1. The Fairtrade Foundation believes that achieving poverty reduction and supporting developing countries internationally requires much more than aid from Government. We therefore strongly support the intentions behind the ‘Beyond Aid’ inquiry, and welcome the opportunity to contribute.

2. In this submission, we argue that:

2.1 Whilst DFID can and must continue to lead and coordinate the Government’s work on poverty reduction, it is not the only department whose policies affect development. Leadership on trade negotiations, business practice and corporate regulation and human rights are officially held by other departments, but have a huge impact on developing countries and on the Government’s overall effectiveness in achieving poverty reduction.

2.2 Where policy coherence is successful, the UK is able to leverage development impact well beyond the reach that DFID could achieve alone.

2.3 However there is evidence that a lack of consideration of the likely impact of government policies led by other departments, for example in relation to recent reform of the EU sugar regime, is contributing to negative impact for developing countries, potentially undermining sustainable business supply chains and development outcomes for local communities.

2.4 In the future, the best way for the Government as a whole to deliver pro-development, coherent policies is for DFID to take on greater responsibility for making the case for sustainable development across Whitehall. We believe that a standalone department, which retains a Secretary of State for International Development at Cabinet level, remains the best model for achieving the required leadership.

2.5 A Minister for Sustainable Development, based within DFID, could be one way to drive impact on poverty reduction across government.

3. Below, we set out examples of where DFID leadership and policy coherence is needed and why.
Background on the Fairtrade Foundation

4. The Fairtrade Foundation is the independent non-profit organisation that licenses use of the FAIRTRADE mark on products in the UK in accordance with internationally agreed Fairtrade standards. Fairtrade is a movement for change that works directly with businesses, consumers and campaigners to make trade work for farmers and workers in developing countries.

5. There are 1.4 million small scale farmers and workers in the Fairtrade system, across 74 countries. Including their dependents, we estimate around 7 million people directly benefit from Fairtrade, and millions more via the investments in community services made by Fairtrade communities. 60% of all farmers and workers in the Fairtrade system are in Africa.

6. The UK is the biggest retail market for Fairtrade. In 2013 UK retail sales grew by 12% to £1.7 billion, with global retail sales in 2013 up by 15% to over €5.5 billion. The growth in sales reflects a partnership between consumers, campaigners, and businesses with the farmers and workers in the developing world who grow our food for over 20 years. We are demonstrating that it is possible to do business at scale in a manner which delivers fairer outcomes for producers, and which makes a positive contribution to poverty reduction.

7. The Fairtrade model is intended to encourage businesses to source produce in ways which give greater benefits to producers, more stable livelihoods, more environmental sustainable production and promote human rights and labour standards.

8. Despite the many benefits of Fairtrade, challenges remain, and we seek to continually learn from them and improve. In close collaboration with Fairtrade International, other members of the Fairtrade movement and the academic community, a growing body of research and impact monitoring is helping to understand both the contribution and boundaries of Fairtrade towards poverty reduction, improved livelihoods and sustainable, inclusive growth.

9. Producers who are not paid proper prices or protected from exploitation are incredibly vulnerable. The damage to developing countries is clear. Producers under enormous pressure from low prices and high costs struggle to feed themselves, educate their families or pay for medicine. Without confidence in their futures, these producers will also not invest in becoming more efficient or moving up the value-supply-chain.

10. The Fairtrade movement’s success demonstrates the huge benefits that fair prices and proper social and environmental standards bring to farmers and workers. This submission explores some of the ways that DFID can help to bring these benefits to even more producers, through supportive action from the rest of Government.

A coherent approach to the private sector

11. The Fairtrade Foundation works closely with business to support producers in the developing world. We therefore strongly believe that the private sector can and often does support development.
12. The Fairtrade Foundation welcomes work by DFID that engages with the private sector in the interests of poverty reduction. With DFID expanding its work with the private sector, the inquiry must consider the cross-Government coherence of this on the linked issues of development, human rights, consumers’ interest in ethical produce and environmental sustainability.

**DFID and the private sector**

13. Private sector programmes should aim to reduce inequalities in market access and increase market opportunities. However, this is not enough. While the power in trading relationships remains with buyers, the ability of primary producers to build sustainable livelihoods, move up the value chain and achieve better standards of living is constrained.

