

## Fairtrade response to FAIR Report

Fairtrade International has studied the report of the Forum for African Investigative Reporters (FAIR), titled 'The Fairtrade Chocolate Rip-Off' and we have a number of observations to make. To begin, Fairtrade takes all allegations against us seriously as we regard them as opportunities for continuous improvements. Our absolute priority is to tackle the systemic injustices and imbalances of power in supply chains, and enable small farmers to earn better livelihoods from the sale of their cocoa. Fairtrade is determined to find ways to get more value back into the hands of farmers and their wider communities. However, we know there are areas where Fairtrade needs to strengthen and deepen its involvement, including in the cocoa sector.

The findings of the FAIR report illustrate some of the challenges that Fairtrade faces, namely the deep inequality of the position of the poorest farmers within the supply chain and the struggle that large co-operatives with tens of thousands of members face in ensuring that all their members are engaged, informed and benefit. The report also points to the difficulties of democratic representation in co-operative governance structures which is an area worthy of further debate and improvements.

While the report makes other claims, the evidence used to substantiate them is anecdotal and do not merit terms used by the FAIR journalist like "serious allegations." For instance, they conduct interviews with 10 farmers, out of the 122,000 we work with. We are disappointed with the report's limited understanding of the overall dynamic of the cocoa sector in West Africa, the position of Fairtrade cocoa cooperatives and the Fairtrade approach, which may have contributed to its various factual errors and its subjective and opinion-based style with little or no empirical data.

The report is critical of cooperatives and suggests that individual certification may be more effective. Despite its challenges, in our experience **organizing is the best way for farmers to strengthen their position in the supply chain**. Organization brings scale, reduces costs, provides a structure for crop improvement and joint investment, and allows farmers to negotiate from a position that would otherwise be beyond their reach. Although cooperatives face challenges we know of no other model that is as effective for group-wide delivery.

Enacting an effective **democratic decision-making process** at all levels of a cooperative with tens of thousands of members is indeed one of these challenges. Large Fairtrade cooperatives in West Africa and elsewhere rely on a delegate system. Representatives from each community or society attend the General Assembly since it is not feasible for all of the thousands of members to attend. In this way, farmers have a voice and a democratic vote. We have seen farmers exercise this power and remove their cooperative leaders when they were not happy with their leadership.

Furthermore, deciding democratically on how the Premium is spent is a core requirement of the Fairtrade Standards because it promotes the democratic organization that is crucial to achieving better results for farmers in the long term. The farmers or their representatives in the General Assembly decide on a development plan for spending the Fairtrade Premium. The FAIR report assumes the Fairtrade Premium should be divvied up among farmers. While there have been a few cases where the General Assembly of a Fairtrade certified organization has decided to divide the Premium among the individual members, this is the exception rather than the rule. **Farmers usually elect to spend their Fairtrade Premium on collective projects**, whether social projects or agricultural training, investment in infrastructure, market development or administrative improvements. Investing in improvements at farm *and* cooperative level can support farmers to capture a higher price and move higher up the value chain.

We recognize that to ensure effective democratic representation at co-operative level, **all farmers need to be informed about Fairtrade**. The same difficulty exists; it is a challenge for large cooperatives to communicate adequately with thousands of members who are spread out in remote areas and have low rates of literacy. We know there is still more work to be done to strengthen the



lines of communication until *all* members are well informed about General Assembly decisions and about Fairtrade. Fairtrade International has plans to train the cooperatives in Côte d'Ivoire in 2013 in order to increase and strengthen the participation of its members. Fairtrade is a development model, supporting producers to improve and strengthen over time.

Contrary to the report's assumptions, Fairtrade certified cooperatives in West Africa are not the dominant force portrayed. **They are working hard to gain a position for the farmers they represent in a vastly unequal industry and against difficult odds.** For example, it is an unfortunate reality that cooperatives cannot always access the credit they need to pay for members' cocoa outright. This is a difficulty for many cooperatives worldwide and a situation Fairtrade International is working hard to change. We have supported the establishment of the Africa Agriculture Trade Investment Fund and the Fairtrade Access Fund, multi-million dollar funds that offer loans to Fairtrade farmer organizations. Far from the co-operatives having a monopoly, as the report claims, members of Fairtrade organizations are free to sell their cocoa outside their cooperative. This can create its own challenges for cooperatives to be sustainable as it puts pressure on a co-op's ability to deliver volumes consistently. It also leaves the individual farmer at the risk of having to accept an unfair price from middlemen with cash in hand.

The report is also incorrect on a number of other specifics regarding our Standards. For example, the child labour requirements of the Fairtrade Standards prohibit the employment of children under the age of 15 and no child under 18 years can be engaged in work that hazardous and/or compromises their health, education and/or development. Our Standard permits however that **children can help out on family farms under strict conditions**, namely after school and during holidays, the work must be guided by an adult family member, it must not hinder their attendance in school (e.g. because of tiredness or illness), or be hazardous to their health or personal development and must be within reasonable limits of working hours.

Finally it is not accurate that Fairtrade farmers receive no better than non-Fairtrade farmers. The price farmers are paid for their Fairtrade cocoa comes from the Fairtrade Minimum Price or world market price (whichever is higher) paid at *FOB* or export level. The Minimum Price exists to protect farmers in the event of price drops in global commodities. Export-related costs are deducted from this price – transportation to the port, loading and unloading, export documents and port storage. Then there are the organizational costs – collecting the cocoa from the farmer, storage, quality control and administration. Usually about 60-80% of the FOB price remains after these costs are deducted. Nevertheless, recent research shows us that **Fairtrade farmers in West Africa received higher prices than conventional farmers** over two historical periods 2010 and 2011, proving that the better price received by the Fairtrade cooperatives is flowing through to the farmer.

At the same time it is unfortunately not realistic to claim that each and every farmer in the Fairtrade system sees major benefits, especially for new cooperatives in the Fairtrade system. Fairtrade is a process that takes place over time. It is also hugely dependent on our ability to open up markets for Fairtrade products. The current situation is diametrically opposed to that claimed the report; we have more Fairtrade cocoa supply than we have demand. That is why the work done by our market-facing operations in 24 countries across the world is vital to Fairtrade's success.

Ultimately Fairtrade and the FAIR reporters share the same goal; how to improve the position of the poorest farmers in the value chain. Fairtrade is a learning organisation; we learn from both our own impact studies and external reports where Fairtrade is maximising benefits to farmers and where our focus on improvement needs to be. We were pleased that the recent study concluded in October 2012 by KPMG Advisory commissioned by ICCO, the International Cocoa Organisation, based on both qualitative and quantitative research found that the net benefits of sustainability certification outweigh the investments required. Moreover, the projected benefits turn out to be the highest for Fairtrade. We believe that with 25 years of solid experience behind us, our ever evolving model is one of the best ways of improving the position of farmers.