

Fair Trade in Hong Kong's WTO Negotiations between Footnote and Challenge

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International trade is a driving force of economic growth in the world economy. However, a large part of national businesses and multinational corporations do not fully internalize the social and environmental costs of the impact of their activities, neither in production nor in transportation; distorted competition prevails; relevant market information is lacking; there is an undersupply of public goods. These kinds of **market failure**² are the starting point of the Fair Trade movement. In order for trade to be sustainable, and not to distort markets, the full social, environmental and economic costs of goods and services must be taken into account. While many governments and international bodies pay tribute to sustainable development in their declarations, the implementation of the principle severely lags behind. Consisting of a myriad of private initiatives, the Fair Trade movement gains practical experience of how to contribute to a sustainable society by internalising externalities and correcting market failures³.

Approaching it positively, "**Fair Trade**" denotes a qualified type of trade relationship oriented towards sustainable development in the sense of social equity, economic security and ecological methods of production. The Fair Trade movement 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, marginalized producers and workers – especially in the South"⁴. Key elements⁵ of fair trade are

- Fair minimum prices in a local context
- Long term trade relationships
- Pre-financing
- Environmentally sustainable production
- Respect for core labour standards
- Openness to public accountability
- Capacity building for producers.

There is a large and fast growing number of **fair trade initiatives** in the North as well as in the South. However, the organisational strength of the movement is still rather weak and its emergence at the global level is very recent. In 2003, on the occasion of the Ministerial Conference of the World Trade Organisation (WTO) in Cancun, for the

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² See Potts Jason, Fair Trade Policy in Consuming Countries: Developing Strategies for Greater Market Penetration, draft, IISD 2004, pp. 7-9

³ The vision of the Fair Trade movement goes beyond UNCTAD's perception of unfair trade, referring to government support for unfair competition only instead of taking sustainable development as the yardstick. As UNCTAD Secretary General Rubens Ricupero put it to the trade ministers in Cancun (Mexico) in 2003: "Instead of fair competition, there are subsidies by rich countries that tilt the playing field against the poor". Ricupero Rubens, Message to the Fifth Ministerial Conference of the World Trade Organisation in Cancun, 10 September 2003

⁴ FINE, as quoted in the UNCTAD NGO Fair Trade Declaration, Sao Paulo 2004

⁵ See Potts 2004, p. 4; FLO: <http://www.fairtrade.net/sites/standards/general.html>; Fairtrade Foundation: http://www.fairtrade.org.uk/about_standards.htm; Max Havelaar: <http://www.maxhavelaar.ch/en/maxhavelaar/quetesiegel.php>

first time an international Fair Trade Fair⁶ took place. At the World Social Forum (WSF)⁷ in Mumbai (India) 2004 a number of events were dedicated to issues of fair trade – also an innovation for that gathering stimulating alternative visions. The UNCTAD XI conference 2004 in Sao Paulo provided the occasion of a Fair Trade Declaration signed by over 90 NGOs from 30 countries⁸. Last but not least, the WTO Ministerial Conference in Hong Kong 2005 provides the forum for another global Fair Trade Fair hosted by a NGO coalition⁹. The main four international umbrella organisations cooperate in an informal working group called FINE¹⁰:

- Fairtrade Labelling Organizations International (FLO-I);
- International Federation for Alternative Trade (IFAT);
- Network of European World Shops (NEWS!);
- European Fair Trade Association (EFTA).

Fair Trade is a **success story** and continues to be an area of growth. Millions of people in 48 countries of Latin America, Africa and Asia benefit from Fair Trade relationships. However, using a sustainable livelihoods perspective, early research results indicate that mainly members of producer organizations benefit and spillovers to the wider community are limited¹¹. More impact research is warranted¹². In 2002, worldwide sales of Fair Trade products were estimated at over US\$ 400 million and the market is growing rapidly.¹³ International sales grew in 2003 by an average of 43%, including 61% growth in the UK, 81% in France and 400% in Italy. In the US, sales of Fairtrade certified coffee grew 93% in 2003. In the US, in 2003 an additional USD 16 million was returned to producers over what they would have earned in conventional markets¹⁴.

