The reality of sustainable trade

Much has been said about the links between trade, environment and development. But what are the practical issues for producers in developing countries faced with the twin imperatives of commercial success and sustainable development? This report contains case studies of experience in Bangladesh (garments, leather and shrimp), Ghana (cocoa and pineapple), India (textiles) and South Africa (tourism), and reviews the emerging demand-side pressures on developing country producers. It concludes with a progress report on the state of sustainable trade and pointers for future action.

The reality of sustainable trade is part of iied's Stimulating Sustainable Trade series, which examines the impacts of social and environmental requirements on trade between the North and South and looks at how to encourage trade in more sustainable goods and services.

For more information about iied's work on sustainable trade see the Sustainable Consumption and Trade Initiative website, **www.iied.org/scati**, or contact Nick Robins, nick.robins@iied.org.

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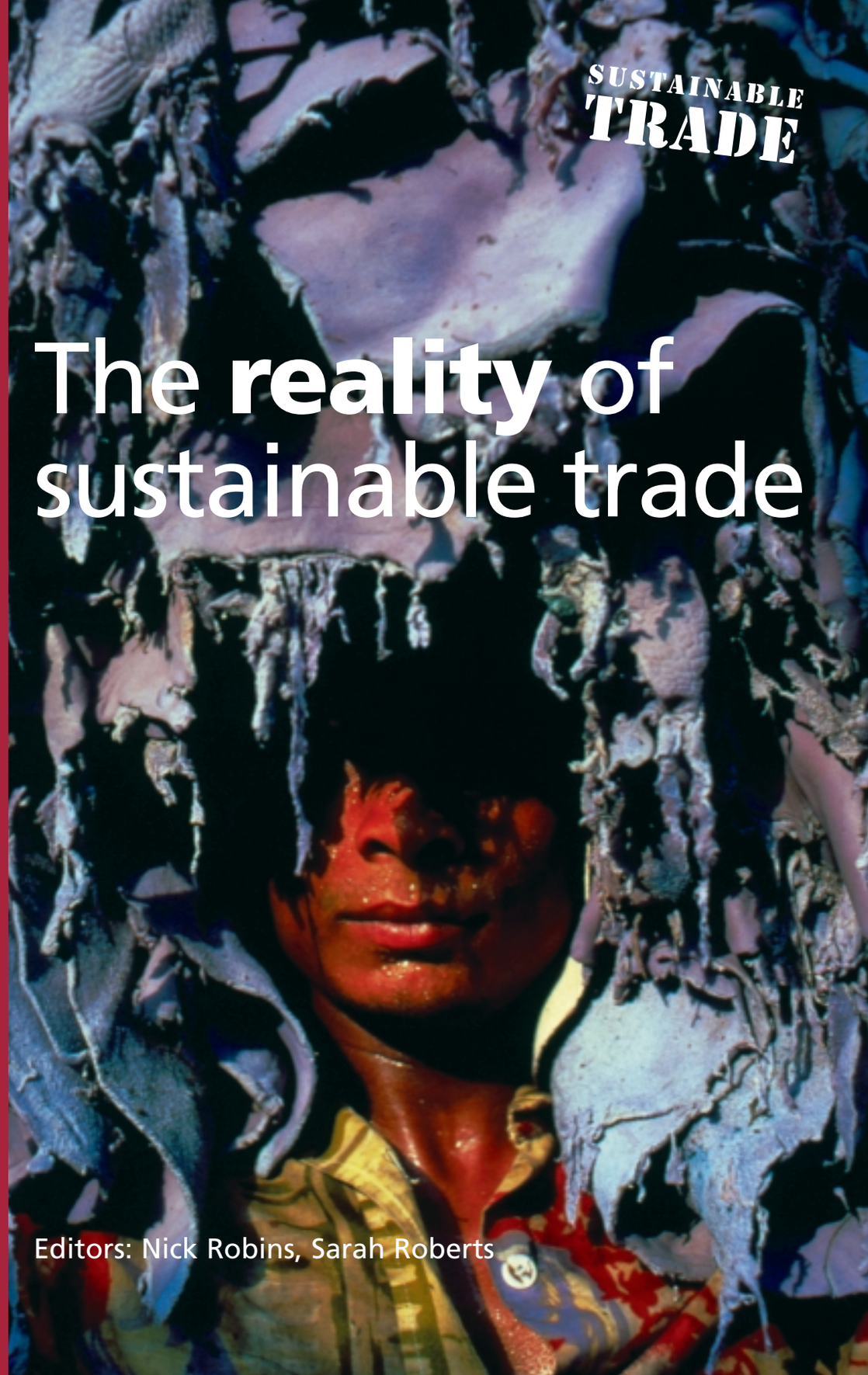
SUSTAINABLE TRADE

