CONSUMER CONSCIENCE

HOW ENVIRONMENT AND ETHICS ARE INFLUENCING EXPORTS

International Trade Centre

EXPORT IMPACT FOR GOOD

The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.

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Report reflecting views, examples and suggestions on how exporters can benefit from the emerging opportunities in the area of ethical trade, as expressed by the participants of the ITC World Export Development Forum, "Consumers, Ethics and Environment", Montreux, Switzerland, 8-11 October, 2008 discusses the concept of "ethical consumerism" across the entire supply chain; innovation in meeting consumer demand for products created by ethically and environmentally acceptable means; public and private standards; sustainability-related finance, social entrepreneurship, and transparency via the Internet; global partnership in the service of poverty reduction and development, and the role of women in business; outlines ways in which governments and trade support institutions can help ethical traders.

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Foreword

Globalization is changing the concerns of consumers. While shoppers still pay attention to quality and price, more than ever they are concerned about the environmental and social impacts of their purchases. They want to know that people involved throughout the process are being paid fairly, that the products are sourced in an environmentally sound manner, and that the supply chain is handled ethically.

Because of this change in attitude, fair trade and ethical markets are growing at a faster pace than regular markets. But how can entrepreneurs in developing countries break into these markets?

That was the overriding question at the three-day World Export Development Forum of 2008, where over 250 experts debated a wide range of issues related to consumer conscience. To small producers, ethical commerce offers a stable market; for large distributors, it offers differentiation. But there are challenges that are not easily overcome: trade institutions are not always clear about what kind of support to offer and how; and applying international and private standards can be costly for producers in developing countries.

For ethical trade to be sustainable, experts stated that producers are advised to focus on innovation, and not only to seek out low-cost solutions. More support is needed for sustainability-related finance, scaling up social entrepreneurship and transparency via the Internet.

Among all of the topics discussed, there was one bottom line: how to grow ethical trade as a tool to raise the standard of living for everyone involved.

To those of you who joined us at the Forum, ITC thanks you for your participation. Gatherings like this are invaluable in helping ITC to advise its clients better. For those of you unable to join us, ITC hopes that this book helps deepen your understanding of the issues and offers advice that you can put into practice.

Patricia R. Francis
Executive Director
International Trade Centre

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Chapter 1

Ethical trade – the hope and the reality

"The shift to sustainable consumerism provides many opportunities for developing nations – and also many challenges. Export impact for good is ITC's mission. We are in the business of trying to help people get into a global trading system and the global economy so that they can prosper."

Patricia Francis, Executive Director, International Trade Centre

From a strictly economic point of view, ethical trade is an aspiration, not a condition of international commerce. It is more about a label than a standard. However, its economic and social potential has been growing exponentially in the 21st century. This prompted ITC to make the issue the centrepiece of its World Export Development Forum 2008, held in Montreux, Switzerland, in October.

The main objective was to answer the question: What does ethical trade mean? More important for developing and transition economies, how can exporters exploit its opportunities? How can trade support institutions encourage ethical trade among national businesses, and what should governments be doing to help ethical traders? The questions became even more urgent at the end of 2008 as financial shock after shock thundered across the world's major economies.

To small producers, the fair trade segment of ethical commerce, offers a stable market. For competitive distributors it promises differentiation – the distinction between products that attracts consumers for whom price is not the determining factor in purchasing decisions. But how will ethical trade fare on the rocky economic voyage facing most societies, and how far will consumer conscience extend in the social, environmental and economic changes predicted from climate change? ITC's World Export Development Forum 2008 heard a number of stories of the struggle to keep businesses functioning as normal.

Fair trade = unfair competition?

For conventional exporters, fully exposed to the tough realities of international trading conditions, 'fair' and 'ethical' trade often looks like unfair competition, because it privileges some producers over others. To development specialists it sometimes seems hard to distinguish from charity or work for welfare schemes. Worse, fair trade – providing a privileged, protected channel to rich markets and niche consumers, along with a premium price for a small number of marginal producers – has been criticized for locking out small farmers who usually cannot afford the cost of the proliferating certifications. It can deflect attention from the economically more significant issue of providing access to major markets for developing and transition countries trying to obtain a securer foothold in international commerce. As ITC Deputy Executive Director **Stephen Browne** puts it, Mali wants to be able to sell its cotton as freely to Athens, Greece, as it has been able since May 2000 to export to Athens, Georgia, under the US African Growth and Opportunity Act. From the opposite perspective, big retail chains – interested in opening their supermarket aisles to niche branded products, whether fair trade or organic, labelled 'bio', sustainably or ethically produced, if they know customers are ready to pay more, often much more proportionally than for standard products – want reliable, regular and immediate deliveries at the lowest price they can obtain. Small, however beautiful, doesn't cut it in these huge markets. Does that put ethical trade permanently out of ordinary business dealings?

Such considerations have turned researchers like **Marc Sidwell** of the International Policy Network almost completely against the 'fair trade' concept. *Unfair Trade* was his description of the movement, arguing that it replaced one kind of 'occult mechanism' (multiple intermediaries taking inscrutable profits all along the value chain) with an equally obscure system that still leaves Ethiopian coffee producers with about $1 per kilo for the beans that sell for $140 a kilo when they turn into $3 cups of beverage in 'fair trade' coffee shops. **Khalid Sheikh**, a Uganda-born Asian self-made businessman based in the UK, declares vehemently: "Africa is being robbed."

North vs South, or producer vs consumer?

Fairtraders such as **Robin Cameron**, Chief Executive of Fairtrade Labelling Organizations International (FLO) point out that similar, though smaller, discrepancies between farm and supermarket prices characterize Northern markets as well. Both he and Sheikh, along with major players on the ethical trade scene such as Switzerland's Coop retail chain and Sidwell himself, put the emphasis on moving producers up the value chain through appropriate technologies and knowledge transfer from North to South. So far, however, food and agricultural commodities have resisted efforts to turn farming communities into processing, packaging and distribution chains. Sheikh's food packaging business in fact works from the UK, though he is planning to invest in Africa. The ethical trade movement has not eliminated middlemen, though it has reduced the number of intermediaries.

As a number of business entrepreneurs have observed, dealing directly with the big market chains can put your business at a disadvantage. Their criteria revolve around price, and being able to sell their products at lower prices than their competitors. For small producers in a developing country, even if they can do a deal – either individually or through an association of producers – this may not be a wise or sustainable business model (see 'Caught in the Supermarket Wars' opposite).

Producer conscience and appropriate technologies

For **Ashok Khosla**, President of the world's largest science-based environmental sustainability organization, the International Union for Conservation of Nature, consumer conscience as conventionally understood is not much more than a First World concept. He would rather speak of producer conscience and a new paradigm for trade. His Development Alternatives organization in India has pioneered its own form of producer conscience by spreading technologies that are appropriate not just in the sense of being cheap or rudimentary but also as in being in tune with their environment and creating local jobs and new incomes.

Does it guarantee a return on investment?

For policymakers the question is how much energy and money to put into encouraging ethical trade projects if they are destined to remain a marginal part of international commerce.

For trade support institutions, it is not immediately clear what kind of stimulation and support they should be offering local exporters towards ethical trade, when so many of the conditions are set individually by retail bodies or non-governmental organizations rather than created by local entrepreneurship.

Box 1. Caught in the supermarket wars

Stuart Symington, CEO of South Africa's Fresh Produce Exporters Forum, explains probably better than anyone why ethical trade interests exporters. His voluntary organization represents some 60 marketing agents and producers selling fresh fruit to 70 countries, 70% to the European Union. They account for over half of South Africa's agricultural exports. Ranging from single farmers to household names, their collective exports are worth $1.3 billion a year. They employ 400,000 people full time, with two million dependents.

"We have been putting a lot of emphasis on ethically produced products. I would like to look at the ethics of the trading environment," he told a session of the World Export Development Forum on supply chain implications of ethical business linkages.

He defends the industry against 'food miles' critics (see appendix to this chapter). "We start with a major credit because we plant trees and those trees have to grow for three years before you get any fruit off them. They take carbon dioxide and they give out oxygen."

By 2010 he expects 60% of his products to be sold through supermarkets – "these few, powerful gatekeepers". Volume-based reductions in charges, which Symington terms discounts, are an important factor in this market. For example, shipping companies give companies a $700 per container repayment at the end of the season if exporters do enough business with the line. His enterprise puts 100,000 containers into the value-chain each year, 2.5 million tonnes of fruit.

But supermarkets have now taken over the trucking, qualifying for these rebates. Exporters are told by customers where to buy their packaging. The result: "We can no longer produce [our packaging] in South Africa." And the supermarket that organized the deal gets the rebate on the packaging contract.

Today, some UK companies have established offices in South Africa to buy directly from producers. "They get the rebates now. They are even buying farms. So they own the whole chain."

Symington asks: "How ethical is this? All the money that we are supposed to be gleaning in the chain on the supply side is being taken to the demand side. What does that mean? It simply means we pay our labourers less. We pay our farmers less."

Though Symington agrees a number of supermarkets are ethically responsible, these are not the only questionable buying practices he has experienced. Supermarkets even sell below the cost-price of a product, eroding the suppliers' price. "It's all about supermarket wars on the high street, and they are using supplier money to fight their war for market share."

Supermarkets and retailers over-procure supplies to keep their shelves full, and then reject the produce when it does not sell. "What are you supposed to do with fruit that you have packed in South Africa in a particular supermarket's [standard labels and] colours?" Some 87% of fruit in the UK sells through supermarkets. "You have to repack all that fruit and move it to the continent at massive expense."

"You never get told your price," he adds. "You get told how much you must deliver, in what variety, in which quantity, in which weeks. Price is the wild card. Sometimes you are told when your product is on the water. Sometimes you are told when it is in a distribution centre. Sometimes you are even told after it has been sold. You can't exercise your option to sell it somewhere else."

His main point of contention is: "They are debranding all of our products. They put their house colours on your fruit. By the time it reaches the UK and many places in Europe you don't have a brand anymore." Some supermarkets also falsely claim to have lower prices from competitors in order to bring goods to their shelves more cheaply. They rotate buyers so that producers cannot build up a long-term relationship with a partner. Exporters also face additional charges that are imposed after agreeing a deal.

As a result, exporters are setting up offices in Europe to reclaim the value lost by these cost-cutting methods. Symington urges an enforceable price agreement on purchase and a standard contract without additional charges. Buyer incentive schemes should be revised so they no longer depend on squeezing producers. "Selling below cost should be banned." He would like to see a buyer-suppliers forum where both sides and NGOs can talk regularly about the challenges facing the business.

"Ethical trade is not just about supplying an ethically produced product. It is about creating an ethically sound business context first," Symington says. "Buyers' purchasing behaviour has to be as ethical as the ethical products they demand. Otherwise it is hypocrisy deluxe. International retailers through whom the bulk of our products have been channelled to consumers should no longer be allowed to operate in a regulatory void."

Standards as a non-tariff barrier

ITC estimates that international trade now has more than 80 standards reflecting consumer conscience. On a broader scale, the International Organization for Standardization has approved more than 500 universal standards associated with the environment.

A business seeking certification needs to do more than simply choose which standard(s) to apply. Without a deal already in place, it needs a substantial amount of money for a small producer. One Dominican Republic participant put the regular cash charge at $10,000 per product, not counting the time involved. Even for the most basic ISO environmental standards, the ISO9000 and ISO14000 series, the cost is "very, very high" for a typical business in a developing country, he pointed out. Furthermore, the exporters may not be able to count on a premium. It can be the price of entry to the market, even when retailer sets its standards without any consultation with the exporters on how reasonable the demand may be.

The consumer in the shopping aisle is unlikely to have the means to assess these standards, let alone judge the information given when making purchase decisions, as **Pascal Lamy**, Director-General of the World Trade Organization, has underlined. Hence WTO's concern to promote and negotiate standards through governments, such as its sanitary and phytosanitary (SPS) agreements. At the same time, a private standard imposed by a large supermarket can have a much larger impact on developing country trade than any regulation under WTO, he noted.

Navigating through the thickets of Fair Trade labels and fictions

At the World Export Development Forum 2008, participants also had a 200-page pre-event publication that sought to engage some of the best academic researchers and practitioners along with human rights advocates and a futurologist to put a different perspective on ethical trading and the Montreux debates.[1] As a result, anyone interested in ethical trade, its history, its policy implications and its future can find an authoritative guide to the proliferation of labelling and a possible way forward through the thickets of regulations and standards. They can also consult a survey of the fair-trade field from a long-time practitioner. The book contains a careful dissection of the differences between ethical, sustainable, environmental and organic standards in trade as found in the governance bodies dealing with international commerce.

Further useful material includes an analysis of the Environmental Kuznets Curve which suggests that growth is by nature bound to pollute until countries get relatively rich. Similarly, two economists at the Food and Agriculture Organization of the United Nations (FAO) get down to cases in considering whether a country should aim for internal food security rather than international agricultural earnings to guarantee its development – a question that is now looming large in the biofuels debate and the current food supply crisis. Policymakers may also want to look at the article on how most food in future may travel with a carbon passport, while entrepreneurs can consult a survey of prospects for business from biodiversity – along with the needs and opportunities for government investment. This paper points out that the potential extends well beyond ecotourism or creating staff jobs in national parks and turning farms organic. Another chapter links online activism to a radical change in relations between consumers and producers and suggests ways in which e-governance can respond to the growing demand for consumer rights.

Consumer confusion, retail therapy for strapped economies

The blend of theory, reporting on experience, energetic advocacy and professional advice for those who have to implement ideas and programmes found in the background book also characterized the debate at the 2008 World Export Development Forum. The details can be found in the rest of this report. But we can point to a number of comments that might surprise those coming to issues of consumer conscience for the first time.

- The retail shock delivered to stores in the wake of 2008's stock exchange meltdowns and resulting economic crises need not eliminate ethical trade as a force in international commerce. In fact, it may have the opposite effect.
- Companies that have taken consumer conscience on board in their business have weathered the current economic crisis better than those who have been slow to appreciate the consumerist change in marketing conditions. In fact, many have led rather than followed the trend. The history of ethical trade is not simply a chronicle of activist consumers forcing recalcitrant companies into greenwashing their operations.

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1 Available for download at www.intracen.org/wedf as part of ITC's *What if?* series.

- Though virtually everyone who has to deal with them deplores the proliferation of labels and standards in the fairer-trade movement, not least because of the frequent confusion of conscientious consumers, officials who follow developments most closely do not expect rationalization to reduce the number of labels. Retailers like their own labels and standards that differentiate consumers who are willing to pay extra for that difference from shoppers who do not find that a unique selling proposition.
- While recognizing the pressures for label proliferation, many standard-setting organizations are pressing vigorously for harmonization to make it easier for small businesses and developing economies to secure a foothold in international markets.

The Forum organized its debates around five major topics:

- **The value of the ethical consumer.** The sessions on this topic tried to demystify the concept, look at the market size and characteristics, both quantitative and qualitative.
- **Creating the value.** On the assumption that the ethical market provides a viable business opportunity, sessions explored how exporters from developing countries can begin to gear themselves up to take advantage of this market through innovation, branding, and communication.
- **Raising the value.** It is one thing to create value in the ethical trade market, but exporters also need to meet the standards of the developed markets. To many, these potential NTBs (non-tariff barriers) are the biggest obstacle to action. How can companies overcome this? The forum also explored the 'counter-arguments'. What is fairness? Are consumers themselves ready?
- **Delivering the value.** The discussion here covered issues such as creating an environment to foster the development of exporters from developing countries who want to take advantage of opportunities presented by ethical markets: Financing, scaling up social entrepreneurs and fostering transparency.
- **Sustaining and distributing the value:** Can the benefits of sustainable trade deliver on their promise? Can developing countries still have a viable business model if they incorporate environment, poverty reduction, gender, the Millennium Development Goals and similar rights issues into their programmes?

Box 2. Millennium Development Goals

Set for 2015 by the United Nations Millennium Summit in 2000:

Goal 1: Eradicate extreme poverty and hunger

Goal 2: Achieve universal primary education

Goal 3: Promote gender equality and empower women

Goal 4: Reduce child mortality

Goal 5: Improve maternal health

Goal 6: Combat HIV/AIDS, malaria, and other diseases

Goal 7: Ensure environmental sustainability

Goal 8: Global partnership for development

Consumer conscience in a time of crisis

How will the certainties of 2008 look at the end of 2009? Certainly, every debate at the ITC meeting in 2008 was haunted by the prospect of a deep recession in global economic activity. But not everyone – from pundits to pioneers – saw this as the end of prosperity as an economic goal. **Khosla** called for new paradigm for international trade, one examining more closely the environmental costs of the relationship between the local and the global, seeking to create local jobs and make the most sustainable use of local resources. **Teava Iro**, a Cook Island fruit farmer and mariculture specialist, sees his organic-certified international trade as quite separate from his local efforts to reduce costs in environmentally friendly ways. Pascal Lamy made clear he still thought that a completion of the Doha Round of trade liberalization – with its explicit development goals – is possible in 2009. But even he admits that a big retailer's privately imposed standards can have a much greater impact on local economies than anything negotiated in the Doha negotiations.

