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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL**

**on "*fair trade*"**

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## 1. INTRODUCTION

Article 177 of the Treaty establishing the European Community states that Community policy in the sphere of development co-operation shall foster:

- "the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them,
- the smooth and gradual integration of the developing countries into the world economy,
- the campaign against poverty in the developing countries."

"*Fair trade*" is an example of development occurring through trading relationships and improved commercial opportunities to bridge the gap between developed and developing countries and to facilitate the better integration of developing countries in the world economy. "*Fair trade*" initiatives give consumers the opportunity to contribute towards sustainable economic and social development in developing countries through their purchasing preferences.

This document has been prepared following the undertaking by the Commission at the 1998 June Council to provide a Communication on *fair trade* and the Parliament request for a Communication (Fassa Report).

It describes the concept of *fair trade* and gives a brief outline of the current situation with a view to assisting discussion on courses of action the EU could adopt to assist the development of *fair trade* within the EU, and thus contribute to the key aims of EU development policy as set out in Article 177 of the Treaty.

This Communication therefore, provides the initial first step from which the Commission will develop its position in respect of *fair trade* and how this will integrate with existing Community policies.

## 2. THE CONCEPT OF FAIR TRADE

The *fair trade* concept has been developing in western nations throughout the past 40 years or so, in response to a growing recognition that benefits accruing from trading and trade growth are not necessarily shared by all countries and all layers of the population within each country in a comparable manner.

The objective of *fair trade* is to ensure that producers receive a price which reflects an adequate return on their input of skill, labour and resources, and a share of the total profit commensurate with their input. This is normally effected through an agreement by the participants in the fair trade initiative to pay a fair price which is negotiated on a case by case basis. In situations where the price of goods is agreed internationally (e.g. coffee and cocoa), a minimum price is set so that producers receive a return above the world price for their produce. This enables producers to adopt improved production systems and working conditions to the benefit of farmers and workers and the environment.

Fair trade gives producers in developing countries higher revenues for their goods as well as increased opportunities to find new markets. In so doing fair trade aims to contribute to

establishing the conditions that can foster a higher level of social and environmental protection in developing countries. In Europe our citizens are protected by Community and national laws governing areas such as health and safety at work, protection of the environment, and employers and employees statutory rights and obligations. Similar statutory rights (for example, the core labour standards as they are embodied in the ILO declaration on fundamental rights at work of 18 June 1998) are still in the process of development in many developing countries, and even where these exist economic or other conditions may make it difficult to ensure that the law is respected. Fair trade aims to alleviate these conditions by enhancing sound economic development and sustainable growth from the bottom up. Fair trade also hopes to reduce some of the disparities that have evolved over the decades between industrialised and developing countries as a result of the relative decrease in the prices of basic and notably agricultural commodities.

For example, *fair trade* is particularly helpful to small-scale producers, especially in agriculture and the handicraft sector since small-scale producers in developing countries are often living in isolated rural areas and do not produce a sufficient quantity to export directly. They become dependent on intermediaries for both selling their products and providing credit facilities. Some farmers have reduced this dependency by forming their own marketing co-operatives, enabling them to pool resources and shared technical expertise and facilities, including in some cases community services such as health clinics and schools. Alternative trading organisations (which are explained later in this document) can provide a critical bridge in the development of a successful co-operative through paying a *fair trade* price and by providing assistance as diverse as helping the co-operative to become established as an exporter to purchasing a fax machine.

*Fair trade* initiatives can include provision for advance payments to producers and the establishment of contractual relationships to give longer-term security. Thus, the stability of revenues is improved, facilitating planning and investment, and producers have more control over decisions concerning the processing and marketing of their output. *Fair trade* can also provide the possibility for some of the revenue gained to be used for capacity building for such things as the establishment of producer groups (as previously described) and facilities to add value e.g. coffee bean processing. It should be emphasised that profits from *fair trade* are for the benefit of a community as a whole and not for personal gain.

The *fair trade* concept applies especially to trade between developing countries and more developed states. It is not directly relevant to goods produced within the EU, where social and environmental standards are already enshrined in law. All domestic production, producers, and workers already benefit from levels of social and environmental protection at least as high as those established for *fair trade* products.

