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Cotton and Cotton Textiles

Unpicking the Threads: Conclusions of a Value Chain Analysis

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Unpicking the Threads: Conclusions of a Value Chain Analysis.

Abstract

This is an abbreviated version of a study carried out for IFAT, together with EFTA and FLO, in May/June 2005. The study's aim was to use value chain analysis in order to understand how Fair Trade stands in the cotton and cotton textile industry and to make recommendations on how the position of cotton farmers and textile workers might be improved, with special attention to 'social values'. This article also builds on the article on cotton and textiles in the Fair Trade year book 2001-2003.

The main conclusion of the study is that the cotton and cotton textile industry presents a great opportunity for the Fair Trade movement. Growing consumer awareness of the ethical issues, the introduction of Fair Trade standards and the increasing sensitivity to social issues in the corporate sector are creating the conditions for improvements in an industry that is characterised by low incomes, insecurity, exploitation and health threats. Grasping this opportunity will present Fair Trade with new challenges.

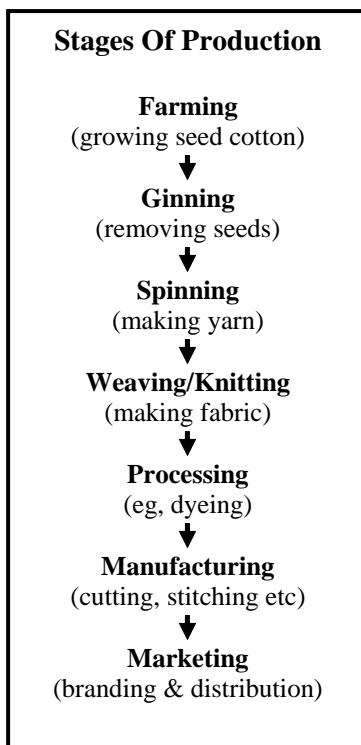
This chapter is divided into four main sections. An overview of the Global Textile Industry is followed by an analysis of Producer Livelihoods at each stage of manufacturing; then comes a brief review of current Fair Trade activities and challenges and, finally, the Areas of Opportunity for Fair Trade in the industry. Data and opinions are not attributed to individuals or organisations because of the need to protect confidentiality

The Global Textile Industry

Four main features characterise the cotton and cotton textile industry:

1. It is a global industry subject to powerful political and economic interests Cotton and cotton textiles are among the oldest traded commodities. Most countries are involved in one way or another in their production and there is a great deal of cross-border, as well as domestic, trading. Their lightness and sterility allow for easy storage and shipping without deterioration in quality. A product may be made from cotton grown in Uganda, processed in Turkey, made into a garment in Croatia before being sold in Switzerland.

Cotton is politically sensitive and international trade has been highly regulated. Until recently the Multifibre Agreement (MFA) set export quotas and protected domestic industries in north and south. With its end industries in smaller countries are suffering. Subsidies to farmers and manufacturers in the north greatly distort the market. In the south, politics also play a part, through government bodies (eg, cotton Boards), regulations, privatisation policies and local politics.



2. Cotton and cotton textiles are of great importance to developing countries Not only is cotton a valuable cash crop for millions of poor farmers, it is also processed within developing countries and made into manufactured products there, providing valuable employment to great numbers of low income workers. Craft traditions in spinning, weaving and finishing are widespread and textile manufacturing is considered an activity well suited to the early stages of industrialisation. The industry employs 1.4 million people in Bangladesh alone and provides 84% of the country's exports (72% in Pakistan and 69% in Mauritius)

3. Cotton growing has a big environmental impact, both in the use of water and of chemicals. The depletion of the Aral sea and the devastation of the surrounding area is a graphic reminder of the potential harm that can be caused by irresponsible use of both resources. Cotton is one of the pioneer crops for genetic modification, with as yet unknown environmental consequences. The insecticides used for cotton include banned chemicals and are applied in quantities

disproportionate to the agricultural land use

4. There is a wide range of end products and the supply chains are complex An enormous variety of products can be made from cotton, from cotton wool and basic T-shirts through to highly discretionary fashion purchases, each adapted for different uses and distributed to a wide variety of market outlets. Each product has its own unique supply chain, with operations carried out by organisations located in different places, even in different countries. Even within the same product category supply chains vary greatly. Parts of the manufacturing process employ many people, some in small-scale operations and some in large factories, and other parts are capital-intensive, employing small numbers of specialist staff and organised labour.

