



## **Growing Inclusive Markets**

Business Works for Development • Development Works for Business

CASE STUDY

Sub-Saharan Africa • Mali

### **Fair Trade Cotton in Mali**

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Sector • Agriculture

Enterprise Class • Small farmers, NGO & large Northern companies



## Summary

In West and Central Africa, cotton represents the main source of income for 20 million people and amounts to up to 60 percent of national export earnings. The West and Central African region produces about 16 percent of the world's cotton and is the 5<sup>th</sup> largest world exporter after the United States, China, India and Uzbekistan. Since 1999, African producers have suffered from successive price decreases. When they grow cotton, there are no guarantees that the selling prices will allow them to get a return on investments and make up for the costs of production. Most of the time, African producers work with old-fashioned tools on family plots. In the world market, they face the harsh competition of highly subsidized cotton producers from rich countries. Often, African cotton farmers don't benefit from the advantages and opportunities offered by international trade. This case discusses fair trade cotton initiatives helping poor Malian farmers sustain their production and earn substantial revenues. This is possible thanks to the fair trade NGO Fairtrade Labelling Organizations International (FLO), its French member Max Havelaar France and European clothing retailers such as France's Armor-Lux.

## Background

One of the world's oldest commercial crops, cotton, has been cultivated in Africa for over 5,000 years, beginning in the Nile Valley.<sup>1</sup> Globally, more than 70 countries produce and export cotton, but the largest producers are China (producing 6.3 Mt of raw cotton representing 24 percent of global production), the United States (5.1 Mt, 19 percent), India (4.1 Mt, 16 percent), Pakistan (2.5 Mt, ten percent) and Brazil (1.2 Mt, five percent).<sup>2</sup> Three of the major producers (China, India and Pakistan) do not export cotton in any significant quantities, and approximately one-third of cotton production (with an export value of US\$8 billion) is traded internationally. The three dominant exporters, the United States, Uzbekistan and Australia, account for over 50 percent of world exports. West and Central African countries<sup>3</sup> account for approximately 15 percent of global cotton exports. Mali is the largest cotton producer in the region.

Cotton production in West and Central African countries grew rapidly in the 1980s, responding to International Monetary Fund and World Bank structural adjustment incentives. Between 1980 and 1990, cotton production in the region tripled and then doubled again by 2001.<sup>4</sup>

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<sup>1</sup> At this time cotton was also cultivated in India and was present in Peru.

<sup>2</sup> Data from the 2003/2004 season cited in Kooistra, K., and Termorshuizen, A., (2006). *The Sustainability of Cotton: Consequences for Man and Environment*. Wageningen University, April.

<sup>3</sup> West and Central African cotton producing countries include Mali, Burkina Faso, Benin, Cameroon, Chad, Cote d'Ivoire, Togo, Senegal, Central African Republic and Niger.

<sup>4</sup> Veenstra, R., (2005). Cotton in Mali: The Seeds of Discontent. *Sankofa*, Vol 5, No 2. Winter 2005/2006, page 5.



In Mali, as in other African countries, the rapid expansion of cotton production was accompanied by a rapid decline in cotton prices, from US\$3.00 to US\$0.80 per kilo from 1980 to 2001.<sup>5</sup> Subsidies to US, European and Chinese cotton producers contributed to decreasing prices to a point where many Malian farmers were selling their cotton below the cost of production. In Mali, as in other West African countries such as Burkina Faso and Benin (see map, Figure 1), cotton production accounts for over 30 percent of national export income and between four percent and seven percent of the Gross Domestic Product (GDP).<sup>6</sup> In the West and Central African region, cotton represents the main source of income for 20 million people, who often have few other sources of income and employment. The depressed cotton price, therefore, has a significant impact on both small cotton farmers and the national economies of countries in the region.

## Subsidies

Although part of the overall long-term decline in cotton prices can be attributed to factors such as reduction in production costs due to technological advances, slow demand growth and competition from synthetic fibres, a major contributing factor has been subsidies by the United States, the European Union and China. In the US, cotton producers receive annual subsidies of US\$4.2 billion;<sup>7</sup> EU cotton producers received US\$1 billion;<sup>8</sup> and Chinese producers receive US\$1.2 billion annually in subsidies. These, and other, governments often use subsidies as a way of protecting domestic producers. In the US and EU, these subsidies can be highly politicized and supported by powerful economic lobbying groups.<sup>9</sup>

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<sup>5</sup> Ibid.

