

## Research Alert

30/07/2012

### Multiple asset categories

### Fair trade – moving beyond the solidarity shop outlets

- From solidarity shop outlets to commercial supermarkets through certification.
- Consumers and investors increase pressure on corporations with regard to sustainability.
- Stakeholders need to collaborate more to secure sustainable supply chains for the future.

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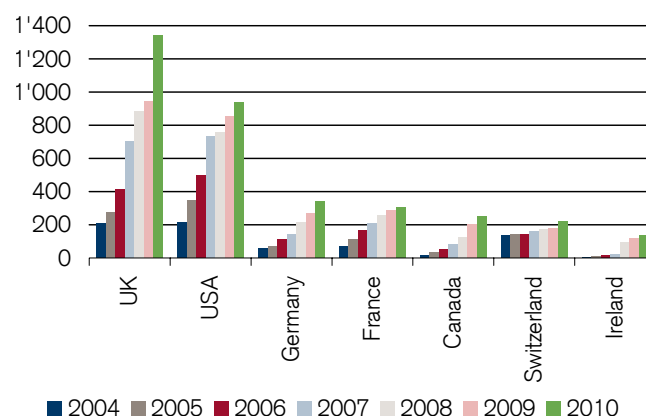
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#### Buy Fair-trade funds

Access to diversified fair-trade investment opportunities.

Fair trade – a vision of equity and justice in trade for marginalized producers – has developed into a business that allows today's consumers to choose between fair trade and non-fair-trade-sourced products. The movement continues to gain momentum and the sales numbers are rising year after year. Figure 1 shows sales figures for the seven largest fair trade markets since 2004. The United Kingdom (UK) and the United States of America were the largest fair trade markets from an absolute point of view in 2010, but per capita spending is led by Ireland with EUR 30.8, followed by Switzerland with EUR 28.1 and the UK with EUR 21.5. According to data from Fairtrade International (FLO; <http://www.fairtrade.net/>), international sales reached EUR 4.9 billion in 2011, representing a year-on-year increase of 12% worldwide.

Sales by country (in EUR m)



Source: Fairtrade International, Credit Suisse / IDC

The overall success is mainly based on the rising engagement of large-scale retailers, branders and other corporations bringing fair trade to the mainstream public. Consumers have increasingly expressed concern over environmental and social sustainability and consider these issues in their daily pur-

chases. Conscientious consumption is clearly evident in the food sector, where fair trade products are growing exponentially across Europe and the United States.

### How it started

The fair trade movement grew out of a variety of North American and European initiatives in the 1940s in order to help disadvantaged groups by creating alternative trade and direct sales networks, i.e. so-called alternative trading organizations (ATOs). Only with the introduction of product certification and labeling in 1988 was the fair trade movement able to move beyond the solidarity shop outlets to sell major food commodities in conventional supermarkets. One of the main aims of fair-trade labeling was to provide a vehicle to promote fair-trade goods in mainstream shops and supermarkets, side-by-side with conventional products. The original focus of certification was on food products produced by small-scale producers, particularly coffee, tea and chocolate. This was followed by fair-trade bananas sourced from both small-scale producers and some plantations. In 1998, ATOs and labeling groups formed an informal alliance called FINE, which developed a commonly recognized definition of fair trade (<http://www.fair-trade-hub.com/support-files/fair-trade-definition.pdf>): “Fair trade is an alternative approach to conventional trade. It is defined as a trading partnership between producer and consumers based on dialogue, transparency and respect that seeks greater equity in international trade. It thereby contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in developing countries.”

ATOs and labeling groups have pursued the same goal differently, which has caused tension between them, mainly due to the role of small producers in the decision-making structure and the role of corporate participation and plantation production as they threaten key aspects of the original version of fair trade. Nevertheless, corporate participation has vast potential to further extend the market for fair-trade goods by bringing fair trade into mainstream supermarket shelves where consumers have a choice between conventionally sourced products and products sourced via fair trade. Corporate participation therefore contributes more and more to the success of fair trade. Consumer goods companies have already begun to monitor their supply chains more carefully with respect to environmental, social and governance issues (ESG) due to increased pressure from both consumers and investors. The demand for ESG investments has increased dramatically over the last few years and is still increasing from corporate as well as institutional investors.