*Fair trade* initiatives originate in private non-governmental organisations. They are incentive-based in the sense that they rely on consumer choice and do not manage trade or otherwise erect barriers to market access in different countries. Consumers are therefore given the opportunity to increase the standard of living and quality of life of producers in developing countries through a sustainable market-oriented approach.

It should be noted that whilst the term *fair trade* may be considered a form of ethical trade the term is usually used with reference to fair trading operations which strengthen the economic position of small-scale producers and landowners which may otherwise be marginalised in mainstream patterns of trading. The term 'Ethical trade' is more usually used in relation to activities (e.g. codes of conduct) by multinational companies operating in developing

countries, which demonstrate their ethical and social responsibilities to employees or other associates.

### **3. HOW DOES *FAIR TRADE* WORK IN PRACTICE?**

There are a number of routes through which *fair trade* goods are made available to consumers. All routes are through private initiatives with the most common being through the traditional fair trade movement (including alternative trading organisations) and labelling initiatives, however, some individual companies or retailers not affiliated to any particular organisation, may make *fair trade* claims about some or all of their products.

#### **3.1. The traditional Fair trade Movement**

The concept of *fair trade* was originally developed by Non-Governmental Organisations (NGOs) interested in trade and development. The first *fair trade* initiatives involved the creation of alternative trading organisations or “*fair trade* businesses”. These were often started by churches or charities, although several have now become independent companies.

The whole philosophy of this traditional fair trade route is based upon using *fair trade* principles as the foundation for commercial relationships with producers and suppliers in developing countries. The importing organisations identify and source products, import them and market them to consumers using a variety of methods, for example, direct retailing through “World Shops”, other NGOs, church groups, mail order, etc.

All aspects of their commercial operations are based on a *fair trade* ethos, and as much of the final price as possible is passed back to the producers. In many cases any profits generated are devoted to development causes, although some are conventional commercial operations. The majority of products marketed through World Shops are not labelled as such; the purchase is done on the basis of confidence. The “brand names” or identities of these organisations are in themselves a sign to consumers that the products and business practices are in accordance with *fair trade* principles. However, there are established criteria and some monitoring take place by the organisations themselves or by their associates in the developing country.

#### **3.2. Labelling initiatives**

The second marketing route, which has developed steadily from its origins in the Netherlands in 1988, is through *fair trade* certification. The objective here is to follow normal distribution patterns in order to facilitate greater access to *fair trade* products. There is therefore, no longer the confidence of the close link between producer and outlet as with the traditional fair trade movement. Here, the importers and traders are normal commercial companies, and the goods are sold through normal retail outlets, but a *fair trade* label, awarded by a *fair trade* certification agency, signifies to the consumer that the goods and the marketing chain respect *fair trade* principles. The four *fair trade* labels used within the EU are “Max Havelaar”, “Transfair”, the “Fairtrade Mark” and “Rättvisemärkt”. The certification organisations (same name as the label) awarding them are all members of FLO (Fair Trade Labelling Organisations International) which co-ordinates at an EU level and at an international level.

The certification agencies set the criteria that must be respected in order for a product to carry a *fair trade* label. These criteria are harmonised at international level, and are developed from international instruments such as the ILO (International Labour Organisation) Conventions and the United Nations’ Agenda 21 recommendations. They cover for example, such things as employment conditions, controls to prevent pesticides from contaminating rivers and drinking

water, and the protection of natural ecosystems. Currently criteria are developed on a product by product basis to enable the specific characteristics of production systems and trading patterns to be taken into account.

Producers and traders can apply to the certification agencies to request the right to display a *fair trade* label on their produce. This is awarded to goods imported from producers in developing countries once the certifying agency is satisfied that the *fair trade* criteria governing production and marketing are respected. Producers and importers who have been assessed as complying with the *fair trade* criteria are included in international fair trade registers. Traders who wish to market *fair trade* products must buy from certified sources, as well as respecting the relevant inspection requirements for their own business operations.

The certifying agencies are responsible for continuing to monitor producers, importers and traders qualifying to use *fair trade* labels to ensure that the criteria are strictly respected.