The World Export Development Forum also showed that the ethical producer and consumer movement is changing in fundamental ways. Iro calls his agricultural method Organic Plus, and sees an end to organic farming methods that do not improve sustainability. Fruits and vegetables in the shops today generally have 60-70% less nutritional value than during the worst days of World War II, he complains. The US has just introduced a Beyond Organics standard that puts the emphasis on human nutrition, and he foresees a time when produce on the shelves will have only one label – giving its sucrose content as an indicator of the nutritional value (see the box in (see ahead).

The elephant in the garden or the proverbial ostrich

One major issue that will directly affect food trade in the future is climate change – an elephant in the garden of international commerce. **John Viljoen**, Managing Director of the iedex group of companies, based in Australia, brought it to the table with a concrete story. A major client, a winegrowing company, found that over the past 15 years the ripening period of all of its variety of grapes in all its vineyards around the country has shortened by 1.5 days. The varieties no longer ripen sequentially. Growing concentrates in eight weeks rather than eleven, and the ripening of the varieties overlaps. The company realized it was in trouble when one winery had four kilometres of trucks waiting to deliver ripe grapes to its crushers. The ripening period has also moved earlier in the year, to the beginning of January instead of February. The overlap with the holiday period makes it difficult in Australia to get contract labour, and the staff have to prepare for this intensive work period instead of spending Christmas with their families. The company had to invest in parallel crushers and receiving-docks, costing "many many tens of millions of dollars". To deny that climate and environmental change is having a material impact on business operations is to behave like the proverbial ostrich and bury your head in the sand.

Beyond crisis, beyond logos

While many governments seem hypnotized by the immediate financial crisis, others – and a number of international bodies in the United Nations system – are thinking hard about what kind of economies individual countries should be encouraging after the current financial earthquake has rearranged the landscape. At climate talks in Poland, Secretary-General Ban Ki-moon called in December for a Global Green New Deal reminiscent of US President Franklin D. Roosevelt's programme to overcome the Great Depression of the 1930s. This would involve concerted major investments by governments to overcome the current economic crisis through environmentally sustainable job growth, improving the situation of nature around the world, and identifying the stimulus measures needed to foster the transition to green economies.

Maybe some of the practical solutions – the microeconomic answers to the macroeconomic challenges – can be found in the experience of ethical trade and consumer conscience. From a charity concern with underdevelopment, the ethical trade movement developed via NGOs into a wide variety of specialized groups working with, alongside and outside governments to promote better living standards for producers. Many actors on this scene, from Rainforest Alliance to the Mongolian microfinance bank XacBank, are already applying sustainability criteria in their decisions about support, investment and loans. Big companies are sometimes leading the field in turning green-labelled products into market opportunities – from teabags and capsuled coffee to teeshirts, bananas and car seats, through deals with local communities, often mediated through NGOs. Retailers recognize the economic benefits of differentiation, and not simply through price. The fair trade movement has realized that branding means more than a logo – somehow it has to tell its story in a compelling way to the consumer if it is to move its products into the mainstream. The job of government and export promotion organizations, as a number of participants in the World Export Development Forum underlined, is to find ways to enable national businesses to tell their stories to an international audience.

Chapter 2

The value of the ethical consumer

Conscientious consumers are a growing force in the market. Research shows that they prize transparency, accountability, authenticity and fairness now more than ever before. And their influence is growing in the wake of the 2008 global financial meltdown. But within every crisis lies opportunity. The vacuum created by consumer lack of trust and fall in confidence in purely commercial business has left space for ethical trade to expand its niche and for entrepreneurs who have applied the principles of corporate social responsibility (CSR) through responsible entrepreneurship and business practices.

Ethical consumerism – and growing informed consumerism – is just as much about supporting perceived 'good' companies, as boycotting the 'bad' ones. The conscientious consumer demographic is still a minority, but increasingly people are choosing to buy ethically made products and services. Ethical consumerism means different things to different people – and to marketers. But the rise of ethics-based decision-making is running in tandem to a rise in consumers' interest in better understanding and trustworthy information about business practices. This gives a whole new meaning to the traditional concept of 'informed consumers'. Companies are no longer seen as responsible solely for a product, but for their whole brand and supply chain.

Towards a new consumerism

This 'need to know' attitude among consumers is reverberating across entire supply chains. Producers in both developed and developing countries are being forced to re-examine every link in these supply chains as discerning consumers – and the retailers that buy such products to sell profitably to a growing section of their customers – are demanding fairness. Increasingly, 'fairness' means working within a framework of environmental sustainability while demonstrating respect for workers' rights, better returns to producers and equity in trade. However, many developing-country producers, and sceptics towards the new movement in the developed world, question the very definition of fairness. 'Fair trade', they claim, distorts markets, giving uneconomic producers unfair benefits. It puts many producers in the developing world at a disadvantage in seeking market access where these standards are applied – not because of lack of competitiveness but because of the cost of obtaining the clearances that will enable them to compete.

Craig Davis, Chief Creative Officer of advertising heavyweight JWT Worldwide, confirms that at price parity, consumers today choose brands with higher ethical standards. "Consumers are increasingly looking to do business with companies that are, in some way, ethically, environmentally and socially responsible," he told the World Export Development Forum 2008.

Davis reported on the research that backs up his claim. The Henley Centre, a global consumer research consultancy, reports that more than ever, consumers are aware that their buying decisions have consequences. Some buyers are highly informed about sustainability or ethical issues. Most simply want to somehow make a difference. They understand that what they buy "has a knock-on effect", Davis explained.

The Henley survey took place in June 2008 and involved between 1,000 and 2,500 face-to-face and/or online interviews in seven markets. More than 50% of those surveyed, it found, are ready to make real changes to their lives. The report calls the consumers who act on this readiness 'pioneers'. When buying something, they are very careful to ensure that it meets ethical and environmental standards. 'Adopters' are described in the survey as making an effort to get to this point. Adopters and pioneers together account for 40% of consumers questioned. "They are either predisposed to do the right thing or they are busy doing it," Davis said.

Interestingly, Chinese consumers had a higher proportion of what Henley called 'pioneers' or 'adopters' than in the UK or the US.

Davis also cited a Marks and Spencer survey that reported about 10% of shoppers said they are really committed to the cause of green consumption. About a quarter were not interested at all. But in similar findings to Henley, the rest were in the middle. They were keen to be green as long as they did not have to make much of an effort to do so. Marks and Spencer, a major retail chain in the UK, sees this as a huge business opportunity. About 75% of their customers care about environmental issues to some degree and many of them want to be educated and shown how they can make a difference without changing their lives completely.

Ethical trade's contribution to improvements in the lives of poor communities is equally significant. Many are marginal producers who might not otherwise be able to make a living in their home territory. Ethical trade has strengthened communities by enabling them to provide schools and health clinics within easy reach instead of kilometres away, as **Willington Wamayeye**, General Manager of Gumutindo Coffee Cooperative, Uganda, points out from his personal experience on Mount Elgon. **Robin Cameron**, Chief Executive Officer of Fairtrade Labelling Organization (FLO) International, says FLO trade directly benefits 1.5 million producers and workers in developing countries – 7.5 million including their families. FLO, he told the Forum, is working with Fairtrade-certified producers in 58 countries. In 2006, Fairtrade generated €100 million in additional income for producers and workers.

Values drive purchasing decisions

Back in the 1970s people questioned whether corporate social responsibility could be a valid concern for business. But business leaders from Europe, Japan and the US realized it could reduce labour and trade tensions as well as embrace cooperation and respect for human dignity as ethical ideals. Since then, a number of agreements, standards and guidelines have followed, particularly in Europe, spelling out the expectations towards international business on a whole range of social issues including industrial relations, health and safety, and the environment. The growing demand for better business ethics is now a worldwide movement. Increasingly, too, developing country producers and suppliers are monitored by consumers at home and abroad as they interconnect through global supply chains.

But as many speakers and participants pointed out at the World Export Development Forum, even though such concerns may be currently overshadowed by the turmoil in financial markets and the banking system, they are not going to go away. In fact, they are 'hard truths' facing governments and companies when they rebuild business and restore trust in the system.

The triple bottom line

Ethical consumerism – or conscientious consumerism – is values driven. Increasingly, big business, such as banks, large supermarket chains, high street retailers and others are focusing on their customers' values and understand that sustainability is an issue of rising global concern. The 'triple bottom line', the mantra of the CSR movement, has become truly mainstream in less than 15 years. Davis observed: "Young, well educated consumers have realized the power that lies in the decisions they make to buy or not to buy. By purchasing from companies that are socially responsible – and not buying from those that are not – they can use their wallets to pursue their values. Companies that do not adapt will pay the price."

A public licence to operate

The notion of a 'public licence to operate' is gaining strength as the media have the power to 'name-and-shame' those perceived to be engaging in environmentally harmful or unethical corporate conduct. Engaged consumers are even more empowered by the Internet.

Companies have always contended with regulatory frameworks, but now, various stakeholder groups have become more adept in mobilizing public opinion. Mere compliance with regulations is not enough to gain – and maintain – consumer trust.

Confronting the new consumer power

The golden rule of public relations, or reputation management, is that it takes years to build up a reputation and just seconds to destroy it. **Ernst von Kimakowitz** from the University of St. Gallen, co-founder of the The Humanistic Management Network, observes that the conditions for business are changing decisively. It used to be that consumers expected companies to operate in accordance with safety and quality regulations. Today, they are basing their purchasing choices on a wider range of social concerns. If a company does not continually renew its compact with civil society, "its public licence to operate – its reputation – would face grave risks," he warns.

Dana Kissinger-Matray from the International Organization for Standardization (ISO) said that not only is the influence of consumers on the market and business behaviour increasing. She also thinks they will have a far greater impact in the future. There are two reasons.

First, the "integration of the world's economies and information systems provides unparalleled opportunities for consumers to influence markets," she remarks. Globalization is changing the concerns of consumers. They are becoming aware of how interconnected their lives are with those in other parts of the world. In addition to their traditional concerns with quality and price, Kissinger-Matray told the Forum, consumers now worry about the impact of their choices on the environment. And they want to purchase in a manner consistent with fair trade. With the emergence of the Web and other technological advances, consumers have gained the ability to both access and transmit information instantaneously.

Second, she believes individual purchasing decisions are only one of several ways that consumers can influence markets. To overcome the unethical buying practices by supermarkets as well as other major retailers, consumers can today be informed of such practices, which increases pressure on the retailers. Mechanisms available to consumers include:

- Research and advocacy activities of consumer organizations;
- Participation as stakeholders in the standardization process, that is, the formulation of voluntary standards;
- Involvement in developing meaningful product information and labelling.

Market size matters – the numbers tell the story

Statistics abound to quantify the boom in conscientious consumerism. They cover the gamut of organic foods, fair trade and ethical fashion. Consider just some of the numbers being used in the growing debate over the new consumerism. For example, Research and Markets predicts that organic food will account for around 30% of the UK's total food market by 2010. Ethical fashion has annual sales surpassing millions of pounds sterling in the UK alone. The value of FAIRTRADE labelled goods in the UK has risen 1,000% in the last decade and 50% in the past quarter compared to a year earlier, reported **Gareth Thomas**, UK Minister for Trade, Development and Consumer Affairs (jointly with the Department for International Development), at the opening plenary of the World Export Development Forum 2008.

Datamonitor in the UK predicts that global consumer conscience will boost fair trade sales in the UK alone to more than €1,000 million by 2012. The standard-setting body is FLO International and FLO-CERT is the certification system designed to allow people to identify products that meet agreed environmental, labour and developmental standards. The FLO International Fairtrade certification system covers a growing range of products including bananas, honey, oranges, cocoa, coffee, cotton, dried and fresh fruits and vegetables, juices, nuts and oil seeds, quinoa (an Inca cereal), rice, spices, sugar, tea and wine.

In 2007, FLO International reported that certified sales amounted to about €2.3 billion worldwide, a 47% increase over 2006. Sales are further expected to grow significantly in coming years: According to the 2005 Just-Food Global

Market Review, Fairtrade certified sales are expected to reach \$9 billion in 2012 and \$20 billion-\$25 billion by 2020.

Turnover in UK supermarkets is about £100 billion per year – an appetizing number. But less than 3% came from developing countries and only 0.5% from fair-trade labelled goods in 2007. These figures, Thomas observed, "give a sense of the scale of the challenge to expand the fair trade market."

Hype or potential?

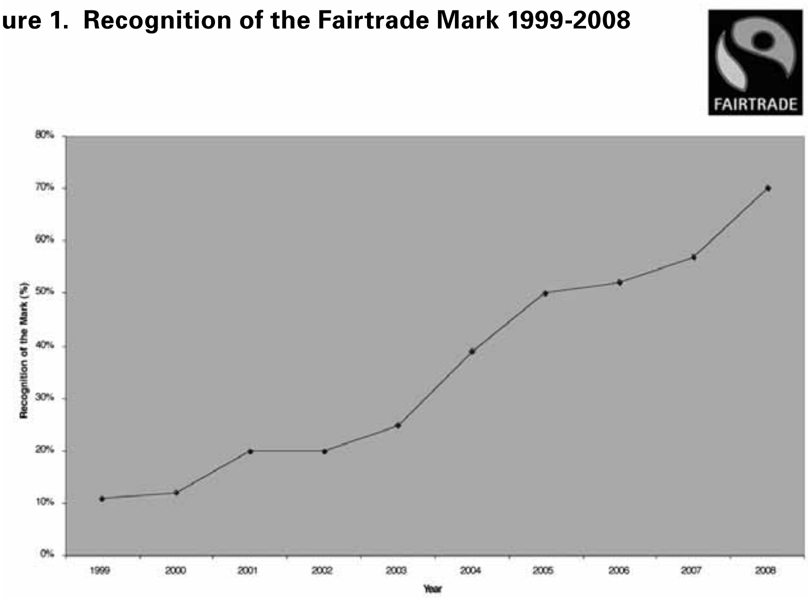
Speakers and participants at the opening plenary debated whether the conscientious consumer market is all about hype or potential. The consensus? Potential. Ethically grown and traded products are a growth, niche market.

Pascal Lamy, Director-General of the World Trade Organization (WTO), said that from the point of view of an exporter from a developing country, organic and/or fair trade – while still a small proportion of total trade – often represents opportunity. "For banana growers in the Caribbean islands, going organic was a question of survival. They jumped to another category of the market where they were safe," he said.

The FairTrade Foundation – the campaigning and certification organization behind the FAIRTRADE Mark – has "put development in the UK shoppers' minds," suggested Gareth Thomas.

There was agreement from **Katy Leakey**, founder of the Leakey Collection, a design company that develops handcrafted products for an international market and provides employment opportunities to over 1,200 Kenyan. The Collection was recognized in 2008 for its contribution to social development. Agreement came, too, from **Neil Kelsall**, a consultant who specializes in advising companies in developing countries on how to capture more added value from the products they sell. For example, he has assisted Madagascar in producing and exporting chocolate bars rather than simply cocoa. Ms. Leakey and Kelsall estimated that 20% of consumers care about ethical issues while 80% look for the cheapest goods available. But, they underlined, the value of goods bought by the 20% of ethical consumers is huge, as is the potential to reach the remaining 80%.

Figure 1. Recognition of the Fairtrade Mark 1999-2008



Recognition = % of people who recognized the Fairtrade symbol.

NB. 2008 figures remain condidential.

Source: MORI/TNS Omnibus studies.

The norm rather than exception

The UK government wants to "catalyze a step change so that fair and ethical trade becomes the norm rather than the exception", Gareth Thomas declared. "We also want to see an aggressive expansion of these brands across Europe and more business support for them." At the same time, donor governments should champion fair working conditions and labour standards in the developing countries that produce ethically grown and traded products, he urged.

The UK's Ethical Trading Initiative (ETI) – an alliance of companies, non-governmental organizations (NGOs) and trade union organizations – is challenging UK retailers to become aware of how their suppliers operate, with a view to improving labour standards. So far, he reported, 52 firms in the food and clothing sectors are ETI members.

Perhaps not surprisingly, the emphasis was on South-North trade – more specifically to Continental Europe and the UK, and for some organizations to the US. However, other commentators pointed to the size of potential markets in the developing world, for example in Latin America (Argentina, Brazil and Mexico) as well as China, India and several other countries of Asia.

Ethical trade market: Safer in troubled times

Speakers at the opening plenary also agreed that organic, fair trade and ethical products will keep their market, despite today's volatile, unpredictable economic climate. The market for such fair-trade products will likely take a temporary hit, but will bounce back. Thomas assured participants: "The market is relatively robust. Given the current downturn, there will likely be a short-term hit, but there is much more potential than its current size." In fact, the sector continues to be a good investment.

