

ETHICAL TRADE: A REVIEW OF DEVELOPMENTS AND ISSUES

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ABOUT THE AUTHOR

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ABSTRACT

Ethical trade is a fast growing field both in terms of interest and practice, but one where there is little independent analysis or literature. This paper provides an overview of what is happening in the field, including the unpublished debates of many of ethical trade's key players. In contrast with existing work that explores ethical trade issues in terms of sectors and often tries to separate social and environmental dimensions, the paper identifies the common ground between sectoral approaches, examining for instance, work from forestry, fairtrade, agriculture and the apparel industry. It shows the different approaches that are being adopted, and the strengths and weaknesses of these approaches. It also highlights the consequences for developing countries of initiatives that are typically driven by the North, and how existing approaches do not lend themselves to participation by Southern stakeholders. The paper concludes by arguing the need for greater integration of social and environmental issues, and the development of approaches able to identify and reflect the ethical values of the South, particularly of the marginalised people ethical trade is intended to assist.

THE EMERGENCE OF ETHICAL TRADE

Anyone drawn to this paper because of the words 'ethical trade' is testament to the rapid rise of a new debate concerning trade and developing countries.

Welford was one of the first to use the term, and this was as recently as 1995.¹

Two years later it was already being highlighted in Western government policy,² and a 1998 survey of European and the US organisations identified over 400 initiatives relevant to ethical trade in developing countries.³

Not everything that is now considered part of ethical trade is new: some of the initiatives in the above survey date back to the 1940s, and some of the world's largest companies such as Cadbury-Schweppes and Unilever can trace their heritage back to Victorian philanthropist entrepreneurs. But use of the term ethical trade has focused attention on the many common goals and approaches of hitherto disparate initiatives.

This does not mean that there is consensus on the definition of ethical trade.

Ethical Trading (sic), at least in the UK, is frequently used to refer to the sourcing of products from companies guaranteeing core labour and human rights standards to their workforce. This ethical sourcing has been distinguished from Fairtrade,⁴ which has the more developmentally specific goal of "*[contributing] towards change in international relations in such a way that disadvantaged producers can increase their control over their own future, have a fair and just return for their work, continuity of income and decent working conditions through sustainable development.*"⁵

Fairtrade began with a socio-economic focus, but more recently has begun to adopt environmental criteria for measuring its impact on producers.⁶ High profile ethical sourcing initiatives such as the Apparel Industry Partnership (USA) and the Ethical Trading Initiative (UK) make no mention of environmental standards, but several companies supportive of these initiatives also monitor the environmental performance of their suppliers; for instance, through the Assured Produce scheme used in British agriculture and supported by many multiple retailers also involved in the Ethical Trading Initiative.

For Welford, ethical trade is a step on the path to sustainable development, and it therefore makes no sense for companies to concentrate on socio-economic conditions of production to the exclusion of environmental impact. It follows therefore that ethical trade should logically include initiatives with an environmental focus such as those for responsible forest management, organic agriculture and sustainable fisheries. This argument is further strengthened by the fact that certification from the likes of the Forest Stewardship Council (FSC), the International Federation of Organic Agricultural Movements (IFOAM) and the Marine Stewardship Council (MSC) is increasingly used as a market entry point.⁷

That ethical trade should encompass socio-economic and environmental issues is further endorsed by contemporary business management theory which emphasises the triple bottom line of social, financial and environmental performance.⁸ For Welford, whose work at The Body Shop has been highly influential, this will allow businesses to look beyond the immediate financial bottom-line and address issues of equity and futurity.⁹ Ethical trade today is a long way from addressing many of the issues surrounding sustainability which lie at the heart of such thinking. Indeed, rather than providing a definition of a particular approach to trade, ethical trade is best thought of in terms of scope; a term that brings together a variety of approaches affecting trade in goods and services produced under conditions that are socially and/or environmentally as well as financially responsible.

MOTIVATION FOR ETHICAL TRADE

Despite problems of definition, ethical trade has captured the imagination of both the public and the business community. According to the US Fair Trade Federation, the fairtrade market accounts for US\$ 400 million in retail sales each year in Europe and the USA. The global organic market is estimated to be worth US\$ 11 billion, with organic imports from developing countries worth US\$ 500 million. According to some estimates, certified timber products will account for 15% of the timber market in certain European countries by 1999.¹⁰

Although these are relatively small market shares, they are growing rapidly and advocacy organisations cite several surveys showing strong consumer support.¹¹ More significantly, media pressure and NGO campaigns have generated consumer interest in the conditions under which certain items such as garments, cut flowers, coffee and vegetables are produced in developing countries. This has led to the growth in interest in ethical sourcing, particularly amongst European retailers, and in the near future many items on supermarket shelves are likely to be from sources that comply with certain basic ethical standards.¹²

Similar pressure has also been applied on companies less dependent on consumer image, but equally dependent on shareholder perception. Extractive companies such as Shell and Rio Tinto, for instance, which have been criticised for negative social and environmental impacts, now publish annual statements on social and environmental performance. Organisations in the USA such as the Investor Responsibility Research Center and the Council on Economic Priorities provide shareholders with regular updates on the ethical performance of major companies.