*Fair trade* labelling schemes are financed by licence fees paid by importers and the traders who market *fair trade* products. These fees are related to turnover and volume of sales. The aim of the certification agencies is to be self-financing through the licence fees, but this only occurs once a sufficient volume of trade is built up, since the registration and licence fees must be set at levels which make certification viable for importers and traders, and ensure that participation in *fair trade* schemes generates additional benefits to producers. Initially therefore, costs can exceed revenue for the certification agencies, and many receive some financial support from other sources such as Governments or development NGOs.

A *fair trade* symbol is displayed on the packaging, certifying that the production and marketing processes respect *fair trade* criteria. The label is additional to other labelling information requirements, such as quality classification and origin, which are governed by the normal statutory rules.

### **3.3. Key organisations involved in fair trade**

NEWS! (Network of European World Shops) - created in 1994.

NEWS! brings together the federations of the world shops in 13 European Countries (All Member States are members with the exception of Luxembourg, Portugal and Greece. Switzerland is also a member). Not all shops are within a federation; the situation varies according to the country. In certain cases all the shops are within a federation, in others not all of the shops are members, in other countries there are several federations or isolated groups. In addition to being sales points the shops also provide awareness raising through various activities such as fair trade days. NEWS acts as a co-ordinator for such activities.

EFTA (European Fair Trade Association) – was established informally in 1987 and was officially registered as a European foundation in 1990. It represents 12 importers from 9 European Countries (8 Member States - Austria, Belgium, France, Germany, Italy, Netherlands, Spain, United Kingdom - and Switzerland). The World Shops generally get their products from national importers who may be linked to the shops. EFTA represents 60% of sales in the sector.

IFAT (International Federation for Alternative Trade) - created in 1989 by alternative trading organisations in Africa, Asia, Australia, Japan, Europe, North America, and South America. IFAT is a coalition to promote *fair trade* and a forum for the exchange of information. It links agricultural and craft producers in the South with organisations in both the North and South.

FLO (Fair Trade Labelling Organisations International) -created in 1997, FLO International is responsible for the co-ordination of *fair trade* certification initiatives, the development of standard international *fair trade* criteria for each product, and co-ordinating monitoring to ensure that traders and producers respect the criteria. It is an umbrella body whose members are the various independent *fair trade* certification agencies which operate at national level within individual countries. Currently, there are 4 of these (previously mentioned) which operate in 12 Member States. These agencies hold a common product register of producer organisations - 300 producers in 29 countries.

NEWS, EFTA, and IFAT form part of the traditional fair trade movement and FLO relates solely to the label. The traditional fair trade movement and the labelling organisations are interdependent since around 50% in value of labelled products are sold by the alternative marketing outlets such as the World Shop network or mail order. Moreover, the co-ordination carried out by the World Shop network at local level provides support and promotion of labelled products which do not have the structures or means to provide adequate sales promotion alone.

In 1998 these organisations joined together to form FINE, which is an informal structure with the objective of information sharing, co-ordinating activities and arriving at common criteria.

#### **4. FAIR TRADE WITHIN THE EUROPEAN UNION**

##### **4.1. Commercial activity**

Initially the majority of *fair trade* goods available in Europe were imported by the alternative trading organisations and sold through specialist outlets such as the “world shops”. Such organisations continue to be an important channel for marketing *fair trade* products, and account for a high proportion of total sales. Most shops are managed at a local level by volunteers. There are more than 3 000 World Shops and 70 000 points of sale in Europe with approximately 100 000 volunteers. All play a significant role in raising awareness of development issues and the fair trade concept. In all EU Member States where fair trade labels exist (exist in all Member States with the exception of Spain, Portugal and Greece) the concept is now crossing over into the mainstream, and *fair trade* products are also available through supermarkets. In some cases supermarkets’ “own brand” products have qualified for *fair trade* labels.

The principal products currently sold in the EU through *fair trade* initiatives, including both alternative trading organisations and labelling schemes, are coffee, craft products (including textiles and clothes), tea, chocolate, dried fruit, honey, sugar and bananas. Currently the only products labelled are coffee, cocoa, tea, bananas, sugar, and honey. In 1994, it was estimated that the total turnover of *fair trade* products in the EU was around EUR 175 million. Whilst in 1997 the figure was estimated to be in the region of EUR 200 to 250 million.

