

FairTrade Practices in European Market: Policy Guidelines and a Model Suggestion for Bangladesh

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This study attempts to analyze the views, concepts, guidelines and practices together which has been stretched over the European market; and to analyze whether it is possible to implement the ideas in case of Bangladeshi marginalized producers. The initiative was also taken to build up a model of fair trade supply chains in developing countries. This is a descriptive, conceptual study and the methodology followed was content analysis. Face to face interview of some Fair Trade experts has been taken. Sample size was 10 who were selected purposively and conveniently. The study outcome was that the first attempts to commercialize fair trade goods in northern markets were initiated in the 1940s and 1950s by religious groups and various politically oriented non-governmental organizations (NGOs). The products are almost handicrafts ranging from some fruits, vegetables and jute goods to cross-stitch work. It has been noticed that there is huge potentiality to work with fair trade in Bangladesh. A model consisting of the possible stake-holders has been figured to facilitate the fair trade in Bangladesh.

Keywords: Fair-Trade, Social Enterprises, Ethical Employment, CSR

Field of Study: Marketing

1. Introduction

Gradually world businesses are getting new dimensions. Buyers are becoming aware of quality, price of the product and convenience. They have kept watch on the corporation's social commitment. Business is getting concerned with ethical practices, fair prices, and fair dealings with the producers. Some organizations are raising voices for sustainable economic development of the marginalized producers in the developing countries. In this process Fair Trade, a new dimension of business, is having familiarity in the European market for some specific goods and commodities. The first attempts to commercialize fair trade goods were initiated in the 1940s and 1950s by religious groups and various politically oriented non-governmental organizations (NGOs). Ten Thousand Villages, an NGO within the Mennonite Central Committee (MCC) and

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SERRV International was the first, in 1946 and 1949 respectively, to develop fair trade supply chains in developing countries. The products, almost entirely handicrafts ranging from jute goods to cross-stitch work, were mostly sold in churches or fairs.

Fair Trade should not be confused with paying a fair price. It is a unique way to do business, where the objective is not only the profit but to assist people in the world's most marginalized communities who always face the danger of poverty and sustainability.

Fairtrade International (FLO) provides fairtrade certificates to fair trade products (mainly commodities with a market price, such as the cocoa used in making bars of chocolate) which draw the attraction of fairtrade consumers rightly. There are (Mare, 2011) also Fairtrade products that do not have a market price e.g., hand-made goods like furniture, jewellery and clothing, produced by business registered with the World Fair Trade Organization (WFTO). FLO works with certified producers all over the globe. There are 827 Fairtrade certified producer organizations in 58 producing countries, representing over 1.2 million farmers and workers. In addition to other benefits, approximately €52 million was distributed to communities in 2009 for use in community development. Including families and dependents, Fairtrade International estimates that six million people directly benefit from Fairtrade.

Ann Lee Mare (2011) states in one of her study that Bangladesh saw Fair Trade less as a global and more as a national movement, contributing to equitable development and fostering an alternative, more honest business model. At the same time Fair Trade has had a significant impact on the wellbeing of women handicraft producers in the country. So the authors of this study have tried to bring about a thought for the Fair Trade thinkers and initiators of this country, Bangladesh.

2. Problem Statement and Objectives

Fair Trade has been arrived as a blessing for the marginalized producers as they have the chance to upgrade their socio-economic condition by this kind of trading partnership. Developed countries have shown a great concern at this point to support the marginalized producers in the developing countries. Being convinced at this point the authors thought it might have great potentials in Bangladesh as this country has proved its efficient contribution in agriculture, handicrafts and garments & textiles. Due to lack of communication, lack of proper guidance from the Government these sectors still remained as SMEs. In this connection, this study is conducted with a view to discuss the ideas or concepts relevant to the Fair Trade. This has been also to evaluate the performance of fair trade in the European Market, to depict a model for Bangladesh, and to give some policy guidelines.

3. Literature Review and the History of Fair Trade

Fair trade organizations have been quite early taken as examples of **Social Enterprise (SE)** and have contributed to the shaping of the SE concept (HUYBRECHTS & DEFURNY, 2010).

