Overseas Development Institute

A review of ethical standards and labels: Is there a gap in the market for a new ‘Good for Development’ label?

Executive summary

Karen Ellis and Jodie Keane

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Results of ODI research presented in preliminary form for discussion and critical comment

Executive summary

Agricultural exports are a crucial source of growth and employment in many developing countries, and make an important contribution to poverty reduction and rural development. Indeed, agriculture is the main area of comparative advantage for many countries, which are keen to see an expansion in the market for their agricultural exports.

At the same time, consumers in the developed world want to use their purchasing power to help people in poor countries to lift themselves out of poverty, and the market for ethically traded products is growing fast. This study reviews a number of the existing ethical standards and labels in terms of their objectives, the scale and scope of their coverage, their impact on participating farmers, compliance costs and broader development impacts.

We have found that:

- The schemes have a range of different objectives, from providing a better deal to producers (e.g. Fair Trade), to improving environmental and labour standards (e.g. Rainforest Alliance), to encouraging the use of good agricultural practices and improved farm management techniques (e.g. GlobalGAP).
- Certification with these schemes can benefit participating producers, encouraging better working conditions, improved productivity and reduced environmental costs. They can sometimes yield a higher price for producers. While this is an explicit requirement only for the Fair Trade scheme, certification with other schemes can generate a price premium by giving producers access to a higher value market niche. The Fair Trade scheme also provides minimum prices, access to finance and long-term contracts.
- The cost of complying with standards is usually borne to a large degree by the developing country producers themselves, rather than developed country buyers or retailers. Producers often have no guarantee of any financial benefits even if they do meet the necessary standards. If the standards are effectively mandatory for producers wishing to export to a certain market, and if the costs are too high for some producers to meet, then they can potentially be excluded from the market altogether, which jeopardises their livelihoods (as has happened in relation to GlobalGAP).
- For voluntary schemes, the high costs of compliance can constrain the size of the scheme, either because producers are unable to meet the standards (particularly those in the poorest countries), or because retailers and importers are unwilling to bear the higher costs associated with compliance. This means that the overall development impact of the schemes has remained rather low (in terms of the proportion of trade flows from the developing world that is covered), despite significant growth in consumer support of ethical trade in recent years.

The table below provides a very simplified summary of the features of the various schemes. It shows the trade-off between compliance costs (and hence potential impact in terms of raising standards), and scale of coverage in developing countries (except where the scheme is effectively a requirement for UK market access, as in the case of GlobalGAP). Further detail is given in the table at the end of the Executive Summary, which provides facts and figures on the scope, potential benefits, and costs of each scheme.

The focus of ethical and fair trade labelling schemes on improving standards gives the impression that other developing country exports are 'unethical' or 'unfair'. This is reflected in market research showing that consumers are concerned about the potential exploitation of developing country producers. However, most conventional agricultural exports are of significant benefit to developing country producers, although they may not be explicitly recognised as such, as they may not qualify for any of the existing ethical labelling schemes.

Economic benefits of conventional exports may include:

- The creation of jobs, both directly for producers, and indirectly, for those in associated trades such as transportation;
- Higher incomes for producers and those in related work, resulting in a higher standard of living for themselves and their families;
- Knock-on benefits in other parts of the economy (e.g. agricultural extension services, infrastructure development, etc.);
- Tax revenue to the government; and
- Foreign exchange earnings.

