



APPROACHES TO ETHICAL TRADE:

Impact and lessons learned

*by Maggie Burns
with Mick Blowfield*

Table of Contents

TABLE OF CONTENTS	1
EXECUTIVE SUMMARY	4
INTRODUCTION	7
CONTEXT	8
Bringing Ethics to Trade	8
A Typography of Approaches to Ethical Trade	10
CHANGING THE CLIMATE	11
FROM THE TOP	13
FROM THE GRASSROOTS	15
DEVELOPING THE TOOLKIT	17
THE IMPACT OF ETHICAL TRADE	19
Direct Impact	19
Indirect Impact	20
Negative Impacts	21
COMPARISONS BETWEEN FORESTS AND OTHER SECTORS	22
LESSONS LEARNT	24
Applying Ethical Trade Lessons in New Sectors	25
APPENDIX I: PEOPLE WHO GAVE INPUT TO THIS REPORT	28

Acronyms

AA1000	AccountAbility 1000 Standard
AIP	Apparel Industry Partnership
CCC	Clean Clothes Campaign
CENTRA	Centro de Estudios del Trabajo, El Salvador
CEP	Council on Economic Priorities
CEPAA	Council on Economic Priorities Accreditation Agency
CIPAF	Feminist Research Centre, Dominican Republic
EC	European Commission
ETI	Ethical Trading Initiative
EU	European Union
FSC	Forest Stewardship Council
FtF	Fairtrade Foundation
ICCR	Interfaith Center on Corporate Responsibility, USA
ICFTU	International Confederation of Free Trade Unions
NEF	New Economics Foundation
NGO	Non-governmental organisation
SA8000	Social Accountability 8000 Standard
SME	Small and medium sized enterprises
UNITE	The Union of Needletrades Industrial and Textile Employees, USA

Executive Summary

Growth in the size and influence of corporations has been accompanied by calls for greater environmental and social responsibility. In response, there is now an array of different initiatives that incorporate social and environmental goals alongside commercial ones – for the purpose of this research, these are defined as *Ethical Trade*.

Four key approaches can be identified:

Approach	Focus on	Led by	Examples
☁ Changing the Climate	Motivation	NGOs/Consumers/ Government/The Media/Shareholders	Campaigns Ethical consumerism and boycotts Lobbying for/against regulation
🏢 From the Top	Innovation	Leadership companies	Socially responsible business policies Social enterprises – e.g. fairtrade Ethical investment
👥 From the Grassroots	Participation	Worker and community organisations/ trades unions	Trades union and worker activism Codes of conduct at local level
✂ Developing the Toolkit	Expertise	Service providers/ new standards bodies	Social auditing Monitoring and Verification Consultancy, research





These initiatives share a number of key features:

- They are **voluntary**
- They rely on the **power of consumers or investors** choice
- Many are still **relatively young**

They have been initiated variously by individual companies, industry bodies, NGOs, governments and most notably by partnerships from different sectors.

There is little hard evidence about the impacts of ethical trade on its intended beneficiaries, although ongoing research is addressing this issue. Anecdotal evidence suggests that indirect impact, through public awareness and impact on legislation and its enforcement, may be just as important as direct effects. There is also a real danger of negative effects through displacement of the informal sector and small and micro enterprises (SME) and through externalisation of social and environmental hazards.

There are opportunities and limitations associated with each of the four approaches:

Approach	Opportunities	Limitations	Lessons Learnt
 Changing the Climate	Gives companies a financial incentive for ethical behaviour.	Effectiveness limited to certain products, companies and markets.	NGOs, funders and government need to invest in long-term strategies to keep up the pressure for ethical trade.
 From the Top	Leadership companies create new markets or modify existing ones by demonstrating that profits can be made ethically.	Vulnerable to economic downturns and pressures from shareholders.	If ethical trade is not to be an add-on it needs to be embedded in the governance processes of companies.
 From the Grassroots	Grassroots participation ensures that intended beneficiaries actually gain from ethical initiatives.	There is a lack of capacity in the South to engage at a technical, strategic and governance level with initiatives being developed in the North.	It is crucial to strengthen the capacity of Southern organisations to participate in and implement ethical trading initiatives.
 Developing the Toolkit	Development of tools allows more companies to take on ethical concerns.	There is a danger that 'ethical trade' could become a self-perpetuating industry without being effective on the ground.	There is a need for standards to ensure that approaches to ethical trade are effective and trusted.

These approaches do not work individually, but together form a framework for effective ethical trade. New alliances and institutions are necessary and are emerging both in the North and the South in order to deliver the range of approaches needed. The building of trust between the organisations involved, from business, civil society and government, is a crucial precursor to progress towards ethical trade.

The development of ethical trade has taken different paths in different industries. The typology of ethical trade approaches offers a framework to analyse the potential for developing ethical trade in different sectors and to identify the areas in which resources should be concentrated for maximum effect. In any one sector or region the development of ethical trade will be limited by the 'element' in shortest supply. Motivation, innovation, expertise *and* participation are all crucial factors in ensuring that ethical trade has a positive, widespread and sustainable impact. Building trust is crucial to any approach to ethical trade. This must be built and rebuilt in each new

location and sector and over each new issue

Introduction

This report has been commissioned by the Natural Resources and Ethical Trade programme managed by the Natural Resources Institute as part of its research into the potential for ethical trade for enhancing the livelihoods of forest-dependent people. It draws on the growing body of work that has been conducted on ethical trade *outside* of the forest sector, in particular approaches to socially responsible business. It aims to:

- **Construct a typology** of different approaches to ethical trade
- **Describe the key issues** in the development of each of these approaches
- **Identify impact assessment** work that has been done in relation to ethical trade;
- **Analyse the lessons learnt** from these approaches to ethical trade

This report is based on the author's own experience within the field of ethical trade, as well as a review of published and unpublished material. Discussions with a number of key people in the field informed this research—since this is a new and evolving field the insights and experiences of activists and practitioners provide the most valuable resource. Key resources used are listed in Appendix I.