<sup>6</sup> Baffles, J. (2004). *Brazil vs US : Cotton Subsidies and Implications for Development*. Trade Note 16. World Bank, Washington DC : July.

<sup>7</sup> Data for the 2004/2005 season. US producers receive subsidies almost equivalent to the total value of their crop, suggesting that much of US production may not be economical without subsidies. Cited in *Redressing a Global Imbalance : The Case for Fair Trade Cotton*, 2005. London : The FairTrade Foundation.

<sup>8</sup> EU cotton producers are located in Spain and Greece. European farmers produce only 2.5% of the world's cotton but receive 17% of world cotton subsidies. Cited in *Redressing a Global Imbalance : The Case for Fair Trade Cotton*, 2005. London : The FairTrade Foundation.

<sup>9</sup> *Redressing a Global Imbalance : The Case for Fair Trade Cotton*, 2005. London : The FairTrade Foundation.

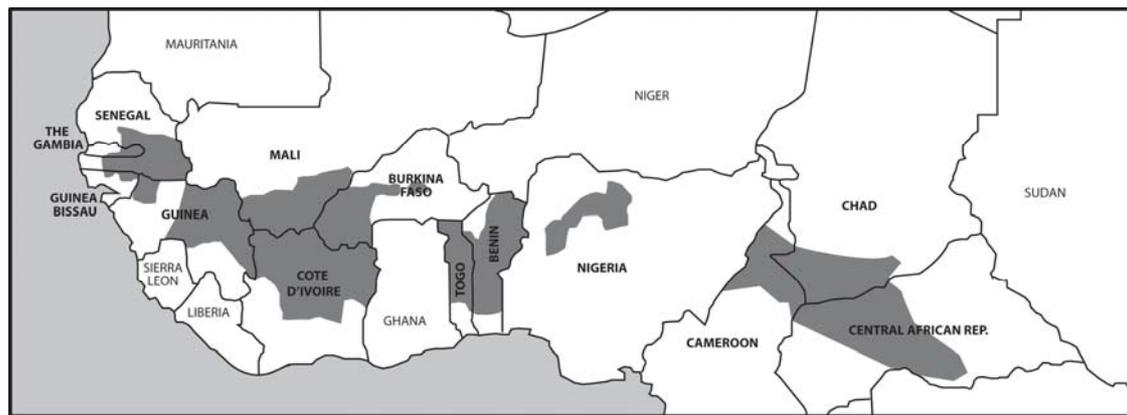


Figure 1: West and Central African Cotton Producing Regions (grey areas) (Source: UNDP)

## World Trade Organization (WTO) Challenges

In September 2002, Brazil became the first to initiate a formal complaint under the WTO dispute process about US cotton subsidies, arguing that they depressed world prices and were directly harmful to cotton growers. One year later, in September 2003, Mali, Burkina Faso, Benin and Chad joined Brazil's WTO complaint. In March 2005, the WTO Dispute Settlement Body found that US subsidies were indeed contravening WTO rules.<sup>10</sup> In particular, the WTO ruled that:

- US domestic subsidies had a significant price suppressing effect (by approximately four percent) which seriously undermined the value of cotton for all producers
- The US had used hidden export subsidies to circumvent its WTO commitment to reduce such subsidies.
- Other US subsidies were misrepresented as non-trade-distorting when in fact they were.

However, since this ruling, the United States has done little to change its policies and practices.

## Mali

Mali is a poor country, located in the heart of West Africa, with a United Nations Human Development Index ranking of 175 out of 177 countries in 2006.<sup>11</sup> Life expectancy in Mali is 48 years. Only 19 percent of the population is literate. However, despite severe constraints, Mali displays great dynamism, and Malians are known for their business sense and craftsmanship. Also, after previous currency devaluations in the early 1990s, the country has shown promising macro-economic and financial performance.

<sup>10</sup> World Trade Organization (2005). *United States – Subsidies on Upland Cotton – Ab-2004-5 – report of the Appellate Body*. WT/DS267AB/R. WTO, Geneva, March.