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Principles of fair trade have deep roots in European societies long before the first structured Alternative Trading Organizations (ATOs) grown following World War II. Many of the basic concepts behind fair trade show a great resemblance with pre-capitalist ideas about the organization of the economy and society.

The belief of the 'old moral economy' is a decent example of such conceptions. E. P. Thompson, in his work on 18th century England, described a society where "notions of common well being, often supported by paternalistic traditional authorities, imposed some limits on the free operations of the market (Gavin, 2003)". Farmers were then not allowed to manipulate prices by withholding their products to wait for price increases. The actions of the middlemen were always considered legally suspect, were severely restricted and the poor were provided opportunities to buy basic staple foods in small parcels. Fair trade was already seen as a way to address market failures; although the concept mainly revolved around consumer, rather than producer, rights.

In 1827 in Philadelphia, Pennsylvania, a moral and economic boycott of slave-derived goods began with the formation of the "Free Produce Society", founded by Thomas M'Clintock and other abolitionist members of the Religious Society of Friends (Quakers). In the Free produce movement, they sought to fight against slavery with a new tactic, one that emphasized the value of the honest labor of free men and women, and to try and determine the unseen added costs to goods such as cotton and sugar which came from the toil of slaves (Newman, 2008). In 1830, African Americans formed the "Colored Free Produce Society", and women formed their own branch in 1831. In 1838, supporters from a number of states came together in the American Free Produce Association, which promoted their cause by seeking non-slave alternates to products from slaveholders, forming non-slave distribution channels, and publishing a number of pamphlets, tracts, and the journal *Non-Slaveholder*. The movement did not grow large enough to gain the benefit of the economies of scale, and the cost of "free produce" was always higher than competing goods. The national association disbanded in 1847, but Quakers in Philadelphia continued until 1856 (Hinks and McKivigan, 2007).

There have been a few instances in which fair trade in the 'old moral economy' was focused on producer rights: as early as 1859, Dutch author Multatuli (the pen name of Eduard Douwes Dekker) questioned the injustice of the colonial and capitalist system towards commodity producers in his novel *Max Havelaar*. The fictional tale recounts the story of Max Havelaar, a Nederland Trade Company employee, who leaves everything to work in solidarity with local Indonesian workers. This account draws a direct correlation between the wealth and the prosperity of Europe and the poverty of the suffering of other parts of the world (Redfern & Snedker, 2002).

Literatures are available mostly on the fair trade guidelines (produced by Fairtrade Foundation, UK), fair trade impact on their producers and organizations (Ronchi, 2002), The Economics of fair trade (Hayes, 2005) where focus has been given on how fair trade works. In another paper, by Fiona Gooch, Fair Trade has been shown as a contributor in shaping models for CSR. There has no academic research paper which could be a proper substitute of this study.

4. Methodology

This study has been made mainly on the basis of content analysis. Different sources, basically for secondary data, have been used like Books, Journals, periodicals, conference proceedings etc. Annual reports of the Fairtrade International have been gone through and some information in quantitative form has been used to show the present status of fair trade market worldwide and its performance respectively. Face to face interview of some business graduates from United Kingdom have been taken with a couple of open ended questions to know the existence of fair trade in UK. The sample size was 10. Samples have been taken conveniently and purposively. E-materials from Fairtrade Labeling Organizations International, EFTO, The Fairtrade Foundation, Fair Trade South Africa, Guardian, Traidcraft, Thanapara Swallows Development Society, Peopletree magazine, have been studied to know the bests of Fair Trade practices and performance in Europe and Bangladesh.

5. Defining Fair Trade

Fair Trade can be defined as *a trading partnership, based on dialogue, transparency and respect that seek greater equity in international trade*. This definition is given by FINE, an informal association of four international fair trade networks (Fairtrade Labeling Organizations International, World Fair Trade Organization, Network of European World shops and European Fair Trade Association). Fair Trade contributes to sustainable development by offering better trading conditions to, and securing the rights of marginalized producers and workers – especially in the South. Fair trade organizations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.