The **reality** of sustainable trade



Editors: Nick Robins, Sarah Roberts

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Executive summary

New thinking is urgently required to show how international trade can become a positive force for sustainable development, particularly in the South. Although awareness is growing of the need to integrate environment and development priorities into policy and marketplace decisions on trade, significant obstacles remain. Chief amongst these is the climate of distrust that has grown up in policy discussions on trade, environment and development, most notably within the World Trade Organisation. The last decade has been marked by intensifying disagreements between North and South over the rights and wrongs of linking trade with social and environmental requirements. Sustainability issues are generally viewed as new non-tariff barriers to trade by governments and producers in the South. And new opportunities for developing country producers to generate export earnings from high social and environmental performance continue to be constrained by a lack of investment capital and uncertain governance for international supply chains. All these factors came to a head at the November 1999 trade ministerial in Seattle, where trade and environment tensions were partly responsible for the failure to reach agreement on a new round of trade negotiations.

This report is the product of a global review of trade practice to understand the conditions under which more *sustainable trade* could take place between developing countries and their industrialised country export markets: trade which generates economic value; which reduces poverty and inequality; which regenerates environmental resources; and which is carried out within an open and accountable system of governance. It is based on research carried out with partner organisations in Asia and Africa, and highlights the practical issues facing producers in specific sectors in four countries: garments, leather and shrimp in Bangladesh; cocoa and pineapples in Ghana; textiles and garments in India; and tourism in South Africa.

A first lesson is the profound disconnection that appears to exist between policy discussions on trade and environment and the marketplace realities facing growing numbers of developing country producers. While the policy arena is deadlocked, social and environmental factors are starting to become essential elements of supply chain strategies of major corporations in the industrialised world, notably in the agriculture, apparel and forestry sectors. Unlike importing governments, companies are not constrained from specifying production and process methods of their suppliers and they are free to set detailed quality, environmental and social standards. Buyers in the North are also rationalising their supplier base to improve quality and reduce costs, and poor social and environmental performance is now becoming a reason for de-listing suppliers. As a result, supply chain requirements – in turn driven by rising public expectations of corporate responsibility – can become a more effective force

for good practice than local regulatory efforts in some cases (for example in the spread of integrated pest management practices).

But the country case studies also demonstrate that progress towards sustainable trade is patchy and far from uniform across sectors. In some cases, such as leather production in Bangladesh, there is little international interest in the severe local sustainability impacts. Yet, in the same country, international pressure on child labour has led to significant changes in the garments sector, while an import ban by the EU on Bangladeshi seafood has provided the impetus to improve processing and hygiene standards.

In India, the success of Tirupur as an apparel exporting region has had negative impacts on both water quality and availability which have led to local pressures for change. In contrast, buyers' sustainability concerns has focused on the phasing out of potentially carcinogenic dyes, driven by European legislation, although production methods are also now being scrutinised more carefully.

The declining fortunes of Ghana's traditional export, cocoa, contrasts with the rapid expansion of pineapple exports to Europe. In the cocoa sector, the challenge is to increase the returns to farmers and, thereby, provide the incentives for both environmental rehabilitation and attracting the younger generation to continue cocoa farming. Here, there have been some innovative linkages established with European fair trade organisations, as well as signs of interest from major chocolate producers in more sustainable practices. The growth of pineapple exports has had negative environmental and social impacts and the producers' lack of awareness of market requirements has contributed to their loss of market share to competitors.

In South Africa, there are high hopes for tourism as a foreign exchange and employment generator and a mechanism for rural development and community empowerment. Policymakers are vigorously promoting responsible community-based tourism but, with marketing a crucial missing link, there seems to a mismatch between tourism development policy and the demands of visitors.

