Ethical trade and sustainable rural livelihoods

Natural Resources Institute

ETHICAL TRADE AND SUSTAINABLE RURAL LIVELIHOODS

Ethical Trade and Sustainable Rural Livelihoods

Michael Blowfield, Stephanie Gallat,
Annabelle Malins, Bill Maynard,
Valerie Nelson and Dawn Robinson

Natural Resources and Ethical Trade Programme

NATURAL RESOURCES INSTITUTE, UNIVERSITY OF GREENWICH

The Natural Resources Institute (NRI) is a scientific institute within the University of Greenwich, and is an internationally recognized centre of expertise in research and consultancy in the environment and natural resources sector. Its principal aim is to increase the productivity of renewable natural resources in developing countries in a sustainable way by promoting development through science.

BLOWFIELD, Michael; GALLAT, Stephanie; MALINS, Annabelle; MAYNARD, Bill; NELSON, Valerie and ROBINSON, Dawn (1999) *Ethical Trade and Sustainable Rural Livelihoods*. Chatham, UK: Natural Resources Institute.

Production of this publication was funded by the United Kingdom's Department for International Development. However the Department for International Development can accept no responsibility for any information provided or views expressed.

Price £4.00

Copies of this book can be obtained by writing to NRI Catalogue Services, CAB International, WALLINGFORD, Oxon. OX120 8DE, UK. When ordering please quote **ECN13**.

Natural Resources Institute

ISBN: 0 85954 503-2

Contents

Summary

The growth in interest in ethical trade has raised many questions. This publication seeks to answer four of the most basic of these.

- What do we mean by ethical trade and the ethical market, particularly in relation to natural resources?
- How does ethical trade operate?
- Who benefits from ethical trade and how?
- Is it a useful developmental approach?

THE SCOPE OF ETHICAL TRADE

Ethical trade covers the trade in goods produced under conditions that are socially and/or environmentally as well as economically responsible. It is therefore an umbrella term that covers initiatives such as:

- fair trade;
- ethical sourcing by major retailers and importers;
- in-house codes of practice by companies; and also
- forest certification and certification of organic agriculture.

Not all of these initiatives are primarily about trade. But in one way or another they are all being used to access markets, particularly in the West where consumers increasingly want to know that what they are buying has been produced under socially and/or environmentally responsible conditions.

These initiatives have different histories. Some are recent, some are well-established. They have not evolved together, but they are increasingly coming together. What is causing this convergence is a recognition in some quarters that ethical trade is a part of sustainability: a more holistic and ethical approach to doing business.

There are three well-established initiatives that bring an ethical dimension to the trade in natural resources.

- Fair trade.
- Organic certification.
- Forest certification.

The Natural Resources and Ethical Trade programme has looked at five examples of export trade rooted in these initiatives, as well as reviewing the experiences of others in these areas. A wide range of commodities are graded under these initiatives, and new initiatives are developing all the time, increasing the number of commodities and countries involved.

SIMILARITIES AND DIFFERENCES BETWEEN INITIATIVES

Each of the initiatives has developed quite separately, but they do share common elements. For instance, each has some form of custodian body that administers an ethical standard. Each assesses aspects of social and/or environmental performance of producers against some kind of standard, and normally this assessment is carried out by a third party. Products that meet the required standard are normally given a label or logo to distinguish them from their competitors. In order to maintain credibility, records of the assessment process are kept and are available for inspection.

However, there are differences between initiatives. For fair trade, the main focus is the producer, whereas for forest and organic certification, the main focus is the natural resources. Not all of the initiatives provide direct access to markets. However, fair trade and organic produce in particular are able to command an ethical premium which provides better returns to producers than conventionally traded products. There are also differences in the assessment of producers, and the importance attached to building up producers' capacity.

THE MARKET FOR ETHICAL TRADE

There are distinct markets for organic and fair trade products. More work is needed to understand these ethical markets, and many of the figures available come from organizations with a vested interest in talking up the market's growth.

The European and US fair trade market is worth up to $ 500 million/year in retail sales. The world market for organic produce is $ 11 billion, $ 500 million of which comes from developing countries. According to some estimates, certified forest products in some countries will account for 15% of the timber market by the end of the 1990s, although most of this will come from developed countries.

However, to put this in perspective, fair trade is 0.01% of world trade. Predictions that 15% of the world food market will be organic by 2006 should be treated with caution. In discussing the current high rates of growth for organic and fair trade products it should be remembered that this is from a low base.

Nonetheless, debate about the size of the ethical market may be irrelevant if ethical sourcing by major retailers and importers takes off. Retailers throughout Europe are setting ethical standards for sourcing products, and for some products within the next few years it may no longer be a question of how large the ethical market is, because the ethical market may have become the market. This can already be seen in fresh produce where ethical criteria are starting to be applied.

Mention of supermarkets and the like is a reminder that any talk of ethical trade cannot be removed from discussion about trade in general. There is a tendency in some literature to view all conventional trade as exploitative of the producer, and fair trade, for instance, is partly a response to the perceived injustices of traditional trading arrangements. However, this is more complex than often portrayed.

Some of the practices promoted by certain ethical trade initiatives are also considered best practice in modern export trade. These include stable prices, guaranteed purchase, long-term relations between buyer and producer, and the use of written contracts. It is clear that ethical trade and the conventional export trade have much in common, both in terms of their strengths and weaknesses, the opportunities and the constraints

PARTICIPANTS IN ETHICAL TRADE

In theory, anyone who can produce for the conventional export market can participate in ethical trade. This means that those who are less likely to produce for the export market are also less likely to participate in ethical trade schemes. For instance, women are less likely to be involved in export production than men, except where there is some form of minimal processing involved. Likewise, anyone with insufficient land or family labour is less likely to participate, unless as hired labour on, for instance, plantations.

Ethical trade can also impose additional requirements not seen in conventional trade. For instance, to implement ethical initiatives can require comprehensive documentation and monitoring procedures which in turn presuppose a certain level of education. Producers, at least in theory, pay the cost of certification which is at present high — sometimes $ 10 000 or more. Initiatives can also require security of land tenure. This precludes those who have, for instance, short-term rental agreements.

Nonetheless, ethical trade is more accessible in some ways than conventional export opportunities. Ethical buyers and traders invest considerably in working with producers who in terms of volume, quality and knowledge of the market might be unattractive to conventional exporters.

Ethical buyers sometimes purchase from remote and politically unstable areas where the ethical premium offsets the increased cost of production and marketing. They also may provide technical support, credit, physical inputs, advice and other assistance to producers for whom these have hitherto been a major constraint.

BENEFITS OF ETHICAL TRADE

Talking to producers, it is normally improved farm-gate prices that are mentioned as the major positive outcome of ethical trade. Many producers clearly benefit from the ethical premium, but there have been problems with this that are discussed later, on p. 18.

The impact on the natural resource base can also be positive. Organic and sustainable forestry standards promote what are widely regarded as more sustainable natural resource management practices. In addition, elements such as long-term producer-buyer relations act as incentives for producers to invest in sustainable land use practices — something that conventional export trade has been criticized for not always encouraging.

However, it would be wrong to conclude that ethical trade initiatives as they stand always have a positive developmental impact. Some people are excluded from participating because of their social or economically determined position. Some are affected by schemes as members of households, extended families or other social networks, and this indirect participation is not always beneficial. Others again may be disadvantaged; for instance, through loss of land, loss of income-generating opportunities or loss of control over how resources are allocated.

These types of negative impact are not unique to ethical trade. However, given that ethical trade is promoted as being more beneficial than conventional forms of trade, outsiders cannot be blamed for expecting ethical trade to be better than the alternatives.

In terms of developmental goals, many of ethical trade's weaknesses stem from what is and is not measured, and changes to monitoring and verification could improve the developmental impact of ethical trade initiatives.

Improved incomes and livelihood opportunities are two areas where ethical trade has made a contribution. But perhaps more important is that ethical trade is able to provide a catalyst for the involvement of producers who might otherwise not have access to better-paying markets.

Ethical trade also creates partnerships that bring together stakeholders in the North and South. At its best, it helps producers become participants in rather than passive functionaries of trade. It helps develop social and human capital. And it helps provide access to resources that might otherwise be unavailable.

Any long-term benefit from ethical trade depends on the resilience of ethical trade itself. This means having viable trading organizations, and there is good reason to doubt the viability of some schemes which often are overly dependent on the 'subsidy' they receive from development agencies.

Producers of any commodity are at risk to a greater or lesser extent because of the inevitable fluctuations in market price. The extent to which ethical trade can reduce this risk (e.g. through diversification or price guarantees) varies according to the initiative.

There is also a common assumption that ethical trade must be of benefit. In only one of the case studies used in this publication had a thorough analysis of the likely impact and benefits of the scheme on local people been conducted prior to start-up, and despite examples of ethical trade schemes having to pull out of certain markets, producer vulnerability is not monitored.

Finally, there is the risk posed by Western consumers whose support has been vital in stimulating ethical trade. At present, the ethical values found in ethical trade initiatives often reflect the values of the Western consumer, and are rarely based on finding out the values, norms and priorities of developing country stakeholders. If this situation does not change, then there is a risk that some producers will be excluded simply because of misconceptions in the West about conditions in developing countries.

It has been suggested that conventional trade and ethical trade have elements in common, but also that there is an added value to ethical trade under some circumstances.

Ethical trade by itself is not an answer to sustainability, and this publication highlights some of its weaknesses as well as its strengths. If approached wisely, ethical trade can be an important component in building sustainable rural livelihoods for certain people. Its ultimate impact depends on increasing efficiency, building producer capacity to influence and take decisions about ethical trade, improving targetting of socially differentiated actors, increasing developing country stakeholder involvement in developing initiatives, ensuring commercial viability of key organizations, increasing Western consumer awareness of development issues, and adopting sustainable marketing systems. The ongoing partnership-building process described earlier provides a basis for addressing these constraints in order to optimize the contribution trade can make to achieving sustainable livelihoods. However, the potential will not be realized without greater investment, new thinking and challenging what have become accepted practices.

Natural Resources and Ethical Trade Programme

Chatham, UK

Background

Ethical trade promises the best of all possible worlds where consumers can acquire the goods they want knowing that production has not been at the cost of the environment or to the detriment of producers. Ethical trade is seen as particularly important for developing countries because of fears that there is insufficient control in those countries to prevent undue exploitation of both producers and the environment. Ethical trade provides a bridge between North and South, where values not value form the arches.

