

FROM FAIR TRADE TO CSR

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Introduction

Solidaridad is a non-governmental organization founded in 1976. In 1988 Solidaridad was the co-founder of Max Havelaar; the first certified fair trade product distributed via the “mainstream” retail. In 1992 the introduction of coffee was followed by the introduction of Oke Bananas; the first fair trade en organic certified bananas. In 2001 Solidaridad got involved in the garment industry followed by the introduction of Kuyichi; a hip and honest fashion brand manufacturing and selling garments which are produced with organic cotton and produced in SA 8000 certified factories.

In 2002, after some 15 years of experience with fair trade in different commodities, we questioned the impact of Fair Trade and started developing new models for Corporate Social Responsibility (CSR), which was followed by the introduction of Utz Kapeh for certified responsible coffee and MADE-BY for manufacturers and brands of garments who want to take responsibility for their sourcing but do not necessarily want to position their brand as Fair Trade.

Solidaridad works with an open, pragmatic and total chain approach in which it cooperates with companies who are willing to take up their part of the responsibility for CSR.

In this paper we will focus on our experience with Utz Kapeh, a CSR model for coffee, and explain where CSR lies from the viewpoint of our organization.

From Fair Trade to CSR

Since almost 4 years Solidaridad has been closely involved in the Utz Kapeh initiative, a process in which three main actors - companies, development organizations and coffee producers - are seeking to create a new kind of relationship.

Solidaridad is actively involved in the fair trade movement, a movement that is constantly developing and constantly looking for new ways and models to come closer to the sustainable world economy it is trying to achieve.

The development of the fair trade movement is characterized by three phases: the first phase was initiated by the Third World Shops; a second, innovative phase was entered with the introduction of the fair trade label **Max Havelaar**; the third phase is characterized by finding ways of using the opportunities offered by Corporate Social Responsibility initiatives undertaken by existing companies and brands: companies that wish to assume responsibility in the purchasing of coffee for their brands; corporate brands of supermarkets and brands of major roasters.

CSR is a quite recent development and offers new opportunities aimed at the mainstream of the economy. Yet, the development of the CSR potential requires new frameworks, raises new questions and enforces new solutions.

Companies need an independent source to legitimize claims of responsible business practices. For companies who source products from developing countries, responsibility has to do with knowing where products come from and knowing how they were produced. Independent third party auditing is seen by ever more companies in ever more product supply chains as the way to demonstrate proof of good production practices, traceability, and appropriate sourcing and buying practices.

First of all the challenge for development organizations

Within the different CSR-models, companies are exploring the margins within which development organizations can act as serious counterparts for these companies; thus companies which have to act within a competitive environment. So, our partners are companies that are pioneers in their branch in translating CSR-policies into concrete activities. Companies that want to assume responsibility for the origin of their product, make their branch transparent and externally accountable, and integrate sustainability goals in their company policy; however – with due down-to-earthiness – within the limits of economic reality and commercial feasibility.

Development organizations that do not recognize these limitations will soon be offside. Does this mean then that the plain argument of feasibility or the pale compromise is becoming the norm? I don't think so. It is about *making* things feasible; about a process of changing power relations, resulting in evermore possibilities.

The trading conditions of Utz Kapeh are a concrete example. Are the improved trading conditions and price transparency of Utz Kapeh sufficient guarantees for sustainable production? For certain production structures and regions this will not automatically be so. But Solidaridad has learned to look at the question whether they are sufficient from another point of view. The question we learned to ask is whether the contribution companies do make is *proportional*. The coffee industry knows many actors and factors. In short: sustainability of the coffee sector will have to become a central issue of the agrarian policy of coffee producing countries. Market prices will not recover for long if countries do not find a collective solution for the problem of overproduction. Multilateral institutions as the World Bank and the ICO will have to play a more active role. And companies will have to take their responsibility. Utz Kapeh offers companies an instrument to do so. It asks roasters to make a proportional contribution, knowing that this does not solve all the problems in the coffee industry. But the contribution of one actor invites the others to act as well. And this dynamic process is what Solidaridad aims at.

One way is to define a high price, implying that the possibilities of selling significant volumes to the market are limited; volumes significant enough to turn this *ethical* price into a *real* price for producers. The choice of Utz Kapeh is to formulate - within a competitive market - a realistic set of improved trading conditions, permitting substantial volumes to be traded against these improved conditions. This way the formula "Price multiplied by Volume" actually leads to an increase in producer income. The implementation of a robust certification program can drive improvement in quality and efficiency and lower costs for unnecessary use of agrochemicals.

The second challenge of CSR lies with the companies

I would like to describe it as follows: a code of conduct for the coffee branch must really make a change for coffee producers. CSR is of no use when it only brings us a different *story* about reality. In the end it is very easy to develop a beautiful code with standards sounding like a bell: quality standards, social standards, environmental standards. But when it comes to the reality of compliance, producers can only finance the costs of sustainable production if and when the necessary economic conditions are provided. A better product supposes a better price.

In this aspect companies can learn from development organizations on how the market works out for developing countries. It is easily said that the market price is the *real* price. Reality is that the price of coffee does not tell the truth about the real production costs of coffee. The market lacks a social framework that can give expression to the social and environmental costs of production. Exactly this social and environmental shortage makes CSR necessary. The market will not offer a sustainable product just by itself.

Developing countries lack *good governance*. Authorities are corrupt or failing. Often there is no legal framework to protect labour rights and assure environmental care. The civil society is insufficiently developed. Unions cannot stand up for living wages and environmental organizations cannot speak up for sustainable production methods. This way, social and environmental values have no price tag. It is not the degree of inefficiency that defines the price level at the world market, but the degree in which costs are shifted to people and planet.

A CSR concept defining better trading conditions does not interfere with the market. It merely adds a new social framework to the market, allowing prices to tell the truth about social and environmental production costs. This is still a 100% economics.

The third challenge must be faced by the producers

Utz Kapeh stresses – more than any other concept in which Solidaridad has been involved – the necessity of product quality and efficiency in business, thus keeping the model closely related to the reality of the market. This is necessary and of importance when it comes to maintaining the market position of the producers. There can only be a better price if there is a better product. There can only be money for improvement of environmental care and labour conditions if it is not lost in inefficiency. The challenge for small scale farmers is to become professional business partners.

It was interesting to see how supermarket Albert Heijn in the Netherlands in its commercial on the Utz Kapeh label for their corporate brand Perla spoke about how it permitted producers "to better speak up for themselves".

When development organizations talk about *empowerment* they mean exactly the same.

The position of producers becomes stronger - for instance in price negotiations - since they know that their product has gained added value and thus higher market value through the Utz Kapeh label. But it is up to the producers. The code of conduct supports them in their transition to a cost efficient and sustainable production method; it gives them the opportunity to obtain a better price, but they will have to negotiate this price themselves. It gives the producers access to a higher segment of the market, but it is up to them to create a stable commercial relationship on the basis of a good product. That too is economics.

In the past years we have experienced this new relationship between producers, companies and development organizations as challenging and exciting. Old cadres are questioning this new step. The onset of innovation is sometimes accompanied by difficult debates. It is a quest for new balances. But out of this quest came a meaningful new initiative, the 'good coffee' of Utz Kapeh. Now it's about gaining social acceptance. About gaining name and recognition from consumers, social credits and a sustainable economic result.