

# The Case for Fairness in Trade

How trading relationships enable producers to invest in sustainability and can benefit all actors in the supply chain



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## Abstract

Many initiatives targeting sustainable production and trade focus their interventions at the producer or worker level. They tend to ignore the extent to which the quality of trading relationships in the supply chain affects their work. Fairtrade is a notable exception with several interventions aimed specifically at influencing trading relationships (e.g. by the Fairtrade Minimum Price and Trader Standard). The Fairtrade Foundation and Fairtrade Deutschland have sought to further strengthen their approach to fairness in trade and their impact on sustainable practices. To this end they requested Aidenvironment and IIED to research four key Fairtrade supply chains. A striking finding was the extent to which trading relationships directly influence producer capacity to invest in sustainability.

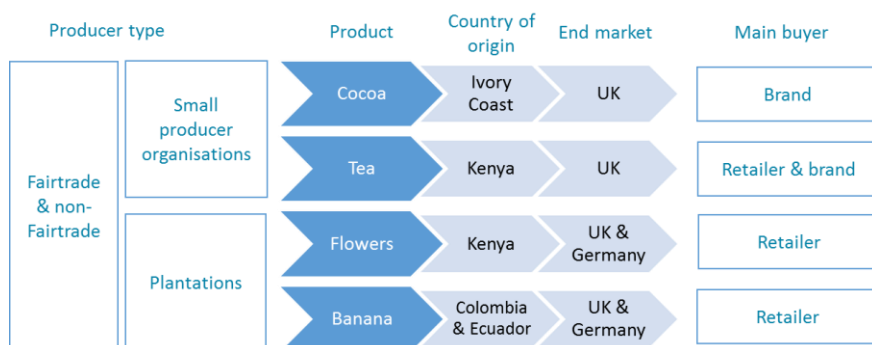
Inspired by the research, this paper seeks to define more broadly what is meant by fairness in trade. We discuss the factors that influence fairness with examples from the supply chains investigated. These cases show an increasing pressure on prices and margins throughout the value chain, so that the key challenge is to ensure that there is sufficient total value for a fair share at each stage of the value chain. We show how Fairtrade’s supply chain interventions have enhanced the capacity of producers to invest in sustainability and have brought safeguards for upstream businesses against unfair trading practices. This impact is, however, not felt everywhere and Fairtrade’s influence on downstream companies is limited. To deepen its impact on trading relationships, we advise Fairtrade to engage with all supply chain actors, conduct stricter auditing of its Trader Standard and in its advocacy and campaigning work to pay more attention to fairness in trade, through the entire supply chain.

This paper ends by discussing the elements of a business case for companies to invest in fairness in trade, including supply security, transparency, reputation and business stability. We also provide recommendations to the public sector and civil society on how they can promote fairness in trade. And we see that companies bear responsibility for sustainability in the whole supply chain.

## Background

This paper is inspired by research commissioned by the Fairtrade Foundation and Fairtrade Deutschland to further strengthen their approach to fairness in trade (for producers) and their impact on sustainable practices. This research assessed the extent to which Fairtrade, through its supply chain interventions, improves fairness in trade and the impact on sustainable practices at producer and worker level. It focused on four key Fairtrade value chains – tea, cocoa, bananas and flowers – from specific producing countries to the markets in the UK and Germany (see Figure 1). For cocoa and tea, the focus was on smallholder production and in bananas and flowers on medium- to large-scale plantations. The research was based on semi-structured interviews with approximately 60 Fairtrade certified and non-certified companies (through the supply chain, from producer to retail), focus group discussions with smallholders and workers and key informant interviews.

Figure 1: Scope of the research



The research was based on semi-structured interviews with approximately 60 Fairtrade certified and non-certified companies (through the supply chain, from producer to retail), focus group discussions with smallholders and workers and key informant interviews.

This paper summarizes some key considerations from the research looking more broadly at fairness in trade. It also presents a brief summary of the findings with respect to the impact of Fairtrade’s supply chain interventions on fairness in trade. The purpose of the paper is to inform a wider audience about the need to place more emphasis on trading aspects when promoting sustainable production and trade.

