products</p> | <p>% of global certified forest area:</p> <ul style="list-style-type: none"> • North America 32% • Europe 52% • S. America/ Caribbean 10% • Oceania 1% • Asia 2% • Africa 3% <p>18% of the world's certified timber products originate from developing countries.</p> | <p>As of April 2008, 8678 businesses had been accredited. 92 certificates had been issued in Africa and 3 businesses in LDCs had been certified.</p> | <p>FSC-certified forests represent around 7% of the world's productive forests. The value of FSC-labelled sales is equal to US\$20 billion.</p> | <p>No comparable estimates of compliance costs found, although qualitative evidence suggests that costs are high, and that the requirements are more suited to large forest areas.</p> |

1. Introduction

This working paper reviews a number of existing ethical and environmental labelling and standards schemes, and assesses the scale and nature of their impact in developing countries. This constitutes the second phase of a project by ODI to explore the need for and feasibility of a new kind of development label.

The objective of this review is to help us to answer two key questions that determine the merits of developing a possible new scheme:

- To what extent do existing labelling schemes or standards promote or undermine development objectives, and support or penalise developing country exporters?
- To what extent do consumers (and/or ethical investors) understand the development impacts associated with their purchases?

Drawing on the available data, literature, market research and information gleaned from consultations, we have evaluated each labelling scheme or standard in terms of the following features/criteria:

- Objective and focus
- Economic and social impacts, broken down into;
 - Scale of coverage
 - Potential benefits for participating farmers
 - Compliance costs
 - Overall development impact

The following labels and standards have been reviewed against these criteria:

- Fair Trade
- Rainforest Alliance
- Ethical Trading Initiative
- Soil Association Organic
- GlobalGAP
- Tesco 'By Air'
- Utz Certified/Utz Kapeh
- Marine Stewardship Council
- Forestry Stewardship Council
- ISO 14000
- Fairfood Foundation
- International Cocoa Initiative

In evaluating each of the schemes against the features/criteria listed above, we reviewed the literature on each of the schemes, including available impact studies; examined any data available on the coverage of each of the schemes (in terms of the number of products and proportion of particular product lines it relates to); and examined available market research on the issue. In addition, we consulted a range of stakeholders, including retailers, labelling/standards/corporate social responsibility (CSR) experts, researchers and think-tanks, and the organisations that run the schemes.

The study is based almost entirely on secondary data and information, gleaned from various sources, including the schemes' own publications and websites as well as academic articles and media reports. Facts and figures available from different sources (or even the same source) are sometimes inconsistent. No attempt has been made to verify the accuracy of the data, which have been taken at face value.

The study draws as much as possible on impact assessment studies of existing schemes. However, the availability of studies in relation to the various different labels and standards is sometimes limited. There are many methodological difficulties associated with in-depth impact assessment, and analytical assumptions may be required in the extrapolation of study findings to derive overall expected development impacts. It was beyond the scope of this study to undertake independent impact assessments on each of the labelling schemes being analysed.

Section 2 contains a brief introduction to the role and impact of standards and labels on trade and development, and the various types of ethical standards and labels that exist. Sections 3 to 14, the main body of the report, contain the evaluation of each of the schemes against the criteria outlined above. Section 15 summarises findings and draws conclusions as to whether this review indicates the need for a new kind of development label.

2. The impact of standards and labels on trade and development

2.1 Trade and development

Agricultural exports make a significant contribution to export earnings, gross domestic product (GDP), employment and growth in many developing countries. Indeed, agriculture is the main area of comparative advantage for many countries, which are keen to increase their agricultural exports.

Export-driven growth of horticulture has contributed to poverty alleviation and rural development in many countries, including a number of low-income countries in sub-Saharan Africa. In Ghana, for example, agriculture accounted for over 55% of merchandise exports in value terms in 2005, provided direct employment to over 60% of the Ghanaian labour force and made up around 25% of GDP. In Kenya, the sector contributed 17% to GDP in 2005 and provides direct employment to around 83% of the country's total labour force.

2.2 The role of standards and labels

In recent years, we have seen a proliferation of standards and labels, which have been developed by business and suppliers in Northern markets, along with civil society and the state. Standards and labels have been established to respond to a wide range of consumer concerns including food safety, quality, traceability, nutritional impact, animal welfare, human rights, labour standards and environmental, social and economic impacts.

Standards are an established set of rules or requirements, which must be met in order to achieve something, whether that be access to certain geographic markets, the ability to sell to certain buyers or qualification to use a particular label or logo. Labels are a visible means to signal to consumers at the point of sale that a product has met a certain standard. Not all standards have an associated label. Many have been designed as a signal, or guarantee, for businesses rather than consumers. Thus, some standards or codes of conduct are unknown to the consumer, and are more of a **business-to-business** facilitator that may be necessary to obtain a supply contract or preferred supplier status.

'Mandatory' standards are those required by governments in order to produce or serve the market. Some argue that the distinction between mandatory and voluntary standards is becoming increasingly blurred, however, as access to large segments of Northern markets in practice now depends on meeting such 'voluntary' standards.

2.3 Typology of standards

The objective, scope, coverage and implementation of existing standards and labels vary hugely. Box 1 illustrates the variety of existing standards.

Box 1: Typology of standards

| |
|--|
| <p>Field of application: Quality assurance, environmental, health, labour, social, ethical</p> <p>Scope: Process, product standards</p> <p>Geographical reach: National, regional, international</p> <p>Function: Social, labour, environmental, quality, safety, ethical</p> <p>Key drivers: Public, private (business and not-for-profit organisations), public-private</p> <p>Forms: Management standards, company codes, labels</p> <p>Coverage: Generic, sector specific, firm/value chain specific</p> <p>Certification process: First, second or third party, private sector auditors, non-governmental organisations (NGOs), government</p> <p>Regulatory implications: Legally mandatory, necessary for competition, voluntary</p> |
|--|

Source: Navdi and Wältring (2004).

Five generations of standards have been identified by standards commentators and are presented in Table 1 below. The generation of standards can be seen to progress from internal company codes to

externally tripartite defined social standards, i.e. with the involvement of business, civil society and state.

Table 1: Trends and generations of standards and labels

| Generation | Examples, contents | Actors involved | Key drivers | Influence in international trade | Certification |
|---|--|---|-------------------------------------|--|---|
| 1 st generation company codes of conduct | E.g. Nike, Reebok. Self-obligation of TNCs at the firm and supplier level, internal formulation and implementation | TNCs and their suppliers | TNCs as lead firms of supply chains | Existence of a large number of firm codes, focused on some brand name companies in buyer-driven chains | 1 st party self-monitoring; setting process easy, legitimacy relatively weak |
| 2 nd generation business-defined sector codes and labels | E.g. Oeko-tex Sector-specific codes and labels formulated and implemented by enterprise associations. | Enterprise associations, chambers, suppliers | Enterprise associations | Sporadic, but with more comprehensive influence according to the sector approached | 2 nd party monitoring through associated sector association: setting quite easy, still weak legitimacy |
| 3 rd generation business-defined international standards | E.g. ISO 14000 Environmental management standards (using the model of ISO 9000) | ISO, national standardisation bodies, business mainly from industrialised countries. | Business | Not necessary, but gets increasing influence especially in natural resource intensive sector | 3 rd party monitoring through market-based certification bodies, setting more difficult, legitimacy high |
| 4 th generation business- and NGO-defined sector-specific codes and labels | E.g. FSC, RugMark | NGOs, religious associations, solidarity groups, minority groups, unions, large retailers | NGOs | Gains increasing importance according to new strategies of NGOs and retailers | 3 rd party monitoring through certification bodies or NGOs (setting difficult, keeping legitimacy requires constant negotiation) |
| 5 th generation tripartite-defined social standards | E.g. SA800, ETI Tripartite minimum standards to harmonise the diverse numbers of codes and increase legitimacy, transparency and traceability (existence of divergent approaches) | Social NGOs, unions, TNCs (buyers and producers), certification bodies, governments | Public sector, NGOs | Increasing influence despite disagreements between special actors involved in the formulation of the standards | 3 rd party monitoring through certification bodies |

Source: Adapted from Navdi and Wältring (2004).

2.4 Consumer interest in ethical labelling

Consumer interest in making ethical purchasing decisions has undoubtedly grown in recent years. However, market research shows that this tends to be true of some market segments more than others, and that a desire to buy ethical products may not always result in actual purchases, particularly where ethical products cost more. It also appears that consumers are concerned that retailers exploit developing country producers, and are confused by the range of ethical labels that currently exist.

A study by the National Consumer Council (2006) found that household spending on ethical goods and services has almost doubled in the past five years. The overall ethical market in the UK is now worth £32.3 billion a year (up from £29.7 billion in the previous year). The degree to which concerns are translated into purchasing power matters: although 30% of consumers consider 'ethical' issues when they decide what to buy, actual sales figures show that only 3% act on these concerns.

A recent survey of consumer behaviour by the Co-operative Bank (2007) noted that 6% of the UK adult population (2.8 million people) are committed consumers of ethical products and services; up from 5% in 2003. These consumers shop for ethical products on a weekly basis and spend an estimated annual £1,600 per household on ethical food and drink. Committed ethical consumers tend to be between 30 and 44, relatively wealthy, and equally representative of men and women.¹

A market research study conducted by Nielsen (2007) found that 33% of survey respondents actively tried to buy Fair Trade products as of July 2007, whereas 21% actively tried to buy ethically produced or grown products, 57% tried to buy local products and 17% tried to buy organic products.

The report found that older consumers are more likely to actively try to buy Fair Trade products, as are those from the highest social grade (AB). Almost half (46%) of all respondents agreed that it was worth paying extra for products that are ethically produced or kinder to the environment, although very few agreed strongly with this. Those from high social grades (AB) are the most likely to agree that paying extra for ethical products is worth it. Responses differed considerably depending on which supermarket respondents used. Waitrose customers were most likely to agree that it was worth paying extra for ethical products and ASDA customers the least.

Market research funded by DFID (2007) showed that 64% of people in Britain feel that they can help people in poor countries to lift themselves out of poverty by using their purchasing power carefully and selecting products that have been sourced from developing countries.

A recent study of consumer perceptions by Solutions Research (2007) on behalf of DFID found that there was interest in purchasing more ethically and supporting developing countries through trade. However, there were concerns that, particularly in relation to Africa, producers would not receive fair wages or good labour conditions.

The study concluded that consumers want quick and easy guidance, which is backed up by a trustworthy alliance of organisations such as government, charities and retailers. While the Fair Trade logo was identified as one way of providing this kind of quick and easy guidance, the study argued that encouraging people to go beyond this – to look for African food products specifically – would be more of a challenge.

A new logo was seen by many as a good way of signposting African food products that have been ethically sourced; a simple, clear tool to help consumers decide. However, it was deemed important to avoid adding to the confusion associated with so many existing labels, and some sort of joint approach was suggested that would help the consumer to negotiate different purchasing choices.

¹ 31% of the UK adult population (14.7 million people) can be described as passive ethical consumers, engaged on ethical matters on a less frequent basis. These consumers spend an estimated £180 per household on ethical food and drink each year.

3. Fair Trade

3.1 Objective and focus

The Fair Trade vision is defined as ‘a world in which justice and sustainable development are at the heart of trade structures and practices so that everyone, through their work, can maintain a decent and dignified livelihood and develop their full potential’.²

To achieve this vision, Fair Trade seeks to transform trading structures and practices in favour of the poor and disadvantaged. By creating alternative trading partnerships between producers, importers and retailers, the Fair Trade movement aims to contribute to sustainable development for marginalised producers, workers and their communities. Fair Trade organisations work with producers with the aim of helping them move from a position of vulnerability to security and economic self-sufficiency.

Fair Trade buyers thus commit to following a number of principles, including:

- The payment of a ‘fair price’, which includes the establishment of a minimum price for a particular product which acts as a price floor, as well as a price premium (otherwise known as the ‘social premium’) over and above the market price, which is paid to producer groups, and which has been agreed through dialogue and participation in the local context. This is designed to not only cover the basic costs of production, but to enable production that is socially just and environmentally sound;
- Helping producers with pre-harvest or pre-production financing of up to 60% of the contract amount if requested, or assisting them in obtaining this finance;
- Having a more direct relationship with producers (cutting out middlemen such as exporting companies etc., which can take a substantial cut of the profits);
- Establishing a long-term relationship (e.g. through long-term contracts) with producers, which gives them certainty of future demand and hence a greater incentive by both parties to invest;
- Having a more supportive relationship with producers, and encouraging their independence, by building their capacity, improving their management skills and helping them to access new markets, etc.

3.2 Economic and social impacts

3.2.1 Scale of coverage

The range of products covered by Fair Trade includes tea, coffee, wine, cocoa, honey, nuts, bananas, cotton, dried fruit, fresh fruit and vegetables, juices, quinoa, rice, spices and sugar. Non-food products include: cotton, cut flowers, ornamental plants and sports balls. The scope for Fair Trade to move into services and tourism is also being explored.

The market for Fair Trade labelled products has been growing worldwide at 30–40% a year (IDC 2007).³ In 2006, consumers worldwide bought €1.6 billion-worth of Fair Trade certified products, 42% more than in the year before.

The UK is the second largest market for Fair Trade products in the world after the US, and accounted for 25% of the total global retail value of Fair Trade products in 2006) (Fair Trade Foundation UK 2007c). Estimated UK Fair Trade retail sales value was £195 million in 2005, £286.3 million in 2006 and £493 million in 2007. Retail sales are estimated to have increased by 60% between 2006 and 2007.⁴ Mintel

² See http://www.fairtrade.org.uk/what_is_fairtrade/fairtrade_foundation.aspx.

³ The Fair Trade label is also being explored in a South–South trade context, supplying national and regional supermarkets. See <http://www.regoverningmarkets.org/>.

⁴ See http://www.FairTrade.org.uk/what_is_FairTrade/facts_and_figures.aspx.

(2006) estimated that, at current trends, the sales value of Fair Trade products in the UK would exceed £547 million by 2011.

Despite the growth in Fair Trade sales, these still only represent a very small proportion of imports from developing countries – even in the UK, which is one of the leading consumers of Fair Trade products. The estimated proportion of the total volume of UK imports for 2006 is shown in Table 2 below.⁵ The proportion of bananas covered by the scheme is the highest of all product categories (18.4%), followed by fresh flowers (8.9%) and coffee (7%). For other product categories coverage by Fair Trade is much smaller.

It was noted by the IDC (2007) that Fair Trade remains a very small proportion of overall retail sales in developed countries:

- In the UK in 2003 sales of Fair Trade certified goods made up only 0.17% of a total £67 billion expenditure on food and drink.
- Currently, Fair Trade labelling directly affects one million farmers and their dependants. The Fair Trade Foundation estimates that 7 million people are benefiting from the Fair Trade system if you include indirect beneficiaries, i.e. farmers and their dependants.⁶

Table 2: Fair Trade volumes

| Product | UK import volumes (2006) | UK volumes covered by Fair Trade (2007) | Estimated % of UK imports covered by Fair Trade |
|----------------------|----------------------------------|---|---|
| Bananas | 855,684 (MT) | 157,728 (MT) | 18.4 |
| Cocoa | 142,149 (MT) | 1642 (MT) | 1.2 |
| Coffee | 117,552 (MT) ⁷ | 8248 (MT) | 7 |
| Flowers ⁸ | 933,106,381 ⁹ (items) | 83,373,242 (items) | 8.9 |
| Honey | 21,399 (MT) | 424 (MT) | 1.9 |
| Rice | 276,021 (MT) | 769 (MT) | 0.3 |
| Sports balls | 87,290,310 (items) ¹⁰ | 12,941 (items) | 0.01 |
| Sugar | 1,513,159 (MT) | 6882 (MT) | 0.5 |
| Tea | 158,286 (MT) | 3410 (MT) | 2.2 |

Source: Fair Trade Foundation UK and Eurostat COMEXT database.

In 2006, there were 569 Fair Trade producer organisations operating in 57 countries in the global South.¹¹ As shown by Figure 1 below, the majority of certified producers are located in Latin America, though more recently efforts have been made to engage more with low-income countries, and the number of producer organisations in Africa is growing.

⁵ Trade data are not yet available for 2007.

⁶ This figure is taken from the Fair Trade website (6 March 2008): see Fair Trade Foundation UK (2008).