6. How Fair Trade works in European and Australian Market

Around 55% of Aussie and Kiwi consumers feel empowered to make a difference through their shopping choices with nearly 80 per cent having high expectations of companies in regard to the important role they have in reducing poverty through the way they do business.

According to www.fairtradebarrie.com, there are currently over 170 food and drinks which carry the *fairtrade* mark, from fresh fruit to ground coffee available in the supermarkets. All products must carry the fairtrade Mark and must meet the standards set by the international body viz. Fairtrade Labeling Organizations (FLO).

To get a fairtrade mark farmers and workers in the developing world who receive a minimum wage and stable prices should get an extra bonus called a social premium to invest in their communities (e.g. building wells, buying ambulances, furnishing schools, etc.). It needs to have long term contracts, receive advance payments and credit terms, not to use child labor, to have a voice through trade unions, or worker representation, to take care of the environment, and to have health and safety standards.

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Farmers who grow food and clothes, flowers, and furnishings in the developing countries work very hard in awful conditions for very little pay. Fair trade enables consumers to use their power to support decent pay and working conditions for those the consumers are to rely on.

A fairtrade chain can show how it works with all stakes. Below is the chain:

Fig 6.1: The Fairtrade Chain



Source: Annual Report, Fairtrade International, 2009

Here the producers are Hired Labor, Small Producer Organization, and contract production. Traders include Importer, Exporter, Processor, and Manufacturer. Licensee works for Packaging, Labeling, and sale of consumer products with the FAIRTRADE Mark. Distributors do the distributions or sale of Fairtrade labeled consumer products. Finally the fairtrade goods reach to the buyers.

7. Performance of Fair Trade

Fair trade has cut a good market share in the market of some specific products. The following table shows the sales value of fair trade:

Table 7.1: The Sales Value of Fair Trade

Retail Value				
Global Fairtrade Sales				
	Year	Sales Value	Year	Sales Value
	2008	€ 2 894 711 217	2003	€ 554 766 710
	2007	€ 2 381 127 046	2002	€ 300 000 000
	2006	€ 1 623 000 000	2001	€ 248 000 000
	2005	€ 1 141 570 191	2000	€ 220 000 000
	2004	€ 831 523 066		

Source: Annual Report, Fairtrade Labeling Organizations International (2008)

According to a statement provided by Fairtrade International, there are now 827 Fairtrade certified producer organizations in 58 producing countries, representing over 1.2 million farmers and workers. In addition to other benefits, approximately €52 million was distributed to communities in 2009 for use in community development. Including families and dependents, Fairtrade International estimates that six million people directly benefit from Fairtrade.

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The sales of Fairtrade certified products grew 15% by 2008 – 2009. In 2009, Fairtrade certified sales amounted to approximately €3.4 billion worldwide.

Fair trade ensures some unique benefits to the farmers e.g. Stable Price, Partnership, Empowerment of farmers, and A Fairtrade Premium. For most products, prices at least cover the costs of sustainable production even when world market prices fall. Under the partnership scheme producers are involved in decisions that affect their future. Fairtrade certified producers jointly own and manage Fairtrade International. Through the Fairtrade International's board, its committees and consultation process producers can influence prices, premiums, standards, and overall strategy. Empowerment of farmers and workers is a goal of Fairtrade. Small farmer groups must have a democratic structure and transparent administration in order to be certified. Workers must be allowed to have representatives on a committee that decides on the use of the Fairtrade Premium. Both groups are supported by Fairtrade International to develop their capacity in this area.

Consumers and or shoppers can also be benefitted buying products in line with their values and principles. They can choose from an ever growing range of great products. By buying into Fairtrade consumers support producers who are struggling to improve their lives. Fairtrade rewards and encourages farming and production practices that are environmentally sustainable.

According to the Annual Report (2009) of Fairtrade International, A world record in Fairtrade coffee drinking in Germany is 120,556 cups in just one hour; A cross-border Nordic Fairtrade Challenge, in which 289, 678 participants in Finland, Sweden, Norway and Denmark used Fairtrade products at 3,800 events; A triumph for Fairtrade bananas were bought, distributed and eaten on Fairtrade banana Day, almost double the original target of 40,000.