<sup>11</sup> 2006 Human Development Report



The government of Mali is currently embarking on a phase of sustainable development in order to reduce poverty. The guidelines for these policies can be found in the government's Strategy for Accelerated Growth by the Year 2010 and its Poverty Reduction Strategy.<sup>12</sup> The Strategy for Accelerated Growth lists one of its four top priorities as "*the promotion of competitive export farming sectors*" including cotton. One of the eight priorities of the National Poverty Reduction Strategy is promoting "*income-generating activities and self-employment in favor of the poor.*"

## **COTTON PRODUCTION IN MALI**

The West and Central African region is the world's fifth largest cotton exporter. In Mali, as in other West and Central African cotton-producing countries, farmers have average land holdings of two to five hectares and make approximately CFA 150,000 (US\$400) per year. Farmers typically grow cotton on family plots and reap it manually with low cost labour. However, with successive price falls, when Malian farmers grow cotton they do not have any guarantee that their selling price will allow them to get a return on investment and make up for the amounts they have invested in inputs.

## **IMPACTS OF SUBSIDIES**

Countries in West and Central Africa like Mali do not have the resources to subsidize their cotton farmers. Several research studies have attempted to quantify the financial impact of cotton subsidies on world cotton prices and production. For example, a study by the International Cotton Advisory Committee estimated that the elimination of subsidies would result in a 15 percent increase in world cotton prices.<sup>13</sup> Another study by the Overseas Development Institute found that reducing subsidies would increase the income of poor countries and their poor producers.<sup>14</sup>

## **Fair Trade Intervention and Partnership**

Therefore, higher incomes from cotton production in West and Central African countries like Mali would contribute to poverty alleviation, especially in the many situations where alternative economic opportunities were relatively scarce.

Given this situation, the federation Fairtrade Labelling Organizations International (FLO) and its French member Max Havelaar France, a number of French, Belgian, Swiss and UK clothing retailers (such as French clothing manufacturer and retailer Armor Lux) and other partners have committed themselves to pursuing a fair trade partnership which aims to bring improved incomes and more sustainable practices to cotton production in Mali and other countries in the region. The collaborating partners include the following:

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<sup>12</sup> IMF country report 03/39 February 2003 <http://www.imf.org/external/pubs/ft/scr/2003/cr0339.pdf>

<sup>13</sup> International Cotton Advisory Committee (2003). *World Cotton Trade*. ICAC, Washington DC: September.

<sup>14</sup> Gilson, I., Poulton, C., Balcombe, K., and Page, S. (2004). *Understanding the Impact of Cotton Subsidies on Developing Countries*. Working Paper. ODI, London: May.



## **Fairtrade Labelling Organizations International (FLO)**

The international fair trade certification and labelling organization independently establishes fair trade standards for many food and non-food items<sup>15</sup> produced in developing countries and organizes the fair trade certification process. FLO is an international federation, the umbrella organization of national fair trade labelling initiatives that exist in 20 western countries in Europe, North America and Asia.

## **Max Havelaar**

An NGO that is responsible for fair trade labelling in France (i.e. sensitization of consumers and support of the industry and the distributors to increase the offer of FairTrade certified products). Max Havelaar is, in turn, a member of the Fairtrade Labelling Organizations International (FLO). FLO and Max Havelaar neither buy nor sell fair trade products, but instead they ensure that those products that carry their FairTrade label are guaranteed to be produced according to their social, environmental and economic principles (see Appendix A).

## **Dagris**

Développement agricole et industriel du Sud or Southern Agricultural and Industrial Development is the new name for the French Textile Development Company CFDT. This company, mostly publicly financed, was created in 1949 to help both overseas development and access to raw materials needed by France. After colonial independence, the CFDT became a cooperative enterprise led by the French government to assist national cotton industries.

## **The Malian Company for Textile Development and other Malian cotton growing companies**

### **The French Ministry of Foreign Affairs**

The Ministry has set up a solidarity fund within former French colonies for fair trade. This fund is a new instrument in French diplomacy to assist with poverty reduction strategies in French speaking countries.

### **The Business Development Center**

The Center is a joint entity formed by Africa-Caribbean-Pacific (ACP) and the European Union for the purpose of addressing the crises within the cotton sector in Africa.

### **European Clothing Manufacturers and Retailers**

This partner also includes brands such as Armor Lux, Kindy, Celio, Redoute, Cora, Hacot, Colombier, Eider duck, Hydra and TDV Industries.

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<sup>15</sup> Currently, the FairTrade certification system has been developed for a variety of food and non-food products including coffee, tea, sugar, coca, fresh fruit and fruit juices (including bananas, mangos, oranges, apples, avocados), honey, herbs and spices, nuts, rice, flowers, sports balls, wines and beer.



## The Fair Trade System

The Fair Trade approach is conceived as an alternative to conventional international trade. It is a commercial partnership that concentrates on sustainable development for disadvantaged farmers and producers in developing countries by proposing improved commercial conditions and guaranteed prices above the costs of production.

