



TOWARDS A FAIRER WORLD TRADING SYSTEM

The Cancun Ministerial – A Fair Trade Perspective

Position of the International Federation for Alternative Trade (IFAT) regarding the 5th Ministerial Conference of the World Trade Organization (WTO), 10-14 September, Cancun, Mexico

The International Federation for Alternative Trade (IFAT) is the international Fair Trade association – a worldwide network of Fair Trade Organizations in more than 50 countries.

The Fair Trade movement has been trading for more than forty years. Our experience demonstrates that trade can – and should – alleviate poverty. However, not all trade is fair; in many cases trade can and does exacerbate poverty among the poorest groups in developing countries.

Through engagement with producers and partner organisations some of the world's poorest communities, IFAT members have first-hand knowledge of the conditions under which trade can be a powerful force for sustainable economic and social development.

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General Concerns

1. Fair Trade has shown that trade can reduce poverty, but only under certain conditions. Most companies continue to ignore their impacts.
2. Free trade needs to be fair before it can be a reality. Rushed liberalisation is damaging the poor; developing countries should have the right to protect vulnerable domestic markets.
3. Effective impact assessments are needed before any agreements are signed; current progress is weak. Small and Medium-sized Enterprises ('SMEs') in developing countries should be actively involved.

Specific concerns

1. The SME perspective is critical to making trade sustainable but is absent from the WTO.
2. The WTO's focus on market access is too simplistic: what is needed is a comprehensive strategy for building sustainable markets in developing countries.
3. Greater policy capacity is needed in developing countries: this must include the voice of SMEs and recognise the weak negotiation capacity of developing country governments.
4. The WTO's remit should not be expanded until these problems have been tackled.

A. IFAT: TRADING FOR SUSTAINABLE DEVELOPMENT

The International Federation for Alternative Trade (IFAT) is the international network of Fair Trade organisations, and its members have a unique perspective as both trading entities and campaigners for social justice. IFAT's membership includes some 111 producer groups, export marketing organisations and brands in 35 Latin American, African and Asian countries. It includes 15 Fair Trade organisations in USA and Canada, Australia, New Zealand and Japan; in Europe it includes 3,000 Fair Trade shops ("World Shops") affiliated to the Network of European World Shops (NEWS!) and 53 Fair Trade organisations in 11 European countries, including the European Fair Trade Association (EFTA).

Fair Trade organisations operate on the principle that trade can make a sustainable and significant contribution to poverty reduction. It is estimated that more than five million producers around the world benefit from Fair Trade terms and the producer support and capacity building that is provided.¹ In these ways Fair Trade is contributing to the realisation of the Millennium Development Goals, which seek to reduce the number of people living in absolute poverty by half by 2015. Through engagement with a worldwide network of producers and partner organisations who work with some of the world's poorest communities the Fair Trade movement had first-hand knowledge of the conditions under which trade can be a powerful force for sustainable economic and social development.

B. THE PRINCIPLES OF SUSTAINABLE TRADE: GENERAL CONCERNS

1. Fair Trade has shown that trade can reduce poverty, but only under certain conditions. Most companies continue to ignore their impacts.

1.1. The Fair Trade movement has been trading for more than forty years. This experience demonstrates that trade can – and should – alleviate poverty. However, not all trade is fair, and much world trade is not synonymous with social and environmental sustainability. In many cases, trade can and does increase instability, vulnerability to shock and exacerbate poverty among the poorest groups in developing countries. Furthermore, mainstream trade can be destructive of the environment, depriving the poor of sustainable livelihoods. The need to distinguish between types of trade – and to identify the characteristics needed to make trade sustainable – is absent from the Doha Development Agenda. In consequence the WTO is pursuing an approach which risks marginalising poor people even further.

1.2. Fair Trade organisations comply with a rigorous set of voluntary standards and are committed to a rules-based trading system. Yet it is a fact that the majority of businesses continue to violate standards set out in the UN Universal Declaration on Human Rights and the International Labour Organisation's Core Conventions, despite the fact that these internationally agreed standards have been enacted into national legislation of many Member States of the WTO. Incidences of non-compliance with internationally agreed codes and standards, such as are the norm in mainstream trade, should be dealt with robustly, at least by domestic regulation of company activity.