Alex Brigham, Executive Director of US-based Ethisphere Institute, concurred: "Not only is the market for ethically grown and traded products here to stay, it is a growth market." Asked whether it still made sense for developing countries to put money into fair trade projects, he noted that in a consolidating market there will be winners and losers. "But do not pull back investment in this time of crisis," he said. "Strong organizations invest in times of trouble."

As today's cash-strapped consumers increasingly flock to budget supermarkets in Europe and the US, there is still a niche market for ethically grown and traded products, Lamy noted. Brigham added that price premiums for ethically produced products cannot always be passed along to the consumer: "At more than a 3% price premium, the ability to capture market share starts to erode," he said. But whether this is true for more than the United States remains open to challenge. Lamy thought that the current financial crisis "will have a limited impact on market share of fair trade because many consumers who [buy] fair trade do not mind the 3% to 10% [price] premium." Ms. Leakey put the premium even higher. In a breakout session, she suggested that ethical consumers have shown they are prepared to pay 15–25% more for credibly sourced products. It depends very much on the type of product being exported to markets. It might be argued that this is fair, given that these producers cannot always count on economy of scale benefits.

Deep and enduring change

Will people still be concerned about the environment when they are worried about balancing their monthly budget? Will companies still think it is as important to pursue good ethical practices when their profits are being squeezed?

"I think they will. I do not think this trend towards ethical consumption is a bubble that is about to burst. It is not cyclical or cynical. It represents a deep and enduring change in the way consumers buy and companies sell," Craig Davis noted.

Harriet Lamb of the Fairtrade Foundation points to the opportunity that conscientious consumers present to embattled supermarkets to keep hold of their profit margins, since such buyers tend to be older, better educated and more affluent than ordinary shoppers – ready to inform themselves, and pay for good causes. Similarly, the findings that young people are well aware of their consumer power for good strengthens brand loyalty to retail chains that can commit themselves to ethical operation.

What underlies this deep-rooted change is what Davis calls the "new global culture of transparency."

Transparency is the new mantra

Today we live in what Craig Davis describes as "a world of radical transparency". Most consumers in the developed world and the many in the developing world can capture and distribute, and seek out information in the form of pictures, words or video in a way that is historically unprecedented. He points to the Google/HSBC initiative, 'o3b', standing for 'other three billion', which is aiming to bring the web to the three billion people on the planet who do not currently have access.

There is "nowhere to hide" in this new age of radical transparency, suggests Davis. For example, a company relying on child labour will eventually be confronted with a photo of a child in one of its factories posted on a website. This will be passed around the social networks and the company will be publicly shamed.

Transparency, oversight and good governance are more important now than ever before. ITC Executive Director **Patricia Francis** explains: "Going forward, transparency is going to be even more important to build back the trust and confidence to make the market work. Transparency, oversight and good governance. And part of good governance is being socially responsible. The message here is that companies 'doing good' are also doing well. The message is the same for countries – they will do best by promoting transparency and good governance."

Ethical companies are more competitive

The Ethisphere Institute finds ethical companies to be more competitive in the long run, **Alex Brigham** reported. Not only do they attract more customers and those who value ethical standards. Some also enjoy other benefits, such as attracting better, smarter and more productive employees who also value ethical standards over the highest wage.

"The end result is that ethical companies outperform their competition in the long run in a capitalist environment. Some might question whether ethics is less important in today's economic crisis, but actually it is the opposite," he said. "Demonstrable ethics in business will become that much more important as ethical enterprises are actually less risky."

Brigham noted that the companies with the highest ethical scores in The Ethisphere Institute's surveys have had the fewest problems in what he called the "current global financial maelstrom". How does heightened consumer conscience fit into this? "It is real – and it is here to stay," he declared.

In addition, more and more companies are looking to partner only with ethical suppliers as they know that doing so will not only reflect well on them, but also that an ethical supply chain can be less risky.

What is fair? And for whom?

The theme of the 2008 Forum, 'Consumer conscience: How environment and ethics are influencing exports', raised many questions about the real or perceived tension between ethical trade and conscientious consumerism. While a growing ethical awareness among consumers in the developed world can help create new markets for the goods of poorer countries the reverse could also happen. So–called production standards could be turned into a form of protectionism.

There are many definitions of 'fair' and there are just as many critics – from the developed world and the developing world – casting a sceptical eye over the claims of fair trade enthusiasts. As **Pascal Lamy** asked: Who sets standards for 'fairness'? For many developing countries, criteria of fairness remain non-transparent to producers and exporters, often as a result of competition between public and private quality and safety standards. Developing countries are increasingly putting this issue on the table at WTO negotiations, he explained.

Fairness vs consumer demands

Addressing the debate over standards, Lamy argued out that it is not up to the developed countries to impose sanitary and phytosanitary requirements on exports from developing countries since these have already been negotiated by governments at the international level. "Consumers in rich markets are pushing for good, but what is the impact of these nice intentions on developing country producers whose ability to grow and make a living depends on accessing these markets?" he asked. "There is a balance that needs to be found."

The issue of fairness and conscientious consumerism was also addressed by **Supachai Panitchpakdi**, Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) and **Ashok Khosla**, Chairman of Development Alternatives, India, and President of the International Union for Conservation of Nature (IUCN). Supachai pointed out that developing countries already have trouble meeting existing standards of production and quality without rich states adding further hurdles.

"You must not allow trade rules to be abused by those who say they are the conscience of the world," Supachai said. "You must not allow this [ethical] awareness to become a burden and put impediments into the trading system."

Khosla went further. He declared: "Consumer conscience is a problem for the developed countries." Even ethical problems can be exaggerated to the detriment of economic development in poorer countries. "The problem of the Third World is how to produce."

He called for a balance between the demand for local products and international trade. For that a new economic system is required, he argued. Societies must learn more convincingly "how to create the jobs, goods and services that people need." The world needs "producer conscience" as much as "consumer conscience", he told participants at the welcome dinner.

Kevin O'Brien, Group Company Secretary of The SPAR Group Ltd. in South Africa, gave something of the same message. He underlined the need for companies to demonstrate integrity to their consumers as a way of operating, simply because this is the right thing to do as responsible members of their society, while Harriet Lamb of the Fairtrade Foundation pointed out that a number of firms adopted ethical trading principles well in advance of consumer demand.

Increasingly, though, companies are facing a precarious balancing act, particularly in financially tough times. Corporate buyers must procure products and services that meet end-consumer requirements, at the best price, conform to standards and are delivered rapidly. Operating margins are generally tight, forcing buyers to be price sensitive. At the same time, producers must fulfil ethical and environmental standards so that retailers can back their claims on ethical and eco-friendly sourcing to consumers.

Successful stories sell

As a global advertising executive, **Craig Davis** sees opportunities for companies in emerging markets to "tell their stories" in a way that resonates with consumers. Stories have value from a consumer, business and brand perspective, he noted and pointed out to a new set of stories: Stories concerning the relationship between what companies do as businesses, and the communities and the environment – local and global – that they affect.

"For me, my business, and for many businesses, the fact that consumers are demanding higher ethical and environmental standards is a huge creative spark, for every part of the business of my clients. It drives them and us to create, curate and communicate more and better stories about what we're doing for the communities we work with and the planet we live on," Davis told participants in Montreux.

Box 3. Grass jewellery and chocolate bars

Both Katy Leakey and Neil Kelsall have "stories" to sell. And their stories are real success stories, and they are not finished yet. In Leakey's jewellery and handicrafts business, "consumers pay for the story," she is convinced. Ms. Leakey adds: "We are striving to directly connect the end-user to the producer by the story of our company.

adds: "We are striving to directly connect the end-user to the producer by the story of our company. We can engage young, energetic entrepreneurs with a strong social conscience who will work as our collaborators and agents in our target markets," she told the Forum. "The development of a network also can link producers with end-users or distributors, enabling them to see mutually beneficial exchanges."

Leakey also pointed to the need to develop detailed case studies to provide a collection of best practices and experience for others attempting to create similar business ventures.

Kelsall described his successful effort to develop and sell a line of chocolates from Madagascar. In 2005, he went there to find a product around which he could develop a business that moves export products up the value chain. He developed a fine chocolate for export, not on the basis of aid, but by sound business principles. "We learned everything we could about the market: Consumers wanted healthy, organic chocolate that tasted good. Then we did everything we could to supply it." To address questions of sustainability, Kelsall noted, it is possible to build new concerns directly into the business model. For example, because the chocolate is produced from cocoa beans that grow in rainforests, higher sales encourage preserving the forests.

Box 4. The food miles debate: Hearing both sides

Panellists from both sides in the 'food miles' debate – does it help reduce greenhouse gases to buy agro-horticultural products locally? – came together at a special session on the issue at the World Export Development Forum 2008, moderated by ***Asad Naqvi****, Programme Officer, UNEP-Economics and Trade Branch Coordinator, UNEP/UNCTAD Capacity Building Task Force on Trade, Environment and Development (CBTF).*

Markus Arbenz*, Director of Bio-Suisse, Switzerland, emphasized that the focus of his organization is to encourage consumers to buy locally. As such, Bio-Suisse promotes organic production and operates a labelling scheme in Switzerland. The group's labels favour domestically produced organic products and are not awarded to goods that are airfreighted, he said. Similarly, it does not give its label to imported milk or meat, because these are available in Switzerland, he added.*

Simon Bolwig*, Project Researcher Trade and Development Research Unit at the Danish Institute for International Studies, questioned the environmental case made by 'buy local' lobbies. "Roses imported from Kenya have a smaller carbon footprint than those produced in the Netherlands," he said. It is also a moral issue and a question of fairness to those in the developing world, he argued.*

Alexander Kasterine*, Senior Market Development Adviser at ITC, pointed to the advantages for African countries of reaching prosperous markets. "The fruit and vegetable sector in Africa is one of the success stories," he said. Countries such as Kenya, Uganda, Ghana, South Africa and Zambia benefit from access to technology as well as European markets. For individuals, the earnings from produce flown to Europe can make a real difference in household spending. But sending goods by ship – the form of transport that produces perhaps the lowest emissions of greenhouse gases – is not an option for fruit and vegetable or flower exporters.*

African producers view the focus on food miles as "just another way of using the environment" to block developing-country exports, he added.

A number of other forum participants were sceptical of the campaign against food miles. ***Philip Leakey****, a former Kenyan politician and now entrepreneur with his wife* ***Katey****, pointed out that most air-freighted fruit and vegetables are carried in the holds of passenger planes that would be travelling regardless. "Would we rather have the hold flying empty?" he asked.*

Others called for strategies to help developing countries to go beyond the debate over food miles and take advantage of opportunities in the developed world. These include marketing products more effectively and increased lobbying on the food miles issue. However, because developing countries often lack resources and expertise in marketing and lobbying, they should be provided with help to build capacity in the needed skills.

Chapter 3

Creating the value: Innovation is non-negotiable

The global market for goods and services that meet consumer demand for products created by ethically and environmentally acceptable means offers huge economic opportunities for developing country businesses, entrepreneurs and exporters. But one thing is certain, this will not matter unless the entrepreneurs, producers or even farmers are innovative. Often being creative in marketing can go a long way towards seizing these opportunities. The message is: Brand your product in a way that characterizes it distinctively and helps it find a market.

At the ITC World Development Forum 2008, developing countries were advised not to pursue only low-cost strategies in trying to create distinctive competencies in world markets. **John Viljoen**, managing director of the iedex group of companies from Australia, said developing countries should seek to distinguish themselves from each other, and not aim to compete only on price. **Craig Davis**, Chief Creative Officer, JWT Worldwide, UK, echoed these sentiments: "There are many ways to differentiate your goods and services from others, and this differentiation is key to success," he said.

The importance of innovation as a growth enabler was emphasised by **Gavin Staude**, director of Investec Business School at South Africa's Rhodes University. "Independent businesses in developing countries – if they are going to achieve sustainable growth – have to pursue and create new markets, and the only way they can do this is through innovation," he insisted.

Innovation can take many forms and be brought to bear at different stages of the production cycle. A product itself can be innovative, such as making jewellery from raw materials. Or the innovation may come during the production process with some new means or inputs used to cut costs or improve quality, any of which could make a product more competitive. It does not need to be complex (see the box in Chapter 4 on 'biological' agriculture, entitled 'Beyond Organics').

The sources of innovation

What are the main drivers of innovation? Clearly, consumer demand is a powerful incentive to innovation as producers seek out better and move remunerative ways to satisfy it. Sometimes, however, the spark can be produced in the rarefied atmosphere of a university or research institution. From the original invention, innovators build on the fundamental research there to create a marketable product.

One example comes from the Indian Institute of Sciences at Bangalore. It developed a process for the gasification of biomass that generates electricity from weeds. **Arun Kumar**, President - Business Initiatives of Indian development-promoting concern Development Alternatives, explained the importance that it can have for local economies.

Basically, any carbon-bearing material burned under closed conditions can produce gas. "You clean it and you put it into a gas engine," he said. "The result is that you eventually are in a position to produce electricity everywhere."

This has enabled small communities to develop income-generating activities, particularly for women. "We have plants set up in areas where you could not imagine electricity services arriving in 100 years." It takes just 30 days to set up the system and Development Alternatives is already exporting the technology to other countries. There are even three such plans operating in Switzerland in isolated rural communities where there is a access to ready supplies of timber but not to the electricity mains, "Once you have electricity, you can do anything: Agri-processing, chilling of milk, heating of milk, steam generation. You can transform a local economy," Kumar observed.

This is an example of a transformative technology that can create jobs where it would otherwise have been nearly impossible. But the first step required is innovation.

According to **Anukul Tamprasirt**, Deputy General Secretary of the Federation of Thai Industries, growth in his country is based on abundance of raw materials, and this creates many of its current challenges. Thailand is an export leader in many fields, ranging from rice and rubber to chicken (the world's number four) as well as exports of computer products. Thailand has been a specialist in 'OEM' (original equipment manufacture, i.e. non-branded) products. "Sometimes we did not even know who was buying it." The challenge is to find new export activities for its 70 million people. Publishing is a rising field, recording 1,000% growth in one year.

For Tamparsirt, success in both traditional and IT industries is management innovation. One key need is to make better use of biomass, he noted. Some 70% of Thai mangoes are wasted because they do not meet importing-country standards. The government is encouraging solutions along the same lines as Development Alternatives in India, using the biomass to produce electricity.

Thailand's biodiversity – ranked 17th in the world for its variety – is another source of innovation, bringing new goods to market. Entrepreneurs are now exploring how to use local wisdom on herbs and spices to create exports, ranging from chicken bones against heart disease to squid ink for cosmetics. "We are not like India. We have based ourselves on abundant resources but we realize this abundance is not going to last for ever. It needs to be managed."

The mother of innovation

Sometimes innovation can emerge from sheer desperation.

Philip Leakey and his wife **Katy** founded the Kenya-based Leakey Collection, which specialises in producing jewellery and household goods from unusual raw materials, such as grass. His business sprang out of the need to provide near-starving Maasai neighbours with a means of survival when drought threatened to kill off their herds and destroy their livelihoods.

At the beginning of the decade, the area suffered a crippling two-year drought that killed up to 70 percent of the tribes' livestock. As a result, many of the men left in search of pasture for their animals, leaving the women and children behind with just a few goats to see them through hard times. But when these animals also died, the women were left destitute with no means of feeding themselves and their children.

At first the Leakeys helped them with handouts. They also sought money from friends. But then they came to the realization that just handing out money and food offered no long-term solution. What the Maasai women needed was an alternative way to earn a living. Leakey and his wife decided: "We are going to find a product, we are going to innovate. The next time a drought comes along, they will be in business."

There was not much around to work with, just a tough type of grass. But the couple decided to see what could be produced from it in the way of jewellery. They began by cutting up the grass into small pieces and stringing it together. First results were not very attractive. But they persevered and by dyeing the grass in various colours and giving their jewellery an 'ethnic' look, they eventually managed to sell some pieces in the United States.

Not that it was easy to establish their business. "We identified problems with the dyeing and our product was excessively expensive because we were making too few," Phillip recalled. The 'ethnic' look also proved to restrict their access to the most profitable boutiques and the jewellery was later produced to contemporary design standards.

Kumar offered another good example of how innovation in the production process can be used to improve people's lives by helping forge sustainable livelihoods and create opportunities for exports.

With housing an unfulfilled need in most parts of the world, Development Alternatives posed itself the question whether it would be possible to produce cheap and affordable bricks without increasing the carbon footprint. The answer it found was a resounding "yes". What it created is an energy-efficient process which is both within the financial reach of small businesses and at the same time "greener" than traditional brick-producing technologies. "We have registered the first clean development mechanism (CDM) bundled project in which energy savings from each kiln are bundled together and sold," he told the ITC forum. Indonesia and Pakistan are among countries to have shown interest in acquiring the technology.

In a similar vein, Development Alternatives has created a scaled-down paper recycling plant that can fit into a small area and which is capable of recycling 5, 10, or 20 tonnes a month of high quality paper. The plant can fulfil a clear local need, providing poor communities with access to paper that children need for education, for example. "Here is an opportunity to meet local need and have a surplus for export. I am a great believer that a system has to be made robust by testing it out for national economic growth and only then exporting the technology, and, or, the product. It can stimulate indigenous communities and then you can worry about the rest," said Kumar. Again, it is innovation at work.