Features of main existing ethical trade schemes and the proposed new Good for Development label

Scheme	Required for UK market access	Labour standards	Environmental standards	Extra development contribution by retailers/ importers	Compliance costs	Scope of coverage in developing countries
Fair Trade	×	✓	✓	✓	High	Low
Rainforest Alliance	×	✓	✓	×	High	Low
Utz Kapeh	×	✓	✓	×	High	Low
Marine Stewardship Council	×	×	✓	×	High	Low
Forestry Stewardship Council	×	×	✓	×	High	Low
GlobalGAP	✓	✓	✓	×	High	High
Ethical Trading Initiative	×	✓	×	×	Low	High
Proposed Good for Development Label	×	×	×	✓	Graded for importers, zero for producers	High

One example is provided by Lundy (2007), who highlights the impact that Costco's purchases of French green beans have had on rural communities in Guatemala. In 2005–2006, the company purchased almost 2000 metric tonnes of French beans from Guatemala, with US$1.5 million in total going directly to farmers, who earned an average of US$779 per family. Interviews with families suggested that this money had helped to increase their access to health care, education and improved housing. The report concluded that most of the benefits from Costco purchases are captured by poor communities and small-scale farmers. However, if such products are unlabelled, consumers are likely to be unaware of the development benefits associated with them.

Some retailers and importers are already making an effort to strengthen their development impact, by engaging in a more supportive way with developing country producers. However, these efforts may go unrecognised and unrewarded if consumers are unaware of them.

These findings provide support for the Overseas Development Institute (ODI) proposal (see ODI Opinion No. 88 (Ellis and Warner 2007) and No. 115 (Ellis and Keane 2008)) that a new kind of 'Good for Development' label may be required (the table above shows how this would differ from existing schemes). Such a label would not create new environmental or labour standards – there are many labels that already do that – but would indicate to consumers the positive development impacts associated with purchasing most conventional developing country produce (as long as it met some basic minimum standard e.g. to ensure compliance with national laws). This would cover a much greater proportion of produce than existing labelling schemes, and include more producers in the poorest countries that are currently underrepresented. It could, potentially, help to expand the market for such produce, supporting more livelihoods in the developing world. In addition, it could create stronger incentives for developed country food retailers, manufacturers and importers to increase their contribution to development, by awarding additional 'points' for a range of pro-development contributions. These could include:

- Providing assistance in meeting standards imposed by other schemes, i.e. bearing more of the compliance costs themselves;
- The provision of free technical assistance or training;
- The provision of access to finance;
- Contributing to local infrastructure development;
- Long-term contracts;
- Investment in health care for workers;
- Compliance with best practice in supply chain management;
- Responsible resource management.

Providing this information in the form of a bronze, silver or gold 'Good for Development' label would enable consumers to compare at a glance the development contribution made by competing suppliers and products at the point of purchase. It could, therefore, contribute to increased sales for those companies making the greatest efforts to improve their development contribution, boosting their profitability as well as their reputation, and helping to offset any associated costs. By turning development performance into a competitive advantage for the retailer/importer, this could increase the willingness of companies to invest the necessary time and resources to make genuine improvements in their development impact.

The table below is designed to provide a broad brush picture of the scale, scope and costs associated with the various schemes reviewed in this paper. The data are based on publicly available figures from a range of sources, which are not always consistent with each other, and which may not have been computed on the same basis, thus may not be strictly comparable.