## A great diversity of trading relationships

Trading relationships differ by context, circumstances and objectives, ranging from traditional, arm’s length, independent relationships to complex networks of collaborating organisations.<sup>1</sup> A number of different types of trading relationships were found in the sectors included in the research. In the tea case, trading relationships were typically short-term with a high proportion of tea sold via the Mombasa tea auction. In cocoa, a mixture of spot transactions and longer-term trading commitments existed throughout the value chain. In flowers and bananas, there is some vertical integration from production to wholesale alongside a wide variety of spot, seasonal and annual contract agreements. Table 1 shows the key characteristics of the trading relationships in the four focus sectors.

*Table 1: Key characteristics of trading relationships in cocoa, tea, bananas and flowers*

Commodity; Geographic focus	Types of relationship identified
Cocoa; Ivory Coast to UK	<ul style="list-style-type: none"> <li>• Annual contracts and spot transactions</li> <li>• Exclusive relationships between cooperatives and exporters</li> <li>• Introduction of multi-year commitments that include sustainability targets</li> </ul>
Tea; Kenya to UK	<ul style="list-style-type: none"> <li>• Majority are spot transactions (e.g. via the Mombasa Tea auction)</li> <li>• Some direct relationships between producers and buyers, but few</li> <li>• Annual or multi-year contracts between packers and brands/retailers</li> </ul>
Bananas; Colombia and Ecuador to UK and Germany	<ul style="list-style-type: none"> <li>• Spot transaction and, increasingly, annual contracts</li> <li>• Vertical integration from production to wholesale</li> <li>• Some moves toward direct trade relationships between retailers and producers/exporters</li> </ul>
Flowers; Kenya to UK and Germany	<ul style="list-style-type: none"> <li>• Contracts with various durations up to one year</li> <li>• Spot transactions via auction</li> <li>• Vertical integration from producer to packer</li> </ul>

In all sectors except for tea we found that trading relationships are becoming more direct (i.e. with fewer intermediaries) and stable. In flowers, there is a tendency towards reducing the number of first tier suppliers and seeking larger, long-term, more strategic relationships with the remaining suppliers. In bananas, German retailers are increasingly developing direct relationships with exporters or importers instead of relying on wholesale markets, while UK retailers shifted to this model some time ago. In cocoa, some brands have developed a Memorandum of Understanding (MoU) with their suppliers. Such an MoU is, for example, set for a three-year period and includes intended volumes to be sourced, expected sustainability impacts and possible certifications. In turn, these suppliers (cocoa exporters) increasingly discuss multi-year planning of volumes with the cooperatives that are part of their programmes.

<sup>1</sup> Hornibrook, S., Fearne, A., Lazzarin, M. 2009. Exploring the association between fairness and organisational outcomes in supply chain relationships, *International Journal of Retail & Distribution Management*, Vol. 37 Iss: 9, pp.790 – 803

## Trading relationships influence sustainability at producer level

Many initiatives in the cocoa, tea, banana and flower sectors aim to improve the social, environmental and economic performance of producers. They typically focus directly on achieving change at producer and worker level, for example through improvement of yields and income, adoption of sound social and environmental production practices, improvement of working conditions or community investments. Some initiatives promote market access by creating linkages between producers and buyers. However, they generally pay no attention to how trade is practiced: how negotiations take place; price-setting; transparency; contracting; and conflict resolution.

This lack of attention to trading relationships is unfortunate, as our research identified examples in all four sectors where the nature of trading relationships (including those downstream in the chain) has a direct influence on sustainability at producer level. Trading relationships can have an important influence on a producer's economic viability and capacity to invest in sustainable practices. In the banana sector in Ecuador, for example, more secure contracted volumes enable banana plantations to provide more stable year-round employment to their workers. Without these guarantees plantations are often confronted with cancellations in buying orders, making it too risky to provide job security to workers. In both the banana and flower sectors, payment of a premium above market prices enables a variety of investments in worker benefits and community development.