Overcoming market constraints

Producers, farmers and entrepreneurs in developing countries often face many constraints – first on their ability to innovate and then, where they have come up with the innovations, to see their product or service embraced by consumers. Finance is also cited as a major problem.

Government role

Governments can play an important role in stimulating innovation action.

Leakey cited the example of South Africa's Marula tree, which is now not only used to produce a famous liqueur but also provides jams and oil that is employed as a base for sought-after health care products. "The chain begins with the rural people, the people who collect the fruit," he said. But it is the government that bought the people together and supported research. It is the government that makes sure the trees are protected. "There is now a new recognition of the value of the product," he said.

Governments can also be a bridge between the producer and their market. "A group of Maasai women has no concept of what the market requires in Europe or America. We are the bridge," says Leakey. But in other situations, this is a service that governments or international institutions can provide.

Information about market possibilities and needs is another key need, along with help in meeting many of the certification and other quality controls that stand between a developing country producer and a consumer of "fair trade" of "organic" goods in Europe, the United States or Japan.

Financial institutions

Financial institutions can play a significant part in getting innovative businesses off the ground, particularly though micro-financing in countries such as India where this form of lending to small businesses is most developed. In India, self-help groups – mainly involving village women who come together to pool resources – can be a source of start-up capital. XacBank in Mongolia specializes in micro-finance and its President came to Montreux to report on the experience (see Chapter 4).

As **Phillip Leakey** pointed out, he and his wife were in a position to finance the initial hesitant steps to seek out markets in the United States, but this would have been impossible for a group of Maasai women to do on their own. Their experience showed the power of linkages in integrating rural women into a global supply chain.

Neil Kelsall from the United Kingdom is a pioneer of the Equitrade movement, which seeks to create wealth in developing countries through trade in higher value goods and services. But he recalled how it was very difficult to attract investment in his company whose first product was chocolate bars branded 'Malagasy' and manufactured in Madagascar. "There wasn't any funding available in Madagascar nor were there any agencies available to invest, so we had to use our own money to start the project," he said. When the product had developed enough to make it worth presenting the chocolate at a trade fair, the company discovered there were no government funds to support such business ventures. Once again the money came from his own pocket.

Foreign businesses are dissuaded from investing in Africa because it is a long-term proposition, he noted. To get around this, he said, government agencies and the media should help promote what Africa has to offer – such as unique spices, flowers and foods – in a positive light.

In Kenya, knowledge of bio-diesel fuel has been almost entirely spread by the media. And so successful has it been that most of the local transport runs on nothing else, according to Leakey. “There is a huge market out there and huge innovation is required,” he declared.

Partnership and linkages are paramount

Partnerships foster innovation, technical and knowledge transfer and the benefits are felt from small-scale producers to large-scale companies. As **Roland Higgins**, Policy Advisor, Rainforest Alliance, Belgium, noted: “Partnerships between companies and other organizations is important in tapping into the consumer conscience.”

Sybil Anwander, head, quality assurance and sustainability, Coop, Switzerland said that as Switzerland’s second largest retailer, her company is expected by its customers to act in a socially responsible way. “Customers expect products to be produced in an environmentally friendly manner,” Anwander said. “It is good business to be a sustainability conscious company, we have higher turnover, more product range, more motivated employees,” she insisted.

This has prompted Coop to form long-term partnerships with producers from developing countries.

Coop is one of the world’s leading retailers for fair-trade textiles from organic cottons. Their brand, Naturaline, is based on a partnership with the yarn factory Remei and 9,000 cotton farmers in India and Tanzania. “Farmers get a premium price for the organic cotton, they have a five-year contract and they get technical support,” said Anwander. Coop and Remei finance not only social projects in the farmers’ villages, but also a school for organic farming, power generation with biogas and irrigation systems.

There are even greater advantages resulting from this partnership as the organic production results in farmers not having to spend an increasing part of their revenues on mineral fertilizers, they have more stable yields and they can grow another crop which improves their families’ diets, or can be used to generate further income.

Partnerships can also be used to educate consumers of challenges faced in developing countries. **Ania Jakubowski**, Associate Director in Marketing, Procter & Gamble, Switzerland, spoke of the cooperation with non-business partners among international humanitarian agencies and non-governmental organizations as a way to demonstrate a company’s social commitment. Procter and Gamble has partnered with UNICEF, the United Nations Children’s Fund, to promote immunization campaigns in developing countries by allotting funds from sales of its Pampers brand diapers.

Take advantage of serendipity in the market

Once a product has been developed, a stumbling block often surrounds how to take it to market. For Phillip Leakey's jewellery, the turning point came when he was asked to give a lecture to a Roman Catholic girls school in Monterrey, California that the product line was tested. After the lecture, he went up to the head teacher and said: "We have a whole lot of unusual jewellery made of grass. We would like to sell some to your kids." They sold 2,000 strands of grass jewellery in an hour and took away $16,000. "It was then that we saw that the business had legs. We went back home and went through the business model to see how we could cut costs. We analysed everything. That innovation, that slight difference is what people are looking for, particularly in the boutique market," he said.

"Boutiques want something that is not in the supermarkets and the big stores and we had something different. We had grass. There were all sorts of funny comments about us making a living out of grass, but I will not go into that," he added. "But essentially, we had a product. We innovated from how we structured it, how we cut it, how we dyed it," he said.

Branding for consumers with a conscience

While the market for ethical products and services is growing, careful branding is required to attract the discerning, ethical consumer.

Speakers at the ITC Forum highlighted the need to develop specific branding strategies when targeting the conscious consumer. **James Porter**, Chairman of the TBA Group, Durban, South Africa, noted that consumers are increasingly driven by emotions and show growing interest in ethical production and are against environmental destruction. "Selling goods by doing good represents great opportunities," he noted.

This was echoed by **Celine Roche**, Vice President of the Specialty Ingredients Division North America, Mane. Roche regretted that the finished products and brands in the fragrance industry have today lost their emotional appeal because of a paradox: "Seduction and aesthetic values have been overused in trying to achieve sales growth." But ethical trade, and the use of sustainable farming practices in her industry, will bring back some of the essential emotional content to consumers, she argued.

Ethical consumer labels have been successfully used by businesses in developing countries as part of their branding strategies to access foreign markets.

The Fairtrade mark is firmly established as one of the world's leading ethical consumer labels. According to **Harriet Lamb**, Executive Director of the Fairtrade Foundation, when seven out of 10 consumers in the UK recognize the brand, it has moved from being a niche idea to having a major impact on the public's attitude to the things that they buy. "This awareness has translated into sales value of almost half a billion pounds for Fairtrade products in the UK in 2007," she affirmed. Independent academic studies, as well as anecdotal evidence, have demonstrated that Fairtrade is having a positive developmental impact for its producer partners, Lamb declared.

In the long-run, in order to ensure the maximum economic benefit derives to developing country producers, it will be necessary to develop brands within the local market as well, and to move producers up the value chain, suggested **Anne MacCraig**, chief executive officer of CaféDirect, United Kingdom. “How we move the distribution of benefits further forward is all about how we can locate the brand in various different markets around the world,” she said. “And the concept of value creation within a brand and the location of the processing facilities is essential to the amount of real value that you can create in a country and an emerging market,” she affirmed. This would be a future priority for CaféDirect, although it is not clear just how this should be carried out, she admitted.

Creating a local brand, however, can be difficult, particularly when the product concerned is not widely consumed in the local market. Such is the case of coffee in Uganda, where the local drink of choice is tea, noted **Willington Wamayeye**, general manager of the Gumutindo Coffee Cooperative, a CaféDirect supplier.

While many businesses have enjoyed great success using consumer labels, some businesses have been hesitant to embrace them. One such example came from Neil Kelsall who said that the Malagasy chocolate company decided against the use of such a label, as it was believed that this could lessen the appeal of the confectionary at the higher end of the market.

Experience shows that being considered “ethnic” can be a blessing and a burden, particularly outside the foods sector. “Ethnic” goods sell only to fringe markets, Leakey warned. The Leakeys discovered the disadvantages as they began developing their international .trade in grass jewellery. “We were being sidelined into the fringe market. There was no future in that; we were not going to create a lot of work. We needed to create a contemporary product. Something that will sell anywhere.” So, they got rid of the ethnic look of their product. Today, the Leakey jewellery sells anywhere from New York’s 5th Avenue to London, Hollywood and Paris. “It is selling because we took the ethnicity out of it.” It is still marketed under the ‘Zulugrass’ label. However, the irony that Kenya has no Zulus was not lost on some of the Forum participants and demonstrated the power of innovative branding.

Stiff competition from multinationals

Developing-country brands face fierce competition from multinational corporations anxious to establish brands of their own, points out James Porter. A magazine survey of Third World businessmen and consumers carried out for a South African brewery showed high levels of distrust of the motives and practices of the big international corporations, he recalled.

Many of these business leaders thought global brands offered few benefits to developing countries, and 80% felt that global brands had an unfair advantage over local brands. “Well known local brands, which have developed trust, experience erosion with dumping from the First World,” Porter declared.

Building trust

Building trust is considered critical when developing a brand that is aimed at tapping into the consumer conscience. Porter warned that the decision to target the ethical market should be carefully considered. Conscientious consumers will boycott products that they do not believe to be genuine. He added that as these activists flex their buying muscles, they act as good policemen that marketers can use productively as “a finger on the pulse of tomorrow”. Ania Jakubowski agreed: “Consumers will pick up if we are not genuine.”

While consumers will take note and act out against insincere ethical offerings, genuine ethical goods and services are not guaranteed sales. “The majority of consumers will not forego quality, price or convenience for ethical products,” warned Jakubowski.

Tales to tell the world

Once there is a product, there has to be a strategy for selling it, for getting it out to a wider market. Craig Davis believes there are fewer better strategies than having a good story to tell.

Few stories can better that of the Kupi Luwak coffee beans. The coffee tree grows on the Indonesian islands of Sumatra and Bali, and their soft red cherries are a favourite food of the Palm Civet, a tree-dwelling cross between a cat and a monkey. The civets eat the fruit and excrete the beans, which are then carefully collected from the ground by plantation workers. The civets are believed to pick only the best and ripest coffee berries and their gastric juices may even add to the flavour. Fewer than 450 pounds (200kg) of coffee beans are harvested each year, and affluent consumers in Britain are prepared to pay as much as £50 sterling for the privilege of tasting a cup of coffee made from their beans.

Clearly not everybody has such a colourful tale to tell. But Davis’ advice to producers is to “turn the blowtorch back on your business until it begins to reveal some of its secrets.” He believes that there will be something about it that is different.

Modern technologies are bringing the producer and consumer closer together. Websites, or blogs can be launched for just a fistful of dollars. “You can do it without much money and a really good story. You do not need anything but some facts and the ability to tell them well,” he said.

Box 5. Good corporate citizens

Innovation can be used to bolster competitiveness, and at the same time, encourage the development of small-scale producers in the developing world.

***Kevin O’Brien**, Group Company Secretary, The SPAR Group Ltd, South Africa, explained that all the retail stores in his international group are independently owned. Although in South Africa a distribution network exists to supply SPAR-labelled products, retailers are able to buy locally in order to be responsive to customers’ needs. As O’Brien notes, “The SPAR retailer has his or her ear close to the needs of the South African consumer.”*

A range of benefits result from this flexible procurement arrangement. First, it allows SPAR to quickly gain information on consumer preferences through analysis of non-SPAR brand sales. In addition, the retailers’ freedom to buy locally also provides revenue and brand exposure to small-scale producers who might otherwise not have the scale, knowledge, or contacts to supply to large retail supermarket chains.

Chapter 4
Raising the value

If producing the goods that appeal to ethical consumers is a challenge, then the next step – tapping into markets – can be an even bigger test. While these markets are dynamic and offer much potential, they are also segmented, rapidly changing and confusing. To reach such markets, developing country producers must navigate a growing variety of product standards, both public and private.

Coping with the challenges of securing a place in the market comes on top of the more traditional difficulties faced by such exporters, including distance from market, lack of information regarding demand trends and problems associated with meeting the requirements of large-scale importers and retailers, particularly supermarkets.

Barriers and costs

The issue of standards stirs considerable controversy. Some advocates for developing countries accuse developed nations of seeking to impose their values and concerns on the rest of the world. Standards can also act as non-tariff measures designed to protect local markets. And there can be considerable costs involved with compliance.

On the other hand, private standards can offer price premiums and open the way to lucrative niche markets, especially for small producers. Moreover, both public and private standards can help raise the quality of developing country products as well as contribute to environmental sustainability and improved social conditions.

These issues featured prominently at the Forum, both in the sessions regarding access to markets and in the wider debate. Participants identified ways to ensure that standards become less of an obstacle. Suggestions included funding programmes in developing countries to help producers cope with standards, greater involvement of the developing world in standard setting and expanded efforts to provide developing country producers with the information they need to reach markets. There was also support for greater coherence among the various standards, with some calling for harmonization.

Why standards and labelling schemes?

Countries and regional groupings, such as the European Union, have long applied national safety and quality standards for domestic production and imports. To ensure that these aren't used to protect domestic producers, members of the WTO have agreed on a set of rules. In conjunction, standards, particularly regarding food, plant and animal health, are negotiated internationally and recognized by the WTO. The WTO also can be called on to adjudicate disputes about standards among its members.

Recent years have seen more stringent public food safety rules in the developed world, following a series of health scares linked to agriculture, as well as growth in public standards in the area of environmental protection.

Such standards, however, can prevent developing countries from accessing markets, even when the products they are exporting are not subject to import tariffs. As WTO Director-General **Pascal Lamy** pointed out, safety issues can create a "bottleneck that must be addressed." Citing the example of EU rules on the level of pesticide residue allowed in flowers, he said that "if the maximum pesticide residue deviates a few milligrams from EU standards, it is no longer free trade, it is no trade at all." The Aid for Trade initiative is working help to developing countries overcome such problems, he said.

A double-edged sword

While meeting public food safety and agricultural health standards can pose a challenge, it also paves the way for improvements in developing countries, including safer and more sustainable production and processing practices.

In addition to affecting public standards, increased ethical concerns among consumers have led to many private and NGO initiatives to promote ethical trade and production. These are voluntary schemes and are sometimes known as "sustainability standards". They also reflect the fact that in a world of global production processors, consumers want companies to take responsibility for their supply chains.

Meanwhile, development agencies, NGOs and others, such as the organic and fair trade movements, view certification and labelling schemes as a way to achieve social and environmental goals. These include spreading sustainable environmental practices, improving living standards and promoting human and labour rights.

With this in mind the 2008 Forum organized a session entitled Environmental Standards for Global Markets: Implications for Developing Countries, moderated by **Jacqueline Coté**, Permanent Representative in Geneva of the International Chamber of Commerce (ICC).

"These standards are in the end a critical tool in the drive toward sustainable production and consumption methods," said **Ulrich Hoffmann** of the United Nations Conference on Trade and Development. **Jochen Krebuehl**, Programme Officer for Social and Ecological Standards in Germany's technical cooperation agency GTZ, believes that in coming years governments will want to play a larger role in standard-setting. This trend is already emerging in European Union countries in relation to biofuels, he told the Forum. Globalization can be pursued in a sustainable and human way by the application of standards whose proliferation this trend is causing, said.

Private labels – clarity or confusion?

Hoffmann suggested the private labelling schemes run by retailers and producers are designed mainly to differentiate products and reassure consumers. In such instances, labels tend to be aimed at guaranteeing quality and may be viewed as marketing tools. However, their proliferation has contributed to consumer confusion, and the efficacy of these as a marketing tool is now being questioned.

Since 1995, more private international food-related standards have emerged than in the previous five decades combined, said **Daniele Giovannucci**, co-founder of the Committee on Sustainability Assessment (COSA), based in the United States. Hundreds of labelling and certification schemes now exist. Is this a runaway train?

The need to differentiate ethically produced products as well as convince consumers of their value to justify higher prices ensures that issues surrounding standards, labelling, certification and other schemes are likely to accompany the growth in ethical trade.

Challenges for developing countries

The paradox is that the producers whom governments and donors most want to help "tend to be marginalized or completely excluded" from markets because of standards linked to ethical consumerism, **Ulrich Hoffmann** observed.

Among the issues cited by exporters, NGOS and policymakers: Too many different standards; high certification costs, rapidly changing requirements; lack of transparency and information; limited participation from developing countries in standard-setting; and inadequate coherence between public and private standards.

"Many smallholders are being paralysed by multiple certification procedures, said **Anne MacCaig**, Chief Executive of CaféDirect in the United Kingdom. "We are kidding ourselves if we think this is a sustainable way to operate," she added.

Moreover, private standards can be designed to encourage consumers to buy local or domestic goods, to the detriment of those coming from the developing world. And retailers with a big share of the market can use labels or standards to limit competition.