Types of value chain and governance

1. Vertically integrated (all stages of production controlled by a single organisation, or partnership). Rare in cotton textiles. Established by a few pioneering organic and Fair Trade initiatives
2. Market-based (intermediate products are traded at arm's length). The traditional trading model in cotton but now declining as brand owners seek to exert more control over their supply chains
3. Intermediate (brand owners set conditions for independent producers, thereby controlling them indirectly). Now the norm in mainstream cotton value chains. Control is tightening with rules and standards covering both commercial and social objectives

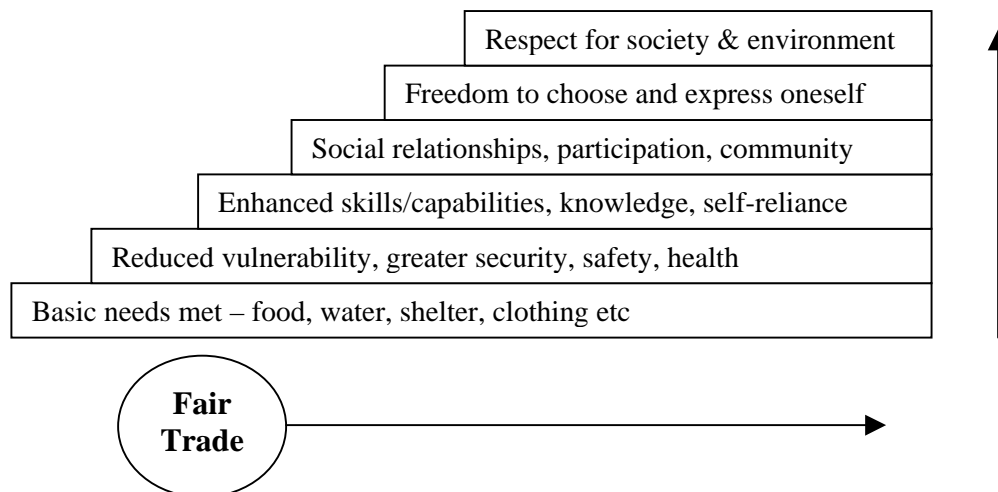
Other notable features of the cotton and cotton textiles industry are:

- The proliferation of existing marks, symbols and labels attached to products
- No history of ethical standards or traditions celebrating provenance (unlike wine, coffee and tea, for example)
- Little consumer engagement with the quality of the raw material
- Different consumer perceptions and cultural associations, compared with food
- Short product life cycles, sometimes as little as six weeks
- The absence of a Fair Trade 'gold standard'
- Direct competition with synthetic alternatives

Producer Livelihoods

The evidence on producer livelihoods is partial and, in places, sketchy. Data is available on cotton farmers and workers in textile factories but little is known about other important areas, including the position of artisans and workers in small-scale operations.

'Social value' –ie, how well producers' needs are met – is just as important as 'economic value' – in simple terms the amount of income they earn. Needs can be categorised into 6 'building blocks' and the role of Fair Trade can be seen as helping producers secure and strengthen their position in each block:



This model of social needs is not intended to be prescriptive and no ranking is implied among the building blocks, although, in general, the 'higher' blocks are less easy to establish if 'lower' ones are weak.

Farming

Most cotton farmers in developing countries work in small, family units. Farmers' earnings are reliant on world market prices, which are volatile and cyclical but have been gradually declining in real terms over the past 70 years. The income farmers receive for a typical item of clothing (say a T-shirt) is approx 30-40 pence, out of which they have to pay for seed, inputs etc.

The case of an Indian farmer

Erukala Kumaraswamy lives in Andhra Pradesh and has been cultivating cotton for the past 20 years. He invested heavily in a chemical fertilizer shop, which sold to local farmers on credit but when crops failed his customers weren't able to repay his loans. Despite diversifying into chilly and paddy crops Erukala couldn't repay his own moneylenders. On March 15, 2004, faced with a dismal future, he tried to commit suicide by drinking a chemical, Monocrotophos. Unlike many farmers in Asia and Africa who have taken their lives Erukala survived and is now part of a successful organic cotton growing programme.

Cotton farmers are not generally among the poorest in their own communities, as they either own or are able to rent land, and there is little evidence that they lack the basic necessities of life. Many grow food for their own consumption and look to cotton to provide extra income. However, like many small farmers, they work long hours for poor returns.

Cotton farmers are vulnerable to exploitation by traders, seed merchants, ginneries, input suppliers, agents and moneylenders and their dependence on the market price of cotton, over which they have no control, creates great uncertainty. This vulnerability is reduced when farmers belong to effective societies or cooperatives.

Widespread and increasing use of chemicals, often applied with minimal protection, causes illness and premature death. The World Health Organisation has recorded

200,000 suicides and 20,000 accidental deaths among cotton farmers. The heavy and uncontrolled use of chemicals harms the soil and threatens future livelihoods, as do falling groundwater levels, caused by excessive use of water.

The large numbers of hired or bonded labour, brought in seasonally to work on cotton farms, are among the poorest and most vulnerable groups and generally lack support from any organisations. For example, 450,000 children aged 6-14 years work in the cotton fields of India, employed in cross-pollination, inter-cultivation and harvesting.

Ginning

Traditionally, ginneries, which clean, grade and blend the cotton, take out the seeds (around 65% by weight of the crop), press, bale and stockpile it, are located in cotton growing areas and they form a link between the farmers and the spinning mills. Ginneries may buy cotton directly from farmers or buy from traders and sell on to mills. They are not usually effectively regulated. Ginning requires capital investment in machinery and employs far fewer people than farming. Significant value is gained from the sale of the cotton seed, which can be sold, given on credit back to the farmers for seed next year or used to make cotton seed oil.