But is the Northern consumer being deceived? Are Southern producers benefiting from ethical trade? Is the environment being sustained or enhanced? If the goals of international development include poverty elimination and environmental sustainability, is ethical trade making a positive contribution?

The work on which this publication is based was carried out to see what role ethical trade plays in creating sustainable rural livelihoods in developing countries. The work centred on case studies of ethical trade as it is being practised in developing countries (*see* Table 1). The focus was on ethical trade as it applies to renewable natural resources, and ethical trade in manufacturing industry has not therefore been investigated. The case studies were supplemented with information from various sources, including a review of the developmental impact of organic agriculture.

Each case study focuses on a scheme – an example of production in accordance with a particular social and/or environmental standard. For instance, the Suntrade scheme in Uganda produces fresh fruit and vegetables according to the requirements of the organic agriculture standard; in Quintana Roo, Mexico, there is a community-managed forest where management is in accordance with the standards for responsible forest management.

In selecting case studies, well-established examples of ethical trade were being sought. The following criteria were used: a) that the scheme was well-established; b) that the schemes represented different commodities; c) that they represented different production systems; d) that they represented different types of ethical trade standard; and e) that they involved production for the export market.

Table 1 Case studies

Initiative	Commodity	Location
Fair trade and organic farming	Cotton	Uganda
Fair trade	Minimally processed fruit and vegetables	Uganda
Fair trade	Bananas	Ghana
Certified forests	Forest products	Mexico
Organic farming	Fruit and vegetables	Uganda

Data were also obtained on fair trade cocoa (Ghana), organic horticulture (Ghana), and organic cotton (Kenya and Zimbabwe).

What is Ethical Trade?

Ethical trade is the trade in goods produced under conditions that are socially and/or environmentally as well as economically responsible. It opposes the *laissez faire* economics of Friedman and others for whom the only responsibility of business is to increase its profits[1] . Although it does not follow any one school of ethical thought[2], ethical trade does reflect a broader change in notions of ethical responsibility (for instance, in business, law and medicine) where responsibility no longer stops at the interaction between buyer and seller, patient and doctor, lawyer and client, but rather extends into the events preceding and succeeding that interaction.

There is no definitive approach to ethical trade. Rather, ethical trade is a generic term applicable to a variety of initiatives which apply sets of social/environmental values to aspects of the production and marketing process. These values can cover: a) workers' pay and conditions; b) producer livelihoods; c) sustainable production methods; d) animal welfare; and e) biodiversity. Some or all of these values are found in fair trade schemes, the in-house codes of practice of corporations, organic agriculture, environmental codes, forest certification, and in the nascent ethical sourcing initiatives of major Western retailers.

ETHICAL TRADE AND SUSTAINABILITY

Ethical trade is in part a response to consumer concern about the conditions under which goods are produced. At present, it has a confused and at times contradictory ideological base that reflects the different histories and priorities of the various initiatives. For some it is sufficient that ethical trade offers a better deal for producers and their environment, and is able to prove this to the consumer. But it can also be argued that despite the differences between initiatives, the sometimes confusing array of standards that have evolved, and the plethora of schemes each with their own characteristics, there is a shared principle that underpins them. This shared principle is that the values of the various ethical trade initiatives contribute towards sustainability.

Several authors have stated that the free market alone cannot bring this about, and that what is required is a *'more holistic and ethical approach to doing business'* that values social and environmental impact, and restructures North-South relations[3]. Nobody would claim that ethical trade as it stands today is able to deliver the sort of global change such restructuring would demand, and some would deny that international trade in any case is a sustainable system . Nonetheless, consciously or not, ethical trade and sustainability are fast meeting each other; though whether that meeting takes the form of merger or collision remains to be seen.

Box 1 Solar Dried Fruit

Fruits of the Nile (FON) was established in 1990 and started regular trading in 1993. It is a Ugandan-registered company exporting sun-dried fruit for the health food and fair trade markets.

FON started with the aim of increasing rural livelihoods, and decided upon solar drying after exploring various options that could diversify income-generating opportunities, add value at the community level, use simple and affordable technology, be transportable using existing infrastructure, reduce perishability, and not have a negative effect on other African economies. Fruit drying was finally chosen because of the potential of the solar drying technology.

The company purchases from about 100 groups and individuals. From 50 kg at the outset, FON now exports 36-40 t annually with a net export value of about US$ 130 000.

ETHICAL TRADE AND NATURAL RESOURCES

The development of ethical standards has close links with renewable natural resources. Organic farming standards have existed for over 50 years, and certification of sustainably managed forests began in the early 1990s, as did the first fair trade product, coffee. More recently, ethical standards for manufacturing industry have gained a higher public profile, but new initiatives concerning natural resources are still being developed, such as those for horticulture and fisheries.

There are three main functioning ethical initiatives relevant to natural resources: forest certification, fair trade and organic agriculture[4]. Of these, only fair trade addresses trading relations *per se*, with assistance in accessing the export market an integral component of all fair trade schemes. The other initiatives are only concerned with the conditions under which items that might be traded are produced. However, there is a growing trend for organic and forest certification to become a means to access certain markets, and in some instances producers enter into certification with the expectation that their produce will fetch higher prices or capture new markets.

Box 2 Community-managed Forests

In 1995 Quintana Roo was the first community-managed forest to be certified under the Forest Stewardship Council. The 86 000 ha of forest had been returned to community ownership in the 1980s, and the 832 *ejido* who own the forest were encouraged to join together in cooperatives to assist technical and managerial support.

Quintana Roo was already selling to ethical buyers prior to certification thanks to a long programme of assistance from the Mexican government, GTZ and American environmental NGOs. Certification was strongly supported by Mexican NGOs and government agencies. Most of the timber is sold domestically or to conventional export markets, but certification has helped Quintana Roo timber access ethical markets, particularly markets for non-traditional timber in the US.

Fair Trade

Fair trade is an initiative to produce and market products from developing countries in ways that are argued to be more advantageous to the producer than traditional trading arrangements. The common goal is to '*contribute towards change in international relations in such a way that disadvantaged producers can increase their control over their own future, have a fair and just return for their work, continuity of income and decent working conditions through sustainable development.*'[5]

To achieve this, the fair trade system places requirements on developing country producers, developed country buyers and developed country consumers. There are two types of fair trade initiative: one involves the use of a fair trade mark or label which can be used on products that have been bought from producers meeting fair trade criteria; the other involves direct purchasing from producers by alternative trade organizations. Under the fair trade mark system, producers are assessed according to pre-set criteria and then registered as fair trade producers. Buyers can label their products as fairly produced if they buy from these registered producers at a price agreed annually by an international fair trade body. This price is not only intended to provide a better return to the producer, but includes a 'social premium' to be used by producer groups for social development activities. Alternative trade organizations engaged in direct buying may use fair trade marks on their products, but some feel that the process of obtaining the mark is an unnecessary expense.

Organic Standards

Organic agriculture involves '*managing the agro-ecosystem as an autonomous system, based on the primary production capacity of the soil under local climatic conditions.*'[6] The principles include: a) use of crop rotation and other natural methods of conserving and enhancing soil fertility; b) encouragement of biological cycles involving micro-organisms, soil flora and fauna, plants and animals; c) the maintenance of valuable existing landscape features and habitats for wildlife; d) attention to animal welfare considerations; and e) the avoidance of pollution and consideration of the wider social and ecological impact of the farming system.

Production for export is not an explicit goal of organic agriculture, and for many people organic practices are part of a move towards self-reliance where trade has little role. For farmers wishing to export, however, farms or farm areas must meet the requirements of an internationally accepted regulatory framework and be certified as organic. Certification is by third party bodies accredited by the International Federation of Organic Agricultural Movements (IFOAM).

Forest Certification

There are a number of forest certification initiatives world-wide[7]. The Forest Stewardship Council (FSC) is the only initiative to date to gain global recognition. FSC acts as a custodian for principles of well-managed forests, and has accredited five certification bodies for conducting assessments and issuing certificates using these principles. The basic FSC principles were drawn up through an international non-governmental process, and cover social, ecological and economic aspects of good forest management. These are generic principles applicable to all forest types, and assessment focuses on the mechanisms required for high-quality forest management, rather than trying to measure the social or environmental impact of management in a particular forest area.

FSC assesses forests or forest managers through a four-stage process, the end result of which is the awarding of a certificate which entitles the forest products from the certified forest to be sold with an FSC - approved logo. Certification must be renewed every five years, during which time there must be at least three audits: this compares to the annual auditing required by fair trade and organic initiatives.

Similarities and Differences

The above three initiatives have developed independently but share certain common elements (*see* Table 2). Each initiative has a standard that sets out principles and sometimes core criteria that must be met by producers wishing to be recognized by the initiative. Administering and ensuring the integrity of the standard is the role of a custodian body. FSC (forestry), IFOAM (organic agriculture) and the International Fairtrade Labelling Organization (fair trade) are examples of custodians of standards.

In some instances (e.g. forestry), the standards are further elaborated by organizations accredited by the custodian body. Qualifor, Woodmark and Smartwood are examples of accredited bodies. Important in terms of how ethical performance is measured is that each initiative insists on some form of regular monitoring and verification. Using principles, criteria and indicators recognized by the relevant standard, certifiers or some other form of assessment body appraise the conditions under which production occurs. In most cases the assessment is conducted by a third party. Normally, successful completion of the assessment exercise results in the produce of the producer or location being traded with a recognized label or mark.

However, the initiatives also differ in significant ways (*see* Table 3), and as discussed later there are inconsistencies in practice. Some of these differences have been the subject for debate as different initiatives attempt to converge. For instance, at the 1997 IFOAM conference in Oxford, greater coherence between the fair trade and organic movements was discussed, and one area of disagreement was whether different certifiers should be used to preserve disinterest and objectivity (the approach of organic certification) or the same certifiers used to encourage a closer working relationship (the approach used in fair trade assessments).

Table 2 Shared elements in existing ethical trade initiatives

- ✓ Custodian body to set ethical standards.
- ✓ Third-party verification of compliance with standards.
- ✓ Use of label or logo to show compliance with standards.
- ✓ Transparency regarding certification process and access to findings.

