

Fair Trade and Corporate Social Responsibility

The aim of this information sheet is to encourage Fair Trade advocates and people interested in issues of trade justice to consider the role of different Fair Trade monitoring systems and how they are implicated by Corporate Social Responsibility agendas. It also raises issues of what it means to be a Fair Trade business as opposed to selling a line of Fairtrade certified products.

Fair Trade

- The International Fair Trade Association (IFAT), representing producers and traders worldwide, defines fair trade as

“...a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South. Fair Trade organisations have a clear commitment to Fair Trade as the principal core of their mission. They, 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....Fair Trade is more than just trading: it proves that greater justice in world trade is possible. It highlights the need for change in the rules and practice of conventional trade and shows how a successful business can also put people first¹.”

- Fair Trade aims to maximise the benefits of international trade for small-scale producers, enabling vulnerable producers to move out of material poverty through equitable terms of trade.

Fair Trade involves commitment to several business operating principles required by both producers *and* traders.

The business operating principles:

- Create **market opportunities** for producers who are economically **disadvantaged** or **marginalised** by the conventional trade system. Trading partners support producers to develop new products and businesses.
- **Transparent** management and commercial relations to deal respectfully with trading partners
- **Capacity building** to facilitate producers’ independence. Fair trade business relationships provide continuity and security, helping producers to improve their business management skills and market access.
- Producers receive a **fair price** which internalises the social and environmental costs of production, and provides an additional **social premium** for producers to invest in community development in health, schooling, housing and communal facilities.
- Fair trade organisations provide prompt payment at the agreed time, and where possible, **pre-harvest or pre-production payments** for producers.
- Producer organisations honour **gender equity**, valuing equally male and female work. Women’s work is rewarded and women themselves empowered within their producer organisations.

¹ IFAT (2005a). *What is Fair Trade?* Available at <http://www.ifat.org/whatisft.html>

- Producer organisations provide safe and healthy **working conditions** for workers, and where child labour is involved, the regulations of UN Convention on the Rights of the Child are respected.
- Fair trade organisations work actively towards **improved environmental management** and practices through the application of responsible methods of production².

Labels & Logos*

Consumers are guaranteed that a **product** meets Fairtrade standards by the internationally **recognised Fairtrade Labelling organisations International (FLO) Fairtrade Label**

The FLO label is found on, and certifies, *products*, not companies. This label says nothing about the wider production, purchasing and trade practices to which a company adheres for products which do not carry the FLO label.

Companies and organisations that are '100%' fair trade use the **Fair Trade Organisational (FTO) mark**. The FTO mark is awarded to only those cooperatives and traders that are set up to fulfil the fair trade mission (see IFAT definition above).



The FLO Label

The IFAT mark is not a certification mark for *products*, but *companies/organisations*. It can be used to promote an organisation's Fair Trade status in marketing activities and organisational resources such as letterheads, posters, websites and facilities. For instance, this mark is found on advertising material from the Oxfam Trading but not Nestle.



The FTO Mark

Many Fair Trade producers make/grow products that carry the Fairtrade label plus a wide range of other goods for which FLO does not have standards, handcrafts being one example (IFAT, 2005c). The FTO mark offers consumers a way of identifying organisations that produce and trade on fair trade terms, but whose products do not necessarily bear the FLO label.

*For more information, visit www.ifat.org.au

Corporate Social Responsibility (CSR)

What is CSR?

CSR can be understood as a 'concept' adopted by companies **'to integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'**³.

- CSR is also an umbrella term referring to mechanisms that aim to promote commitment of *global corporations* to *minimum labour standards* for workers within their *existing supply chain*.

² IFAT (2005b). *Key Principles of Fair Trade*. Available at <http://www.ifat.org/ftrinciples.shtml>

³ European Commission DG Employment and Social Affairs 'Corporate Social Responsibility' July 2002.

- Today, corporations promote their commitment to social issues in different ways of monitoring and verification (eg codes of conduct, CSR reporting, multi-stakeholder initiatives).

CSR and Fair Trade: What is the difference?

- The 'issues' included in CSR initiatives typically cite the internationally-agreed labour standards of the ILO, namely the Declaration on Fundamental Principles and Rights at Work. These are 'minimum' standards, whereas Fairtrade standards go above and beyond these, addressing development and economic issues and standards.
- CSR addresses workers *within conventional supply chain arrangements*, not small-holder farmers who are marginalised from this mainstream production activity. CSR codes are often used to promote compliance with higher standards of conduct *among suppliers*, rather than the brand company.
- Imposing standards on suppliers/workers can make the situation worse for workers⁴. Fair trade standards are developed in consultation with producers and involve requirements of both producers *and* traders.
- Fairtrade certified products (mainly food) are amenable to sourcing and sale by conventional companies and retailers through mainstream outlets
- A conventional brand/retail corporation supplying a small amount of its total volume as Fairtrade is not the same as being a FTO⁵ hence the need for the FTO mark to distinguish FTOs from standard businesses. TNCs participating in FLO's system include Starbucks, Nestle, Procter&Gamble.
- These companies pursue different organisational missions from FTOs, having been set up for the legal purpose of maximising shareholder value (profit)⁶, not to maximise profit and benefits *for marginalised or disadvantaged producers*, or to facilitate their independence.
- Corporations involved in CSR activities act *voluntarily*, if at all, to address issues of an ethical nature, and do so in conflict with their legal mandate. A 'fair trade' philosophy does not structure their operations and decisions, yet it does in fair trade companies such as The Day Chocolate Company (UK), Café Direct (UK), or CTM Altromercato (Italy).
- Whereas these FTOs explicitly target and work with producers marginalised in international trade to develop new products, build enterprise capacity and operations as well as support coops to gain market access, conventional companies merely buy Fairtrade certified products⁷.
- Whereas FTOs' *raison d'être* is fair trade and to agitate for social change (i.e. advocate & campaign for trade justice and change to existing trade rules, and educate consumers), conventional companies subscribe to, and depend on, conventional trading rules, *status quo* relations with workers, and existing information asymmetries.

⁴Oxfam International (2004). *Trading Away our Rights: Women Working in global supply chains*. Oxfam International: Oxford.

⁵ Traidcraft (October, 2004) *Corporate Social Responsibility – does it make any difference?* Available at <http://www.traidcraft.org.uk/temp/rad949FD.pdf>

⁶ Bakan, Joel (2004). *The Corporation: The Pathological Pursuit of Profit and Power* Constable & Robinson Ltd.: London.

⁷ Traidcraft (May 2003). *Fair Trade? Ethical Trade? What's the difference?* Available at <http://www.traidcraft.org.uk/temp/radB68AA.pdf>