

## WORLD EXPORT DEVELOPMENT FORUM – W·E·D·F 2008

### BREAKOUT SERIES 4: IMPACT ON DEVELOPMENT: IS THERE AN ETHICAL DISTRIBUTION OF BENEFITS?

#### **The Issue:**

'Ethical trade' products are usually more expensive than similar goods produced for the conventional market. Consumers are willing to pay the higher price on the grounds of doing 'a good deed', assuming that poor producers get paid more and are able to improve their livelihoods and their prospects for the future.

Yet, there is no clear evidence that higher prices in the ethical retail market translate into higher benefits for producers across the board. Surveys and case studies do exist, but due to being product specific and having to consider a number of impact indicators, it is difficult for the results to be generalised. In short, the ultimate impact on producers has been far from conclusive.

This has allowed contradictory opinions be voiced. On the one hand, proponents of ethical trade concepts argue that producers earn more, benefit from higher social cohesion, access to business services and reduced vulnerability to volatile prices. Other supporters do concede that higher prices may not translate directly into higher payments to producers, but there are longer-term gains to be had from training and business opportunities being given to hitherto marginalized producers.

On the other hand, there is the counter argument, which considers 'ethical trade' schemes as being close to fraudulent as the benefits are grossly overstated. In fact, some go so far as to say, that the impact is so minimal it is not worth the effort. Reports cite as little as 5-7% of the overall margin going to producers, while the rest is captured higher up the value chain. Further, since demand for 'ethical' products is lower than supply, producers sell a smaller proportion (some as little as 5%) of their production into the ethical trade distribution chain whilst the balance incurs higher costs (e.g. certification costs) and/or lower prices. The net result is zero or even negative. Finally, the observation is made that some domestic producers of 'ethical products' are already successful business people, whose motives may be in question.

#### **The Proposition:**

As long as poor producers are at the bottom of the value chain, participating in markets where they have no bargaining power and where demand is lower than their supply, they will not be the main beneficiaries of the margins that 'ethical consumers' are willing to pay. Unless business models are developed where producers are shareholders in the businesses higher up the value chain, their income prospects will not change fundamentally. In fact, "Ethical trade" is a marketing ploy, catering to consumer sentiments. While it increases profit margins at the retail end of the value chain, it has little or no positive impact on the producer.

#### **Focus of the debate:**

The debate will address the following questions:

1. Is the proposition valid? Why or why not?
2. Can sustainable competitiveness be built on the promise of ethical trade?
3. What mechanisms must be put in place to ensure that producers get their fair share of the margins?