As part of the fair trade system, cotton producers are paid a guaranteed minimum price to the farmer which references the cost of sustainable production at the farm gate level in each country. In Mali, for example, the fair trade price for cotton is 0.41 euros/kg of raw cotton,<sup>16</sup> which can be further broken down as follows: a minimum guaranteed price to the producer of 0.36 euros/kg plus a development premium to the producers' association of 0.05 euros/kg. The fair trade premium of 0.05 euros/kg is paid to the farmer's organization or co-op. This money can be spent as decided democratically by the farmers, but it often goes towards community projects, business development initiatives or environmental protection schemes. Since cotton prices can be volatile, if the international market price goes higher than the fair trade price, the international market price applies.

Fairtrade Labelling Organization along with Max Havelaar France and the other members of FLO<sup>17</sup> use a systematic supply chain certification and product labelling process to guarantee to the consumer in developed countries that the product they are purchasing has been produced according to fair trade standards. FLO explains that its FairTrade mark on a product guarantees the following:

- Farmers receive a fair and stable price for their products
- Farmers have the opportunity to improve their lives
- Greater respect for the environment
- A closer link between shoppers and producers
- Small farmers have a stronger position in world markets<sup>18</sup>



Figure 2: An ad that includes the FairTrade Mark

See Figure 2 for an example of the FairTrade mark. FLO, Max Havelaar and their partners use their fair trade mark on a variety of food and non-food products. Cotton was added to the list of certified products in 2004.

<sup>16</sup> Also known as seed cotton, this is the cotton boll that consists of the seeds with the fibre attached as it is harvested from the cotton plant.

<sup>17</sup> These exist in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, UK, USA

<sup>18</sup> *Redressing a Global Imbalance: The Case for Fair Trade Cotton*, 2005. London: The FairTrade Foundation.



Fair trade cotton aims to provide improved incomes to Malian cotton producers and social and environmental benefits to their communities through the following ways:

### **A fair business relation to foster economic development**

Fair trade guarantees a minimum price and more favorable selling conditions. With fair trade prices, cotton producers have an opportunity to free themselves from market fluctuations and low prices. The negotiated fair trade price is guaranteed for the long-term and enables underprivileged producers to sell at a price that at least covers their input costs.

### **Organized structures to increase competitiveness in the market**

Fair trade helps producer organizations establish efficient, transparent and democratic organizational structures (for example, producer co-ops).

### **Economic and social development**

In addition to a guaranteed price for their products, producers' organizations receive a development premium to finance social, equipment and training projects. The producers decide in a transparent way how the development premium should be spent in the best interest of the organization and the community. In some of the producer organizations, women hold executive positions.

### **Environmental protection**

Under FLO's fair trade standards, chemical products are progressively replaced by biological methods. Genetically modified crops are excluded and actions are taken to improve the quality of the natural environment. Producers engaged in fair trade cotton are committed to respecting the environment and are prohibited from using any of 118 pesticides identified as dangerous. Soil enrichment and the protection of the crops are achieved by natural fertilizers and pesticide treatments.

The ultimate purpose of FLO's FairTrade mark and certification system is to “*assist disadvantaged producers in the developing world to improve their social and economic position through improved market access, information and terms of trade.*”<sup>19</sup> The FairTrade mark also helps raise awareness among developed country consumers, helping them make informed purchasing choices. In addition, it can be a tool for influencing companies in the developed world to develop improved trading relationships with their developing country suppliers. In the case of fair trade cotton, a number of European clothing manufacturers and retailers have responded enthusiastically to the new fair trade cotton initiative.

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<sup>19</sup> *Redressing a Global Imbalance : The Case for Fair Trade Cotton*, 2005. London : The FairTrade Foundation. Page 2.



## Evolution of the Supply Chain

One of the first steps in the process of establishing a fair trade supply chain for cotton from Mali and other African countries to Europe was the initial collaboration between Max Havelaar France (the beginning leader of the project in the name of FLO) and Dagrís, the French textile and agricultural development agency. In the late 1990s and early 2000s, the two organizations worked together to identify the capacity of Malian and other African cotton producers and, with the Malian Company for Textile Development, provided technical support to African farmers, especially in terms of improving the quality of the cotton fiber.

At the same time, the various actors and parts of the cotton supply chain had to be identified from the producer to the distributor. The national federations of cotton producers in Mali and other countries were assigned the task of helping to define the fair trade selection criteria to identify eligible producers. These criteria included democratically running groups, demonstrating good management and governance and showing respect for the environment.

