



House of Commons
International Development
Committee

**Fair Trade and
Development:
Government Response
to the Committee's
Seventh Report of
Session 2006–07**

**Eighth Special Report of Session
2006–07**

*Ordered by The House of Commons
to be printed 11 October 2007*

HC 1047
Published on 18 October 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

International Development Committee

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Eighth Special Report

On 14 June 2007 the International Development Committee published its Seventh Report of Session 2006-07, *Fair Trade and Development*, HC 356-I. On 28 September 2007 we received the Government's response to the Report. It is reproduced as an Appendix to this Special Report.

In the Government Response, the Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

Appendix: Government response

[Paragraph 15] **“The rise in ethical labels demonstrates that both retailers and consumers are interested in ethical sourcing. It is important that fair trade organisations do not assume they have a monopoly on this although fair trade can be said to represent a gold standard in terms of trading relations with producers. With many different schemes pursuing different objectives it is vital that consumers are given the correct information in order to make informed choices.”**

We agree.

[Paragraph 20] **“We believe that fair trade labels have helped consumers to be reassured about the way in which fair trade products are traded. This is an important achievement for which the Fairtrade Foundation in the UK and the Fairtrade Labelling Organisation internationally are to be commended.”**

We agree.

[Paragraph 32] **“It is right that questions should be asked about the engagement of big companies in fair trade. It is relatively easy for them to tick the “fair trade box” for specific products without necessarily changing the way in which they do business with most of their other developing country suppliers. Fair pricing should not be restricted to a few beneficial but limited niches for either supermarkets or multinationals. We were particularly impressed with the efforts of Marks & Spencer to engage directly with its producers and to use the FAIRTRADE mark for those products where direct engagement is not possible.”**

We agree. We want companies to give a fair deal to all suppliers. The retail industry needs to ensure suppliers pay a living wage to their workers by ensuring the prices they pay their suppliers and the turn around times they demand allow suppliers to pay workers a wage they can live on not just survive on — e.g. forward planning, investment in better equipment, ensuring enough staff to do the job safely. Fairtrade has made a

significant contribution to this and has encouraged companies to improve their practices. We agree that fairer pricing structures should be extended to a wider range of producers. That is why DFID also helped to establish the Ethical Trading Initiative (ETI) and why we are working with a range of fair-trade organisations, the Fairtrade Foundation (FTF), ETI, supermarkets and others to improve standards in all supply chains.

[Paragraph 33] “The drive for cheaper produce is neither desirable nor sustainable if such low prices involve the exploitation of labour abroad. We accept that developing countries have a competitive advantage in cheaper labour and they should be able to take advantage of this, but we do not accept that workers should be paid less than the national minimum wage where one exists. Nor should fundamental labour rights be dependent on levels of economic development.”

We agree. Core labour standards are fundamental human rights. The recent International Development White Paper on making governance work for the poor (para 5.9) points out that while governments need to remove unnecessary barriers to business, regulation is needed to make sure that workers earn a decent wage and have safe working conditions. We are committed to promoting good labour standards. DFID is a major supporter of the International Labour Organisation's technical assistance programmes to promote decent work, through a £20 million Partnership Framework (2006-9).

[Paragraph 40] “The Government has acknowledged the achievements of the fair trade movement and has made public statements in support of it. It has also provided funding for specific projects and initiatives. However, the Government’s approach tends to confuse projects specifically concerned with promoting the fair trade movement with other initiatives associated with more ethical trade and respect for international labour standards. There is merit in supporting a number of different initiatives that are effective in reducing poverty. The Government could, however, do more to promote the fair trade movement specifically if it was clearer in recognising the different contributions that different kinds of initiatives can make. One way of doing this would be to assign a senior DFID official to be responsible for fair trade within Government and for this responsibility to be properly publicised and supported. This may also help to encourage greater coordination in the promotion of fair trade through public procurement, as we recommend in Chapter 6.”