Context

In the past 30 years corporations have grown both in size and influence over all aspects of economic and social development. Corporations now outnumber countries in the list of the world's largest 100 economies.¹ They are dominant in the process known as 'globalisation' – in which international trade agreements, new technologies and increased mobility of financial capital are contributing to international economic integration². Associated with this is a shift of power from governments to large corporations³

The growth in trade and corporate influence is now accompanied by calls for companies to act responsibly. Issues which have been the focus for concern range from environmental impacts of production and consumption, to ethical marketing of baby milk powder and cigarettes, to the land rights of indigenous peoples and employment conditions of workers. Companies responding to these calls talk about delivering a "triple bottom-line" of environmental, social and financial performance.⁴

Bringing Ethics to Trade

Ethical Trade has been defined, for the purposes of this research as:

*The array of different initiatives that seek to add social and environmental as well as financial value added through trade.*⁵

This broad definition captures the growing trend for primarily commercial organisations to take on social and environmental concerns in the name of corporate responsibility, corporate citizenship, business ethics or corporate accountability. It also covers the increasing movement of non-profit making organisations into areas of commerce for the purpose of furthering their traditional social and environmental aims. This would include such diverse activities as social enterprise, fairtrade, community development and cause-related marketing.

All trade has an effect on both society and the environment – for example, through employment, pollution or wealth creation. Ethical trade is defined by its pursuit of specific ethical or environmental *goals* which go beyond simple compliance with legislation. These initiatives are by their nature *voluntary*, but involve business, government and civil society actors.

A more specific definition of ethical trade says that it:

*Aims to ensure that conditions within production chains meet basic minimum standards and to eradicate the most exploitative forms of labour such as child and bonded labour and 'sweatshops'. Criteria are generally based on core ILO conventions.*⁶

This definition⁷, focuses on one particular set of standards (the core ILO conventions) and the people which they effect (workers within supply chains). Within the broad definition of Ethical Trade, a huge range of policies and initiatives aim to improve some aspect of the social and environmental impact of companies. Table 1 illustrates a few of the issues and some of the initiatives which address them. In addition to these named initiatives, there are numerous individual company projects and policies which address these issues.

Table 1: Examples of the Scope of Ethical Trade

Stakeholder	Issues	Initiatives which include this issue
Employees	Child Labour	Rugmark, ETI, SA8000
	HR best practice	Investors in People
Community	Community Investment	Business in the Community
	Bribery and Corruption	Caux Roundtable Principles
	Indigenous Peoples' Rights	Forest Stewardship Council
Environment	Product Environmental Performance	EU Ecolabelling scheme,
	Pollution	ISO14001
Shareholders	Conserve, protect, increase assets	
Consumers	Pesticide residues	Organic labelling
	Ethical marketing	WHO Code of practise on baby milk

There are also a number of frameworks and initiatives which aim to integrate the whole range of issues such as The Global Reporting Initiative developed by CERES, social auditing and The Balanced Scorecard (see Box 7)

All these initiatives differ in their substantive focus but share a number of key features:

- They are **voluntary**, but they are often a reaction to campaigns, public concern or calls for legislation.
- They often rely on the **power of consumers or investors** to make choices which benefit the less economically powerful.
- Many are still **relatively young**, as they have been a reaction in the past decade to the particular political and economic situation.
- They have been initiated variously by individual companies, industry

bodies, NGOs, governments and most notably by partnerships from different sectors.

Box 1: Joint Initiatives

The growing interest in ethical trade has seen alliances of many shapes and forms emerging. New institutions, aiming to combine the credibility, legitimacy, expertise and muscle needed to deliver ethical trade have had to draw on key players in both civil and economic spheres and have taken different organisational and functional approaches. Examples include:

The CEP Accreditation Agency set up by the US based non-profit Council on Economic Priorities (CEP). CEPAA has published the SA8000 standard which covers labour issues and is applicable to all sectors of industry. They are now accrediting auditors to monitor compliance at the supplier level. An advisory Board of selected people from the corporate, trade union and NGO sector has been appointed to advise on the development of the standard and auditing procedure, in addition CEP has drawn on private sector audit and quality control firms.

The Ethical Trading Initiative established in the UK in 1998 as a tripartite forum of NGOs, companies and trades unions to improve working conditions in developing countries, primarily through effectively monitoring and verifying supply chains for performance on worker welfare and human rights.

The Clean Clothes Campaign in the Netherlands is creating a foundation with equal representation from unions, NGOs, retailers and manufacturers. The foundation will train and hire monitors to audit labour standards in garment factories. The monitoring will be paid for by the brand named labels at the top of the supply chain.

The Apparel Industry Partnership convened by the White House in 1996 in an attempt to create a 'no sweat' label. It included corporate, trades union and NGO members but some of the trade unions and NGOs have pulled out due to failure to include a living wage as part of the standard.

Despite different organisational models all these initiatives began by drawing up a basic standard, against which they would monitor. They are now engaging in pilot monitoring and verification exercises to see how this works in practise.

A Typology of Approaches to Ethical Trade

Ethical Trade concerns the relationship between business and the wider community. This relationship exists within the wider context of commercial, political and public pressures and also an increasing array of tools and services from codes of conduct to professional social auditors to social labels.

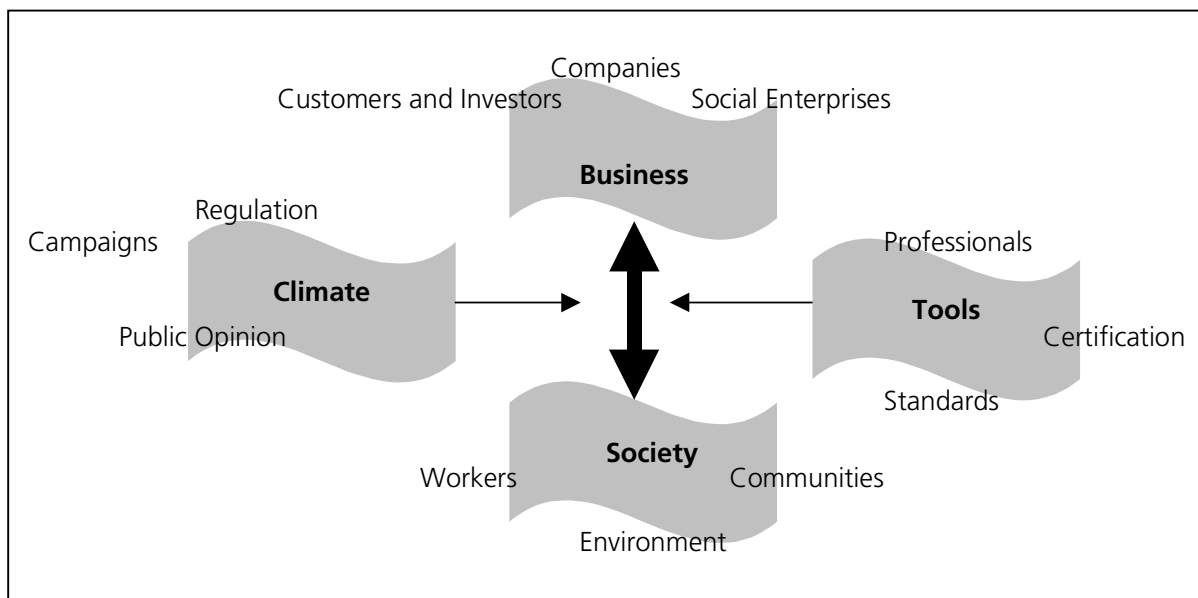


Figure 1: Business and Society

Approaches to improving the social and environmental effects of business can be seen to have taken these four main approaches