The reasons for shareholder and consumer concern vary. Concerns about sustainability mentioned earlier, are probably less important than not wanting to be party to processes that cause harm to the environment, other people, animals or oneself. For some people, the need for greater business responsibility is a result of globalisation whereby a company's economic activities are frequently beyond the reach of any one national regulatory system. This has caused "*a notable shift in power from the provident State to privatized and multinational enterprise, concomitant with a waning influence of governments and local workers' organisations.*"¹³ In a world where the largest corporation has sales greater than the GDP of the fourth most populous country, there is a strong feeling that companies have both the responsibility and the power to behave ethically in ways that are outside the realm of free market forces.¹⁴

There may also be a darker motivation; one that is often cited by governments and entrepreneurs in developing countries. Interest groups that feel threatened by competition from the South may see environmental and social standards as a

means of protecting their jobs or companies.¹⁵ This has resulted in a number of cases being brought before the World Trade Organisation and led to the development of the WTO's Code of Good Practice of the Technical Barriers to Trade Agreement which offers guidelines on how voluntary standards can be used without being interpreted as a non-tariff barrier.¹⁶

APPROACHES TO ETHICAL TRADE

The broad scope of ethical trade and the plethora of initiatives throw up various possibilities for categorisation. One way is to use the categories employed by organisations directly involved in the trade: this would distinguish, for instance, ethical sourcing from fairtrade,¹⁷ the trade in organic produce from that in responsibly produced timber. This form of categorisation appeals to those who feel comfortable with established sectoral segmentation, or who wish to maintain a distinct identity (e.g. in the market place or when seeking donor funding). However, it does not help identify common ground shared by different approaches, and furthermore goes against a trend for more cross-sectoral debate being promoted by supporters within various movements.¹⁸

It might also be possible to categorise approaches according to the stage in the production-marketing chain where they seek to intervene. In theory this would distinguish initiatives that focus on trading from those that are primarily concerned with conditions of production. Fairtrade seeks to challenge conventional wisdom about trading relations by establishing a partnership between producer and buyer based on long-term commitment, stable prices and greater producer involvement in marketing. In contrast, sustainable fisheries or environmentally and socially responsible cut flower initiatives are about managing production, and do not address trading relations per se. Even ethical sourcing, despite sometimes being called ethical trading, is about managing the social conditions of production, not examining trading relations.

In this paper I divide approaches to ethical trade into two categories: enterprise initiatives and labelling initiatives. Enterprise initiatives are typically standards used by a company to measure the environmental and/or social

performance of the company and its suppliers or sub-contractors. Labelling initiatives are independently managed standards that companies may seek to comply with, and as a consequence earn the right to use a label or mark as proof of compliance. Such a simple categorisation is not without its problems and does not show, for instance, the differences that exist between the ethical issues facing a mining company and a supermarket, or the different challenges facing developers of standards for organic production compared to developers of fairtrade marks. However, it does highlight the shared strengths and weaknesses, opportunities and challenges of different approaches; aspects that are often rendered opaque when viewed from other vantage points.

ENTERPRISE INITIATIVES

Without examining the reasons why, the fact is that a growing number of companies, particularly large corporations, are adopting policies relevant to ethical trade and taking part in joint initiatives (Box 1). A growing number of smaller companies, known as alternative trade organisations, are developing approaches to fairtrade, typically working with small producers in developing countries. Most of these companies are based in Europe or North America, although some would argue that this is not because such companies are more ethical than their Japanese or Korean equivalents, but because it is easier to profile ethical initiatives as a distinct approach in European and North American companies which place greater emphasis on targets and quantification rather than overarching creeds or philosophies.¹⁹

Enterprise initiatives draw heavily on accepted management systems. No commercial enterprise today contests the importance of financial recording and reporting, both as a management tool and as a way of demonstrating performance. Yet auditing only became a legal requirement in the nineteenth century,²⁰ and the idea that a company's financial health was more than a private concern was disputed until the collapse of American and European markets in 1929.²¹

Today, large companies are very familiar with systems for managing quality, safety, hazard and other aspects of their business, sometimes to fulfil legal requirements, but also because such systems can deliver direct and indirect benefits to the company. Schemes and tools such as the International Standards' Organisation's series of standards for quality assurance (ISO 9000) and Hazard Analysis Critical Control Point (HACCP) share basic steps: the setting of a clear and detailed policy in the relevant area, allocating managerial resources for effective dissemination of the policy, and acquiring adequate tools for monitoring, reporting and taking corrective action.

Given this familiarity, it is not surprising that the mechanisms for accounting, auditing and reporting on social and environmental aspects of a company's operations are very similar to the ones already employed for other aspects of its business. While some people may be surprised at how rapidly companies have adopted the language of social and environmental responsibility, it is more accurate to say that these companies have simply increased their lexicon and applied it to a grammar which they had already mastered.

Codes of Practices

Codes of practice are the most common instruments for showing environmental and social responsibility. Recent studies of codes of practice have identified several hundred European and American companies that have adopted such instruments.²² Codes may be developed by individual companies or draw on model codes.²³ They set out principles and criteria for measuring company performance, and in the best cases also the indicators of achievement and guidelines on how the codes are to be implemented. In many cases the codes are treated as confidential documents, and only very general information on their content is released to the public.

Some companies have adopted statements of business principles rather than codes of practice, such as the Rio Tinto Group's 'The Way We Work' document. These statements are primarily found in extractive industries,²⁴ where a case by

case (emic) approach to addressing impact on local communities and the environment may be more appropriate than codifying universal principles.

The emic approach has also found favour in some companies outside of extractive industries. Organisations such as the Institute of Social and Ethical Accountability have applied many of the experiences of environmental auditing to the new field of social auditing whereby companies are led through a process of identifying social issues rather than beginning with a checklist of core principles.²⁵

Strengths and Weaknesses of Enterprise Initiatives

Implementation

The growth in the number of enterprise initiatives is a clear indicator of the increasing interest companies have in the social and environmental impact of their own operations and those of their suppliers, sub-contractors and licensees. Codes of practice building on familiar management systems have proved a useful entry point to addressing social and environmental concerns. But too many codes are launched with a fanfare of publicity in the West, yet are “*unknown, unavailable or untranslated*” in the developing country sites of operation.²⁶ Setting a standard is a small part of the task; the major challenge is to ensure compliance,²⁷ something that is rarely reported upon and where at present there is too little independent verification.²⁸ Indeed, too often it is a case of ‘a lunch, a launch and a logo’, and nothing further happens with the standard or code of practice.