The work of a ginnery is seasonal and workers are typically taken on on a casual basis, without any security of employment or protection of rights. Working conditions are usually poor, with work carried out in close proximity to unguarded machinery and with the constant presence of unhealthy dust. The opportunity for any form of worker participation is generally non-existent.

Spinning

Traditional hand spinning is still important in some parts of the world, notably the Indian sub-continent, and is linked to cottage textile industries which involve millions of people but are connected primarily to local markets and domestic use.

In the commercial sector, spinning of cotton lint into yarn is carried out in large industrialised factories. It is highly capital-intensive and relatively few people are employed. It is generally regarded as part of the 'organised sector' of the economy, in which the government takes a close interest and sees as a source of taxation revenue.

Some spinning mills have integrated forwards into fabric and manufacturing, as with 'composite mills' in India, some even establishing their own brands of clothing, but the normal pattern is specialisation just on the spinning operation. As a result, spinners do not exercise much market power. There is over-capacity world wide and profit margins are slender in relation to capital employed.

Conditions for workers in spinning mills are subject to local laws and regulations and the more progressive firms have adopted international standards such as SA8000. Jobs range from highly skilled to labouring and some is undertaken. Unions are normally present but, apart from that, worker participation is limited. There are health risks, from machinery and dust but, generally, jobs compare favourably with those available elsewhere in the local economy.

Manufacturing

The story of Bangladeshi workers in a Namibian textile factory

In September 2004 police were called to the dormitories of the Ramatex factory. 400 unskilled Bangladeshi workers were rioting about their poor living conditions. They had all paid up to \$3500 (often selling all their possessions) to secure their jobs in Namibia. On arrival a third of their salaries had been deducted for food and accommodation. After the riot it was discovered that the company had not applied for visas and that, in any case, Namibia does not grant visas to unskilled workers. The Bangladeshis were sent home, some of them still owing money. As a company, Ramatex contributes 1.5% to the GDP of Namibia.

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Manufacturing of cotton textiles employs the largest numbers of people after farming and public attention has recently focused on producer livelihood issues in large-scale factories ('sweatshops'). Wages in these factories are low, by western standards, and terms of employment poor. Workers can satisfy their basic needs but they may need to work very long hours (80 hour weeks are cited as common).

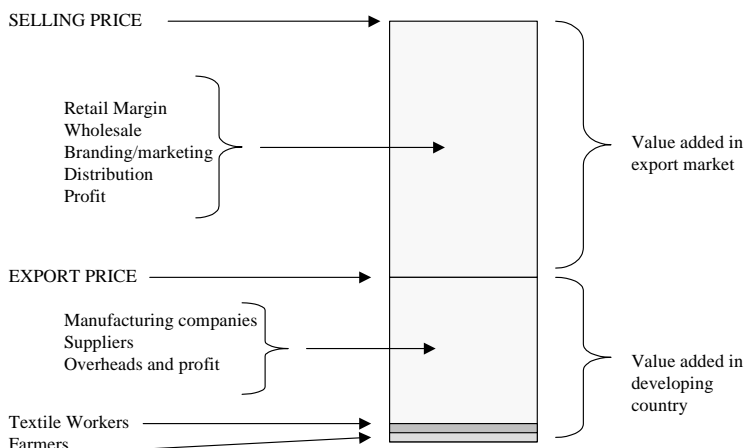
After the brand-owners themselves, manufacturers secure the next biggest share of the value added by the chain. But the business is highly competitive, leading to concentration, specialisation and clustering (as in the Tirupur hosiery cluster in southern India). Basic social standards, such as SA8000, ETI (Ethical Trading Initiative) and the Fair Wear Code, are being introduced in the larger plants. However, compliance is a problem and large parts of manufacturing are not covered by standards at all.

Textile workers are extremely vulnerable. The fear of unemployment, normally without much in the way of social protection, makes workers reluctant to challenge authority and insist on their rights. The majority of workers are women, who face discrimination and, on occasion, sexual harassment.

Workers often have to travel long distances to work, or even find accommodation away from their home, so that participation in the life of their own community suffers. There is a real loss of capability and of indigenous craft traditions when people go away to work in a factory. Children may have to be looked after by relatives or left to cope as best they can and family farms may be neglected. Although some jobs are being created by new manufacturing plants, these are likely to be far less than the jobs being displaced in the traditional (albeit 'inefficient') existing sector of the economy.

Textile workers face sight problems and the risks of RSI and industrialised manufacturing does have an environmental impact – in the use of energy, both for operating factories and for transportation, in the use of other scarce resources, in building plants and in providing the associated infrastructure – which have not been fully assessed.

How the value added for a typical cotton garment is shared



The share of the value that accrues to the textile workers is low. On a typical final product retailing for, say, £15-20 in the UK, the cost of labour would be of the order of 60 pence (3-4%). In some cases it may be lower. Wages are insufficient to allow workers to save or accumulate capital.