Food products represent around 60% of retail turnover of *fair trade* products and of this figure almost half is from coffee sales. However, *fair trade* coffee represents only around 2% of the total coffee market in the EU. *Fair trade* bananas which are a more recent *fair trade* ‘product’ than coffee represent around 0.2% of the total EU banana market.

## 4.2. Political activity

In addition to this commercial activity, there has been increasing political activity within the EU on the subject of *fair trade* in recent years. In January 1994 the European Parliament adopted a resolution on “promoting fairness and solidarity in North-South trade”<sup>1</sup> calling for EC level initiatives to support *fair trade*, dedicated funding and the inclusion of *fair trade* in Community development and co-operation policy. In 1994 the Commission published a document on Alternative Trade, expressing its support for strengthening *fair trade* both in the South and the North. In 1996, the Economic and Social Committee issued an opinion on the “European “*fair trade*” marking movement”<sup>2</sup> which in its conclusion welcomed the development of *fair trade* labelling initiatives and called on the Commission to create a dedicated Budget Line to support *fair trade* activities. This request was reiterated in the report on Fair trade (Fassa Report)<sup>3</sup> adopted by the European Parliament in 1998 which also put forward a number of proposals for further Commission actions in support of *fair trade*.

In addition to the interest in *fair trade* in general politicians, NGOs and lobby groups have been raising the issue of *fair trade* specifically in relation to bananas. The Commission has been questioned about its intentions as regards support for *fair trade* bananas by both the European Parliament and the Council of Ministers, and gave undertakings to investigate the measures that could be taken. Also, in October 1997 the EU-ACP Joint Assembly passed a resolution requesting the Commission to take action to assist those wishing to market *fair trade* bananas within the EU.

## 4.3. Consumer interest

An EUROBAROMETER survey, conducted on behalf of the Commission in 1997 gave an indication of the level of public interest in *fair trade* products. Overall, 11% of the EU population have already bought *fair trade* goods, with the proportion varying widely throughout the different Member States, from only 3% in Portugal and Greece, up to 49% in the Netherlands.

The survey also revealed that almost three quarters (74%) of the EU population say they would buy *fair trade* bananas if they were available in the shops alongside “standard” bananas. A total of 37% of EU consumers said they would be prepared to pay a premium of 10% above the price of normal bananas for bananas of equivalent quality produced according to *fair trade* standards.

Further analysis of the survey replies revealed that people with previous experience of *fair trade* products are much more likely to buy *fair trade* bananas, and would be willing to pay more for them. More than 9 out of 10 (93%) of consumers who had already bought *fair trade* goods would be prepared to buy *fair trade* bananas, and 7 out of 10 (70%) would pay a premium of at least 10% over the price of normal bananas.

There is also evidence that retailers are becoming aware of and beginning to respond to consumer demand for some guarantees concerning the production conditions of goods they buy.

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<sup>1</sup> EP document A3-0373/93, PE 206.396

<sup>2</sup> CES 538/96 E/as

<sup>3</sup> EP document A4-0198/98, PE 225.945

## **5. CURRENT EU ACTIVITIES IN SUPPORT OF *FAIR TRADE***

### **5.1. Financial support for organisations involved in *fair trade***

The Commission has already provided some limited financial support for activities relating to *fair trade* to NGOs within the EU and to producer groups in developing countries. The majority of this funding has been provided through Budget Line B7-6000 with a smaller amount from B7-6200. At present *fair trade* and ethical trade initiatives are included under the same heading of alternative trade.

Under these budget lines assistance given so far has included finance to:

- *Fair trade* labelling organisations for their activities to promote new products *lines*: these have included coffee, cocoa, bananas and orange juice. Activities have included principally consumer awareness campaigns and, educational activities. Currently, the Commission contributes towards the funding of all of the *fair trade* labelling organisations in member states,
- World shops - types of activities supported vary according to the needs of the different organisations. Most of these organisations are mainly concerned with the sale of goods and Commission support is for capacity building and promotional activities,
- EFTA for its advocacy activities, research, awareness raising, and campaigning.

Other NGOs which are not directly linked to the *fair trade* organisations but which receive funding may also carry out some *fair trade* activities.

Apart from these activities in Member States the Commission has also supported projects in developing countries.