2. Free trade needs to be fair before it can be a reality. The WTO's pro-liberalisation approach is damaging the poor.

2.1. The rules which govern trading relationships at both the national and international level are critical in determining whether trade can have positive impacts on poverty.

2.2. Fair Trade organisations believe that free trade will only be a possibility where it is also fair. At present the vast majority of businesses do not internalise the costs of understanding and tackling their social and environmental impacts. By contrast, the Fair Trade movement believes that for trade to be sustainable, and in order not to distort markets, the full social and environmental costs of goods and services, as well as the financial costs, should be recognised. The Doha Development Agenda quotes the rhetoric of sustainability; Fair Trade organisations have the experience of how to make this a reality.

2.3. Where there are special concessions made by rich countries to poorer ones, these are usually little more than short-term expedients. Yet there is a growing body of evidence to show the damage to weak economies in developing countries wrought by liberalisation, including within the WTO. The results of the *Zambian Trade Policy Review (TPR)* (October 2002) is a recent example. Despite a full-scale liberalisation programme throughout the 1990s the TPR cites Zambia's GDP per capita as having fallen in real terms and the proportion of Zambians living in poverty as having increased from 70% in 1991 to 75%.²

2.4. Liberalisation as it is practised creates an economic environment that is worse for the poorest and most vulnerable, whilst large companies tend to consolidate their supply base. Where merely boosting competition and economic openness are the driving factors, the contribution that trade can make to sustainable development can be minimal and in some cases – as in Zambia – can be counter-

productive. Developing countries are often pressurised into liberalising their economies by donors.

2.5. Liberalisation should not be enforced as a 'one size fits all' economic solution. IFAT therefore calls on Ministers to ensure that – as a matter of principle – no pressure is put on developing countries at the Cancun Ministerial to enter into liberalisation programmes that could be against their national interest. The right of developing countries to protect vulnerable sectors of their economies, and to negotiate trade on terms which will protect the livelihoods of their citizens over the long-term and without pressure from donor- and developed countries, is the only basis upon which a meaningful development round can be built.

3. *Effective impact assessments are needed before any agreements are signed: current progress is weak. SMEs in developing countries should be actively involved.*

3.1. IFAT deplors the quality of research undertaken on the impact of the WTO agenda. Assessments to date – including the EU's Sustainability Impact Assessment of the WTO agenda – do not take account of the perspectives of the most vulnerable producers in developing countries and specifically are not yet engaging with SMEs. The Fair Trade movement focuses considerable resources on assessing and improving the poverty impact of its own activities. An important principle is that in impact assessments, local organisations should be able to set their own objectives. The absence of ownership or participation by poor producers, and of a livelihoods-level assessment of liberalisation impact, is a serious flaw rendering existing WTO's impact understanding meaningless.

3.2. Existing impact studies have been a parallel process to the launching of trade negotiations; they have not been conducted well in advance as they should. This demonstrates that impact studies are being used as merely a token measure and will have little meaningful influence over the negotiations.

3.3. In order to win support for a truly developmental trade round, Ministers should use Cancun as an opportunity to agree a timetable for assessing the likely social and environmental impacts of all current and future proposals, before any new commitments on trade are elicited and before any so-called 'new issues' are tabled. It is essential that these impact assessments are carried out in a transparent and accountable manner, actively seeking the contribution of the most economically vulnerable groups in each sector.

C. HOW THE WTO AGENDA IS BETRAYING DEVELOPMENT: SPECIFIC CONCERNS

1. *The perspective of Small and Medium-sized Enterprises is critical to making trade sustainable*

1.1. The Small and Medium-sized Enterprise (SME) sector is a significant employer in many developing countries, particularly amongst the poor, and a major contributor to GDP. In recognition of this IFAT works to encourage the development of SMEs through the provision of business support services and through direct trading links which prioritise such enterprises. Developing country SMEs are vital in making the DDA achievable but their perspective is lost in current WTO debates, where engagement with the private sector is overwhelmingly focused on multinational corporations. The WTO must recognise the importance of the SME

sector in developing countries and must begin to take account of this group if its policies are to be representative and developmental.