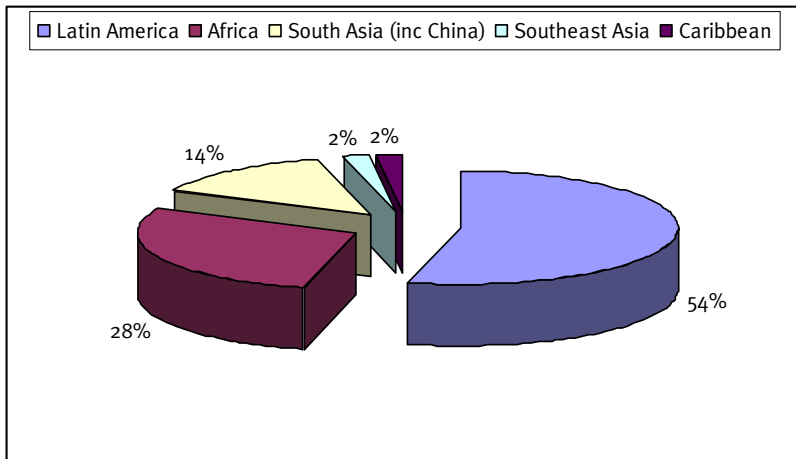
⁷ Includes preparations of coffee.

⁸ This analysis assumes that 'stems' are equivalent to 'single units'.

⁹ Single unit data for UK imports available for roses, orchids, carnations, gladioli and chrysanthemums only.

¹⁰ Data available for golf balls only.

¹¹ See http://www.FairTrade.org.uk/what_is_FairTrade/facts_and_figures.aspx.

Figure 1: Certified Fair Trade producers by region

Source: Fair Trade Foundation UK (2007c).

Breaking down certified producers by country, Sidwell (2008) notes that Mexico has the largest number of certified producer organisations in the world, at 51, the whole of India has 49, South Africa has 38 and Colombia has 34. Most of the low-income countries are far less represented. Burundi has no Fair Trade certified producers, Ethiopia has 4 and Rwanda has 10.

Putting the country coverage of Fair Trade into context, Sidwell points out that, in Ethiopia, 80% of the population works in agriculture, with an average income of US\$700 a year, compared with Mexico, where 18% works in the fields and the average salary is US\$9000. Sidwell thus argues that Fair Trade supports relatively wealthy Mexican coffee farmers at the expense of poorer nations.

The extent to which Fair Trade engages with smallholders versus large estates depends on the main mode of production in a given market. In coffee, most producers are smallholders, whereas in bananas it is mostly large estates.

The Fair Trade Foundation UK is keen to scale up and to become mainstream, and it is making some progress. For example, it has recently won a contract to assist Tate and Lyle in transforming its sugar supply chain and processes to qualify as Fair Trade. Dolan and Barrientos (2006) note that much of the growth of Fair Trade products is now accounted for by the expansion of products sold in mainstream retail outlets. Between 2002 and 2003, Co-op Fair Trade sales increased by 112%, Tesco by 70% and Waitrose by 24%.

Supermarket sales have been significantly boosted by the expansion of supermarket own brand Fair Trade-labelled products. As noted by the IDC (2007), Sainsbury's pertains to be the largest single retailer of Fair Trade products in the UK, selling £55 million-worth in 2006. Sainsbury's estimates that this is set to increase to £130 million in 2007 and £200 million by 2008.

3.2.2 Potential benefits for participating developing country producers

The Fair Trade supply chain can deliver considerable benefits to those developing country producers able to participate, in the form of:

- Long-term contracts and the establishment of a minimum price, or price floor, which is negotiated according to local circumstances, both of which reduce uncertainty and increase the incentive to invest;
- Better access to credit – such as pre-financing (often 50–60% of the final value of the order) (Moore 2004);
- A specific price premium (or 'social premium') above the conventional market price, which is paid to the cooperative and must be used for social and economic investments at the

community and cooperative level, i.e. it can be used to support education, health, food, self-sufficiency, transportation, etc.;

- Technical assistance, capacity building and knowledge transfer;
- The development of producer groups/cooperatives, which improves bargaining power and credibility (which in itself contributes to improved prices and access to finance vis-à-vis other market players).

For workers on plantations or in factories it is expected to deliver ‘decent’ wages; the right to join a trade union; ‘decent’ housing; minimum health, safety and environmental standards; and no child or forced labour. The benefits vary according to the crop produced, organisation and country. Minimum prices are guaranteed for different crops based on the average cost of production. Price premiums are paid on top of the minimum price and again are different for each crop and region.

Box 2: Examples of Fair Trade price premiums and minimum prices

Price premiums and minimum prices for bananas

- Producer organisations are guaranteed a minimum price that covers the average cost of production. The minimum price is different for each region and is based on the cost of sustainable production.
- A Fair Trade premium is paid of US\$1 per box of bananas.
- At market prices farmers in Ecuador receive around US\$3.25 for a 40lb box, or just over US\$0.8/lb per banana. This compares with a Fair Trade minimum price of around US\$6 for a box of bananas.

Price premiums and minimum prices for coffee

- Producer organisations are guaranteed a minimum price of US\$1.21/lb for washed Arabica from Africa and Central America and US\$1.19/lb for washed Arabica from Asia and South America. This compares with the average world market price for Arabica coffee of US\$1.04/lb in 2007.
- A Fair Trade premium is paid of US\$0.10/lb.

Price premiums and minimum prices for cotton

- The Fair Trade minimum price for conventional cotton was €0.36/kg in 2006. This compares with a price for conventional cotton of €0.30/kg in Senegal.
- A price premium of US\$0.05 to \$0.06 per kilo is paid.

The explicit price premium paid to producer groups, along with other features designed to deliver additional economic benefits to producers, distinguishes the Fair Trade labelling scheme from the others reviewed. The price premium (excluding any additional amount received as a result of the minimum price) received by producers is usually around 5–30% of the farm gate price, excluding any transport or delivery costs (IDC 2007). Nonetheless, price premiums received by producer groups typically amount to only around 0.3% of final retail price (Moore 2004).¹²

Sidwell (2008) points out that, although a minimum price and price premium are guaranteed, the proportion bought at the Fair Trade price is not. It is therefore difficult to know how much produce qualifying for Fair Trade certification is actually sold at Fair Trade prices. The Fair Trade Labelling Organisation (FLO) estimates this at just 20% (Fair Trade Foundation UK 2007c). Thus there is still some uncertainty with regard to the overall value of Fair Trade certification for a producer organisation, given that large amounts of potentially qualifying produce are in the end sold outside of the Fair Trade supply chain.

With recent rises in food prices, the Fair Trade minimum price is less likely to be utilised for most crops than previously, as the market price is likely to be higher.

¹²Retail mark-ups are typically 30-40% of the final retail price, of which Fair Trade Foundation UK has no control. Our own calculations based on total wholesale price data received from Fair Trade Foundation UK for 2007 and comparison with retail sales data on the Fair Trade website indicates that retail mark ups in 2007 were on average 36%. This mark-up is likely to include other costs such as transport.

One of the main perceived benefits of Fair Trade is that it encourages and strengthens the formation of producer cooperatives, which contributes to the empowerment of farmers in a number of ways, including by increasing their bargaining power vis-à-vis buyers, providing capacity-building assistance, working jointly to tackle their socioeconomic problems and helping them get access to finance. Raynolds (2006) argues in this vein that Fair Trade transfers greater control of the agro-food system to producers in developing countries.

Harriet Lamb of the Fair Trade Foundation emphasised the role that Fair Trade plays in encouraging producers to become organised (IDC 2007):

When farmers come together, form an organisation and are then able perhaps to export their crop or move further up the chain, perhaps doing their own coffee washing or whatever it might be, that puts them in a position to obtain pre-finance and bank loans at much more reasonable rates. They can understand the way that markets work and therefore perhaps store their coffee until the price is a bit higher or sell it direct to somebody and get a higher price, or move into organic certification and get a higher price, or move into premium coffee, or resort to different ways to add value to their crop. One can do that only if one is organised.

Box 3: The case of coffee farmers in northern Nicaragua

Coffee has become Nicaragua's most valuable agricultural crop, comprising 30% of total export income. Coffee is the engine of development and a primary source of employment for many rural communities. There are approximately 30,400 coffee producers in Nicaragua, of which 80% are smallholders with less than five hectares of land.

Nicaragua's first farmer-owned coffee export company, the Promoter of Cooperative Development in the Segovias (PRODECOOP), was founded in the late 1980s and soon became one of the world's largest organic and Fair Trade coffee exporters, with annual earnings of over US\$5 million. Other associations of cooperatives, including SOPPEXCCA and CECOCAFEN, were established later as farmers recognised the benefits of niche markets and collective marketing.

These producer organisations now sell certified quality coffee to the Fair Trade market through a number of North American organisations and companies, and they pay their farmers prices significantly above those offered by intermediaries and commercial houses that sell conventional coffee at market prices. Improving production and roasting practices to obtain higher quality coffee is at the heart of the Fair Trade business in Nicaragua, where Fair Traded coffee is not purchased only for its 'ethical value' and for solidarity reasons but also because of the flavour.

Fieldwork undertaken in July 2003 in northern Nicaragua looked at the extent to which Fair Trade had helped small coffee producers and their communities to improve their standard of living in the midst of the international coffee crisis. Many of the small producers interviewed had entered the Fair Trade market in 2000 when international coffee prices fell to US\$0.60/lb. Members of producer cooperatives selling coffee to the Fair Trade market through CECOCAFEN or SOPPEXCCA received a stable and higher price for every quintal (100lb) of coffee brought to their cooperative, which translated into a doubling of income for most coffee smallholders since their entry in the Fair Trade market. Against this, Nicaraguan coffee producers who were members of cooperatives linked only to conventional markets were found to be up to four times more likely to lose their farm owing to low coffee prices. Thus, in hard times, the higher price for Fair Trade coffee has meant the difference between survival and bankruptcy for many small producers in Nicaragua.

Source: Bacon (2004).

3.2.3 Compliance costs

Fair Trade constitutes an alternative supply chain, with significant additional costs compared with conventional markets, arising from the many Fair Trade requirements such as the price premium, minimum price, long-term contracts, provision of access to finance, requirement to improve the capacity of producers, etc. Many of the Fair Trade organisations rely on charitable donations, donor support, government funding and funding from social lending institutions, which provide finance at below market rates of interest.

Some of the costs (e.g. of meeting labour standards, of producing the required accounts, etc.) may be borne by the producer groups themselves. However, compared with other schemes, this risk is relatively low.¹³ In most cases, it seems that potential costs to producer organisations may be absorbed by buyers. For example, switching all bananas sold within Sainsbury's stores to Fair Trade in 2007 was estimated to cost around £4million, all of which was paid for by the buyer.¹⁴ Buyers may need to invest considerable time (over a period of years) and resources (in terms of training and engagement on the ground) into developing their Fair Trade supply chain in order to ensure it can deliver sufficient quantities of Fair Trade produce of the required standard.

Some companies may be unwilling to make this investment when alternative, less onerous ethical labelling options exist. One company that has been consulted in the course of this project said it decided not to go down the Fair Trade route because of the very high resource and bureaucratic costs involved – it instead decided to pursue Rainforest Alliance certification.

Green & Black's has said that it does not use all Fair Trade cocoa because it would rather invest the money directly in supporting suppliers than pay the 2% commission that the Fair Trade Foundation UK would charge on wholesale prices (only one of their products is Fair Trade). It is also lobbying the Fair Trade Foundation to drop the charge levied on producers for inspection visits by Fair Trade officials, which they say amounts to around 5% of their annual sales (see Purvis 2008).

3.2.4 Overall development impact

The Fair Trade scheme is one of the few ethical labelling schemes focusing primarily and explicitly on delivering economic benefits to developing country producers. While the potential benefits for developing country producers who are able to participate in the Fair Trade supply chain may be considerable, the significant requirements associated with Fair Trade certification, and the additional costs they imply, limit the overall market size for Fair Trade produce – there are limits to the extent to which both buyers and consumers are willing to pay more for Fair Trade produce. This constrains the number of developing country producers able to benefit from the scheme. Thus Fair Trade penetration remains low in most markets, despite fast growth in recent years.

There are also constraints on the supply side in some markets, where sufficiently well-organised producer groups are thin on the ground (e.g. cotton, where anecdotal evidence suggests that demand for Fair Trade cotton exceeds supply). While producer groups already benefiting from a Fair Trade supply chain may be able to secure help in achieving the necessary standards, other producer cooperatives may have problems accessing the necessary start-up or investment capital that would allow them to develop to a point where they can begin to participate in a Fair Trade supply chain. Local banks rarely view new small farmers' organisations as creditworthy, and the credit available from conventional intermediaries such as traders and exporters is usually provided only at a very high rate of interest.

Fair Trade produce is still far from mainstream, and only a small minority of developing country producers are really able to benefit from Fair Trade at present. As such, the overall development impact of Fair Trade remains fairly limited.

Some argue that Fair Trade makes non-participating producers worse off. For example, as Sidwell (2008) puts it, 'those who fall outside of the fair-trade regime may then find themselves worse off thanks to Fair Trade either through international competition or because Fair Trade segments the market creating a parallel "exploitation coffee" sector ... protection of one area of the market weakens the rest'. Another argument is that it may run the risk of stifling innovation because it in effect subsidises inefficient non-market production systems. However, given the limited scale and penetration of Fair Trade currently, it is hard to imagine that it has a significant impact on conventional markets.

¹³ See Ethical Corporation (2008).

¹⁴ Further to consultation with Fair Trade. See also Fair Trade Foundation UK (2007a).

There is a potential trade-off between Fair Trade's objective of helping the poorest and most marginalised producers, and scaling up its impact. The easiest way to scale up is to focus on large estates (e.g. in the banana market), rather than working with lots of smallholders to achieve the necessary standards. The most marginalised producers are likely to be those furthest from being able to achieve the necessary standards with which to qualify for Fair Trade, and requiring more resource-intensive assistance on the ground.

It appears that the way to most effectively scale up Fair Trade's impact would be to reduce compliance costs. While this may widen overall development impacts through increasing participation, it could reduce the individual benefits for participating producers and labourers, and may 'dilute' the Fair Trade brand. This is something that Fair Trade is already being criticised for as it works increasingly with large supermarkets to achieve expansion.

In conclusion, it appears unlikely to be possible to achieve significant expansion of Fair Trade benefits, and hence increase in impact, without significantly altering the Fair Trade model to make it less costly and onerous. Such a change is likely to be perceived by some as 'diluting' its benefits.

4. Rainforest Alliance

4.1 Objective and focus

The objective of the Rainforest Alliance is to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviour. The Alliance's activities focus on forestry and agriculture, as well as tourism.

- **Forestry:** The Rainforest Alliance works to encourage better on-the-ground forestry practices by rewarding businesses, communities and governments that meet standards for sustainability. Certification is awarded to forestry businesses meeting Forestry Stewardship Council (FSC) standards.
- **Agriculture:** Under the auspices of the Sustainable Agriculture Network (SAN), an international coalition of conservation groups, the Rainforest Alliance works with farmers to ensure compliance with the SAN standards for protecting wildlife, wild lands, workers' rights and local communities. Farms that meet these standards are awarded the Rainforest Alliance Certified seal.

The standards include measures to reduce water pollution, soil erosion, waste and the use of pesticides, to protect local wildlife, to increase efficiency and to provide better conditions for workers.

Box 4 below lists the SAN principles. Within each of the 10 areas above there are a number of different criteria against which producers are scored (see SAN 2008).

Box 4: 10 SAN principles

1. Social and Environmental Management Systems
2. Ecosystem Conservation
3. Wildlife Protection
4. Water Conservation
5. Fair Treatment and Good Working Conditions for Workers
6. Occupational Health and Safety
7. Community Relations
8. Integrated Crop Management
9. Soil Management and Conservation
10. Integrated Waste Management

Source: SAN (2008) and <http://www.rainforest-alliance.org/agriculture.cfm?id=standards>.

When the Rainforest Alliance seal of approval and certification scheme was first established in 1989, its focus was solely on the forestry sector. For a time, the Alliance operated its own forestry certification scheme, before helping to found the FSC in 1993. The Rainforest Alliance was designated as an accredited certification body of the FSC in 1996. Since then, it has gone on to certify an increasing number of products.

4.2 Economic and social impacts

4.2.1 Scale of coverage

A wide variety of products are now produced with Rainforest Alliance certification. Table 3 below lists products that are currently covered by the scheme.