14. DFID programmes need to be carefully designed so that growth and investment genuinely lead to positive social, environmental and economic outcomes for poor communities, especially women. “Business as usual” models of investment are not adequate; work with the private sector needs to include targeted support for local social enterprises, co-operatives and SMEs. A good example of such support is DFID’s FRICH programme, from which a number of Fairtrade producers have benefitted.

15. However, recent research by the Fairtrade Foundation found examples where the ability of smallholder farmers to influence the design and implementation of large-scale agricultural investment public private partnerships (PPPs) supported by international donors is weak, and where such programmes are overly “demand-led”, without adequate appreciation of the context within which producers are working.

16. DFID support in the context of private sector development can also usefully include support for national authorities and civil society in producing countries to effectively promote, regulate and monitor responsible company behaviour.

17. Such action by DFID to increase pro-poor investment, or strengthen corporate behaviour at country level, will clearly be boosted if effectively complemented with measures in the UK regulatory environment and trade policy to ensure that such investment is responsible and that structural issues are addressed.

18. There is also the risk that another department could support a policy or project that contradicts DFID’s goals to deliver effective poverty reduction through engagement with the private sector, and in economic development more widely. We have found, for example, that trade negotiations led by other departments do not always properly consider the impact of their work on developing countries, and potentially the long term sustainability of UK supply chains involved in these. This could in fact increase reliance on aid as a result of loss of market access and trade opportunities.

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1 A Seat at the Table? Ensuring Smallholder Farmers are Heard in Public Private Partnerships, Fairtrade Foundation, September 2014.

http://www.fairtrade.org.uk/~media/fairtradeuk/what%20is%20fairtrade/documents/policy%20and%20research%20documents/policy%20reports/a%20seat%20at%20the%20table%20-%20full%20report.ashx
Trade negotiations

19. We are concerned that the Government’s development goals are not being fully considered during trade negotiations. Three current examples of this are the Transatlantic Trade and Investment Partnership (TTIP), Common Agricultural Policy’s Sugar Reform and the Economic Partnership Agreement between the EU and East African Community (EAC). The UK has the potential to strengthen (or undermine) poverty reduction through its influence over trade policy and supply chains.

20. The joint DFID-BIS Trade Policy Unit (TPU) works proactively on the development impact of trade negotiations, and it does actively listen to civil society concerns. Its shared position between BIS and DFID is helpful in achieving a coherent approach. However our impression is that poverty reduction concerns are likely to lose out to the priorities of other departments, if there is a conflict.

TTIP

21. Negotiations between the EU and US are ongoing and BIS is leading on behalf of the UK. A recent study for DFID\(^2\) found that the trade diversion it will cause will likely have a damaging impact on the export economies of developing countries. For example, the study found that the abolition of Most Favoured Nation tariffs, as well as other changes, could damage the Nigerian oil sector by $114.8 million per annum and the Bangladeshi garment sector by $42.6 million per annum.

22. Felbermayr et al (2013)\(^3\) find that under a tariff-only scenario, most countries outside of the EU and US see a reduction in per capita income: the major losers in Africa include Sudan (-4.1%), Cote d’Ivoire (-6.4%), and Guinea (-7.4%).

23. There are other issues that the DFID report did not consider, such as the impact on developing countries trying to move into higher-value-added parts of the supply chains – key to their economic development.

24. DFID’s commitment to build the economies of developing countries through trade rather than aid is therefore at risk of being undermined. It is therefore vital that DFID continues to assess and fully present the knock-on impact on developing countries to negotiators and is in a position to ensure that the TTIP negotiations take full account of these concerns.

Sugar/CAP reform

25. The agreed reform to the Common Agricultural Policy’s sugar policy will end limits to EU sugar beet production in 2017. This will make it much harder for the many sugar cane producers reliant on the EU market to offer competitive prices. 2012 research has estimated that 200,000 people currently dependent on sugar could be placed into

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\(^2\) Potential Effects of the Proposed Transatlantic Trade and Investment Partnership on Selected Developing Countries, Rollo, Holmes, Henson, Mendez Parra, Ollerenshaw, Lopez Gonzalez, Cirera, Sandi. CARIS, University of Sussex for the Department for International Development, 2013.

