

FAIR-TRADE AND FOREST PRODUCTS KEY POINTS FROM SMALL BUSINESS WORKING GROUP MEETING

SUMMARY

Fair-trade and small business are often mentioned in the same breath, typically with optimistic forecasts about better returns to producers and access to lucrative markets. Is this hype or fiction or somewhere in between? What are the real benefits of fair-trade and for whom? What are the practical issues in bringing small producers' products to Western markets, and how are these being addressed?

As new initiatives for government assistance to encourage trade with developing countries are emerging, it is opportunity to identify the opportunities and challenges that face small businesses trading in forest products from developing countries.

A meeting of meeting UK fair-trade companies, international development, NGOs and researchers working on the economic viability and social impact of fair-trade in Latin America was held in London on 22 March. The aim of the meeting was to present and discuss in a wider context findings on the economic viability and social impact of fair-trade in Latin America, and to identify solutions to the challenges faced by buyers and producers

The meeting was the start of a longer term dialogue that will be of mutual benefit to producers and small business, and participants have set up an ethical trade in forest products group which will next meet on 19 September. Please contact Jane Thornback at the UK Tropical Forest Forum if you would like to join this group.

BACKGROUND

The meeting was organised by the UK Tropical Forest Forum and the Natural Resources and Ethical Trade Programme (NRET), and funded through the DFID Forest Research Programme. The following presentations were made drawing on NRET's work on brazil nut and cocoa production for the fair-trade market:

- "An introduction to fair-trade in forest products" (Mick Blowfield)
- "The impact of fair-trade on local people in Peru and Ecuador" (Valerie Nelson)
- "The economics of fair-trade in brazil nuts and cocoa" (Duncan Burnett)

The meeting was chaired by Jane Thornback (NRI/UK Tropical Forest Forum), and attended by representatives of:

- Soil Association
- DFID Forest Research Programme
- Oxfam
- The Body Shop

- Rainforest Alliance
- TWIN
- Tropical Forestry Trust
- NRET

PRESENTATIONS

Presentations can be downloaded by clicking below or by contacting Jane Thornback or Mick Blowfield (contact details below):

- Download the Introduction to fair-trade in forest products
- Download the Impact of fair-trade on local people in Peru and Ecuador
- Download the Economics of fair-trade in brazil nuts and cocoa

If you would like the full reports, please contact Mick Blowfield.

In general the presentations showed that fair-trade can benefit those that it reaches, and can be a financially viable system if lessons are learnt from the past. Benefits are not necessarily financial, and indeed there is mixed evidence that producers receive better prices, although fair-trade does help bring otherwise disadvantaged producers into the export markets. However, there are benefits in terms of capacity building, producer organisation, producer-buyer trust, access to international development assistance, and to an extent credit.

The fair-trade market is not large enough to absorb all of the product from the producer groups, and in the case studies the majority of product went to conventional markets. However, despite this some of the fair-trade marketing organisations had continued to adhere to certain principles of fair-trade. The marketing organisations are often different in character, but the best combine a mixture of innovation, good business practice, good relations with buyers, and good relations with international aid agencies and the international fair-trade community.

However, it is clear that the benefits of fair-trade are not equally distributed at the local level, and making sure benefits not only reach small producers but also their workers and sub-contractors is a major challenge for fair-trade.

Fair-trade can be competitive, although as with any commercial operation some companies will fail. Some key lessons from Latin America are:

- Avoid commodities with a multiplicity of substitutes
- Choose a commodity easily identifiable as "ethical" by consumers (e.g. tea, coffee, chocolate-cocoa, honey)
- Identify and exploit niche markets (e.g. the health food business)
- Avoid competing with international traders, particularly on price, because of their economies of scale / ability to take positions / financial strength
- The economic benefits of fair-trade tend to flow from shortening the internal (origin) market chain rather than the chain from FOB to CIF / delivered destination

DISCUSSION

Key points from the open discussion leading on from the presentation were:

- **Innovation** is an important contribution that fair-trade marketing organisations in developing countries can make. Candela in Peru, for instance, have gone beyond fair-trade into new markets (e.g. with The Body Shop, Ben & Jerry's). However, there is a question as to where innovation should take place: should it be at the producer level/near the site of primary production, or at the marketing organisation level which may be geographically far from the site of production?
- **Processing** is crucial to adding value, but how many processing plants can be viable. In Peru there are many shelling plants for brazil nuts, but this is in marked contrast to the more profitable industry in Brazil. *We need to understand how the location and quantity of processing plants affects the spread of value along the chain.*
- **Distribution of benefits** is a key criteria against which fair-trade will ultimately be judged. *There is a need to understand/quantify value added at each stage from producer to the port.*
- **Impact assessment**, not least to understand the benefits for marginal groups, is a growing area of interest in the fair-trade movement. TWIN is starting to develop an impact assessment system and Oxfam is coming to the end of its initial work in this area. There is a clear cost dimension to this, but it is essential for management and credibility purposes, and fair-trade organisations should work together on this. The Body Shop and the Fairtrade Labelling Organisation emphasise the need for **external verification**, and The Body Shop has used multi-disciplinary teams for the past five years, with extracts included in the company's Values Report. Timber certification does not require disclosure, but in other ways may be a model that fair-trade could draw on although it does not really assess sustainable livelihoods issues. DFID work on sustainable livelihoods could also contribute, but at present is more focused on what should be assessed than the practicality of assessing. NRI work on impact for the DFID Forest Research Programme's shows the importance of stakeholder involvement in assessment. Whatever the way forward, there is a need to balance need and cost, and to make be aware of the uses that monitoring can be put to (e.g. promotion/reputation assurance, internal monitoring).
- **Donor support** is important but not always effective (e.g. donor funding to increase direct involvement in marketing by brazil nut producers in Bolivia which was eventually taken over by an entrepreneur). Donor support is less important than good business practice and the financial depth of the marketing and producer organisations, including access to credit.
- **Environmental impact** of fair-trade is often a secondary issue, although The Body Shop was trying to make headway with this in Peru. There is an ongoing debate within the conservation movement as to how much trade can help conservation goals. Fair-trade encourages producers to maintain a sustainable supply of primary produce, but this will ultimately depend on how interested producers are in reinvesting in a particular product rather than use income to diversify. In some instances (e.g. Bolivia), marketing organisations actively encourage

producers to invest in conservation (e.g. by providing planting material).
If fair-trade is concerned with environmental goals, then it should focus on products that rely on ecosystem integrity.

- **International property rights** is an issue, especially as pharmaceutical companies begin to fall in line with international property rights and biodiversity agreements. There is little sign that these benefits go to small producers, and fair-trade is not active in pharmaceuticals.
- **Trading chains:** The NRET work highlighted that fair-trade works best when supply chains are short and well integrated. This is the overall intention of fair-trade – i.e. to cut out the ‘middle man’. Conventional trading chains are often long, not least because of reselling and speculation. This does not happen in fair-trade, and ‘back-to-back’ trading is the norm. Given the number of fair-trade producers that are actually selling to conventional markets, it is possible that the fair-trade identity that is less important than the integrated supply chains; however, some commodities have a culture of long supply chains that fair-trade can do little to challenge in the medium term.
- **Fair-trade producers selling to conventional markets** should not be seen as a problem, and indeed may be a sign of success. However, fair-trade should consider discouraging focus on a single commodity (e.g. Oxfam’s policy of diversification).

NEXT STEPS

The meeting agreed that it would be very useful to establish a group on ethical trade and forest products within the UK Tropical Forest Forum. The group will fair-trade and other related approaches to promote trade in forest products for the benefit of poor people.

The group will meet on 19 September 2000. Please contact jane Thronback for more details.

FURTHER INFORMATION

If you would like further information on the meeting please contact:

Jane Thornback

UK Tropical Forest Forum
NRI
Central Avenue
Chatham Maritime
Kent ME4 4TB
UK

Tel. (0)1634 880088

Fax. (0)1634 883706

Email <<l.j.thornback@gre.ac.uk>>

Mick Blowfield

NRET
NRI
Central Avenue
Chatham Maritime
Kent ME4 4TB
UK

Tel. (0)1634 880088

Fax. (0)1634 883706

Email <<nret@gre.ac.uk>>
or <<m.e.blowfield@gre.ac.uk>>