Table 3: Products certified by the Rainforest Alliance and location (as of June 2008)

| Product | Locations of certified growers |
|------------------|---|
| Aloe vera | Brazil |
| Avocado | Brazil |
| Banana | Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Côte d'Ivoire, Nicaragua, Panama, Peru, Philippines |
| Citrus | Brazil, Costa Rica |
| Cocoa | Brazil, Costa Rica, Dominican Republic, Ecuador, Guatemala, Côte d'Ivoire |
| Coffee | Brazil, Colombia, Costa Rica, El Salvador, Ethiopia, Guatemala, Honduras, Indonesia, Jamaica, Mexico, Nicaragua, Panama, Peru, Tanzania |
| Cupuacu | Brazil |
| Flower and ferns | Colombia, Costa Rica, Ecuador, Guatemala, Kenya, Mexico |
| Guava | Brazil |
| Heart of palm | Brazil |
| Mango | Costa Rica, Mexico, Peru |
| Macadamia | Guatemala, Mexico |
| Passion fruit | Costa Rica |
| Pineapple | Costa Rica, Panama, Philippines |
| Plantain | Guatemala |
| Rubber | Brazil |
| Tea | Kenya, Tanzania |
| Vanilla | Costa Rica |

Source: http://www.rainforest-alliance.org/agriculture.cfm?id=certified_farms.

Combined sales of RA certified coffee, bananas and cocoa were estimated at US\$1.2 billion in 2007 (Rainforest Alliance 2008a). This compares with global Fair Trade sales of all products of around US\$3.6 billion in 2007.

Table 4: Number of farms and forests certified by the Rainforest Alliance (as of April 2008)

| Certification sector | Number of farms or forestry businesses certified | Total area covered (hectares) |
|----------------------|--|-------------------------------|
| Forestry | 2,407 | 43.89 million |
| Agriculture | 25,731 | 414,000 |

Source: Rainforest Alliance (2008a) and <http://www.rainforest-alliance.org/forestry.cfm?id=main>.

Coffee

A number of major international firms now source coffee from Rainforest Alliance certified growers. In January 2007, McDonalds announced that all coffee sold in its UK outlets was to be sourced from Alliance certified growers, amounting to some 143,000 cups per day (CSR Europe 2007). Costa outlets in the UK currently purchase a percentage of their coffee through the scheme and aim to use 100% certified coffee by 2010 (Boughton 2008).

The volume of Alliance-certified coffee sold globally in 2006 was estimated to be around 24,812 metric tonnes – reflecting almost a doubling each year since 2003. The projected volume for 2007 was estimated at 41,277 metric tonnes (Rainforest Alliance 2007b).

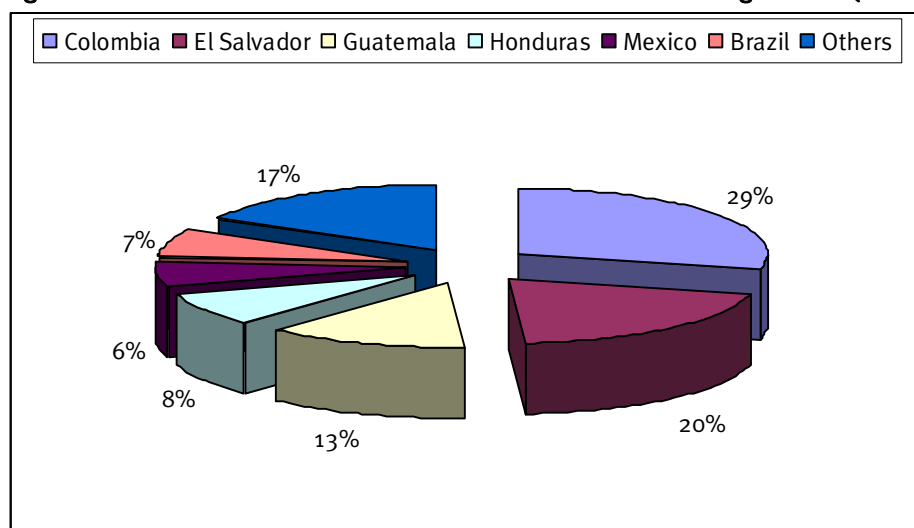
This still amounts to slightly less than overall sales of Fair Trade coffee beans. In 2007, Fair Trade certified growers sold 62,219 metric tonnes,¹⁵ compared with projected sales of 41,277 metric tonnes for Alliance growers (Rainforest Alliance 2007b). However, in 2007, the volume of Fair Trade coffee sales rose only 33%,¹⁶ whereas the volume of Alliance sales rose by 60% (ibid). As this level of growth has been sustained over a number of years, it appears likely that that coffee bean sales from Alliance growers will surpass those of Fair Trade producers in the near future.

¹⁵ See <http://www.fairtrade.net/coffee.html>.

¹⁶ See http://www.fairtrade.org.uk/what_is_fairtrade/facts_and_figures.aspx.

However, as a percentage of global sales this remains small; the Rainforest Alliance itself projects that certified coffee beans will represent only 5% of the global market by 2012 (Rainforest Alliance 2007a).

Figure 2: Location of Rainforest Alliance-certified coffee growers (as of June 2008)



Source: http://www.rainforest-alliance.org/agriculture/documents/cert_coffee.pdf.

As Figure 2 shows, the Alliance has certified coffee growers in a number of developing countries; it has now approved some 364 coffee producers in total. However, the scheme has yet to have much of an impact on coffee bean growers outside Central and South America. A number of less developed countries in Africa, such as Ethiopia, Tanzania and Kenya, are major coffee producers, but at present only eight producers in Ethiopia and one in Tanzania have been certified.

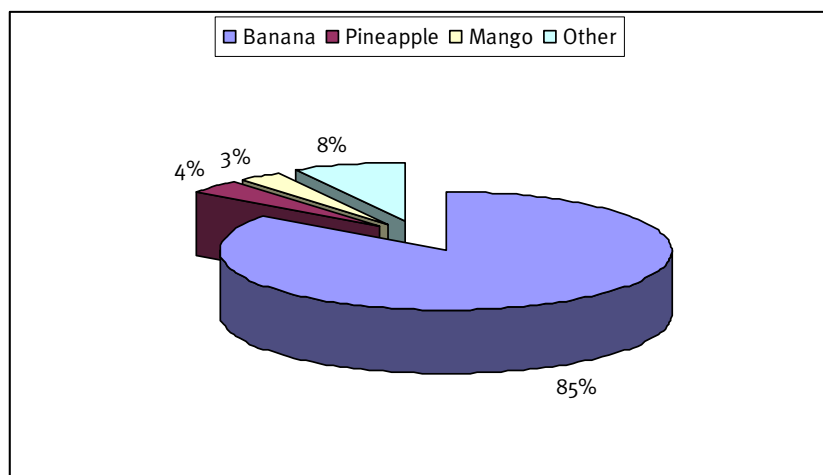
Fruits

The majority of fruit farmers certified by the Alliance are banana growers. The Alliance has focused on bananas largely because of a number of social and environmental concerns that arose in the industry during the early 1990s.¹⁷ In 2007, Rainforest Alliance-approved farms were estimated to be responsible for some 15% of global banana sales¹⁸. The Alliance has worked with Chiquita for a number of years, who are estimated to have a 25% share of the global market (Griffiths and Lawrence 2007). All Chiquita farms in Guatemala, Honduras, Costa Rica and Panama are now Rainforest Alliance certified. All of Favorita's (which accounts for 4.5% of the global market) growers in Ecuador are certified.¹⁹

¹⁷ See <http://www.rainforest-alliance.org/agriculture.cfm?id=fruits>.

¹⁸ See http://www.rainforest-alliance.org/news.cfm?id=ra20_anniversary.

¹⁹ See <http://www.favoritafruitcompany.com/ingles/htm/banano.htm>.

Figure 3: Rainforest Alliance-certified fruit producers by type (as of June 2008)

Source: http://www.rainforest-alliance.org/agriculture.cfm?id=certified_farms.

Alliance-certified bananas are selling in higher volumes than those grown under the Fair Trade label. In 2006, Fair Trade bananas accounted for 1% of global sales (BananaLink 2007), whereas Alliance bananas currently account for 15% of global banana sales; this figure is expected to reach 20% within the next five years (Rainforest Alliance 2007a).

Flowers and ferns

The Alliance has become involved in the certification of flower and fern producers, owing in part to concerns regarding the extensive and damaging use of fertilisers in the industry. A focus of the certification scheme has been to incentivise growers to make greater efforts to reduce the use of agrochemicals. In 2007, Alliance-certified flower farms covered approximately 2755 acres (Rainforest Alliance 2008b): a relatively slight figure in comparison with the land coverage of certified banana growers and forestry producers. At present, 19 growers have been certified, but only one approved grower is outside Central and South America.²⁰ Much of the production in this area is for the US market, with some 90% of flowers and ferns imported into the US coming from Latin America.²¹

Cocoa

The Alliance has been involved in major cocoa projects in Ecuador and Côte d'Ivoire, involving 3000 and 1000 growers respectively. The first certified chocolate bar was released in the US in 2004, with the first UK release following in 2008 from the Chocolate Truffle Company.²²

Table 5: Location and number of Alliance-certified cocoa growers (as of June 2008)

| Country | Number of certified growers |
|--------------------|-----------------------------|
| Brazil | 1 |
| Costa Rica | 2 |
| Dominican Republic | 2 |
| Ecuador | 12 |
| Guatemala | 1 |
| Côte d'Ivoire | 6 |

Source: http://www.rainforest-alliance.org/agriculture/documents/cert_cocoa.pdf.

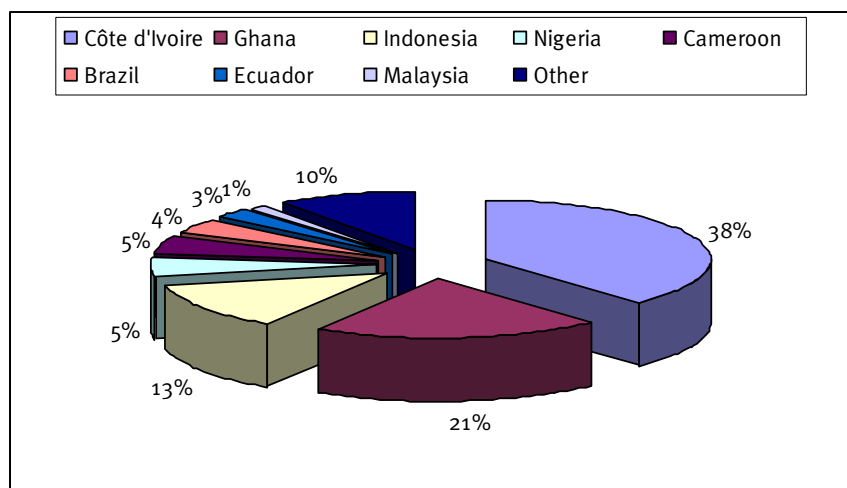
Most of the certified producers of cocoa are based in Central and South America. The certification scheme has had little impact outside these areas, and the total number of approved growers remains relatively small at 24. Only six growers have been certified in Africa (all in Côte d'Ivoire).

²⁰ See http://www.rainforest-alliance.org/agriculture/documents/cert_flowers.pdf.

²¹ See http://www.rainforest-alliance.org/agriculture.cfm?id=ferns_flowers.

²² This company produces handmade chocolate and began to produce an Alliance-certified chocolate bar in response to a demand for ethical goods from corporate customers. See <http://www.thechocolatetrufflecompany.co.uk/>.

Figure 4: Share of countries in total cocoa bean production (2005/2006 crop year forecasts)

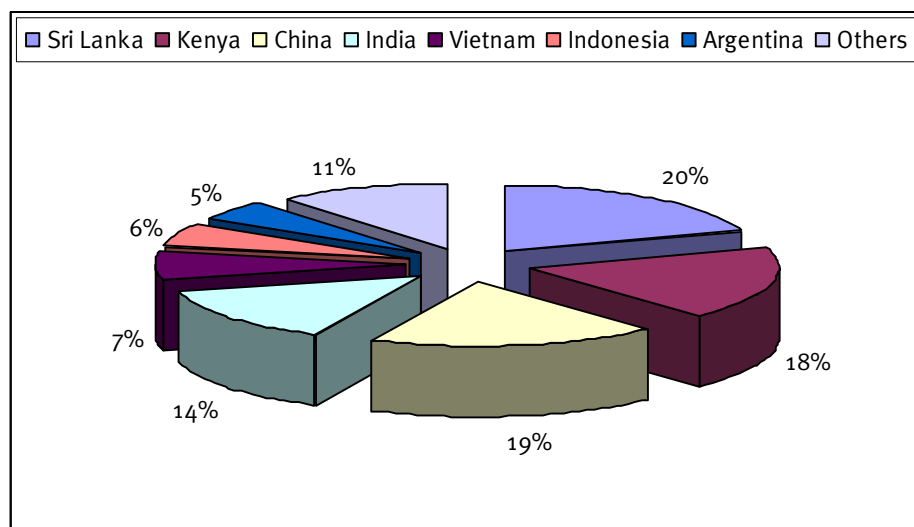


Source: <http://www.unctad.org/infocomm/anglais/cocoa/market.htm>.

Tea

The Alliance's tea certification programme began in 2007 and is at an embryonic stage. However, the Alliance is working with Unilever, which intends to source all Lipton tea from approved growers by 2015.²³ At present, three farms in Kenya have been certified; in addition, a single grower has been approved in Tanzania.²⁴ In 2006, Kenya exported 408.4 thousand tonnes of tea in total, whereas Tanzania exported 24.1 thousand tonnes (Committee on Commodity Problems 2008). As Figure 5 shows, exports of tea from developing countries are substantial and totalled 1538 thousand tonnes in 2006. So, as yet, it is clear that the certification scheme has had a limited impact in developing countries, although Unilever is expected to seek certification for a number of other growers around the world.

Figure 5: Share of global tea exports, 2006



Source: Committee on Commodity Problems (2008).

²³ See http://www.csreurope.org/solutions.php?action=show_solution&solution_id=501.

²⁴ See http://www.rainforest-alliance.org/agriculture/documents/cert_tea.pdf.

4.2.2 Potential benefits for participating developing country producers

According to the Rainforest Alliance, potential benefits for certified producers include:

- Less water pollution, as all sources of contamination (pesticides and fertilisers, sediment, wastewaters, garbage, fuels and so on) are controlled.
- Less soil erosion, as farms implement soil conservation practices such as planting on contours and maintaining ground cover.
- Reduced threats to the environment and human health, as the most dangerous pesticides are prohibited, all agrochemical use is strictly regulated, farmers must use mechanical and biological pest controls where possible and strive to reduce both the toxicity and quantity of chemicals used.
- Wildlife habitat is protected, as deforestation is stopped, the banks of rivers are protected with buffer zones, critical ecosystems such as wetlands are protected and forest patches on farms are preserved.
- Less waste, as farm by-products such as banana stems, coffee pulp, orange peels and un-marketable foliage are composted and returned to the fields as natural fertiliser. Other wastes, such as plastics, glass and metals, are recycled where possible.
- Less water used, as water conservation measures are applied in washing and packing stations, housing areas and irrigation.
- More efficient farm management, as the certification programme helps farmers organise, plan, schedule improvements, implement better practices, identify problems and monitor progress.
- Improved conditions for farm workers – through fair wages, decent housing, clean drinking water, sanitary facilities and a safe and wholesome work area. Workers and their families have access to schools, health care, transportation and training.
- Improved profitability and competitiveness for farmers who have increased production, improved quality, reduced worker complaints and increased worker efficiency.

While Rainforest Alliance certification does not include a requirement for a price premium to be paid to the producer, nor for access to credit to be made available, as is required under the Fair Trade scheme, it is argued that it gives farmers the ability to differentiate their product, which gives them more leverage at the time of sale and hence is likely to result in a *de facto* price premium, as well as improved access to credit.

The Alliance claims that farmers can get an additional US\$0.10 to \$0.60 for every pound of coffee beans that they sell (McAllister 2004), and Kraft has paid a 20% premium for Alliance coffee (Tran 2005). The Ethical Corporation in 2007 suggested that beans grown under the Alliance scheme were receiving an additional US\$0.14 on top of the market rate (Ethical Corporation 2008).

4.2.3 Compliance costs

Relative to Fair Trade, compliance costs for producers appear to be relatively high, whereas for buyers/manufacturers they appear to be relatively low.

For producers, the costs associated with meeting the process standards, e.g. for environmental management etc., can be high, ranging from US\$500 for a small farm to tens of thousands for larger farms. The costs of compliance can be disproportionately high for small farmers, which creates a bias towards middle and large farms. A report on coffee producers co-authored by the International Institute for Environment and Development (IIED) encouraged the Rainforest Alliance to make greater efforts to work with smaller growers (Consumers International and IIED 2006).