1.2. Fair Trade operates through traceable supply chains, on the principles of transparency and respect, so that full account can be taken of the impact of policies or actions on producers. Most multinational corporations do not have traceable supply chains, and this lack of transparency means they are unable adequately to assess the impact of trade policies at a livelihoods level among producer groups in developing countries. When assessing policy options that favour development – in compliance with the rhetoric of the DDA – the WTO must insist upon accountability and transparency in international supply chains, regulated by national and international law.

1.3. In the poorest countries where IFAT members operate, national strategies in trade negotiations – as in other central policy prescriptions such as poverty strategies – do not yet adequately represent the needs or interests of SMEs and so policies are adopted, and trade agreements signed, with little dialogue between national government and the SME sector as to the implications – for better or worse – to their businesses and the livelihoods dependent upon them. A long-term programme of meaningful capacity building is needed to solve these problems, until which time the current WTO system will not cease to be unfair.

2. *The WTO's focus on market access is too simplistic: what is needed is a comprehensive strategy for building sustainable markets in developing countries.*

2.1. One of the central principles of IFAT members is that trade should be a transparent, accountable and equitable partnership. In this spirit of partnership, IFAT members in industrialised countries commit resources to build the capacity of their partners in the South. This aspect of capacity building can range from pre-order financing to the provision of a range of long-term business development services, and goes well beyond the norm of short-term (often only seasonal) embedded service delivery found in mainstream commercial supply chains.

2.2. IFAT members recognise the importance of dealing with supply-side constraints in building more sustainable trade between poor and rich nations. While this is an issue which is receiving increasing political attention, the provisions made remain insufficient. The need is not simply for increased access to international markets, but market access linked at every stage to capacity building programmes to increase the ability of developing countries to compete in new international markets. Long-term capacity building inputs are needed across a range of business development services including marketing, pricing, product design, quality assurance, health and safety compliance and logistics. Particular emphasis should be placed on support to developing countries in increasing the number of stages within a supply chain which they are able to facilitate locally. Regulatory changes to market access without coherent business development inputs will mean that the economic benefits of international trade, and the consequential benefits to livelihoods in poorer countries, will not be realised.

2.3. It is important to stress that capacity building of itself will only achieve limited success in market development. Trade rules and regulations in numerous sectors continue to shackle businesses in developing countries, made more unjust by vast subsidies to EU and US businesses, and a plethora of import barriers and restrictions. While this regulatory and subsidy regime continues the capacity of any developing country business to trade internationally will continue to be limited.

2.4. Fair Trade was established to support marginalised producers to access *appropriate* markets – including local, regional and international markets. Developed country tariffs for processed agricultural goods are often much higher than for raw materials. This poses a critical barrier to the development of export markets in many goods where developing countries are competitive and on which many poorer producers rely. It also deprives producers of the ability to add value to their goods, placing a ‘glass ceiling’ on developing countries’ ability to integrate into the world economy on an equitable and sustainable basis.

2.5. The use of social and environmental labels is entering the WTO agenda as a tool for securing greater market access. No discussion of this should be undertaken without the participation of corporate social responsibility initiatives in developing countries, and of representatives of developing country SMEs. This is necessary to ensure that the promotion of labels or codes is mutually productive, culturally appropriate and not simply another form of barrier to market entry for Southern businesses.

3. *Greater policy capacity is needed in developing countries. This must include the voice of SMEs and recognise the weak negotiation capacity of developing country governments.*

3.1. IFAT supports the principle of a rules-based trading system provided that system is transparent, accountable and fair. Free trade can only be fair if the rules that govern it take into account the special needs of developing countries. The rhetoric of the Doha Development Agenda does not take account of the immediacy of the problems facing developing countries in engaging with multi-lateral trade negotiations at the WTO.

3.2. Many developing countries – even those with a permanent trade representation in Geneva – face an impossible task in keeping up with the negotiations schedule that, by its very nature, favours richer countries with far greater representation. This is also true of WTO Ministerials – the EU, for example, fielded more than five hundred negotiators in Doha. The capacity building programmes of the WTO and through the WTO Training Institute are insufficiently country-specific or long-term to prepare developing country representatives adequately to engage in the WTO process. A full participatory evaluation of existing training provision should be undertaken as a priority.