Box 1: Switzerland as a Fair Trade market leader

Switzerland is fair trade market leader measured by market shares. In cacao/chocolate it is around 1% and in black tea 5%. In orange juice 6%, in the retail coffee market and in rice sales 6% have been achieved. In pineapples fair trade sales reach 15%, in cut flowers 28% and with bananas even 47% of the retail sales in Switzerland. The turnover in Max Havelaar labeled products exceeded in 2004 CHF 210 million. The producers in Asia, Africa and Latin America received a revenue 40% higher than what they would have had through conventional trade channels. The activities of the Max Havelaar Foundation Switzerland are entirely covered by the revenue originating from licensing the Max Havelaar label.

Source: Max Havelaar Foundation, Activity Report 2005

These remarkable figures translate into contributions to achieve the **Millennium Development Goals (MDGs)**¹⁵ as set out by the UN Millennium Summit in

⁶ See www.fairtradeexpo.org (→ Archives)

⁷ See the report by Audet René, Summary of the Fair Trade Movement's Activities. World Social Forum 2004, Mumbai, January 16 – 21, 2004, Alliance for a Responsible, Plural and United World, Alliance 21

⁸ NGOs, UNCTAD Declaration

⁹ See Box 2 below, and www.fairtradeexpo.org

¹⁰ "FINE" consists of the first letter of each member organisation.

¹¹ Tallontire Anne, Challenges Facing Fair Trade: Which way now?, Paper for the DSA conference 2001: Different Poverties, Different Policies, Manchester 10-12 September 2001, p. 8

¹² Misereor/Bread for the World/Friedrich-Ebert Foundation 2000; Tallontire 2001

¹³ Figures from the Fairtrade Labeling Organizations International (FLO)

¹⁴ Hamerschlag Kari, Beyond Market Niche: Lessons from Fair Trade for international trade policy, corporate reform and development policy, presentation at the Civil Society Forum, Sao Paulo 11 June 2004

¹⁵ Details on the MDGs can be found at: <http://www.developmentgoals.org/>, <http://www.undp.org/mdg/> and <http://www.un.org/millenniumgoals/>, http://millenniumindicators.un.org/unsd/mi/mi_goals.asp.

September 2000. 189 countries signed the Millennium Declaration and committed themselves to a specific agenda for reducing global poverty by half by 2015. In doing so, they created a vision that offers the opportunity to focus on development outcomes and to coordinate efforts among stakeholders. The MDGs represent an agreement in the global community to achieve in a time bound manner measurable improvements in people's lives. The eight MDGs comprise both income and non-income related measures of well being. Each of the first seven goals addresses a specific aspect of poverty, such as health or education, whereas goal eight requires developed countries to embark on a global partnership for development. MDG eight includes the obligation for a coherent development policy, in particular in trade¹⁶. Therefore, fair trade should occupy a prominent place in the MDG context. The United Nations review in September 2005 the progress made by the world community in pursuing the MDGs. It is becoming more and more obvious that at the current rate of progress, many countries and regions will not reach the MDGs by 2015. Additional efforts are required – e.g. in trade.

Despite these achievements and growth rates, fair trade remains a **footnote of world trade**. The global fair trade sales of USD 400 million compare to an overall trade volume in goods of USD 6270 billion (2002). The fair trade market still has a high potential to expand and reach new sectors, increase consumption, create new products and open up new distribution channels, including those of commercial enterprises prepared to adopt a Fair Trade strategy. Despite considerable market growth the fair trade movement remains trapped in a market niche if not truly innovative steps are undertaken. This line of thinking is not growth for the sake of growth but takes the concerns of producers seriously seeing fair trade as a business opportunity to make a better living. The future expansion of fair trading is therefore the main economic challenge the Fair Trade movement is confronted with.

Multilateral trade negotiations reflect that marginal trading volume as a **missing link** – fair trade concerns are not on the agenda at all despite that the latest WTO negotiations, started in 2001 in Doha (Qatar), are said to be a development round. Fair trading is a private initiative, recognized or promoted by only a handful of governments from the North and the South. That may explain why fair trade at the political level has not even reached the status of a footnote in negotiations. In order to make use of the leverage potential, efforts should be made to clarify the relationship of fair trade concerns to the ongoing multilateral trade negotiations and to include them on the agenda. This trade policy option offers a perspective of a great leap forward and constitutes a key political challenge for the Fair Trade movement.