If a producer meets the FSC criterion and has been accredited and certified through the Rainforest Alliance, both the FSC and Rainforest Alliance logos may be used; an average charge for the whole process being undertaken through the Rainforest Alliance is in the region of €30,000.²⁵

For buyers/manufacturers, however, Rainforest Alliance certification appears to have low compliance costs relative to Fair Trade, as it does not involve such a fundamental change in the relationship with the producer (see Section 3.2.3 on compliance costs for Fair Trade). Rainforest Alliance also sets a lower requirement in terms of how much certified coffee must be contained in products in order to bear the Rainforest Alliance logo. For example, Rainforest Alliance requires 30% of the coffee to be from certified farms, whereas Fair Trade products must contain 100% certified coffee to qualify for the logo (Ethical Corporation 2008). In addition, retailers are not charged a fee to use the Rainforest Alliance logo, unlike the Fair Trade scheme, which charges a licensing fee of 2% of wholesale prices.

4.2.4 Overall development impact

The Rainforest Alliance certification scheme for agricultural products offers an alternative way for retailers and manufacturers to achieve an ethical status for their products. It has been termed by some as ‘Fair Trade lite’ (Which? 2007) because it does not provide a price premium or crop pre-financing options for producers.

As a result, some have criticised the scheme for failing to address the perceived inequities at the root of the international trading system. However, its goals are somewhat different, with a focus on environmental improvements and better management systems.

This suggests that the ratio of economic benefits to compliance costs for participating farmers may be lower than for Fair Trade. However, given that costs are relatively low for buyers, it may prove more scaleable than Fair Trade. Nonetheless, it currently only accounts for a very small proportion of overall developing country exports, (particularly in low-income countries and in Africa), so its impact in developing countries is currently low.

Box 5: Comparing the objectives of Fair Trade, the Rainforest Alliance and Utz Kapeh

Both Rainforest Alliance and Utz Kapeh promise benefits to producers in poor countries while safeguarding the environment. But each proposes to do so in different ways to Fairtrade, placing varying degrees of emphasis on these twin objectives.

The Fairtrade system addresses the way products are traded, offering a guaranteed minimum price to producers ... In contrast, Rainforest Alliance and Utz Kapeh focus on the way farms are managed. Both cover social and environmental standards, although Utz Kapeh places a lesser emphasis on protecting wildlife and biodiversity. These are key tenets of the Rainforest Alliance scheme, whose governors form the secretariat of the Sustainable Agriculture Network, a coalition of conservation groups across Central and South America.

Of all three schemes, it is Utz Kapeh that is the most market-driven. The scheme stresses the importance of traceability in coffee supply chains, and specifies how beans should be harvested and handled to produce the best quality crops.

Source: Ethical Corporation (2008).

²⁵ See <http://www.accreditation-services.com/res/CertificationBodies/asiinf20070125accrdestfmcocnw.pdf>.

5. Ethical Trading Initiative

5.1 Objective and focus

The objective is to encourage business to move towards ensuring that the working conditions of those producing for the UK market meet or exceed international labour standards (corresponding with International Labour Organization – ILO – core conventions). It is designed so as to generate greater buy-in to the ethical trade process and demonstrate that ethical and commercial incentives are not mutually exclusive. Although the ETI sets out a base code, the initiative focuses on encouraging continuous improvement and progress towards achieving the code, rather than requiring immediate compliance. The ETI is not a labelling scheme.

5.2 Economic and social impacts

5.2.1 Scale of coverage

The ETI is a coalition of UK-based companies, trade union organisations and NGOs:²⁶

- **Corporate members** include both retailers and suppliers that source and/or sell food, clothing and other products in UK markets. They have a combined annual turnover of over £100 billion and include many names familiar in the UK high street.
- **Trade union members** are umbrella organisations that coordinate the work of their affiliates. Together, they represent more than 157 million workers worldwide in every country where free trade unions can operate.
- **NGO members** include development and human rights organisations operating in the UK with knowledge and expertise on workers' rights, human rights and social development issues in Asia, Africa, Central America and Europe. They work with many local organisations, including labour groups, in all these regions and work to ensure that key stakeholders in the South have a voice in both developing and monitoring labour codes.

The scheme covers all products imported into the UK by member companies from developing countries. The ETI has grown from a membership of 25 companies in 2000 to 52 currently. Its membership includes six leading UK supermarkets and nine food companies. At least 20,000 suppliers are covered by the scheme (ETI Impact Assessment 2006).²⁷ The ETI scheme has become significant in the sourcing of African produce such as horticulture, as many of the UK's largest retailers have agreed to apply the baseline code to their suppliers (UNCTAD 2008).

5.2.2 Potential benefits and impacts for developing country participants

The potential benefits for developing country participants are improved working conditions for labourers and producers supplying UK markets. The base code of the ETI stipulates that: employment is freely chosen; freedom of association and the right to collective bargaining are respected; working conditions are safe and hygienic; child labour shall not be used; 'living wages' are paid; working hours are not 'excessive'; no discrimination is practised; regular employment is provided; and no harsh or inhumane treatment is allowed. Although there is a requirement to pay a 'living wage', there is no clear definition of what this is. Thus, no explicit price premium is included within the scheme.

Although ETI members aim to implement the base code throughout their supply chains, an assessment of the ETI (Barrientos and Smith 2006) noted that, in reality, they are often unable to penetrate further than the first tier suppliers, i.e. those who deal most directly with buyers, such as packers, rather than those who work in the fields to produce the raw materials. The assessment also noted that the ETI and

²⁶ See <http://www.ethicaltrade.org/Z/lib/2005/04/strat-2005-08/index.shtml>.

²⁷ See <http://www.ethicaltrade.org/Z/lib/2006/09/impact-report/index.shtml>.

its members allocate comparatively few resources to raising awareness and providing direct support to workers and suppliers in sourcing countries, and argued that shifting the focus to these areas would raise the awareness and engagement of suppliers and local organisations, and be more cost effective in achieving improvements for workers.

The study, which undertook assessments in India, China, Costa Rica and Vietnam, notes the following points related to overall impacts:

- Codes had most impact on health and safety, with other areas of change varying considerably between countries and sectors. Less impact has been observed in relation to freedom of association, discrimination, regular employment and harsh treatment, where serious issues remain.
- Permanent and regular workers benefited most from codes of labour practice, with migrant and contract workers experiencing little change or having poorer conditions.
- Workers' families have benefited from reduced working hours, access to social security and training on health and safety. However, the impact of reforms to reduce working hours and child labour was sometimes perceived by producers as negative when they reduced household income or employment opportunities for young workers.
- At many sites, codes had also increased management awareness and/or compliance with national labour legislation, which may result in sustainability of improvements over time.

In general, long-term sustainable improvement requires companies to integrate ethical sourcing into core business practices, and more effective regulation and enforcement of workers rights by governments. But, many subcontractors operate in the unregistered sector, and workers covered by temporary contracts are not covered by the ETI, as they are not permanent employees. In one plant evaluated, 70% of workers are hired on temporary contracts for less than a year and on rolling contracts (Costa Rica). Approximately half of the garment workers in Vietnam are employed informally. In countries where no independent trade unions and NGOs exist (such as in China), there are difficulties in triangulating and verifying information. The introduction of standards may even increase incentives for producers to employ workers on temporary contracts, in order to avoid the compliance costs associated with the standards.

According to the ETI impact assessment study, suppliers in all countries have reported difficulties in improving labour practices in the context of downward pressures on prices, shortening lead times and supply chain volatility.

The structure of the supply chain was found to have been critical in determining impacts. Direct and stable relationships between buying companies and suppliers increased the likelihood of change. ETI members were found to have less influence on suppliers in complex chains, where much depended on the attitude of individual suppliers and/or agents. Although in some cases a critical mass of buying companies working with suppliers towards code compliance acted as a counterweight to complexity within the chain, the use of individual codes as opposed to one common code and a lack of coordination between buying companies undermined effectiveness.

5.2.3 Compliance costs

Compliance costs are potentially high, given that all the supply chains of member companies are covered, and that these supply chains are very complex. However, as membership is about progress towards the goal of compliance, the compliance costs of ETI membership (as opposed to meeting the full base code) are much lower. A significant proportion of the costs is likely to be passed on to producers.

Although no data are available on compliance costs, for some developing country producers these are estimated to be relatively high, for example in relation to meeting health and safety requirements such as introducing better fire safety, training on emergency procedures and safer use of chemicals, etc.

In some markets, producers take responsibility themselves for meeting standards, and having themselves audited, then submitting this information to SEDEX – the Suppliers Ethical Data Exchange – which enables retailers to review and verify the information at limited cost and effort to themselves. While this is presumably deemed worthwhile by the producer as it makes them more attractive as a supplier, it does not guarantee them a supply contract, and serves to illustrate the extent to which the compliance costs associated with such standards schemes are often in the end borne by the producers and may come to represent an additional hurdle to accessing export markets.

5.2.4 Overall development impact

The ETI is a relatively simple and low cost way to incentivise improvements in labour standards, and may be popular with business given the relatively low effective costs of compliance it creates. It has contributed to improved labour standards, especially in relation to particular groups of workers and particular types of standards. Its overall impact in achieving improved labour standards to date appears to be moderate, however, given the voluntary nature of the process and the difficulties of implementing it effectively all the way down the supply chain.

Evidence shows that, when changes were achieved in relation to working hours and child labour, they were sometimes perceived as negative when they reduced household income or employment opportunities for young workers (see Barrientos and Smith 2006).

Although the ETI requires members to take active steps to ensure supplier companies respect workers rights, what is not so well understood is what assistance is provided in order to meet the costs of compliance. So, depending on the means of intervention and implementation, compliance costs resulting from adherence to the ETI base code may fall largely on the developing country producers rather than the developed country buyers or retailers. This could serve to erode the competitive advantage of developing country producers associated with their lower costs vis-à-vis developed country producers, which could potentially have adverse effects in terms of overall export opportunities.

6. The Soil Association's organic label and recent proposal to disqualify air-freighted produce

6.1 Objective and focus

The Soil Association exists to research, develop and promote sustainable relationships between the soil, plants, animals, people and the biosphere, in order to produce healthy food and other products while protecting and enhancing the environment. The stated objective is to promote sustainable, organic farming and champion human health. The label is designed to reassure consumers about the environmental impact of their purchases.

The Soil Association has recently proposed that the organic label be removed from all air freighted produce unless it is produced under the Soil Association Ethical Trade or Fair Trade schemes, or an equivalent scheme. This, it claims, is to ensure that any organic food that is air freighted delivers genuine benefits to farmers in developing countries. It also proposed that licensees must develop plans to reduce remaining dependence on air-freighted products. These proposals are now the subject of a public consultation exercise. Some concern has been expressed that such a move would represent discrimination against foreign organic producers (including those from the developing world), who have no choice but to air freight their produce. The Soil Association is not the only organic certification body in the UK, but it is the largest, and certifies 80% of all organic products sold there.

6.2 Economic and social impacts

6.2.1 Scale of coverage

The global market for organic produce was worth an estimated £16.7billion in 2005.²⁸ The UK has the third largest market for organic produce after Germany and Italy, and it has grown significantly in recent years. The UK retail market for organic produce was worth approximately £1.6billion in 2005, an increase of 30% on the previous year. Estimates from Mintel (2006) suggest that total sales of *fresh* organic produce were £527 million in 2006. The Soil Association's Organic Market Report of 2005 noted that multiple retailers continue to dominate the organic retail market, with an estimated £913.2 million worth of organic sales in 2004. However, their share of the organic market is declining as sales through other outlets increase (such as box schemes and mail order). Approximately 66% of organic primary produce sold in the UK in multiple retailers was sourced from the UK in 2005 (ibid).

Air-freighted goods accounted for only about 1.9% of all organic fresh produce imports into the UK by volume in 2006 (ITC 2007).

Table 6 (overleaf) shows how small the volumes of air freighted organic fruit and vegetables are, in comparison with total UK imports.

²⁸See [http://www.soilassociationscotland.org/Web/SA/saweb.nsf/89d058cc4dbeb16d80256a73005a2866/5daod7a40c3cf261802571a4002d9fad/\\$FILE/exec_sum.pdf](http://www.soilassociationscotland.org/Web/SA/saweb.nsf/89d058cc4dbeb16d80256a73005a2866/5daod7a40c3cf261802571a4002d9fad/$FILE/exec_sum.pdf). Global sales of organic food and drink grew by an estimated 7–10% to £15.5 billion in 2004.

Table 6: Air freight imports of organic fresh produce and total imports, by volume (2006)

| Product | Tonnes air freighted ²⁹ | Total UK imports |
|-----------------------------------|------------------------------------|--------------------------------|
| Exotic fruits | 652.5 | |
| Temperate fruits | 598 | |
| Total fruit | 1250.5 | 10,540,362³⁰ |
| Beans and peas | 2236 | |
| Salad vegetables | 954 | |
| Other temperate vegetables | 1537.4 | |
| Exotic vegetables | 300 | |
| Total vegetables | 5027.4 | 4,443,993 |
| Total fruit and vegetables | 6277.9 | 14,984,355 |

Source: Gibbon and Bolwig (2007) and UN Comtrade.

The value of air-freighted organic imports into the UK was £42.6 million in 2006, of which 79% (worth £33.6 million) was from low- and lower-middle-income countries, as shown by Table 7 below.

Table 7: Air freight imports of organic fresh produce into the UK by country category (2006)

| Category | Tonnes | % of total |
|---------------------|---------------|------------|
| Low income | 2048.0 | 33 |
| Lower middle income | 2869.5 | 46 |
| Upper middle income | 729.8 | 12 |
| High income | 630.6 | 10 |
| Total | 6277.9 | 100 |

Source: Gibbon and Bolwig (2007).³¹

The countries with the largest areas of organic farm land are all developed and middle-income countries: Australia, Argentina, Italy, US, Brazil, Uruguay, Germany, Spain, UK and Chile. But the countries with the highest number of organic certified farms include: Mexico, Italy, Uganda, Sri Lanka, Philippines, Tanzania, Peru, Austria, East Timor, Germany and Kenya.³²

In sub-Saharan Africa, certified organic farming is relatively underdeveloped and mainly organised under participatory guarantee systems, using internal control systems operated by a farmers group linked to an exporter who holds the organic certificate. However, there is evidence of substantial growth in certified organic land in Ghana, Ethiopia, Kenya, Tanzania, Uganda and Zambia (Janisch 2007).

Organic agriculture in developing countries is mainly for export at present. Because of this, organic certification and the organic label have been central to the growth of organic agriculture in developing countries. The organic label demonstrates compliance with European Union (EU) Regulation 2092/91 for organic produce enabling market access. Standards setters like the Soil Association have played an important role getting organic production started in developing countries like Kenya. There are nascent but growing domestic organic markets in some developing countries, which often develop from a platform of exporting organic businesses.

The leading air freight export countries by volume in 2006 were: Egypt (20% of total); Kenya (13%); Morocco (11%); the US (9%); and Zambia (8%). Gibbon and Bolwig (2007) point out that of the leading group of countries, Egypt and Morocco, are thought to be the major origins for these categories of organic fresh imports generally in the UK and wider EU markets.

²⁹ According to surveys undertaken by Gibbon and Bolwig (2007) of representative UK importers – who cover most of the UK market.

³⁰ Including bananas, excluding bananas the figure is 6355,420.

³¹ Data are based on a survey of 13 importers into the UK who have a relatively large market share of supplying organic produce within the UK – supplying UK supermarkets.

³² See Willer and Yussefi (2007) for more information.

6.2.2 Potential benefits and impacts for developing country participants

Delivering benefits for developing country producers is not an explicit objective of the organic label. However, organic production has provided a valuable market niche for some developing country producers, who have been able to capitalise on traditional agricultural techniques which require limited external inputs (Janisch 2007). Organic practices are consistent with traditional farming practices and make use of locally available resources.

Giovanucci (2005) lists a range of other benefits associated with organic production, such as: improved natural resource management; increased resilience to climatic hazards and adverse weather; increased rural self-sufficiency; community or organisational development; reduced financial risk as fewer inputs are required reducing the need for external credit; reduced price risk for producers; access to new markets; biodiversity conservation; increased use of rural labour; and fewer health and environmental risks owing to misuse of agrochemicals.

Kilcher (2007) notes that organic agriculture can contribute to meaningful socioeconomic development, as organic produce may mean more effective management of local resources (e.g. seed varieties, dung, etc.) and therefore cost effectiveness, reducing the need for chemical inputs. Organic methods of production can stabilise delicate ecosystems in the tropics and reduce drought sensitivity and/or pest infestations. They may also result in additional health benefits, e.g. by reducing the use of pesticides. For example, analysis by the UN Food and Agriculture Organisation (FAO) found self-reported occupational poisoning from pesticide spraying affected 20% of workers.³³

Achieving organic certification also improves access to a growing and high value market niche, which may deliver a price premium over and above exports of conventional (non-organic) produce. The UK Department for Food and Agricultural Affairs (DEFRA) (2004) notes that the retail price for organic produce is typically around a third as much again as the price of equivalent, non-organic products.