The proportion of funding applications submitted which relate to *fair trade* and ethical trade issues, and the share of such projects in total expenditure has been increasing consistently over recent years. Over the last 5 years, EUR 9 million has been used in support of educational development. In 1997, the Commission allocated EUR 2 911 511 under budget line B7-6000 in support of 15 awareness raising projects on fair trade. For 1998 approximately EUR 3 700 000 were proposed for both *fair trade* and ethical trade projects.

The criteria governing expenditure under these budget lines do not cover the full spectrum of actions involved in making *fair trade* products available to EU consumers. For example, whilst publicity measures to increase consumer awareness of the *fair trade* concept in general are permitted, it is not possible to promote any specific *fair trade* product. This limits the usefulness of these budget lines for NGOs who wish to launch *fair trade* products on the EU market, where promotion accounts for a large part of the overall budget.

### **5.2. Other financial support**

Over the last four years assistance has also been given to three projects on socially responsible consumption which include certain fair trade initiatives. Two of these projects have been completed and concerned consumer awareness raising. The third will be completed during the course of 1999 and concerns the development of a guide for consumers on 'sustainable' purchasing. These projects are under budget lines B5-1000 and B5-1050 and cover a total sum of nearly EUR 140 000.

Under the budget line B7-3000 the Commission has committed EUR 990 000 to a programme designed to provide children working in the carpet industry in Pakistan with food, medical care, part-time studies or skills. A further EUR 3 million have been committed for the future.

In addition, EUR 4 million have been committed for projects in Nepal and India under the budget line B7-7070.

As concerns bananas specifically, in April 1999 the Council adopted a Council regulation establishing a framework of assistance for traditional ACP suppliers of bananas. This regulation includes reference to the possibility of funding fair trade initiatives<sup>4</sup>.

### **5.3. Legislation**

In accordance with the overarching objective of achieving a sustainable development, the Community is committed to integrate environmental considerations into other policies and is also placing more emphasise on the social aspects of trade globalisation. Following the line developed at the Copenhagen Summit, the EU has declared its intention to place more emphasis on the social aspects of the globalisation of trade. The EU is striving to make real progress towards the goal of making good inadequacies in core social standards throughout the world.

The EU has begun to put these ideals into practice by incorporating the principle of awarding trade incentives for compliance with minimum social and environmental standards into its legislation concerning external trade.

The EU Scheme of Generalised Tariff Preferences (GSP) established in Council Regulations (EC) No 3281/94 (industrial sector) and (EC) No 1256/96 (agricultural sector) in respect of products originating in developing countries provides for special incentive arrangements in the form of additional preferences to be granted to countries whose domestic legal provisions respect certain minimum social or environmental conditions.

In accordance with the requirements of these regulations, in June 1997 the Commission presented a report to the Council on the results of the studies carried out in international fora on the link between international trade, social standards and the environment (COM(97) 260 final). In the light of the review conducted by the Council on the basis of the report, in October 1997 the Commission submitted a proposal for additional preferential tariff reductions and the modalities for benefiting from the special incentive arrangements concerning labour rights and environmental protection. On 25 May 1998, the Council adopted Regulation (EC) No 1154/98 implementing those special incentive arrangements.

To take advantage of the social incentive regime the country must comply with the standards established by the International Labour Organisation (ILO) Conventions No 87 and No 98 concerning the application of the principles of the right to organise and to bargain collectively, and No 138 concerning the minimum age for admission to employment.

In December 1998, the Council renewed the GSP scheme, including general and special incentive arrangements, for another period of three years until 31 December 2001<sup>5</sup>.

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<sup>4</sup> Regulation (EC) No 856/1999 of 22.4.1999, OJ L 108 of 27.4.1999, p. 2

<sup>5</sup> Regulation (EC) No 2820/98 of 21.12.1998, OJ L 357 of 30.12.1998, p. 1

The environmental regime addresses countries which meet the criteria of the International Tropical Timber Organisation (ITTO). Therefore, it can apply only to industrial products processed from tropical timber or agricultural products grown in tropical forests managed in accordance with ITTO standards, which for the time being are the only internationally recognised environmental standards in this area.

