

Fairtrade Standards for Contracts in Production Projects^{1, 2}

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ABSTRACT

At present, huge inequalities persist between the industrialised countries and those in the process of becoming one, and also within the same national community. Indeed, by continually seeking maximum profit, the global economic market keeps on increasing them, and the gap between rich and poor continues to widen. This system contributes to major problems that undermine our society: indecent wages, deplorable working conditions, violation of the fundamental rights of people, pollution of the planet and poor quality of products. In order to fight against this situation, it is essential to mobilise to change it. Promoting Fairtrade can be an interesting solution, which many have decided to adopt.

Key words: Fairtrade, Ethical, standards, sustainability, social, economic, environmental development, producer, requirements, criteria

INTRODUCTION

According to a study published in 2015 by the Fairtrade Organisation, The market of Fairtrade has 1,226 producers organisations worldwide, which represents more than 5,9 billion of sales, extended in over 125 countries.

The ethical aspect has an increasing importance in the 21st century's society. The mentalities are evolving. We are no longer just looking for profit. Other elements take precedence. We now want to establish a model of life based on an economy more respectful of the environment and individuals. Trade represents a significant challenge. In fact, traditional commercial practices are becoming an issue as regards producers' income and living conditions. It was urgent to find a solution and to respond to social problems that arose. In particular, by changing the standards of contracts governing business practices around the world.

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Engaged people mobilized to create an organisation setting new standards: Fairtrade. Then, in recent years, Fairtrade is booming. In 2009, the Fairtrade Labelling Organizations International (FLO), along with the World Fair Trade Organization, adopted the Fair Trade Principles Charter. This charter finally gives credibility and international visibility to Fairtrade. The charter then provides an official definition of Fairtrade, shares the vision and the values of this concept and also incorporates the basic principles of Fairtrade.

Fairtrade is an alternative to the dominant world trade. By relying on shorter and more transparent commercial channels, it allows producers to live decently from their work and to be actors in their development model. Ultimately, Fairtrade is the pillar of an economy that respects economic, social, cultural and environmental rights.

Although standards must regulate Fairtrade to facilitate contracts between producers and buyers, they appear as a solution to our new social problems, providing an ethical and sustainable response.

In this paper we are going to see:

- How has the arrival of the Fairtrade standards impacted commercial contracts?
- What are the requirements related to trading practices?
- What are the mandatory and necessary standards in Fairtrade contract?
- In which market the impact of the Fairtrade Standard is more relevant?

METHODOLOGY

In order to ensure the progress of this report, the analysis of several documents from Fairtrade (Standards and Criteria, ...) was done, and resolution alternatives have come out.

I found that the Fairtrade standards have many economic and social advantages for producers but also for environmental well-being. So, I will focus on the criteria of the standards that resulted in benefits.

Here are the criteria we will study:

- 1) **Pricing:** The payment of the Minimum Price and the Fairtrade Premium is one of the critical functions for commercial operators who buy from producers and have the responsibility to pay the Fairtrade price. The Fairtrade Minimum Prices are intended to protect producers and reduce risk in the event of a decline in market prices. The Fairtrade Premium is the money paid for a product, in addition to the Fairtrade minimum price. This money is invested in social, environmental projects, such as education, healthcare, and farming tools. "174\$ million in Fairtrade premium paid to producers in 2014-2015."

- 2) **Pre-financing:** Pre-financing is one of the essential benefits for Fairtrade producers. The purpose is to help producer organisations access reasonable forms of financial assistance to assist them in purchasing from their members.
- 3) **Gender equality:** no sexist discrimination should be made in the recruitment of producers and in the distribution of tasks to ensure fair treatment of all workers.
- 4) **Health and safety in the workplace:** the health and well-being of workers become a crucial element of Fairtrade standards, in particular by ensuring greater safety and social cover in case of sickness and accidents at work.
- 5) **Choice of pesticides used**
- 6) **Energy and greenhouse gas emissions (GHG)**

We have just seen the different criteria and requirements that govern the Fairtrade standards while noting the various benefits of these for producers. Let's try now to analyse and understand this impact and to highlight the best alternative.