Table 3 Divergent elements of ethical trade initiatives

Description	Comment
× Focus	Fair trade: primarily social emphasis with some schemes having environmental responsibility criteria; forest certification: mixed social and environmental emphasis; organic: primarily environmental emphasis but some social criteria depending on scheme.
× End product	Only organic agriculture has a distinguishable end product (i.e. one without chemical residues). The physical end product of forest certification and fair trade are not distinguishable from their conventionally produced equivalents.
× Ethical premiums	Organic products currently sell at a premium price; products sold on the fair trade market have a social premium; little evidence except in niche markets of a green premium for certified forest products.
× Access to markets	Marketing is integral to fair trade; incidental to organic and forest certification.
× Capacity building	Involvement in capacity building for producers is integral to fair trade; not part of forest certification; part of organic certification depending on the certification body (e.g. Soil Association).
× Different certification periods	Organic and fair trade, annual; forest certification, five yearly with three intermediate audits.
× Certifiers	IFOAM requires a change in individual certifiers after a given period; forest certification and fair trade encourage use of the same certifiers.

Factors Affecting Ethical Trade

THE ETHICAL MARKET PLACE

Fair Trade

Markets for ethical trade produce are largely export markets, particularly those in Europe and North America. According to the US Fair Trade Federation, the fair trade market accounts for US$ 400 million in retail sales each year in Europe and the US; 0.01% of global trade. About 60% are foodstuffs, half being coffee. There are about 2 500 fair trade products.

In Europe, there are about 65 alternative trade organizations supplying the fair trade market. Thirteen of these belong to the European Fair Trade Association which in 1997 traded with 800 producer groups in 45 developing countries, and had an impact on about five million producers.

Many fair trade products are sold under the fair trade marks of Max Havelaar, Transfair and the Fairtrade Foundation. The major products sold under these marks are coffee, cocoa, bananas, chocolate, honey, sugar and tea. Market shares differ per country and per product, but for high profile products are between 1-5% and are increasing. In most European countries fair trade is growing at 10-25% /year.

In the UK, there are about 3 000 points of sale for fair trade products. Cafédirect, an umbrella project by Oxfam, Traidcraft Exchange, TWIN Trading and Equal Exchange, has a 2.8% market share for roasted and ground coffee. Total retail turnover is less than US$ 30 million, compared to over US$ 131 billion by high-street retailers.

Organic

The global organic market is estimated to be worth US$ 11 billion (1-2% of the total food market), with organic imports from developing countries worth US$ 500 million. In the US, the organic market is worth US$ 4.5 billion and has been growing at 25% /year for the past five years, although from a low base. The UK market is US$ 320 million.

Not surprisingly, this growth has attracted the attention of UK high street retailers, and the second largest chain now has over 180 organic products. The main growth areas are baby foods, exotic produce, fast foods and luxury goods.

The organic movement is bullish about its prospects, estimating an explosion in organic trade with the market growing to US$ 100 billion by 2006 and gaining an average 15% market share. However, this estimate may assume an unusual adoption curve where current price premiums (sometimes more than 50% above non-organic products) will continue despite expansion in production and in the number of consumers.

Certified Forest Products

In contrast to the consumer focus of fair trade and organic initiatives, supporters of forest certification have focused on persuading purchasing departments of major retailers to give preference to certified goods. According to some estimates, certified forest products will account for 15% of the timber market in certain countries by 1999. However, most of this will come from developed countries. Unlike fair trade and organic produce, the market has generally proved unwilling to pay a premium for certified timber, perhaps because relatively little timber is sold unprocessed to the public, and processors are unwilling to take a risk by charging more than non-certified competitors. However, certified timber has attracted a premium in certain market niches (e.g. furniture, guitar necks), and often these have provided a market for species that were not traded previously.

Market Prospects

Although the double digit growth rates and the bullish forecasts from the ethical movement suggest healthy prospects for the ethical market, it is unclear whether ethical products will remain a niche market or grow to assume a significant proportion of the total market.

In all three markets, demand currently outstrips supply. Although this shows healthy growth in demand, it is also partly due to difficulties in meeting market quality requirements. In some market niches there are considerable price inelasticities provided that quality requirements are met, but unsophisticated producers are often unable to meet these. There is also a problem of continuity of supply.

In new niche markets, the price of ethical products is generally high relative to conventional products due to the small supply base, inefficiencies in the marketing chain and the addition of an ethical price premium (*see* below). But as the market expands and the supply of ethical product increases, the price difference between ethical and conventional products should fall.

Some commentators argue that ethical trade produce will only ever appeal to affluent consumers. In a recent survey, 68% of UK consumers said they would willingly pay more for fairly traded products, implying that in some cases the extra costs of fair trade can be passed onto the consumer. Currently, however, the demand for ethical products is largely driven by those on middle to high incomes who can afford to pay more[8].

Even if consumers are unwilling to pay more, it has been argued that ethical trade can increase returns to producers without requiring significant retail price increases. For some products at least, the producer price is a relatively small element of the total price, and can be raised without significant cost to the consumer[9].

Ethical Sourcing

Conjecture about the ultimate size of the ethical market may be a red herring, at least in some sectors. As ethical sourcing initiatives promoted by major retailers/importers start up, ethical criteria are likely to be applied to a growing number of conventional product lines. Within the next few years, it may no longer be a question of how large the ethical market is, because the ethical market may have become *the* market for some items; something already evidenced from the application of ethical criteria to purchasing of fresh produce.

The ethical dimension of such initiatives is largely derived from a set of core social standards with their roots in ILO and UN conventions, and including policies on remuneration, health and safety, terms and conditions of employment, freedom of association, child labour, and non-discrimination. At present, it is considered unlikely that these initiatives will also result in the payment of green or social premiums. The fair trade movement has regularly argued that the public is willing to pay more for ethically produced goods, and as mentioned earlier, has conducted various market surveys on this issue. But mainstream commercial organizations appear reluctant to test their consumers on this, and at least one high-street retailer with several years' experience of selling products from certified forests feels that any increased costs stemming from ethical production cannot be passed on to consumers.

Box 3 Organic Farming

Suntrade is a buyer and exporter of organic horticultural produce from Uganda. Over seven years its annual exports have expanded from 1 to 104 t, mostly to Switzerland, but also the Netherlands, the UAE, South Africa and the UK. It is currently buying from smallholders in different parts of the country whose certification has been organized and paid for by Suntrade.

Conversion to organic farming has been relatively easy because years of domestic conflict meant that farmers had little access to high-input agriculture. Produce is air-freighted, something made viable by the relatively low air costs from Kampala and the green premium on organic produce. Unlike other case studies, Suntrade has had no development agency support.

THE POLICY ENVIRONMENT

Developing Country Policies

Ethical trade in developing countries owes much to the structural adjustment programmes which have encouraged both traditional and non-traditional exports. The removal of parastatal monopolies over commodities in many countries, together with increased private sector investment and donor support to access new markets, has created a more favourable climate for entrepreneurs.

Not all commodities have benefited equally, as major donors have tended to focus on non-traditional exports, and been accused of viewing traditional exports as in some way backward because of their links to discredited state provision of services[10]. The rush to encourage private sector involvement has been described as a response to the inefficiencies of state provision, and criticized for its failure to assess actual private sector capacity to fulfil, for instance, marketing, extension advice and the provision of inputs (seed, fertilizer, credit etc.)[11]. The private sector in some countries has failed to provide adequate services in remote areas or where scattered smallholder farms make operation costs too high, and invested in certain types of support (particularly marketing) rather than providing the all-round service that farmers require[12].

Case studies from Tanzania, Kenya and Gambia show that while market liberalization has created new markets for small producers, the actual benefits have not met original expectations. In Tanzania, for example, emphasis on cash crop production has been criticized for attracting private investors who regard cash crops as a short-term, quick-profit opportunity that in turn leads to poor environmental management[13]. In Kenya, growth in smallholder production for the horticultural export market has reputedly led to the marginalization of women farmers[14]. In The Gambia, smallholders have become less and less important producers of non-traditional export crops because of problems in meeting quality standards and the risks involved in supplying an erratic export market with a product that cannot be sold locally[15].

Nonetheless, small producers and community-based organizations continue to be involved in export trade, and ethical trade is seen by many as providing a way of benefiting such people. Fair trade schemes (e.g. in cocoa, cotton and coffee) have taken advantage of privatization and trade liberalization to work with producers of traditional export commodities. In Kenya, 70% of vegetables for the export market are said to come from smallholders, and in countries such as Ghana and Zimbabwe outgrower schemes are allowing smallholder farmers to access export markets that some feared would be dominated by large commercial farms.

FSC implicitly encourages a policy of conservation through use. Forest certification was initially intended as a way of improving the management of forests in developing countries, but evolved to become better suited to commercially managed northern temperate forests. More recently, FSC has started to address this by making its standards more applicable to community-managed forests, and by moving away from generic criteria of responsible forest management to ones that take greater heed of local conditions.

Box 4 Fair Trade Bananas

Volta River Estates Ltd is a Ghanaian-registered plantation company formed in 1988. Disease wiped out its plantations, and when it started to export once more it was hit by the EU Banana Protocol, when countries like Ghana had to buy licences to gain access EU markets.

A chance meeting with Netherlands fair trade organizations led to VREL supplying the EU fair trade market in 1996 under the Oké label. In 1993 the company had 23 workers, 140 ha of partly uncultivated land and a host of labour and local problems. By the end of 1997, after a year of selling to the fair trade market, it had 280 ha under production, had largely resolved its labour problems and was employing 900 people. In the words of one VREL manager, 'Fair trade saved VREL.'

International Policies

Some developing country governments are suspicious of ethical trade, seeing it as a form of non-tariff barrier to keep products out of developed country markets. The World Trade Organization's (WTO) view of ethical trade will be fundamental to the trade's future development, and has been a cause for concern within parts of the ethical trade movement. Initially it was feared that WTO would also view ethical standards as a form of non-tariff barrier. WTO is currently debating a rule which says that importers must not be able to distinguish between products on the basis of how they are produced or the production and processing methods. Such a ruling, if enacted, would pose a fundamental threat to ethical labelling. However, sources within some Western governments, such as the Netherlands and the UK, are currently of the opinion that the WTO will not intervene if ethical standards remain voluntary.

Other policies have had a more immediate impact on ethical trade. For instance, the EU Banana Protocol under the Lomé

Convention has been a significant factor in the development of fair trade bananas: on the one hand, it has added significantly to the cost of fair trade bananas from Ghana and Latin America which must pay licence fees to access the European market. On the other hand, the Protocol could protect fair trade bananas from Caribbean States because it allocates sizeable tariff-free quotas to such traditional banana exporting countries[16]. The North American Free Trade Agreement has had a significant impact on the Mexican timber trade, with the country shifting from net exporter to importer and back to exporter again in the space of a few years.