 From the top	Socially responsible business policies Social enterprises – e.g.: fair-trade Ethical investment
 From the grassroots	Trades union and worker activism Codes of conduct at local level
 Changing the climate	Campaigns Ethical consumerism and boycotts Lobbying for/against regulation
 Developing the toolkit	Social auditing Monitoring and Verification Consultancy, research

Each approach is not limited to a single sector. For example, some NGOs which have traditionally taken a confrontational stance (‘changing the climate’) have now moved into providing expertise for companies addressing corporate responsibility issues (‘tools’) or even into trading themselves (‘from the top’). Increasingly, alliances between civil society organisations and corporations such as the Ethical Trading Initiative and the Forest Stewardship Council are emerging.

Changing the Climate

Consumer campaigns have a long history. From the Boston-Tea Party to abolitionist campaigners, consumers have been using their buying power to demand change⁸. In the response to the growing power and size of multinational corporations many NGOs in the 1990s have turned their attention away from regulation and towards directly pressurising companies and ethical consumerism. A recent report estimated the number of ‘active

ethical consumers' within the UK to be 1.7 million.⁹

The potential power of consumer action combined with media pressure can be seen in the reaction by supermarkets in the UK to the issue of genetically modified foods. However, the power of consumer action should not be overestimated. Where issues are not seen to directly affect the health of consumer's, action may be much slower. While there are hundreds of consumer boycotts in progress at any time, only a handful ever achieve the desired outcome.¹⁰

Consumer campaigns and other forms of civil action tend to focus on companies which share particular characteristics:

- Retail brands;
- Southern sourcing of manufactured or natural resource products;
- European or North American ownership.¹¹

Campaigns, focusing on supply chain working conditions have succeeded in bringing pressure on large brand named companies in the garment and food sectors to adopt codes of conduct. As well as consumer led campaigns, stockmarket investment is another lever for putting pressure on companies. Ethical investment is a growing force, but in most cases it remains a very blunt instrument – operating simply by screening particular sectors (such as weapons, cigarettes or motor vehicles) from an investment portfolio. Having decided upon acceptable sectors, fund managers then look for the best performers in that sector, and only from this group choose those that have the best 'ethical' record.

Box 2: Labelling

Ethical consumerism provides a means for people to 'vote with their wallets' by boycotting some products, companies or countries and choosing to buy from others. The most famous example was South African products during the apartheid era, but issues have included animal testing, genetically modified foods and promotion of formula milk among many others.

Only the most dedicated of activists are willing to research which products or companies are the most socially or environmentally responsible. Labelling can provide information which makes ethical consumerism easier. 'Self-certified' social and environmental claims linked to particular brand names can be confusing and lack the trust of consumers. The proliferation of environmental labels in the 1980s, both authentic and bogus, left consumers at best bemused if not cynical about companies' intentions.¹² Therefore a number of independent labelling schemes have been developed.

Existing labels have focussed mainly on environmental issues such as energy efficiency and animal testing. However a number of 'social labels' also exist covering trading conditions and labour rights, sometimes based around specific issues such as child labour. Examples include the Rugmark Label in India, the Union Made label in the USA and the various Fairtrade labelling schemes.

The effectiveness of labels depends on the broad institutional framework within which they operate including structure and governance, standards, monitoring and marketing. The most effective labelling

initiatives are linked with strong public feeling and underlying civil action and are associated with organisations that the public trust, such as the Fairtrade Foundation label in the UK or the sustainable forest label offered by the multi-constituency governed Forest Stewardship Council.¹³

From the Top

In response to this changing environment, some companies are integrating social and environmental standards and concerns into their business. Various studies show that managers and consumers in the North *believe* that good corporate citizenship is beneficial to a company. There is some evidence that companies with a strong ethical policy perform well¹⁴, but still to an extent this is an act of faith.¹⁵ Egregiously poor social and environmental performance can clearly affect a company's reputation and performance, and can invite legal and regulatory sanction. Thus taking a socially responsible stance is, at the least, a risk avoidance strategy for many companies. For some companies, corporate citizenship is a way of moulding the market through innovation and leadership. In their wake other companies find that the 'rules of the market' are changing – for example The Body Shop's stance on animal testing has now become an industry standard in the mid-range cosmetics market.¹⁶

Consumer based pressure is most keenly felt by those companies with recognised consumer brand names. However there are other motivations for social and environmental responsibility. Ethical investment is becoming a significant source of business capital and provides an additional lever for public pressure to be put on companies. In Britain, this has been further assisted by changes in legislation (e.g. pertaining to pension funds). In addition there is a direct business case for some social and environmental improvements through their effect on resource efficiency or staff morale and productivity.

Box 3: Codes of Conduct

Codes of conduct are voluntary agreements drawn up at a company, industry or multi-sector level to outline basic social or ethical standards. There are codes of conduct covering many areas of business, from advertising to building. Most codes of conduct are only monitored internally, if at all, and many do not get beyond the 'lunch, launch and a logo' stage of implementation.

One area where there has been a growth in codes of conduct is around the issue of labour standards in global supply chains. Many companies have their own code covering issues such as health and safety and child labour. However other basic human rights in the workplace, particularly the right to organise and bargain collectively remain controversial and do not feature in many codes.¹⁷

Trades unions and campaigners have developed 'model codes' as a benchmark for acceptable practice. They concentrate on 5 key areas within the ILO conventions:

- forced and bonded labour (No 29 and 105 and recommendation 35)

- freedom of association (No. 87)
- the right to collective bargaining (No 98)
- no discrimination (No 111 and No 100)

Health and safety in the workplace is also a key demand. A more recent and controversial addition to the content of codes is that workers should receive a living wage. This recognises that legally set minimum wages, which are included in many company codes, are often not adequate to meet the basic needs of workers. Inadequate income puts pressure on workers to accept excessive overtime to enable them to feed, clothe and house their families.