In cocoa, chocolate manufacturers and exporters increasingly develop longer-term trade relationships with cooperatives in Ivory Coast. These trading relationships include multi-year off-take projections and the provision of capacity building, pre-finance<sup>2</sup>, traceability systems, monitoring and (sometimes) certification support. Such trading relationships allow cooperatives to secure supply and become a more viable trading partner. It also enables them to create more value for their members, including better returns, capacity building and investments in community development projects. This is in sharp contrast to those cooperatives and farmers operating outside of organised supply chains. These cooperatives are confronted with significant insecurity in market uptake, distrust between farmers, cooperatives and buyers, and a lack of resources to make any investment at all. Similarly, in the Kenyan tea sector, there are few long-term commitments between downstream buyers and producers. Buyers essentially shop around for the cheapest price because tea is a blended product and the market trend is one of oversupply. This undermines producers' income and their ability to make investments in any kind of sustainability.

Our research suggests that direct and stable trading relationships across different supply chain actors are often an essential element in fair trading relationships. More stable trading relationships can increase trust and collaboration and can reduce commercial risks. They also provide a stronger basis for buyer investments in the supply chain as buyers are more likely to gain from the benefits of these investments (not least because it often takes some time before the results of such investments become visible). Whether more direct trading relationships result in fairer trading practices does however depend on the business model and the ethics of the buyer. For example, if a retailer seeks to source directly from a producer only to undercut costs, this can expose the producer or exporter to additional risks which would otherwise be borne by the trader.

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<sup>2</sup> Pre-finance is advance payment for cocoa which enables producer organizations to secure cocoa from their members, as it means they can pay cash on delivery rather than having to wait until the cocoa reaches its final destination.

## Defining fairness in trade

The examples above suggest that ‘fairness in trade’ deserves more attention as a means to promote sustainability at the producer level. But how to define fairness in trade? Fearne et al. (2012)<sup>3</sup> state that fair trading relationships are collaborative and based upon trust, commitment, transparency and integrity. They emphasise that sustainable supply chains have a more strategic and collaborative nature and are less opportunistic. Sustainable supply chains are: (1) lean – they use resources efficiently; (2) agile – they respond to market signals quickly; (3) resilient – they have the capacity to recover from external shocks; and (4) responsible – they are sensitive to social and environmental pressures<sup>4</sup>.

Fairness is a necessary element of sustainability. It adds another dimension to these four conditions. Fairness is about honesty, building goodwill and building stronger relationships that are beneficial to all concerned. And herein – because of their influence on the whole supply chain – lies a responsibility for downstream businesses in the chain.

Hornibrook et al. (2009) translate fairness in trade into five components in buyer-supplier relationships:

- *Distributive justice*: the fairness of the distribution of benefits (e.g. margins)
- *Procedural justice*: the fairness of decision-making processes (e.g. contract negotiations)
- *Informational justice*: the fairness of the exchange and use of information (e.g. on prices and quality norms)
- *Inter-personal justice*: the fairness of communication between individuals (e.g. frequency and respect)
- *Commitment*: the allocation of resources – time, effort, money – to strengthen relationships and improve value chain performance.

These five components have been used as basis for defining fairness in this research.

Our research identified several aspects important to fair trading relationships (see Table 2).

*Table 2: Characteristics of fair trading relationships*

Conditions of fairness	Characteristics which contribute to fairness
<ul style="list-style-type: none"> <li>• Receiving the best available (‘lead’) price/transparency in price setting</li> <li>• Protection against price volatility</li> <li>• Clear and fair payment terms</li> <li>• Respect of contractual obligations</li> </ul>	<ul style="list-style-type: none"> <li>• Mid-to long-term buying commitments</li> <li>• Capacity building of producers from buyers</li> <li>• Price premiums for sustainability investments</li> <li>• Availability of pre-finance</li> <li>• Good personal relationships, mutual respect</li> </ul>

The characteristics in the left column of Table 2 are conditions for fairness to producers and value chain actors. In the absence of these conditions, trade was generally considered to be unfair. Examples of unfair trading practices included long payment delays, unjustified quality claims or rejections of produce on the basis of quality claims not known in advance, non-respect of contract terms, unexpected rebates, and abuse of market power in price negotiations. The characteristics in the right column of Table 2 are practices that enhance fairness in trade, but their absence would not generally be considered to be unfair. Most of the characteristics were important to suppliers, but buyers also recognized them to be important to fairness in trade.