Trade unions and environmental groups in particular have argued for independent monitoring and verification of company codes of practice, and for public access to the results of social and environmental audits.²⁹ Companies have genuine concerns about the cost and confidentiality of such auditing, but even if these were to be overcome there are neither the agreed auditing standards nor an adequate number of trained auditors to allow full third party auditing. Similar groups have also lobbied for greater stakeholder

representation in the general development and implementation of codes so that companies are accountable to employees, communities and suppliers in the same way that they are to shareholders and customers.³⁰ B&Q are one of the few companies that have actively consulted with their suppliers' workers when developing codes of practice.³¹

The degree of stakeholder involvement is highly contested. Trade unions in the USA withdrew from the Apparel Industry Partnership because of disagreement with companies about how the AIP code of practice should be implemented.³² Difficulties in managing a large membership organisation were given as a reason for the closed shop approach adopted by the MSC, which began as a Worldwide Fund for Nature-Unilever initiative.³³ Furthermore, stakeholder involvement has a financial cost, particularly where Northern companies are sourcing from developing countries. Alternative trade organisations, commonly perceived to have a greater interest in partnerships than other commercial organisations, have found that the price and volume of sales do not allow for the degree of stakeholder consultation they would wish for.³⁴

Criteria and Indicators

Many codes of practice take as their starting point legal compliance in the country of operation, although as Welford has pointed out, "*the law only codifies that part of ethics which society feels so strongly about that it is willing to support it with physical force.*"³⁵ Many codes therefore seek to go beyond legal compliance, and companies often seek legitimacy by reference to international conventions and standards such as the ILO's seven core labour conventions and the UN Convention on the Rights of the Child, or the indicators being developed by the United Nations Commission on Sustainable Development, a watchdog set up after the Rio Earth Summit.³⁶

Companies have been selective about which indicators to include within their codes. On social issues, for instance, non-use of child labour has been widely accepted, but freedom of association has not.³⁷ Large companies, often aided by increasingly stringent legislation, have a growing capacity to identify areas of

environmental impact at their sites of operation. But despite decades of work on environmental reporting, there is still no common agreement on indicators for measuring key elements of environmental performance such as the quantities and types of materials used, the amount of energy consumed, quantities and types of waste produced, and quantities and types of pollutants released.³⁸ There are several initiatives trying to standardise the numerous voluntary environmental performance metrics,³⁹ but as yet there is little co-ordination between them.⁴⁰

What is or is not included in a code is partly the result of power relations. Companies that develop their own code have the power to choose who is consulted about its content and implementation, and may not consult with workers or neighbouring communities that are often cited as the intended beneficiaries. Even within jointly developed codes of practice that can include alliances of companies, trade unions, civil society and government, power relations are problematic. The UK-based Ethical Trading Initiative has tried to facilitate such a joint approach, but to do so has had to allow many companies 'free access' to working groups, as only a handful have proved willing to pay for membership.⁴¹ The Apparel Industry Partnership of trade unions, NGOs and apparel companies has been accused of allowing companies too great an influence, forcing the acceptance of wording that critics feel conflict with human rights.⁴²

Scope

Enterprise initiatives are strongest where they impose standards within a company or its suppliers' factory gates.⁴³ But companies have an impact beyond the locus of production. Ongoing work with African fruit and vegetable exporters shows that important environmental impacts are felt beyond the producing farms: for instance, the contamination of downstream water sources and the dumping of waste on common ground.⁴⁴ Companies also have unmonitored social impacts away from the production site. For instance, the growth of a labour intensive industry such as cut flowers or garments can attract migrant

workers that put pressure on the resources of previously small rural towns, forcing up local rents, overloading sewage systems, and causing health problems in overcrowded slums. Equally, new employment opportunities may be a mixed blessing if they are dominated by a particular group (e.g. allowing men greater access to money than women) or place additional burdens on other household members (e.g. increasing the domestic responsibilities of women unable to find work in factories). Much depends on power relations within the household and extended family, but enterprise initiatives, including those of fairtrade, do not consider this type of impact.⁴⁵

Initiatives are also time constrained, typically measuring only present and short-term future impact. A clear example of this is the way enterprise initiatives fail to address land issues. It is possible under existing standards, for example, for a company or individual producer selling to the fairtrade market to have acquired land by coercion or without due compensation, or to have established a farm by deforesting land.⁴⁶

To some extent such problems could be overcome by employing emic approaches in the development of enterprise initiatives as this would shift the emphasis from universal norms to a relativist approach. There are, however, reservations about emic approaches. First, there is concern that there would be no way of assessing whether a company was setting relevant standards or simply the ones easiest to attain. Second, there would be no way of comparing the performance of different companies. These issues are discussed further in relation to the labelling initiatives discussed below.

The need for comparable standards is important to avoid customer confusion in the market place, but also if companies wish to measure their performance against indicators of sustainable development. The plethora of separate initiatives is not contributing towards reaching a consensus on what these sustainability indicators should look like. Taken as a whole, company codes of practice do not allow inter-firm or sector comparison, are incomplete in scope and how they can be applied to different companies, countries or sectors, and often lack the credibility that would make them useful for decision-making by

companies or customers.⁴⁷ Most current enterprise initiatives limit themselves in scope to the social or environmental impact of the business, with few attempts to bring these two aspects together under a cohesive set of business principles. This would be a necessary step to move from the social or environmental auditing of today to 'sustainability auditing' where the whole life-cycle of a product is assessed.⁴⁸ This cradle-to-grave product stewardship, reportedly most advanced in companies such as Dow Chemical and The Body Shop, requires the company to consider not only its own practices or those of its suppliers, but also what happens prior to production (e.g. how raw materials are extracted) and what happens once a product has been sold (e.g. the energy used during the product's user life, its disposal after its user life).