Organic agriculture is often not competing on a level playing field because of the heavy subsidies paid to conventional agriculture, and the failure to internalize costs such as environmental degradation in the price consumers pay for their produce. EU organic regulations have assisted the organic market (although without tackling the subsidy issue), but the fumigation required under the US quarantine regulations effectively destroys the organic status of some imported fresh produce[17].

Box 5 Organic and Fair Trade Cotton

Organic cotton has been promoted in various African countries by the SIDA-funded Export Promotion of Organic Products from Africa project (EPOPA). In Uganda, EPOPA supported the Lango Farmers Cooperative Union which buys from groups of farmers organized in 156 Primary Societies. Since 1996, LFCU has sold to Farmers Fair Trade owned by a Netherlands-based trading company that specializes in fair trade.

In the first three years, the number of farmers growing organic cotton rose from 200 to over 5 000, and production grew from 70 to 900 t. Today there are over 7 000 farmers involved, with farm-gate prices over 60% higher than for non-organic cotton.

THE ROLE OF INTERNATIONAL DEVELOPMENT AGENCIES

International development agencies, be they donors, development banks or NGOs, have been significant actors in the areas of structural adjustment, in trade liberalization and export promotion, in enhanced environmental management, and in community development. These are all areas relevant to ethical trade, and it is not surprising therefore to find that development agencies play an important role in many ethical trade schemes.

It is difficult to find an example of ethical trade that has not been influenced in some way by international development programmes. Amongst EU States, the Netherlands has been particularly active in supporting fair trade, including the innovative HIVOS-Triodos Bank soft-loan scheme. DFID is supporting research on different aspects of ethical trade, and the Ethical Trade Initiative, (although this is mostly focusing on social criteria for manufacturing industry). DANIDA and SIDA have supported organic agriculture, while DFID and GTZ have played important but different roles in such certified community-managed forest schemes as that in Quintana Roo, Mexico. Ethical trade has also benefited from investment in export promotion by USAID which has assisted smallholders as well as commercial farms. This list is by no means exhaustive.

The role of NGOs and trade unions has been crucial in the development of ethical trade. Many alternative trading organizations have links to NGOs, and ethical trade schemes in developing countries have received considerable NGO support. Certification has often been funded by NGOs or donors, and the Rockefeller Foundation and the MacArthur Foundation are now making forest and fair trade certification a factor in decisions on project funding. In forestry, the World-Wide Fund for Nature (WWF) promoted FSC goals to the purchasing departments of major retailers which resulted in the 95 Group of retailers committing to obtain timber from certified forests wherever possible.

The involvement of development organizations has not always been positive. There is a 'honey pot' tendency whereby development organizations have devoted resources to ethical trade scheme participants to the exclusion of others, even when the latter meet poverty criteria for assistance. Equally, development organizations tend to focus on production rather than market promotion, and there are instances of this destroying the market through over-supply. This happened, for instance, in Uganda where women processor groups were producing dried mushrooms for an exporter selling to the fair trade and health food markets. Excited by the success of the groups, a development agency pumped in extra capital to expand production, but without first enquiring about market capacity. As a result, the groups saturated the market, causing problems for both their own members and the exporter.

WESTERN CONSUMER ATTITUDES AND PERCEPTIONS

Ethical trade engages a wide range of stakeholders (*see* Figure 1), not least of whom are the Western consumers who are often seen as the driving force behind the demand for ethical products. Individual consumers have different concerns. For some the priority is health or food safety, for others it is to help developing country producers obtain a better price or better working conditions. Some consumers are interested in environmental sustainability; some in animal welfare. When purchasing an item that has been produced according to some form of ethical criteria, the consumer expects that some or all of these concerns are being addressed.

Through ethical trade, the Western consumer becomes a direct stakeholder in international development. This is a positive step, but not without its problems. There is a fear that ethical criteria can be a response to consumer rather than producer concerns. One example is the issue of child labour. For the Western consumer, the use or abuse of children in the workforce is unacceptable. But for many people in developing countries, children are an important part of the labour force and significant contributors to household incomes. The most commonly cited abuses tend to be from manufacturing, but in many rural-based productions systems, depending as they often do on family labour, children have long been a vital part of the workforce. Under such circumstances, it is valid to ask whose values and interests are being served if children are forbidden to work – the poor producer's or the affluent consumer's?

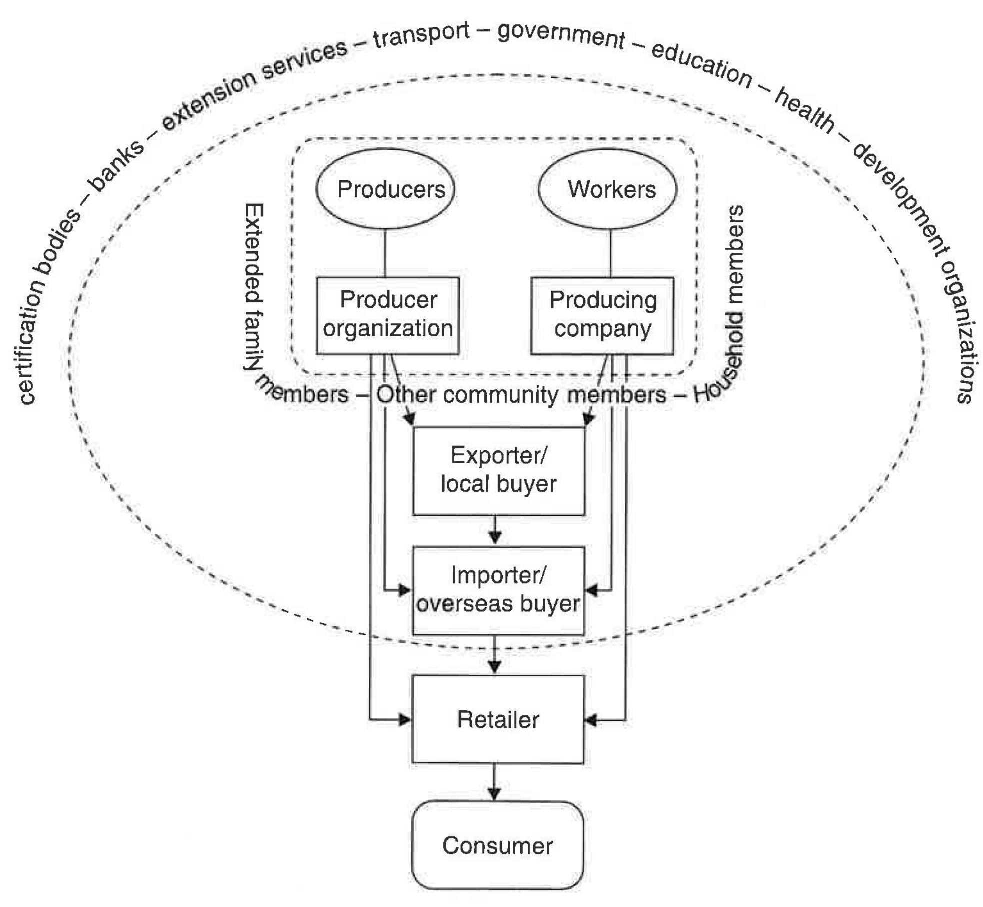

Figure 1 Stakeholders in ethical trade

As mainstream retailers and importers become more involved in ethical buying, they are aware that this type of consumer concern may be misplaced. But high profile NGO campaigns and media coverage in the past have led to loss in terms of sales and goodwill, and not surprisingly, companies are reluctant to run the risk of similar opprobrium in the future. A representative of a major UK retailer told researchers on this study that in order to reassure the consumer, not only would they refuse to consider purchasing from producers who used children under the legal minimum age for a particular country, but would prefer to buy from countries with a higher legal minimum age, never mind that poor producers are unlikely to be able to afford schooling for their children up to that age.

In the longer term there is a fear that consumer misconceptions about developing countries and the way ethical initiatives reflect consumer rather than producer ethical values and priorities, will, if uncorrected, damage the credibility of ethical trade. Yet, as will be discussed later, giving greater weight to producer opinion will require significant investment; not only in consultation with producers to learn what these values are, but also in building Western consumer awareness about the realities and complexities of life in developing countries.

Trade and Ethical Trade

Ethical trade in developing countries today is primarily about production for export. Some commentators regard export trade in whatever form as undesirable, for instance because of the high environmental cost of getting products to Western markets. The idea that organic agriculture might be linked with trade is unacceptable to some members of the organic movement who see organic production as linked to self-sufficiency.

As discussed earlier in relation to policy, many of the factors affecting ethical trade also affect non-ethical or conventional export trade (*see* Table 4). An important test of the added value of ethical trade therefore is whether it is able to deliver greater benefit, particularly to poorer sections of developing country populations, than does conventional trade.

There is a tendency in some literature to view all conventional trade as exploitative of the producer, and fair trade, for instance, is partly a response to the perceived injustices of traditional trading arrangements. However, this is more complex than often portrayed. On the one hand, some of the practices evident in certain ethical trade schemes are also considered best practice in modern export trade. These include stable prices, guaranteed purchase, long-term relations between buyer and producer, and the use of written contracts.

On the other hand, some practices found in ethical trade schemes can be questioned in the light of experience from conventional trade. For instance, the use of cooperatives for marketing and channelling of inputs, and the employment of exclusive contracts linking buyer and producer, both of which resemble the approach adopted by parastatals in the past.

For some authors, the issue is not the trade, but the commodity itself. Each commodity is associated with specific labour conditions,

Table 4 Constraints to conventional and ethical export trade

Retailers	× Consumer expectations regarding quality and price × Insufficient quality and quantity of produce × Erratic supply
Importers	× Insufficient quality and quantity of produce × Erratic supply
Exporters/traders	× Limited knowledge of export markets × Overly lengthy supply chains × High cost of loans × Price fluctuations × Poor infrastructure
Banking	× Reluctance to invest in agriculture × Poor organization of producer and trader groups
In-country processing industries	× Poor infrastructure (e.g. power, roads, storage) × Low quality standards × Limited knowledge of export markets × Unsupportive policy environment × High cost of loans × Inappropriate technology and poor skills-base
In-country service industries	× High cost of loans × Unsupportive policy environment × Poor skills base × Poor infrastructure

processing and marketing, and these rather than trading relations *per se* are said to be what determine the benefits or disbenefits to the producer[18]. This can be seen in certain ethical trade schemes. For instance, different commodities are harvested at different times and intervals, which in turn influence household cash flows. Commodities such as solar dried fruit for the fair trade market or pineapples for the organic market provide a regular, year-round income. Certified timber from Quintana Roo or organic cotton from Uganda are harvested much less frequently, resulting in more inconsistency in household cash flows.