Research and development experts from Max Havelaar and officials from Dagrís also studied the costs of production and farmers' living conditions with cotton producers and their industry federations, and it was determined that a fair trade purchasing price for cotton could enable producers to cover the production costs and help them earn a decent living. The purchasing price sought to support the cotton producers in a sustainable way, while minimizing the risks of unfair competition.

In 2002, FLO and Max Havelaar France went on an inspection mission in Mali, Senegal and Cameroon to certify producers' groups. In April 2004, the fair trade standards were officially approved by FLO. In April 2005, four cotton producer groups were FairTrade certified (increasing to 16 cooperative groups by 2006). At the same time, FLO and Max Havelaar France informed manufacturers in the cotton sector of Europe that fair trade cotton-based products would soon be available in the marketplace.

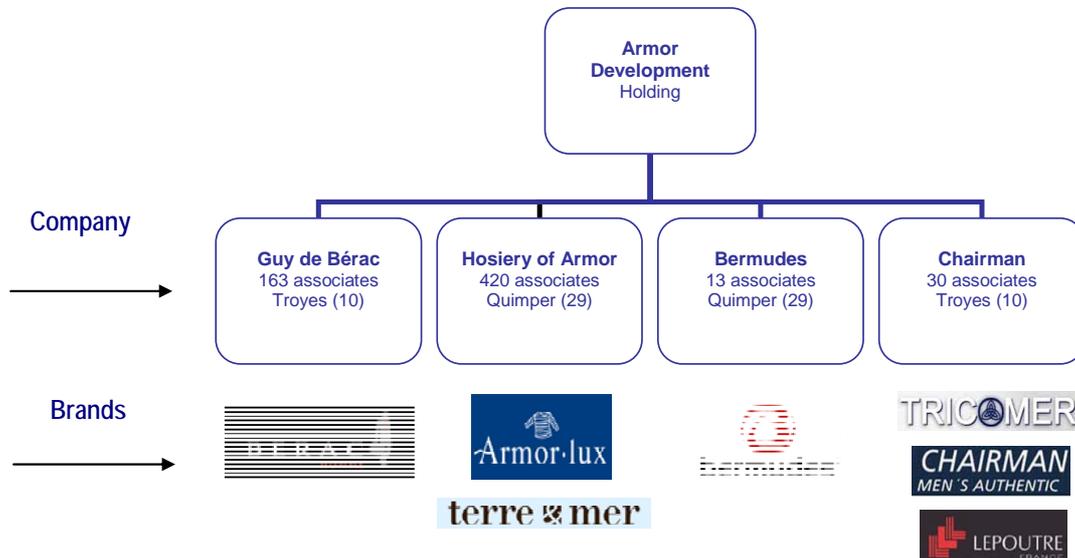
Then, in 2005, Armor-Lux arrived on the scene as one of the European retailers with a commitment to conducting commerce in a way that seeks to achieve equity in business relations with small underprivileged producers. Armor-Lux launched a plan to make and sell textile items in fair trade cotton with the FairTrade label.

## Armor-Lux

Armor-Lux is a French clothing company that was established in 1938. Armor-Lux is one of four clothing companies held by its parent holding company, Armor Development Holding (see Figure 3, below).



**Figure 3: Armor-Lux and the Companies of Armor Development Holding**



Armor-Lux produces clothing for the fashion industry and government agencies such as the French Postal Service. The company is known for using quality textiles and for its leadership in socially responsible business practices. Today, 650 people work for the entire group of companies at three industrial sites at Quimper (Finistere) and Troyes (Aube) in France. The group sells five million pieces of clothing each year and has a turnover of six million euros. Eighty-five percent of the company's products are sold in France.

### **ARMOR-LUX'S SUSTAINABLE DEVELOPMENT STRATEGY**

Offering lines of clothing made with FairTrade certified cotton was a consistent fit with Armor-Lux's existing culture of social responsibility and sustainable business practices. Armor-Lux's sustainable development strategy is rooted in four main pillars:

#### **Social Accountability**

Armor-Lux is committed to respecting fundamental human rights such as freedom of association, the elimination of any forms of forced or mandatory labour, the elimination of all kinds of discrimination in terms of hiring, and the effective abolition of the worst forms of child labour. Armor-Lux conducts social audits based on the SA 8000 standard.