Astonishingly, even among leading non-governmental organizations (NGOs) like the Third World Network or Oxfam fair trade experience leads at best to a **weak political message** if the concerns are voiced at all. The latest telling example is the campaign “Make Poverty History”¹⁷ where the common declaration includes trade as an issue of major relevance for development but does not mention fair trade at all. This self-marginalisation instead of mainstreaming may be due to (1) fair trade practitioners and advocacy staff being different people, and (2) a blurred message what

¹⁶ One of the 10 task forces of the United Nations' Millennium Project was dedicated to “Open, Rule-Based Trading Systems” under the coordination of Patrick Messerlin and Ernesto Zedillo. See www.unmillenniumproject.org

¹⁷ See www.makepovertyhistory.org

constitutes fair trade in a WTO context. Fair trade initiatives should become more concerned about the trade policy context of their own activities¹⁸.

Lessons learned from Fair Trade experiences should be drawn *and mainstreamed into the trade policy reform agenda*, an agenda equally relevant for NGOs as well as governments. At the World Social Forum (WSF) 2004 fair trade actors agreed that the WTO ought to be reformed instead of fighting for its elimination¹⁹. There is no fundamental contradiction between fair trade and conventional trade; in its preamble the WTO enshrines the principle of sustainable development. The WTO philosophy is not committed to unlimited competition but to a rule based system providing a level playing field. The ingredients of a level playing field also for the economically weaker players must become a matter of trade negotiations. The reconciliation of social and environmental requirements with the economic driving forces in world trade must become part of a sustainable trade package²⁰ and the voice of Fair Trade organisations should be heard.

Box 2: A Fair Trade Fair and Symposium in Hong Kong

A global NGO coalition is organising a Fair Trade Fair as a parallel event to the WTO Ministerial Conference in Hong Kong. The lead is with the Institute for Agriculture and Trade Policy (IATP, US); in the steering committee are represented Oxfam (Hong Kong), equiterre (Canada), Asia Fair Trade Forum (AFTF, Philippines), Gerster Consulting (Switzerland, on behalf of the Swiss State Secretariat for Economic Affairs, seco). The events in Hong Kong include an opening reception (December 13, 2005), followed by a three days fair trade market (December 14-16), a fashion show (December 14) and an international Symposium (December 15) with top experts on fair trade and the WTO. Among the sponsors of the Fair Trade Fair are seco, CIDA, CGIAR, World Bank, and Oxfam. See www.fairtradeexpo.org

The *rationale for support* of fair trade by public policy is obvious when referring to market failures including externalities, distorted competition, lack of information, and undersupply of public goods. The fair trade concerns coincide with the Millennium Development Goals, and they overlap with a number of foreign policy objectives as stated e.g. in the Organisation of American States' regional development policy²¹. Similarly, the objectives of the Foreign Policy Report 2000 of the Swiss Government²² have a large affinity to the fair trade principles. Support means first of all the creation of an appropriate framework for sustainable production and trade. As a business opportunity, after a transitional period fair trade should become anyway self-supporting and no longer require public financial support. This stage has already been reached by Max Havelaar Switzerland and is projected as an overall vision by Fair Trade Labelling International (FLO)²³.

¹⁸ That has been one of the key recommendations of the research done by Misereor/Bread for the World/Friedrich-Ebert Foundation 2000

¹⁹ Audet 2004

²⁰ There are different opinions in the movement on which way to go. As discussed at the WSF, "should the WTO be reformed to push towards more open markets, as the G-20 is demanding, or should it be reformed to allow national governments to protect their domestic market, as many stakeholders are proposing?". See Audet 2004

²¹ Potts 2004, pp. 4-6

²² Federal Council, Foreign Policy Report 2000, unofficial English translation

²³ Paola Ghillani, former President of FLO and former Executive Director of Max Havelaar Switzerland, on the occasion of the Fair Trade Fair in Berne (Switzerland) on 1 September 2003.