Others have drawn attention to the cultural dimension of commodities, and emphasize the way that different commodities involve different sets of power relations[19]. Although most attention is normally given to the knowledge required to produce a commodity (e.g. indigenous knowledge, research, extension services and training), this is only a small part of the knowledge required to understand commodity production. For instance, one must also know about markets, prices, investment, policy and trade relations. Furthermore, there needs to be cognizance of the distinct life cycles commodities have, as commodities throughout the history of international trade have repeatedly moved from being regarded as exotic to common items (e.g. sugar, bananas, pineapples), something that in turn affects prices and returns.

How Ethical Trade is Implemented

There is no definitive approach to ethical trade, and as shown in the case studies on which this report draws[20], the numerous schemes are affected by the objectives of particular ethical trade initiatives, the commodities that are involved, and the national context in the country of origin. Nonetheless, despite these variables, it is possible to identify common themes that link the approaches being adopted in different and often diverse ethical trade schemes.

THE ETHICAL PREMIUM

A key attraction of ethical trade for organic and fair trade buyers and producers are the premium prices ethical products can command. For fair trade, higher producer prices are supplemented by the social premium that consumers are charged for all fair trade-labelled products. This premium is given to producer organizations and is earmarked for social development activities for their members.

In reality, this system does not appear to operate as it should. Producers of fairly traded dried fruits in Uganda were unaware of any social premium, although Fruits of the Nile does provide considerable technical and managerial support to producers as part of its overall programme. Lango Farmers' Cooperative Union does not run a social development programme for its cotton producers. Volta River Estates acknowledges that it should use the social premium for its workers, but at present the premium is being used by the buyer Agrofair to purchase the European import licences required under the EU Banana Protocol (*see* p. 12).

Organic trade does not try to regulate how income from the sale of organic produce is distributed, but the green premium the organic market attracts allows buyers to pay higher farm-gate prices to producers. Although some producers are clearly benefiting from this, there are cases where buyers are taking a large share of the premium.

Forest certification has not been promoted on the basis of any expected price premium, though many people, especially producers outside the scheme, think it has. The premium is in market access, particularly in providing access to small producers who do not meet the volume requirements of the conventional timber trade.

ORGANIZATIONAL FRAMEWORK

Trading Chain

The range of stakeholders in any ethical trade scheme can be seen from Figure 1. The core of the scheme are the producers, producer organizations, local marketing organizations and overseas buyers. In some cases producer organizations may be involved in marketing, and overseas buyers may deal directly with producer organizations.

The length of the production-marketing chain is important. Firstly, fair trade organizations in particular have blamed traders and long trading chains for poor farm-gate prices. Therefore, fair trade tries to 'cut out the middle man' by encouraging overseas buyers to deal directly with producers. In the case of fair trade bananas, the fair trade plantation companies are actually part-owners of the sole importer of fair trade bananas in Europe. In smallholder production systems, fair trade encourages the formation of producer cooperatives with which buyers deal.

Secondly, the ability to show where, when and how a given item was produced is vital to the integrity of the trade. This requires auditable chains of custody or traceability mechanisms. Unduly long supply chains jeopardize reliable traceability, even though this may ultimately exclude some producers from entering the trade (e.g. due to too low volumes to justify own-account marketing), and ethical trade chains are often more tightly vertically integrated than those in conventional trade.

Producer Organizations

Ethical trade schemes can be divided between commercial and community types. Ghana's fair trade bananas come under the former category, with bananas grown on commercial plantations. Mexico's certified forests and Uganda's organic cotton are of the latter type, with community-owned organizations being responsible for management and elements of marketing.

Experience in forestry has shown that forest certification is more affordable to commercially managed forests which can offset costs through vertical integration. In community-managed forests, the solution has been to share costs through establishing producer groups such as the Quintana Roo scheme's Civil Societies. The Lango Farmers Cooperative Union for organic cotton in Uganda charges its buyer an organic fee which helps cover certification costs.

Producer Payment and Price

Producers are normally paid in cash on receipt of the produce by the buyer. For large volume transactions this can involve considerable pre-financing by the buyer, but this is not uncommon business practice. Documented cash transactions are part of building buyer-producer trust – a principle of fair trade. Fair trade prices are normally guaranteed for up to a year, which again is part of fair trade's trust building, although price-stabilizing mechanisms are also found in some organic schemes. Likewise, there is often a commitment to buy all produce of an acceptable standard.

However, price guarantees and promises to buy produce are not without their problems, and may threaten the viability of a marketing venture. Producer prices are often set in local currency while world prices are set in foreign currency. Consequently, when foreign exchange rates are high and local currencies subject to depreciation (as has been the case in recent times), buyers have been able to pay higher prices to producers simply because of favourable rates of exchange. But as was the case with the short-lived trade in sesame seeds by Farmers Fair Trade in Uganda, ethical buyers cannot go on buying at above world prices indefinitely, and face problems if they have to lower farm-gate prices. In Quintana Roo, producers used to high rates of local inflation could not understand why buyers insisted on dollar prices fixed for a year, even though this would work to their advantage.

One strategy to stabilize prices is to move into markets where consumers will pay the ethical premium described earlier. Much depends on whether consumers see this premium as an absolute value or a relative value compared to the non-ethical price . The size of ethical markets is too small to influence world prices; on the contrary these niche markets can be affected by global price fluctuations in conventional markets. At present, quality problems have meant that these niche markets remain mostly under-supplied. However, it is indicative of what might happen that when one fair trade buyer was caught by over-supply, it insisted that its producers cut back on volume by instigating a quota system in order to maintain unit prices to producers.

If buyers are unable to take all of a producer's output, then this brings into question another common feature of ethical trade schemes, exclusive contracts (*see* below).

Marketing Organizations

Ethical trade has stimulated a variety of different marketing organizations, not all of which began with the intention of supplying the ethical market. These range from quite large operations such as Agrofair and African Farmers Trade Associates, to small companies such as Suntrade, which began by selling to a relative's retail store, or Tropical Wholefoods, which started by selling at street markets and festivals.

In many cases, the buyers do not have a conventional marketing background and are driven as much by moral as commercial values. As is the case in Quintana Roo where non-traditional timber species have been exported since forest certification, ethical entrepreneurs can be highly imaginative in bringing new products to the market. However, these newer buyers have fewer resources to invest than conventional organizations, and this limits their capacity to enter the added-value end of the market (e.g. pre-packing). There are also problems of scale as low turnover makes it difficult to cover the costs of capital equipment.

Produce from ethical trade schemes is not sold exclusively to ethical market sectors. Certified timber is sold on the general timber market, although it may be used for niche, high-value products within that market. Bananas and cocoa from fair trade producers are sold on the open market when there is over-supply to the fair trade market. Organic bananas and other products can also find their way on to the open market for similar reasons, and some producers have complained that they have no way of knowing what market (and therefore at what price) buyers are selling to, and that they felt buyers held back this information in order to deny producers the 'green premium'.

Exclusive Contracts

This latter point emphasizes the need for trust and a close relationship between producer and buyer, something that is explicit in fair trade principles, but is also evident in much organic and certified timber trade practice. Close relationships are encouraged by exclusive contracts whereby producers must sell only to the buyer to whom she or he is contracted.

This is a crucial issue for ethical trade as a whole. Without contracts to ensure producers do not engage in price-taking, ethical buyers are unable to develop stable markets or ensure that the cost of auditing/certification will be recouped. However, until buyers have proven their reliability, it is in the producers' interests to have a choice of outlets, even though doing so threatens the viability of the ethical buyer.

Exclusive contracts are not unique to ethical trade, and traditional traders have often restricted producers' marketing options through the use of tied loans. The case studies show that producer-buyer relations are strongest when the buyer also provides access to credit, technical support and institution building, as well as operating a policy of transparency about prices and market conditions.

Catalysts and Viability

Each of the case study schemes has depended on a catalyst (*see* Table 5): the normally overlooked individual or organization that exceeds the requirements of their particular role in order to make the scheme work. In many cases this has involved drawing on their own social and financial capital, and it would be impossible to understand the development of ethical trade without acknowledging their many roles.

However, the contribution of the catalyst can disguise underlying problems. In both small and large schemes examined, individuals have invested significant sums of their own money to keep their schemes afloat. On top of this, some schemes have had access to significant development agency grants, technical assistance and soft loans. Without these forms of support, many current ethical trade schemes would not be viable.

Table 5 Catalyst organizations in case studies

Quintana Roo community forests	Plan Piloto Forestal (Mexico-Germany technical cooperation project)
Ghana fair trade bananas	Volta River Estates Limited
Uganda organic horticulture	Suntrade
Uganda fair trade dried fruit	Fruits of the Nile
Organic and fair trade cotton	Farmers Fair Trade

AUDITING OF PERFORMANCE

Common to all ethical trade initiatives is the measurement of performance through some kind of auditing or assessment. Auditing is conducted using the standards of some form of standard-setting body (e.g. IFOAM, FSC, FLO). In the case of organic and timber certification and the fair trade marks, this is done by a third party. It remains to be seen whether ethical sourcing will want to continue to employ independent assessment, and even some within the fair trade movement see it as an unnecessary expense.

Transparency and accountability are fundamental to ethical trade, even though the cost of achieving them is quite high. However, the cost of auditing is not an insurmountable problem; conventional export producers have proved able to accommodate increasingly stringent auditing requirements, for instance on food safety, into their management systems. One Kenyan producer with long experience in producing for the conventional export market, emphasized how employing an ethical standard had helped improve his business management.

More problematic in the long term is likely to be the way ethical auditing is developed. As mentioned earlier, ethical criteria are not the result of stakeholder consultation, but are frequently driven by Western consumers' concerns. The resulting values may therefore not reflect producer opinion or priorities, and may not reflect practical problems faced along the production-marketing chain . The experiences of international development in fostering participatory approaches have not yet been absorbed into auditing practice.