#### **Environmental Protection**

Armor-Lux conforms to all European legislation regarding environmental protection and strives for best practices.<sup>20</sup>

<sup>20</sup> For example, the company's dyeing workshop at its Quimper plant is certified OEKETEX standard 100 class A, the highest, which guarantees conformity and compliance with legislation regarding the presence within those products of undesirable substances.



## **Employee Development**

Since its inception, Armor-Lux has committed itself to having a relationship of trust with its workers based on transparency and dialogue. The company promotes capacity-building (training and redeployment of personnel).

## **Involvement in Community Life**

Armor-Lux is a member of the Observatory for the Societal Responsibility of Companies (ORSE) and the French Committee for Sustainable Development.

## **FAIR TRADE AND COMPETITIVE DIFFERENTIATION**

By sourcing fair trade cotton and offering garments with the FairTrade label to consumers and larger institutional buyers, Armor-Lux is fulfilling its own social values and acting strategically in a competitive market place. Armor-Lux's financial business case is well served by offering fair trade products for a number of reasons including:

- The FairTrade label helps the company differentiate itself and helps reinforce the company's reputation for innovation and quality.
- Because the supply chain is tracked and certified, Armor-Lux can maintain a greater control over the entire manufacturing process.
- The garment industry has often been criticized for its lack of responsibility for its suppliers in its supply chain (sweatshop labour, for example), and the FairTrade certification and logo help the company demonstrate that it is proactively engaged in managing its supply chain in a responsible and ethical manner.

Less than two years after the signing of the operating permit with Max Havelaar France, Armor-Lux products labelled with the FairTrade mark have undergone noticeable and steady progress both in volume and quality, especially regarding sales to large institutional customers. For example, Armor-Lux recently signed a contract with the group La Poste to outfit 140,000 postal workers. In 2006, 90,000 tank tops made of fair trade cotton were ordered by 41,000 female mail carriers. After a very positive response, La Poste decided to expand its fair trade cotton purchasing to all of the 100 percent cotton garments that constitute the postal worker uniform. Overall, 350,000 tank tops, polo shirts and T-shirts will be manufactured from fair trade cotton by Armor-Lux. In total, the launch of fair trade cotton in Europe has resulted in a 12-fold rise in demand for certified cotton in the 2005/2006 season.<sup>21</sup>

## **Positive outcomes for the poor**

### **FINANCIAL BENEFITS**

When international cotton prices are at their lowest point, producers in countries like Mali manage to earn their living thanks to the minimum guaranteed price. It is a minimum price

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<sup>21</sup> From the 500 tons required in the 2004/2005 season. *Redressing a Global Imbalance : The Case for Fair Trade Cotton*, 2005. London : The FairTrade Foundation.



established for a long-term period enabling disadvantaged farmers to sell their production at a price higher than their production cost. During the winter harvest of 2005-2006, for example, Malian producers increased their income by 70 percent.

Farmers are supported in producing high-quality cotton in accordance with the best standards seen in the world market and this further enhances cotton farmers' revenues. West African cotton farmer, Abdoulaye Sagna, has witnessed the needs and impacts of high-quality:

*“For this year, health and potable water are [a] top priority in our village due to revenue from high quality cotton. As soon as we solve these problems, we will be able to move other things, starting from improving the education of our children.”*

On a strictly financial level, sales in fair trade at the last harvest generated a global revenue of about 4.2 million euros in the West and Central African regions (producers' prices and development premiums to the producers' organizations) with an estimated 520,000 euros as premiums to collective projects (see Figure 4).

**Figure 4: Statistics on Fair Trade Cotton Production in West and Central African Countries**

	<b>Harvest 2004/2005</b>	<b>Harvest 2005/2006 plans</b>
<b>Number of beneficiary producers</b>	6,100	23,000
<b>Number of producers' organizations</b>	61	294
<b>Volume of fair trade cotton fiber</b>	700 tons	5,000 tons
<b>Total revenue generated by fair trade</b>	739,932 euros with 92,492 of development premium	4,145,280 euros with 626,300 in development premium
<b>Financial surplus generated by fair trade compared to conventional trade</b>	190,187 euros	1,853,600 euros
<b>Financial surplus generated by fair trade compared to conventional trade (in percentage)</b>	Mali: +30% Cameroon: +43% Senegal: +39% Burkina Faso: +30%	Mali: + 70% Cameroon: +60% Senegal: +39% Burkina Faso: +55%

## **ENVIRONMENTAL BENEFITS**

Traditional production of cotton is associated with significant environmental and human health impacts. Most of cotton yield loss is due to insect damage. Insecticides used in cotton cultivation represent 25 percent of the world's total consumption.<sup>22</sup> In developing countries, it is estimated that 50 percent of all pesticides are applied in cotton cultivation.<sup>23</sup> Many older,

<sup>22</sup> Kooistra, K., and Termorshuizen, A., (2006). *The Sustainability of Cotton: Consequences for Man and Environment*. Wageningen University.