Costs and Benefits

Enterprise initiatives have a cost that must be recouped, either by efficiency savings or through increased prices to customers. Some companies, such as those supplying the fairtrade market, believe consumers are happy to pay an 'ethical premium' if they know that this provides developing country producers with a better deal. Mainstream companies have proved more reticent about testing the various marketing surveys showing that consumers are prepared to pay more for ethically traded products. In the case of cut flowers, for instance, there is no difference in the auction price between flowers produced according to social or environmental standards and those that are not.⁴⁹ Some multiple retailers insist that all fresh produce suppliers adopt their codes of practice, but growers maintain that this does not earn them a higher price, and is simply a requirement to access a market segment that is more dependable than the alternatives.⁵⁰ The exception to this is organic produce where consumers, often for reasons of food safety, are prepared to pay a higher price than for comparable conventionally produced items.

Little work has been done on the actual cost of implementing enterprise initiatives, and costs vary according to where the auditing team is based, the amount of time the team spends in the field, the extent of the audit, and the cost

of implementing improvements. There is some evidence that the cost of auditing prevents smaller producers engaging in ethical trade,⁵¹ but in many instances these costs are met by funding agencies.⁵² A combination of the cost and complexity of implementing codes of practice in certain production systems has been blamed for companies ceasing to use certain types of producer (e.g. homeworkers in the garment industry and smallholder outgrowers in agriculture).⁵³ However, there is also evidence that companies using codes of practice make considerable savings through increased efficiency (e.g. reductions in chemical use), and that companies with well-functioning management systems do not incur significant extra costs by implementing social or environmental standards.⁵⁴

SOCIAL AND ENVIRONMENTAL LABELLING

Labelling is used as a means of communicating information about the social or environmental conditions surrounding the production of goods or provision of a service. Labelling gained notoriety when numerous companies sought market advantage by labelling their products environmentally 'friendly' in the 1980s. There were no fixed standards for demonstrating this 'eco-friendliness' and many products were shown to be no less harmful than their non-labelled equivalents. Despite this adverse publicity, a number of labelling organisations have become well established. They offer an independent service, setting the standard for a particular sector or commodity, and overseeing the development accreditation and certification processes. By doing so, they address concerns about enterprise initiatives defining their own standards and not subjecting their performance to independent monitoring and verification. They also help reduce customer confusion about what a company means by ethical, and in some instances are promoted as offering market advantage (e.g. fairtrade and organic labels allowing companies to charge an ethical premium).

There are labels addressing both social and environmental performance, and increasingly labelling organisations' standards attempt to combine the two (see Box 2). As the examples in the box show, labelling initiatives operate in different

ways. Some are membership organisations engaging a wide range of stakeholders in developing the label, but there are also private companies promoting labels for use in the business community and by government. Initiatives such as the FSC function as a custodian body that set basic standards which can then be developed by accreditation agencies, and it is these agencies which approve auditing or certification bodies.⁵⁵ In other initiatives auditors are either accredited directly by the custodian body (e.g. Fairtrade Labelling Organisation International) or that body carries out the auditing itself (e.g. Kenya Flower Council, Milieu Project Sierteelt).

Although some labelling initiatives are international, there are also national ones (e.g. the Child-Friendly Company programme in Brazil, the Kenya Flower Council) and ones that are specifically intended for use in developing countries (e.g. Rugmark, fairtrade labels). In the case of Milieu Project Sierteelt environmental sections of its standard are international, but the social chapter applies only to developing countries.

In contrast with most company codes of practice, there are several labelling initiatives that have emerged from developing countries rather than the North. The Kenya Flower Council code of practice has been favourably received by a number of UK multiple retailers; the Child-Friendly Company programme was developed by the Abrinq Foundation, established by members of the Brazil's Association of Toy Manufacturers; and the FSC is based in Mexico.

Strengths and Weaknesses of Labelling Initiatives

Labels help set common standards for certain sectors or commodities, and help prevent confusion amongst consumers. They can reduce the costs of ethical trade by creating greater economies of scale, and can access a greater body of expertise than could be afforded by most individual companies. Labelling initiatives can foster fora to ensure greater representation in the development and implementation of standards, and are seen as more independent than enterprise initiatives. This independence has been questioned in cases where the label is

controlled by an industry association or an organisation with close links to a particular company or industry.⁵⁶

Independent Monitoring and Verification

NGOs and increasingly sourcing companies would like to see more independent auditing in relation to labelling initiatives. Some initiatives such as those of IFOAM, FSC and ISO already have accredited auditing organisations, and the Council on Economic Priorities Accreditation Agency is training auditors in the use of SA8000. But auditing remains costly and of dubious quality, especially in developing countries.⁵⁷ The meaning of independence in relation to some labelling initiatives can also be questioned. Labelling initiatives are often financially dependent on revenues from companies using the labels, and labelling organisations must strike a balance between the need to generate income and the need to maintain label credibility. This is most problematic where there is as yet a small demand for labels, or competing standards for the same industry. Similar considerations apply to auditing organisations, particularly where it is the auditing organisation who issues the certificate or right to use the label.⁵⁸ As yet there is a lack of legislation or industry accepted practices for establishing labels, although some organisations use ISO standards for auditors.

Procedural versus Performance Approaches

Criticisms about the implementation, criteria and indicators, and scope of enterprise initiatives apply equally to labelling initiatives. A further criticism that applies to both but which is best understood in the context of labelling initiatives is that of approach. There are two types of approach towards developing ethical standards: one that measures performance against a specified set of criteria and indicators, and a second that assesses achievement by adopting procedures that will lead to improved performance. The procedural approach has been adopted for a number of international labelling initiatives such as ISO 14000.