Most advocates of auditing emphasize third party monitoring and verification, and both organic and forest certifiers have no direct interest in the producer. However, fair trade marks are part of a closely knit movement with standard-setting bodies run by fair trade organizations that have interests not only in licensing the marks, but also in verification, production and buying. This situation might have been justified when the movement was new, but if all of these functions were carried out in-house by, for instance, a multinational company, this would undermine the credibility of its auditing system.

The auditing of complex tropical rain forest ecosystems is more problematic than organic farming or fair trade. The elements of sustainability are still being identified, and the audit offers only a baseline against which future changes may be made. This can lead to confusion where practices which were allowed during the first assessment have to be changed the next time. Moreover, FSC is moving from its original generic principles to ones that reflect local and regional conditions, and this makes international comparison more difficult.

Forest certification has also highlighted the problem of who issues certificates. At present, the certification body grants the certificate, something that is also the case with organic certification. However, some FSC members have argued that, as a result, certifiers are under pressure to issue certificates regardless of the actual management of the forest, because to do otherwise might mean the loss of a client.

The Outcomes of Ethical Trade

WHO CAN PARTICIPATE

In assessing the outcomes of ethical trade, a livelihoods approach has been taken where benefits or disbenefits are measured not simply in terms of incomes or production, but in terms of the impact on the different components of a sustainable livelihood. Under the livelihoods framework developed by Scoones[21], there are five determinants for participation in ethical trade schemes: a) access to natural resources (natural capital); b) financial capital; c) availability of human resources and knowledge (human capital); d) access to institutions and networks (social capital); and e) access to infrastructure and materials (physical capital). Not everyone has equal access to these types of capital, and this section examines variations in their availability to socially differentiated groups of producer.

Natural Capital

Natural capital requirements to participate in ethical trade vary according to commodity and scheme. Many ethical trade schemes require some form of long-term tenure because they use perennial crops (e.g. fair trade coffee, bananas, cocoa), or require land management practices verifiable over a given period (e.g. five years for organic farms). This is in contrast to conventional trade where vegetables and some spices (e.g. ginger, yam and chilli) can be cultivated under short-term tenurial arrangements. The requirements of forest certification also favour those with secure access rights.

The amount and type of land required depends on the commodity, and although there are commercial farms, forests and plantations producing for the ethical market, there are also smallholders with less than 1 ha of cultivable land producing for both fair trade and organic markets, and community-owned and managed forests have been certified in Mexico, Papua New Guinea and the Solomon Islands. Indeed, some argue that organic agriculture is more suited to small-scale farming, although this claim is being challenged as commercial farms increasingly become involved[22].

Organic production has to take greater account of local variables than chemical agriculture. Conversion to organic agriculture has been most successful where producers have not previously been heavily exposed to chemical-based farming.

Ethical trade can also benefit those without direct natural resource access. Landless people are able to work on plantations, and some outgrower schemes facilitate access to land. Where ethical trade is in minimally processed items such as solar dried fruit, it is also possible for those without cultivable land to participate, although in this instance access to financial capital becomes more important.

Financial Capital

The amount of financial capital required to produce for the ethical trade markets again depends on the commodity. Many schemes have built upon existing endowments so that much of the start-up investment in, for instance, land preparation and planting materials, has already been made. The exceptions to this are where investment in processing equipment is required, or where plantations have had to be established.

Organic agriculture might require less financial capital where inputs are readily available (e.g. household waste, manure), but for instance in Uganda the coffee husks used as fertilizer now have their own market (including exports to neighbouring countries) and organic fertilizer is becoming expensive and difficult to obtain.

The main additional cost of production for ethical markets is the cost of certification. In Quintana Roo, certification of a forest costs US$ 13 000. For fair trade, the cost of producer assessment is included in the fee paid by European buyers to use the fair trade label. In Africa, most organic certification is still conducted by European organizations which charge US$ 6 000 - 10 000 per visit. In Uganda whole areas comprising hundreds of cotton farms have been certified in a single visit, and producer cooperatives help reduce costs per farm. In reality, few producers appear to incur certification costs directly (and are often unaware of the costs involved) as these are met by buyers or development agencies.

Human Capital

Skills base

Production for ethical trade often builds upon the existing skills base. Forest certification requires improved knowledge about forest management, and organic agriculture is knowledge intensive rather than input intensive because it requires more planning and management. This makes human resource and institutional development an important element of ethical trade, and buyers and development organizations have often been involved in facilitating or providing the necessary training and extension (e.g. the introduction of plantation bananas in Ghana; organic farming techniques in Uganda; solar drying technology).

Formal education is required for certain elements of ethical trade. In addition to the skills associated with conventional export trading, comprehensive documentation and monitoring procedures are often required for certification in order to demonstrate good management. Weak producer capacity in this area has led to many buyers or third parties taking on this role.

The ethical market is no different from other export markets in demanding high quality standards, and failure to meet these standards has been a major constraint to producers taking advantage of market opportunities. In some cases, to overcome this, buyers have taken responsibility for harvesting, packing and transport.

Labour and Time

Smallholder production systems typically depend on family labour supplemented by some hired labour, and in some cases the use of share-croppers. Access to labour in these systems is affected by gender, age and marital status[23]. For instance, women are less likely to have access to family labour than men, middle-aged people are more able to access family labour than younger ones, and non-married people have less access than married ones.

Gender is an important determinant in allocating responsibilities within the household, and women are often prevented from participating from time-intensive, single activities because of the need to balance a basket of productive and reproductive tasks. This has proved a constraint to participation in ethical trade schemes involving smallholders and plantation workers.

Participation in ethical trade can impose time and labour demands in addition to those for conventional production (e.g. forest inventories; increased manual weeding), and organic agriculture, for instance, has been most successful where labour is readily available and affordable.

Social Capital

Land tenure is an indigenous institution that significantly affects participation in ethical trade. Even on plantations where theoretically anyone can work, some local leaders have insisted that preference be given to their own people, perhaps as part of the lease agreement for the land. This can be positive in that it allows local people (some of whom may have been displaced by the plantation) to obtain work. But any inequities in the indigenous institution will also be carried over; for instance, where traditional land tenure disfavours access by women or migrants.

The Mexican case study shows how an indigenous institution can form the basis of an ethical scheme. In Quintana Roo, the forest certification scheme built on the indigenous *ejido* collective tenure system by certifying the forests of the various *ejido* communities. Each *ejido* is made up of members, descendants of the original settler households, and each head of household (usually male) has a right to the common property resource and a vote in the assembly that manages it.

The extended family is an important labour pool, and socially differentiated access to this institution will also affect participation.

Non-traditional institutions can also affect participation in ethical schemes. Organic certification does not prescribe institutional requirements for producers, but fair trade has a policy of supporting cooperatives on smallholder schemes to assist with marketing and provision of inputs. For instance, the original producers for both fair trade fruit and fair trade/organic cotton in Uganda were cooperative members, and the cooperatives took on the traditional trader's role of providing essential infrastructure or logistical services. On plantations, membership of independent unions is a requirement of fair trade.

Physical Capital

The amount and type of physical capital depends more on the commodity and production system than any requirements of the ethical market, and it is fair to say that ethical trade demands no more than a machete and no less than a container vessel. For instance, a banana plantation requires multi-million dollar investment in packing stations, irrigation, cableways, etc., but smallholder organic pineapple cultivation requires only access to land, labour, organic fertilizer and planting material. Smallholder cotton requires land, seed, labour and access to stores and ginneries, and for organic cotton, natural predators are required.

At the same time, lack of physical capital accounts for the failure of some producers and buyers to exploit opportunities in the ethical market place. For instance, poor-quality sawmills have hampered sales of certified timber; poor packing and presentation may have cost Fruits of the Nile an important overseas contract; and inadequate storage and transport facilities have resulted in the rejection of Ghanaian bananas by the Swiss fair trade market.

IMPACT ON RURAL LIVELIHOODS

Ethical trade is able to increase livelihood opportunities for a range of socially differentiated actors. The type and variety of opportunities are largely factors of the commodity, but ethical trade has established markets for goods that can be produced by smallholders and landless workers, and has introduced new commodities from certain marginalized producers to the market. In some cases, the requirements of ethical trade have led to increased employment opportunities; for instance, through manual weeding under organic farming, and the creation of new functions in forest management. Increased incomes have also led to the creation of new opportunities (e.g. in transport, petty trading) and some people moving out of primary production, which in turn creates new employment opportunities for others.

However, the definition of poverty used by ethical trade schemes is much less well-defined than that used in international development. Some schemes may favour poor community members, but this is not something that is valued when schemes are assessed. Ethical auditing measures the impact of production on producers, not on non-participants. Therefore, a scheme may insist that women workers are treated equally to men, but the reasons why women are less likely than men to be able to work on the scheme in the first place are not monitored or factored into management strategies. Likewise, whether participation in an ethical trade scheme increases the burden of others in the household, or restricts the time and labour producers have available to pursue other productive and reproductive activities, is not considered.

Setting up ethical trade schemes can involve some people losing access to natural resources, an impact that again is not measured. Equally, increased incomes from participation in the schemes may lead to expansion in the size of participants' holdings at the expense of non-participants, and may widen wealth gaps within communities.

This is not to say that ethical trade schemes do not benefit marginalized people as there are, for instance, schemes that have increased women's livelihood opportunities and allowed the land-poor to obtain more secure livelihoods. One feature of most ethical trade schemes studied is that participation may bring with it access to credit, grants or inputs from buyers/exporters or development agencies; often a constraint in rural areas. Interest rates are typically much lower than from other informal or formal lending sources.

It is also notable that ethical trade schemes are working successfully in remote areas and areas where there has been political instability. Because organic agriculture does not depend on external inputs, producers in countries hit by war, weak economies or embargoes have been able to participate (e.g. Uganda, El Salvador, Mozambique), although this does assume that the necessary marketing chains have been able to recover from unrest. Forest certification in Mexico and reversal of land degradation through organic farming may also have helped reduce outward migration from rural areas.

Poverty Reduction

Impact on poverty reduction depends on four factors: the amount of income from ethical trade; the type of payment; the opportunities gained or lost by other household members; and the distribution of income within the household.

Income

Increased remuneration to producers is a stated aim of fair trade, but can also be realized through organic and certified forest schemes because of better prices and access to new markets (*see* Table 6). To an extent, higher incomes from ethical trade reflect higher prices on export markets generally, but ethical premiums are in addition to the normal export price.

