

# NRET policy and practice 1



## Fair trade in forest products: policy lessons

### Policy conclusions

- In assessing the contribution of fair trade schemes to poverty eradication it is important to take into account not only impacts on participants within the scheme, but also non-participants and the spread of good practice which may occur in the region.
- Only certain types of commodity supply chains are appropriate for fair-trade initiatives. Sustainability is only achieved in chains that allow sufficiently large volumes of product to be traded in an unbroken chain from producer to consumer.
- The trading environment in the country of origin has to be conducive to transparency and equity. Fair-trade initiatives cannot prosper in environments where over-competition for limited exportable resources creates deep mistrust between players in the supply chain. Fair-trade can act as a catalyst providing an avenue for early growth of ethical export businesses but fast growing companies are likely to outgrow such schemes.
- Donors should be open-minded regarding the types of responsible business initiatives that they support. Easily classifiable approaches to responsible business, for instance fair-trade labelling schemes, should not be promoted at the expense of locally developed solutions that are more attuned to local needs.
- Donors should be careful to provide the right type of support to emerging responsible business. Carefully targeted support that assists ethical businesses to achieve economies of scale does more than anything else to release financial surpluses that can be distributed to target beneficiaries. Such economies are usually only achievable if businesses engage in conventional trading as well as socially and/or environmentally motivated trading.
- Fair trade practitioners increasingly recognise that impact assessment should be systematically integrated into their operations. Fair trade and other commercial ethical schemes need to do this to ensure good social and environmental performance and to avoid overlooking the needs of a wide range of primary stakeholders.

### Background

Our policy lessons are drawn from two case studies. The first examined the experiences of Candela, a Peruvian non-profit making organisation that works with brazil nut collectors and exports brazil nuts to Europe and North America. The second reviewed the remarkable successes of Maquita Exportadora, which has exported cocoa from Ecuador since 1992. Maquita Exportadora works with small-scale cocoa farmers in Esmeraldas and Manab provinces, Ecuador.

Since the late 1980s, Candela has worked hard to provide incremental pecuniary benefits (over and above those provided by the conventional trade) and increase the technical and financial capacity of brazil nut gatherers who operate in a remote region of Amazonian Peru. The extremely difficult trading environment in which Candela operates and the absence of a cohesive international alternative trade brazil nut supply chain, mean that success has largely been elusive.

By contrast, Maquita Agroexportadora has operated in a more conducive environment that has allowed it to deliver substantial financial and non-financial benefits to smallholder cocoa producers.

Fair trade schemes in forest products can bring benefits to poor and isolated forest dwellers, although there are instances in which the benefits may be limited (see below). In 2000, Maquita was buying from approximately 1017 Ecuadorian smallholder cocoa growers (15% of small-scale farmers) in the two provinces where it is active. Maquita has focused on Esmeraldas because it is one of the most underdeveloped provinces in the country. It provides training for growers on how to maximise revenues and minimise production costs and encourages transparency throughout the chain (by introducing fairer weighing and grading systems for example). Other benefits include provision of market information, cash payments, access to transport, incentives for the production of better quality and cocoa. Capacity building occurs through mechanisms such as the Cocoa School (which operates particularly in collaboration with an Afroecuadorian agricultural co-operative) and in which training in production, post-harvest and marketing techniques is provided. In Peru, Candela's ethical performance has been mixed partly due to an unhelpful trading environment (see below). However, Candela has introduced electronic weighing scales, which means collectors may actually receive a more competitive price from Candela than from other companies that use scales that are non-tamper-proof.

## Policy findings

### Being aware of the possible wider impacts of fair trade schemes

In assessing the contribution of such schemes to poverty eradication it is important that the wider impacts on the local economy are considered. Good practices introduced by fair trade schemes may spread wider than the scheme. In Ecuador practices such as increased transparency in weighing and grading, and higher prices have begun to be

adopted by traders in the conventional trading chain. This may occur across a range of commodities in terms of price and in terms of weighing and grading.

### Appropriateness of commodities

After years of trying to use alternative trade avenues to export its brazil nuts, Candela has concluded that The alternative trading chain [should] stretch from the producer to the consumer, with all the players in the middle required for a specific purpose. If parts of the chain do not work, the players in the middle only have limited effectiveness. These sentiments underline the difficulties of trading brazil nuts, most of which end up in nut mixes. The mixing of brazil nuts with other types of nuts not only breaks the direct alternative trade link between ethical exporters and consumers but also encourages fickle international demand: The proportion of brazil nuts in a nut mix is determined by the relative prices of all the nuts in the mix. This means that the international demand for brazil nuts can change greatly even over the course of one season. By comparison, there are no significant substitutes for cocoa and the conventional international cocoa trading chain lends itself well to adaptation to fair or alternative trade, thereby giving a strong and transparent link between production of cocoa and consumption of chocolate.