8. Potentials of Fairtrade in Bangladesh

Fair Trade started as an effort to enable smallholder producers from developing countries to successfully compete in international markets. Better access to market outlets and stable prices are considered key principles for sustainable poverty reduction and stakeholder participation based on 'trade, not aid'. While Fair Trade is primarily conceived as a trading partnership - based on dialogue, transparency and mutual respect - seeking greater equity in international trade, it relies on an organized social movement promoting standards for production practices and delivery procedures, working conditions and labor remuneration, environmental care and social policies in supply chains of certified tropical goods (Ruben, 2008).

Fairtrade International is working with some new, bold and ambitious objectives to bring lasting benefits and to strengthen, broaden and deepen the fair-trade system. The implementation plan contains a unified approach to international markets, Global positioning for fair-trade products, producer empowerment, introducing new producers and products and encouraging diversity, and new partnership (Annual Report of Fairtrade, 2008).

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A research organization viz. **Traidcraft** has undertaken a 3-year study aiming to research the impact of its fair trade activities in Bangladesh, to understand the benefits and risks that are felt by producer groups and how these relate to wider livelihood strategies, to appreciate the economic and social forces that influence economic performance and that contribute to gaining market access for poor and marginalized groups, and to analyze the links between fair trade producer groups and the enabling relationships that contribute to successful trade and thus to poverty alleviation. This is in collaboration with the Geography Department of Durham University. The study is funded by the UK's Economic and Social Research Council. The researcher is Ann Le Mare and her principal supervisor is Professor Jonathan Rigg. The main findings, of this (i.e., the Bangladesh) study to date, are:

- Fair trade employment reduces the material and social effects of poverty
- Fair trade provides a model of good employment practices, whilst still making a profit
- Understanding fair trade needs to include the experiences and meaning given by people in the South. In this case, the producers in Bangladesh attach Christian, Islamic and Asian values to fair trade.

In Bangladesh fairtrade can be a big business. Here many NGOs do not know what western people want; they certainly know how to reach a Bangladeshi market. Some of the most famous Bangladeshi brands are fairtrade companies e.g., **Aarong** is the most obvious example to that. They sell expensive ladies garments and home appliance to middleclass and upper class people in Bangladesh. **Aarong** is a part of the BRAC family, one of the biggest NGOs in Bangladesh. They have their own style and many details on their clothes. They claim they give more money to those they buy the clothes from. That probably is true, but the chain of making clothes is very long, and is very difficult to make sure that all the involved parties get a fair price and good working conditions. Bangladesh has the highest potentials to work globally and move with fair-trade products.

9. A Proposed Model of FairTrade in Bangladesh

'Swallows' is a fair trade producer group located in Thanapara – a remote rural village in north-west Bangladesh. As a supplier to People Tree, it is a model of how fair trade garment production can work sustainably. At Swallows, there is a happy community of women who all have a great sense of independence, also work so well together in good conditions. The village they live in is totally self-sufficient. They have a school, a crèche for the younger children, learning programs and an organic garden (Guardian, 29 April, 2009).