The frustration felt by some developing country producers is evident and came out strongly in a session on Ethics and Business Linkages: Supply Chain Implications for Exporters, moderated by **Ashok Sharma**, Director of the Indian Academy of Management.

Stuart Symington, Chief Executive Officer of South Africa's Fresh Produce Exporters' Forum, said that while ethical codes could improve labour practices, they should not be "foisted" on producers.

The Forum also heard concerns among participants that ethical consumerism is focusing too narrowly on the producer, placing an inordinate amount of the burden on developing countries. These critics argued that ethical considerations should apply throughout the value chain, including in practices of importers and retailers. For example, according to Symington, many big chains employ questionable policies such as selling below cost, removing brand names and withholding price information from producers until it is too late to switch deliveries (see box entitled 'Caught in the Supermarket Wars' in the Introduction).

Others raised questions about the degree to which businesses are really "thinking green" in their overall operations. **John Whelan**, Chief Executive Officer of the Irish Exporters Association, observed that, positioned between the US and the rest of Europe, Ireland is proportionally the world's biggest importer of materials re-exported (70%). As a result, Irish producers are very aware that they are just one link in an increasingly globalized supply chain, raising questions about where the ethical standards are to be applied: By producers or consumers. Cargo shipping fleets, for example, have doubled in the past five years as a result of rocketing demand. For the past two decades, consumers have been looking for variety and lower cost in goods. Rising costs of fuel from $30 a barrel three years before will change the situation in coming years, since transport accounts for one-third of world energy consumption in commerce. Those involved in transport therefore face higher taxes designed to reduce carbon-emitting activities. Greening the supply chain is often easiest for European producers if they support the 'buy local' movement. This could benefit Irish farmers because of their proximity to the UK market. But fair trade producers in developing countries will find themselves losing out, since most of their products are fresh food where transport is a major cost. This raises ethical questions about Irish producers' behaviour, he noted.

Similarly, **Bernhard Herold**, Coordinator of the Fair Wear Foundation, of Switzerland, said his organization is sceptical about the benefits of certification in his industry, when the main issues are labour-standard compliance. Ethically produced textiles and clothing do not necessarily have a label which states that workers have been paid a fair wage and the labels that exist only guarantee the product itself rather than the overall conditions of work.

Benefits for developing countries

Nonetheless, the expansion of ethical standards has paved the way for fast-growing and lucrative markets that can be ideally suited to developing country exporters. While annual global market growth for conventional foods has been at 2% to 4% in recent years, the figures for "sustainability standard" markets ranges from 5% to 100%, according to Hoffmann. These are "very attractive markets" with large potential profits, he added.

Niche markets involving private labels provide export opportunities for small producers who are not in the position to compete on price or volume. That is the experience of Indian organic spice growers, according to **Sunil Joseph**, General Manager of PDS Organic Spices in India (see box).

Pascal Lamy of the WTO highlighted the case of Caribbean banana exporters, who faced greater global competition when their preferential access to the EU market was scaled back (see Chapter 1).

Despite difficulties with certification, the nature of production in the developing world can be advantageous for labelling schemes. For example, unlike their developed world counterparts, many producers in developing countries do not rely on fertilizers and pesticides, easing the way for organic labelling.

Standards can also improve product quality and productivity in developing countries, especially when development aid agencies and NGOs are involved in helping with the application of such standards. In addition to opening up new markets, organic, ethical and fair trade schemes can provide price premiums, especially compared with domestic markets in developing countries.

Convincing consumers

The ability of developing country exporters to succeed in raising the value of their products by tapping into the market for ethical goods does not only depend on meeting public and private standards. Developed country consumers must be ready to buy the products, and in most cases pay more for them than for comparable standard products.

As to whether they are willing to do this or not, the evidence is mixed. Ethical trade is growing, albeit from a small base, and often involves the type of consumer who is willing to accept a price premium and therefore is likely to be less vulnerable to economic cycles. Key speakers forecast that while the market for ethically produced products might be hurt temporarily by the economic downturn of 2008, its long-term outlook was favourable.

However, there are issues to be addressed. The proliferation of different labels and standards confuses consumers as well as producers. UNCTAD Secretary-General **Supachai Panitchpakdi** spoke of consumer uncertainty about the meaning of 'carbon-friendly' labelling on supermarket products. Others warned that the proliferation of labels risks undermining their credibility. Sceptical consumers could become even more so, they said. This particularly concerned Bernhard Herold.

In addition, if ethical trade is to move beyond niche status, it must build a wider consumer base. It's unclear whether such a wide base exists. A number of studies have shown a disparity between consumer attitudes and behaviour, with many more saying they would like to shop ethically than those who actually do. This is partly due to price factors, particularly in times of economic hardship. But other aspects of consumer behaviour may be at work in addition to the confusion mentioned above.

Developing country exporters received a reminder of the difficulties from **Chris Sellers**, Chief Executive Officer of Agentrics, whose business supplies technology and logistical services to retailers whose revenues together are as important in dollar terms as the world's ninth largest economy. "The average [company] buyer spends 13 seconds considering the introduction of a new product into their retail chain," he told participants. They use a database of product attributes to make their decisions, but a small bottle of liquid soap could require 1,000 words of text to meet regulatory requirements on information and identify itself to buyers. The attributes have to be clear for the item to go into the database of products from which retail chain buyers make their choices.

Information, participation and coherence

As the 2008 Forum discussions made clear, efforts are necessary to improve the ability of developing country exporters to benefit from ethical consumerism as well as ensure that standards and labels do not act as barriers to trade.

Suggestions revolved around three themes:

- The need for developing countries to have more information on markets, labelling and standards;
- Greater involvement of the developing world in all aspects of ethical trade, particularly standard setting; and
- Increased coherence among standards.

Governments, international organizations, NGOs and the private sector should be involved in such efforts, participants stressed.

Trade experts and developing country exporters agree that producers need to know much more about certification procedures as well as the costs and benefits of joining labelling schemes. They also lack information about market developments, especially given the rapid evolution in ethical trade.

Regarding standards, recommendations focus on greater involvement of developing countries as well as the need to spread knowledge.

Kevin McKinley, Deputy Secretary-General of the International Organization for Standardization (ISO), encouraged developing countries to "help set the bar" for international standards. ISO standards result from negotiations among national standards agencies from 157 countries, he pointed out. While initially these are private standards, they can be translated into national law to become public ones. At ISO, "everybody has an equal voice" so that "a small developing country in Africa has the same vote as the US in the ISO voting process," McKinley observed. ISO works with developing countries to build their capacity to influence the debate on standards as well as spread knowledge.

The need for broad-based efforts to help developing countries through the maze of public and private standards was a recurrent theme at the Forum, where many participants came from organizations and companies that work to link developing country businesses into the international economy. UNCTAD's Hoffmann, for example, recommended using public funds and development aid to create national programmes in developing countries on meeting standards, which could assist producers.

While the plethora of private standards offers considerable opportunities to exporters, many view the current situation as unsustainable (see Daniele Giovannucci, How New Agrifood Standards are Affecting Trade, in *Consumers, Ethics and Environment*, the pre-debate publication). Giovannucci notes. "Since 1995, more private international food-related standards have emerged than in the previous five decades combined." He adds: "What appeared to be limited to OECD nations has been shown to be occurring, at an even faster pace of adoption, in many developing nations…. certification is emerging as a significant regulatory mechanism in the global agrifood system." Some at the Forum advocated greater coherence or streamlining, while others called for harmonization – both solutions advocated also by Giovannucci.

Suggestions included establishing core requirements that would make it easier for producers to join several labelling or certification schemes at once. More ambitious proposals were for centralized application systems, administered by national trademark offices or international organizations. Reducing the cost of certification is also important, with some calling for group certification.

Moreover, more clarity is needed. “From the consumer perspective, the proliferation of labels makes it difficult to know what these labels mean,” said **Bernhard Herold**, whose foundation helps to promote good labour practices among makers of clothing, but does not operate a labelling scheme.

The interplay between public and private standards is also a complicating factor in the business of ethical trade. Public standards represent the baseline for producers to gain entry to a national or regional market, while private standards can allow access to specific retailers and market segments, such as fair trade, as well as price premiums. Unclear or contradictory requirements, however, are likely to be a headache for producers. Hence the view that greater coherence is desirable.

Some expect to see a rationalization of existing sustainable labelling schemes. **Sibyl Anwander**, head of quality assurance and sustainability at Switzerland’s Coop, predicted that labels unable to support their credentials with a strong communication are likely to fade from the scene.

Partnering for value

Partnerships play in important part in ensuring that developing countries and their producers succeed in raising value through ethical trade. The forum saw much evidence of such efforts, including crucial work being done by those that help to create and market ethical products, build capacity of exporters to meet standards, and campaign on their behalf.

Panellists brought examples from as far afield as Uganda, Ecuador, India and South Africa.

Box 6. India’s Spice Route

With its experience in carving out a niche market for Indian organic spices, PDS Organic Spices of Southern India provides valuable insights into how to succeed in the complex world of ethical trade. In association with the official Spices Board of India, PDS promotes organic spice cultivation, particularly pepper (black and white), ginger and turmeric.

Perhaps most important is the nature of the enterprise itself. It is a unit of Peermade Development Society (PDS), a social service organization of the Diocese of Kanjirapally, named after the famous plantation town of Peermade. The spice business is part of wider efforts of PDS to promote socioeconomic development among small, marginal and tribal farmers in India in an environmentally sustainable manner.

In this, PDS Organic Spices has something in common with other successful ethical trade ventures – the involvement of outside supporters, such as nongovernmental organizations or national and international agencies. Not only is it difficult for developing country producers to meet market requirements on their own, but ethical trade also brings with it “an entirely new lexicon” of standards that might not be relevant or entirely understood in the local context, says ***Sunil Joseph****, General Manager. This is especially difficult for small farmer projects, which can face tougher certification standards than large plantations, he adds.*

Nonetheless, Joseph sees opportunities, provided producers understand and adapt to the needs of their customers, whether these are a local exporter, importer, wholesaler, retailer or the final consumer. "In our case we have been able to increase value of products by going in for a niche and growing market such as organic spices instead of targeting the bigger conventional spices market." This strategy reflects the fact that PDS mainly works with small and marginal farmers who have limited production capability. (PDS currently has more than 2,000 organic-certified farmers in and around Idukki district of Kerala.State)

It also often makes sense to look beyond supermarkets to other retailers, Joseph observes. "We need to explode the myth that selling to supermarkets is the best and only option available to producers," he said. Supermarkets tend to be about volume and price competition, something that producers are not in a position to change. "Sometimes working with SME sector, particularly specialty stores, provides a better fit. We are increasingly seeing that the small business/retailer based in the EU or US is trying to survive in the highly competitive market of the west by identifying unique products," he added.

Scope for action

However, there remains considerable scope for action and innovation on this front, especially when it comes to handling the complex world of standards, labelling and certification. Among ideas to emerge were:

- ❑ Encouraging schemes in which the large retailers share the cost of certification because it benefits their customers;
- ❑ Providing funding and technical assistance to help governments and exporters cope with standards;
- ❑ Developing information programmes on ethical consumerism at international, regional and national levels; and
- ❑ Increased participation of developing countries in setting standards, including voluntary ones.

These are in addition to pursuing further the development work being done with developing country producers by NGOs and national and international technical cooperation agencies, including ITC.

Through regional integration and cooperation, developing countries can work to align their own standards with those applied in the developed world. They can also create regional labelling schemes and focus on developing local markets for ethical trade.

Chapter 5

Delivering the value

Empowering producers to become ethical exporters from developing countries can offer a number of win-win scenarios for sustainability, ethical business practices and profitability. Nonetheless, establishing an environment which enables the development of such exporters remains a fundamental challenge.

Participants at ITC's World Export Development Forum 2008 agreed that there are at least three areas that must be given attention if developing country exporters are to succeed: Sustainability-related finance, scaling up social entrepreneurship, and transparency via the Internet.

Anthony Lumby, who lives in South Africa and is President of the International Interdisciplinary Environmental Association, noted there is little dispute that trade has played an important role in promoting economic growth, but there is mounting concern about the sustainability of the way in which the goods and services that underpin that trade are produced. In his view, the prevailing methods of production must be re-examined to promote sustainability.

In reviewing existing production methods, producers in developing countries can be faced with a heavy financial burden when looking to implement costly environmentally friendly production methods. This poses the question: Who will pick up the bill?

Paying the bill

Firms willing to undertake the necessary investment to adjust production methods, find themselves needing to ensure access to external financing. However, as Chairman of Titikaveka Growers Association of the Cook Islands, **Teava Iro** worried that farmers face difficulties in applying for finance from banks, particularly if they are involved in areas of production outside of mainstream commerce, such as the 'biological agriculture' that he is developing (see 'Beyond Organics' in this section).

Bold Magvan, President of XacBank, Mongolia, agreed that it can be hard for small businesses to face the financial costs of adopting environmentally friendly technologies. It is here that micro-financing organizations such as XacBank (which is part-owned by the World Bank's International Finance Corporation and the European Bank for Reconstruction and Development) along with ethical investors have a role to play. "Our bank strongly believes that if a business is concerned about the environment and society, that is a more sustainable business," he said.

In accordance with XacBank's 'People-Planet-Profit' business model, the bank takes account of the environmental stand of a company when assessing what interest to charge on loans. "If someone is taking environmentally conscious decisions, then we can lower the interest rate," he said. In this way the bank can simultaneously promote both poverty alleviation and high standards on environmental protection.

The bank is not being purely philanthropic; its stance also makes good economic and financial sense. By acting this way, the bank gains more respect. More respect means more clients, and more clients means more trust, which in turn means more business and higher profits. Commercial banks, enjoined by shareholders to be risk-averse in their ordinary operations, only give loans to enterprises they consider good business prospects.

Furthermore, Magvan believes, microfinance institutions can play a significant role in the education of its clients in the field of sustainability. They can train customers to take into account environmental concerns in their business models, in hiring and job creation, and in their practices and everyday operations. While these values can be hard to instill when survival concerns are paramount, XacBank works to enforce them by the creation of incentive systems, reporting requirements, and similar measures.

XacBank's model may be difficult to replicate by all commercial banks or microfinance institutions, as it receives $5 million from the European Bank for Reconstruction which enables it to have representation across the country, including in rural villages. However, the strategy adopted by the XacBank of lending to environmentally sustainable businesses should be considered by other lenders.

Microfinance and retail support

While microfinance can financially assist developing country producers, and drive environmentally and socially friendly production, **Astrid Ruiz Thierry**, president of Women in World Markets of Spain, warned that "microfinance has at times become a barrier to women and at times is dangerous, with some lenders charging 5% interest each month and lending to persons with no technical experience." This calls for more mainstream finance from commercial banks to become available to support developing country businesses, in addition to microfinance being available.

There is also a role for First World businesses to play with picking up the costs. **Sibyl Anwander**, Head of Quality Assurance and Sustainability at Switzerland's second largest retailer, the Coop, explained that customers expect her company to act in a socially responsible way. In addition to Coop paying good wages and educating its employees, she said, "customers expect products to be produced in an environmentally friendly manner". This can serve as an important point of leverage for producers in the South: By pointing out the expectation of conscientious consumers that corporations should take the lead in promoting sustainability, they can pressure firms to foot part of the bill.

As much as 10% of the Coop's turnover is made up of organic or other certified products. Although consumers pay a premium for certified products, there is no reason why that premium should be excessively high, she said. She argued that it would be a mistake for Third World producers to assume that they will be able to rely on there always being a price difference. It makes more sense to seek ways of keeping costs down rather than count on a price premium, Anwander advised.

Organic cotton is one of the Coop's success stories. By adopting fair trade standards and practices for its Naturaline brand, the Coop pays a premium price for organic cotton to 9,000 cotton farmers in India and Tanzania. While Coop customers pay a little more for these organic cotton products, because the Coop has forged direct links with producers, these higher costs are reasonable, she observed.

In addition, Coop invests in local communities via the creation of financial infrastructure as well as supporting education initiatives. This arrangement results in a more effective value and supply chain that link producers and consumers together. The Coop's organic cotton initiative employs a yarn factory partner to finance social projects in the farmers' villages and a school for organic farming, power generation in biogas, and irrigation systems. The Coop also supports the Institute for Research in Organic Agriculture (the FiBL), in Switzerland, which enables producers to overcome technical problems associated with organic farming. The research is shared with farmers in developing countries.

The Coop is also the first retailer to join the Common Code for the Coffee Community, known as the 4C initiative. It offers an alternative to fair trade, according to which producers are paid market prices, though member companies commit to pay a fee to train producers and provide training materials, translation services, and the exchange of best practice between cooperatives, countries, and continents.

"It is good business to be a sustainability conscious company, we have higher turnover, more product range, more motivated employees," she said. "We are demonstrating that commercializing environmentally friendly [practices] can be good business for all."