<sup>3</sup> Fearne, A., Yawson, D., Buxton A, Tait, J. 2012. Measuring fairness in supply chain trading relationships: A methodology guide, published by Kent Business School, IIED, Oxfam and Unilever

<sup>4</sup> Fearne, A. 2009. Sustainable food and wine value chains. Final Report – Adelaide Thinkers in Residence, Department of Premier and Cabinet, Government of South Australia, Adelaide.

## The context also influences fairness in trade

Our research found that trading practices throughout the value chain largely depend on market dynamics — and public sector governance. Table 3 presents key supply chain dynamics, market dynamics and policy related factors which were found to influence fairness in trade.

*Table 3: Factors that work in favour of and against fairness in trade.*

Factors that work in favour of fairness	Factors that work against fairness
<ul style="list-style-type: none"> <li>• Need to secure supply, traceability and impact</li> <li>• Duration of trading relationships and trust</li> <li>• Producer ownership in downstream entities</li> <li>• Price stabilization mechanisms</li> <li>• Mandatory Code of Conduct</li> <li>• Transparent pricing mechanisms</li> <li>• Market concentration</li> </ul>	<ul style="list-style-type: none"> <li>• Oversupply</li> <li>• Blending</li> <li>• Tendering processes</li> <li>• Price wars in retail</li> <li>• Open markets</li> <li>• Market concentration</li> </ul>

### *Need to secure supply, traceability and impact*

Business drivers for establishing more stable trading relationships were the need to have a secure year-round supply of quality products (particularly applicable to fresh products such as bananas and flowers) and brand or retailer requests for traceability and specific sustainability impact. This was particularly the case in cocoa, though in some cases in tea brands or retailers also wanted to be able to ‘tell a story’ of their impact on the ground with specific producers.

### *Duration of relationship and trust*

The duration of the relationship positively contributed to fairness: as the duration of trading relationships increases, trust tends to increase and trading partners more often recognise the need for all parties to benefit from the trade. Good personal relationships between individuals at different nodes of the supply chain contributed to higher trust levels and more stable trade relationships.

### *Producer ownership in downstream entities*

We found that a fairer distribution of value can be secured by producer ownership of downstream entities. In tea, some farmers have greater bargaining power and retain greater share of the value of tea because they are shareholders of the factory (for example via the KTDA<sup>5</sup>). In bananas, producer-exporters and producers who have shares in an export company are in a stronger position than producers without their own export arm. Vertical integration into other parts of banana supply chains, such as input supply, port loading, shipping and imports further consolidates this advantage. However, the balance of power in vertically integrated firms can also work against producers: in the flower sector, farms in vertically integrated companies reported having less bargaining power as company structures and strategy are more likely to dictate prices per cost centre.

### *Price stabilization mechanisms*

Public sector governance in producing countries can have a significant impact on fairness in trade. The clearest example was found in the cocoa sector in Ivory Coast where the government has introduced guaranteed minimum prices, applying to producers, traders and exporters. This has fundamentally changed trading practices and the distribution of margins. It makes negotiations, and potential abuse, over price-setting irrelevant. Producers and value chain actors appreciate its effect on producers in terms of transparency, value distribution and price stability. There is, however, also criticism as the fixed margins for cooperatives, traders and exporters are considered to be too low, reducing their capacity to

<sup>5</sup> Kenya Tea Development Agency Holdings Ltd. – an investment company owned by smallholder tea farmers in Eastern Africa. In 2014, KTDA had 65 tea processing factories (owned by 54 Factory Companies) under management – with over 560,000 small-scale tea farmers, who supply green leaf to the factories and are also shareholders of their respective Factory Companies.

invest in producers. Current support by these intermediaries to producers is largely funded through premiums paid by chocolate manufacturers. Other examples of policies are national standards for sustainability and quality, stabilization funds, and levies and taxes on production and export.