### The right trading environment.

Candela has struggled to employ alternative trade principles in an environment where too many traders are chasing too little product. This over-competition for brazil nuts has contributed to an environment where sharp practices are common and mistrust between different levels of participants in the supply chain is the norm. The reverse is true in Ecuador's cocoa trade, where Maquita Agroexportadora has benefited considerably from operating in a trading environment where competition, although present, has not forced the conventional exporters to exploit all conceivable cost efficiencies. This has allowed Maquita the opportunity to beat the conventional trade at its own game and grow to become one of the largest cocoa exporters in Ecuador.

### Fair-trade as a launching pad for ethical exporters.

In its establishment phase, Maquita benefited considerably from its trading relations with the Dutch fair-trade organisation Max Havelaar. In particular, Maquita enjoyed regular demand for its cocoa, pre-finance on extremely equitable terms, and introductions to major cocoa buyers in Europe. However, Maquita soon outgrew

the limited support that fair-trade could provide and now exports less than 1% of its cocoa through fair-trade channels. Maquita does not only return benefits to 1% of its producers, but to all of its small-scale producer associates. It does also buy from other sources to obtain sufficient volumes (see below). In our view, this experience exemplifies one of the most useful functions of fair-trade — it provides a realistic and well balanced nurturing environment from which genuinely entrepreneurial ethical traders can graduate to become major players.

### **Donor open-mindedness**

Both Candela and Maquita have essentially been home-grown ethical trade initiatives that have used international ethical trade schemes to further their own objectives. Maquita's success, it could be argued, would have occurred without external assistance, albeit over a longer period. Certainly the organisation's strong management team and its strict adherence to a set of guiding ethical principles gives good reason to believe that this would have been true. In either case, the result has been the creation of an effective, locally adapted means of delivering financial and non-financial incremental benefits to a substantial number of poor people via sustainable trading mechanisms. International ethical trade schemes often grab the headlines, while the home-variety receive little attention. In their efforts to eliminate poverty, donors should be sensitive to the needs of locally inspired ethical trade initiatives, and seek to replicate the successes in other conducive environments throughout the world.

### **The right type of donor support to responsible businesses**

A large part of Maquita's success has been due to its ability to grow and thereby exploit economies of scale and gain credibility in the international cocoa market. In 1992, Maquita's exports amounted to just 12 tonnes, yet in 1999 it exported 4,866 tonnes. Added to this, the organisation had gained a sufficiently good international reputation to be able to export directly to buyers in Europe rather than trade through Ecuadorian based brokers. These achievements have allowed Maquita to generate returns that allow it to pay cocoa producers prices that are 8 to 15% greater than those offered by conventional traders and contribute substantially to capacity building programmes that teach cocoa farmers better technical and financial practices. Maquita could not have achieved this purely by trading with its target beneficiaries. In 1999 approximately 55% of its cocoa was bought from conventional traders. Although sparing, donor support has

allowed Maquita to invest in productive assets at crucial times in its development. In our view, this type of support can be effective providing that it does not replace commercial lending and that the recipient management team can make a good business case and is committed to extracting the greatest financial return from the investments.

### **Integrating social and environmental impact assessment**

It is increasingly recognised that impact assessment must be integrated as routine part of fair trade (and other commercial) operations if social and environmental issues are to be addressed and if lessons are to be learned and acted upon sooner rather than later. Impact assessment should include participants of schemes, but also non-participants to ensure the full impact is taken into account. Where impact assessment is neglected it is possible that certain primary groups are overlooked. In the Peruvian Brazil nut scheme it was found that the shellers of Brazil nuts (mainly women) and the porters of Brazil nuts were not really benefiting from the fair trade scheme. The scheme had focused on those already holding Brazil nut concession titles and who are therefore likely to be better off.

To build capacity impact assessment should involve self-assessment and participation by small-scale growers and forest product collectors who may also be affected but who may not be included within the scheme.

Ethical trade may create incentives for forest conservation, but this is not always the case. Farmers may re-invest better returns on forest products in non-forest based activities. Environmental criteria and monitoring is also necessary to ensure that increased value of forest resources does not lead to overuse of resources. The gender consequences of commercialisation of forest products through ethical trade have also been relatively neglected. Social and gender analysis must be employed to understand the implications of trade for different social groups and their access to livelihood resources.

Fair trade schemes may not be able to reach the poorest of the poor since participation is predicated on the trade of a forest resource and access or use rights over natural resources are often pre-requisites to entry. Ethical trade is a market-based instrument and thus it is not surprising that those who are familiar with markets and have the relevant capital (and who tend to be better off) make the best use of it.

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