Weaving and knitting
Handloom weaving is an important part of cultural and economic life in many

countries and still employs large numbers of people, particularly in the Indian sub-continent, although it is under threat from powerlooms and requires government support for its continued existence.

Traditional weaving in India is controlled by master weavers, who buy the yarn and usually coordinate other processes, such as dyeing. They may enjoy good earnings and the respect of their communities. But the individual weavers have to work very hard for low pay, especially considering the extent of their craft skills. Many use looms provided by the master weaver, and are little more than workers engaged on piece work, often earning below the minimum wage as a reward for long hours.

Powerlooms have taken over as the main production method for woven fabric, as productivity is many times greater compared with handlooms. The sizeable independent powerloom sector in India has, until recently, been regarded as small-scale industry and has not subject to the same legislative control as have larger manufacturers, such as composite mills. Therefore, conditions for workers have been poor, with long working hours, inadequate ventilation, excessive noise and oppressive temperatures. This is now gradually changing with greater upstream control by large manufacturers. The same picture is largely true for mechanised knitting, which is used for producing hosiery articles and jersey cloth, such as for T-shirts.

Processing

Other operations, often carried out separately from manufacturing, include dyeing, sizing and cleaning, plus warping and twisting yarn for handlooms.

Processing is one of the darkest areas of the supply chain and relatively little is known about it. Considerable numbers of people are employed and their conditions are probably poor in most cases, with frequent exposure to chemicals and little in the way of safety precautions. Inappropriate dyes can cause cancer and are very damaging to the environment. In the commercial sector, a few progressive manufacturers are becoming interested in ethical standards in processing, insisting, for example, on Azo-free dyes.

Marketing

Brand owners gain the lion's share of the profits. We have not recorded any cases of producers in cotton and cotton textiles participating in brand ownership.

* * *

The table below gives an indication of the relative scale of the main stages of production. It shows the resources needed to make six million shirts:

	People employed/ full year	Number of individual units	Capital investment equipment (excl land and premises)	Capital investment per person

<u>Farming</u> 6,000 tonnes of raw cotton by small-scale agriculture	12,000	4,000	£900	£0.08
<u>Ginning and pressing</u> 6,000 tonnes of raw cotton producing 2,000 tonnes lint	40	1	£55,000	£1,375
<u>Spinning</u> 2,000 tonnes of cotton lint producing 1,480 tonnes yarn	250	2	£260,000	£1,040
<u>Handloom</u> production of fabric using 1,480 tonnes of yarn, or	10,000	1,000	£500,000	£50
<u>Power loom</u> production of fabric using 1,480 tonnes of yarn	45	1	£800,000	£18,000
<u>Manufacture</u> of 6,000,000 shirts, highly mechanised, or	2,500	4	£260,000	£104
<u>Manufacture</u> of 6,000,000 shirts by small scale methods	5,000	100	£165,000	£33

It is clear from the above table and from the earlier analysis that the livelihood issues producers face differ greatly according to the stage of production and to the type of value chain. Fair Trade interventions therefore need to be carefully targeted.

Current Fair Trade activities and challenges

Fair Trade has long been involved with supporting small-scale producer groups and selling their craft products. Textile products have been handled in much the same way as other handicrafts and mainly concentrated on value added in production such as handloom weaving and decoration/embroidery. The attention of these groups has so far been given to production rather than to the source of the raw materials used. Fair Trade has successfully provided access to markets, ensured decent wages are paid, reduced vulnerability, built capacity and skills – in short, introduced social values.



Traditional textile weavers in Indonesia review their sourcing of cotton

In Indonesia cotton bought on the open market is often found to have up to 30% rayon mixed in with it. The foundation of the FTO Threads of Life organized a 6-day conference in a weaving community in eastern Indonesia for 96 weavers from 15 indigenous communities on 7 islands. The participants' shared mission was: to support, care for and develop the traditional natural-dye ikat weaving culture. Among the shared goals, dye plant and cotton cultivation was the most prominent. Several of the participating communities are planning to re-establish cotton cultivation and there is some barter going on between participants to exchange cotton seed for dye plant materials.

The positive and negative aspects of the way that traditional Fair Trade producer groups operate is covered by the chapter on handicrafts – see page x

Cotton has been certified organic at the farm level for over 20 years. The process of farmers organising themselves to receive organic certification has, in many cases, delivered significant added social value.

Recently Fair Trade labelling has started getting involved in cotton farming. In 2004, FLO issued Fair Trade standards for seed cotton and products carrying Fair Trade labels have been introduced in Switzerland and France. These have provided a springboard for cooperation with mainstream textile manufacturers and brand owners.

Fair Trade has thus established a foothold in cotton and cotton textiles, in two important parts of the chain – farming and small-scale manufacture. Although guided by the same basic principles, the two approaches have, however, been rather different.

The benefits to farmers of working with a cotton farm support service centre

Groups of Indian cotton farmers, mainly in northern India, have for some years been using Agrocel, a technical support service. Agrocel helps farmers convert to sustainable methods and produce cotton using integrated production methods, including organic and Fair Trade.

