



ActionAid submission to IDC Inquiry into Fair Trade and Development

2 February 2007

Introduction

1. ActionAid UK is part of ActionAid International. ActionAid was founded as a British charity in 1972 with a mission to eradicate global poverty. It had 88 supporters. Over the last three decades we have expanded to more than 300,000 supporters in Europe and offices in more than 40 countries. In 2003 we became ActionAid International and moved our global headquarters from the UK to South Africa. Today 90% of our 1,800 staff are from developing countries, our chief executive is Nepalese and our international directors come from Brazil, India, Kenya, Italy, the US and UK.
2. ActionAid UK welcomes this opportunity to submit evidence to the IDC enquiry on Fair Trade and Development. We recognise the part that fair trade can play in improving the lives of workers and farmers in developing countries. Many thousands of people have benefited from fair trade schemes. However, although fair trade is a rapidly growing market, it is still a tiny part of the whole, with sales of fair trade products accounting for less than one tenth of one per cent of retail sales of food and drinks in the UK¹. Through our research, campaigning and advocacy work in the UK and in developing countries we are acutely aware of the inequalities that too often characterise trading relationships between North and South.
3. Fair trade offers a model of how buyers in the North can deal fairly with suppliers in the South, while still allowing businesses to make a profit and consumers to be offered goods at affordable prices. The growth of the fair trade market over the last few years indicates that UK consumers are keen to purchase goods that have been produced without exploitation. According to a recent poll, 65% of UK shoppers bought a fair trade product in 2006. However, ActionAid is concerned that producers and workers – the majority of them often women – in developing countries supplying the mainstream UK market continue to endure widespread violations of their basic rights. This submission considers the actions of various key actors in the supply chain, and how they might all be encouraged to deal more fairly with suppliers in developing countries.

¹ Figures from Fair Trade Foundation and Office of National Statistics

What is the role of supermarkets, retailers and businesses in supporting ethical and fair trade production?

4. UK supermarkets sell many billions of pounds worth of goods sourced in developing countries, including fresh fruit and vegetables, clothing, cut flowers, wine, tea, coffee, cocoa, meat, poultry, nuts, toys, electronic equipment and homeware products such as rugs and cushions. These products contribute an important part of export earnings for a number of developing countries. Tesco alone buys three per cent of Sri Lanka's entire clothing exports². Overall, developing countries earn nearly £3 billion a year from exporting goods that are sold through UK supermarkets, or around £8 million every day³.
5. While accurate figures are not readily available, the number of people in developing countries that work on farms, in factories and as homeworkers producing for UK supermarkets is likely to run into tens of millions. In the fresh fruit and vegetable sector alone, the livelihoods of over three million people in developing countries depend directly on producing for UK supermarkets.
6. The potential to improve people's lives through improving the terms of supermarkets' trade with Southern producers and securing worker's basic rights is enormous. Unfortunately, there is growing evidence that current approaches, based on encouraging voluntary action by supermarkets, are not having the desired effect.
7. A recent assessment of the impact of nine years of efforts to improve labour standards through the Ethical Trading Initiative shows some of the difficulties of relying on voluntary efforts to improve standards on the part of supermarkets⁴. They found that the efforts of supermarkets involved in the ETI had had limited effects on the ground. A key problem is that, while one part of the company may be involved in genuine attempts to improve standards, too often buying practices are not following suit. Routine buying practices, such as insisting on lower prices, shorter lead times, sudden, unilateral and retrospective changes to orders, delaying payments, not writing terms of business and forcing suppliers to meet the costs of ever more stringent quality standards, can and do undermine attempts to improve ethical standards in supply chains.
8. Evidence for this was provided by the latest information released from the current competition commission enquiry into supermarkets. Following the 2000 Competition Commission inquiry, a voluntary code was drawn up to encourage supermarkets to improve their buying practices. In 2003, the Office of Fair Trading review of the impact of the Supermarkets Code on UK suppliers found, "*widespread belief amongst suppliers that the Code is not working effectively,*" with most respondents stating that, "*the Code has failed to bring about any changes in the supermarkets' behaviour.*"

² ActionAid calculation from figures in: Corporate Watch, Tesco and the Garment Industry in Asia, 2005

³ ActionAid calculation from figures provided by HM Customs and Excise

⁴ S. Barrientos and S. Smith, The ETI code of labour practice: Do workers really benefit?, Report on the ETI Impact Assessment 2006, Part 1: Main findings, University of Sussex, Institute of Development Studies

9. The suppliers' views were borne out by the evidence from a survey of suppliers published in the 'Emerging Thinking' of the most recent Competition Commission enquiry into supermarkets, in January 2007. Over a third of suppliers reported that their customers – among them the big four supermarkets – were requesting price reductions just before or after delivery, nearly a half reported delays in payment, and just under two-thirds reported that buyers were insisting on them making contributions to marketing costs.
10. None of these practices are specifically outlawed by the Supermarkets Code, but all carry a health warning, in that they should only be done 'reasonably' and with genuine agreement from the supplier concerned. Given that the survey also found that over half of suppliers felt that they had little, if any, bargaining power over supermarkets, and that suppliers' gross margins had declined by 67 per cent over the last five years, there is certainly reason to suspect that the supermarkets are not abiding by the spirit of the Code.
11. Suppliers who source overseas share the same experiences. The costs and risks of these buying practices are passed down the supply chain to the most vulnerable link – the workers and farmers in developing countries who produce the goods. As one South African fruit supplier to Tesco put it 'the only ham in the sandwich is our labour costs. If they squeeze us, it's the workers who get squeezed'⁵.
12. Actions taken by supermarkets to woo consumers can also have a direct effect on suppliers, in the UK and elsewhere, as suppliers testify:

Significant promotions on price, such as buy one get one free offers on bagged apples, crucifies producers, as you get half the price but you get double the costs⁶

Wal-Mart pressures the factory to cut its price and the factory responds with longer hours or lower pay, and the workers have no options.⁷
13. ActionAid's research bears out this trend. In Central America, banana workers are bearing the brunt of supermarket's attempts to cut prices. Gilbert Bermudez, the General Secretary of the banana workers' union, SITRAP, told ActionAid:

The companies frequently argue that they can't pay even basic wages, because the supermarkets in Europe or Great Britain or the US don't pay adequate prices for the fruit. This is an argument they put forward. We, in the unions, don't have sufficient information to know whether or not this is true. It's very difficult to

⁵ Quoted in Oxfam, 'Trading Away our Rights: Women working in global supply chains', 2004

⁶ ibid

⁷ Washington Post, 2004, Chinese Workers pay for Wal-Mart's low prices, 8th Feb

challenge or correct this argument, because the supermarkets don't publish the necessary information⁸.

14. In South Africa, farmers also find themselves forced to lower costs to meet supermarkets' changing demands. Speaking on condition of anonymity, one farm owner told us:

A buyer for Tesco picks up the phone as says x is offering me apples for £1 a carton cheaper; meet him or I take you out of the programme. Supermarkets like Tesco have all the power in the world and we have to cut costs as far as we can. We're really at their mercy⁹.

15. ActionAid saw at first hand what 'cutting costs as far as we can' means in practice in the South African and Central American fruit industry: workers paid below the minimum wage, increasing casualisation of the workforce, and poor health and safety standards. We know that the same is true of workers in other industries that fulfill the ever expanding needs of supermarkets for ever cheaper and more varied products. We are concerned that millions of people around the world are caught in the crossfire of supermarket price wars. These people need more protection than is provided by voluntary codes.

How can trade unions help to ensure that the drive for cheaper produce does not undermine social and environmental standards in developing countries?

16. Regulating the relationship between all supermarkets and their suppliers would remove many of the buying pressures imposed on suppliers and help strengthen the bargaining power of workers and their representative organizations to negotiate for better pay and conditions. However, they would not necessarily benefit automatically from changes in supermarket buying practices. The promotion of trade unions and worker's rights – such as freedom of association and the right to collective bargaining – in developing countries will have a key role to play in ensuring that improved buying practices are translated into better working and living
17. ActionAid's research shows that women workers are often particularly vulnerable to exploitation, and are often not unionized. Casual workers, many of them women, are often the most unable to demand better working conditions and are the least likely to be union members. It is essential that trade unions in the UK and overseas make particular efforts to engage women and casual workers in articulating their problems and defending their rights.

⁸ Interview to be published in forthcoming report

⁹ ActionAid, 2005, Rotten Fruit: Tesco profits as women workers pay a high price

How does the international trade system impact on ethical and fair trade production (for example, the impact of changes in the EU tariff regime for bananas on small developing country producers)

18. While a number of companies have made serious efforts to make their business practices more ethical, trends in international trade tend to make this more difficult. First, increased concentration in the downstream stages of almost every sector – from food retail to mining, finance to electronics – has reduced the opportunities for smaller suppliers to negotiate with buyers and get better terms.
19. Second, a marked increase in the number of workers involved in production for international markets has reduced the power of individual workers and their organizations, and led to a corresponding increase in the share of wealth going to companies compared with workers.
20. Five hundred million people producing for export markets, mainly in China were added to the global workforce between 1980 and 2000, without very much increase in the total amount of capital available¹⁰. The resulting reduction in the power of the workforce has been used by companies to increase their own profits and reduce prices to consumers. The amount of GDP that goes directly to shareholders is at its highest in America for 75 years, and in the Euro area and Japan is at its highest for 25 years¹¹. The price of clothes in the British high street has fallen by 40 per cent over the last ten years. At the same time, the number of workers living on less than \$US2 a day has continued to increase and, according to the ILO, now stands at 1.37 billion people worldwide.
21. The fair trade model shows that trade can work for poor people. But global market forces are heading in a direction that may well tend to reduce incentives for more ethical behavior on the part of businesses. In this situation, the onus is even more on governments to rein in the worst excesses that markets may cause, and create a globalization that benefits poor people. Regulating the relationship between buyers in developed countries and suppliers in developing countries, and supporting groups in developing countries attempting to protect rights and improve conditions for workers and farmers, is a crucial step in helping to end poverty.
22. As well as considering the implications of the experience of fair trade projects for the further development of the fair trade sector itself, ActionAid urges the IDC to consider the wider lessons of fair trade, and in particular how it can point a way towards better relationships between producers in developing countries and consumers in the UK and beyond.

¹⁰ Yilmaz Akyuz, 2006, 'From Liberalization to Investment and Jobs: Lost in Translation', paper prepared for the International Labour Organisation, Geneva

¹¹ Pam Woodall, 2006, 'From T-Shirts to T-bonds', The Business Economist, Vol.37, No.1

Recommendations:

- The Supermarkets Code of Practice to be made statutory
- The introduction of an independent supermarkets regulator, with the powers to pro-actively monitor the market and root out abuses, and a confidential complaints mechanism for suppliers to report breaches of the Code and other misconduct
- The Code's reach to be extended beyond the supermarkets' direct suppliers in order to ensure secondary suppliers and primary producers based overseas have an avenue of redress
- The Code to be extended to cover all supermarket suppliers, including suppliers of non-grocery products such as garments, flowers and toys
- Supermarkets to make public their entire supply base, to allow independent monitoring of conditions.