6.2.3 Compliance costs

Compliance costs associated with organic certification are likely to be significant, but may be outweighed by expected future gains in terms of the price premium above conventional, non-organic production.

The costs associated with achieving Fair Trade certification or equivalent (if this is introduced by the Soil Association as a requirement to retain the organic label for air-freighted produce) are likely to be higher still, and may not be achievable if the market will not bear the additional price premiums required as part of the Fair Trade package.

To the extent that organic exports from developing countries must be air freighted (because of their perishable nature), the removal of the organic label from air-freighted produce (unless it is Fair Trade-certified or equivalent) is likely to reduce the income of those producers affected.

Although achieving Fair Trade certification could potentially yield additional benefits for organic producers (as discussed in Section 3 on Fair Trade), there is currently only one producer of organic air-freighted produce which is also Fair Trade certified,³⁴ and it is not clear whether it would be possible for all the other existing organic producers to achieve Fair Trade or Soil Association ethical trade certification, given the additional requirements this would impose and the current limits on market demand for Fair Trade produce (as discussed previously).

³³ See Kilcher (2007) for a good overview.

³⁴ Further to conversations with Fair Trade Foundation UK.

Thus, in response to such a change in the criteria for organic certification, organic air freight producers may well have to seek alternative markets elsewhere (which are likely to be less lucrative), or obtain organic certification from a different certifying body, if possible. Given the predominance of the Soil Association's organic label, this may have other disadvantages, e.g. in terms of reduced consumer recognition, etc.

Gibbon and Bolwig (2007) assessed the impact of an outright ban by the Soil Association on air-freighted organic imports. The study conservatively estimated that 21,500 livelihoods are directly and indirectly dependent on the export of Soil Association-certified products. It was estimated that the static effect of a ban would be an immediate annual loss of organic retail sales of around £42.6million. They found that around 50–60 exporters of organic produce worldwide would be likely to be immediately affected, of which probably half export only organic produce. In sub-Saharan Africa, around 11–15 export companies would be affected by such a ban. Located in South Africa, Zambia, Cameroon, Gambia, Ghana and Kenya, they account for around 2000 tonnes, or just under a third, of all UK air-freighted produce.

The extent to which the effect of a ban would be the same as the effect of the current proposal – to remove the organic label from all air-freighted produce that is not also Fair Trade certified or equivalent – depends on the extent to which it would be possible for all organic, air freight producers to obtain Fair Trade certification or equivalent.

Only one large exporter in Ghana is already certified ethical trade and therefore would meet the proposed new requirements. The rest would need to work towards compliance. The Soil Association has suggested two years (i.e. requiring compliance from 2011) as a reasonable timeframe for achieving this. However, this time period is a key element of their current consultation process.

Box 6: The impact of a Soil Association ban on air-freighted organic imports

The ITC undertook an analysis of the potential impact of a ban on organic air-freighted products, as was originally proposed by the Soil Association. As part of this analysis, they examined the impact on Kenya and Ghana, which are respectively the third and fifth most important suppliers of air-freighted goods to the UK.

Kenya

The Kenyan certified organic sector falls into two segments. The first is the East African Organic Products Standard (EAOPS), launched in May 2007, which supplies the national and regional market with 15 retail and catering outlets in Nairobi trading products certified to local standards. The second segment is certified to the EU and/or US and Japanese regulations, producing almost entirely for export. According to the Kenya Organic Agricultural Network (KOAN), there are 23 operators certified to international standards.

Horticultural production for export in Kenya reached a value of around US\$700 million in 2006, of which about 33% (US\$230 million) comprised fresh vegetables. Of these, 70% were directed to the UK market, almost entirely exported by air. Direct and indirect employment in the horticulture sector stands at around 10% of the Kenyan population.

All organic fresh vegetable exports are from two large-scale commercial farming operations that predominantly export conventional (non-organic) products. Both have been certified organic for seven to eight years. One produces solely from a single large farm, whereas the other has two smaller adjacent farm units and in addition contracts production to a medium-scale certified contract farmer. Both depend entirely on air freight for their exports. Only the larger of the two main operators is currently certified to Soil Association standards, but both use export and import agents who are Soil Association certified and would thus be affected by a ban.

If the Soil Association were to introduce a ban on air-freighted organic produce, and UK supermarkets encouraged their importers to retain Soil Association certification, the estimated immediate effect of the ban for these two grower/exporters would be a cut in 50% of its total labour force, which consists of around 700 workers. Of these workers, 90% are women and 95% are casual workers. Employment in the fresh organic produce sector represents the major source of income for many households in Kenya, so this would imply an immediate fall in living standards for those made unemployed and for their dependants.

Ghana

The organic sector in Ghana is growing but is still relatively small, with 12 internationally certified exporters of organic products based in the country and two in conversion. There is no official data source on the total volume (or value) of organic exports from Ghana, and the domestic market is not significant.

Fresh fruits account for the vast majority of organic exports by air, with the bulk of exports consisting of pineapples (54% in 2006) and papayas (36%). It is estimated that at least 50% of the volume of Ghanaian air-freighted organic exports goes to the UK (with Holland and Switzerland the other two major destinations).

Three companies account for all air-freighted fresh fruit exports. The first is a large UK-owned firm producing mainly pre-cut and ready-to-eat fruits, which are prepared and packed in a factory in Ghana and sold directly to supermarkets in the UK and Holland. The other two are smaller companies exporting whole fresh fruits to mainly the UK and Switzerland, respectively. For the large company, the share of organic produce is around 5.7% of export volumes; for the two smaller companies, nearly 100% of production is organic.

The development of organic fruit exports has generated employment as well as significant income increases and benefits for most of the farmers concerned. Many smallholder farmers who joined the programme for organic group certifications are getting better prices, and rely on this to enable them to pay for education for their children and the costs of health care. Banning air freight of organically certified products to the UK markets would thus have serious consequences for the many farming communities in the country that depend on the production of such export crops.

Given the existence of relatively large domestic and regional conventional markets for the products concerned (papaya, pineapple and coconut), production levels and sales could be maintained in principle, even if a ban were introduced. However, this is likely to result in reduced prices accruing to the producers. On this basis, de-certification is likely to impact negatively on the livelihoods of more than 4000 rural people, comprising farmers, their workers (both formal and informal) and their dependants.

Source: Gibbon and Bolwig (2007).

6.2.4 Overall development impact

The Soil Association's organic label has been designed largely to fulfil environmental objectives and address developed country consumer concerns. It has, however, created valuable new market opportunities for a growing number of developing country producers, with associated environmental benefits.

The proposed removal of the organic label from air-freighted produce is likely to reduce the incomes of these producers by forcing them to seek alternative, less lucrative markets, unless they can either achieve Fair Trade certification or its equivalent reasonably quickly, or obtain organic certification from another body.

To the extent that the move by the Soil Association encourages and enables producers to achieve Fair Trade or equivalent certification, it may have beneficial effects. However, the feasibility of Fair Trade certification for all producers remains questionable, particularly if Fair Trade or equivalent schemes are currently not in operation in the respective country or applied to the respective product.

Thus, the development of certification agencies in developing countries and their ability to certify these new market access requirements will be an important determinant of the impact of this proposal. It is possible that this switch would lead developing country producers to switch to non-organic production, with associated environmental costs.

The impact of the introduction of this new requirement on current levels of carbon emissions is likely to be very small. The Soil Association itself concedes that air freight currently makes a negligible contribution to global carbon emissions. However, the Soil Association has made these proposals primarily out of concern for the projected growth, which positions air freight as a much more significant contributor to climate change in the next 30 years.

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 with other sources of carbon emissions, the contribution from trade is small. In the UK, total international freight is responsible for only 5% of air transport emissions, whereas passenger flights account for 90% (MacGregor and Vorley 2006). The environmental impacts of consumers shopping by car vastly outweigh those from transport within the food distribution network. There is a risk, in such measures, that the costs of responding to climate change are being passed on to those who contributed least to creating the problem.

7. GlobalGAP

7.1 Objective and focus

The objective of GlobalGAP, previously known as EurepGAP, is to reassure consumers about the environmental impact of farming, and engender a responsible approach to worker health and safety as well as animal welfare. The code for the production of fresh fruit and vegetables was launched in 1996 by a group of 11 British and Dutch retailers with the objective of creating a single private sector standard for ensuring the food safety and quality of fruit and vegetables from seed to farm gate.

The GlobalGAP protocol defines the elements of good agricultural practices (GAP). It includes topics such as Integrated Crop Management (ICM), Integrated Pest Control (IPC), Quality Management System (QMS), Hazard Analysis and Critical Control Points (HACCP), worker health, safety, welfare and environmental pollution and conservation management. The standard helps to avoid multiple audits of standards required by buyers by harmonising those which are legal requirements to access European markets.

7.2 Economic and social impacts

7.2.1 Scale of coverage

GlobalGAP has a very high coverage, with 275 companies as registered members (including 30 major retailers in 12 countries), and over 68,000 certified producers (UNCTAD 2008). Most European buyers of agricultural products now demand evidence of certification as a prerequisite for doing business. So although standards are voluntary, they have effectively become a prerequisite for market access. It covers all agricultural products and almost all producers supplying UK retailers. Thus GlobalGAP has a major influence on horticulture and other agri-food supply chains, including livestock and aquaculture.³⁵

By April 2007, 2254 producers in sub-Saharan Africa had obtained GlobalGAP certification, of which 1538 were in South Africa. There are two options for certification. Option 1 is more stringent and requires compliance with all control points. Most large-scale growers opt for this. Most small-scale growers take the second option, which is less stringent, but requires QMS (see IIED and NRI 2008). It has been noted by the FAO (2006) that most larger exporters have accessed certification through GlobalGAP Option 1 (individual farm certification) and that, since horticulture export is highly reliant on forward marketing arrangements between exporters and buyers, capacity building for smallholders has fallen largely on exporters. Most donor efforts have therefore been devoted to certifying small holders organised as groups under GlobalGAP Option 2 (group certification). Under this option, farmers have to develop their own technical teams and QMS.

³⁵ Standards for Tilapia and Pangasius are currently under development.

Table 8: Number of GlobalGAP certified producers (Options 1 and 2), April 2007

| | Number of certified producers | | | Produce marketing organisations | Certified producers by certification option (%) | | |
|--------------------------|-------------------------------|----------|----------|---------------------------------|---|----------|----------|
| | Total | Option 1 | Option 2 | | Total | Option 1 | Option 2 |
| World | 68,006 | 21,766 | 46,240 | 948 | 100 | 32.0 | 68.0 |
| Developing countries | 12,799 | 4954 | 7845 | 216 | 100 | 38.7 | 61.3 |
| | | | | | | | |
| Africa | 2871 | 1873 | 998 | 60 | 100 | 65.2 | 34.8 |
| Sub-Saharan Africa | 2254 | 1527 | 727 | 33 | 100 | 67.7 | 32.3 |
| South Africa | 1538 | 1442 | 96 | 2 | 100 | 93.8 | 6.2 |
| Kenya | 606 | 31 | 575 | 27 | 100 | 5.1 | 94.9 |
| Côte d'Ivoire | 39 | 0 | 39 | 1 | 100 | 0.0 | 100.0 |
| Ghana | 29 | 21 | 8 | 1 | 100 | 72.4 | 17.6 |
| Zambia | 13 | 4 | 9 | 2 | 100 | 30.8 | 69.2 |
| Ethiopia | 8 | 8 | 0 | 0 | 100 | 100.0 | 0.0 |
| Zimbabwe | 7 | 7 | 0 | 0 | 100 | 100.0 | 0.0 |
| Senegal | 6 | 6 | 0 | 0 | 100 | 100.0 | 0.0 |
| Namibia | 4 | 4 | 0 | 0 | 100 | 100.0 | 0.0 |
| Cameroon | 2 | 2 | 0 | 0 | 100 | 100.0 | 0.0 |
| Madagascar | 1 | 1 | 0 | 0 | 100 | 100.0 | 0.0 |
| Tanzania | 1 | 1 | 0 | 0 | 100 | 100.0 | 0.0 |
| North Africa | 617 | 346 | 271 | 27 | 100 | 56.1 | 43.9 |
| Morocco | 353 | 210 | 143 | 13 | 100 | 59.5 | 40.5 |
| Egypt | 248 | 120 | 128 | 14 | 100 | 48.4 | 51.6 |
| Tunisia | 16 | 16 | 0 | 0 | 100 | 100.0 | 0.0 |
| | | | | | | | |
| Developing Asia | 5381 | 660 | 4721 | 82 | 100 | 12.3 | 87.7 |
| Turkey | 3295 | 103 | 3192 | 39 | 100 | 3.1 | 96.9 |
| Other developing Asia | 2086 | 557 | 1529 | 43 | 100 | 26.7 | 73.3 |
| | | | | | | | |
| Latin America, Caribbean | 4547 | 2421 | 2126 | 74 | 100 | 53.2 | 46.8 |
| South/Central America | 4300 | 2267 | 2033 | 71 | 100 | 52.7 | 47.3 |
| Mexico, Caribbean | 247 | 154 | 93 | 3 | 100 | 62.3 | 37.7 |
| | | | | | | | |
| All other countries | 55,207 | 16,812 | 38,395 | 732 | 100 | 30.5 | 69.5 |
| EU | 51,682 | 16,029 | 1676 | 688 | 100 | 31.0 | 69.0 |
| Australia, New Zealand | 2010 | 334 | 1676 | 12 | 100 | 16.6 | 83.4 |

Source: UNCTAD (2008).

7.2.2 Potential benefits and impacts for developing country participants

GlobalGAP improves health and safety standards for workers and environmental standards. The GAP referred to relate to: keeping pests away, hygiene, chemical control, safe pesticide use, using inputs safely and appropriate use of fertilisers. Increasing ICM and a responsible approach to worker welfare are also becoming increasingly important for retailers.

Improved crop practices enable farmers to produce more and maintain access to export markets. Donor assistance in meeting the standards has delivered benefits for some producers, such as training and infrastructure development.

IIED and NRI (2008) present a synthesis of the costs and benefits of EurepGAP compliance for African smallholders in three sub-Saharan African countries: Kenya, Zambia and Uganda. Overall, the benefits reported by surveyed small-scale growers included preferential market access and non-financial benefits, such as improved field hygiene, better knowledge about pesticide use and improved farm management capabilities. Farmers with GlobalGAP certification reported clear benefits from the adoption of good agricultural practice implementation. Most farmers said they had transferred hygiene messages home with positive implications for family health.

The benefits of GlobalGAP certification are very country and producer specific – and also depend on the institutional context, such as the extent to which private and public actors collaborate in fostering producer organisations and cluster development to reduce transaction costs.

The potential for financial benefits through increased turnover resulting from certification are estimated by IIED and NRI to be less recoverable in the case of smallholders than for larger exporters. Nevertheless, compliance with the standard enables the effective management of risks associated with the spread of plant and animal pests and disease and the incidence of microbial pathogens or contaminants in food, especially in high-value perishable agri-food products, in addition providing incentives for modernisation (UNCTAD 2008).

According to Henson and Jaffee (2006), standards may act as catalysts for development if compliance is viewed as a strategic issue and managed at least to minimum competitive disadvantage. The World Bank in its World Development Report 2008 posits spillover benefits to the domestic economy resulting from certification.

Graffham et al (2007) have undertaken impact studies of GlobalGAP on small-scale vegetable growers in Kenya, Zambia and Uganda. The main findings of these are noted below.

Kenya³⁶

- The GlobalGAP standard has been the main driver for change in producer and exporter practices in Kenyan horticulture.
- Many Kenyan exporters have significantly reduced their involvement with small-scale growers since the introduction of GlobalGAP in mid-2003.
- Maintenance costs of compliance are high relative to average smallholder margins, necessitating financial support from export companies.
- Reducing recurrent costs is the key to sustaining smallholder inclusion.
- Some of the advantages of standards are the increased demand for export horticulture and injected cash into rural areas which has increased the value of skilled labour.

Zambia³⁷

- The geographic position of Zambia means relying on high-value markets that demand compliance with GlobalGAP as the absolute minimum for market entry.
- The experience of a smallholder group marketing organisation has shown that compliance with GlobalGAP is technically feasible.
- Zambian smallholders had a very positive view of GlobalGAP as a standard and are convinced of the benefits of good agricultural practice.
- However, the costs are currently pushing smallholders away from export or at least from exporting GlobalGAP compliant product.

Uganda³⁸

GlobalGAP certification is viewed first and foremost as a means to secure market share in European markets and even recapture markets that have recently been lost.