A report commissioned by Agrocel and its partners from the consultancy firm DMM reveals that, of the farmers who have been working with the dedicated cotton technical support service for three years or more, 100% observed an improvement in their health. On average, they realised 14 to 20% higher income as a result of conversion. 86% of the farmers experienced improved soil quality and 96% of them had a reduction in financial hardship. These benefits are attributed to the technical and financial support provided by Agrocel.

Fair Trade in the Market

While Fair Trade maintains its own supply networks and retail outlets it can keep its principles ‘pure’ and insist on its own way of doing business, but it is restricted to a limited marketplace. When Fair Trade comes out of its niche, responding to a desire to achieving a wider impact, various issues of adjustment and compromise arise.

The mass textile market presents a formidably difficult environment for Fair Trade. Volumes are high, price competition is fierce and the value chain has to concentrate on large-scale operations, manage for maximum efficiency, exert tight quality control and run on a low cost base. Cotton requirements are large and unpredictable. Brand-owners are interested in a ‘clean’ supply chain in order to avoid adverse publicity but the scope for building real social values is limited, particularly if it involves added cost.

There is interest among major brand owners in Fair Trade cotton fibre. The dilemma for Fair Trade is whether the raw cotton element is enough to warrant the status of Fair Trade. The value that the fibre adds to the final product is generally less than 5% and may be less than 1%.

Hand Woven Niche Market



Artisan Hut produces unique hand woven garments and bedding for Fair Trade Customers. Abdus Salam, a traditional weaver who joined Artisan Hut in 2002, says:

'Artisan Hut gives us commitment and understands our product and how it is sold.. We produce unusual and exclusive fabrics and because we can do 500 to 1000 meters of fabric at a time, machine-made cloth can't compete. Our orders are increasing and our fabrics are selling in UK, US and Japan. Other small groups are trying to copy our success'.

It may prove easier to find good opportunities in more specialised areas, such as 'value add' mainstream markets, where volumes are lower, products are more clearly differentiated and higher margins generally prevail. A recent report estimated that value add products, such as fashion items and accessories, account for around 25-30% of world trade in garments. There are problems here too in connecting upstream to the raw cotton because of the difficulty in forecasting demand, short lead times and quick turn-rounds. But it may be possible to find suitable commercial partners with strong social values willing to tackle these problems, as FTOs in France and Holland are now doing, although some adaptation of traditional Fair Trade practice will be essential.

The best prospects for Fair Trade partnership with conventional business may lie in integrated chains, which potentially offer the prospect of benefits to both farmers and textile workers and create a more powerful message for consumers.

Domestic and regional markets for cotton textiles in the south are growing rapidly and must be taken into account. There is evidence that the position of

producer groups is more secure if they have access to local and national as well as export markets.

Although still in its early days, it seems clear that relationships with conventional business can be uneasy as Fair Trade seeks to build constructive partnerships at the same time as it continues to criticise business practices.

Challenges facing Fair Trade in cotton and cotton textiles

It seems clear that Fair Trade has to engage with mainstream companies if it wishes to make a bigger impact. But, in doing so, it faces a number of challenges:

- a) Resolving the problem of identity The complexity of the industry and the dual significance of cotton as: (a) an agricultural crop, grown by millions of small-scale farmers in developing countries; and (b) a constituent part of a variety of manufactured products, has led to confusion about what Fair Trade is, or should be. Ground rules that can be applied throughout the value chain are needed
- b) Defining precisely what constitutes a Fair Trade textile product Arising out of the problem of identity is the challenge of agreeing a practical working definition of what a Fair Trade product is. The following basic concept is put forward as a basis for further discussion. To qualify for Fair Trade recognition a product would have to meet two conditions:

- Concrete evidence of real social value added (ie, well beyond minimum standards, in line with the social needs approach outlined earlier) in at least one major part of the chain; and
 - A ‘clean’ supply chain (ie, one that meets minimum social standards throughout)
- c) Developing a global strategy, aimed at significantly increasing the scale and visibility of Fair Trade in cotton and cotton textiles Fair Trade organisations in various European countries have recently taken rather different routes, due to different perceptions in each national market of the opportunities for Fair Trade. National initiatives need to be coordinated more closely, without imposing conformity, and best practice needs to be shared
- d) Increasing scale and production capacity The introduction of the Fair Trade label for seed cotton potentially opens up the possibility of a dramatic scaling up of volume, although meeting demand will place strains on the capacity of farmers’ groups to deliver. Scaling up Fair Trade manufacture will be more difficult. There is a need to establish a ‘critical mass’ of production capacity, capable of delivering the volume and quality required by mainstream customers on a consistent basis.
- e) Establishing clusters Working with small-scale basic production units, the only way that volume can be delivered is through some form of clustering, so that isolated producer groups don’t have to struggle on their own. The ideal cluster model is geographical, where groups of producers can rub shoulders, learn from each other and specialise. There are plenty of examples in the commercial sector of successful clusters, including in textiles, and some in some Fair Trade products.