Codes have also been developed by workers themselves and agreed at a national level, such as in Nicaragua (see Box 5). A number of codes of conduct have now been negotiated and agreed between business interests and civil society campaigners. Examples of these are the code on banana production negotiated between trade unions and employers in Costa Rica, the Ethical Trading Initiative Base Code which is adopted by member companies. While codes of conduct are developed and negotiated with companies, there are also a number of independent standards against which performance can be measured. SA8000 covers supply chain labour standards specifically, while AA1000 covers social auditing, reporting and disclosure (see Box 7).

The areas of corporate activity which have recently drawn most fire are the areas of labour standards in global manufacturing supply chains and indigenous peoples' rights in relation to the extractive industries. Both of these issues are physically and culturally far removed from the headquarters of most multinational and international companies. In the manufacturing sector, the use of agents and subcontractors means that the company often does not know which factory is supplying their goods and they may never have visited the facility. Measuring and improving on social and environmental performance at the far reaches of a company's operations is a key challenge to ethical trade (see Box 6).

Labour standards are nonetheless being widely adopted in sectors such as manufacturing and fresh produce. However, their adoption raises two important questions:

- To what extent do ILO and UN conventions that underpin the standards address the norms, values and priorities of developing country workers?
- Are standards that have largely been drawn up in the North, and whose implementation is largely controlled by Northern organisations, an asset for or an imposition on the South?

In answer to the first question, labour standards clearly presume that there are universal values. These values are based on the rights of the individual, and draw on a number of strands of Western ethical thought (e.g. utilitarian, contractarian). While the environmental movement that has informed the development of environmental standards has stimulated new ethical thinking, social responsibility is still rooted firmly in traditional Western

ethical schools. Not only has there been little attempt to question the values, there has been little attempt to involve the South in the debate on how standards are set. Even the growing number of Southern standards still use as their basis conformity with Western expectations of what is or is not good practice in the workplace.

Given that many social standards are relatively new, there has been little systematic attempt to measure their impact. This is further complicated by the fact that even when independently verified standards are used, details on actual performance are often covered by confidentiality clauses. Therefore, it is difficult to say whether such standards are an asset or not.

Fair-trade is a particular case which combines both the 'from the top' and 'from the grassroots' approaches. Alternative Trading Organisations (ATOs) in the North offer an alternative trading avenue for trade, awarding the producer a fair price for their product and raising consumer awareness of the social justice and environmental aspects of trade. Initially, fair-trade concentrated on textiles and handicrafts, but the fastest growing areas are now food commodities such as tea, coffee, cocoa and sugar.¹⁸ However, despite a history of ATOs going back to the 1970s, there is little information on its impact (see Section 7 below).

From the Grassroots

The corporate responsibility movement has been largely driven by actors in the North: consumer groups, NGO campaigns and Northern companies. Many have overcome their mutual distrust and are now involved in processes of dialogue. However, in the South where labour, indigenous peoples and environmental activists can face harassment or death, understandably cool relations remain. Yet, because of the fast pace of work in Europe and the United States, partnership initiatives such as the ETI have moved into the area of pilots with the explicit expectation that people in the South can work in a similarly collaborative way.

Many Southern actors in this area feel that a key aspect of any kind of ethical standard is whether it is negotiated locally, or imposed without consultation either by the company or a larger body, such as a manufacturers association (see previous section). They feel that ethical initiatives are more effective when they are designed on the basis of negotiations on the ground, and that if introduced without negotiation and local participation they are less effective, less likely to be properly monitored, and could even be harmful to the interests of the people they are meant to protect.¹⁹

While it is true that most labour related codes of conduct are based on internationally agreed ILO conventions, local interpretation is clearly necessary and local skills in monitoring compliance essential. One position, supported by the trades union movement, is that codes of conduct should

only protect the most basic rights including the rights of association and collective bargaining – local negotiations would then be carried out by free trades unions. However this sets up a problem of how to manage where free trades union representation is absent, such as in China, or with homeworkers, the informal sector and with small producers.

Grassroots work in the South is a necessary corollary to the efforts in the North to create movement by companies to take seriously their social responsibility concerning working conditions. There are a few notable cases of Southern-based groups engaging with the companies. For example the ‘Employment, yes. But with dignity!’ campaign in Nicaragua (see Box 5) and the Oxfam Dominican Republic work with Levi Strauss (see Box 8) as well as the Asia Monitor Research Centre’s work on codes of conduct.²⁰

Box 4: Homeworkers

Recent official estimates suggest that over 80% of workers in low-income countries and more than 40% of workers in middle income countries operate in informal and rural labour markets. Homework is on the increase in the North and the South.²¹ These workers are usually beyond the reach of trade unions and many government interventions²². Many home workers are part of the supply chains of northern retailers.

A key question for any corporate responsibility initiative is its scope and reach – can it address the needs of workers who work at home? The majority of these workers are women who have no alternative open to them as they take the major responsibility for household work and the care of young children.

Homeworkers are usually invisible. They are not usually recorded in official statistics and employers rarely acknowledge that they employ homeworkers. A number of questions need to be addressed if home workers are to be taken seriously: which chains of production involve homeworkers? What provisions are there in the codes of conduct for homeworkers? What will be the impact of the ethical trade on homeworkers? Who will monitor the employment of homeworkers and the impact of any new initiatives and policies?²³

Unless these questions are answered, there is no guarantee that ethical trading will help some of the poorest most invisible workers at all. Codes of practice may even worsen their situation by outlawing sub-contracting and reducing a source of desperately needed employment.²⁴

There is a need for much further work in this area both in terms of consultation with homeworkers themselves as well as putting resources into tracing homeworkers in chains of production. The former will prove difficult unless it is undertaken with existing homeworking organisations as the insecurity of employment means homeworkers are often afraid to speak up and are not usually organised in traditional trade unions. This is not an easy area of work nor will there be any quick answers. One positive aspect is that the ILO, after much campaign work in this area, adopted a new convention covering homeworking in 1996. This can be a yardstick for setting standards for the employment of homeworkers.