It is clear from these studies is that export production can face serious sustainability constraints – and there is little evidence of systematic attempts to identify and address the social and environmental issues affecting different trading chains. Strategic investment packages to improve performance in specific export clusters are often missing. Although trade can indeed be a powerful mechanism for reducing environmental and social impacts, it can also be a 'double-edged sword', raising serious questions about decision-making in global product regimes. Corporate requirements tend to arise from a desire to manage business risk and reputation and so tend to focus on issues that have domestic public resonance. These will not necessarily coincide with local priorities in supplier countries.

The agenda now needs to shift from the question of *whether* to integrate trade and sustainable development to *how*. The challenge is to find ways of developing better systems of governance along the supply chain, which bring together the key stakeholders in order to build partnerships based on trust. At the same time, there is a need for action that reconnects policy frameworks with market-led initiatives to improve the sustainability of trade. Central to this will be identifying the changes that are needed in regulation, corporate practice and citizen action, both on the demand-side within importing countries and also on the supply-side in the developing world to deliver sustainable development.

The reality of sustainable trade is the first output of IIED's *Stimulating Sustainable Trade* project, which aims to provide practical guidance on how to encourage exports of sustainable goods and services from the developing world to the European Union. The next phase of the project will involve more in-depth supply chain assessments, seeking to define a local vision of what sustainable trade would look like in each country, developing case studies of good practice and identifying the actions needed to move forward.

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The editors retain responsibility for the contents of the report.

Sarah Roberts Nick Robins
April 2000

part a

Mapping the terrain

1 Introduction

Accelerating globalisation means that the previously separate worlds of trade and the environment are becoming increasingly entangled. The last decade has been marked by intensifying disagreement over the rights and wrongs of linking trade and the environment, both in policymaking and in market decisions. This culminated in the Seattle ministerial meeting of the World Trade Organisation, which failed to reach agreement, partly because of opposing views on trade and environment linkages. If the world is serious about achieving sustainable development – 'achieving a better quality of life for everyone, now and for generations to come'[1] – then new thinking is required on how international trade can become a positive motor for change.

This coming shift poses particular challenges for developing countries. Many have embarked on a process of export-led growth as a major pathway to economic progress. But this export growth has often been bought at the cost of environmental degradation and social tensions. While effective domestic regulation is vital to raise standards, international trade is now starting to act as a major driver for enhanced performance. A number of pressures are driving this process, including:

- *Pioneering producers* in developing countries who see improved social and environmental performance as central to their mission and exploit market openings in international trade to sustain their enterprises.

- *Public pressure* by citizen organisations to raise the social and environmental performance of imported goods, involving consumer boycotts, corporate campaigns and the design of codes of good practice.

- *Regulation* in industrialised countries, particularly to ensure consumer health by restricting toxic residues and to control waste.

- *Buyer requirements* to incorporate social and environmental

requirements in supplier specifications are becoming increasingly widespread.

- *Consumer demand* for 'green' and 'fair trade' products can be significant in certain sectors, notably for organic food.

- *Financial support* from both governmental and non-governmental organisations is also a stimulus for change, helping to underwrite the costs of transition to higher environmental standards in developing countries.

The impacts of these driving forces are not well understood. For some, there are concerns that new environmental requirements could result in *de facto* trade barriers and a loss of competitiveness for developing country producers. For others, new trade opportunities appear to be emerging for those companies in the developing world that can meet and anticipate these changing market requirements. In 1997, IIED presented ten case studies of developing country producers in the manufacturing, tourism, agriculture and forestry sectors that had benefited from improving the social and environmental performance of their exports in a report for the fifth anniversary of the Rio Earth Summit.[2] One of these case studies featured Century Textiles from Mumbai, India (see Box 1.1).