The Government supports a number of initiatives in the broad field of fair and ethical trade because they all contribute to the overall goal of making trade work for poor people. The Fairtrade Foundation (FTF) and others support this diverse approach. Within this approach we give substantial support to the FTF for these clear reasons:

direct impacts; influence on the whole retail sector; and raising public support for trade justice.

A number of departments in DFID have an interest in fair and ethical trade, including our International Trade Department, and teams in the Growth and Investment Group, working on growth and engagement with the private sector.

DFID is in the process of establishing a coordinated team on fair and ethical trading involving officials from all of the aforementioned departments. It reports to senior officials in our Global Development Effectiveness and Policy and Research Divisions.

[Paragraph 43] “Development Awareness Funds have been extremely useful to the fair trade movement and have contributed to continuing growth in awareness of fair trade in the UK. This level of awareness will have knock-on effects in other sectors as consumers begin to demand a greater level of responsibility from companies and retailers. It could also act as a catalyst for greater support for the work of DFID in general. But Development Awareness Funds could be better publicised and the application process made less complicated, especially for those who are applying for the first time or who have no experience of working with DFID. We recommend that DFID address these two issues.”

The Development Awareness Fund is well known among UK voluntary organisations, largely because it is one of the few funding sources available for activities to raise awareness about poverty issues and change people's attitudes.

The application process has been streamlined in the past year. There are extensive guidelines on the website, on which we consulted prior to finalising them. External partners have told DFID they think they are clear and easy to understand. We have also removed the demand for a proposal to find matched funding for the project, which simplifies the process further.

We are also running seminars throughout the year across the UK which offer details about the application process and allows organisations to ask questions. From those we have so far run, the majority of attendees have not successfully applied to the DAF before.

[Paragraph 49] “We consider that Challenge Funds are a good means of supporting innovation in the private sector and believe that the Africa Enterprise Challenge Fund is a useful initiative which has the potential to improve trade capacity and competitiveness in Africa. We expect DFID to update us on progress in establishing this Fund.”

The AECF was launched in Cape Town in June 2007 and should be operational by mid 2008. DFID's Pan Africa Strategy Department are now working on setting up the legal entity and then will move on to finding a consortium of appropriate fund managers.

[Paragraph 51] “The Government’s approach to funding ethical and fair trade projects does not take advantage of opportunities to learn from previous experience and at present there is no formal mechanism for doing this. The lessons learned from the various individual initiatives which DFID has funded should be drawn together and best practice shared.”

A number of DFID funded fair and ethical trade initiatives have been subjected to independent impact assessments (eg the ETI and the Business Linkages Challenge Fund). Lessons have been drawn from these in developing our future strategy of support to the ETI and in developing the Food Retail Challenge Fund (FRICH). The impact assessments of larger DFID projects are all entered into our PRISM project database, allowing anyone across the organisation to access information on project performance and lessons learned. This data base is searchable for fair-trade related projects. How this information can be made more widely available outside of DFID will be an issue that the DFID virtual Team on Fair and Ethical Trading (outlined at para 40, above) will look at. Also see answer below.

[Paragraph 53] “We believe there should be increased systematic analysis of the impact of fair trade and would urge DFID to contribute to this process.”

We agree. DFID are encouraging the Fairtrade Foundation and other fair trade organisations to pay greater attention to systematically measuring the impacts of fair trade schemes on poverty reduction over time.

DFID and other donors agree it is important to see how different schemes can contribute to poverty reduction and have requested that the proposal for a fund to scale up fair trade include more on Fair Trade Labelling Organisations' impact assessment and how different fair trade organisations can work together on this.

[Paragraph 55] “In the context where some supermarkets are putting pressure on suppliers to reduce prices below the cost of basic wages, or when commodity prices are low, the guaranteed fair trade price is extremely valuable for farmers.”

We agree. As mentioned in previous responses we are actively working with supermarkets and retailers to extend fairer pricing structures to a wider range of producers, not just those achieving fair-trade certification.