³⁶ Graffham et al (2007).

³⁷ Graffham and MacGregor (2007).

³⁸ Kleih et al (2007).

Asfaw (2008) presents results from a survey of small-scale producers in Kenya, most of whom considered better access to markets and income security as the major benefits of certification, as well as increased prices, timely payments and promotion of worker safety and health.³⁹

7.2.3 Compliance and certification costs

As borne out by the impact studies cited above, compliance costs are high (see FAO 2006). For many producers, particularly smallholders, compliance has not been possible. For many, it has been possible only with considerable support from donors and export companies. According to Mausch et al (2006), attribution of compliance costs is difficult, as the requirements for GlobalGAP may overlap to some extent with other standards.

Based on case study and survey data, IIED and NRI (2008) point out that, between 2003 and 2006, 60% of Kenyan growers were dropped from EurepGAP compliance schemes owing to problems with implementation. Of those able to attain certification, 15% were subsequently dropped by their exporter as the costs of maintaining their certification was not matched by the level of income obtained.

In terms of initial costs for GlobalGAP compliance, IIED and NRI estimate that, on average £1000 is required per small-scale grower, a major investment for a developing country producer. However, although initial investments are typically high, they are usually spread over stakeholders: 36% borne by small-scale growers; 44% by exporters; and 20% by external agencies (donors).⁴⁰

IIED and NRI (2008) find that recurrent costs associated with compliance are on average £175 per annum, with 14% paid by the growers themselves and the remainder by exporters. The recurrent costs borne by the growers are very high relative to average smallholder returns – an average of 21% of turnover – which makes continued investments in GlobalGAP unviable without external financial support. The most challenging criterion in the implementation process of GlobalGAP in some cases has been the record-keeping requirements associated with the demand for traceability of produce and chemical application.

Henson and Jaffee (2006) estimate non-recurring costs to be in the region of US\$450 to \$510 for outgrowers (with 15 to 20 acres) who supply exporters and from US\$75,000 to \$100,000 for integrated producer/exporters with 1000–1800 acres. This varies from less than 4% of annual sales for producer/exporters to 6–11% for smaller producers. Recurring costs tend to be in the region of less than 1% of the value of annual sales (see UNCTAD 2008).

Although initial investments may be high, they may be recuperated over time through the ability to access a higher value market. According to survey results, Asfaw (2008) points out that, although the total cost incurred by individual farmers to GlobalGAP is in the range of US\$508, with additional costs for exporters for each certified farmer of US\$117 per year, the initial costs of investment by individual farmers may be paid off within three years (with donor support) or seven years (without).

UNCTAD (2008) notes that certification remains an immense challenge for most producers in sub-Saharan Africa, requiring investments at both macro and farm levels.

7.2.4 Overall development impact

GlobalGAP has had a significant impact on agricultural producers across the world, and in developing countries in particular, resulting in improved environmental, health and safety standards for producers. However, the evidence suggests that it has raised the bar for access to EU markets in a way that now excludes many developing country producers, particularly smallholders.

³⁹ Followed by 'increased quality production and reduced rejection, increased knowledge on chemical use and access to credit, increased consumer welfare and improved bargaining power with exporters.

⁴⁰ In Kenya, over £2 million has been spent on bringing some 2000 farms to a position where they can be audited for compliance.

The results of a survey by Asfaw et al (2007) of adopters of EurepGAP and non-adopters 'empirically demonstrate that resource poor farmers with limited access to information and services hardly comply with the food safety standards. Access to information, capital, services and the availability of labour are major factors influencing the ability of small-scale producers to adopt.'

As such, GlobalGAP may have resulted in consolidation in the agriculture sector, as large farms that are better able to bear the costs of certification absorb smallholders, but there is currently a lack of case study or empirical evidence to support this proposition.

Although donors are at present helping to support compliance by small-scale growers, it is not clear to what extent this support is sustainable or whether it will create ongoing dependency. In the case of Kenya, phased withdrawal of funding and insistence on exporters' investment in small-scale growers has been instrumental in ensuring the inclusion of some small-scale growers (IIED and NRI 2008), but this has not prevented the exclusion of many.

It is difficult to assess whether the benefits of donor assistance programmes are captured mainly by farmers or actually accrue further up the value chain. It could be argued that these programmes are indirectly subsidising developed country retailers and consumers.

So, while the implementation of GlobalGAP has undoubtedly stimulated a significant reorganisation of agricultural production systems in developing countries, and improved environmental, health and safety standards for many producers, it appears to have had a significant negative impact on the livelihoods of many thousands of others, who are unable to comply with its requirements.

8. Fairfood Foundation

8.1 Objective and focus

The Fairfood scheme is a new scheme being piloted in the UK this year, having already been established in the Netherlands. The objective is to raise public awareness and increase the share of 'fair products' in consumers' shopping, and to contribute to the sustainability of supply chains. It aims to increase the transparency of reporting by manufacturers and retailers.

It is a voluntary scheme that provides a relative comparison of the ethical and environmental performance of retailers and manufacturers, as measured by compliance with a range of existing standards and codes, advertised in-store and available to customers in booklet form.

8.2 Economic and social impacts

8.2.1 Scale of coverage

Overall impact will depend on uptake by retailers and manufacturers. It is unlikely by itself to generate much change in operation at the level of the farm unless it is widely adopted and becomes a real focus of competition.

It is similar in some respects to the 'Race to the Top' UK initiative (2004) which, being voluntary (like the Fairfood Initiative), failed owing to a lack of uptake by supermarkets (see Fox and Vorley 2004).

8.2.2 Potential benefits and impacts for developing country participants

The approach could help to strengthen incentives to adhere to existing environmental and ethical standards, with their associated benefits and costs for developing country producers.

The extent of change that may be generated by this initiative is unclear as yet, as it will depend on how much effort retailers need to make in order to secure a 'fair' rating (with the bar being set ex-post by retailers' average performance), and the extent to which they choose to do so, which may be mutually dependent.

Retailers are already increasingly sourcing in a more ethical and environmental manner in order to meet their own CSR objectives, so the strength of the additional incentive generated by this initiative is unclear. The 'in-between' rating is relatively easy for retailers to achieve, by only responding on one aspect of the questionnaire, so in this sense there is a risk that impact will be limited.

8.2.3 Compliance and certification costs

The costs of assessing and reporting performance may be fairly high, particularly for supermarkets, with many own-brand products to cover. There is evidence from the Netherlands, where the scheme originates, that retailers have been somewhat resistant to engaging with this scheme in light of these costs.

The costs of compliance will depend on the sourcing strategies already being used by the retailer, and the degree of change generated by this scheme, as discussed above.

8.2.4 Overall development impact

The potential impact of the scheme is unclear as yet, and will depend on take-up and consumer awareness. While there is a risk that impact will be limited, the methodology is relatively low cost. The initiative intends to increase retailer participation in adhering to the range of labels and standards currently on offer in the marketplace. In this respect, the scheme is building on currently available

labels and standards, and is more cost effective than many other schemes, which require more complex organisational infrastructure.

As with other CSR schemes and standards, there is a risk that the costs associated with compliance are passed down the value chain to producers, with retailers and manufacturers effectively acting as standard makers, rather than standard takers.

9. Tesco's 'By Air' label

9.1 Objective and focus

The objective is to reduce the number of air-freighted goods sold in store and therefore contribute to Tesco's emissions reduction strategy, in which Tesco has pledged to reduce the amount of air-freighted produce it sells from the current level of around 2% to 1%. The 'By Air' label is considered a stopgap measure until a more robust methodology for assessing a product's carbon footprint is developed, something which Tesco is working with The Carbon Trust to achieve.

9.2 Economic and social impacts

9.2.1 Scale of coverage

Only 1.5% of fresh fruit and vegetables imported into the UK arrive by air transportation. In volume terms, 40% of air-freighted fresh fruit and vegetables to the UK were from sub-Saharan African (MacGregor and Vorley 2006). This trade has received a great deal of attention owing to concerns about the carbon impacts of food that is transported by air. In fact, 90% of Africa's exports of fruit and vegetables, measured in tonne km (weight * distance) to the UK travels by ship, which has the lowest per tonne impacts of any transport mode (DEFRA 2007). However, air-freighted food from Africa has increased steadily, from 139m tonne km in 1992 to 560m tonne km in 2004.

Total air freight imports of fresh fruit and vegetables into the UK in 2005 are estimated to have been around £200 million.⁴¹ Kenya is the biggest air freight exporter of fresh produce in sub-Saharan Africa – 91% of all horticulture exports from Kenya are air freighted, and the UK is the leading market for Kenyan exports in the EU.⁴²

So, while in aggregate terms the potential impact of such a label is fairly limited, it is likely to have a very significant effect on those economies most dependent on air-freighted horticultural exports (including fresh flowers), such as Kenya.

9.2.2 Potential impacts on developing country market participants

If the label results in reduced sales of produce air freighted from developing countries, this will result in a reduction in market size and associated loss of revenue (and possibly jobs) for those developing country producers affected, such as in Kenya, where the vast majority of horticultural exports are air freighted. This could have a substantial economic impact in a country where 70% of the population is linked to agriculture, and where it is estimated that every £1 of agricultural income generates another £1.64 for other businesses in Kenya (IIED 2006).

However, anecdotal evidence suggests that the label has not in fact reduced demand for such air-freighted produce, so in practice the label may have little impact on producers. More robust evidence on this would be desirable.

9.2.3 Compliance costs

Tesco bears the cost of labelling. However, if the label did prove to act as a strong deterrent to consumers purchasing air-freighted produce, producers may be forced to explore alternative transportation methods, such as shipping. The feasibility and cost effectiveness of these alternatives will depend on the nature of the produce (e.g. how perishable it is), and geographical location of the host country. Feasible alternatives to air freighting produce may not be available, or may be very costly for producers and exporters.

⁴¹ See Saunders and Hayes (2007:14)

⁴² See <http://www.agrifoodstandards.net/en/filemanager/active?fid=44>

9.2.4 Overall development impact

As noted above, the potential impact of the label on particular countries and produce categories could be severe, although there is no evidence that this has been the case to date, as the customer response appears to have been limited, or even positive – the opposite of what was expected.

However, the label reflects a wider concern over ‘food miles’ which may mitigate against developing country producers – and indeed against imports of horticultural produce more generally – in the longer term. Nevertheless, there is growing recognition of the potential negative impacts on developing country producers associated with such initiatives, and a new push for ‘fair miles’ is becoming increasingly evident.

As noted previously, air freight currently makes a negligible contribution to global carbon emissions, especially compared with other contributing factors such as road traffic and air passenger flights. The carbon dioxide emitted by air freighting food accounts for just 0.2% of the UK’s total emissions from all sectors, and is responsible for 11% of emissions from UK food transport (Soil Association 2007). (Although how this should be attributed is unclear, given that a reasonable proportion of horticulture exports are flown in the hold of passenger flights, and hence represent limited additional costs in terms of carbon emissions.)

In the UK, passenger flights account for 90% of emissions from air transport, and international freight for 5%. Thus, the impact of Tesco’s By Air label on current levels of emissions – and hence on climate change – is likely to be very small.

While the creation of a robust, cost-effective methodology for measuring the carbon footprint of a product will help to ensure that any future carbon labelling scheme more accurately measures environmental impacts, it will also be important to ensure that consumers understand the impact relative to other sources of carbon emissions, as well as the associated development implications of their purchasing decisions.

10. Utz Certified/Utz Kapeh

10.1 Objective and focus

The aim of the scheme is to encourage coffee to be grown in a sustainable way while complying with environmental and labour laws. The Utz certification programme is based on the Utz Certified code of conduct. Utz Certified is similar to GlobalGAP, but with additional standards relating to labour and additional services provided, such as market information on coffee prices, which is designed to help producers negotiate fair prices. Utz Certified was previously known as Utz Kapeh (having changed its name in March 2007).

10.2 Economic and social impacts

10.2.1 Scale of coverage

At the end of 2005, 50 exporters, traders and roasters actively participated in Utz Certified and purchased 480,000 60kg bags of green coffee for consumption in 17 countries including Japan, the US and Western Europe.⁴³ By 2006, this had increased to 600,000 60kg bags (Utz Certified 2006). This equates to 28,800MT of Utz certified worldwide in 2005, increasing to 36,000MT in 2006. This compares with Fair Trade global sales of certified coffee in 2005/2006 at 33,994MT (Fair Trade Foundation UK 2007b).

As of 2005, there were 16 certified producing countries (14% year on year growth in 2004) and in total 135 producers certified. Producers are estimated to include 50,100 permanent and 50,200 seasonal workers, and cover an estimated 111,000 hectares (Utz Certified 2006).

European demand for the scheme is increasing: it has an estimated 25% market share in the Netherlands. Utz Certified pertains to have a presence in all major retailers in the UK (under the Sara Lee Douwe Egberts brand) and selling through ASDA and Walmart retailers – although no information is available as to the actual market share in the UK.⁴⁴

Janisch (2007) notes that Utz Certified is the largest certification programme in Africa, certifying 13% of Kenyan and 25% of Zambian coffee. The following sub-Saharan African countries have Utz Certified producers: Ethiopia, Kenya, Tanzania, Uganda and Zambia.

10.2.2 Potential benefits for participating farmers

The Utz Certified code of conduct uses the GlobalGAP requirements so as to ensure environmental benefits such as compliance with maximum pesticide residue levels and prevention of soil erosion, but includes additional social criteria and adherence to ILO conventions regarding age, collective bargaining and safety.

Unlike Fair Trade, no price premium is specified, and prices are negotiated by producers themselves and not Utz Certified. However, as noted within the annual report for 2005, the scheme provides greater transparency in the form of aggregate data on premiums paid as well as historical and forecast information on supply and demand. This information is intended to contribute to a more balanced starting point for price negotiations, which enables the producers themselves to negotiate a better price for their coffee. In addition, certified producers are listed on an international Utz Certified database, which ensures traceability for buyers.⁴⁵

For both these reasons, producers may benefit from a stronger negotiating position, and have access to a more lucrative segment of the market, but, unlike with the Fair Trade scheme, it is up to them to

⁴³Total UK imports of coffee (including prepared) were around 117,552 MT in 2006 (COMEXT database).

⁴⁴ See http://www.sustainableinnovations.com/PDF/UTZ_keypoints.pdf.

⁴⁵ A web-based 'track and chase' follows the Utz Certified coffee through the chain from grower to roaster (Janisch 2007).

create a stable commercial relationship on the basis of their product. It has been estimated that the premium associated with Utz Certified certification is around 5% of the total negotiated coffee price (see Utz Certified 2005), although it is noted that no quantitative financial information on the benefits of Utz Certified certification has been collected.

As with Fair Trade, not all eligible produce is in fact purchased as Utz Certified. The amount of certified coffee purchased by buyers is approximately 27% of that produced. This compares with around 20% of Fair Trade-certified produce. Although between 2005 and 2006, year on year growth of Utz Certified coffee **purchased** increased by 36%, Utz Certified coffee **produced** increased by as much as 102%.⁴⁶ This means that although producers may undertake the necessary investment to achieve certification, they may not reap the level of benefits they were expecting.

10.2.3 Compliance costs

If producers already adhere to the GlobalGAP scheme then compliance costs are limited to the additional social criteria. However, compliance costs are likely to be lower for buyers than Fair Trade, as there is no price premium or minimum price specified, no requirement for long term contracts, etc.

10.2.4 Overall development impact

The scheme benefits participating producers in terms of improved environmental and social standards but, as with other standards, compliance costs may fall to a significant degree on producers. However, because it is associated with a consumer label, the scheme may deliver a better price premium for certified producers than under non-labelled schemes such as GlobalGAP and ETI, though this still depends on the bargaining power of producers vis-à-vis buyers.

The overall scale of impact is fairly limited given that only one product is covered, and only a small proportion of the global coffee produced is certified. However, the scheme is potentially more scaleable than Fair Trade, given the relatively low compliance costs for buyers, particularly if producers are already certified to GlobalGAP.⁴⁷

⁴⁶ Based on our calculations using 2005 data from Utz Certified (2005).

⁴⁷ There is considerable overlap between Utz Kapeh and EurepGAP certification procedures.