While promising, it is clear that these case studies by no means reflect the trade mainstream. The key question,

Box 1.1 Century Textiles three years on

Century Textiles is one of India's leading textile manufacturers. During the mid-1990s, it faced growing pressure from buyers in Germany to phase out toxic dyes. The company introduced a new range of dyes and gained independent certification to the Eco-Tex standard. Production costs increased marginally, but Century gained significant advantages in the marketplace, gaining both premium prices for its cloth and new markets. Even though the market is not yet demanding it, Century is now laying the foundations for certification to the ISO14001 standard, and is expecting a range of operational and trading benefits.

therefore, is how more developing countries can benefit from this potential: higher value trade, an enhanced environment and reductions in poverty. To answer this question, IIED has initiated a new project of collaborative research. Entitled *Stimulating Sustainable Trade*, the project is designed to provide practical guidance on how to encourage exports of sustainable goods and services from the developing world to the European Union.

Box 1.2 Stimulating Sustainable Trade: The goals

Stimulating Sustainable Trade aims to produce the following results:

- Increased *knowledge* of the practical issues facing developing countries seeking to integrate trade promotion, environmental sustainability and poverty reduction.
- Strengthened *capacity* in developing countries to expand trade flows of sustainable goods and services.
- New forms of *co-operation* for environmental improvement along the product chain between developing country producers and European businesses.
- Greater *consensus* among decision-makers in developed and developing countries on the policy reforms required to encourage sustainable trade.
- The development of a *positive agenda for change* among business executives, policy makers and citizen groups for the years ahead.

IIED is working closely with a number of organisations in four developing countries to understand the conditions which promote a convergence of trade and sustainability goals (particularly for smaller enterprises), and to develop practical tools to enable producers make the transition to improved social and environmental performance. The four partners in the project are:

- The Bangladesh Centre for Advanced Studies, Dhaka, Bangladesh;
- The International Centre for Enterprise and Sustainable Development, Accra, Ghana;
- The Environmental Management Centre, Mumbai, India; and
- Khanya, South Africa.

At the heart of the project is a belief that it is time to put aside the discussions that separate 'trade and environment' and 'trade and labour standards', and instead develop a clear-headed strategy for *sustainable trade* – trade that contributes to the goals of sustainable development. The aim of this phrase is not to add a new layer of jargon to an already overloaded debate, but to start a positive discussion of the kind of trade relations that are needed to meet the world's pressing social, economic and environmental needs.

Box 1.3 What is sustainable trade?

Sustainable trade takes place when the international exchange of goods and services yields positive social, economic and environmental benefits, reflecting the four core criteria of sustainable development:

1. it generates economic value...
2. it reduces poverty and inequality...
3. it regenerates the environmental resource base, and...
4. it is carried out within an open and accountable system of governance.

This report contains the results of the initial scoping phase of the project. The aim was to review current thinking on the potential of sustainable trade, exploring the experience, hopes and fears of producers in a number of different sectors. Enormous heat and smoke has been generated by discussions on trade, environment and development: this report seeks to understand the current *reality of sustainable trade*.

The first part of the report maps out the broad policy agenda on trade and sustainable development, and counterpoints this with a review of changing practice in international supply chains. Part B then presents a series of sectoral case studies from Bangladesh (garments, leather and shrimp), Ghana (cocoa and pineapple), India (textiles) and South Africa (tourism). The report closes with broad lessons learned and a description of the next phase of work. The report also draws on IIED's experience of demand-side pressures in European markets.

2 International negotiations and national realities

The importance of integrating trade and environmental objectives into policymaking has grown vastly in importance since the first hesitant discussions in the landmark report of the World Commission on Environment and Development in 1987.[3] Both Agenda 21 agreed at the 1992 Earth Summit and the Preamble to the Marrakesh agreement establishing the World Trade Organisation (WTO) speak of trade and sustainable development. But these high-level political statements of intent have not prevented policy deadlock within the WTO and other negotiating arena. This section looks at the trade and sustainable development policy debates at the international level and some of the responses from Southern businesses and policy makers.

International negotiations…

At the international level, most discussions on trade and sustainability tend to focus around the WTO – its rules, remit and implications. The debate has often become polarised into a conflictual 'developing countries and development versus developed countries and environment' stand-off, similar to the divides seen at other international arena such as the UN Commission on Sustainable Development. This divide is both political and perceptual, and was exemplified by the March 1999 symposia organised by the WTO, where one meeting on Trade and Environment was followed by – rather than combined with – another on Trade and Development. It is clear that the central message of the 1992 Earth Summit – that sustainable development requires the integration of social, economic and environmental dimensions of decision-making – has not become instinctive in the world of trade policy.