### The fair-trade model

From the beginning, the fair-trade movement has targeted small-scale farmers, the stabilization of their incomes and a more equitable distribution of economic gains, opportunities and risk associated with the production and sale of these goods. The producers are often confronted with lack of access to local and export markets, based on inadequate transportation and infrastructure. Furthermore, they are faced with insufficient information about world prices, quality and industry requirements and are often unable to access financial markets for competitive credit and capital. Fair trade offers solutions by

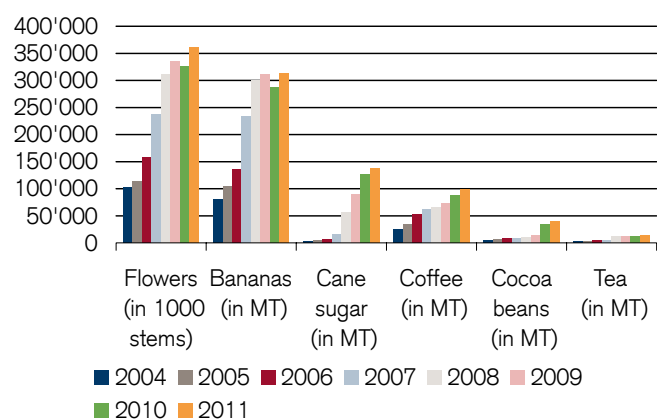
enabling direct trade relationships and long-term contracts between importers and producer groups by additionally paying higher-than-conventional market prices, either through above-market premiums and/or price floors and providing access to affordable credit. All these goals are pursued with a strong focus on the policies of the International Labor Organization.

According to Fairtrade International, in 2011 over 1.2 million small-scale farmers and workers were working at 991 fair trade certified producer organizations in 66 countries. In addition to the income they earned from sales of fair trade products, farmers and workers earned an extra EUR 65 million in fair-trade premiums, which has been spent on projects including farm improvements and processing equipment, education and career training, community projects and healthcare.

### Today's total world market for fair trade products

Products with the fair-trade mark are now available in more than 120 countries. More than half of all bananas bought in Switzerland bear the fair-trade mark. Almost half of all bagged sugar in UK stores will be fair-trade certified following the latest commitment by supermarkets. Meanwhile, the growth of fair-trade sales in new countries is surging. South Africans spent more than three times as much on fair-trade-certified products in 2011 than they did in 2010. Total global sales for fair-trade products in 2011 were EUR 4.9 billion. In fair trade's biggest market, the United Kingdom, shoppers spent 12% more on fair-trade-certified products in 2011 than they did in 2010 (see [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/news/releases\\_statements/Fairtrade\\_Global\\_sales\\_figures\\_MediaRelease\\_2012-07-17.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/news/releases_statements/Fairtrade_Global_sales_figures_MediaRelease_2012-07-17.pdf)).

### Unit sales by product



Source: Fairtrade International, Credit Suisse / IDC

As shown in Figure 2, the offering of fair trade goods has seen strong growth over the last few years. More and more products are coming onto the shelves, but the overall share of fair-trade products is still small compared to traditionally sourced products.

### Challenges of today's fair-trade movement

The growing number of commercial partners in the fair-trade market through labeling schemes has not only contributed to its success, but has also led to tensions within the movement.

The pursuit of large-volume markets and business partnerships involving large-scale traders, distributors, supermarkets and other retailers is perceived as a dilution of the fair-trade model by many ATOs. They even see the adoption of the label by multinational corporations on only a few product lines as an attempt at “fair washing” by using fair-trade certification as a marketing or public-relations tool.