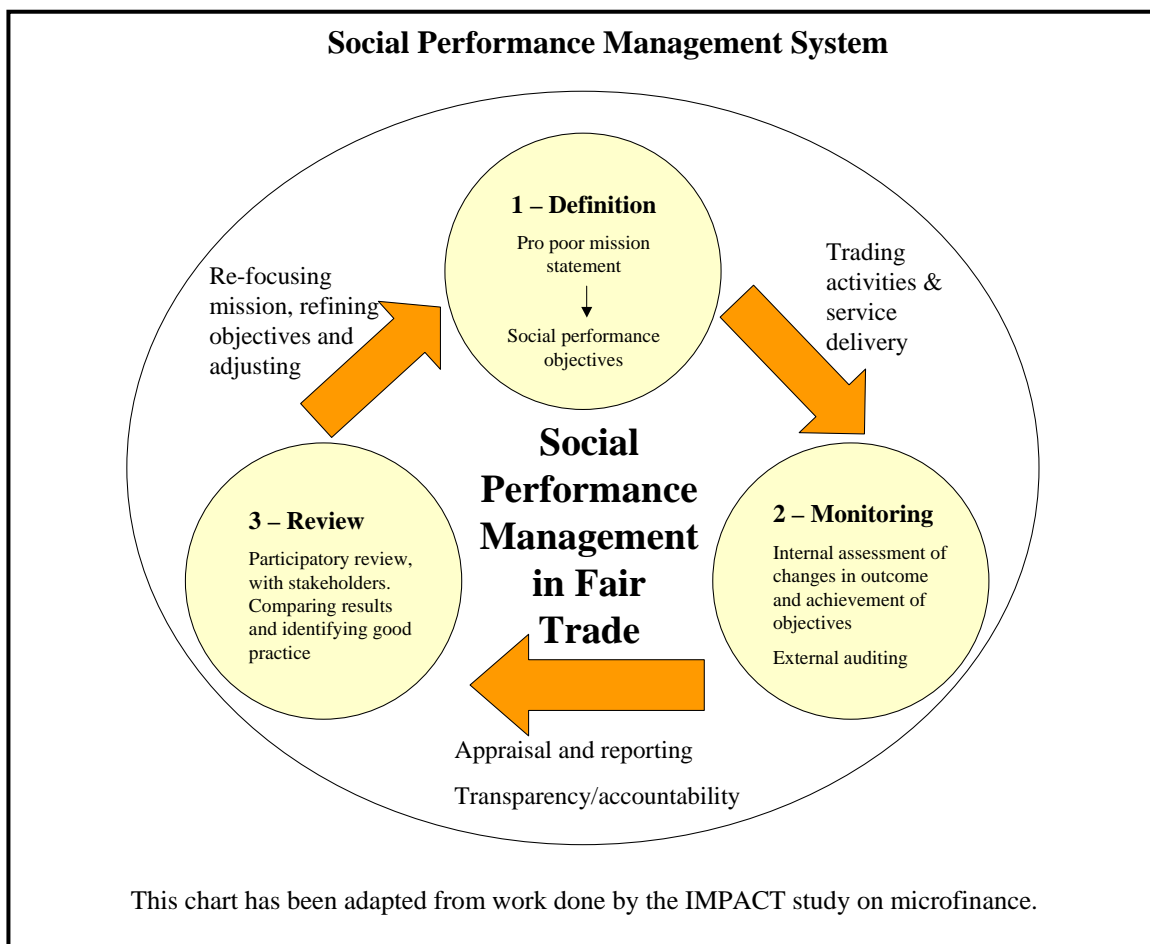
***By working together, small specialised producers
groups can reach export markets***

Designed by People Tree, with the yarn woven by one small Fair Trade producer group, the cloth printed by another and finally tailored by a third, this dress was exported to the UK with the help and expertise of Sasha, a co-ordinating umbrella FTO. The groups would not have been able to reach the export market individually but, by working together with an umbrella FTO, export was possible. The buyer emphasised the importance of working directly with the producing FTOs, rather than relying on the umbrella FTO for everything, so that the capacity of each of the producing FTOs grows along with the capacity of the umbrella FTO.

- f) Improving management capacity With increased scale and ambition will come the need for more professional Fair Trade management, grounded in knowledge of the textile industry. The way production is organised will have to be rethought in order to respond to new

commercial demands (eg, larger volumes, shorter lead times) and resolve existing difficulties (eg, distribution and marketing, product design, pricing, quality control). Larger business units, based on clusters of small production units, will be able to attract management talent and afford the specialised services that producers need.

- g) Developing new sources of funding All new business enterprises need funding – for seed capital, development finance, capital investment, working capital and so on. Social enterprises have a particular requirement, since their return on investment is likely to be lower and delayed longer than in the case of a conventional business. Making a bigger impact and partnering with conventional businesses is going to require increased funding, for which professionally-prepared business plans are a prerequisite.
- h) Introducing social performance management Social performance management –ie, a system for measuring progress towards the achievement of a Fair Trade organisation’s social mission – will be essential for funders. It is also a healthy exercise for all Fair Trade organisations to undertake, even if they don’t require external funding. Although the need for performance monitoring is recognised in the present IFAT system further development is needed before this system is fully effective.