Box 5: Employment, yes. But with Dignity!

Sandra Ramos works with the women workers of the assembly factories ('Maquildora') in the free trade zones. "In 1993 we started a campaign around the rights of women workers in the free trade zones. We knew that they had little protection for their rights and that it was important to organise the women themselves in order to claim those rights. A lot of women had lost their jobs. A lot of women found it difficult to make use of their rights. In 1997 we initiated the 'Employment, yes! But with dignity' campaign. It included press and radio. We collected 30,000 signatures from the public. We worked with the national parliament. We also held a mass meeting where women workers developed a Code of Ethics to include their main demands.

"But the central aspects were the training courses for the women leaders and the massive information campaign so that the workers would be aware of these demands and use them as instruments to press for their rights.

"As a result of all the hard work, on February 1 1998, in front of an assembly of 500 women workers, the Minister of Labour of Nicaragua signed the Code of Ethics. The next day the owners of all the 23 factories in the zone agreed

"The code will be monitored by the women workers and the Network. We want the trade unions involved, but they have not played a role so far.

"Of course, we know that the code will not solve our problems. It is just a mechanism to help us. The underlying problems of poverty and unemployment are what make workers accept poor conditions and bad wages."

Developing the Toolkit

For ethical trade to be effective it must go beyond good intentions and deal with the practicalities and complexity of business practice. Some companies, such as the ATOs as well as more mainstream ones like Levis, Ben & Jerry's and The Body Shop, have put a social and environmental stance at the centre of their business. However this is limited to an ethical niche in the marketplace unless it can be replicated across industry. The development of tools and expertise by companies and third parties, either in the private sector or civil society, allows other companies, including SMEs, to take up effective approaches to corporate responsibility without investing heavily in developing their own systems.

It is clear that no one type of organisation has the combination of legitimacy, capacity and expertise to deliver against the agenda of ethical trade. New alliances are drawing together different sectors to build the toolkit of standards, professional capacity and auditing and reporting processes needed (see Box 1)

However the discussion over the roles of different kinds of institution remains controversial. For research and consultancy organisations, the new market for 'ethical trade' services is something of a goldmine. However in the race to develop capacity, it is not clear that the winners will necessarily be best for the job. In particular, the sheer scale of the big international service providers is likely to displace the development of local capacity to engage

professionally in ethical trading processes, unless serious efforts are made to build capacity in the South.

The development of ethical trade, as with any area of innovation, has been characterised by a proliferation of initiatives, claims and conflicting standards. While experimentation is necessary, there is a real danger that the resulting level of confusion will offset any gains. This was seen in the 1980s with environmental labels and marketing strategies which left consumers bemused if not cynical about companies' intentions. Not only does there need to be clarity and convergence around *substantive standards* such as codes of conduct and performance benchmarks but also around the *process standards* which govern how these are managed, measured and reported on. A number of standards have now been published covering different areas of ethical trade and corporate responsibility (see Box 7).

Box 6: Monitoring and Verification of Codes of Conduct

Codes of conduct amount to little more than words if they are not backed up with a programme of monitoring. Most codes of conduct are internally monitored by company staff. However there is general agreement among labour rights advocates and even some companies that internal monitoring (by company staff) of supplier compliance with codes of conduct is not adequate, and that some form of third-party external monitoring is necessary for codes to have any legitimacy. There is a great deal of disagreement, however, about who are appropriate external or independent monitors, and what their relationship should be with the companies whose suppliers' practices are being monitored.

There are a few examples of local, independent human rights, women's and religious groups being mandated by large garment retailers such as Nike and Liz Claibourne, to carry out on-going monitoring of particular supplier factories. More commonly, companies contract private sector auditing firms to carry out audits. While private sector auditors may be able to adequately evaluate supplier compliance with measurable standards, such as air quality, there is scepticism about their ability to judge violations of workers' right to organise or other less objectively measurable standards. Under the Council on Economic Priorities' SA8000 initiative (see box 1), private sector social auditing firms are being accredited and social auditors are being trained to monitor supplier factories around the world

In the case of NGOs or health and safety activists working on contract or on a voluntary basis as social auditors for Northern companies, questions are already arising about the financial relationship between those groups and the companies. Southern NGOs don't want to be permanently relegated to the role of unpaid advisors to highly paid Northern social auditing firms, however dependency on funding from Northern companies could compromise their ability to continue to act as worker advocates or whistle blowers.

While many labour rights advocates, such as Charlie Kernaghan of the US National Labor Committee, are absolutely opposed to private sector involvement in monitoring of codes of conduct, some labour leaders, such as Neil Kearney of the ITGLWU, believe that professional social auditors are necessary, and that the proper role for NGOs and unions is to advise and be prepared to challenge unjustified certifications, rather than to engage directly in monitoring.

Continuous improvement has been a contentious issue. Typically in auditing and verification, there are three types of performance noted:

- Compliance: where a criterion of the standard is met.
- Major non-compliance: a systemic violation of the standard that must be corrected before the company is considered to meet the standard.

- **Minor non-compliance:** a non-systemic problem or an oversight that must be corrected by the
- **Observation:** not a breach of the standard, but an issue drawn to the attention of management by the inspection team as a suggested area for future attention.

In many standards these different aspects of performance are not clear, and there is little consensus on what constitutes a non-compliance, and how long companies have to rectify the situation. The trades union movement demand that the basic minimum for workers rights and should be addressed immediately (i.e. constitutes a major non-compliance). However this may not be immediately realisable in all cases. Some suppliers may be unable to meet all the terms within a short time or in some cases they may be constrained by national law.

Box 7: New Professions, New Standards

Calls for greater corporate responsibility have led to the development of a wide variety of approaches by companies, and others, to improving the environmental and social performance of business. This is a new frontier, and as such has its outlaws, mavericks and cowboys. A number of standards and guidelines have now been published by institutions aiming to act as sheriff and impose order on this situation. They outline best practice both for trading companies and for the consultancies which serve them.

The most recent of these standards is the AA1000 standard covering social and ethical accounting, auditing and reporting. It acts both as a framework to understand the quality of a range of existing specialised standards which deal with particular issues (e.g. working conditions and human rights), and a stand-alone system for managing and communicating social and ethical performance. It is also associated with a qualification for professional social auditors.