Another issue in the discussion about certification is the integration of large-scale estates or plantations and fears that large-scale production of commodities will squeeze out small-scale producers. Such a development is perceived as highly contrary to the original spirit of fair trade. In many developing countries, agriculture still contributes strongly to gross domestic product. A large part of their population is active in the sector, which is characterized by its small-scale farming. The economic success of these countries is therefore dependent on their ability to capture their full agricultural potential (see also our Research alert “Frontier Markets: Tapping Africa’s agricultural potential,” published 23 December 2012).

The challenges in fair trade are additionally associated with the mainstreaming into conventional corporate and retail sectors. This transition is highly linked to mounting consumer interest in bolstering the ethical and environmental conditions for food production. Corporations will be continuously challenged by consumers and investors with regard to their ESG behavior and this pressure is not likely to disappear.

### Trends for the future

By moving into the broader mainstream market, the fair-trade movement is automatically exposed to the rules of conventional competition. Over time, non-governmental organizations (NGOs) and corporations have therefore become more interactive and firms have accepted triple-bottom-line auditing and monitoring on social, environmental and economic criteria. In 2012, for instance, Nestlé became the first company in the food industry to partner with an independent NGO, the Fair Labor Association (FLA), to have its cocoa supply chain investigated from its headquarters to the farms in the Ivory Coast. The report identifies gaps in Nestlé’s internal management systems and their effect on labor risk in the supply chain. As large parts of Nestlé’s supply chain are shared with other industry actors, the FLA recommended that all involved parties should

be equally required to combine forces with regard to enhancing supply, chain mapping, transparency, monitoring and capacity-building programs. These recommendations were addressed to the Ivory Coast government as well as Nestlé and other industry members (see <http://www.fairlabor.org/report/assessment-nestle-cocoa-supply-chain-ivory-coast>).

Another example of how to bring the various stakeholders onto the same platform is “Chocovision 2012,” where 200 senior business leaders and stakeholders in the cocoa, chocolate and retail industries met to discuss issues facing the cocoa and chocolate industries, as well as accomplishments made so far. Credit Suisse was represented by Joe Prendergast, who spoke on the role of prices in achieving sustainable supply of cocoa and other agricultural commodities (see <http://www.youtube.com/watch?v=CwfNyxFeod4&feature=plcp>).

Fair trade’s shift into the domain of large transnational corporate traders, branders and retailers is irreversible, and the fair-trade movement has to find its position in the conventional market environment without any mission drift. It is important to bring the various stakeholders onto a common platform and to promote collaboration at the beginning and the end of the supply chains as these stakeholders share the most common interest in pursuing sustainability. An open dialogue among all stakeholders is crucial and the different approaches to fair trade can be seen as very complementary with regard to the development level of the sourcing countries. A broader choice of approaches allows more individual solutions and creates more investment opportunities.

### Conclusion

Fair trade has moved from solidarity shop outlets into commercial supermarkets, where mainstream consumers can choose between fair trade and non-fair-trade-sourced products. Part of this success has been its ability to combine visionary social goals with practical engagement. Tensions within the movement have driven it forward, but also bear a risk of mission drift. The key for the fair-trade movement is to ensure that it brings all stakeholders onto the same platform and that they collaborate. The development level of countries should be taken into consideration in order to allow room for alternative solutions.

(30/07/2012)

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|            | Overall | Investment banking interests only |
|------------|---------|-----------------------------------|
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| HOLD       | 49.21 % | 48.48 %                           |
| SELL       | 5.71 %  | 5.7 %                             |
| RESTRICTED | 1.59 %  | 1.6 %                             |

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|            |                                                                                                                                                                                                                                      |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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|            |                                                                                                                                                                                                                                      |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BUY        | Expectation that the bond issue will outperform its specified benchmark                                                                                                                                                              |
| HOLD       | Expectation that the bond issue will perform in line with the specified benchmark                                                                                                                                                    |
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