<sup>23</sup> Ibid.



toxic, environmentally persistent and inexpensive pesticides are still used in developing countries long after they have been banned in the developed world. And because pesticide use, storage and application can often be poorly managed in developing countries, there are serious consequences for human health associated with farmers, workers and neighboring villages in cotton producing areas. In addition, an estimated five Mha of the world's arable land, or four percent of the world's total land, has been abandoned due to formerly intensive cotton cultivation.<sup>24</sup>

The fair trade certification standards address the potentially negative environmental impacts of cotton production by requiring producers to work towards Integrated Crop Management (ICM). This is a set of practices designed to raise crops profitably without harming the environment. Fair trade certified producers are required to demonstrate diligence in selecting appropriate non-harmful chemicals or biological pesticides. Producers are also encouraged to ultimately move towards organic production. The fair trade standards prohibit the use of genetically modified organisms and require good water management practices if the crops are irrigated.

### **GENDER EQUITY**

In Mali, women are often underprivileged, even marginalized, and have low literacy rates. Women's legal status is status characterized by discriminatory dispositions in the written laws, which does not fully recognize women's rights. In the system implemented by Max Havelaar in Mali, women are encouraged to be involved in the management of producers' cooperatives.

### **COTTON PRODUCTION AND THE MILLENNIUM DEVELOPMENT GOALS**

For this particular case, the Millennium Development Goals that are addressed by fair trade production of cotton in Mali (and neighboring cotton producing countries) include:

#### **Goal 1: Reduce extreme poverty and hunger**

The fair trade system allows increased income by poor cotton farmers and protection from vulnerability to price fluctuations and depressed prices.

#### **Goal 3: Promote gender equality and empower women**

Fair trade promotes good governance in producer organizations. It also encourages the involvement of women in management and decision making roles.

#### **Goal 7: Ensure a sustainable environment**

The certified FairTrade cotton producers commit themselves to growing cotton while respecting the environment. FairTrade certified producers do not use genetically modified crops or dangerous pesticides and commit to minimizing chemical inputs and maximize natural farming techniques.

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<sup>24</sup> Ibid.



## **Goal 8: Implement a global partnership for development**

By its nature, fair trade offers a more direct connection between consumers and producers based on mutual respect and equality. This case demonstrates a partnership between the private sector, non-governmental organizations and local communities to achieve social objectives and reduce poverty.

## **Key Innovations**

Innovations brought about by the fair trade cotton certification and labelling system include:

- The guarantee of a fair and stable price that will enable Malian cotton farmers to live off their land.
- An additional premium for development paid to the cooperative dedicated to projects decided by the entire community in a democratic way.
- The guarantee that people's fundamental rights are fully respected: forbidding child and forced labour and promoting gender equality.
- Environmental benefits as FairTrade certified cotton producers are required to demonstrate diligence in choosing appropriate non-harmful chemical, biological or farm-made alternatives wherever possible and to use chemicals with low environmental impacts and hazards to human health.
- The FLO fair trade standard encourages smallholders to work towards organic practices.

## **Challenges**

Fair-traded cotton in Mali and other countries in West and Central Africa is a fairly recent initiative, but a certain number of challenges are already apparent.

First, cotton is a product that, unlike other fair-traded products such as coffee, is subject to numerous processing operations involving several operators between the producer and the end consumer. However, although for the time being the fair trade certification applies to cotton production, it does not apply to the following stages: ginning, transport to factories, spinning, and sewing. The additional requirements for traders wishing to be registered as fair trade operators are limited to the demonstration of efforts to comply with various ILO Conventions and to the submission of demonstration of efforts every two years.<sup>25</sup> However, will the employees of these companies working in developing countries also benefit from better wages and better working conditions because of fair-traded cotton? There are no guarantees on this point.

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<sup>25</sup> Compliance is measured through the following list of indicators: 1) the trader has provided an IFAT membership certificate. 2) The trader has provided an SA 8000 certificate. 3) The trader has provided documentary proof that the production unit involved participates in one of the following initiatives: Ethical Trading Initiative, Fair Wear Foundation, Fair Labour Association, Workers' Rights Consortium. 4) The trader has provided a letter of endorsement of a union accredited by ICFTU. 5) The statutes of the applicant company prove that the applicant company is owned by the workers. 6) The trader has provided the report, not more than two years old, of an external inspection of its company against a code benchmarked in FLO against the Model Code for Trade.