#### **5.4. Other allied activities - ethical trade/codes of conduct**

The New Economics Foundation carried out a study for the Commission on the use of social labels as a means of communicating ethical trade<sup>6</sup>. Their findings were published in November 1998. The study reviewed the various types of social labels in use from unilateral claims by individual manufacturers under their brand label to independently recognised labels such as *fair trade* and government or publicly approved labels such as the EU Eco-label although this is not a social label. It also outlined the preconditions for the effectiveness of a label, such as e.g. clarity, trust, or impact. The results of this study suggest that – ‘social labels are one possible device to deliver positive social change through the market’ and that ‘a portfolio approach to supporting ethical trade is preferable to public policy focused solely or indeed at all on the development of a social label’. The study underlines that ‘Social labels are deserving of EC support, in particular fostering civil society understanding of the issues which they address’.

Businesses – mainly in the sectors of commerce, textiles and clothing, footwear, sporting goods and toys, but also producers of raw materials – are becoming increasingly aware of these issues with many having already introduced their own codes of conduct.

Other initiatives carried out at European level since 1995 include joint declarations and codes of conduct on core labour standards (commerce, textile and clothing, footwear sectors)<sup>7</sup> issued by the social partners within the framework of sectoral social dialogue. In addition, the EU organised a joint seminar on codes of conduct and labour standards with the US Department of Labour in Brussels on 20 February 1998. A follow-up was organised by the Department of labour in Washington DC on 10-11 December 1998.

The need for monitoring codes of conduct, the involvement of all concerned and core requirements for a code of conduct were emphasised at a workshop organised by the Commission on 25 November 1998. The EP Committee on Development and Co-operation also called for the Commission to consider establishing a European monitoring platform in its draft report on ‘EU standards for European enterprises operating in developing countries: towards a European Code of Conduct and monitoring platform’ (Howitt Report). The report also proposed that the EP should act as the interim platform. The Committee on External Relations also called for the Commission to develop a model code of conduct at the European level (Sainjon Report). On 13 January 1999 the EP adopted the Sainjon Report and – with some modifications and amendments – the Howitt report on 15 January 1999.

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<sup>6</sup> ‘Social Labels -Tools for Ethical Trade’ - final report 1998, New Economics Foundation, Cinnamon House, 6-8 Cole Street, London, SE1 4HY, UK

<sup>7</sup> 1995: Charter on child labour of the social partners of the European footwear industry, CEC and FSE:THC. The charter was updated in 1997 and extended by consent of the European shoe retailers’ association (CEDDEC) and EuroFiet to the shoe retailing sector in 1998;

1996: Joint declaration on child labour of the social partners of the commerce sector, EuroCommerce and EuroFiet;

1997: Code of conduct of the social partners of the textiles and clothing sector, Euratex and ETUF:TCL containing the six ILO key labour conventions

## 6. FAIR TRADE, THE WTO AND THE GROWTH OF GLOBAL TRADE

Trade has long been recognised as fundamental to the creation of wealth. Increasing global trade flow results in greater aggregate prosperity, and over the years the world's trading nations have committed themselves to a process of encouraging global trade and reducing trade barriers. Among others this has enabled a number of lower income countries to develop their economies very rapidly within a relatively short time span. An explicit objective of the multilateral trading system is to ensure that the benefits of liberalisation also accrue to countries in the early stages of development.

The process of reducing trade barriers through successive GATT rounds culminated in the creation of the World Trade Organisation (WTO) in 1995, whose objectives, inter alia, are to:

“raise standards of living, ensure full employment allowing for an optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and doing so in a manner consistent with the respective needs of countries at different levels of economic development,

Recognising further that there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development.”

The Commission is fully committed to the aims and objectives of the WTO. A more open multilateral trading environment is the frame work which permits countries and their citizens to increase their prosperity and welfare.

In establishing a more liberalised trading system there were concerns about the capacity of certain developing countries to fully benefit from the more open trading environment. Therefore, within the Marrakech Declaration establishing the WTO, signatories declared their intention to continue to assist and facilitate the expansion of the least developed countries' trade and investment opportunities, and to monitor the impact of the Uruguay Round on fragile economies.

Enabling producers in developing countries to take up and benefit from the opportunities offered through global trading is the basic premise of *fair trade* initiatives.