\(^3\) http://www.bfna.org/sites/default/files/TTIP-GED%20study%2017June%202013.pdf
poverty, and that 6.7 million become highly vulnerable to future low world price conditions⁴.

26. Given the impact of this policy, we feel that DFID could have played a stronger role in the negotiations (which were led by Defra), though we have welcomed their willingness to engage with us on the matter.

27. We would welcome further action by DFID to challenge how the Accompanying Measures Protocol, a €1.245 billion fund to mitigate the damage to developing countries caused by CAP reform, is being implemented. Defra acknowledges that the fund is not fulfilling its aims⁵ and, given the catastrophic impact that this reform will have on many small holder producers, it is vital that DFID and wider Government pressure is placed upon the EU to ensure the benefits of this fund are realised as soon as possible.

EU/East African Community Economic Partnership Agreement (EPA)

28. At the time of submission, the EU and the East African Community have not reached a successful conclusion on the terms of the forthcoming EPA. Without resolution, Kenya will face the imposition of tariffs from 1st October. This will hurt many Kenyan producers who rely on exports to the EU. For example, 500,000 people depend on the Kenyan floriculture business, which is valued at more than $250 million a year. The imposition of tariffs poses a high risk of the flower trade moving away from Kenya.

29. Fairtrade works to end poverty by establishing fair trading relationships between European businesses and Kenyan producers. Through this relationship, flower workers and their communities in Kenya have seen improved healthcare, income, education, and reduced poverty. It is supporting the delivery of more sustainable, ethical business practices for the UK flower retail sector. We now fear that the work of many years could be undone.

30. We have already written to DFID about this issue. It is another example of where the UK Government should now use its influence to promote the UK’s development agenda during trade negotiations, something it had traditionally championed.

31. These three examples demonstrate the importance of coherence between the Government’s trade and development policies, and the need to give DFID a strong mandate to represent the needs of developing countries both in Whitehall and in Europe.

Groceries and market regulation

32. The UK’s groceries and market regulation, overseen by the Competition and Markets Authority, provides good protection for consumers but it has little or no mandate to

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⁴ The Impact of EU Sugar Policy Reform on Developing Countries, LMC International and ODI, 2012

⁵ Page 18, Implementation of CAP reform in England, Department for Environment, Food and Rural Affairs, October 2013
address wider Government policy goals. This lack of coherence is having a detrimental impact on achieving sustainability and fairness in global supply chains.

33. This is a shared concern for UK consumers, given how closely the UK’s food security is tied to overseas producers. Roughly 40% of the UK’s food is imported, and this is rising. It is therefore in the UK’s interests to ensure sustainability and fairness in global supply chains.

Fair trading, competition and markets regulation

34. We are deeply concerned that persistently low food prices are damaging the long-term sustainability of food production in developing countries. For example, banana retail prices have fallen by 50% in real terms since 2002, while producers’ costs have doubled. Most major UK retailers agree that this combination of high production costs and low prices is unsustainable.6 Cheap food has a real cost in terms of sustainability and poverty reduction.

35. While it is clear that current prices are unsustainable, and research shows that consumers would support price rises7, it is highly challenging to address the matter in the context of the current approach to market regulation.

36. Competition and markets regulation is highly effective in driving down prices, and preventing businesses exploiting a dominant market position over consumers. However, as evident in the case of bananas, excessive and persistent price competition also drives down prices within value chains to the detriment of producers, who are not protected from dominant buyers in the same way by UK regulators. The impacts include constraints on delivering fair wages and working conditions and failure to invest in environmental and business sustainability.

37. UK competition and markets regulation desperately needs a better three-way balance between the right of the public to long-term sustainable food supplies, the right of the public to affordable food and the right of producers to sustainable and fair prices. As well as being critical that farmers and producers are able to earn a sustainable livelihood, it is also in consumers’ longer term interests that they do. Cross-Whitehall attention to the problem is the only way forward, and DFID should champion the rights of producers in such a dialogue.