#### *Mandatory Codes of Conduct*

Public policies in consumer countries can also influence the fairness in trade. In the UK, concerns about exploitation and abuse of negotiating power by retailers resulted in the creation of a Groceries Supply Code of Practice (GSCOP) by the UK Department for Business Innovation & Skills. The GSCOP and associated Groceries Code Adjudicator has made retailers more mindful of trading practices with their first-tier suppliers. It has curtailed excessive or unfair retailer power to some extent. Some respondents reported, however, that prohibited practices continue, such as charging for packaging design, or asking for retrospective rebates. They claim that the Code requires more thorough, and innovative, monitoring (suppliers may be reluctant to report non-compliance by their clients) as well as the inclusion of lower tier suppliers in its scope.

#### *Transparent pricing mechanisms*

Transparency in pricing mechanisms is important. For example, auctions – provided they operate without collusion – are more likely to be considered fair because they facilitate price discovery based on supply and demand and transparency of prices. The Mombasa tea auction has tempered the bargaining power in price setting of downstream players. On the other hand, auctions can inhibit the development of more direct trading relationships, which can be useful for enhancing service delivery, providing greater insight into expected demand and even guaranteed purchase volumes and pre-agreed prices.

#### *Market concentration*

Market concentration contributed both positively and negatively to fairness in trade. When consolidation occurs at both buyer and supplier levels, companies become more dependent on each other. This drives more intense supplier relationship management and longer-term commitments. On the other hand, when market concentration occurs at only one node, large imbalances in negotiation power can result. Negotiating power in the value chain largely depends on scale and position in the market. In most value chains, the weaker players in the chain generally must accept the terms that are set by the stronger players to maintain market access. In bananas, smaller producers reportedly have less bargaining power, particularly in situations where they are dependent on exporters but the exporters are not dependent on producers. In flowers, vertically integrated producers have more bargaining power with end customers compared to independent packers and producers. However, where traders or buyers rely on specific producers to supply a product, producers can obtain a stronger bargaining position. Unequal power relationships do not always need to impede fairness in trade as Box 1 shows. Long-term relationships, trust and acknowledgement of the needs of both parties are important too.

Our research also identified other market dynamics that can undermine the development of long-term trading relationships and fairness.

#### *Oversupply and blending*

Oversupply of products undermines long-term relationships in value chains and puts prices under pressure. If blending of products from multiple origins or differing quality is common practice, such as in tea, there is no need to rely on one source or producer. Buyers seek maximum flexibility in sourcing to find the lowest price and long-term trading relationships are inhibited.

#### *Annual tendering processes*

In all four sectors examples of long term relationships between retailers/brands and their suppliers were identified. However, annual tendering by retailers undermines the stability of trading relationships and has a knock-on effect upstream. Suppliers may lose their business with a retailer one year, then regain it

the next making it difficult to invest in the relationship. Price was one of the most important factors during tendering processes.

*Box 1: Partnership-based trading relationships despite imbalanced power relationships in the cocoa sector*

In the cocoa sector in Ivory Coast, there is a proliferation of programmes in which exporters develop close ties with cooperatives. These programs involve considerable (producer) capacity building and are based, at least initially, on exclusive trading relationships. Key informants referred to examples where such partnerships became captive relationships with the cooperative fully dependant on the exporter, regardless of terms imposed. The cooperatives and exporters interviewed confirmed that most negotiation power is with the exporter. Exporters determine the contracted volumes, pre-financing arrangements, payment terms and the type of certification the cooperative should pursue. This unequal power balance was, however, not necessarily considered a problem by the cooperative. Their trading relationships were based on mid- to long-term commitments and characterised by high levels of trust and a willingness to consider each other's views. Cooperatives highly valued the secure market access, pre-finance and technical assistance as well as the premiums received. These were crucial in becoming stronger organizations and better farmers. Exporters indicated that they are not necessarily against cooperatives becoming stronger. Stronger cooperatives are more reliable suppliers and need less capacity building which frees up resources to invest in new cooperatives. They did not like to see 'their' cooperatives looking for additional clients or engaging in exporting themselves. They recognised, however, that this can be a 'natural' development and in some cases they actively supported such developments.