First, to summarise, Fairtrade can bring higher incomes and/or higher income security. Also, the impact on revenue depends on prevailing market prices vs. Fairtrade minimum markets price; the scale of production and sales on Fairtrade markets and the financial situation of producer organisation. Finally, Fairtrade can improve productivity and quality through market requirements, price incentives and premium investments

« In Mali, Senegal and Cameroon, Fairtrade increased the prices farmers received for cotton by between 22% and 70% from 2002-2007. But, this effect was stalled in 2008-2009 when market growth did not keep up with supply. »

Fairtrade impact also positively the gender situation at work. It brings opportunities for women, producers. It formalises work and leads to gender-sensitive employment practices. And globally, it raises awareness of gender issues and rights. Finally, Fairtrade is also about the care of the environment, in reducing the negative impact of traditional production methods.

According to these different standards' criteria, some sector seems more impacted because of their correspondence to specific characteristics.

Here are the different attributes that represent the various markets we will be considered for this study:

- 1) **Bananas**
- 2) **Cacao**
- 3) **Coffee**

- 4) Tea
- 5) Flowers & plant
- 6) Sugar

We will analyse our different criteria by assessing answers provided by the standards 'contract. When an answer is present, we will assess this answer by saying if it's poor, fair, good or excellent.

When there is no answer, or we don't have the information we will say "N/A".

We will use the **Multi-Attribute Decision Making (MADM) analysis with the non-compensatory method of Dominance**. So, with this method, we will be able to rank each attribute.

Here is the result after using the Dominance method:

Attributes	Pricing	Pre-financing	Gender equality	Health and safety in the workplace	Choice of pesticides used	Energy and greenhouse gas emissions
Bananas	Excellent	Poor	Fair	Good	Good	Fair
Cacao	Good	Good	Fair	Fair	Poor	Fair
Coffee	Excellent	Excellent	Good	Good	Fair	Excellent
Flowers & Plants	Good	Poor	Excellent	Poor	N/A	Good
Sugar	Good	N/A	Poor	Fair	Good	Excellent
Tea	Good	Poor	Good	Excellent	Good	Excellent

According to this analysis, an obvious solution appears as the best one and is "Pricing" with many green marks. Although many red marks for "Pre-financing", unless two markets are well impacted by this alternative.

FINDINGS

As we said, some markets are more impacted because of their correspondence to specific characteristics.

Now we will decide which alternative is the best one of Fairtrade standards contracts according to which market.

Analysis and comparison of alternatives:

Attributes	Pricing	Pre-financing	Gender equality	Health and safety in the workplace	Choice of pesticides used	Energy and greenhouse gas emissions
Bananas	1,00	0,00	0,33	0,67	0,67	0,33
Cacao	0,67	0,67	0,33	0,33	0,00	0,33
Coffee	1,00	1,00	0,67	0,67	0,33	1,00
Flowers & Plants	0,67	0,00	1,00	0,00	0,00	0,67
Sugar	0,67	0,00	0,00	0,33	0,67	1,00
Tea	0,67	0,00	0,67	1,00	0,67	1,00
Total	4,68	1,67	3	3	2,34	4,33

Multi-Attribute decision making method (compensatory method): Additive weighting method

Attributes	Step One Relative rank	Step two Normalized weight	Pricing	Pre-financing	Gender equality	Health and safety in the workplace	Choice of pesticides used	Energy and greenhouse gas emissions
Bananas	3	0,14	0,14	0,00	0,05	0,10	0,10	0,05
Cacao	4	0,19	0,13	0,13	0,06	0,06	0,00	0,06
Coffee	1	0,05	0,05	0,05	0,03	0,03	0,02	0,05
Flowers & Plants	5	0,24	0,16	0,00	0,24	0,00	0,00	0,16
Sugar	6	0,29	0,19	0,00	0,00	0,09	0,19	0,29
Tea	2	0,10	0,06	0,00	0,06	0,10	0,06	0,10
TOTAL	21	1,00	0,73	0,18	0,44	0,38	0,37	0,70

Selection of the preferred alternative:

According to the Additive Weighting technique of Multi-attribute decision-making method, we can say the best alternative is the Pricing.