Social entrepreneurs growing

The social entrepreneurship movement is on the rise across the world, stimulated both by local needs for jobs with better living and working conditions in developing countries and by the rise of conscientious consumerism in the North. **Parag Gupta**, Associate Director and Head of South Asia, Schwab Foundation for Social Entrepreneurship in Switzerland stated that "social entrepreneurs enable business creation, livelihood development and, SME development, and they do this as intermediaries."

Social entrepreneurs operate as "change agents" for society, seizing opportunities that others miss in order to improve systems, invent and disseminate new approaches, and advance sustainable solutions that create value. Their principal aim is to generate "social value", in addition to business profits.

In Ruiz Thierry's words, social entrepreneurship is "the practice of responding to market failures through innovations that transfer failures into successes and solve social problems at the same time". Social entrepreneurs are "natural activists" who can skillfully build coalitions and networks to further their goals, which new tools on the internet can magnify.

At present, entrepreneurs in the South face serious structural problems in getting their businesses off the ground and in establishing their products on major world markets. Often street-wise and energetic, these entrepreneurs nevertheless require coaching, counselling, access to resources and networks, and market introductions. Such trade support services are more important to them than general skills training. Most important, potential exporters must be given access to technology to ensure they can produce on a scale that meets the requirements of big purchasers on international markets. Moreover, social entrepreneurs themselves need to create networks across national boundaries – Ruiz Thierry suggested Latin American countries could offer support to African countries based on their own experiences – and set up South-South exchanges.

Bureaucratic barriers in the South

In many developing countries, social entrepreneurship is stifled by a range of bureaucratic barriers, from the failure to provide the information that entrepreneurs need to develop their businesses to bureaucratic impediments that limit their ability to export.

To address the difficulties they face, it is vital from the very beginning that entrepreneurs get involved at the grassroots level with producers, said **Ronke Daniel**, CEO of Ladmok in Nigeria. Her company is a pioneer in providing financial and material support to rural women producers of cassava in Nigeria, helping to turn it into a competitive export product through a cooperative. In addition, she argued, social entrepreneurs must be able to effectively communicate what they are trying to do in terms of combating poverty and creating the chance of a better life for small communities, not only to consumers in the outside world, but also in local markets.

In Daniel's view, there is also a big role for governments to step in and act as enablers: They can help to ensure access to microfinance, in particular when interest rates charged by commercial banks are too high for small producers, as well as to information and technologies required for growth. "Governments have to be present," she said.

Nonetheless, there is a danger that some government officials might see social entrepreneurs as competitors. Not only can social entrepreneurs challenge the authority and even the mandate of governments with their mission, officials might fail to see that social entrepreneurs can offer market-based solutions to political and economic issues and become an effective partner for governments because of their profit-oriented approach. Social entrepreneurs, as Ruiz Thierry pointed out, can address market failures through financially viable and sustainable projects aimed at solving social problems.

But she insisted. "Social entrepreneurs are not organizations. They are individuals." They bring to problems the passion to succeed and innovate. They do not calculate in advance whether they have enough resources while being very good at obtaining the resources they need. As a result, they have a much wider impact than seems initially – "a very wide and international impact".

She declared: “A true social entrepreneur is a mass recruiter of followers, of local change makers. They have that exponential effect because they have that passion in resolving that problem.”

Women at the core of social entrepreneurship

Astrid Ruiz Thierry and **Elizabeth A. Vazquez**, Executive Director of Quantum Leaps, which offers managerial training to women in China and India regarding export markets, argued that women provide the core element in social entrepreneurship in developing countries.

“Women have always had to be resourceful. This has been going on forever,” said Vazquez. Ruiz Thierry also told the Forum: “Historically women are social entrepreneurs, part of the character of women entrepreneurs.” The question, she said, is: Why it has taken governments so long to recognize the social initiative shown by women? “Why has it been so invisible? Why have women not gotten that support? If women without that support have gotten so far, imagine what they could have done [with proper backing]. If you support women, you will support social entrepreneurship immensely.”

Social entrepreneurs can show big business what social corporate responsibility is about, that it is not a marketing tool, she observed. Vazquez noted the importance of ensuring that measures to promote women’s initiatives really do open up the markets to them: “You have to give them real contracts, real business, not just training, not just awareness-raising.” **Neelam Chhiber** of Industree, Bangalore, India, has also found that working with women is the securest way of ensuring that benefits spread to the community (see Chapter 5 box Moving Artisans Up the Value Chain). **John James**, Programme Director of Southern African Business Linkages, also stresses the benefits of concentrating on women in supporting entrepreneurship, particularly because of their recognition of social problems.

Now that women’s importance has been recognized by the business sector, however, care must be taken not to focus on women entrepreneurs to the extent that their male counterparts then find themselves discriminated against, they added. At the same time, Ruiz Thierry cautioned against believing that appropriate technology comes only from the North and pointed to Latin America as a source of entrepreneurial innovation in low-cost technology that could benefit other regions at lower levels of development. For her part, Vazquez reported on a new effort in the United States to set up an organization certifying women’s businesses for government procurement and similar buyers.

E-burdens and e-transparency

The role of e-transparency is a highly debated area. Integrated systems are under development to the point that perhaps there will be ‘no place to hide’ in the future. There is, however, a need to identify how stakeholder needs and desires can be realistically met and to acknowledge that these systems might merely create additional burdens for developing countries.

Telojo Onu, Managing Director of the Caribbean Institute of E-Business and International Trade, noted that telecom technologies, which are becoming ever more collaborative and interactive, are enabling stakeholders to examine the behaviour of companies to an unprecedented extent. While the telecom infrastructure is costly, she believes that the benefits outweigh the cost.

Developing countries, in her view, should acquire simple systems that are appropriate to their uses, develop locally relevant content, and educate citizens in their proper use. “Technology is important, but processes must be developed and people must be empowered to use them,” she explained. “A shared understanding – a common goal – must be developed to facilitate the development of the transfers and linkages required.” **Robert Jackson**, Managing Principal of Audit Education from Hilton, South Africa agreed: “We must embrace technology and grow with it.”

Trust me into show me

Ged Buffee, President of the African Organic Farming Foundation of South Africa, agreed, adding that the proliferation of e-transparency schemes poses challenges regarding the protection of their integrity. Nonetheless, they offer an effective means with which to monitor and improve the certified market mechanisms, the “trustmarks” such as the Fairtrade requirements.

According to Buffee, certain websites today are attempting to offer comprehensive information on the behaviour of both producers in developing countries and the purchasing behaviour of multinational corporations. In addition to offering analyses that highlight who makes money at what point and when in the value chain, he reported, “they can display photos and web cam films to demonstrate that certified participants are behaving the way that they promised they would.”

“E-transparency will be useful because it is transforming ‘trust me’ into ‘show me’,” he declared. Stakeholders, he believes, will be brought together by the need to maintain the integrity of the certification systems in which they participate.

Box 7. Marketing reform and brand-sharing

South African-born Ged Buffee had been enjoying a successful international career in marketing and advertising when some 10 years ago he came to what calls “a regrettable observation”.

His skills, he realized, were being applied to persuading consumers to buy more with little concern for the impact that producing an ever-increasing volume of goods was having on the environment – in other words, destroying biodiversity and exhausting natural resources while creating pollution and waste.

As a result of his reflections, he switched his personal efforts to promoting organic products, working as a researcher, analyst and strategist with top organic brand leaders and organizations in the United States, where he made his home.

But given the growing weight of evidence of the damage that runaway consumption has been doing to the planet, one question constantly bothered him and colleagues involved in the sustainability movement: “What drives individuals and nations to make choices that sometimes run counter to their long-term interests and destroy biodiversity in the process?”

“It was clear to me that marketing was one of the key factors, along with socio-economic and political drivers, and facilitating a shift in marketing practices was where I could make a difference....Marketing, in my view, needs to be rehabilitated, and this was my start point.”

The marketing business, says Buffee, is torn between two conflicting demands: For more consumption and for better consumption, while a company may feel pulled in three different directions by the consumer looking for lower prices, the shareholder looking for higher returns on investment, and the social stakeholder asking for sustainability.

However, he argues, "there is an ever-growing body of evidence to support the assertion that improvements in ethical, environmental and social performance can bring business benefits," he argues. "It is my view that brands that do 'good' outperform brands that do 'bad.'"

But company decision-makers needed to be convinced of this with hard facts. Research he conducted with US economists and statisticians showed a direct link between the general corporate performance of a range of US companies, their reputation for social responsibility and their market value.

On a 10-point scale, a simple one-point advantage in reputation for an average company valued at $3 billion could give it an additional market value of $52 million, the study found. "This showed that we can really track and measure added-value when brands do good."

The discovery led him to begin shaping a new "integrity branding" concept – embodied in his own BRAND TRUST initiative, that could open the door to real engagement with potential partners among leading corporations. "The concept plays directly to the tangibly-enhanced brand values that many financial analysts seem to currently ignore, but will not be able to continue ignoring," he says.

"Simply put, the extent of a brand's social responsibility is beginning to influence and shape a new set of brand valuation metrics – existing brand value and reputation boosted by social-purpose value which in turn is about creating value with values, and profit with principles."

As consumers move increasingly to favour brands that are genuinely doing the right thing socially, economically and environmentally, companies will themselves have to address this challenge, Buffee argues.

But the sights of BRAND TRUST – which he says his three days at the 2008 Forum have inspired him to reinvigorate – are set well beyond the companies and multi-national corporations based in rich countries. "I want to investigate new ethical brand configurations that effect brand-co-ownership and result in greater sharing of a brand's intangible value with poor developing world producers," he says.

Today, up to 90-95% of product value goes to the brand identity established by the distribution chain, and studies suggested that brand value makes up as much as 80% of the total market capitalization of both major corporations and smaller companies.

"The sad reality is that just a few developing world producers are fortunate enough to gain ownership of the intangible value associated with their products," says Buffee – who is also founder and leader of the African Organic Farm Foundation which aims to integrate farming and national resource management to generate economic and social sustainability across several countries of Southern Africa which face the threat of potential devastating environmental decline.

"Without doubt achieving co-ownership of brands is going to be a real breakthrough for African development," he predicts. New co-owned ethical brands would ensure that the outflow of millions of dollars in lost value being given away by African producers to brand-marketing companies is halted, and more equitably shared.

"This is the exciting goal I am targeting with BRAND TRUST – New, more equitable market mechanism configurations in order to build real wealth for poor producers rather than just extra pennies," declares Buffee.

"Achieving these new configurations is going to provide that big step needed to enable poor farmers and producers to rise out of poverty by sharing ownership of the crown jewels of capitalism – successful brands."

Transparency based on needs

Ian Sanderson from the accounting firm Deloitte SA, offered a cautionary perspective. While the Internet can bring together those who share concrete interests, the probability of win-win scenarios rapidly diminishes as the number of stakeholders increases. For example, he explained, if a multinational corporate purchaser learns that a producer has a larger carbon footprint than one of its competitors, it can demand a lower price by arguing that the carbon rating will cause problems with its customers. This does not solve the issue of carbon emissions and works against the development aims of ethical trade supporters. Sanderson argued: “If you want to create value for the developing countries, you need to focus on their needs.”

Sanderson added that because corporations are beginning to include their environmental accomplishments and other programmes involving corporate social responsibility in their annual reports, it is only a matter of time before auditing firms will want to measure and evaluate this performance if it forms part of an official financial report. Many issues arise, therefore, regarding the completeness and accuracy of certification information. In response, Onu asked: “Who will hold the accountants accountable?”

Furthermore, Sanderson noted, the big brands are largely uninterested in participating in standard certification programmes and support only those they establish. “They have the means to advertise their strengths themselves. That way they can keep all the glory for themselves,” he said. Nonetheless, both Onu and Buffee argued, given the new means of communication available to them, consumers collectively may be able to force their will on the big brands. Buffee concluded: While there are many issues to resolve: It’s about recruiting new consumers into the cause. They will become engaged with the right information, education, and trust in the process.”

Chapter 6

Sustaining and distributing value

Can ethical trade be a panacea for the problems of development for marginal communities? Can it deliver on its promise of environment improvements, poverty reduction, gender awareness, achievement of the Millennium Development Goals? Does it still represent a viable business model able to succeed in the market or does it depend on technical assistance, development support and goodwill – from donors and consumers – to achieve these goals?

Discussion during ITC's World Export Development Forum 2008 concluded that 'business as usual' can certainly not deliver on the UN's Millennium Development Goals (see Introduction). But how must businesses in the North and South change to achieve the «Global Partnership for Development» as set out in MDG 8? This goal calls for a partnership between the public and the private sectors of the North and the South to «develop further an open, rule-based, predictable, non-discriminatory trading and financial system" and, it says, "includes a commitment to good governance, development and poverty reduction - both nationally and internationally».

But some participants did express doubts whether the benefits of what is admittedly only a small part of global trade are distributed widely or effectively enough to enable developing country producers to make the quantum leap into genuine sustainability. However, a significant number of Forum participants expressed the view that the underlying drive for ethical trade will have a snowball effect that pushes and pulls producers and consumers alike towards a more equitable world, one where aspiration will become reality.

For now, many people still question whether fair trade, with its common focus on poor communities in mountain areas, is in fact sustainable trade. For instance, Rainforest Alliance insists that it is in the business of sustainability rather than simply fair trade. The question remains whether ethical principles can influence overall trade in a positive direction. The fairtraders are themselves convinced that it can and point to anecdotal evidence that suggests this is so. But researcher **Simon Bolwig** of the Trade and Development Research Unit at the Danish Institute for International Studies (DIIS) has not been able to find evidence either way so far.

The session presented three different approaches, not necessarily mutually exclusive, to put a global partnership to work and to deliver for poverty reduction and development:

- ❑ A global partnership as per internationally agreed policy frameworks and the multilateral trade talks.
- ❑ A global partnership through market mechanisms and consumer-driven developmental considerations for production and trade of goods and services

- A global partnership based on Corporate Social Responsibility and ownership of development by the recipients.

Anne MacCaig, CEO of CaféDirect PLC in the UK, used her company's experience to analyse the issues. Set up 17 years ago during a global glut of coffee production and a resulting sharp fall in prices paid by the traditional middlemerchant-buyers and end-product manufacturers in the North, CaféDirect purchased one container of green coffee each from three desperate communities in Mexico, Peru and Costa Rica. The beans, once roasted, were sold in church halls, in charity shops and at local events. Today the company – one of the first ethical trade organizations to float itself publicly – works with 39 grower organizations across 13 developing countries, using over 260,000 farmers and directly improving the lives of more than 1.4 million people. The growth of business shows that the potential is there to make a real difference to producers' lives, even if it is still not fully realized, MacCaig argues.

Major challenge in helping producers

But the CaféDirect boss recognizes there is a major challenge in helping producers add value and move up the chain to achieve a truly sustainable business. Value has to be taken back into developing countries so that producers could earn more and achieve sustainable businesses, said MacCaig. "But it is vital that businesses are efficient and able to compete. It is crucial to develop local markets." She is aware that relying on export markets alone is not a panacea for ethical production to flourish.

MacCaig was backed by **Willington Wamawaye**, General Manager of the Gutmutindo Coffee Cooperative in south-east Uganda. Gutmutindo covers six village cooperatives with just over 3,000 farmers producing washed Arabica. It works with an alternative UK trading organization that sources fair-trade coffee for partners like CaféDirect. Wamawaye told WEDF participants that the arrangement offers a stable market and encourages the growth of close and long-term relationships right along the value chain. Since Fairtrade certification in 2004 and through judicious investment of part of the price premium, it has made possible a gradual improvement in household incomes and village infrastructure in an otherwise deprived area. It has enabled the community to build a clinic and has given coffee farmers, largely women, a sense of empowerment.

Profit and non-profit working side by side

A Bangalore-based company, Industree Crafts produces goods that range from packaged food and clothing to office accessories and home decor such as floor tiles based on Indian patterns. Its aim, says co-founder Director **Neelam Chhiber**, is to ensure maximum benefits for rural artisans by assuring them a market for their products. The tiles are sold in the UK through a company closely involved in the ethical trading movement, INTERFACEflor. For Chhiber, the for-profit model has proved its worth, enabling the artisans to survive business cycles. Its "non-profit" arm works on building up the production base by encouraging artisans to invest in their own businesses.

This has become increasingly possible in India with the rise of micro-financing. Artisans do not need the costly administrative layers that many trade support initiatives involve, says Chhiber. They can organize themselves, working together to acquire the tools and technology needed to move up the value chain.

This kind of profit/non-profit linkage and partnership can be a model for many small producers seeking to expand their business and get into exporting.

Box 8. Moving artisans up the value chain

When the ITC speaks of the need to help Third World artisan producers move up the value chain "it is like music to our ears," says Indian social entrepreneur Neelam Chhiber.

The Bangalore-based company Industree, of which Chhiber is a co-founder, has sought over the past 12 years to do just that for the some 3,000 rural Indian artisans with whom it produces a wide range of household goods and accessories made from natural fibres. Sales in 2007 topped $1 million, with exports accounting for around one third. Ikea and Interface UK are amongst Industree's international clients.