3.3. At the same time there are capacity problems in many developing country capitals. In many cases there are simply not the resources available in government to assess and evaluate trade policy options and then instruct resident representatives in Geneva. There is also insufficient capacity to ensure that policy making is representative of different domestic stakeholders, most particularly poor producer groups and SMEs. Until these imbalances are redressed it is impossible to expect developing countries to present a considered response to negotiations under the DDA. Their right to opt out of those trade or trade-related aspects which concern them should be protected, regardless of the slow progress being made under existing Special and Differential Treatment negotiations.

3.4. Despite these problems, industrialised nations are continuing to pressurise developing countries into further trade liberalisation. In particular, the EU’s mandate for negotiating Economic Partnership Agreements (under the Cotonou Agreement) with 77 African, Caribbean and Pacific countries goes well beyond existing WTO negotiations, particularly on services. Given the EU’s influential position as donor to

many developing countries, such 'back-door' tactics constitute unfair bullying and should cease, and new trade negotiations should only be entered into when they are agreed as being developmentally valuable.

4. *The WTO's remit should not be expanded until these problems have been tackled.*

4.1. IFAT believes that the World Trade Organisation should exist only for the formulation and monitoring of trade rules that will benefit all people equally. Issues that are not trade issues should not be dealt with at the WTO. There are serious developmental risks in increasing the WTO's remit, not least in increasing the potential barriers to industrialised markets for developing country producers. In particular, the so-called 'new issues' should not be discussed until the issues cited here have been addressed effectively.

4.2. While welcome efforts have been made since Seattle to make the WTO more transparent – in terms of access to key documents – the process remains grossly undemocratic. If the spirit of the Doha Development Agenda is to be realised the practice of conducting WTO business at unrepresentative mini-Ministerials – of the kind that took place in Sydney and Singapore, where substantial decisions are taken by a powerful minority – must cease.

The Fair Trade movement began as an alternative to mainstream trade, focusing on the need for an equal trading partnership between rich and poor countries, in pursuit of sustainable development. The Doha Development Agenda is still failing the poorest producers in developing countries. There can be no fair world trading system until there is equity – of political intent, of resources, of opportunity, of capacity and of benefit.

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ANNEX 1: THE PRINCIPLES OF FAIR TRADE

i) IFAT works to a definition of Fair Trade agreed with other networks in the movement:

“Fair Trade is 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, marginalized producers and workers – especially in the South.

“Fair Trade organisations (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.”

ii) Fair Trade sets out to address the inequity of the present global trading system, which neglects the needs of poor producers at the bottom of the supply chain who are not represented in trade negotiations and have no negotiating power. Fair Trade works in developing countries with producers of agricultural, manufactured and handcrafted products whose circumstances effectively marginalise them from mainstream trade. In most cases these producers will be workers' cooperatives and small and medium-sized enterprises (SMEs), although this is not a requirement of Fair Trade. Terms of trading are set in a way that ensures producers receive a price that covers a fair return on capital costs and labour, plus business training and support where needed. In many cases it is necessary to provide pre-delivery financing, in recognition of the economic vulnerability of the groups with whom Fair Trade organisations work. In particular Fair Trade organisations work to establish trading relationships that are transparent, equitable and accountable thereby ensuring that producers are able to overcome barriers to trade and establish sustainable livelihoods.

iii) The fair prices and premium paid to businesses and communities engaged in Fair Trade also allow collective saving schemes which are then invested in community-owned projects that improve the standard of living of all.

iv) Fair Trade is a growing market, in terms of the number of consumers and producers. There are now more than 800,000 small-scale producers working in nearly 3,000 grassroots organisations producing Fair Trade and Fairtrade labelled goods. In addition to Fair Trade shops, Fair Trade products are now available in 43,000 supermarkets and an estimated 70,000 other sales points across North America, Europe, Japan, Australia, New Zealand and, increasingly, in other parts of the Southern Hemisphere. The sales volume of Fairtrade-labelled products alone has increased 15-20% a year over the last five years. Estimated retail turnover in 2002 was 260 million €/US\$. In 2002, sales of Fairtrade-labelled products are estimated to have generated 50 million US\$/€ of additional income to producers and workers.

v.) Contact details of the IFAT Secretariat:

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¹ European Fair Trade Association. See www.eftafairtrade.org

² World Trade Organisation. See www.wto.org