The SA8000 standard published by the Council on Economic Priorities Accreditation Agency covers working conditions in supply chains. It is linked to a certification system which operates at factory level. While consumer brands may demand that their suppliers are certified as SA8000 compliant, the audit is paid for by the individual supplier. Both NGOs and private sector auditors are being trained and accredited as SA8000 auditors.

The impact of ethical trade

Direct Impact

A search of the available literature on ethical trade reveals very little evidence but a lot of wishful thinking about the impacts of ethical trade on its intended beneficiaries. This may be because many of the initiatives are relatively recent developments. There is certainly a lot of discussion around how impact can be evaluated.

Some of the most organised effort in this direction has been in the fairtrade movement, which has pioneered the process of social auditing in order to

assess its impact. For example Traidcraft plc publishes an annual social audit which reports on both qualitative and quantitative indicators of their performance in relation to producers, staff, volunteer sales reps and consumers and their 'trinity of aims' – third world purchases, profits and awareness raising.²⁵ At the same time, sister studies to this report, looking at the impact of fair-trade in Latin America, and other recent research highlight a) that fair-trade does not always benefit poor people, and b) that where it does it is often in more complicated ways than are portrayed in fair-trade advertising.²⁶

Among the newer initiatives the ETI is undertaking baseline studies in order to measure the impact of their work. It is clear from the early days of ETI's work on pilots that the development of understanding about codes - their potential for good practice in industrial relations and the possible negative impacts - amongst key stakeholders in a given local situation is crucial.

The New Economics Foundation, in its work on social labels identify impact as having two dimensions - the number of people that the initiative affects and the magnitude of that impact on individuals. Some initiatives, such as those of the fair-trade movement place the emphasis on magnitude of change by changing the structure of trade. Fairtrade labelled goods have managed limited penetration into the market - typically around 2-5% for the major fair-traded products of tea and coffee. On the other hand, mainstream codes of conduct have the potential to effect a large proportion of the market, since many of the market leaders, particularly in the textiles and the supermarket sector, are actively engaged in developing ethical trading policies. The changes involved in meeting 'ethical trade' criteria are more incremental than those for fairtrade labels but they affect a greater number of people.

Indirect Impact

In addition to the direct effects that a particular ethical trading policy will have on individuals involved in trade, there are indirect impacts which may be realised both through the market and through public policy responses.

Ethical trade raises awareness of an issue with consumers may succeed in transforming it from a marginal to a mainstream one. Although it is difficult to attribute causality, it is certainly possible to argue that fair-trade has influenced the behaviour of mainstream beverage companies, and the increased profile of organic agricultural produce has affected the development of integrated crop management systems. Ethical trade can also help to raise support for public policies. For example in 1997 the US government supported the White House Apparel Industry Partnership's attempt to develop a 'No Sweat' Label, and at the same time it has also passed legislation to ban the importation of goods made by bonded child labour.

There is much debate around how voluntary codes and monitoring systems impact on local labour legislation and its enforcement. In Canada, for example, there has been reluctance to use a voluntary code of conduct as a tool to address labour rights violations in the garment industry, fearing that voluntary initiatives might play into the current Ontario government's privatisation and deregulation agenda. Central American NGOs, currently involved in independent monitoring, stress that independent monitoring should not be seen as a substitute for government regulation.

Despite these concerns, some see that voluntary codes and monitoring systems can potentially be used to reinforce existing legislation and encourage governments to enforce that legislation. For example, NGOs and trade unions in Sri Lanka can see the potential of effective monitoring of codes bringing pressure for the acceptance of the Workers Charter which was put off track by garment companies who are now seeing their future, with 2005 and the end of the Multi-Fibre Agreement looming, in promoting their adherence to international labour standards.

A further example of where codes can play a positive role regarding the implementation of local legislation is the Homeworkers' Code of Practice, which has been developed by the Textile Clothing and Footwear Union of Australia (TCFUA). The Code requires companies to ensure that their contractors and subcontractors are providing homeworkers the legal minimum wage and other benefits required under the Australian awards system. Under the code, companies must provide the union with detailed information on their supplier chain, the use of homework and their wages and benefits. In this case, a voluntary code of conduct is being used to reinforce existing labour legislation.

Applied globally, a voluntary code could also include similar provisions requiring suppliers to cooperate with ministry of labour investigations and/or audits in countries where democratic labour organisations determine that ministry of labour audits are viable and trustworthy. In this sense, a voluntary code could encourage ministries of labour to carry out their proper role

Negative Impacts

While the definition of ethical trade stresses the social and environmental *aims*, it is *outcomes* which matter. Southern activists, in particular, are concerned that well meaning ethical trade policies, may in fact have negative impacts on workers in particular areas, for example through:

- Contracts cancelled due to boycotts
- Relocation to other countries if improved conditions lead to cost increases locally
- Codes used to replace and thereby undermine collective bargaining

- Voluntary processes used to undermine public regulation²⁷

The demands of ethical trade may be most easily and profitably met by multinational companies. Indeed, ethical trade may strengthen the economic power of multinational corporations thus squeezing out small and medium sized enterprises and small producers. This remains a key dilemma for all those involved in ethical trading initiatives. For example, in the case of football stitching in Sialkot, Pakistan homeworkers have lost out as work has been centralised in factories which are easier to monitor and verify.

Box 8: Assessing the Impact of Levi Strauss's Ethical Trade in the Dominican Republic

One of the few efforts to assess impact is being undertaken currently by Levi Strauss who have chosen one country in Asia, Latin America and Africa to review their 'terms of engagement' (code of conduct). The only report publicly available at this time is on the review in the Dominican Republic (DR).

Initially 4 of the 11 factories that Levi's source from in the DR have been evaluated. Local groups undertaking the review are OXFAM UK's local office, FLASCO (an academic network attached to the Catholic University) and CIPAF (Feminist Research Centre). The latter has been active for 20 years in the DR on women's rights including workers' rights.

Contentiously, trades unions were not part of the review because of company reservations. Some NGOs, especially those working with women workers, feel that trade unions have not been active in organising among women in the free trade zones where most of the products for export are produced and much abuse is happening.

One key issue which arose was the cost to businesses of meeting Levi's standards. Local companies in the DR challenged Levi's on why they should invest in order to meet Levi's requirements if they do not have a commitment of business long term. This challenge was supported by the evaluation team, which came as a surprise to the local entrepreneurs. One of the lessons from this review is the realisation by local activists and business owners that they sometimes share a common agenda.