*Fair trade* initiatives operate through voluntary participation. Consumers can create demand for *fair trade* products through their purchasing preferences, and producers and traders who wish to participate offer products to meet this demand after demonstrating their compliance with *fair trade* conditions, with resulting benefits for the primary producers.

To the extent that *fair trade* initiatives remain private initiatives and operate through voluntary participation *fair trade* is consistent with a non-discriminatory multilateral trading system, as it does not impose import restrictions or other forms of protectionism. Fair trade initiatives can act as a market mechanisms which offer more choice to both producers and consumers, as their success particularly of labelled fair trade products in main stream shopping outlets depend on market demand.

If governments were to introduce regulatory mechanisms based on fair trade concepts they would need to take their WTO obligations into account, so as to ensure in particular the transparent and non-discriminatory functioning of such schemes.

A new round of trade discussions within the WTO will begin in the near future. The Community is pleading in favour of a comprehensive Round with a broad and balanced agenda that appeals to all WTO Members. A prime EU objective in this regard is to pursue trade liberalisation in such a way that it is fully compatible with sustainable development as well as conducive to the raising of social standards and environmental protection worldwide.

## **7. ISSUES WHEN CONSIDERING-FURTHER EU SUPPORT OF *FAIR TRADE* ACTIVITIES**

### **• Growth of Fair Trade**

Whilst the fair trade movement is now aligning itself under the single banner of FINE, fair trade initiatives are still developing on different levels. However, there is an increasing number of individual companies, not linked to these organisations, which make fair trade claims of a self-declaratory character or based on codes of conduct, developed by a single company or group of companies. Both the development of fair trade and that of ethical trade need to be dealt with in a coherent manner.

### **• Définition**

Some of the difficulties surrounding fair trade stem from the fact that there is currently no legal definition, which leaves it open to the possibility of abuse. In addition, a single definition was only agreed by FINE as recently as mid 1999. Moreover, there is no single label or symbol to identify *fair trade* products.

### **• Criteria**

Criteria for fair trade products tend to be variable between products, organisations and companies. The *fair trade* movement itself notably FINE has begun the process of outlining common criteria. The Fassa Report has proposed a set of minimum criteria for *fair trade*. With the multiplication of fair trade claims and labels, there is an increasing need for guidelines agreed between the different stakeholders with respect to fair trade criteria. Criteria should, on the one hand contribute to preventing misleading and unsubstantiated claims and labels and, on the other hand, facilitate participation by small producers.

As a first step, consideration should be given to supporting NGO efforts to reinforce the capacity of fair trade labelling organisations with respect to criteria development for labelling and certification so that these are established in a transparent manner and their respect is subsequently verifiable.

### **• Consumer Choice: criteria and monitoring**

Fair trade labels and claims need to achieve their objectives with regard to producers from developing countries and allow consumers to make properly informed choices. There is clearly a need, therefore, to study and review how such claims and labels are currently substantiated, verified and controlled either by fair trade organisations themselves, independent bodies or others. Subsequently, options for further improvements in monitoring, verification and control of both claims and labels are to be considered, taking into account the costs and benefits, and notably the competitiveness of fair trade products.

For example, the Directive on Misleading Advertising<sup>8</sup> could be considered as an instrument for ex-post verification and control in order to ensure adequate protection for consumers. Consideration could also be given to an independent external monitoring or accreditation system.

- **Consumer information**

For fair trade initiatives to develop further the consumer needs to be better informed about the availability of *fair trade* products and the significance of *fair trade* labels.

- **Voluntary participation**

Participation in any *fair trade* scheme must remain voluntary.

- **WTO Compatibility**

When considering further support/actions for fair trade the Community will take into account its WTO obligations. Fair trade schemes should act as positive and voluntary trade incentives and mechanisms to improve both social and environmental conditions in favour of sustainable development.

- **Dialogue with the fair trade movement**

Consideration should be given to establishing a formal platform for dialogue with the *fair trade* movement with a view to discussing the issues outlined in this Communication and EU assistance in the development of *fair trade*.

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<sup>8</sup> Council Directive 84/450/EEC of 10 September 1984 relating to the approximation of the laws, regulations and administrative provisions of the Member States concerning misleading advertising, OJ L 250 of 19.9.1984