Performance and procedural approaches each have their respective strengths and weaknesses. Performance approaches such as Milieu Project Sierteelt have the advantage of setting clear standards that observers can understand, but are often criticised for being too static, and for encouraging performance to be measured on a Pass-Fail basis. Procedural approaches are more dynamic and many value progress towards a goal rather than simply its achievement. However, exclusively procedural schemes can allow organisations to set goals that are too low, and be too complicated and reliant on a paper trail to be implemented by small producers.

An increasingly common solution to this is to use a performance based approach as the starting point but then to introduce elements of a procedural approach to encourage continual improvement (e.g. SA 8000). There is a growing consensus that the object of any standard or code of practice is to encourage improvement in all companies, not to fail certain companies for not being as good as others. A 'fail' is only the sanction of last resort. The logic behind this is to encourage as many companies as possible to adopt ethical standards, and to avoid a situation where 'good' companies adopt standards but are then criticised for not being 'perfect', while 'bad' companies carry on regardless because they refuse to participate in labelling initiatives.⁵⁹

Power Relations – Whose Ethics?

I have mentioned how power relations affect enterprise initiatives, and similar forces apply to labelling initiatives. Some labelling initiatives offer more opportunity for stakeholder representation than initiatives generated by a single company, but this is not always the case. In part this is because labelling initiatives are voluntary, and some have argued that to become more rigorous stronger legislation is required.⁶⁰ Some labelling initiatives such as IFOAM have already informed legislation, but the move from voluntary principles to legal requirement is not without its problems as the recent experience of trying to set legal standards for organic agriculture in the USA has shown. Suspicion of

possible WTO rulings on non-tariff barriers have also hindered the process of pushing for legislation on social and environmental standards.⁶¹

FUTURE AGENDAS

The challenges facing ethical trade should not detract from the general mood of optimism that these approaches will make a valuable contribution to North-South relations. This stems not least from the fact that ethical trade in its various forms is succeeding in creating new partnerships that bring business, civil society and government together, and that within these partnerships the challenges are being recognised and addressed. Companies, business associations, trade unions, NGOs and academics are working both separately and through a burgeoning number of networks and common fora. However, this enthusiasm is not always matched by resources. Few companies other than alternative trade organisations have full-time dedicated staff working in this field, and even high profile initiatives such as the Ethical Trading Initiative have insufficient human resources.⁶² Furthermore, there are many initiatives in developing countries that depend on grants or below market rate loans from donor organisations, and whose long-term viability is open to question.⁶³ Resolving problems with human resources and financial viability is fundamental to ethical trade's future.

Codes of practice have proved a useful entry point for companies wishing to engage in ethical trade, but there is considerable opportunity to make both company codes and those related to labelling initiatives more effective. Criteria and indicators need to be more complete and more relevant to reflect the norms, values and priorities of employees, homeworkers, small producers and outgrowers as well as to reflect diverse environmental conditions. It is becoming apparent that a code of practice is only as useful as its implementation, and there is a need for more investment in building models of best practice. This would include mechanisms for continual improvement of the code and systems of monitoring and verification, but would also need to ensure that codes do not overlook the needs of certain primary stakeholders (e.g. homeworkers,

outgrowers) or result in certain types of producer being excluded from income generating opportunities.

The limitations of codes of practice need to be recognised, particularly where they attempt to be universal or where a company has significant impacts away from the locus of production. Rather than have codes of practice as the focus of a company's ethical policy, the interests of primary stakeholders might be better served by having codes as an element of a more holistic ethical strategy. Such a strategy should be a corporate strategy, not as is normally the case with codes focused on a particular aspect of the company's operations (e.g. treatment of workers; environmental management practices within a factory). For instance, current codes of practice for horticulture apply to on-farm and in some cases pack-house conditions, and in some countries growers have been strongly criticised for over-use of chemical inputs on farms. But ongoing work with the Ghana pineapple industry shows that part of the reason for the degree of chemical use is to meet consumer demand for a golden fruit, and to ripen fruit at short notice for European wholesalers who seem unable to predict market demand.⁶⁴ In such circumstances, consumer education and more stable markets appear a prerequisite for ethical trade, but neither aspect is addressed by codes of practice.

These types of issue have been high on the agenda of the fairtrade movement for some time.⁶⁵ Price stability, long-term buyer-producer relations and greater emphasis on partnership are also features of best practice amongst many multiple retailers.⁶⁶ The standards developed by multiples as enterprise initiatives are now forming the basis for industry standards, where individual codes of practice are encouraged to meet a common base standard. An example of this is Eurep, a nascent European standard for agriculture, which builds on national standards such as the Assured Produce scheme in the UK that in turn came from individual multiple retailers' standards.

The development of common standards is likely to increase, although who bears the cost of implementing them remains a subject for debate. Some multiple retailers are likely to continue auditing their suppliers themselves, but some

would like to use third party auditors paid for by producers. It remains to be seen whether this will significantly increase the cost to consumers and whether consumers will on a routine basis be prepared to pay higher prices for ethically produced goods, particularly when ethical standards remain voluntary and 'non-ethical' but cheaper goods are still available. If consumers prove unwilling, then it is possible that producers will improve their social and environmental performance but prefer to invest in labour saving technology, thus generating less employment.⁶⁷ However, at present information on the cost implications of implementing ethical trade are largely anecdotal, and there is a need for further research before conclusions can be drawn.