11. Marine Stewardship Council

11.1 Objective and focus

The Marine Stewardship Council (MSC) is a private, non-profit accreditation body dedicated to running an eco-labelling programme for the purpose of promoting and encouraging well-managed and sustainable fisheries, in order to avert the worldwide decline in fish stocks.⁴⁸

11.2 Economic and social impacts

11.2.1 Scale of coverage

The scheme covers wild catch and farmed fish products: 35 countries use the MSC label and four million tonnes of fish, 7% of all the world's catch, now qualifies.⁴⁹

The MSC notes that, as of 2007, there were more than 250 seafood businesses with chain of custody certificates or MSC licence logo agreements and nearly 500 MSC-labelled products available to consumers in 25 countries around the world.⁵⁰

Janisch (2007) notes that there was a 50% growth rate in the number of seafood products displaying the MSC logo between 2005 and 2006, and an increase in retail sales of 76% over the same period. In 2007, the number of businesses trading in MSC-certified fish rose to 433 (including buyers, manufacturers and retailers). These findings pertain to continued growth in terms of number of products labelled and country (market) reach. However, 89% of these products contain either Alaskan Salmon or New Zealand Hoki (Ponte 2006). This indicates that the actual certified product is focused to a large degree on certain fish species and therefore regions. As Table 9 below shows, most certified fisheries are located in the UK and US, with minimal developing country coverage (MSC 2007). This is despite the fact that developing countries accounted for nearly half of the US\$60 billion global fish exports, with low-income food exporting countries making up 20% of exports, at US\$12 billion (Ahmed 2006).

Table 9: Certified MSC fisheries in 2006/2007⁵¹

| Country | No. of MSC-certified fisheries |
|--------------------------|--------------------------------|
| US | 12 |
| UK | 11 |
| Canada | 5 |
| Australia | 3 |
| Sweden | 3 |
| Norway | 3 |
| Mexico | 2 |
| New Zealand | 1 |
| South Africa | 1 |
| S. Georgia ⁵² | 1 |
| Vietnam | 1 |
| Japan | 1 |
| Germany | 1 |
| Chile | 1 |
| Netherlands | 1 |
| Argentina | 1 |

Source: MSC (2007).

⁴⁸ The underlying claim is that governments and international organisations have on their own failed to implement sustainable management in their fisheries (Ponte 2006).

⁴⁹ See http://blogs.guardian.co.uk/food/2008/02/fishy_business.html.

⁵⁰ See http://www.msc.org/html/ni_272.htm.

⁵¹ Both certified prior and subsequent to 2006/2007.

⁵² And the Sandwich Islands.

However, Janisch (2007) notes that the MSC's Developing World Programme had received funding that year to increase outreach to developing countries, and that the German Development Cooperation (GTZ) Promotion of Responsible Fisheries Project has commissioned a pre-feasibility study of MSC certification of artisanal fisheries on the coast of Senegal, together with the MSC Developing World Programme's cooperation and support. The information concerning bottlenecks in progress towards potential certification is also relevant for other African artisanal fisheries.

Challenges noted by the UN Environment Programme (UNEP 2005a) for fisheries in sub-Saharan Africa include:

- A mismatch between modern certification requirements and the reality of many small-scale artisan fisheries;
- A general lack of sound fishery management;
- The need for capacity building in relation to standards development, harmonisation and certification; and
- Highly dispersed fisheries, which makes it difficult to enforce the scheme.

In the UK, Sainsbury's is the main user of the MSC for own brand products.⁵³ In 2007, £5 million worth of MSC-certified fish was sold in Sainsbury's stores. Sainsbury's stocks the widest range of MSC-certified products, offering over 20 MSC-certified fresh and processed products. These include Thames Blackwater herring, New Zealand hoki, Alaskan salmon, South African Cape hake and Pacific cod.⁵⁴

11.2.2 Potential benefits for participating fisheries

The MSC benefits the fishing industry by: i) providing evidence and recognition of good fisheries management; ii) helping to improve fisheries management; iii) enabling fisheries to obtain preferred supplier status; and thus iv) potentially generating increased returns for participating fisheries, particularly in niche markets.⁵⁵ Although increased returns are posited, the scheme does not guarantee a price premium. Ponte (2006) notes that 'increased returns' are of a more generic nature and could refer to a larger market share.⁵⁶

In the longer term, the scheme should also contribute to greater sustainability of the participating fisheries. Ponte (2006) notes that socioeconomic considerations are included within evaluation of the performance of the fishery management system. However, the explicit reference to equity and impacts on local communities is vague and made without reference to historical dynamics.⁵⁷

11.2.3 Compliance costs

The costs of compliance are relatively high given the need for data on fisheries, stock, steady state, replenishment rates and the 'sustainable' amount of fishing permissible without depletion of the resource over the medium to longer term. The standards are therefore technical and complex and difficult to meet without knowledge of scientific data and continual measurement. This makes it difficult to adapt for small-scale, data-poor fisheries, and thus prevents many developing country producers from participating.

⁵³ ASDA is also switching to MSC-certified fish by 2011. See http://www.msc.org/html/ni_270.htm.

⁵⁴ See <http://www.jsainsburys.co.uk/cr/index.asp?pageid=98>

⁵⁵ See Ponte (2006), who makes reference to Peacey (2000).

⁵⁶ Ponte (2006) also points out that this is consistent with most 'new wave' certification schemes on sustainability such as Forestry Stewardship Council (FSC), Utz Certified and Rainforest Alliance certified coffee. These schemes rarely offer a price premium. He argues that, in time, the standards that underpin them may become the new 'minimum standards' for the market, effectively redesigning the nature of market access; this has already happened to food safety and good agricultural practices such as EurepGAP, now known as GlobalGAP. (Old wave certification schemes such as Fair Trade do offer premiums over non-certified coffees at the production level.)

⁵⁷ These are difficult and complex, for example in establishing a scientific baseline or steady state from which levels must not be depleted.

Direct costs for a full assessment vary from US\$35,000 for a small, simple fishery to almost US\$350,000 for a large complex fishery. The overall cost depends on the nature of the problems uncovered.

The MSC's approach is based on bio-physical/environmental parameters – essentially an ability to 'count fish' – rather than considering how to maintain the numbers and the natural wealth they represent. There may be scope for alternative models based on assessing institutional performance (fiscal, legal, resource management, market access, credit, etc.) under effective private, rights-based regimes. These may offer a more suitable basis for assessing sustainability in fisheries of all sizes, and thus may provide a better basis for sustainability certification going forward.

11.2.4 Overall development impact

The difficulties of applying the MSC scheme in a developing country context are clear. Like other standards schemes, implementation in developing countries is likely to require considerable, costly technical assistance. There has been significant growth in fish exports from the developing world since the 1980s, but minimal coverage of developing country fisheries by the MSC. Andrews (2002) makes the point that there is a risk of a two-tiered system developing, with less developed countries shut out of more demanding markets. The lack of certification of fisheries in the developing world means there will be fewer incentives to tackle overfishing, which may affect the sustainability of resources on which many livelihoods depend.

Given that few developing country producers have been able to engage with the scheme to date, the economic impact is likely to be very small, or indeed negative, to the extent that it puts developing country producers at a competitive disadvantage to developed country producers that are able to meet the requirements of the scheme. However, as the percentage of overall fish sales that are MSC certified currently remains fairly low, it is unlikely to significantly affect developing countries' access to markets, although this could change if the MSC continues to grow.

In recognition of the failure to include developing countries' fisheries and exports within the scheme, the MSC is developing guidance for certifiers on the use of 'unorthodox' information on fisheries, such as traditional ecological knowledge and management systems. Ponte (2006) notes that the objective of this initiative is not to write a separate standard but instead to develop 'operational interpretations', so as to assess developing country fisheries. However, it is not clear whether any funding has been made available to developing country fisheries to assist with this.

To date, it does not seem to be the case that the implementation of this standard has negatively impacted developing country fish exporters, although if it becomes more widely adopted it may become more of a *de facto* requirement for market access in future, with the potential to negatively impact many developing country producers, unless they receive adequate donor-funded technical assistance to enable them to obtain certification.

12. Forestry Stewardship Council

12.1 Objective and focus

The objective of the Forestry Stewardship Council (FSC) is to promote responsible management of the world's forests. The standards of the FSC include taking into account the environmental, social and economic impacts of the forestry industry and plantations.⁵⁸

12.2 Economic and social impacts

12.2.1 Scale of coverage

The scheme covers wood and forestry products. Information on the amount of certified forest products entering major import markets is often based on rough estimates. The UNEP (2005a) notes that, in the UK, respondents have estimated that 10% of total wood consumption and 1% of paper consumption are FSC certified. In the US, around 2% of total wood and 1% of paper are estimated to be FSC certified.

According to Andrews (2002), only about 18% of the world's certified timber and timber products originate from developing countries (with 3% from the Asia Pacific region). As shown by Table 10, although most of the world's forests are tropical (often located in developing countries), most certified wood is from boreal and temperate forests (more often located in the developed world).⁵⁹

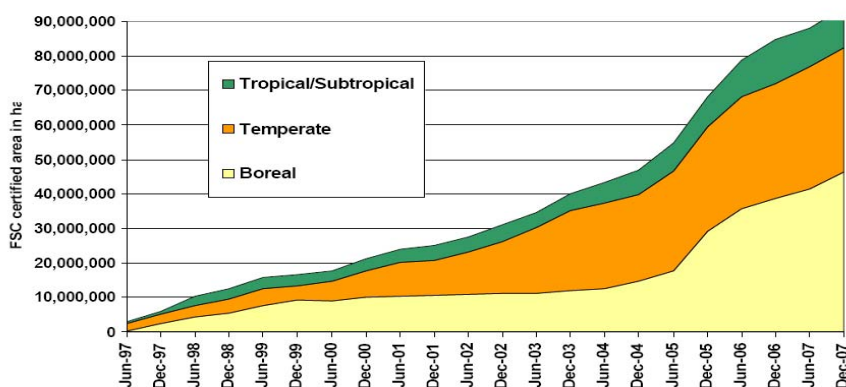
Table 10: Certified versus total forest area

| | Boreal | Temperate | Tropical/sub-tropical |
|------------------------|--------|-----------|-----------------------|
| % FSC-certified forest | 45 | 42 | 13 |
| % global forest cover | 33 | 11 | 56 |

Source: Adapted from McDermott (2005).

The FSC presents data to show that there has been an increase in the rate of FSC-certified tropical forest over time, but this has been marginal when compared with certified boreal and temperate forest as shown by Figure 6 and Table 11.

Figure 6: Rate of FSC-endorsed forest over time (June 1997 – June 2007)



Source: FSC (2008)

⁵⁸ The FSC includes 10 principles that act as the scheme standards, including both environmental and social principles. See <http://www.fsc-uk.org/about/principles/>

⁵⁹ Boreal forests are typically coniferous but form part of the Arctic tree line. Temperate forests are typically coniferous or broadleaf and occur in areas of high rainfall. Tropical forests are typically found near the equator.

As shown by Table 11 below, most certified forests are located in Europe and North America.

Table 11: Area certified by region

| Region | Hectares of certified land | % of total certified land globally |
|-----------------------------|----------------------------|------------------------------------|
| North America | 28,859,168 | 32 |
| Europe | 49,245,631 | 53 |
| South America and Caribbean | 8,945,090 | 10 |
| Oceania | 1,301,868 | 1.4 |
| Asia | 1,845,311 | 2 |
| Africa | 2,842,149 | 3 |
| Total | 94,039,217 ⁶⁰ | 100 |

Source: FSC (2008)

12.2.2 Potential benefits for participating producers

The potential impact for participating producers relates to improved environmental management and sustainability, improved social standards and access to the niche market for certified products. However, there is no evidence of a price premium for certified products.

Vogel (2005) notes that Northern NGO activism has primarily shifted international trade patterns, with certified timber being exported to North America and Europe and non-certified wood going to the rest of the world. Given that the degree of demand for non-certified products remains high, and the lack of a clear price premium for certified products, the economic benefits of participation are likely to be viewed by most developing country producers as minimal.

In the developing world to date, the FSC has arguably had little impact, as developing country foresters are unwilling to supply under stringent and costly certifying requirements for what appears to be a limited return (Vogel 2005; Andrews 2002). It is necessary first to create organised forest management and the institutional requirements for certification; it has been particularly difficult to create the conditions for certification in communal forests.⁶¹

Overall impacts are likely to be confined to those forests most able to adhere to the specified standards of production, which are most likely to be larger forests with the ability to i) comply, ii) monitor and iii) pay. An important consideration related to the objectives of the FSC is the extent to which certification of forest products offers incentives for developing country producers to retain the forest or clear it. Burger et al (2005) point out that, between 1990 and 2000, deforestation resulted in 142 million ha of natural forest being converted to other uses in the tropics, compared with only 4 million outside of the tropics: globally, 14.6 million ha of forest cover were lost to deforestation annually.⁶²

Burger et al (2005) point out that, from a development point of view, it is particularly important to emphasise that forest certification can potentially help to build social capital, i.e. help develop institutions around monitoring the rules of use. Forms of conflict resolution are developed and practised and the approach avoids the 'walling off of the forestry sector', which may have negative impacts on communities that rely on forest products for their livelihoods. However, other authors, such as Andrews (2002), point out that, for developing countries, standards are considered too stringent, not adequately adapted to local conditions and lacking in credibility or attractiveness owing to market access limitations and lack of price premium.

⁶⁰ Burger et al (2005) put the current certified forest area at approximately 236 million ha, as of 2002. This indicates that, as of 2007, the FSC had around a 40% market share of global certified product.

⁶¹ Burger et al (2005) state that around 1.1 million ha of communal forest worldwide are certified (around 50 certificates), of which most are located in Mexico and Guatemala. Communal forest is where people live within the forest area as well as use the forest for timber products. In San Juan Nuevo, Mexico, the community enterprise employs FSC's chain of custody guidelines in the production of a variety of timber and non-timber products. See FSC (2005).

⁶² For example, given the current rush to biofuels, see Grunwald (2008).

12.2.3 Compliance costs

The FSC criterion of sustainable forestry management is detailed, with 10 principles and 56 criteria to adhere to. According to Andrews (2002), the requirements tend to have a bias towards larger forest areas. One example given is with reference to criterion 6.4, which requires that ‘representative samples of existing ecosystems within the landscape shall be protected in their natural state’, which is clearly more feasible for a large forest than a small one. He also notes that, for a small timber producer, the length of the document is by itself likely to be a significant impediment.

Macqueen (2008) makes the argument (in setting out the case for an alternative model for certification for small-scale community forestry enterprises, along the lines of Fair Trade) that the FSC has had most success in certifying primarily large producer industries that can bear the certification costs.

Overall, the FSC scheme is costly and complex, requiring adherence to both social and environmental standards and baselines to be established in order to determine sustainable forestry use. Burger et al (2005) note that attempts should be made to avoid unnecessary complication, use understandable language and limit regulation to what is actually needed.

12.2.4 Overall development impact

While there is general agreement that certification is a useful voluntary instrument to encourage sustainable forest management, the proportion of total wood products certified is currently low, which suggests that the impact of the scheme may be limited.

The **criteria** and **process** by which certification is determined and conferred are the subject of heated debate, particularly among forest managers/producers in developing countries. In most cases, the criteria and standards set by internationally recognised certification bodies such as the FSC and others are too stringent and do not adequately appreciate the local conditions and difficulties faced by timber exporters in developing countries in implementing sustainable forest management (Andrews 2002). Thus, there are serious concerns about the ability of the FSC in its current format and model to seriously influence forestry practices in developing countries – which is a particular concern given its potential importance in tackling climate change.

Macqueen (2008) argues that a Fair Trade-type emphasis on increasing prices is what small-scale community forestry enterprises need as an incentive to invest in sustainable forestry management – and secure environmental and poverty reduction benefits at one stroke. However, it is also recognised that establishing such a scheme requires significant investment and the overcoming of challenges, one of which may be the lack of consumer willingness to pay for socially and environmentally sound production.⁶³

⁶³ More research is needed in this area. Although ethical considerations are often cited as being the main concern of consumers in the UK, until such initiatives are mainstreamed, it is arguably the ability to pay that determines the majority of purchases in the UK.

13. ISO 14000

13.1 Objective and focus

The International Organization for Standardization (ISO) was established in 1946 with the objective of eliminating technical barriers to trade through coordination and unification of industrial standards. 'The commitment of ISO members is part of a broader belief that economic and sustainable development depend upon the existence of an infrastructure for standardisation' (Haufler 1999).

ISO 14000 is a series of international standards on environmental management. It provides a framework for the development of both the system and the supporting audit programme. ISO 14001 specifies the requirements for an environmental management system: it is a general standard for guiding the environmental performance of industrial activities not limited to food production.

ISO 14000 standards state that certification requires compliance with existing regulations so that they reinforce government policies. It does not itself specify environmental standards but instead governs the means through which a company makes its production activities environmentally sustainable. National standards for compliance with ISO differ widely, similarly third-party audits.