*Price wars in retail*

Respondents in all four value chains felt that price competition between retailers results in a race to the bottom with knock on effects squeezing margins throughout the supply chain. Margin pressure induces shopping for the lowest price rather than investing in long-term relationships. It becomes extremely hard to pay a higher price or implement certification schemes with a price premium to cover the additional investments producers are required to make. The rise of discounters is perceived to contribute to price wars. Pressure on retail prices is further increased where products are used for price comparisons between retailers (as with bananas in UK and Germany). In addition, in the UK it is legal to sell below cost, and this occurs periodically for loose bananas during banana price wars between major retailers. Although retailers may absorb the immediate loss, over time the price wars have intensified pressures to reduce costs throughout supply chains and, according to some interviewees, have stimulated unfair trading practices to compensate for losses (e.g. unfair quality claims).

*Box 2: Market dynamics that work against fairness in trade in the Kenyan tea sector*

In the tea market in particular, current trends and conditions provide disincentives to (and may prohibit) the development of long-term trading relationships. Most tea is sourced indirectly (via brokers, auctions, and forward contracts with the KTDA) rather than directly from particular producers or estates. There is sufficient supply or even oversupply and heavy price competition at the retail level. There is a perception amongst downstream players (e.g. brands/manufacturers) that if they were to move predominantly to long-term fixed trading relationships they would be at a disadvantage relative to their competitors as they would get locked into trading relationships where producers could set prices.



## How Fairtrade enhances fairness in trade

Fairtrade is one of the few sustainability initiatives specifically addressing fairness in trade. Fairtrade's experience allows us to draw some lessons for enhancing fairness in trade.

Our research found that Fairtrade's supply chain interventions do – to some extent, and upstream in the supply chain – positively influence fairness in trade. The Fairtrade Premium can, depending on Fairtrade sales, improve the financial viability of small producer organisations and improve their capacity to invest in farmer training, input distribution, quality management and social infrastructure. The Fairtrade Premium also enables large-scale farms or plantations to provide better working conditions and make investments in community projects. The Fairtrade Minimum Price can protect upstream actors against low prices, though of the four commodities included in this research, this was visible only in the banana sector; in cocoa and tea the market prices have been consistently higher than the Fairtrade Minimum Price in the last five years and in flowers there is no Minimum Price applicable. Fairtrade Producer Services contributed to increased awareness of trading practices and improved producer negotiating skills. Fairtrade's Trader Standard<sup>6</sup> ensures increased transparency and provides additional safeguards to suppliers against breach of contract (see Box 3). It also ensures annual commitments and as a result, at least in bananas, more stable demand throughout the year, which in turn results in more stable employment.

### *Box 3: Fairtrade improves trading practices in the banana sector*

The banana case showed various examples of Fairtrade's positive influence on trading practices. The Fairtrade Minimum Price contributed to a fairer price in periods when the world market price was lower. The Trader Standard obliges annual buying commitments. Both banana producers and exporters reported fewer unjustified quality claims for Fairtrade bananas. For non-Fairtrade bananas there are more frequent quality claims during the low-demand season, suggesting this is being used by importers and retailers as a way to control supply and avoid contractual obligations. One producer described how, as a result of the Trader Standard and support from Fairtrade staff, he was able to have an independent survey prove that quality problems were caused by the shipping company saving him thousands of dollars in quality claims.

However, Fairtrade's influence on trading practices was not felt everywhere. We saw examples where Fairtrade did not change trade practices and did not fundamentally change the balances of power or negotiation positions. Fairtrade instruments were sometimes not effective enough to exclude 'unfair' trading practices. While Fairtrade certification generally improves market access, its instruments can also pose additional challenges in terms of competitiveness as the flower example shows (see Box 4). Fairtrade's influence on downstream companies has proved effective at increasing awareness of sustainability issues and readiness to pay a premium but its influence on other aspects of fairness in trade is limited.

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<sup>6</sup> The Fairtrade Trader Standard contains requirements on pricing, premiums, contracting, access to finance, payments terms, market information, etc.