This paper shows that ethical trade is developing in a range of different sectors, but that many of the lessons learnt and challenges faced are not sector specific. Inter-sectoral linkages for exchanging learning about successes and failures are weak, and as a result there is much duplication and reinventing of wheels. Practitioners have various reasons for wishing to maintain the distinct identity of separate approaches to ethical trade, but in the medium term this is likely to confuse consumers and businesses interested in applying ethical trade principles. Nowhere is this more evident than in the segregation of social and environmental approaches to ethical trade as most consumers assume that ethical produced goods have a positive human and ecological impact. Furthermore, without a conscious merging of environmental and social standards, ethical trade is unlikely to become the step towards the development of sustainable business and trade that early proponents hoped for. As Ranganathan has stated:

*"At present the corporate sustainability measurement "picture" is broken into several pieces [and] there is little evidence to suggest that the separate pieces will be brought together in the near term and assembled into a coherent picture of business sustainability."*⁶⁸

Regardless of whether codes or other instruments are used to measure and manage ethical trade, there is a need for greater stakeholder participation. It is ironic given that ethical trade is primarily described in terms of its benefits for

developing country people, that the participatory development approaches common in international development have not been widely used in designing, implementing or evaluating ethical trade. Trade unions argue that codes of practice are only of use where labour organisations are outlawed or weak, and that the aims of ethical trade will best be achieved through freedom of association, strong labour laws and a workforce educated in techniques such as collective bargaining.⁶⁹ This would be one way of increasing participation, but not all companies are comfortable with trade unions' role in ethical trade.⁷⁰ Moreover union representation only addresses social issues, and unions are not always able to represent the interests of all types of worker.

Alternative trade organisations such as GEPA and Oxfam Fairtrade argue strongly that participation is more important than any code of practice, and that for companies with limited resources labelling initiatives are an unnecessary cost and less important than developing a credible brand.⁷¹ Indeed, they can reduce the resources available to invest in building the capacity of producer organisations to organise and negotiate effectively. ATO brands are one example of the emic approach also being explored by companies such as B&Q and the extractive industries. Fear of adverse media coverage has made companies wary of allowing outsiders to learn more about these approaches and how they foster participation, but the development of ethical trade is being hampered by an absence of independently assessed examples of best practice.

Without greater participation, and particularly a shift in decision-making from the North to the South, ethical trade will at best be paternalistic and at worst harmful to those it is intended to benefit. Indicators of achievement will reflect the values and concerns of Northern companies and consumers, and the instruments employed will remain those that Northern stakeholders understand rather than those best able to identify the concerns and aspirations of people in the South. One of the successes of ethical trade is that it has opened the North's eyes to conditions in the South, but it will require courage in the South's capacity and ability to define its own ethical goals if Northern companies, civil society

organisations and consumers are to relinquish the control over the ethical trade movement that they currently exert.

BOX 1: Joint enterprise initiatives

Initiative (country)	Sector	Examples of participating organisations
95 Buyers' Group (UK)	forestry	Habitat, B&Q, WWF
IFOAM (international)	organic agriculture	growers, traders, consultancy companies, general public
Horticulture Producers' Council	horticulture	various commercial growers
Apparel Industry Partnership	apparel	Reebok, Liz Claiborne, Robert Kennedy Memorial

BOX 2: Examples of social and environmental labels and their scope

Programme	Comments
Forest Stewardship Council (FSC)	<p>Developing international standards for responsible forest management.</p> <p>Membership organisation comprising commercial forestry companies, retailers, processors and environmental NGOs.</p> <p>Attempting to incorporate environmental and social issues.</p> <p>Auditing by accredited independent auditors.</p>
Rugmark	<p>Label for hand-knotted carpets produced in developing countries.</p> <p>Managed by membership organisation comprising religious and secular NGOs.</p> <p>Main focus is child labour.</p> <p>Auditing by member NGOs.</p>
Fairtrade Labelling Organisation International (FLO)	<p>Custodian body for fairtrade standards for developing country producers and Western buyers in products such as tea, coffee, bananas and cocoa.</p> <p>Managed by three European fairtrade labelling bodies (Max Havelaar, Transfair and Fairtrade Foundation).</p> <p>Main focus is social issues, but provides non-compulsory guidelines on some environmental aspects.</p> <p>Auditing by fairtrade labelling bodies.</p>
Kenya Flower Council (KFC)	<p>Cut flower industry association managing label for Kenyan growers.</p> <p>Managed by members within the flower industry.</p> <p>Main focus is environmental impact, but has recently included a social chapter.</p> <p>Auditing by KFC, although selective independent verification likely soon.</p>

<p>Social Accountability 8000 (SA 8000)</p>	<p>International standard for working conditions.</p> <p>Managed by Council on Economic Priorities Accreditation Agency</p> <p>Sole focus is social issues, primarily in manufacturing.</p> <p>Auditing by accredited independent auditors.</p>
<p>ISO 14000 series of environmental standards</p>	<p>International standard for environmental management.</p> <p>Managed by International Organisation for Standardisation and recognised national bodies (e.g. British Standards Institute).</p> <p>Sole focus is environmental issues.</p> <p>Auditing by accredited independent auditors.</p>
<p>International Federation of Organic Agriculture Movements (IFOAM)</p>	<p>Custodian body for organic standards for agriculture and other sectors.</p> <p>Membership organisation of organic growers, buyers, retailers, processors and NGOs.</p> <p>Main foci are soil management and health issues, but has non-compulsory guidelines on social issues.</p> <p>Auditing by accredited independent auditors.</p>
<p>Milieu Project Sierteelt (MPS)</p>	<p>International standard for flower production.</p> <p>Private company.</p> <p>Main focus is environmental issues on flower farms, but recently introduced social chapter for developing countries.</p> <p>Auditing by MPS with some work sub-contracted to country offices of SGS.</p>

¹ R Welford, *Environmental Strategy and Sustainable Development: the corporate challenge for the 21st century*, London: Routledge, 1995, pp 10-20