Unlike farmers, who "at least have a lobby", India's millions of rural artisans have traditionally attracted little official attention. Artisans need help in accessing markets and in creating products suitable for increasingly sophisticated consumers, she said. "For example, they may be making cheap grass mats for their local village market. We train them so that the grass is spliced finer, it is woven tighter and the colours are better. They start making a higher value product for open markets."

"It is not just about them making a sleeping mat. In urban centres, people sleep on beds, so maybe it could become a yoga mat, a floor mat, which may need to be heavier. They could make place mats or boxes or cushion covers." But she insists: "If they are to make the complete product in the village, they need access to training."

Around 80% of Industree's artisans are women. "It is economically more beneficial if you start with the women; it has a better ripple effect because women use the money better, spending it on getting better food, education for the kids. It is a better global strategy to work with the women," she said.

Industree's philosophy is that the artisans themselves should also invest in creating the necessary business infrastructure. It is made easier in India by the fact that between 60 and 80 percent of rural women belong to so-called self-help groups, which can give them access to financing. "If the group has a history of saving, lending well, the group is called a 'functioning group' and banks are authorized to lend them three to four times [the amount they hold]. They can then have access to capital," Chhiber explains. "It is a development strategy of the government."

She notes: "If you want people to move up the value chain they need access to better infrastructure. It is not just about buying a cow and getting milk. It is about buying a fridge so that the milk does not get spoilt, making butter etc. Normally this is done through a cooperative and somebody, say the government, comes in and sets up the infrastructure. We are looking at a different model. You cannot always wait for somebody to step in. We are looking at group-owned enterprises in which we, too, have an investment along with the local bank."

Only a commonly owned infrastructure makes it possible for rural artisans, who often live in different communities kilometres apart, to move up the value chain, Chhiber declared. "If they have to dye mats the same colour, they need access to a common dyeing facility. If somebody orders a thousand red mats, you cannot send them all different shades, it does not work. You need a common dyeing facility."

Industree also wants artisans to become shareholders in the company. It has set aside 14 percent of its capital for artisans to buy shares at a particularly advantageous rate. "We believe the wealth is created in the brand. If you really want to move them up the value chain then they need also to have a stake in the brand. In the artisan sector this is key," she stressed.

The company sells through its own stores and through leading Indian retail outlets under its Industree brand, Currently it is preparing to open up larger format stores across India, with the first store in Bangalore, under the name Mother Earth. Industree will become Mother Earth, and the store will sell a lot of other social brands.

Exporting has played an important role in the company's development by teaching it how to handle scale, Chhiber said. "You get orders for thousands of pieces, which would never have happened in the domestic market where it was more variety than volumes."

Another important element in the company's success has been its hybrid status. Industree has both "for profit" and "non-profit" arms. It is through the non-profit foundation that the company carries out capacity building with the help of state grants.

"We need to build capacity, we need to train artisans in new skills. This is not entirely possible within a private corporation. You have to have access to both 'for profit' and 'non profit' funds," she says. It is one of Industree's strengths that it knows how to combine both arms well.

Ethical trade: Does it come at a development cost?

The free trade/fair trade debate – whether ethical trade comes at a development cost – came to the fore in a Forum plenary where World Trade Organization (WTO) Chief Economist **Patrick Low** and **Robin Cameron** of Fairtrade Labelling Organizations International (FLO) were panellists, along with **Khalid Sheikh** of the UK Clifton Packaging Group.

The recent rise in popular interest in the issues, Low said, is very much rooted in a feeling that the current system is not working. But "ethical trade" is an imprecise term. It covers a wide spectrum of concepts – fair trade, environmental protection, sustainability, organic farming, gender equality and human and labour rights, among many others -- that do not necessarily sit well together.

In this light, he posed five questions about ethical trade initiatives:

- Do they genuinely secure a redistribution of benefits? (Brand value remains with the marketers and retailers and does not come back down the chain to the producers.)
- Do they in fact achieve the goals for which they are designed, or do they have unforeseen consequences for other sectors of a national economy?
- Do they, because of their exclusive and piecemeal nature, put other producers of the goods they cover at a disadvantage, perhaps driving them deeper into poverty?
- Are they durable, in the sense that they are enabling, or do they depend on privileged arrangements that it may not be possible to maintain over lengthy periods of time?
- Does the "feel good" factor they create among consumers not carry the risk of diverting attention from wider-ranging efforts to achieve more comprehensive and effective solutions to the underlying issues of poverty and under-development?

Ethical trade initiatives could certainly offer access to what for some producers could be promising niche markets, but this would probably not be enough to enable them to really climb up the value chain. In other words, Low suggested, would the energy and enthusiasm devoted to these initiatives not be better spent in working through the WTO for a fairer global trading system, that, among other changes, would bring the elimination of developed country tariff escalation that penalizes producers in the South who seek to add value to their goods by processing and packaging themselves?

In a separate session, **Grant Aldonas**, Principal Managing Director of Split Rock International in the US, turned the question around. The Doha Round of negotiations on trade liberalization is supposed to deliver developmental benefits to poor countries. But it has been negotiated on conventional trade terms. If countries had really embraced the principles of development in the way concessions were negotiated the outcomes would have been completely different, and the current problems in tying up agreements might not exist, he suggested.

Vigorous defence, optimistic outlook

Cameron, while accepting that fair-trade offers no ultimate solution for development problems, mounted a vigorous defence of the concept and offered an optimistic outlook for its future expansion into new areas. His own organization, which serves as a standards and certification body, is working with fair-trade producers in 58 countries. Through 20 national initiatives it also licences the FLO label to industry.

Cameron rejected assertions by critics of the fair-trade concept that it almost exclusively benefits farmers already possessing their own land, and in particular relatively large landholders. “There is a huge case to be made for the benefits fair trade can bring to landless workers,” he said. FLO sees its current programmes of working with large developing country producers employing landless labour as a major growth area for the future.

Robust demand

“I believe there is a robust demand for fair-trade products,” he told the Forum. FLO labels offered consumers an independent guarantee of production standards that they could trust. In central and eastern Europe, three former Socialist economies – the Czech Republic, Slovakia and Slovenia – have been the first where consumers in this region can buy FLO-certified products. In Hungary and Estonia manufacturers, as well as retailers, are being licensed. Economic slowdown in Europe could lead the growth curve for fair-trade sales to level off temporarily, although no actual drop in sales seems likely. However, Cameron argued, there is huge potential for South-South growth, tapping into a rising “ethical consumer” conscience among the emerging middle-classes and better-off sectors of society in developing countries.

Already FLO works with three transnational fair-trade support organizations for small and medium-sized farmers and producers in Africa, in the Caribbean and Latin America, and in Asia, all of which have been established over the past four to five years. In 2007 the Southern Africa Fair Trade Network was launched with the aim of exploring market opportunities in other developing countries for FLO-certified products including craft goods, jewellery, wine, coffee and tea.

True test of success: Extinction

There are problems with fair-trade, Cameron agreed. “It is not the only mechanism. It is not a panacea. There are times when we get it wrong.” He accepted that farmers had sometimes gone to the expense of launching into the certification process only to find that the export sales they were expecting would not be realized. However, this issue is being addressed. “We have an extensive network of liaison officers to ensure that producers don’t come in on the basis that they will get a market come what may,” he said. In the end, he argued, fair-trade “is making a very positive difference, and we are going to keep pushing ahead until we see the kind of changes that mean we no longer need to exist.”

Does one size fit all?

In a world of rapidly evolving social and environmental change, companies in both developed and developing countries are compelled to review business models that have until now been successful. The ethical and fair-trade movements, feeding on public concern in the North over continuing and, in some regions, growing poverty in the South, have increased pressures for a rethink along the lines of the recommendations of the Framework for Action, set out in 2007 by former United Nations Secretary-General Kofi Annan, on how business can best help ensure achievement of the UN’s Millennium Development Goals by 2015.

Yet, given the wide variety of local conditions in which companies operate in developing countries, can there be a single model answering the prescriptions of the Framework? To what extent should fair and ethical trade certification and labelling be integrated into the model?

As a possible response to points made earlier in the debate, John Viljoen, Managing Director of the Australian iedex group, warned that widespread low-cost models of the past are almost certainly doomed to failure today. Both importing companies in developed countries and the consumers they serve put a high premium on observance of sustainability principles in the production of the goods they purchase.

Global warming will require investment to cope with the new technical challenges it creates, while the demand of markets for consistent quality and safe products “requires a technology investment beyond a low-cost model,” he said.

Further, businesses will have to incorporate in their model, at some additional cost, systems to provide evidence, rather than just assurances, that they take sustainability seriously. Certification and labelling are the obvious route, but should not dominate the path chosen. “Don’t lose sight of your business model and become a slave of certification,” Viljoen cautioned.

North-South company partnerships

To ease the burden of incorporating sustainability principles into the model for companies in both North and South, partnerships between groups and individual businesses is a promising way forward, Viljoen said. For the buyer in a developed economy they offer the best way of ensuring at an acceptable cost the consistent product quality and safety demanded by the public and governments.

For suppliers in a developing country, partnerships provide business stability, access to sustainability investment funding from the Northern partner, and what he called “a truly scalable business” allowing a company to use the positive profile created to gain entry into other developed markets. “Although there are some serious obstacles to overcome, I think the partnership model has great potential because it makes business models globally sustainable, which should be our ultimate objective,” he declared.

John James, Programme Director, Southern African Business Linkages, also favours this approach but with special emphasis on tie-ups between national businesses to share experiences of, and the generally burdensome procedures and costs involved in, reshaping models through standards certification to meet sustainability requirements and the challenges posed by climate change and newly-emerging social patterns. In South Africa, he said, purchasing power has largely shifted from the formerly dominant but minority white community to the majority black population. This requires changes in the range and type of products a company makes, as well as adjustments to the products offered in the services sector, while at the same time creating new business opportunities.

James argued that small and medium-sized companies must look to their local supply chains and ensure that they are functioning on a sustainable basis, before attempting to venture onto the international market. “Ethical trade and business begins at home,” he said. On certification, businesses should view the process “not as a cost, but as an investment in the future”.

Role of women in business

In South Africa and the region as whole, James noted, the participation of women in established business is still running at a relatively low level, although it is undoubtedly on the rise. At the same time, recent surveys showed that women far outscored men in awareness of social issues and the need to tackle them successfully.

“Women are more progressive in their social outlook,” said James, and companies determined to improve their corporate social awareness should tap into this reservoir of talent. “It seems to me that we need more women providing leadership in government, corporations and policy-making bodies to get the sustainable and social conscience-driven model that we need.”

What consumers want and how to give it to them

Harriet Lamb, Executive Director of the UK Fairtrade Foundation, argued that any successful business model in the world today has to be based on the consumer demand for sustainability. “No business would argue that you do not have to give the customer what he wants,” she said. The exponential growth of the fair-trade movement has encouraged companies that in the past paid little attention to the methods used to produce many of the goods from developing countries that they sell to switch their sourcing to certified suppliers. In at least one well-publicized case, a major supermarket chain took a temporary loss in profits during the adjustment period. She did not address the question whether this would be possible for small businesses in developing countries, but advised: “When the (developed country) public hears that companies are doing the right thing, they are ready to pay more for the product.” This had clear implications for developing country producers. “The public has shown that it is ready to make trade and business socially responsible,” she declared.

However, for a business model based on sustainable development to be assured of success, a concerted effort of marketing and communication is required to ensure that consumers at large are aware of the choices they make and the effect these can have. Lamb suggested that customers already convinced of the “moral superiority” of their sustainable purchase choices are the best bearers of the message to the public at large.

Summing up the discussion, moderator **Osman Atac** of ITC said there appeared to be consensus that non-compliance with standards, or with consumer demands based on sustainability, are no longer an option for any company. However, there are good business reasons to opt for a sustainable model. Doing good makes good business sense. At the same time, companies have to communicate what they are doing if they are to gain any competitive advantage from their chosen model.

Embracing consumer conscience: A strategic approach

The rise of the conscientious consumer, coupled with the common North-South interest in economic and environmental sustainability, makes old strategies for pursuing international trade relations not only redundant but even counter-productive. Trade can provide a stimulus to development and ethical principles offer a framework around which new structures can be built, participants in Forum’s 2008’s final plenary agreed.

A national vision

Presenting the vision of a small but geographically diverse country of nearly 14 million people whose economy has been long dominated by banana production and the oil industry, **Ricardo Estrada** of Ecuador’s export promotion organization CORPEI sees pursuing niche markets for ethical goods as an integral element of a new National Export Strategy, work on which was to begin shortly with ITC.

The government, trade support institutions such as CORPEI and producers and exporters would be involved in the design of the strategy. It will include careful analysis of value chains to establish where Ecuadorean companies needed to adapt to comply with consumer market demands that workers be better paid, that women have great access to employment, that carbon emissions be reduced and that consumption of water be minimized. Companies had to be encouraged to work together towards achieving these aims.

Government policies should be shaped to create an environment helping producers and exporters alike to comply with sustainability requirements – by allocating resources to programmes promoting certification; creating long- and medium-term finance arrangements for the adjustments that would be required; and by investing in research and development into technologies that could ease the transition to sustainable production. The government should also ensure creation of a national investment climate encouraging both national and foreign 'ethical' capital to move in and act as drivers of faster growth, said Estrada.

The role of trade support institutions should be to identify niche markets, analyse their potential and keep track of their growth. They should also promote and co-finance where possible the certification that meeting the requirements of these new 'ethical' markets, and carry out certification programmes for the government.

Populist backlash

Grant Aldonas said it is vital – amid a clear populist backlash against globalization that is likely to grow with world economic recession – to make clear to consumers at large that international trade can be ethical. Otherwise protectionist sentiment could grow, to the detriment of economies and living standards in the North as well as the South. To this end, in a world where importers and multinational corporations draw their goods and components from a wide range of sources, supply and value chains have to be carefully managed and shown to run smoothly and sustainably.

For producers in the South and their Northern business partners, one practical tool is a "supply chain map" identifying stakeholders and their institutional affiliations and requirements all along the chain. Such a map can also show where barriers, more likely today to be linked to standards rather than to tariffs, exist, and helps bring buyers to markets.

Policy support

Speaking from the perspective of a government donor organization, **Hans-Peter Egler** of Switzerland's State Secretariat for Economic Affairs (SECO), said a national strategy promoting sustainable development could only be long term and must cover not only producer countries but also the home market and its consumers. SECO itself had a mandate to inform the Swiss public – including government officials, NGOs and even school students -- on the issues involved.

In developing countries, donor bodies should offer support for the elaboration of policies and regulatory controls relating to sustainable production, sharing their own national experience in areas such as organic farming, Egler suggested. Financing should also be directed towards helping to develop local know-how on certification and creation of local bodies to conduct the process. It is important to demonstrate that certification is not just a demand imposed by the industrialized North but something that is an investment rather than a cost and works in the common interest.

The elaboration of standards also needs to be democratized, said Egler. Developing country governments, producers and civil society bodies should be closely involved. Donor support programmes should be action-oriented with targeted impact, but also flexible and open to continuous adaptation and improvement based on feedback from the recipients.

ITC Deputy Executive Director **Stephen Browne** asked whether the current international trading system, although closely regulated through WTO rules and other mechanisms, could be seen as any more ethical than the under-regulated global financial system at the heart of the current world economic turmoil. Developing countries still face many high tariffs on their goods, tariff escalation if they attempted to add value to commodities or raw products, and a range of non-tariff barriers which the growing emphasis on standards could extend further. The eight rounds of global trade negotiations – under the old GATT – have not brought as many benefits for the South as development specialists hoped. The emphasis on development in the present Doha Round should have made it different – which is why negotiators concerned mainly with domestic policy implications "are digging in their heels," he suggested.

Ten principles for export development

Browne commended the 10 principles for export development embracing consumer conscience elaborated by the ITC in its "Consumers, Ethics and the Environment" pre-Forum publication as a basis for action by policy-makers and businesses in the countries of the South.

These suggested that developing countries that want to gain full benefits from the ethical trade trend should concentrate on:

- Exports which respond to consumer conscience about development impact;
- Exports that are based on non-exploitative production systems and are non-discriminatory, exclude child or forced labour, are safe and hygienic, and provide adequate remuneration for all workers;
- Exports that result in the net creation of new jobs, bearing in mind the gender dimension;
- Exports that connect people with natural resources sustainably, rather than alienating them from their environments;
- Export that are less detrimental or, even better, beneficial to the natural environment through the production and consumption stages;
- Exports that are compatible with meeting food security goals;
- Exports that are links in international global chains and exports from larger national and multinational companies which utilize the outputs of micro, small and medium enterprises;
- Exports that promote complementarity and interdependence amongst developing countries and develop regional markets;
- Exports of goods and services from micro, small and medium enterprises that are profitable;
- Exports to growing, rather than stagnating, global markets.

Implementation of these principles would help them establish a firm presence on Northern markets for ethical goods and services, he said. The type of programme that they outline would also point the way to an expansion of South-South trade. "Consumer conscience is something of a Northern concept, but there is no reason that it should remain so forever," Browne suggested.