13.2 Economic and social impacts

13.2.1 Scale of coverage

The World Trade Organization (WTO) recognises ISO standards as being compatible with its regulatory requirements for global trade.⁶⁴ Certification of ISO 14000 means that firms are automatically certified to the European Eco-Management and Audit Scheme (EMAS) (see Conway 1996), for which legislation was passed by the EU in 1995. Under the WTO Technical Barriers to Trade Agreement (TBT), member countries commit to adopting international standards whenever possible.⁶⁵ Thus, the ISO 14000 is to some extent a market requirement for companies wishing to trade within the EU.

However, the standards are nonbinding – in that no specific environmental standard is actually laid down, only a commitment to improving environmental outcomes. Governments can choose to adopt ISO voluntary standards into national regulatory and standards systems (as within the EU), either through an administrative process or through developing a national consensus (Haufler 1999). After a slow start, worldwide adoption is currently on the rise. Political pressure on companies to 'do something' about their environmental performance is leading many of them to look at widely accepted measures such as ISO 14000 as one way to demonstrate that they are taking action.

13.2.2 Potential benefits for participating producers

There is some degree of improved environmental performance and market access.

13.2.3 Compliance costs

ISO 14000 is viewed by commentators as being the lowest common denominator standard (see Haufler 1999 for examples). Although the environmental standard is relatively undemanding, this is positive in some respects, given that many developing countries perhaps struggle to meet the environmental standards sought under other schemes.

Nevertheless, meeting ISO 14000 standards requires some degree of national capability in terms of a national environmental management system in order for the standard to have any credibility. The costs

⁶⁴ Haufler (1999): while the GATT agreements allow companies to stop doing business with trading partners that fail to achieve ISO 9000 certification relating to QMS, refusing to do business with a company that failed to achieve ISO 14000 certification could be considered an illegal restraint of trade under the GATT provisions. See <http://www.referenceforbusiness.com/management/Int-Loc/International-Organization-for-Standardization.html>.

⁶⁵ The TBT also describes acceptable national standards development programmes.

for compliance therefore largely depend on the existence of a national environmental management system (Wall et al 2001).

13.2.4 Overall development impact

ISO 14000 appears to represent a minimum benchmark, and thus has similarly low costs and benefits. As argued by Haufler (1999), ISO standards are an indirect method to improve corporate environmental performance and therefore cannot be used alone. Adhering to the standard requires some national benchmark minimum standard to exist within developing countries as a basis.

Flexibility is a key feature of the standard. This means that the standard arguably lacks ‘teeth’, relying on ‘consideration’ of environmental impact, or commitment to ‘continuous improvement’, however that might be measured. There remain unanswered questions as to whether business-led initiatives such as the ISO 14000 can achieve environmental objectives efficiently, given their focus on process management rather than setting explicit standards.

Nonetheless, it can still be viewed in some cases as the first step towards improving environmental performance, for example in instances where organisations are starting with negligible environmental awareness and no systems for addressing environmental issues (Conway 1996).

Wall et al (2001) point out policy concerns relating to the application of ISO 14000 in the agricultural sector, such as the provision of institutional support for training and the lack of public accountability involved in the setting of standards.

14. International Cocoa Initiative

14.1 Objective and focus

The International Cocoa Initiative (ICI) is a joint foundation established between the industry and civil society to ensure cocoa is grown responsibly, without the worst forms of child labour and adult forced labour. The idea for such an initiative was triggered by concerns about the role of children in cocoa production in West Africa, which led in 2001 to the US-led Harkin-Engel protocol signed in Geneva by politicians, government officials, NGOs and representatives from the cocoa industry. Signatories recognised 'the urgent need to identify and eliminate child labour in violation of ILO Convention 182 with respect to the growing and processing of cocoa beans and their derivative products'.⁶⁶ The protocol included a commitment to establish the ICI in 2002.

The initiative is made up of many stakeholders, with members including chocolate companies, confectionery trade associations, NGOs and trade unions. ICI aims to work with the governments of cocoa-producing countries to bring about positive change and improvement to production practices to eliminate abusive labour practices and support community-based initiatives. This is a long-term process that contributes to the sustainability of the industry and to cocoa-growing communities. The ICI is not a label or standards scheme, but an industry voluntary code of conduct, which companies may make reference to in their CSR reporting.

14.2 Economic and social impacts

14.2.1 Scale of coverage

Around 75% of the world's cocoa is grown on over two million small family farms in West Africa. Since 2006, the ICI has been working at the village level in two countries in the West African cocoa sector (Côte d'Ivoire and Ghana). Efforts have focused on engaging local leaders in the development and implementation of effective community action plans to address instances of the worst forms of child labour and adult forced labour.

In Ghana, the ICI has a pilot programme in 24 communities. In these villages, the key change is a better-informed community actively addressing hazardous and other forms of child labour. In concrete terms, labour practices are changed, schools are being renewed and teachers recruited – providing children with better access to a quality education.

A similar effort is underway in Côte d'Ivoire, reaching a population of around 70,000 in 21 communities. Here, in the pilot alone, and through community action, more than 1500 additional children have been enrolled in schools, 116 dropouts returned and 51 new teachers appointed. Local funds are being matched by ICI micro-grants to support improved schools and classroom facilities in multiple communities where ICI partners are active.

14.2.2 Potential benefits and impacts for developing country participants

In its mission to end child and forced labour in the cocoa sector, ICI is dedicated to engaging local communities to lead the change. By developing initiatives guided by local cocoa-growing communities and providing practical tools, ICI is changing the way cocoa is grown and helping create a vision of a different way of life for cocoa growers and their children.

⁶⁶ See <http://www.globalexchange.org/campaigns/fairtrade/cocoa/statement113001.html>.

ICI is working with cocoa-growing communities locally to encourage them to think through the issues of specific hazards related to the growing of the crop and how to develop their own solutions. By helping farmers and families understand the risks of certain activities, and the illegality of others, ICI is hoping to change the way cocoa is grown.

ICI also works with national governments and international agencies to ensure a positive policy and development environment. It also works with the industry to help better understand the issues and challenges and change their business practices. Lastly, it aims to contribute to an informed international debate. Key achievements include:⁶⁷

- In 87.5% of communities, children are no longer involved in the spraying of cocoa;
- 79% of communities have taken measures to reduce the loads children carry;
- In all communities, parents and guardians have started providing protective clothing for children when they accompany them to the farms;
- 83% of communities have taken measures against children being involved in breaking pods;
- In 87.5% of communities, the Traditional Labour Cooperation has been revived, thereby allowing children to go to school;
- 87.5% of communities officially requested teachers, 54% were granted;
- 54% of communities had employed supporting teachers, paying them directly.

14.2.3 Compliance and certification costs

None.

14.2.4 Overall development impact

The initiative may improve labour standards (in relation to child labour) in the communities where it is implemented. However, this is currently a relatively small-scale initiative, although it is intended that replication of the initial scheme will be carried out in the next few years with partners across the West African cocoa-growing region.

⁶⁷ <http://www.cocoainitiative.org/our-programmes.html>.

15. Conclusion: Is there a gap in the market for a new ‘Good for Development’ label?

This review of some of the existing labels and standards has been undertaken in order to build up a clearer picture of the scale and nature of their current and potential impact in developing countries, both positive and negative, to determine whether there is a gap in the market for a new kind of label to promote development objectives.

The review has demonstrated that the various existing labelling and standards schemes have quite a wide range of different objectives and approaches. Some are environmental in focus, some are social or economic; some are aimed at consumers whereas others are business-to-business or aimed at investors.

What most of them have in common is a focus on improving the standards adopted down the supply chain, be these environmental or labour standards, etc. Thus, they serve to increase developing country standards of production, and bring them closer to developed country levels.

Very few of the schemes have the primary objective of improving the economic benefits accruing to developing country producers. The exception to this is Fair Trade, which is the only scheme we have reviewed which specifies that a price premium must be paid to Fair Trade producers and (on a product and country basis) what that price premium should be. The primary objective of Fair Trade is to deliver greater economic benefits for developing country producers, through mechanisms such as the establishment of a minimum price, long-term contracts and the provision of access to finance (although there are also some standards attached).

15.1 Standards-based schemes

Considering first the schemes that are aimed principally at improving standards, the evidence suggests they can deliver a range of benefits for participating producers, including improved labour and environmental standards of production, better farm management practices, greater productivity and better market access. Although they do not necessarily focus on the economic benefits going to producers, the evidence shows that some of them do deliver a *de facto* price premium to participating producers, because they enable the producer to access a more profitable market niche. Some of them have become effectively mandatory for accessing EU export markets altogether (e.g. GlobalGAP), and hence are essential for producers who wish to continue exporting their produce to these markets.

However, the evidence discussed in the body of this report shows that the compliance costs associated with meeting the standards can be high and, although the intent of such standards may be to improve the way developed country retailers do business with developing country producers, in reality the cost is often borne by the producers themselves, rather than retailers or buyers. This is because large buyers often have more bargaining power; producers may be dependent on them for their livelihoods and have only limited options for selling their produce elsewhere, whereas buyers can switch between suppliers relatively easily. Thus, producers will compete fiercely with each other to become the preferred supplier of large buyers, and the extent to which they are able to pass on the additional costs of certification to their buyers may be limited.

The evidence suggests that producers are finding it increasingly necessary to obtain certification themselves before they can be included within export supply chains. Indeed, systems such as the SEDEX have been developed, which enable buyers to source from a list of suppliers who have already acquired the necessary certification. However, producers who have invested the resources necessary to achieve certification may still have no guarantee that they will be rewarded with preferred supplier status as a result.

Where certification proves impossible to achieve for a particular producer, or the costs of certification outweigh the perceived benefits (in terms of the prospects to achieve preferred supplier status or a potential price premium), the imposition of standards may have the effect of either excluding these producers from the market altogether (when certification is a requirement for market access), or putting them at a competitive disadvantage (when certification is voluntary). As a result, this could reduce the number of livelihoods that are supported by this sector and force farmers to find alternative markets for produce or alternative employment (if available).

For example, according to the IIED and NRI (2008) study discussed earlier in the report, between 2003 and 2006, 60% of Kenyan growers exited from GlobalGAP compliance schemes; of those that were able to attain certification, 15% subsequently exited, as the costs of maintaining their certification was not matched by the level of income obtained.⁶⁸ As GlobalGAP certification is effectively mandatory for access to the EU market, this suggests that these smallholders will have been forced to sell into less lucrative markets, or may even have been forced to seek alternative employment altogether. In some cases, this may result in consolidation in the agricultural sector, as large farms that are better able to bear the costs of certification absorb smallholders.

15.2 The Fair Trade scheme

As noted above, the primary focus of the Fair Trade scheme (uniquely among the schemes we have reviewed) is on improving the economic benefits for developing country producers who participate in the scheme. The evidence we have reviewed suggests that it can deliver significant benefits to participating producers.

However, it has had limited impact to date as only a small proportion of developing country producers are able to participate. This is because not all agricultural markets are covered and, for most of those that are, the potential supply of Fair Trade produce far exceeds demand. As the evidence presented in the body of the report showed, although consumer demand is growing, it is still a very long way from becoming mainstream in most markets.

One of the main reasons for this is the significant compliance costs associated with Fair Trade supply chains. Fair Trade constitutes an alternative supply chain, with significant additional costs compared with conventional markets, associated with the many Fair Trade requirements, such as the price premium, minimum price, long-term contracts, provision of access to finance, requirement to improve the capacity of producers, etc. The evidence suggests that these costs tend to fall to a larger extent on the buyers themselves rather than the producers. Thus, some buyers are choosing to adopt other, less costly, forms of ethical labelling.

In addition, the machinery required to administer the scheme is significant, and may represent an additional constraint to growth in coverage. Indeed, the Fair Trade scheme relies on what is effectively a parallel supply chain, dependent in part on charitable donations and philanthropic lending from specialised financial institutions to sustain it.

Thus, while Fair Trade sales are growing, the number of developing country producers benefiting from it is still very small. The overall costs of the scheme are severely constraining its scale and are likely to limit its overall development impact, unless the model is altered substantially to make it less onerous for retailers and importers.

Table 12 provides a summary of the features of the various schemes, showing the trade-off between compliance costs and the scale of impact in developing countries. Only GlobalGAP has high coverage despite high compliance costs; this is because it is effectively a requirement for UK market access.

⁶⁸ Donors have been particularly active in Kenya and the pre-crisis situation in Kenya was one in which government intervention with donor support was attempting to mitigate the marginalisation of smallholders, through outgrower schemes and development of benchmarked national standards of production such as KenyaGAP. KenyaGAP was developed as a means to include more smallholders in export production and as a response to European supermarkets' adoption of GlobalGAP. KenyaGAP was recognised as equivalent to GlobalGAP last year.

Table 12: 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/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 |

15.3 Development benefits from non-labelled produce

It is likely that there are many exports that are of significant benefit for developing country producers, but that are not 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. In 2005–2006, the company purchased almost 2000 metric tonnes of French beans from Guatemala, with US\$1.5 million going directly to farmers, who earned an average of US\$779 per family. Interviews with families suggested that this money had helped to increase their access to health care, education and improved housing. The report concluded that most of the benefits from Costco purchases are captured by poor communities and small-scale farmers.

Food manufacturers can increase their positive development contribution through the way they do business with developing country producers, and by investing in them. For example, Pfitzer and Krishnaswamy (2007) discuss the Unilever-sponsored Project Novella in Tanzania, where Unilever has invested in the development of a new supply chain for oil from the Allanblackia tree, for use in a number of products, such as margarine and spreads. Local farmers are being trained to produce the oil in a sustainable manner, and organisations such as the Tanzanian Allanblackia Board, farmers associations and agricultural institutes have been set up. Unilever has also guaranteed to pay a minimum price for the oil until economies of scale are realised in 2012. This is generating a new source of income for many farmers – 6000 individual farmers took part in 2006 and by 2016 it is hoped that 25,000 farmers will be farming Allanblackia trees.

Another example is provided by Nestlé (2005), which discusses a programme Nestlé established aimed at improving coffee farmers' incomes in Ethiopia and El Salvador. Agricultural experts worked with farmers to improve their ability to compete successfully in the open coffee market, through improving coffee tree management, harvesting, post harvest treatment and quality, supporting diversification into other crops and selling directly or through a local representative so as to capture more of the sale price. The farmers were also given an income supplement for three years while making improvements to the farm. The wider community also benefited through investments in infrastructure, such as clean water.

Products such as these are often unlabelled, however, so consumers are unaware of the development benefits associated with them.

15.4 Consumer perceptions

In spite of the considerable economic benefits associated with developing country exports, consumer perceptions about the impact of trade are often quite negative. The focus of ethical 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. This may reflect a lack of understanding of the significant economic benefits that accrue to developing countries as a result of agricultural exports to the developed world, with the UK being a particularly important market.

This perception, together with growing concerns about air miles and campaigns encouraging the purchase of local food, may serve to discourage consumers from buying developing country produce. This runs counter to recent government efforts to encourage purchases of developing country exports.

While it is true that only a small proportion of the price of products purchased in the developing world will go to the producer, this does not mean that agricultural exports should be considered bad for development. Many developing country producers are dependent on such exports for their livelihoods, and exporting agricultural produce often represents a much more lucrative opportunity than alternative options. A loss of these export opportunities will almost always result in a loss of income for the affected farmers. However, this view does not appear to be that widely understood. This suggests that consumer education and awareness raising about the benefits of agricultural exports for developing country producers is needed in order to encourage increased purchases of developing country produce.

The significant growth in sales of Fair Trade and ethical products in recent years, together with the results of a number of recent market research reports as discussed in the body of the report, suggest that there is an interest among consumers in contributing to development through their purchasing decisions, and that consumers want quick and easy guidance to help them make these decisions, which is backed up by a trustworthy alliance of organisations such as government, charities and retailers. Such information might generate a substantial increase in purchases of developing country produce, resulting in significant new export opportunities for developing country producers, with considerable benefits for economic development.

15.5 Is there a need for a new 'Good for Development' label?

These findings provide support for the Overseas Development Institute (ODI) proposal (see ODI Opinion No. 88 (Ellis and Warner 2007) and No. 115 (Ellis and Keane 2008), for a new 'Good for Development' label (Table 12 above showing how this would differ from existing schemes). Such a label would not create new environmental or labour standards – there are many labels that already do that – but would indicate to consumers the positive development impacts associated with purchasing most conventional developing country produce (as long as it met some basic minimum standard e.g. to ensure compliance 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 underrepresented. It could, potentially, help to expand the market for such produce, supporting more

livelihoods in the developing world. In addition, 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 or the provision of access to finance;
- Contributions to local infrastructure development;
- Long-term contracts;
- Investment in health care 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, this 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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