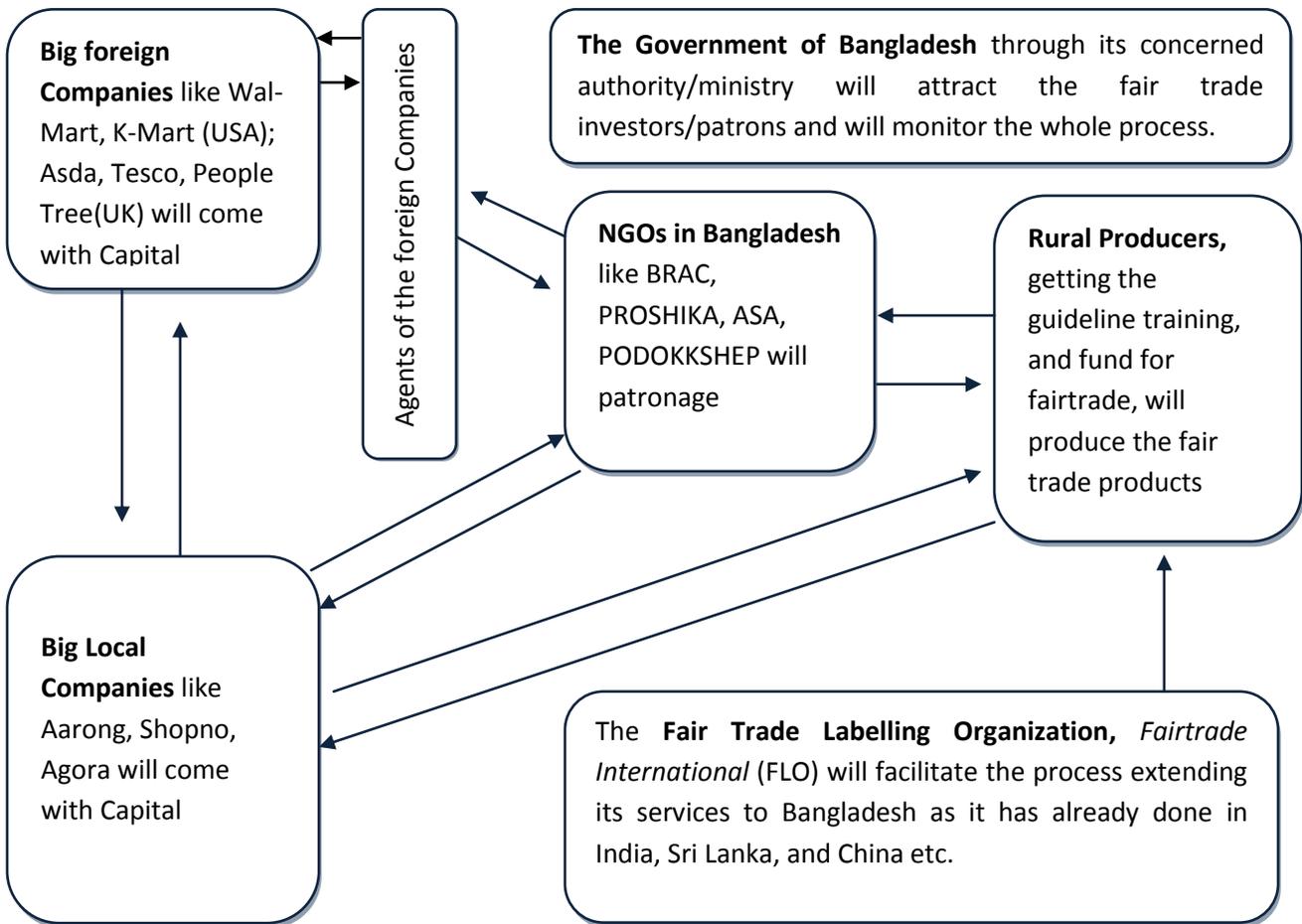
On the other hand, in most of the garments factories ethical employment is scarce. Up to six people in the status of a garment worker live in a very miserable conditions, and they pay 900 BDT rent each for a bed where they stay while earning an average of 2000 BDT per month, way below the minimum wage of 4000 BDT.

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According to *Jo Wood*, the founder of **Jo Wood Organics**, one solution to these garment workers' poverty is fair trade, with workers being paid a fair wage and provided with adequate employment conditions. "If you are an ethical and fair trade producer like Swallows, the workers don't have to live in the slums," says Wood firmly while visiting Bangladesh in 2009. The workers can stay in their village with their families, their children can be educated and they also work in safer working conditions. Profits are also put back into the local community, making it a self-sufficient and rewarding scheme.

Big international companies have more money than the small local companies and often also more money than the NGOs. Many are afraid of bad publicity, and this will make them be more careful about the working conditions. For the sake of just fair that big rich companies with a lot of capacity and competence actually work for making better conditions for their employees. The fairtrade movement is very important to push the big companies to better their conditions. An operative model can be shown for the facilitation of fair trade in Bangladesh.