Chapter 7

Learning lessons, taking action on ethical trade

The story of ethical trade so far has been a saga almost exclusively of civil society initiative, private endeavour, individual struggle and non-governmental achievement.

A group of Latin American coffee producers took the chance of sending three shipping containers to Europe in a price crisis, leading eventually to CaféDirect. A Ugandan cooperative persuaded a few coffee farmers to join together in 1998. Today 2,500 farmers on Mt Elgon help supply Mountain coffee to UK stores. A Nigerian woman used her own funds to provide local women with the equipment to sell cassava to China. A former Kenyan politician and his wife worked to help Maasai women survive hard times by setting up a business to export jewellery made from grass. An Indian designer started a multicraft company with one store to produce income for village women.

But many of these entrepreneurs underlined the crucial role they see that governments and trade support institutions can play in putting their businesses on a sound footing, enabling them to flourish and encouraging would-be exporters in ethical trade.

At different stages along the line, non-governmental organizations and others, including ITC, came into the picture. The Ugandan coffee cooperative organizers are convinced they could not have achieved their success without CaféDirect. The Rainforest Alliance has been working with the food giant Unilever to certify one of the UK's most popular teas, after the firm became the first company to commit to sourcing all its tea to the standards of environmental sustainability. PDS, the Peermade Development Society active mainly in India's Kerala State, has praised ITC for helping it obtain essential information on European markets.

Relations with government are less predictable. While probably still the only private social entrepreneurship company in India, the Industree design firm set up an NGO to handle business contracts from the government. But its managers remain convinced that the company only survived by holding to the principles of private enterprise. The Nigerian cassava exporter found no support from government, as she told the World Export Development Forum 2008. The Kenyan couple did not need government cash but they are aware of how difficult it would have been for the Maasai women to build themselves a safety net against hard times on their own. PDS works with the Spice Board of India to promote organic production and has funding from the World Bank and UNCTAD. Probably the best known fair trade label, Fairtrade Labelling Organizations International, has the backing and patronage of the UK Government.

What can help ethical traders

Though few of these businesses showcased at the World Export Development Forum noted they have not depended on public finance, the entrepreneurs and NGOs are clear what they want from governments and official sources, what would have helped them in the start-up phase, and what they need now. The same ideas recurred like a drumbeat through the Forum in 2008. Governments should:

- Foster a business environment that recognizes the special needs of small business exporters and start-ups
- Enable financial institutions to provide the underpinning finance for small businesses and new exporters to take part in world markets
- Help ethical exporters to find information on markets, buyers, standards and conditions
- Ensure that standards are not a barrier to entrepreneurship
- Use their considerable procurement power to give contracts to ethical and sustainable businesses for supplying authorities with goods and services.

Nothing very surprising in any of these proposals. Except that they are rarely acted on, and have not been the rule over most of the history of ethical trade.

On each of these topics, participants in the forum had a variety of practical suggestions, along with examples from their own experience, for example:

- Provide support to bring entrepreneurs, particularly women, into the export economy
- Give them managerial training and similar capacity-building to enable them to compete effectively
- Extend lines of credit to small firms to take part in major ethical trade fairs that could expand their market
- Help businesses find ethical trade partnerships with importing firms in consumer conscience-driven markets
- Encourage companies in the same business to join together in certification efforts to defray the costs for small producers in obtaining a fair-trade label.

As is clear, few of the ideas apply exclusively to ethical trade. Ricardo Estrada of Ecuador's trade promotion agency CORPEI reported that similar proposals form part of the draft national export strategy that his country is working on with ITC.

The fair and the free

In fact, a powerful current of thought in the fair trade movement is against too much government involvement in their business – fearing slowness of response, ignorance of business realities, minimum rather than aspirational standards, and even institutional jealousy by officials against entrepreneurs who shake up the status quo.

From the other side, ethical trade raises questions fair-traders find hard to answer because they are by definition not part of mainstream trade: Is supporting such efforts the best way for authorities to achieve national development? How useful are privately set standards in improving living standards for larger communities? How much do the labels actually mean? It is often difficult to know. Is it right to underpin marginal communities whose production is not otherwise economically viable?

Many of these exporters are supplying raw commodities. Shouldn't the money rather go into moving them up the value chain?

Fair-trade guarantees prices but not a market. Often, producers can sell only 20% of their harvest through fair-trade channels. Hopeful farmers have invested in businesses such as certified organic cotton, which takes three years to make the switch, and then found they had no market.

Hitting the moving target

Against this, the ethical traders can cite numerous statistics. Only 3% of the cost of a chocolate bar goes to the cocoa exporter. The market in sustainably produced goods has been growing by up to 100% compared to 2-4% for most others. And companies that embrace ethical trade seem to be weathering the current economic storm better than the others. Standards may be "a moving target", as Ulrich Hoffmann of UNCTAD suggested, but they can also encourage modernization as producers seek certification, he pointed out. Fair traders can also claim to have achieved their original aim: To improve life for poor communities excluded from conventional trade channels or forced to live with rockbottom commodity prices due in part to overproduction by more competitive exporters for the mainstream markets.

Similarly, no matter what the answers to the questions from governments and critics, all the specialists seem convinced that the number of labels and standards will continue to increase in number, not least because major retailers want to differentiate their products to discerning consumers.

Fair traders also point to the continuing subsidies to rich world agriculture that distort commodity markets and supplies, the slow progress in opening up world markets to developing countries despite the efforts of WTO, and the acknowledgement that standards set by a retailer like Wal-Mart, the world's largest retailer, will have an impact on developing countries beyond any government-negotiated agreement under the WTO. It was pointed out that the Doha Agenda may have been for a development round of trade liberalization but it has been negotiated as a conventional trade pact without giving priority to this additional dimension.

Consumers buy the story

Ethical trade exporters are also well aware of the power of consumer conscience. It may be a Northern concept – but there are signs that countries of the industrializing South are even more fervent supporters of its principles, even if the channels to supply them are not yet established. Harriet Lamb of the Fairtrade Foundation says conscience-driven consumers in the UK would buy more but they cannot find enough of the products in the shops.

For small exporters like Katy and Philip Leakey as well as for the Chief Creative Officer of the advertising giant JWT Craig Davis, consumers "buy the story" with ethical products – so much so that even big banks like HSBC are playing the ethical card in their television advertising. "Communication needs to be strong, loud and vivid the whole way," says Katy Leakey. The frustration new exporters feel is how to make their story known. Harriet Lamb points out that word-of-mouth, rather than advertising, created Fairtrade's exponential growth.

Doubting voices in the supermarket

But is it all about the label and the story? Ethical trading does not always involve a label even if it means certification, for example on working conditions and human rights. Even some ethical exporters are suspicious of the labels and labelling. The Fair Wear Foundation does not see how labelling a specific product can guarantee anything more than a temporary improvement in conditions. Teava Iro, Chairman, Titikaveka Growers Association (GVA), Cook Islands, exports certified produce but would rather see fruit and vegetables ticketed with a rating of their nutritional value rather than a fair trade label. Robin Cameron of Fairtrade Labelling Organizations International (FLO) foresees a time when the label will be redundant, because all trade will embody fair-trade's development principles.

Not surprisingly, a number of participants consciously reject "the Milton Friedman model" of society in which business's only 'social responsibility' is to make a profit. They also caution against trying to set up an ethical business to supply to large retail chains whose driving motivation is to offer goods at less than their competitors.

The supermarkets themselves may have it wrong. Harriet Lamb sees ethical consumers as a market the retail chains should be targeting – the "golden shoppers" – to maintain profits in a depression, while fairtrade exports are mainly commodity items that are resistant to massive consumption downturns. Behind the supermarket's own labels – promoted once as an answer to heavily advertised and more expensive brands – may lie a reality that the lower costs are achieved at the expense of exporters in developing countries. Not only are these suppliers being forced to accept exploitative contracts but are being forced out of the lucrative rebate-paying parts of the value chain and only survive by paying workers less. It is the sort of practice that leads developing country exporters to ask whether "ethical trade" principles are not much more than a sham.

Consumer conscience in the business model

Consumer conscience itself may not extend as far as exporters hope and may not offer the best business model for long-term survival. The Spar group, though its advertising agency TBWA, assisted ITC in asking costumers in its South African stores how much they buy according to their conscience. As Spar's **Kevin O'Brien** also told the Forum, the shoppers put price at the top of their concerns, giving the supermarkets rather than the storytellers the edge in credibility. Hence, the Leakeys argument that ethical exporters should focus on markets where the story will be heard. For them, these were boutiques rather than supermarkets. **Sunil Joseph** of the PDS spice exporting organization in Kerala, India, agrees. "We are not trying to sell to the world," he insists. Small farmers have a limited ability to produce. "We pick and choose our markets." PDS is also training farmers to manage the effects of climate change, when spices can no longer be grown in traditional places but only in higher elevations and farmers will have to switch crops.

For exporters themselves, it can be easy to fix on a story that does not sell. Ironically, if not unexpectedly, ethical goods began to take off when they lost their "charity" tinge and began to compete on quality. The Leakeys found their grass jewellery business set up to help Maasai women had to shake off its "ethnic design" characteristics to make it big in US specialty stores. **Neil Kelsall** deliberately marketed his chocolate bars from Madagascar as a luxury product in the swankiest UK stores rather than a Third World export. The major Max Havelaar ethical and organic trade organization turned the Coop banana business in Switzerland into a fair-trade monopoly by stressing the healthiness of its pesticide-free products, and Max Havelaar's former boss in Switzerland has credited her success to coming from the business rather than NGO world.

Consumers need leadership

Even once you have the story right, fairtraders are convinced that ethical consumers need leadership. "Consumers would like to have it simple, but this is very difficult to achieve," remarks **Bernhard Herold**, Coordinator of the Fair Wear Foundation of Switzerland. Sometimes companies have provided this lead, taking a risk by anticipating market growth.

However, consumers themselves are rarely informed of market realities. For example, the Leakeys note, few consumers know that even boutiques usually require exporters to sign contracts to buy back unsold goods at a price the shops specify rather than the one they paid. This puts all the risk on the developing country producer. **Stuart Symington** documented all the ways in which supermarkets can immiserate fruit and vegetable exporters (see the Introduction's box entitled Caught in the Supermarket Wars). **Ann MacCaig** of CaféDirect noted that in trying to move Tanzanian tea farmers up the value chain by processing and packaging their products she has to weigh the returns against the environmental costs of flying in the paper and cardboard. The informed consumer is a relative term.

The debate over local sourcing and the impact of "food miles" on the 'carbon footprint' of airfreighted fresh products (see special section) exemplifies some of the problems of relying on consumer conscience. **Friedrich von Kirchbach** of ITC said it has been estimated that producing a milk coffee from a machine puts out the equivalent in carbon emissions of a 1.5 km trip in a small car. Coffee production accounts for 30% of these emissions, providing the milk for 38%, and brewing the hot water 29%.

Confusion or clarity?

We may be "moving from a trust me world to a show me world" as **Ged Buffee** of the African Organic Farming Foundation suggests, but a number of participants suspect companies and activists of aiming for confusion rather than clarity with their labels and arguments. Herold suggests they can act as "a smokescreen in front of the real performance of companies". **Daniele Giovannucci** reports uncovering more than 400 private standards in food and agriculture and 243 different ecolabels. Yet this only scratches the surface. Even he had not seen a number of labels that ITC published in its magazine after a separate research exercise.

Consumer confusion can come simply from the variety of products, however labelled. **Celine Roche**, Vice-President in a major flavours and fragrances firm – the first such firm to sign the UN's Global Compact for business responsibility, observes that in 1950 the number of new fragrances launched totalled only 10. By October 2008 there had been 479 that year – "very confusing for the customer". In such a world, retail buyers for big stores spend an average of only 13 seconds deciding whether to order products, **Chris Sellers** of Agentrics told the Forum.

Retailers, anticipating customer needs, also want completely organic essential oils, Roche reported. But this is simply not possible at the moment, she explained. The volatility in prices and supplies of natural products means many, such as vanilla, are being replaced by chemicals.

Fair trade's moral dilemmas

A golden opportunity for intervention by fair-traders? Not so, argues **Robin Cameron**. FLO faces "a moral dilemma" in seeming to stamp its approval on products where the discrepancy between the price paid to the ingredient producers and the cost to consumers of the marketed product is so huge. African farmers have asked FLO to put the label on tobacco, and others have suggested wine, but here too fair-trade principles run up against other standards that consumers may support.

Both sides in the fair trade/free trade debate are aware that the risks of banking your business on credibility with consumers can be huge. One woman in Spar's 'voxpop' said she no longer bought Chinese products because of two scandals earlier over toxic materials in exports. Ged Buffee, who has served on the certifying International Forest Stewardship Council, suggests "trust marks" will determine the credibility of labels in the future. But attempts to simplify and harmonize standards have had little success, Giovannucci points out.

This is where international bodies such as WTO, the Food and Agriculture Organization of the United Nations (FAO) and the International Organization for Standardization (ISO) can point to their comparative advantage. The WTO agreements on sanitary and phytosanitary (SPS) measures were negotiated by governments and apply internationally. The WTO accepts the FAO's all-important food and veterinary standards in the Codex Alimentarius (a joint programme with the World Health Organization). ISO observes that its voluntary standards are often taken over by governments to set mandatory national regulations. As WTO Director-General **Pascal Lamy** underlined, government-enforced standards do not require consumers to inform themselves in the shop in order to be sure of being protected against abuse.

Trust and distance

For the rest, trust is often a function of distance, suggests ISO's **Kevin McKinley**. This puts developing countries at a disadvantage in seeking to sell to more consumer conscience-driven markets. Hence the appeal of labels and standards. They offer "a common vocabulary, a common language to reach a new customer in another country."

Ethical trade appeals to businesses as a way to manage risk as well as guarantee sourcing. For example, mad cow disease in the UK devastated the economies of many rural areas dependent on tourism for at least two years, Giovannucci reported. Standards thus appeal to governments concerned with overall development. **Jochen Krebuehl** of the German agency GTZ told the Forum an agency study found that voluntary standards not only raise living standards and reduce pesticide use. They also had an impact on poverty reduction, preservation of biodiversity, economic development and good governance.

Nevertheless, ethical trade is hardly universal. The UK's Overseas Development Institute (ODI) found African countries are massively underrepresented in such schemes, compared to their proportion of food exports, especially when multiple standards are in place. The risk, **Karen Ellis** of ODI said, is that ethical trade is leaving out the poorest who need the trade most. Ann MacCaig adds: "Many smallholder organizations are being paralysed by the certification systems and the costs. It is such a resource-intensive process even to stay within that system. We are absolutely kidding ourselves if we think that this is a sustainable way to operate."

For producers setting up in ethical trade outside the established organizational channels, the challenges of operating the business can be almost impossible to overcome. The Leakeys thought their accessory and household goods enterprise was about to take after 155 buyers showed interest at a trade show. Within three months the business lost almost 90% of them because it was unable to follow up properly in the bush where phone calls cost $4 a minute. With no-one on the ground to represent them in the US, they could not communicate with their customers.

Supporting ethical trade

What kind of support would have helped the ethical producers to deal with such problems?

- ❑ The Leakeys suggested that young graduates and budding entrepreneurs in marketing in the United States could have provided the all-important link with customers at low cost – if they had known where to find them.
- ❑ Others suggested a how-to-guide for ethical trade, setting out the pitfalls, explaining standards, and how to go about getting into the business.

- Where are the outlets for ethical products? Participants said a guide to market opportunities is a major need.
- Sellers observed that in a world of multiple standards, coordinated audits could reduce costs.
- Kevin O'Brien of Spar proposed that governments should strongly encourage retailers to engage with small producers and the local communities.
- Exporters should look at regional opportunities: In East and Southeast Asia, three-quarters of horticultural exports are intraregional.

Where does this leave governments and international organizations? The experts are convinced that governments should not be standard-setters but act as an enabling and facilitating agent. They can undertake pro-active adjustment strategies, for example, by ensuring coherence between official and voluntary requirements, setting a national policy framework and addressing capacity constraints. At the sub-regional level, government can help build the infrastructure for certification and testing.

The role of international bodies

UNCTAD, reported **Ulrich Hoffmann**, has several concrete activities to support adjustment policies. It is bringing NGOs into discussions on environmental requirements and market access for developing countries (something not possible in WTO at the moment). Along with major policy research groups it is carrying out an assessment of the impact of sustainability standards with regard to WTO regulations.

ISO has a Policy Development Committee on Developing Countries and promotes twinning to enable developing country experts to lead standards committees, McKinley told the Forum.

Participants also said there are a number of key areas, which ITC and other organizations could develop to help producers.

- Integrate developing country producers in cooperative systems;
- Train cooperatives in management practices and marketing;
- List and explain the many labels that exist; benefits and challenges;
- Develop the understanding of buyers about cultural issues;
- Promote knowledge about ethical trade practices.

Finally, a panel proposed a collection of best practices and inspiring success stories.

This report is in part a response to that suggestion.

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