At the root of the conflict is the feeling that, despite its multilateral, rules-based nature, the WTO is effectively run by rich countries, in the interests of rich countries. For many developing countries, the Uruguay Round of trade negotia-

"Any producer who is keen to satisfy the consumer has to give in to rather eccentric foreign preferences at times."

Cornelius Lugt, South African Department of Foreign Affairs[4]

Tania Tang/WTO

WTO building, Geneva

tions failed to deliver significant benefits. Developed country markets remain severely restricted for many of the South's key exports, such as agriculture and textiles. Many developing countries also feel that they have little power to influence discussions at the WTO and that developed countries are using environmental and social issues as a new means to protect their markets. All these concerns came to a head at the 1999 Seattle conference.

On trade and environment, developing country concerns were effectively summed up at the Regional Trade and Environment Seminar held in February 1999 in Zimbabwe, organised by the International Centre for Trade and Sustainable Development (ICTSD). The seminar aimed to promote dialogue between government officials and civil society in sub-Saharan Africa and to build capacity in trade and sustainable development.

Trade and environment has become a particular focus of resentment, with many developing countries seeing

Box 2.1 Developing countries marginalised

"With regard to the WTO, most African countries were completely marginalised during the Uruguay Round negotiations and were mainly 'takers' of the decisions reached by the OECD countries on a 'take it or leave it' basis. Most African countries lack even the physical capacity to attend all WTO meetings which are often held simultaneously. Limited technical expertise and financial resources also prevent them from participating actively in negotiations and making full use of the WTO dispute settlement mechanism. Finally, cross retaliation and the absence of a mechanism to impose collective sanctions also work against third world countries.

Environmental requirements in developed countries (eco-labelling, sanitary and phytosanitary measures and other technical barriers to trade) often contributed to further marginalise African countries since they were not in a position to fulfil these requirements. In some cases, these environmental standards were used by industrialised countries to protect their industries from competition from products manufactured in third world countries".

Source: Conclusions of the Regional Trade and Environment Seminar held in February 1999 in Zimbabwe[5]

protectionism behind developed countries' attempts to link trade and environment. For a number of developing country governments, *"the developed countries'…focus is now on unilateral trade measures and environmental conditionalities attached to trade, investment and development co-operation. The trend is inimical to the attainment of both developmental and environmental goals".*[6]

Yet others in the developing world argue that this defensive stance is counter-productive. According to Adil Najam at Boston University's International Relations Centre for Energy and Environmental Studies, *"the South is trapped in a reactive cycle: the South has had negative power – the ability to stop things it does not like – but not the power to get the things it wants, and without a proactive stand on issues that situation will not change".*[7]

Attempts have been made to improve understanding and develop a positive agenda for trade, environment and development.[8] But deep divisions remain.

Box 2.2 The future for trade and sustainable development after Seattle

Many reasons have been given for the failure to agree a new mandate for trade negotiations at Seattle, but the disagreement surrounding trade and environment certainly played a part. Seattle made it clear that the WTO's commitment to sustainable development was almost wholly theoretical. Frustration with the WTO system had been growing in all quarters. Environment and development NGOs grew tired of their issues being paid lip service. The Committee on Trade and Environment had failed to make any progress, while major trade disputes, for example the shrimp-turtle case, showed the limits of the WTO system. Developing countries had also grown frustrated at the low priority attached to their concerns. Experience since the Uruguay Round showed that the developing world was not benefiting to the extent suggested at the time.

Looking ahead, the priorities are to rebuild the trust so badly damaged at Seattle and assemble the issues to make real trade-offs possible. This will mean reforms of the WTO to ensure internal and external transparency and accountability; much can also be done at the national level to open up trade policy and make better links between trade policy and other policy areas. Sustainable development must also become part of all aspects of the WTO agenda. The time has come for the WTO to articulate that the end purpose of trade liberalisation is sustainable development. Much work also needs to be done in looking at the real sustainable development impact of existing WTO agreements, as well as those in the future. In fact, the Seattle débâcle could be the prelude to an era of exceptional opportunity to take forward the cause of trade and sustainable development.