Scheme objectives/ potential benefits	Products covered	Countries covered	Producers affected or potentially affected	Trade volumes affected	Compliance & certification costs
Fair Trade • Minimum price • Explicit price premium to producer groups • Long-term contracts • Access to finance • Provision of technical assistance • Encouragement of producer group formation • Labour standards • Environmental standards	Tea, coffee, wine, cocoa, honey, nuts, bananas, cotton, dried fruit, fresh fruit and vegetables, juices, quinoa, rice, spices, sugar, cotton, cut flowers, plants, sports balls	Of total Fair Trade certified producers: • Latin America – 54% • Africa – 28% • South Asia – 14% • Caribbean – 2%	Fair Trade estimates: • Directly affects – 1 million farmers • Indirectly affects – 7 million people • 569 Fair Trade producer organisations	Global market for Fair Trade produce estimated at US$3.6 billion in 2007. UK second largest market after US. Estimated percentage of UK imports that are Fair Trade (in 2007): • Bananas – 18.4% • Fresh flowers – 9% • Coffee – 7% • Tea – 2.2% • Cocoa – 1% • Honey – 2% • Sugar – 0.5% • Rice – 0.3% • Sports balls – 0.01% UK Fair Trade retail sales value was £286m in 2006 and £493m in 2007. This represents around 0.4% of total UK spending on food and non-alcoholic drinks. Fair Trade banana sales estimated at 1% of global sales in 2006. 62,219 metric tonnes of Fair Trade certified coffee was sold in 2007.	No comparable estimates of compliance costs found. Likely to vary enormously case-by-case. Evidence suggests that costs are relatively low for producers but high for buyers, compared with other labelling schemes, as it involves the development of an alternative kind of trading relationship with the supplier. For Sainsbury's, switching to all Fair Trade bananas estimated to cost £4 million, paid by the buyer. Green & Black's note that the Fair Trade Foundation charges 2% commission on wholesale prices, and that the amount paid by producers for inspection visits totals 5% of their annual sales.

Scheme objectives/ potential benefits	Products covered	Countries covered	Producers affected or potentially affected	Trade volumes affected	Compliance & certification costs
Rainforest Alliance • Environmental standards • Labour standards • Social standards	Coffee, bananas, cocoa, timber, flowers, tea, aloe vera, avocado, citrus, cupuacu, guava, heart of palm, mango, macadamia, passion fruit, pineapple, plantain, rubber, vanilla	Of total Rainforest Alliance-certified producer groups: • Latin America – 93.6% • Africa – 3.9% • Asia – 2.4% • Caribbean – 0.2%	• 25,731 farms, affecting two million farmers • 2407 forestry businesses	Bananas – 15% of global sales in 2007 – much higher than Fair Trade banana sales. 1.3% of the world's coffee is certified. Certified coffee beans are projected to represent 5% of the global market for coffee in five years time. 24,812 metric tonnes of coffee were sold by certified producers in 2006. This was projected to increase to 41,277 metric tonnes in 2007, which is lower than Fair Trade coffee sales. US$1.2 billion worldwide sales of coffee, bananas and cocoa in 2007.	No comparable estimates of compliance costs found, although anecdotal evidence that they are lower than Fair Trade compliance costs for buyers, but higher for producers. Application fee, audit and inspection, and annual fee can be in the range of US$500 for smallholders, to tens of thousands of dollars for larger producers. Average charge for forestry product certification to FSC criterion through the Rainforest Alliance is in the region of €30,000. No charge is made to buyers or retailers for the use of the logo.

Ethical Trading Initiative (not a label) Labour standards include requirement for a 'living wage' though that is not clearly defined.	All products purchased by ETI members (including food, clothing etc.)	All countries which export to UK buyers/ retailers who are members of ETI .	At least 20,000 suppliers are potentially affected by the scheme.	Scale: Members of ETI have combined annual turnover of more than £100 billion. 52 companies are currently members, including Tesco, Sainsbury's, Co-op, Marks and Spencer and ASDA and 9 food companies.	Adherence to the base code and core convention and ILO standards would potentially be very costly for some producers. However, the ETI does not monitor the achievement of standards; it only requires that a commitment has been made to progress towards achieving them. Thus in practice the cost of membership of ETI may be quite low. The costs are likely to be borne by producers to a significant degree. Annual membership fees range from £2,000 to £30,000 for companies with an annual turnover of £1 million to £1 billion.
Soil Association Organic Air Freight Proposed new requirement for all air freighted organic produce to be Fair Trade-certified or equivalent.	Organic, air-freighted fruit and vegetables.	Leading air freight export countries by volume in 2006 were: Egypt (20% of total air freight exports)); Kenya (13%); Morocco (11%); US (9%); and Zambia (8%). Highest no. of organic certified farms: Mexico, Italy, Uganda, Sri Lanka, Philippines, Tanzania, Peru, Austria, East Timor, Germany and Kenya.	Estimated 21,500 livelihoods rely on export of Soil Association-certified products. 50–60 exporters of organic produce worldwide would be affected, 11–15 in sub-Saharan Africa. Only 1 producer is currently certified Fair Trade; the rest would need to work towards compliance.	Air-freighted goods account for 1.9% of all organic fresh produce imports into the UK by volume in 2006. Air-freighted organic imports of fruit and vegetables into the UK amounted to 6278 tonnes in 2006, equivalent to 0.04% of total UK imports of fruit and vegetables.	Costs associated with achieving Fair Trade certification are discussed above.