[Paragraph 61] “The benefits of fair trade to producer groups, and often their wider communities, through the social premiums, are clear. Fair trade targets disadvantaged producers who have either been excluded from the export market or who may not be benefiting from it. Fair trade helps to build up their capacity to trade effectively in the market-place and offers a stable income. In this respect it has a positive development impact which reflects some of the objectives of the Government in relation to trade-related capacity-building.”

We agree.

[Paragraph 65] “If Ethiopia is allowed to trademark its speciality coffees in the US, it would then have the potential to add significant value to its product. Such innovative strategies should be encouraged by multinational companies.”

We agree. Ethiopia has managed to trademark several of its coffee names in the US. Ethiopia has also recently agreed with Starbucks to enter into a private licensing agreement about the use of Ethiopia’s coffee names and the distribution of its coffees. Ethiopia was helped to do this with the support and funding from DFID (an NGO also provided help).

Innovative strategies like Ethiopia’s should contribute to better access for poor countries’ products in rich countries’ markets. Poor countries should as a result be in the position to capture a higher share of the value to the consumers of the original and traditional, high quality products and services they export. Developing countries are not only able to supply raw, commodity, and unprocessed goods; they also produce unique products — such as premium coffee — in high demand in rich markets. However, with only marginal control and involvement in the supply of their own products, poor producers will not reap as many benefits as they could. Trademarking is one way for them to gain more ownership.

[Paragraph 68] “The fair trade towns campaign has been extremely successful and we commend Wales and Scotland on their initiatives to become fair trade nations. That communities and nations are willing to engage with fair trade to this extent demonstrates the success of fair trade awareness-raising campaigns as well as growing interest in development issues.”

We agree.

[Paragraph 73] “Whether or not companies are involved in fair trade, we believe that they should all be engaged in a process of ensuring their supply chains are socially sustainable. Companies need to be particularly aware of the impact of their purchasing policies on small producers. Fair trade offers an excellent means of

ensuring purchasing has a positive impact in the categories where fair trade standards and products are available.”

We agree. DFID encourages all companies to ensure that their supply chains are socially sustainable. The minimum price that Fairtrade offers to farmers is one way of doing this.

[Paragraph 78] “We believe that the largest supermarkets in the UK should be leading the way in corporate social responsibility and setting an example for smaller competitors. The performance of some large retailers in this regard falls below standards we consider acceptable.”

We encourage all UK business to adopt best practice and set an example for its competitors. The Ethical Trading Initiative helps supermarkets and their suppliers to do this and we encourage those supermarkets that are not members to join.

[Paragraph 79] “We question whether the Government is doing all it can to make the Ethical Trading Initiative (ETI) a credible one which genuinely promotes corporate social responsibility. It should not be the responsibility only of NGOs to investigate and monitor the behaviour of UK companies abroad. As we suggested in our report on Private Sector Development, the ETI could be expanded into a monitoring mechanism that ensures more independent scrutiny of companies. The Government should encourage the Ethical Trading Initiative board to investigate the potential for the Initiative to be enhanced in this way.”

The recent independent review of the Ethical Trading Initiative (ETI) by the Institute of Development Studies concluded that, although challenges remain, the ETI has achieved positive impact. DFID believes that ETI is a credible initiative and has demonstrated genuine success in promoting corporate social responsibility. We do not agree that the ETI should be expanded into an independent monitoring mechanism: the strength of the ETI's approach is as an alliance between business, NGOs and Trades Unions. However, through our Board membership, we will continue to encourage the ETI to improve the consistency and quality of social auditing, for example, by working with others to develop an accreditation system for auditors and developing and promoting good audit methodology. The UK government also plays a role in promoting the responsible behaviour of UK companies abroad, through the National Contact Point for the OECD Guidelines on Multinational Enterprises, which investigates complaints of breaches to the guidelines.

[Paragraph 85] “The current Competition Commission inquiry into supermarkets offers an opportunity to investigate whether their business practices undermine attempts to improve ethical standards in supply chains in developing countries.”

We are keen to work with supermarkets about all of their supply chains. It is up to the Competition Commission to decide whether this issue falls within the scope of the current inquiry.