Pricing criteria is **280%** better than **Pre-financing** ($4,68/1,67 * 100 = 280,23 \%$). We also have to consider the best second option, **Energy and greenhouse gas emissions criteria**, that is **258%** better than **Pre-financing** ($4,33/1,67 * 100 = 259,28 \%$).

So according to this complete analysis below, I would recommend - **Pricing in the Coffee market.**

First of all, the Fairtrade minimum price represents a security against the volatile prices of the world market. The Fairtrade Premium allows investments in social projects as well as measures to increase productivity.

Secondly, coffee is one of the first export products. 25 million producers cultivate it worldwide; they are mainly smaller operators. Thanks to the Fairtrade standards, they could meet in cooperatives, managed democratically and could thus conjugate their strengths to position them to the market.

However, small coffee producers are at the front end of the value chain. They depend on a small number of traders and roasters who are sharing the market. The coffee is traded on the

stock market. Prices are subject to intense fluctuations. When the price is low, it is not uncommon for millions of small farmers to be unable to cover their costs of production. The Fairtrade minimum price offers a guarantee against market fluctuations; it includes the costs related to the sustainable production method. At a time of high world market prices, producers could finally be paid at the world market price.

For example « The minimum price for washed arabica coffee, is set by the FLO at US\$1.21 per pound in Central America, Mexico, Africa and Asia (and at US\$1.19 for South America and the Carribean). In addition to this minimum price, producers get US\$0.15 per pound for certified organic coffee and a social premium of US\$0.05 per pound for all coffee »

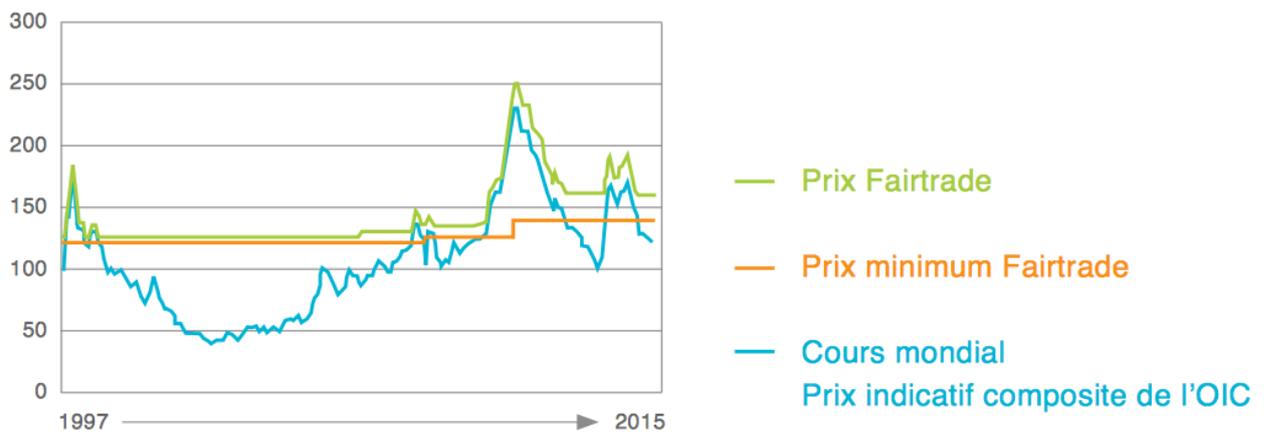


Figure 1: Price evolution of arabica coffee (Conventional, in US cents per British pound (lb))³

Finally, Coffee's market is the most attractive Fairtrade market: "By the end of 2014, 445 small producer organisations in 30 countries had a Fairtrade label for coffee. More than 812,000 smallholder farmers were members of producer organisations with a Fairtrade label for coffee."