*Box 4: Fairtrade can have negative effects on competitiveness in the flower sector*

The Fairtrade Premium in the flower sector is a fixed percentage of the FOB price (which is an exception to the normal Fairtrade approach of a fixed nominal amount). This has two important consequences: firstly, variation in FOB prices between countries will result in different Fairtrade Premium amounts, something which is perceived by some as 'unfair' competition. Secondly, as prices increase during peak events such as Valentines' day, the Fairtrade Premium increases proportionally. This reduces the competitiveness of Fairtrade flowers with a detrimental effect on sales under Fairtrade conditions.

Our research suggests that Fairtrade could enhance its impact on fairness in trade by engaging more with all supply chain actors. Traditionally Fairtrade has tended to engage with producers and brands but fairness in trade requires changed conduct from all value chain actors, including exporters, importers packers and retailers. Fairtrade could include more retailers in the scope of the Fairtrade Trader Standard. Today they are often not bound by the Trader Standard, while they do generally have an important influence on trading practices in the whole chain. Engaging with companies is not enough, however, and Fairtrade should consider stricter auditing of the Trader Standard for a better guarantee against unfair trading practices. Fairtrade could further strengthen its role in industry platforms and by advocating for more effective public policy. Where the industry is not open to improvement, strategic campaigns can be considered. In their recently developed 2016-2020 strategies, Fairtrade International and the Fairtrade Foundation place more emphasis on aspects such as collaboration with companies, on sustainability beyond certification and on the strengthening of the voice of farmers and workers in key policy debates and in national and regional platforms. Fairness in trade – in the whole chain – could be further emphasized.

### **Building a business case for fairness in trade**

The impact of fairness in trade on the sustainable practices of producers and workers requires more attention from downstream companies. These companies are increasingly held responsible for the social and environmental impacts of their supply chains so they need to be aware of how their trading practices impact sustainability in the chain. Too often, procurement practices are based upon their own short-term interest, without considering the negative impact this could have elsewhere in the chain or the risks unfair trading practices can bring for the medium to long term sustainability of a business model. They also ignore the potential benefits fair trading practices can bring.

Our research identified several potential benefits for supply chain actors that can help build a business case for fairer trading relationships:

- Improved security of supply - supply availability and quality risks
- Reduced reputational and legal risks – and consequent financial impact
- Improved supply chain transparency (and traceability)
- Improved market access (for the middle segment)
- Improved business stability
- Opportunity to use examples of sustainability investments and impacts for marketing purposes

And of course, while exploitative relationships may yield short term benefits, trading truthfully, fairly and with an eye to mutual benefit does make sound long term business sense.

## Promoting fairness in trade

Sustainability initiatives and NGOs could place more emphasis on trading. They can promote fairness in trade by raising awareness, revealing bad and good practices and developing voluntary codes of good practice. They can engage with companies to promote good trading practices company-wide rather than only those in certified value chains. And they can engage with all actors in a supply chain as fairness in trade will require commitments from them all.

Public policy, if properly designed and enforced, could address fairness in trade more directly. Regulatory codes of conduct can protect producers and value chain actors against unfair trading practices. The public sector could, and perhaps should, tackle the share of value and fairness in trade more broadly. For example, market management instruments such as minimum price policies, price stabilisation funds and mandatory quality standards can bring price discovery, price stability and protect value capture by producers (as the example of the cocoa sector in Ivory Coast shows). On the other hand, if poorly designed or implemented, public policy can pose significant constraints to fair trading practices. NGOs, and particularly member organizations such as Fairtrade, have a role to play in holding the public sector accountable and to ensuring that producer's and worker's interests are considered.

In conclusion, trading practices have a knock-on effect on the economic viability and sustainability performance of actors throughout the supply chain. Fairness in trade is not just a matter of redistributing value as market dynamics place increasing pressure on prices and margins throughout the value chain. A key challenge is to ensure there is sufficient total value that allows for a fair share at each stage of the value chain, that sustains business relationships and sustains a business model for the medium to long term. Fairness in trade is also about doing the right thing and taking responsibility for the sustainability of the whole supply chain. And that means honesty, building goodwill and building stronger relationships that are beneficial to all concerned.