[Paragraph 87] “The garment industry is one which involves large numbers of low-paid workers in developing countries and is a sector where improved standards would be particularly beneficial. The development of fair trade certification for the manufacture of fair trade cotton garments will assist in ensuring higher standards of traceability along the supply chain as well as better working conditions for garment workers. Fair trade standards will not, on their own, improve working conditions for the majority of garment workers but could provide a model of how an ethical garment industry can work and could contribute to raising standards across the wider industry. This is a specific area where we believe DFID could make a useful contribution and we recommend that it actively seeks out projects in this sector where it can support the private sector.”

We agree that the garment industry is a critical one which engages large numbers of poor people in developing countries and that fair trade initiatives can play a positive role in improving working conditions in the sector. In addition to the ETI, DFID also supports the Multi-Fibre Arrangement (MFA) Forum which was established to help ensure the maintenance of standards in garment factories after the MFA quota system ended. DFID takes a country-led approach and where there are requests in country for support to additional initiatives in the textile industry, country programmes may choose to support these. We also support the work of the ILO. DFID has a £20 million partnership framework agreement for three years with the ILO, which helps countries to introduce and implement its decent work agenda across a range of sectors.

[Paragraph 89] “We believe that fair trade should become more pro-poor and help the most disadvantaged producers in the poorest countries. We recommend that this pro-poor focus becomes a key area for future Government funding for fair trade.”

We agree. We are concerned that the most disadvantaged producers in the poorest countries are often not able to meet the current fair trade standards. We are encouraging the FTF to work with contract farmers, in order to make fair trade certification more accessible to the poorest people.

[Paragraph 91] “As part of its role in raising awareness of development DFID should consolidate its learning and create a formal mechanism to promote an exchange of information between the fair trade movement, mainstream companies and donors.”

We partly agree. The new strategy in the area of fair and ethical trading (as outlined in the response to para 40) will identify communication outputs on fair and ethical trading

issues for fair trade organisations, mainstream companies and donors. However, there are a large number of fair and ethical trade organisations who have valuable experience to share with one another, independent of donor funding. We would encourage these organisations (such as the Fairtrade Foundation and Rainforest Alliance) to share more information on best practice. The fair trade movement already has extensive contact with mainstream companies.

[Paragraph 93] “We agree with the European Parliament Development Committee’s recommendation that product information on the conditions of production should be displayed in such a way as to ensure that it is easily understood.”

We agree. The UK Government supports the principle that product information should be comprehensive and clear, and recognises that the proliferation of voluntary labelling schemes and standards could lead to confusion amongst consumers. However, companies and other organisations are entitled to establish their own corporate responsibility or other labelling schemes, and the UK Government would not wish to discourage these endeavours, which have the potential to make a significant contribution to sustainable development.

Whilst it may be possible to introduce new labelling requirements within the EU, any statutory requirements for labelling within the EU or the UK would need to be consistent with the WTO Agreement on Technical Barriers to Trade (TBT) to ensure that these did not lead to unfair discrimination. It would also be important to ensure that any new measures did not either duplicate or undermine existing initiatives such as FAIRTRADE, ETI and Rainforest Alliance.

[Paragraph 94] “The FAIRTRADE mark has achieved a significant level of recognition in the UK but only covers a limited range of products. There are many other credible certification schemes with social and environmental objectives. Consumers should be given sufficient, and easily accessible, information about products made available under these schemes to enable them to make informed choices. We recommend that the Government commission research on the feasibility of creating a labelling scheme which gives consumers information on the share of the retail price that producers receive for a product. Supermarkets already know how much farmers are paid for each kilogram of fruit or vegetable they sell, and companies know how much they pay per kilogram of coffee, or for each tee-shirt. Passing this information on to consumers should not be a difficult task.”

We agree. DFID welcomes the recognition that the Fairtrade mark has achieved in the UK. Increasing interest about where our food comes from is an opportunity to increase shoppers' awareness about development issues. We are working with DEFRA on research into the feasibility of a development labelling scheme.