- i) Sharpening understanding of consumer attitudes Many consumers are now used to seeing Fair Trade coffee, bananas etc on the shelves of their local supermarket. They probably think

that Fair Trade is essentially about ‘a better deal for the farmer’. But will this perception extend to garments and other products made from cotton? Will consumers be as much, if not more, concerned about the conditions of manufacture? Vigorous campaigns over many years have established some consumer awareness of health and social issues in food, thus allowing a premium to be charged for organic and Fair Trade items. However, the same awareness does not yet exist in clothing and textiles. How easy will it be to establish a ‘Fair Trade premium’? More research on consumer attitudes and perceptions is needed.

- j) Reconciling process with standards A number of different social standards for manufacturing (not just of textiles) already exist, some of which have labels associated with them. There are also several different environmental standards. Fair Trade labelling therefore has to live in a confusing environment. But Fair Trade is not simply a matter of meeting standards. It has more to do with establishing a process for ‘empowering’ producers. Linking standards and process is recognised in the FLO standards for seed cotton as well as in the IFAT guidelines and the challenge of reconciling the two approaches is reflected in the Quality Management project already underway.

If the needs-based approach outlined earlier represents a broad long-term view of Fair Trade as a means of empowering producers then the standards approach can be seen as representing certain selected, measurable, criteria that must be met in the short term for engagement in mainstream markets.

- k) Broadening the advocacy agenda Fair Trade has had some success in drawing attention to inequities in the global trading system for cotton, as for other agricultural products. It has also highlighted unfairnesses in the way that the global textile industry actually operates. But a stronger, more comprehensive, case needs to be made, and one that goes beyond simply criticising business practice and attacking globalisation. The adverse impacts of the ‘rules of the game’ throughout the value chain need to be highlighted and a more holistic view of Fair Trade presented.

Taken together, these challenges form a big agenda for the Fair Trade movement, which will take many years to tackle. In the meantime, where should Fair Trade be focusing its efforts?

Areas of Opportunity

There are several places in the cotton and cotton textiles value chain where Fair Trade is already active and others where its pro-poor approach would appear to have immediate relevance. We call these ‘areas of opportunity’:

Strengthening and scaling up existing integrated Fair Trade value chains Integrated chains offer the best opportunities, both for cotton producers and for textile workers. Mutual dependence empowers them and, more importantly, ties them to organisations with a real interest in their welfare. Examples of innovative enterprises using integrated chains include People Tree, Gossypium, Bishopston, Remei/BioRe, MacDonald and Taylor and Katherine Hamnett.

These provide powerful models and come closest to the realisation of 'fair trade throughout the chain'. Most of them, however, remain small and face major challenges including: identifying potential markets that take them beyond their 'niche', balancing supply and demand, pricing competitively when volumes are low and so on.

Social enterprises face particular management challenges in that they have to tackle all the normal commercial problems of small companies, together with additional complications that derive from their social mission. This places special demands on both leadership and day-to-day administration. So support is needed, especially in the early years.

Growing and extending the impact of existing Fair Trade producer groups Opportunities to increase sales through established Fair Trade networks would appear to depend on increased marketing activity. The expansion of Artisans du Monde shops in France and the planned opening of dedicated clothing retail outlets by Magasins du Monde, Belgium and by Fair Trade Company, Japan, are encouraging.



An Indian Fair Trade value chain

Bishopston Trading is a UK company dedicated to selling the products made at KV Kuppam, a village in southern India. At KV Kuppam cotton fabric is woven using handlooms and made up into clothing and household items. A few years ago KV Kuppam switched from buying cotton on the open market to sourcing organic cotton direct. Although a very large financial advance was necessary, the cotton was no more expensive than conventional cotton bought on the open market and the quality was better. Bishopston's supply chain now has 100% visibility from farmer to customer and is a good example of an integrated chain.

The difficulties that have been experienced by many FTOs in selling products made by traditional producer groups to mainstream markets is a reflection of fundamental differences in philosophy and practice between Fair Trade and mainstream business. Production capacity and response time of Fair Trade has to increase and management systems move closer to the commercial model before this becomes a promising avenue. Alternatively, Fair Trade values can be strengthened by extending into more parts of the value chain, such as sourcing of Fair Trade cotton fibre, and paying more attention to dyeing and other processing activities.

Encouraging mainstream brand owners to use the new Fair Trade seed cotton label It is too soon to evaluate the new initiatives of Max Havelaar in Switzerland and in France. Early signs are encouraging the hope that this will enable Fair Trade to dramatically increase its profile in the industry. Their experience, and that of the Fair Trade Foundation in the UK, will enable the movement to judge whether the benefits to farmers outweigh the possible dilution of the Fair Trade concept, as feared by some people.