A Ghanaian worker on a fair trade plantation can earn US$ 1 000/year compared to US$ 750 as a daily waged labourer on other farms; female solar dryer owners without any previous sources of income can make an annual profit of US$ 675 from three dryers; and a smallholder receives five times the local farm-gate price for organic ginger and can gross over US$ 2 000 /acre. Growth in investment outside natural resources also indicates rising incomes (e.g. Quintana Roo community forest management and Ugandan cotton). On fair trade plantations, workers receive more than the statutory minimum wage and also a pension scheme; they also have the status of permanent employees which guarantees a wage throughout the year.

Type of Payment

Fair trade insists that producers are paid upon delivery of their commodity, and that payment be in cash to avoid in-kind payments that are sometimes used by traders to lower the real farm-gate price. However, the timing of payment varies according to the harvesting characteristics of the commodity, with timber and cotton, for instance, involving infrequent, large sums, that on the one hand provide significant capital for investment, but at the same time may result in erratic household-level cash flows. Year-round incomes from horticultural products give frequent but smaller sums that in terms of household sustainability may be more beneficial.

Table 6 Comparison of prices between ethical trade and conventional products

Item	Ethical market price	Conventional export market price	Local market price
Apple banana +	3.00	1.70	--
Cavendish banana ◆	0.47	0.35	0.12
Cotton +	2.64	1.65	--
Dried pineapple ◆	2.64	1.85	--
Ginger +	*0.60	--	0.15

Notes: 1997 prices US$/kg, CIF London unless otherwise stated
◆ fair trade
+ organic
* farm-gate price

Impact on Others

In some instances, increased earnings from ethical trade have encouraged greater use of hired labour or created new wage-earning opportunities (e.g. the use of more non-*ejido* labour in Quintana Roo; increased demand for hired labour for organic cotton and solar dried fruit). However, increased earnings are not always passed on to the producers' own suppliers. For instance, in Uganda, pineapple and banana growers supplying raw materials for solar drying for the fair trade market receive the local price for their produce, and hired labour on organic farms is no better paid than labour on other farms. Equally, the best wage-earning opportunities may be made available to family members (e.g. the sons of *ejido* members), thereby maintaining or increasing social and economic gaps.

A characteristic of smallholder farming is that farmers do not include family labour as a production cost and often do not provide direct remuneration to family members. Ethical trade encourages export crop cultivation where earnings are typically controlled by men despite the importance of women to production. The outcome can be women having less opportunity to manage their own farms and less control over income.

Plantation workers often maintain their own farms and regard this as an important part of their livelihood strategy. However, the time one family member spends on plantation work may increase the amount of work on smallholdings for other family members.

Distribution of Benefits

Ethical trade inevitably means participation in the cash economy, and the overall benefits depend on how the resultant incomes are distributed, particularly within households. As discussed elsewhere, women are much less likely to receive direct remuneration from ethical trade than men, and the trade may result in fewer female-controlled income-generating opportunities. Consequently, women's benefits will depend on their largely socially determined negotiating positions. The case studies provide examples where women have been both advantaged and disadvantaged by male household heads' participation in ethical trade, but in neither case was this impact assessed by the ethical trade scheme.

IMPACT ON SOCIAL AND HUMAN CAPITAL

Increased incomes are often invested in formal education for children. In none of the case studies had ethical trade schemes provided new education facilities, but the presence of schemes increases the opportunities for informal training and education, not least because schemes attract NGO and government development projects. In some case studies, schemes had played a role in improving health facilities for producers and the community at large. Schemes are most able to help facilitate better health and education where they provide year-round incomes to producers.

Ethical trade schemes also encourage the development of human capital by introducing people to the market, new skills and a range of new partnerships. Although women are less likely to participate in ethical trade, where they do, it has led to greater respect, responsibility and active participation in the cash economy. Ethical trade has also provided opportunities for younger people, both married and single, as managers of their own businesses, as officials in producer groups, or as union and company officers on plantations.

Away from the producer level, ethical trade has fostered a body of national expertise working for different stakeholders in disciplines that are often new to the country and important for expanding the export sector.

Social Capital

It is a common feature of ethical trade schemes that they are influenced by existing social capital formations such as land tenure systems, ethnic/cultural groupings and the household. The role of indigenous institutions can be in providing access to natural resources, in determining who participates in ethical trade schemes, and in controlling the distribution of benefits. Yet none of the schemes measures its interaction with these institutions or actively encourages them.

Indeed, initiatives such as fair trade that promote the development of social capital, typically prescribe alternative, exogenous institutional forms such as cooperatives and trade unions. Some form of producer group is necessary in order to reduce the cost of certification/assessment, and in some cases to provide a producer-owned link with buyers. But the choice of cooperatives seems in some cases to be as much ideologically as efficiency motivated: to provide a distinct alternative to traditional traders. As mentioned earlier, the fair trade movement tends to think that conventional traders make excessive profits at the expense of farmers. While there are clearly instances where traders are exploitative[24], they perform vital functions in the marketing chains and consequently incur many of the costs, risks and problems involved.

It could be argued that if the 'exploitative middle man' is removed, then this should lower marketing costs and negate the need for an ethical premium. In reality, this is not happening and while some ethical trade schemes are succeeding, others have failed because they have been unable to sustain the prices offered to producers. In the case studies, the cooperatives involved are all facing difficulties, and in several instances producers are establishing informal, more localized groups, sometimes built on indigenous institutions[25].

Independent trade unions are a requirement on fair trade plantations, and in Ghana, backed by union-friendly national legislation, the union has negotiated a collective bargaining agreement and been active in protesting against the EU Banana Protocol.

Participation

Fair trade has actively encouraged producer participation; for instance by promoting producer groups, union membership and worker shareholder schemes. Certification of community forests has also made producer groups the focus of forest management. Fair trade has encouraged greater involvement by women members of producer groups and unions.

The form of participation is also significant. Through increased awareness of prices, markets, export issues or forest management, for instance, producers have acquired new skills and responsibilities. However, attempts to achieve economies of scale by creating large producer groups have tended to lessen the sense of ownership and control, and may be a reason for the poor functioning of cooperatives.

Two areas where participation is noticeably absent are in the setting of ethical criteria and indicators, and the management of standards. There is a contradiction at the heart of ethical trade where on the one hand Western stakeholders wish to support developing country producers and their environment, but in order to do this they demand complicated monitoring systems over which producers have little influence. Ethical trade consequently can be seen to paternalistic, promoting standards that may not represent the values or priorities of the producers themselves.

IMPACT ON NATURAL RESOURCE BASE

In forest certification and organic farming, enhancing natural resource sustainability is the major concern, and each has well-developed and still evolving sets of criteria and indicators. In the past, there was little attempt to accommodate indigenous knowledge systems into criteria, but in forestry FSC has started to give greater emphasis to locally determined criteria. The case studies suggest that ethical trade initiatives could mitigate against the trend towards input intensive, less sustainable practices. Studies of organic agriculture in Senegal and Tanzania have shown environmental improvements, and in Tamil Nadu, India, organic conversion of tea estates has reputedly maintained forest cover.

In the case studies, producers did not need to make significant changes to existing practices in order to meet organic or sustainable forest management criteria. In Quintana Roo, eagerness amongst development agencies to establish an example of certified community-managed forest probably led to certain criteria being down-played. There are also reasons to doubt the consistency with which different certifiers impose organic criteria, and some producers appear to have chosen one certifier over another because they are believed to be less strict.

Although fair trade standards are paying increasing attention to environmental impact, initiatives that focus on production systems rather than individual commodities are always likely to produce more effective tools for encouraging better natural resource management. Although the fair trade commodity may just be one of many crops the producer's household may be involved with, in terms of assistance and assessment, fair trade is only concerned with the conditions under which that commodity is produced.

All ethical trade initiatives measure impact at the local level, and broader issues related to production are not considered. For instance, the impact of road and air transport, the energy used to produce packaging or chemical inputs, and the energy used by sawmills or cotton ginneries are beyond the limits of environmental auditing requirements for most ethically traded products. Consequently, it is impossible to say whether environmentally acceptable production for the ethical market has a net positive or negative impact on global natural capital. Some companies have introduced life-cycle assessment to monitor the cradle-to-grave environmental impact of their products. These techniques are difficult to apply to initiatives that assess a single commodity which may pass through several processes and companies before reaching the retail market.

VULNERABILITY AND RESILIENCE

The contribution ethical trade makes to reducing vulnerability depends on the extent to which the trade benefits individuals, communities and their natural resource base. By promoting more responsible environmental management, initiatives assume a positive environmental impact. However, in the case studies there was little awareness of why certain practices were being adopted, or even in some instances that producers were participating in a specific scheme.

As discussed elsewhere the distribution of benefits is unequal and in some instances ethical trade may reduce the opportunities of non-participants. Participants often gain improved access and familiarity with the market, although this may involve less opportunity for subsistence production. Ultimately, whether this is a net benefit depends on the resilience of the trading organizations that serve the ethical market, and there is good reason to doubt the viability of some schemes.

Producers are also at risk if they commit to a particular ethical market but then fail certification/assessment. In only one of the case studies had a thorough analysis of the likely impact and benefits of the scheme on local people been conducted prior to start-up, and despite examples of ethical trade schemes having to pull out of certain markets, producer vulnerability is not monitored.

Producers of any traded commodity are at risk to a greater or lesser extent because of the inevitable fluctuations in market price. One way that producers such as farmers cope with this in developing countries is through diversification. In relation to ethical trade, a distinction can be drawn between initiatives that focus on a production system and ones that focus on a particular commodity. Organic certification encourages crop diversification as part of improved soil management, and it is difficult for farms with mono-cropping to obtain organic recognition. By attracting new entrepreneurs trading in niche markets, forest certification has also encouraged the commercial exploitation of hitherto unexploited species.

In contrast, fair trade focuses on a particular commodity (e.g. bananas, coffee, cocoa) even though in some instances these are produced as part of a diverse production system. As a result there is a tendency for fair trade schemes to encourage farmers to produce the crop paying the highest returns, or to try and stabilize farm-gate prices through price guarantees. This is similar to the aims of parastatals in the past, and there are likely to be many lessons that fair trade could learn from these now largely defunct organizations, particularly their experiences in trying to stabilize prices. Such lessons seem highly relevant given that although there are examples of fair trade schemes that have continued to operate over many years despite fluctuations in commodity prices (e.g. El Ceibo cocoa in Bolivia, and the coffee producers' union in southern Mexico), the case studies also show how fair trade buyers can abandon crops and producers when prices fall.

