

# Unlocking trade opportunities

**Nick Robins and Sarah Roberts**

In today's globalising world, export success is one of the major routes to economic progress for developing countries. But the conditions for success are changing as producers face rising environmental expectations in key export markets, resulting from tightening regulations, new corporate practices and changes in consumer values and lifestyles. These new expectations reflect the growing recognition that current patterns of consumption, particularly in the richer, industrialised world, are not environmentally sustainable. Profound changes in the ways in which goods and services are produced, traded and consumed will be required, both to reduce the burden on the global environment and to ensure that a growing population has resources to meet its needs.

For those who can adapt to these requirements and start moving to anticipate trends, there are new opportunities to be found in sustainable trade that can generate financial, environmental and social benefits. Already growing numbers of farmers in the South are receiving higher prices and more long-term security by selling their products into environmentally friendly or fair trade markets in the North. Consumer demand for organic products is gradually increasing in responding to concerns about the environmental and health implications of industrial agriculture.

## New opportunities in a growing market

Latin American producers have been quick to tap into these markets. The organic sector in Mexico, for example, is now estimated to be worth US\$ 500 million and Argentina is making serious efforts to develop its organic sector with sales rising from US\$ 1.5 million to US\$ 20 million in the last six years. This rapid development has been supported by efforts to overcome the bureaucracy surrounding EU recognition of imported organic goods. By requesting equivalency status for its certification system, Argentina became the first developing country to obtain a place in the EU provisional list, thereby gaining market advantages.

## Partnerships are needed

Organic certification can be a slow, laborious and relatively costly process and a particular challenge to smaller producers. A common solution is to form co-operatives to share the load. In Uganda, for example, the Lango Co-operatives Union has made the transition to organic cotton production with the support of the Swedish International Development Agency (SIDA). SIDA

provided technical assistance, organised crop finance, and ensured organic certification. It also supported the training of local certifiers thus reducing the cost of third-party inspection. The way prices were set was another innovative feature of this project. Before conducting business, all partners in the chain list their costs and claim a fixed margin based on open books. A fair trade organisation then looks for the best possible price on the market. Any excess funds are paid out to the producers, either as extra premiums or as development fund contributions. For the 5,500 farmers involved in organic cotton production in Lango, this has meant a 20% average increase on farm gate prices.

Links between members of the supply chain has meant that Lango solved one of the major problems facing Ugandan exporters: banks that refuse to pay crop finance. With the help of the Dutch government, the project received a loan, at commercial rates, and SIDA arranged that risks were covered by the Dutch HIVOS/Triadod Fund that provides funding for environmental and social projects in developing countries.

Another organic cotton partnership that has paid dividends is that between the Swiss cotton trading company Remei, and Maikaal Fibers, a spinning mill in Madhya Pradesh, India. Eighty-five villages produce cotton for Maikaal, which is certified by a Swiss company. The project guarantees to buy cotton and provides extension services, interest-free credit and a price premium of around 20%. An estimated three-quarters of the cotton is sold through the Swiss Co-op, which launched a new range of clothes - Natura Line - in 1995 and aims to be entirely organic by the year 2000. It should be noted that the Co-op has kept the price of Natura-Line products at the same level as conventional brands, despite the premium price paid to cotton growers.

## Action for Fair Trade

Fair trade organisations have been working with Southern producer organisations for decades to try and ensure that they receive a decent income for their work. Only recently, however, have fair trade products begun to reach mainstream Northern markets.

Coffee is probably the most successful fair trade product. It is also the most important traded commodity after oil and the main export for many Southern countries. Most comes from family-owned farms in developing countries. Fair trade organisations work with the producer organisations, promote the sale of fair trade coffee, monitor buyers and roasters and guarantee that labeled products meet fair trade criteria. The ethical trading organisations bear the costs of inspecting producers.

The fair trade market was boosted by the

development of recognisable fair trade marks awarded for products that met clear criteria. However, it was the development of a clearly recognisable brand, Cafedirect, that brought fair trade coffee into mainstream retail outlets and within easy reach of consumers. Cafedirect was developed by a partnership of four fair trade organisations that bought coffee from 14 producer organisations in Africa and Latin America. Sales have increased dramatically over the last five years and Cafedirect controls 3% of the roast and ground market and 2% of the instant market in the United Kingdom despite being 10% more expensive than most conventional brands.

As well as higher income and greater security, fair trade can also lead to environmental benefits. Fair trade organisations often work with producers to improve the ecological sustainability of production.

## Serious barriers

Small- and medium-sized exporters often face serious capacity constraints in responding to the challenges presented by sustainable trade. Conventional trade barriers in the industrialised world, such as restrictive trade policies in the agricultural and textile sectors, perverse subsidies and bureaucratic regulations are also serious barriers to Southern producers. Partnership along the product chain is essential in overcoming these problems. NGOs, government agencies and buyers in the North can all play an important role by providing technical or financial assistance, long-term security or in helping to develop producer organisations. Positive policy choices also help expand sustainable trade opportunities.

Governments in industrialised countries should ensure that policy making processes are transparent to exporting countries and that new regulations are phased in such a way that producers have time to make the necessary changes. Whilst Northern governments could play a much more proactive role in developing the market and improving access for sustainably produced goods, governments in developing countries can do much to promote sustainable trade by integrating environmental factors into their export promotion strategies.

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## References

Robins, N and Roberts, S **Unlocking Trade Opportunities** IIED 1997 (Contains ten case studies of developing country producers who are benefiting from sustainable consumption)