Encouraging small farmers to form cooperatives, societies or producer groups Participation in cooperatives or societies offers farmers more bargaining power, the opportunity to learn from each other and the sharing of services. This reduces their vulnerability, facilitates training and helps access to microfinance, health care and other services. By controlling the ginning process they can better assure quality and gain access to the added value of cotton seed oil. The paucity of well-established and democratically-accountable farmers' organisations in many parts of the world makes this a promising area for future Fair Trade activity.

Some of the cotton producers, manufactures, retailers and integrated chains studied for this publication

Gossypium
Levi Strauss
MacDonald and Taylor
People Tree
Remei/bioRe
TUDO BOM
Twin trading
Made-by
Agrocel
Ecotrading
ENDO
HOFA
Maikaal
Oro Blanco
WOLICAMI Initiative
Yassin Enterprises
Artisans du Monde
Armor Lux
Magasins du Monde
Clean Clothes Fair War
Artisan Hut
Assisi
Craft Aid
Dezign Inc
Marks and Spencer
Pantaloons
Prem/Switcher
RTU
Teddy Exports
K V Kuppan
Fabindia

Encouraging small-scale textile producers to form groups and for groups to get together in clusters The clustering arguments for farmers also apply to small producer groups. Small producers can only be helped if they form groups. Experience in the commercial sector also illustrates the value of clusters in allowing enterprises to learn, share scarce resources, specialise and strengthen marketing.

Fair Trade could play an important role in facilitating the formation of groups and clusters and supporting them in the early stages. Umbrella organisations, specialising in textiles, are undoubtedly required and their role will evolve as the capabilities of the producers themselves increase. Even in the large commercial cluster in Tirupur, where all producers deal direct with their customers, collective organisations still play a valuable role in dealing with the government and other agencies, arranging trade fairs, improving infrastructure and a host of other activities.

Establishing new Fair Trade enterprises and brands There is a strong need to encourage more Fair Trade enterprises to form. Is enough being done to assist in the conception and delivery of such new business enterprises, whether fully integrated chains or just individual producer groups? Is new entrepreneurial talent being attracted into Fair Trade and being given support? Are plans being laid for new Fair Trade brands, including producer participation, such as with the Day Chocolate Company?

Investigating new markets for high value-add Fair Trade products An alternative approach is to partner with a mainstream value-add brand owner and develop a genuine 'Fair Trade product' jointly with them but under their brand name. This market-oriented approach positions Fair Trade as a facilitator in assuring the delivery of real social value to the producer. Following this line are: Made-by in the Netherlands, a project involving Oxfam and Twin Trading, UK and CTM Italy, and plans by Magasins du Monde, Belgium

Improving practice in mainstream value chains through ‘technical partnership’ Many mainstream companies are worried about whether their supply chains are ‘clean’ and are looking for some form of improved quality assurance. Some want to go further – to trade on the basis of enhanced social values. The larger companies are taking responsibility themselves but smaller companies with more limited resources are finding it difficult to do this themselves. Both categories may potentially be interested in partnerships with Fair Trade organisations to help them understand social issues and deliver social value.

* * *

It may not be possible to pursue all these opportunity areas simultaneously so choices may have to be made on priority and timing.

Main conclusions

Briefly summarising the main points from the previous sections:

There is an urgent need for fairer trade in cotton and cotton textiles throughout the value chain. Producers are at the mercy of market forces, operating in complex supply chains, over which they have little or no control. They gain a pitifully small share of value added at all stages and social values in most supply chains are weak or non-existent. Economic value is overwhelmingly captured by brand owners, large manufacturers and traders. Although more of the value added is retained in developing countries than with many other products, it goes to relatively few people, thereby exacerbating inequality and perpetuating poverty.

Although some of the livelihood problems producers face have been well publicised, some are still hidden, including hired labour on farms and workers engaged in processing. There is an urgent need to raise awareness of the scale of the problems as a whole and for Fair Trade to come up with a joined-up response in order to sharpen its advocacy. The industry is changing rapidly in response to powerful competitive pressures. Consumers have been benefiting hugely from increases in productivity but little of this benefit is feeding through to producers.

The total impact of globalisation in cotton and cotton textiles is greater than its effects on the livelihoods of individual producers. It is destroying millions of jobs as well as creating a smaller number of new ones, it is tearing the heart out of existing communities without establishing viable new social structures and it is having significant effects, not yet estimated, on the environment.

Although still operating on a tiny scale in cotton and cotton textiles, Fair Trade has made some interesting initiatives and there is growing interest on the part of consumers in ethical issues, although more consumer research is needed. The introduction of Fair Trade standards in seed cotton, together with its long experience in small-scale manufacturing, present a great opportunity at a time when mainstream business appears to be receptive to improving social conditions in their supply chains.

To take advantage of this opportunity, Fair Trade has to clarify its thinking, especially in the areas where it can add real social value, recognising the complex nature of social needs. It also needs to make the adjustments required to meet commercial demands in mainstream markets and to become more professional in its management approach.

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