Conclusions

Ethical trade initiatives, whether explicitly or implicitly, are concerned with sustainability. While questions can be asked about some of the criteria and indicators initiatives use, sets of ethical standards today provide evolving tools for measuring the social and/or environmental impact of a growing number of schemes in different sectors.

Schemes using these standards are creating new livelihood opportunities and increasing the income levels of many participants. However, there are actual and potential negative impacts, particularly for those unable or unwilling to participate, and initiatives are weak in targeting certain disadvantaged groups.

For participants, ethical trade schemes bring considerable benefits in terms of human and social capital development, and provide access to new markets. They allow participants to attract new sources of investment, credit and donor funding. They are also able to function in remote areas and where there has been recent instability. However, there has been no attempt to date to appraise whether ethical trade is a more cost-effective means than alternative developmental approaches for delivering such benefits.

Initiatives that focus on production systems rather than particular commodities, are able to encourage more sustainable natural resource management practices. This is more difficult in fair trade where social and environmental performance both focus on the production of a single commodity, even though for the producer household that commodity may be just one part of a diverse production system.

A major achievement of ethical trade schemes is that they form a catalyst that brings together diverse stakeholders in developing and developed countries, many of whom may not have previously considered themselves to have had a development function. New partnerships are evolving the length of the production-marketing chain that are vital to the success of the trade such as those between producer and buyer, between service providers and producers, and between development agencies and the private sector. Development organizations have had to become more market aware, and this in turn has led some of them to adopt a more holistic view of development rather than a narrow production focus.

These partnerships have not been unproblematic. Development organizations need to learn more about how trade is conducted, and the influence of Western ethical values needs to be balanced with more participation by developing country producers. Yet, although consumer values may be too influential at present, ethical trade is making the Western public more developmentally conscious and generating a sense of involvement in international development. International development already has some of the knowledge and experience that is required to address problems facing ethical trade (e.g. to improve produce quality and foster participatory approaches), but there are other areas that require new thinking, such as donors' roles in increasing Western public awareness and understanding.

The ethical market is still developing and medium- to long-term market potential is uncertain. Some projections have tended to be over-optimistic. The ethical premium may not last as mainstream markets adopt ethical criteria, and if production and demand become more balanced. However, given that producer prices are often a small component of the retail price, reduced margins, if accompanied by modifications to the trading chain, need not result in poor returns for producers. Of greater concern is the viability of ethical buyers, many of whom are dependent on subsidies (often in the form of development assistance), and the question of alternative outlets should a particular buyer withdraw.

At present, ethical trade schemes' response to the inevitable price fluctuations affecting export commodities, has been to try and stabilize prices through price guarantees and to seek out products offering the highest returns. Neither approach is new, and neither has been particularly successful in the past. Rather than engage in subsidy and price-chasing, it might be better if ethical trade schemes invested more in building the capacity of producers to understand and adapt to what is always likely to be a fluctuating market.

An alternative approach advocated by some commentators is to question the way that markets set prices regardless of the impact on producers. It is argued that in a truly ethical trade, the minimum price that could be paid for a commodity would be determined by the actual cost of production incurred by producers. Although markets in theory should ensure this, in practice many producers attracted to fair trade are ones who in the past have seen farm-gate prices fall below the cost of production. Particularly for produce for which there is no domestic market, there is an element of risk in depending on world market prices, especially for poorer producers or those whose livelihood strategies are restricted by the demands of export production. However, challenging the mechanisms that set market prices is at best a long-term project, and in the immediate future it would probably be more effective to invest in strengthening producer capacity to deal with price fluctuations and ensuring that production for ethical trade does not jeopardize risk-avoiding elements of producers' livelihood strategies.

Ethical trade is already affecting the thinking of Western buyers and retailers, but it also needs noting that many of the practices evident in ethical trade schemes were already well-established in conventional export trade. The restrictive trade practices highlighted by ethical trade lobbyists as the cause of poor producer prices are, at least in the export market, becoming a thing of the past because of trade liberalization and the adoption of transparent, traceable trading systems. For producers, the long-term added value of ethical trade compared to conventional export trade is therefore less likely to be to do with the prices and contracts, but the assistance they obtain for developing human and social capital, and for improving natural resource management.

The future development of ethical trade depends greatly on the nascent ethical sourcing initiatives of mainstream retailers and importers. Corporations are learning from existing ethical initiatives, but also have their own demands. They are unlikely to be as tolerant of production inefficiencies as many current ethical buyers, and may favour commercial farms or plantations over small producers, although it should not be assumed that the resulting waged-labour opportunities are always less attractive than own-account farming for some poor producers. Existing examples from conventional export trade show that smallholders can be competitive, but if commercial goals are to be complemented by developmental ones, this will require time and considerable investment.

Ethical trade by itself is not an answer to sustainability, and this publication highlights some of its weaknesses as well as its strengths. But if approached wisely, ethical trade can be an important component in building sustainable rural livelihoods for certain people. Its ultimate impact depends on increasing efficiency, building producer capacity to influence and take decisions about ethical trade, improving targeting of socially differentiated actors, increasing developing country stakeholder involvement in developing initiatives, ensuring commercial viability of key organizations, increasing Western consumer awareness of development issues, and adopting sustainable marketing systems. The ongoing partnership-building process described earlier provides a basis for addressing these constraints in order to optimize the contribution trade can make to achieving sustainable livelihoods. But the potential will not be realized without greater investment, new thinking and challenging what have become accepted practices.

Endnotes

1. Friedman, M. (1970) The Social Responsibility of Business is to Increase Its Profits. *The New York Times Magazine, Sept. 13 1970.*

2. Different initiatives contain for instance elements of Utilitarianism, Kantian deontology, natural law and various schools of environmental ethics.

3. Welford, R. (1995) *Environmental Strategy and Sustainable Development: the corporate challenge for the 21st century.* London: Routledge.

4. A fourth are schemes for cut flowers where environmental standards are in place. These were beyond the remit of our study. This study was also limited to initiatives that were already operating in order that impact could be measured. However, other initiatives are in the start-up phase. The Marine Stewardship Council is in the process of developing standards for sustainable fisheries, and African horticultural producers are developing the first regional set of standards, but with the exception of The Body Shop, none of these is in operation at the present time. We chose not to include The Body Shop in the case studies because: a) it is well documented elsewhere; b) its ethical sourcing accounts for a small amount of the company's total trade (e.g. the well-known trade in shea butter is only 30 t/year; and c) the ethical systems are similar to those found in other initiatives (e.g. fair trade).

5. Fairtrade Foundation Operating Manual.

6. UNDP (1992) *Benefits of Diversity: an incentive towards sustainable agriculture.* New York: United Nations Development Programme.

7. For an overview of different initiatives, *see* Ghazali, B.H., Simula, M. (1996). *Study on the Development and Formulation and Implementation of Certification Schemes for All Internationally Traded Timber and Timber Products.* Manila: International Tropical Timber Organization.

8. A survey of Traidcraft customers found that the majority were women, aged 25-55, with above-average incomes and often employed in the social sector.

9. *See* Robins, N. and Roberts, S. (1997). *Unlocking Trade Opportunities: case studies of export success from developing countries.* London: IIED.

10. Little, P.D., Dolan, C.S. (1998) What it means to be restructured: non-traditional commodities and structural adjustment in SSA. In: Haugerud, A. and Little, P.D. (eds). *Rethinking commodities: anthropological views of the global market place.*

11. Poulton, C., Dorward, A., Kydd, J. (1997) *Interlocking transactions: market alternatives for RNR services?* Wye: Wye College.

12. Ibid.

13. Ellman, A. (1997) Smallholder cash crop production, processing and marketing in Tanzania: who benefits? In: *Agricultural Research and Extension Network Newsletter no. 37.*

14. Dolan, C., Harris-Pascal, C., Humphrey, J. (Unpublished) *Upgrading in Export Horticulture.*

15. Little and Dolan, 1998. ibid.

16. For a more detailed analysis of the EU Banana Protocol and its implications for organic and fair trade, *see* NRI (1997) Potential For Fair Trade and Organic Bananas From the Caribbean; Report for DFID; Chatham: Natural Resources Institute.

17. For a more detailed description of the impact of policy and regulations in developing countries on environmental sustainable trade, *see* Robins, N., Roberts, S. (1997) *Unlocking Trade Opportunities: case studies of export success from developing countries.* London: IIED.

18. See for instance Frieldland's use of a commodity systems approach in

Friedland, W. (1984) Commodity Systems Analysis. In: Schwarz-Weller, H. *Research in Rural Sociology, Volume 1.* Greenwich: JAI Press.

19. See for instance Appadurai, A. (1986) *The Social Life of Things: commodities in cultural perspective.* Cambridge : Cambridge University Press.

20. Full reports on the five case studies can be obtained from the publishers.

21. Scoones, I. (1998) *Sustainable Rural Livelihoods: a framework for analysis.* Brighton: Institute of Development Studies.

22. Of developing countries, the organic sector in South Africa is now dominated by large farmers.

23. See for instance Blowfield, M.E. (1994) *Labour Decision-Making in Smallholder Perennial Tree Crop Production: studies from Ghana and Indonesia.* Report no. R2137(s), Chatham, Natural Resources Institute.

24. See for instance, Blowfield, M.E. (1995) *Safety Net or Debt Trap: ties between marketing and credit in coastal Bangladesh.* In: NAGA, Autumn 1995. Manila, ICLARM.

25. The case studies offer an insufficient sample to draw conclusions about these issues, but suggest that this is a key area for future research. Equally, more use could be made of past work on the strengths and weaknesses of cooperatives, and also on the role and functioning of market intermediaries.

Ethical trade – the management of financial, social and environmental aspects of production and marketing throughout the value chain. Is it a solution to unequal trading relations that exploit developing countries, their people and their resources? Who benefits and in what ways? Does it make a positive contribution to the social and environmental goals of international development?

The Natural Resources and Ethical Trade programme has compared the impact of different types of ethical trade in five countries, including fairtrade, certified forests and organic agriculture. These are the findings; exploring how ethical trade affects people's livelihoods and how it affects the natural environment.

Ethical Trade and Sustainable Rural Livelihoods describes the markets for ethical products, how different approaches operate, and what they achieve. It is aimed at anyone requiring an introduction to ethical trade in developing countries and anyone interested in understanding what ethical trade means to developing countries.