GlobalGAP (not a label) • Good agricultural practices • Environmental standards • Worker health, safety and welfare standards • Animal welfare standards	Most agricultural exports to European markets.	Most countries that export fresh fruit and vegetables to European markets.	Over 68,000 producers are now GlobalGAP-certified globally. This includes 12,799 producers in developing countries, of which 2,254 are in sub-Saharan Africa (including 1538 in South Africa). It has also affected the economic opportunities faced by many other farmers who have been unable to achieve certification.	Most European retailers require certification. 275 companies registered as members.	One study estimates initial costs are on average £1,000 per small-scale grower, with only 36% borne by producers themselves (the rest covered by exporters and donors). Recurrent costs are on average £175 p.a., 14% paid by growers themselves on average. This amounts to 21% of turnover on average. Another study estimates non-recurring costs range from US$500 to $100,000 depending on producer size: 4% of annual sales for producer/exporters; 6–11% of annual sales for small producers. Recurring costs on average are less than 1% of the value of annual sales. It is estimated that many smallholders have been unable to meet the requirements, e.g. 60% of Kenyan growers were dropped from compliance schemes between 2003 and 2006 owing to implementation problems.
Utz Certified • GlobalGAP standards • Additional labour standards • Provision of market information to help producers negotiate better prices	Coffee	Of total Utz Certified producers: • Latin America – 75.9% • Africa – 15.2% • Asia – 9%	By 2007, 312 Utz certificates had been issued, covering an estimated 60,100 separate producers.	53,000 metric tonnes of Utz certified coffee sales in 2007. This is more than Rainforest Alliance, but less than Fair Trade.	No comparable estimates of compliance costs found. Costs associated with GlobalGAP compliance are discussed above.

Marine Stewardship Council Environmental standards	Wild catch and farmed fish.	As of 2006/2007, 16 countries had certified fisheries, of which five were developing countries: • Mexico • South Africa • Vietnam • Chile • Argentina	There were 7 certified fisheries in developing countries in 2006/07. Combined, developing countries account for less than 15% of all certified fisheries, though developing countries account for nearly half of total global fish exports.	Estimates of the percentage of total global catch that is certified range from 3% to 7%. 89% of certified products contain either Alaskan Salmon or New Zealand Hoki.	Costs for a full assessment range from $35,000 for a small simple fishery to $350,000 for a large complex fishery. The overall cost depends on what the assessment uncovers, for which no average estimates were found. The annual licence fee required of the buyer/manufacturer depends on the level of sales of the MSC-labelled product sold by the licensee from US$250–2000 or 0.5% of annual sales.
Forestry Stewardship Council • Environmental standards • Labour standards	Wood and forestry products	% of global certified forest area: • North America 32% • Europe 52% • S. America/Caribbean 10% • Oceania 1% • Asia 2% • Africa 3% 18% of the world's certified timber products originate from developing countries.	As of April 2008, 8678 businesses had been accredited. 92 certificates had been issued in Africa and 3 businesses in LDCs had been certified.	FSC-certified forests represent around 7% of the world's productive forests. The value of FSC-labelled sales is equal to US$20 billion.	No comparable estimates of compliance costs found, although qualitative evidence suggests that costs are high, and that the requirements are more suited to large forest areas.