The Groceries Code Adjudicator (GCA)

38. Unfair trading practices, such as unfair contracts, have a direct impact on poverty in producer communities. The GCA has the mandate to enforce fair trading practices between grocery retailers and their direct suppliers. However, indirect suppliers cannot raise a complaint with the Adjudicator, only direct suppliers. Producers in developing countries are more likely to be indirect suppliers and also less likely to be protected by their own governments’ legislation, so do not benefit from the GCA. We would therefore

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6 Britain’s Bruising Banana Wars, The Fairtrade Foundation, February 2014
7 When surveyed by the Fairtrade Foundation, 84% of UK consumers said they would pay more for bananas to help producers out of poverty.
strongly support the extension of the GCA's mandate to include indirect suppliers and urge DFID to work closely with BIS on this issue.

Abuses in UK supply chains

39. The Fairtrade Foundation believes that current legislation does not do enough to address unethical practice throughout the UK's supply chains. Producers and workers in developing countries are particularly vulnerable to this and we believe DFID should take a more active interest in this area.

The Modern Slavery Bill

40. The Fairtrade Foundation welcomes the measures in the Modern Slavery Bill. However, while the current Bill, led by the Home Office, focuses on addressing the criminal prosecution and victim protection aspects of Modern Slavery, it does not go far enough to address the role and responsibilities of UK businesses on forced labour and modern slavery in supply chains.

41. Many businesses are asking for clearer frameworks around this issue and, given DFID's role in promoting fair and ethical business supply chain development, we believe the department has missed an opportunity to create a new point of leverage.

42. The Fairtrade Foundation supports the proposals made by members of the Ethical Trading Initiative and the British Retail Consortium in a recent letter to the Prime Minister, which would require businesses to report on their efforts to address modern slavery.

43. We also believe that departments with international presence, particularly DFID and the FCO, should put more pressure on foreign governments to strengthen their own mechanisms for improving compliance with global human rights legislation, including relevant UN protocols and EU Directives, and maintain ethical global supply chains.

Sustainability in food supply chains

44. Defra is responsible for securing sustainable supply chains with a view to ensuring the UK's food security, while DFID is responsible for developing countries' food security. These goals are inextricably linked and are affected by the same economic, environment and social issues. Policy coherence should be strong between these two departments.

45. For example, we would strongly recommend that public food procurement plans, such as the British Food Plan, incentivise businesses to supply goods that are sourced from developing countries on fair and ethical terms. In a separate submission to Defra we have set out why, at a minimum, ensuring a fair and ethical supply chain should require 100% Fairtrade certified tea, coffee and bananas, and provide award criteria for greater procurement of other Fairtrade products.
The future

**DFID as a stand-alone department**

46. The Fairtrade Foundation strongly believes that DFID must remain a stand-alone department. This will maintain the Government’s clear focus on poverty eradication, inequalities and food security. We believe that having a Secretary of State who attends cabinet puts DFID in a much stronger position to ensure policy coherence across Whitehall.

47. However, as the evidence from this submission demonstrates, DFID needs a recognised cross-Government mandate in order to ensure that wider Government policy fully supports (or at least does no harm) to poverty reduction in developing countries.

**Leadership for sustainable development**

48. The government also needs to be clearer about where leadership for sustainable development as a whole lies. Delivery against the post-2015 sustainable development goals will require poverty reduction, trade, responsible business and environmental sustainability policies to work together. However it is not clear which department is currently taking responsibility for such cross-cutting leadership, challenging gaps and conflicts in policy.

49. Defra, which has historical responsibility for sustainable development, has downplayed the international dimension to its mandate in recent years, and the Sustainable Development Commission was abolished.

50. Establishing a ‘Minister for Sustainable Development’ within DFID would be one way to drive impact on sustainable development across the broad range of departments and policies involved.

**Conclusions**

51. It is not that policy coherence is absent from DFID’s current approach, but there are important gaps, and it needs to be stronger. For the delivery of our work with poor producers overseas to be successful, the Fairtrade Foundation would like to see policies on trade, responsible business, environmental sustainability, and competition and markets regulation across government closely aligned to sustainable development and poverty reduction goals.

52. A strong lead from an independent DFID, passionate about poverty reduction and sustainable development, championing action across government, will make the UK’s combined impact across the world far greater than through its aid programme alone.