One of the main recommendations of the research was that people must be at the centre of the monitoring process and workers must be consulted. Others included the need to monitor the intensity of the work load; the need for more emphasis on freedom of association (Levis have responded by making this more central to their code); those monitoring must be trained in how to interview workers; and that a living wage should be paid.

Comparisons between Forests and Other Sectors

The development of forest certification is in many ways more advanced than the development of standards in several other sectors. Certification of non-timber forest products is still at an early stage, although such products are included in fair-trade.

Despite the different stages in development, there are common elements and common lessons between what is happening in forest certification and in socially responsible business. The majority of social responsibility initiatives

currently involve the use of substantive performance standards (e.g. codes of practice) that are in many ways similar in structure and approach to forest certification schemes such as the Forest Stewardship Council (FSC). As in forests, there are also some process-based approaches for social responsibility, but these are not widely in use in developing countries because they do not directly solve the problem of supply chain management/ethical sourcing.

Although different initiatives have different characteristics, there is an emerging consensus as to what constitutes best practice. Both FSC and certain social standards share:

- A partnership approach to developing the standard, involving the private sector and civil society organisations. Governments may also have a role to play, but this is more contentious as standards have often developed because governments are seen as ineffective custodians of good practice.
- The standard should be used to certify or verify substantive performance within a particular location (e.g. a forest or a factory).
- The standard should be subject to a process of continual improvement.
- Verification/certification should be carried out by independent third parties, although there is disagreement about how the process should be carried out and by whom.
- Custodianship of the standard should involve Southern stakeholders.
- Certification/verification should involve local stakeholders.
- There are also some negative lessons in common:
- Southern participation in adapting standards to meet local norms, values and priorities is still rare.
- Southern capacity to carry out certification/verification is weak.
- There is little information on the impact of standards, especially on poor and marginalised people.
- With the exception of fair-trade, standards have tended to become an end in themselves, leaving unaddressed key issues such as access to markets and terms of trading.





Forest certification also has lessons for other sectors. Not only does it integrate social and environmental aspects, it also addresses a wider range of social issues than is normally the case in social standards (e.g. not only workplace issues, but also community issues). The FSC's attempts to recognise and build up national standards also offers lessons to other

initiatives, and its relatively long history of managing multi-stakeholder partnerships is of relevance to initiatives such as ETI and emerging standards in developing countries (e.g. the Horticulture Promotion Council in Zimbabwe, and the Kenya Flower Council).




Lessons Learnt

While there is little empirical evidence on the impact of different approaches to ethical trade, lessons can be drawn from the different approaches to ethical trade that have been identified and the experiences of a number of ongoing initiatives.

The four approaches identified promote ethical trade in different ways:

Approach	Focus on	Led by
 Changing the Climate	Motivation	NGOs/Consumers/Government/The media
 From the Top	Innovation	Leadership companies
 From the Grassroots	Participation	Worker and community organisations/trades unions
 Developing the Toolkit	Expertise	Service providers/ new standards bodies

There are opportunities and limitations associated with each of the four approaches:

Approach	Opportunities	Limitations	Lessons Learnt
 Changing the Climate	Gives companies a financial incentive for ethical behaviour.	Effectiveness limited to certain products, companies and markets.	NGOs, funders and government need to invest in long-term strategies to keep up the pressure for ethical trade.
 From the Top	Leadership companies create new markets by demonstrating that profits can be made ethically.	Vulnerable to economic downturns and pressures from shareholders.	If ethical trade is not to be an add-on it needs to be embedded in the governance processes of companies.
 From the Grassroots	Grassroots participation ensures that intended beneficiaries actually gain from	There is a lack of capacity in the South to engage at a technical, strategic and governance level	It is crucial to strengthen the capacity of Southern organisations to participate in and

	ethical initiatives.	with initiatives being developed in the North.	implement ethical trading initiatives.
✘ Developing the Toolkit	Development of tools allows more companies to take on ethical concerns.	There is a danger that 'ethical trade' could become a self-perpetuating industry without being effective on the ground.	There is a need for standards to ensure that approaches to ethical trade are effective and trusted.

It can be seen that each approach is only one key element necessary in making ethical trade effective. It is not enough to have a standard if it is not used for innovation by adopting organisations. It is not enough to have company-led innovation if this is not accompanied by grassroots participation by other stakeholders. And participation equally requires motivational support from other stakeholders. Motivation, innovation, expertise *and* participation are all crucial factors in ensuring that ethical trade has a positive, widespread and sustainable impact.

While, in that sense the approaches are complementary, that is not to say that there is no conflict between practitioners of different approaches. Even the most progressive companies do not wish to be targeted by campaigners. However without the public interest created by campaigns they would not be able to justify investment in socially responsible policies.

There are not yet single organisations which can deliver each approach. As the case studies show new alliances and organisations are emerging both in the North and the South in order to deliver the range of approaches. Therefore much of the recent learning concerning ethical trade surrounds the building of trust between civil society and business, between different civil society actors (e.g. NGOs and trades unions) and between key stakeholders in the North and the South.

While ethical trade is not a regulatory mechanism, governments can play an important enabling role and in providing seed-funding. It is clear from the recent progress report of ETI that the involvement of the British government in the Initiative has added credibility to the issue and enabled ETI champions in organisations to win top-level commitment.²⁸ It is also crucial to strengthen Southern government's role in implementing or adopting legislation in accordance with international environmental and human rights standards and good practice.

Applying Ethical Trade Lessons in New Sectors

The development of ethical trade has taken different paths in different industries and regions and along the lines of different issues. Despite very different contexts, lessons can and are being learnt.

A significant difference between environmental and labour standards arenas is that the concern about the environment has been a new area for international debate and action. This concern has led to the development of new international conventions and processes within the United Nations. The recent work on labour standards, however, is happening within the context of nearly a century of international work on labour standards by the tripartite body the International Labour Organisation (ILO) and the international trade union movement. The timescale and dynamics therefore for each are very different. The main players within the environmental field are NGO and campaign groups on the one hand and companies and governments on the other. Whereas on labour issues there is an historical dynamic between companies and trade unions with the entry of development NGOs at a much later date. National governments have also been active in this area for the best part of a century.

Environmental groups, until recently, maintained a cool distance from corporate attempts to improve their performance – remaining as external campaigners only. Environmental auditing became the prerogative of the professionals : environmental consultants and the International Standards Organisation. The involvement of NGOs at the very centre of developing tools, standards and certification around labour standards is a testament to the feeling that this was a missed opportunity.