³maxhavelaar



Figure 2: Estimated Volume of Products Sold by Fairtrade Producers in 2015⁴

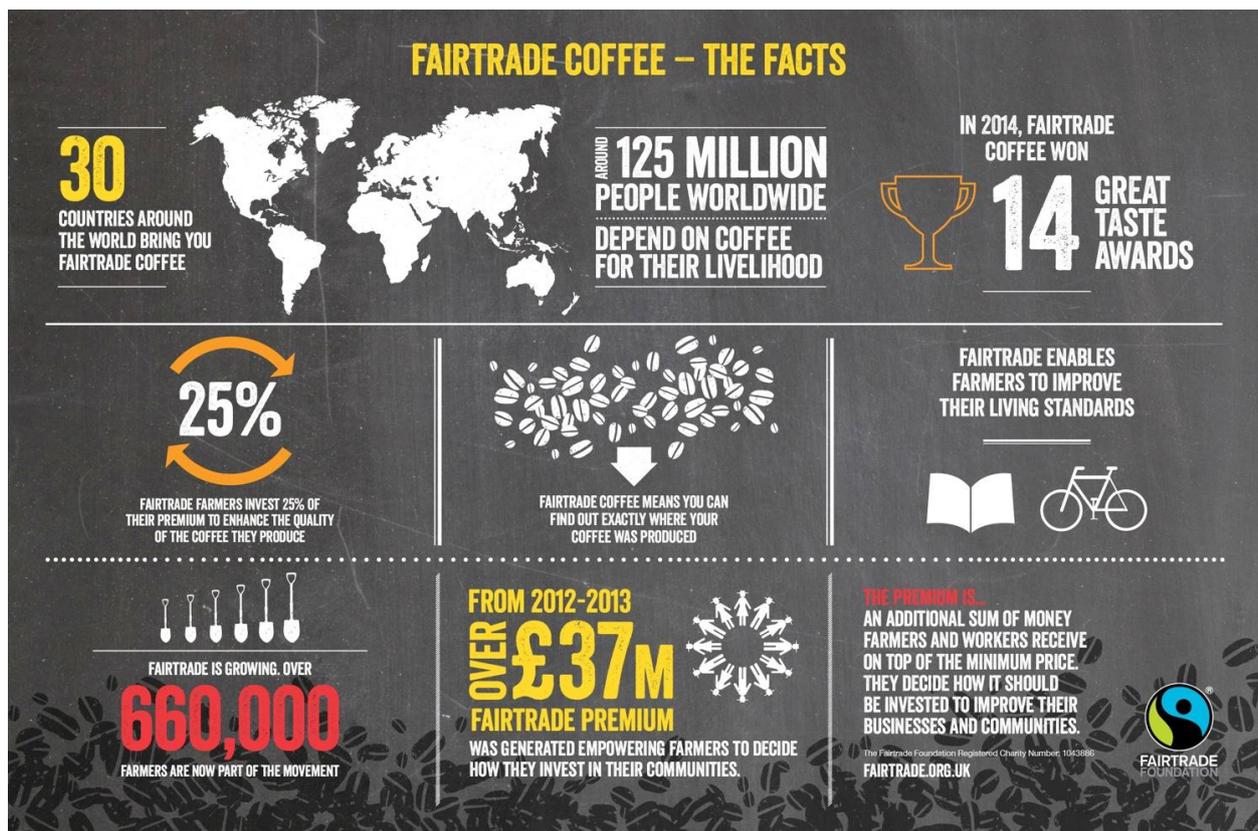


Figure 3: Fairtrade coffee – the facts, fairtrade Foundations⁵

⁴ Annual report Highlight 2015-2016

⁵ Be fair, fairtrade organization Foundation

In order to follow-up the recommendations I made, it would be right to use **the Pareto Analysis** before and after applying those standards in order to compare and measure the impact of the Pricing, especially in the coffee market.

CONCLUSIONS

As we have well explained in this paper, Fairtrade is becoming a way of consuming in a more conscious society. It solves many problems; economics, social & environmental. We can say that it revolutionises the traditional trading practices. After our analyse, we see that the most important market is the coffee and the most important criteria is the pricing which is the basis of the problem and thus could be impacted positively on the three types of issues we just talked below.

Therefore, one of the most critical effects of fairtrade for the coffee sector is the stabilisation of the prices paid to cooperatives and then to the individual producer. The payment of the fairtrade premium opens up the possibility of investing in the improvement of production systems, training and product quality. More broadly, Fairtrade revenues support the development of living conditions and infrastructure for the rural populations of the often marginalised producing regions. At a global level, the total premium received by labelled coffee producers amounted to € 51 million in 2015.

Finally, by promoting the economic development and sustainability of family coffee farms and by encouraging sustainable farming practices, this dynamic can also contribute to enhancing the environmental services linked to this market.

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