Figure9.1: The Proposed Model of Fair Trade in Bangladesh



Source: Developed by the authors

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The above, in this model, are the proposed players in a Fair Trade Market of Bangladesh. Here the Rural producers at the right end will receive the guidance, tips and finance from the customers like Big Companies in home and abroad. These will be moved through the local agents of the foreign companies and NGOs. Local companies may directly communicate with producers. So far has been investigated, local companies like **aarong** – a fair trade organization in Bangladesh is directly getting to producers and collecting different handicrafts and stitched dresses for both male and female and is selling them in its showroom. At present, twenty five thousand independent cooperative groups and traditional family-based artisans market their crafts through Aarong. The immense need is to ensure a certification services which may be extended by the fairtrade international – A UK based fair trade labeling organization; and the utmost sincere attention and cooperation from the part of the Government of Bangladesh.

10. Key Findings

The following are some key findings of this study:

- Fair Trade is a unique way to do business, where the objective is not only the profit but to assist people in the world's most marginalized communities who always face the danger of poverty and sustainability.
- It's around 70 years fair trade has started its journey as a different way of doing business.
- By buying into Fairtrade consumers support producers who are struggling to improve their lives. Fairtrade rewards and encourages farming and production practices that are environmentally sustainable.
- The sales of Fairtrade certified products grew 15% by 2008 – 2009. In 2009, Fairtrade certified sales amounted to approximately €3.4 billion worldwide.
- There are now 827 Fairtrade certified producer organizations in 58 producing countries, representing over 1.2 million farmers and workers. In addition to other benefits, approximately €52 million was distributed to communities in 2009 for use in community development. Including families and dependents, Fairtrade International estimates that six million people directly benefit from Fairtrade.
- It has been criticized due to Increased Prices for Consumers, Market distortion with setting universal price floors, for being designed only for smallholder co-ops and a biased attitude.

11. Recommendations

On the basis of above findings some recommendations can be given which are as follows:

- One big issue is that the government must be concerned for the invitation, coordination and cooperation with the organizations which are promoting and can promote Fair Trade business models in Bangladesh.

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- NGOs like BRAC, PROSHIKA, TARANGO, ASA, PODOKSHEP and others need to develop their concerns and knowledge about Fair Trade.
- SFTMS (Sustainable Fair Trade Management System), a dynamic and integrated approach for the certification of production, trading and communication, is the new worldwide standard for the independent certification of organizations which demonstrate Fair Trade Business practices. TARANGO – A renowned Fair Trade promoter and patron of Bangladesh is working with SFTMS and is struggling a lot to raise awareness of Fair Trade. It must be appreciated by the Government and its concerned departments.
- JDPC (Jute Diversification Promotion Corporation) under the Ministry of Jute & Textile which has shown substantial interest on the promotion of Jute diversified products over the last couple of years can be a patron of Fair Trade by adopting a policy to promote Fair Trade in its plan.

12. Conclusion

In conclusion it can be said that the Fair Trade has become an important tool for breaking the backs of exploitative middleman, and forcing big American food importers to ratchet up the commodity prices they pay small coffee producers. But it has got some criticisms (*goodeater.org*, 2009). The criticisms are: Fair Trade increases the price for consumers as it includes charges like the premium price, social premium, and very large certification fees which result increase in cost of business. Sometimes Fair Trade is blamed for distorting markets as it is not as good at pricing as a real market. The living wage for food production is not the same across countries and continents, and yet the Fair Trade price floors are universal.

Still, Fair Trade encourages environmental sustainability. The Fair Trade principles applied by *People Tree* have created economic stability for *Swallows (A Bangladeshi Fair Trade producer)*, allowing it to become an independent organization. It has led to the empowerment of the women of Thanapara.

The top 10 percent of the US population has an aggregate income equal to income of the poorest 43 percent of people in the world, or differently put, total income of the richest 25 million Americans is equal to total income of almost 2 billion people (Milanovic, 2002, p. 50). 1 % of the world population own 40 % of the global assets. The richest 2 % of the world population own more than 51 % of the global assets; the richest 10 % own 85 % of the global assets. 50 % of the world population own less than 1 % of the global assets. It is revealed from these facts that the consumers of Fair Trade are rich enough to support the producers in the developing countries. If Bangladesh follows the proposed model, it can be a center of attraction for Fair Traders.

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