Second, the European demand for fair trade cotton has been so strong that Dagrís, Max Havelaar's partner for the fair trade cotton operation, has recently launched two of its own high-quality cotton brands (L8 and F8). Because fair trade cotton is often of a very high quality, Dagrís is positioning its new brands based on quality and not on fair trade (although it is being sourced from FairTrade certified producers). Dagrís wants to sell the bulk of its production under these brands by 2007/2008. Dagrís claims that the fair trade approach benefits only the producer, while its quality-oriented approach will benefit the entire supply chain. This quality-only focus may have the potential for diluting some of the attention on the farmer production conditions and environmental standards of FairTrade certified cotton.

## Scaling Up and Replication

Taking all European manufacturers and retailers into account, FLO estimates that as of December 2006, there were over 450 products being made from fair trade cotton in Europe including t-shirts, bed linens, baby clothes, socks, sweatshirts and other items.<sup>26</sup>

Although the absolute number of farmers currently involved with fair trade production in West and Central Africa is approximately five percent of the total, their market share has been growing rapidly. As can be seen from Figure 3, the financial surplus generated by fair trade in cotton compared to conventional trade went from 190,187 euros in 2004/2005 to 1,478,280 euros in 2005/2006. Over the same time period, the volume of cotton fibre within the fair trade framework in West Africa expanded from 700 tons in 2004 to 4,000 tons in 2006. The foreseen quantity of grain cotton to be sold in fair trade is expected to grow another six-fold in the near future.

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<sup>26</sup> For further details on the range of fair trade cotton products and the companies carrying them see [www.fairtrade.org.uk](http://www.fairtrade.org.uk).



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## Appendix A: Fairtrade Standards Principles

The following Fairtrade Standards Principles were developed by the international Fairtrade Labelling Organizations International (FLO) and are relevant for cotton farmers, as well as farmers producing other types of fair trade produce (including coffee, cocoa, tea, and bananas). A twenty-two page document describing each principle in detail is available on the FLO web site: [www.fairtrade.net](http://www.fairtrade.net).

**Social development:** For small farmers Fairtrade Standards require an organizational structure that allows the farmers to actually bring a product to the market that is demanded. All members of the organization need to have access to democratic decision-making processes and, as far as possible, participate in the activities of the organization. The organization needs to be set up in a transparent way for its members and should not discriminate against any particular member or social group. For hired labour situations, the Fairtrade Standards require the company to bring social rights and security to its workers. Some of the core elements include the following: training opportunities, non-discriminatory employment practises, no child labour, no forced labour, access to collective bargaining processes and freedom of association of the workforce, condition of employment exceeding legal minimum requirements, adequate occupational safety and health conditions and sufficient facilities for the workforce to manage the Fairtrade Premium.

**Economic development:** For most products Fairtrade Standards require the industry to pay a Fairtrade Minimum Price and a Fairtrade Premium to the producers. The Fairtrade Minimum Price allows the producer to cover the costs of sustainable production. The Fairtrade Premium is money for the farmers, or for the workers on a plantation, to invest in improving their livelihoods. Premium money in this sense is meant to improve the situation of local communities in health, education, environment and the economy. The farmers or workers decide what are the most important priorities for them and manage the use of the Fairtrade Premium. Also, Fairtrade Standards require buyers to give a financial advance on contracts, called pre-financing, if producers ask for it. This is to help producers to gain access to capital and overcome one of the biggest possible obstacles to their development. This promotes entrepreneurship and can assist the economic development of entire rural communities.

**Environmental responsibility:** Fairtrade Standards include requirements for environmentally responsible agricultural practises. The focus areas are the following: minimized and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and water resources and no use of genetically modified organisms. However, Fairtrade Standards do not require organic certification. However, higher costs for organic production are complemented by higher Fairtrade Minimum Prices for organically grown products.

**Notes:**

The standards given here distinguish between minimum requirements that cotton producers must meet to be certified, and progress requirements that encourage producer organizations to continuously improve in all areas and to invest in the development of the organizations and their producers/workers.

Besides these common principles for small farmers, there are also specific principles only for hired labour situations.



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The information presented in this case study has been reviewed and signed-off by the company to ensure its accuracy. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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