The typology of ethical trade approaches offers a framework to analyse the potential for developing ethical trade in different situations. The balance of approaches can be compared with the existing instruments and drivers for change to identify the areas to in which resources should be concentrated for maximum effect.

In the case of fair-trade, the initial approach was a combination of ‘from the grass roots’ (trading cooperatives in the South) and ‘from the top’ (ATOs in the North), but this has now partly developed into a tools and standards based approach with the setting up of national fair trade marks under the Fair Trade Federation.

In the case of labour standards in the food and clothing retail sectors, campaigns ran well ahead of any other approach in the early nineties. Initiatives such as The Ethical Trading Initiative, AIP and CEPAA were spawned in the mid-nineties in an attempt to make up the deficit around expertise in monitoring and verification of labour standards. Currently, the lack of Southern participation is proving the greatest obstacle and efforts are belatedly being made to build capacity in the South.

Lessons can be learnt and tools which have been developed in a particular sector can be applied in other sectors.²⁹ However standards, methodologies and expertise alone will not be effective in new situations unless the other elements are in place to ensure that companies can be held accountable by their stakeholders. Motivation, innovation, expertise *and* participation are all

crucial factors in ensuring that ethical trade has a positive, widespread and sustainable impact.

As we have seen, building trust is crucial to any approach to ethical trade. This must be built and rebuilt in each new location and sector and over each new issue.

Appendix I: People who gave input to this report

Meetings

Input of Magaly Pineda, CIPAF, Dominican Republic & Hector Bernabe Recionos of CENTRA, El Salvador, to an UK NGO meeting 24.9.99

Clean Clothes Campaign Meeting on Independent Monitoring, Brussels, May 1999

Meetings in Canada with key stakeholders within the Canadian P E T

Individuals

Inneke Zeldenhurst, Clean Clothes Campaign, The Netherlands

Lynda Yanz and Bob Jeffcot, Maquiladora Solidarity Network, Canada

Dan Rees, Ethical Trading Initiative, UK

Eileen Kaufman, CEPAA, USA

Phil Wells, Fairtrade Foundation, UK

Martin Ashby, Littlewoods, UK

Angela Hale, Women Working Worldwide, UK

Endnotes

¹ In 1996, 51 of the world's largest 100 economies were corporations.. Source: Anderson, S. and J. Cavanagh(1996) The Top 200. The Rise of Corporate Global Power. Institute of Policy Studies, Washington D.C.

² Zadek, S., M.Burns and M. Forstater,(1997) Open Trading, New Economics Foundation. London.

³ Quaker United Nations Office (1998) Sharing Responsibility for Labour Standards and Trade Liberalisation, seminar report, Quaker House, Geneva.

⁴ Elkington, J. (1997) The Triple Bottom-Line, Sustainability. London.

⁵ Terms of Reference. This project.

⁶ Zadek, S, L Lingayah and M Forstater (1998) Social Labels: Tools for Ethical Trade, DGV. European Commission.

⁷ The term 'Ethical Trade' has been widely used by Clare Short, the Minister for International Development and by NGOs working in the field in the UK to refer specifically to labour standards in supply chains. The Ethical Trading Initiative uses this definition. Many companies have their own name for these supply chain policies such as 'sound sourcing' (also used by the British Retail Consortium), 'ethical sourcing' and 'No Sweat'.

⁸ For a comprehensive discussion of consumer boycotts see Smith, C. (1990) Morality and the Market: consumer pressure for corporate accountability, Routledge. London.

⁹ Sabapathy, J. and A. MacGillivray(1999), Active Consumers: What they're like and what they like, unpublished report, prepared for NatWest Bank by the New Economics Foundation. NEF. London.

¹⁰ Consumer action book.

¹¹ Zadek, S and M. Forstater, (1998) Strengthening civil regulation, report to the Ford Foundation (unpublished).

¹² NCC(1997) Green Claims: a consumer investigation into marketing claims about the environment, National Consumer Council. London.

¹³ Zadek, S., M. Forstater & S. Lingayah (1998), Social Labels as Tools for Ethical Trade, DGV European Commission, Brussels.

¹⁴ See for instance Maria Sillanpaa in Bennett, M, James P eds (1999) Sustainable Measures: evaluation and reporting of environmental and social performance, Sheffield, Greenleaf

¹⁵ The Conference Board Europe (1999) The Link Between Corporate Citizenship and Financial Performance, The Conference Board, Brussels.

¹⁶ Zadek, S. and M. Forstater, (1999) "Making Civil Regulation Work" in Human Rights Standards and the Responsibility of Transnational Companies, M.K. Addo (Ed). Kluwer Law International.

¹⁷ Ferguson, C. (1998), UK Company Codes of Conduct: a review for the DFID Socially Responsible Business Unit, Department for International Development, London.

¹⁸ Zadek, S. and P. Tiffen, (1996) "Fairtrade: Business or Campaign", in Development, 1996:3. Society for International Development.

¹⁹ Green, D. (1998) Views from the South: report of ETI consultation with Southern NGOs, presented at the ETI conference, November 1998. London.

²⁰ AMRC REFERENCE ??????

²¹ Presentation by Jane Tate, Homenet, at South-North NGO Meeting, September 1998

²² Chen, Sebstad & O'Connell (1999), 'Counting the Invisible Workforce: the Case of Homebased Workers', in World Development Vol 27 No 3 1999.

²³ Homenet (1998), Ethical Trade Initiative and Codes of Good Practice: Homeworkers, Homenet , Leeds.

²⁴ Zadek, S., M.Burns and M. Forstater,(1997) Open Trading, New Economics Foundation. London

²⁵ Traidcraft Plc (1998) Traidcraft Social Accounts, Traidcraft Plc, Gateshead.

²⁶ NRET (1999) Ethical Trade and Sustainable Livelihoods, Chatham, Natural Resources Institute

²⁷ Zadek, S and M. Forstater, (1998) Strengthening civil regulation, report to the Ford Foundation (unpublished).

²⁸ Price Waterhouse Coopers/ IDS (1998), Learning from Doing: a report on company progress in implementing ethical sourcing policies and practices, Ethical Trading Initiative, London.

²⁹ For example, social auditing methods developed by the fairtrade company Traidcraft with the New Economics Foundation are now being used by utility companies and social housing providers as well as other retailers.