- ² DFID, *Eliminating World Poverty: a challenge for the 21st century*, London: Department for International Development, 1997
- ³ A Tallontire, ME Blowfield, *Stock-Take of Work in the Field of Ethical Trade in Europe And the USA*. Unpublished report for the Department for International Development, Natural Resources Institute, December 1998
- ⁴ R Lake, *Fair Trade and Ethical Trade: distinct but complementary*. Discussion note for ETI communications task group: Traidcraft, 1998
- ⁵ Fairtrade Foundation, *Fairtrade Foundation Operating Manual*
- ⁶ EFTA, *From Fair Trade to Responsible Consumption: the power of the citizens of Europe to change the conditions for North/South relations*, Maastricht: European Fair Trade Association, 1998, pp1-3
- ⁷ ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Rural Livelihoods*, Chatham: Natural Resources Institute, forthcoming, p 11
- ⁸ J Ranganathan, *Sustainability Rulers: Measuring Corporate Environmental and Social Performance*, Washington DC: World Resources Institute, 1998
- ⁹ *ibid.* pp 8-10
- ¹⁰ All figures from ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Rural Livelihoods*, Chatham: Natural Resources Institute, forthcoming, pp 13-14
- ¹¹ Mintel Market Intelligence, *Organic and Ethical Foods*, Market Survey, 1997
- ¹² ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Livelihoods*, Chatham: Natural Resources Institute, forthcoming, p 15
- ¹³ ILO, *Overview of Global Developments and Office Activities Concerning Codes of Conduct, Social Labelling and Other Private Sector Initiatives Addressing Labour Issues*, Geneva: International Labour Organisation, 1998, p 2
- ¹⁴ P Varley ed., *The Sweatshop Quandary: corporate responsibility on the global frontier*, Washington DC: Investor Responsibility Research Center, 1998, pp 18-20
- ¹⁵ Varley *ibid.* pp 45-49
- ¹⁶ ILO *ibid.* p 20
- ¹⁷ This type of categorisation is evident, for instance, in DF Murphy, *Responsible International Trade: key issues and best practice*. New Academy of Business Briefing Paper No 5, London: New Academy of Business, 1997 and R Lake, *Fair Trade and Ethical Trade: distinct but complementary*. Discussion note for ETI communications task group: Traidcraft, 1998.
- ¹⁸ Witness for instance Bo van Elzakker's presentation on bridge building at the 12th Scientific Conference of the International Federation of Organic Agriculture Movements, Argentina, November 1998, and the work on incorporating social indicators into standards for responsible forest management by the Centre for International Forest Research (R Prabhu, JP Colfer, P Venkateswarlu, *Testing Criteria and Indicators for the Sustainable Management of Forests: phase 1 final report*, Bogor: Centre for International Forest Research, 1996).
- ¹⁹ ILO *ibid.*
- ²⁰ S Zadek, P Pruzan, R Evans, *Building Corporate Accountability: emerging practices in social and ethical accounting, auditing and reporting*, London: New Economics Foundation, 1997
- ²¹ Ranganathan *ibid.* p 1
- ²² Codes of social responsibility are examined in: I Zeldenrust, N Ascoly, *Codes of Conduct for Transnational Corporations: an overview*, Tilburg: International Restructuring in Industries

and Services; P Varley ed., *The Sweatshop Quandary: corporate responsibility on the global frontier*, Washington DC: Investor Responsibility Research Center; Council on Economic Priorities, *International Sourcing Report*, New York: Council on Economic Priorities. Codes of environmental responsibility are examined in: J Ranganathan, *Environmental Performance Indicators*, Washington DC: World Resources Institute, and in reports by the Coalition for Environmentally Responsible Economies' Global Reporting Initiative, Boston, USA. A comparison of horticultural codes of practice with social and environmental criteria is provided in CREM/NRI, Unpublished report for COLEACP on opportunities for harmonising social and environmental codes of practice in the horticultural sector in Africa: CREM and the Natural Resources Institute, 1997. EFTA, *Studies about Fair Trade*, Maastricht: European Fair Trade Association, 1998, provides an overview of different approaches to fairtrade.

²³ Examples of model codes include 'The Code of Labour Practices for the Apparel Industry' by the Clean Clothes Campaign, the Apparel Industry Partnership's code of practice, the Ethical Trading Initiative's Core Principles, the International Confederation of Free Trade Union's Basic Code of Labour Practice, 'The Charter of the Safe Production of Toys' by the Hong Kong Coalition, the proposed 'Code of Conduct for the Oil and Gas-Producing Industries' by Bröt für die Welt, the COLEACP harmonised code for horticulture, and the Flower Label Programme's model code for the flower industry. Sources: Zeldenrust & Ascoly *ibid.*, and Tallontire & Blowfield *ibid.*

²⁴ C Ferguson *A Review of UK Company Codes of Conduct*, London: Department for International Development, 1998

²⁵ NEF, *Social Auditing for Social Organisations: a workbook for trainers and practitioners*, London: New Economics Foundation

²⁶ ILO *ibid.* p 15

²⁷ Zeldenrust & Ascoly *ibid.* p 4

²⁸ Ferguson *ibid.* p14

²⁹ ILO *ibid.* p 15; S Zadek, M Burns, *Open Trading: options for effective monitoring of corporate codes of conduct*, London: New Economics Foundation/CIIR, 1997

³⁰ J Ranganathan, *Sustainability Rulers: Measuring Corporate Environmental and Social Performance*, Washington DC: World Resources Institute, 1998, p 7

³¹ Ferguson *ibid.*

³² S Greenhouse, *Plan to Curtail Sweatshops Rejected by Union*, New York Times, 5 November 1998

³³ Michael Sutton, WWF Endangered Seas Campaign, interview with the author, 1997.