[Paragraph 97] “If companies and public bodies are finding it difficult to interpret the Office of Government Commerce guidance, and if other EU member states are interpreting EC procurement rules differently, there is obviously a lack of clarity which the Government must address. We are pleased that DFID has made a start on this and look forward to the review of the guidelines. We expect to be advised of the probable end date for such a review.”

Gareth Thomas wrote to other government departments on their procurement practices. The responses have affirmed that Departments support fair and ethical trading and a number encourage catering contractors to make available a wide variety of fair-trade products. Our preliminary view is that while there are limitations to fair-trade specifications in public procurement of catering contracts, the OGC Guidelines are considered sufficiently flexible to allow value for money without compromising inclusion of fair-trade products. As promised at the select committee’s hearing with Gareth Thomas, DFID is taking forward a discussion with the OGC on reviewing the guidance to maximise availability of fair-trade products in Government Departments. We hope this will be completed by the end of the year.

[Paragraph 100] “Government Departments seem to be less advanced than public authorities and the general public in the procurement of fair trade products. We believe the Government should be leading by example in this regard. We recommend that DFID be much more proactive in encouraging other Government Departments to procure fair trade goods.”

We disagree. All of the replies to the PUSS’s April 2007 letter on procurement practices in Government Departments affirmed support to fair and ethical trading where possible. DEFRA is responsible for the Public Sector Food Procurement Initiative that encourages public bodies to procure fairly traded goods, and stated that most, if not all, Government Departments are serving Fairtrade tea and coffee at no extra charge. A number of Departments also procure a wider range of Fairtrade products including fruit, confectionary, fruit juices, yoghurt and rice. For example, the Department for Transport run sustainable procurement awareness sessions for staff, which specifically cover the use of Fairtrade products. Both the Department for Transport and the Ministry of Defence are reviewing their commercial/ procurement policy with a view to expanding take up of Fairtrade products. Her Majesty’s Court Service and the Department for Communities and Local Government encourage and collaborate with catering contractors to ensure availability and marketing of the widest possible range of Fairtrade products.

[Paragraph 103] “We believe that there is a crucial role for the Government to play in helping the poorest producers access international markets and that fair trade is one means of doing this. We recommend that DFID encourage and fund proposals

for the expansion of fair trade where such proposals demonstrate that the outcomes would be beneficial to the very poorest farmers.”

We agree. DFID is very concerned about the plight of the poorest farmers in developing countries and the Government is committed to helping developing country farmers access international markets. However, many of the poorest farmers are unable to grow or buy enough food for their families and without this basic food security, research (Poulton, 2007) suggests that they are reluctant to invest in commercial agriculture. DFID is in discussions with the International Fairtrade Labelling Organisation (FLO) and FTF, about their proposals for expanding fair trade. We agree with the Committee that this must benefit the poorest farmers.

[Paragraph 104] “DFID says it is working to encourage the private sector to invest in innovative supply chains which deliver more returns to small scale farmers and farm workers. We regard this as a valid policy objective and one which should be vigorously pursued.”

DFID is designing a Food Retail Industry Challenge Fund to encourage the private sector to invest in innovative supply chains that deliver more returns to small scale farmers and farm workers. Once approved by Ministers we expect this to be operational towards the end of 2007.

[Paragraph 105] “Given that fair trade already has the commitment of major UK companies, it provides an easy conduit for engaging the private sector in development by investing in innovative supply chains with a focus on small scale farmers and workers. We recommend that the Government regularly reassess the balance between levels of funding from the private sector and from donors to the Fairtrade Foundation to determine how Government support can best add value to the fair trade movement and its scope, in the context of a rapidly changing market-place.”

We partly agree. The Fairtrade mark has made a significant contribution to engaging the private sector in fair and ethical trade issues. DFID is also working directly with suppliers and retailers and others involved in their supply chains in developing countries. We keep the balance of funding from the private sector and donors to the FLO and the FTF under review. We believe that the FLO and FTF should over time become financially self-sustaining without the need for government funding.

Department for International Development
28 September 2007