³⁴ Traidcraft, *Traidcraft Social Accounts 1995-1996*, Gateshead: Traidcraft

³⁵ Welford *ibid.* p 38

³⁶ A MacGillivray, S Zadek, *Accounting for Change: indicators for sustainable development*, London, New Economics Foundation, 1995, pp 6-8

³⁷ A fuller analysis of what is and is not included in codes of social responsibility can be found in Council on Economic Priorities, *International Sourcing Report*, New York: Council on Economic Priorities; I Zeldenrust, N Ascoly, *Codes of Conduct for Transnational Corporations: an overview*, Tilburg: International Restructuring in Industries and Services; and C Ferguson *A Review of UK Company Codes of Conduct*, London: Department for International Development, 1998.

³⁸ D Ditz, J Ranganathan, *Measuring Up: a common framework for tracking corporate environmental performance*, Washington DC: World Resources Institute, 1997

³⁹ These include the Coalition for Environmentally Responsible Economies (CERES), the World Business Council for Sustainable Development, and the United Nations Commission on Sustainable Development.

⁴⁰ J Ranganathan, *Sustainability Rulers: Measuring Corporate Environmental and Social Performance*, Washington DC: World Resources Institute, 1998, p 3

⁴¹ As of December 1998, eight companies had become formal members, but many more were participating in working groups.

⁴² For instance, the AIP agreement says that in countries where free trade unions are not recognised, companies and their contractors "shall not affirmatively seek the assistance of state authorities to prevent workers from exercising [the right to organise]." UNITE, a clothing and textile union, consequently withdrew from AIP, commenting "This presumably means you can let the army in the door, but you can't call them." Quoted in *Sweatshop Deal: Factories Free to Let the Army in?* an email to subscribers of the service Corps-Focus by R Mokhiber and R Weissman, November 1998

⁴³ J Ranganathan, *Sustainability Rulers: Measuring Corporate Environmental and Social Performance*, Washington DC: World Resources Institute, 1998, p 6

⁴⁴ Provisional findings of the Natural Resources and Ethical Trade programme's Export Horticulture project published at www.nri.org/NRET/nret.htm

⁴⁵ ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Rural Livelihoods*, paper presented at the Natural Resource Advisors' Conference of the Department for International Development, July 1998, pp 15-16

⁴⁶ Blowfield et al *ibid.*

⁴⁷ J Ranganathan, *Sustainability Rulers: Measuring Corporate Environmental and Social Performance*, Washington DC: World Resources Institute, 1998, p 2

⁴⁸ Welford *ibid.*

⁴⁹ Information from various Dutch auction houses obtained by the author during a recent consultancy for the flower industry.

⁵⁰ Information from various African horticulture producers obtained by the author during research and consultancy for the horticulture industry.

⁵¹ BH Ghazali, M Simula, *Study on the Development and Formulation and Implementation of Certification Schemes for All Internationally Traded Timber and Timber Products*, Manila: International Timber Trade Organisation, 1996

⁵² ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Rural Livelihoods*, paper presented at the Natural Resource Advisors' Conference of the Department for International Development, July 1998, p 6

⁵³ Ferguson *ibid.* p 8; NRET, *Ethical Trade and Export Horticulture in Sub-Saharan Africa: the development of tools for ethical trading of horticultural exports by resource poor groups*, Natural Resources and Ethical Trade working Paper 1, Chatham: Natural Resources Institute, 1998, p 3

⁵⁴ ILO *ibid.* pp 15-17

⁵⁵ VM Viana, J Ervin, RZ Donovan eds., *Certification of Forest Products: issues and perspectives*, Washington DC: Island Press, 1996

⁵⁶ Such criticisms have been made in interviews of the Kenya Flower Council and the MSC when the author was conducting consultancy work on the flower industry and fisheries.

- ⁵⁷ ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Rural Livelihoods*, paper presented at the Natural Resource Advisors' Conference of the Department for International Development, July 1998, p 6
- ⁵⁸ Ghazali, & Simula, *ibid.*
- ⁵⁹ This comment was made by Sharon Cohen, Vice President of Human Rights, Reebok, at a presentation to the American Bar Association, New York, September 1998.
- ⁶⁰ Welford *ibid.* p 38
- ⁶¹ ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Livelihoods*, Chatham: Natural Resources Institute, forthcoming, p 17
- ⁶² As of December 1998 ETI did not have any full-time professional staff.
- ⁶³ ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Livelihoods*, Chatham: Natural Resources Institute, forthcoming
- ⁶⁴ Natural Resources and Ethical Trade Programme 'Ethical Trade and Horticulture project'; <http://www.nri.org/NRET/nret.htm>
- ⁶⁵ EFTA, *From Fair Trade to Responsible Consumption: the power of the citizens of Europe to change the conditions for North/South relations*, Maastricht: European Fair Trade Association, 1998
- ⁶⁶ ME Blowfield, A Malins, V Nelson, WB Maynard, S Gallat, D Robinson, *Ethical Trade and Sustainable Livelihoods*, Chatham: Natural Resources Institute, forthcoming, p 6
- ⁶⁷ Varley *ibid.* p 45
- ⁶⁸ J Ranganathan, *Sustainability Rulers: Measuring Corporate Environmental and Social Performance*, Washington DC: World Resources Institute, 1998, p 8
- ⁶⁹ Dwight Justice in presentation to the Ethical Trading Initiative workshop, London, 2 December 1998; Mark Hankin, American Center for International Labor Solidarity, pers comm
- ⁷⁰ S Greenhouse, 'Plan to Curtail Sweatshops Rejected by Union' *New York Times*, 5 November 1998. It should also be noted that employees at UK companies which support ethical trade such as Tesco and Marks and Spencer have restricted or no union representation.
- ⁷¹ R Murray, *Ethical Marks and Ethical Brands*, unpublished report for TWIN Trading, 1998 assesses the strengths and weaknesses of fairtrade labels and fairtrade brands.