Source: Mark Halle[9]

National realities…

But to what extent do these global-level policy discussions reflect the actual experience of developing countries? Business is notable in its absence from most international trade, environment and development policy discussions. Those representatives of trade associations who do attend such meetings tend to support the status quo, arguing that the environment should be kept out of trade discussions. But many of their members are already dealing with the linkages between trade, environment and development in their daily commercial transactions, and for them policy discussions seem remote.

"The exporter produces to demand and goes according to the specification: he doesn't care about the WTO"

Mohammed Saqib, Rajiv Gandhi Foundation[10]

The main issue concerning export-oriented businesses in the South is getting their goods and services into foreign markets. Social and environmental factors are becoming increasingly important to this market access, driven by commercial expectations as well as regulatory requirements. To date, the coverage has been patchy, sporadic and unpredictable.

The independent certification of forest management – for example, through the Forest Stewardship Council (FSC) standard – is one example of this new type of market requirement. One of the world's leading timber exporters was recently reported as considering FSC timber certification to be a 'Western plot' to impose foreign environmental standards after two US cities set out proposals to specify FSC approved timber in public procurement contracts for items such as park benches.[11]

In certain sectors, measures such as these are becoming just another factor in doing business, alongside price and quality. This is exemplified in the cases of action to phase out the use of azo dyes in Indian textile exports and the response of South African industry to increasing environmental pressures.

Phasing out toxic dyes in Indian textile exports

In 1994, Germany introduced legislation banning the import of textiles containing certain azo dyes on consumer health grounds. India, which exports a significant proportion of its textile products to Germany, responded by matching the controls, after an Indian Council for Medical Research concluded that there were sufficient worker health reasons to ban the dyes. The Indian government also provided information, technical assistance and testing facilities to help companies switch to new dyestuffs.[12]

For large-scale exporters, the new controls certainly forced them into extra research and increased their chemical bill. However, good relations with their buyers often prepared them for the change and some of the more proactive companies gained premium prices and new market opportunities from early certification as azo-free. However, many small and medium enterprises found the transition much more difficult. Five years on, azo-free processing has become embedded in corporate practice. According to one senior government official, *"we don't see eco-parameters as a negative feature or a restriction. It's more a challenge to upgrade our standards. To my knowledge, no textile companies have complained about trade problems".*

A critical factor that has emerged is the ability of producers to have cost-effective certification of their processes. The Indian government has spent considerable sums to raise its testing facilities to international standards. But manufacturers still face pressure from international buyers to use European certifiers who can be five times as expensive as local ones. Some textile buyers have also started requiring that their suppliers have Eco-Tex certification, which has to be renewed annually. The Indian government is continuing its capacity building efforts and is now promoting the benefits of the ISO 14001 environmental management system to the industry.

"In the face of regulatory weakness, environmental trade measures could be helpful because they will exert pressure on export companies ensuring that they raise their environmental standards more quickly and decisively than they would otherwise. In theory then, environmental trade measures may be seen as a double edged sword that is as capable of damaging South Africa's process of development as it is of improving exporters' environmental performance."

Lael Bethlehem, currently Director of the Department of Water Affairs and Forestry[13]

Phasing out azo dyes certainly brings health and safety benefits for both workers and consumers. However, greater coordination is required between regulators, buyers, producers and input suppliers to minimise unnecessary repercussions on developing country producers. The lack of trust placed by international buyers in developing country inspection bodies is a continuing bone of contention.

South African responses to increasing environmental pressures

A 1996 survey in South Africa, by KPMG and the Industrial Environment Forum, revealed that the environment is regarded as a strategic issue by 76% of South Africa's top companies, with 84% thinking that the significance of environmental issues would increase for their company over the next five years. Interestingly, the companies surveyed saw government policy as the most important force for increasing environment responsibility, probably reflecting the fact that the ANC government has issued a host of new environmental laws since coming into office; pressures from international trade came a poor fourth: see Table 2.1 below.[14]

However, recent discussions with companies, business associations and researchers suggest that international pressure, in terms of regulation and the requirements of foreign investors, shareholders and buyers, is now leading to the most dramatic and rapid change.

Table 2.1 Key pressures driving increased environmental responsibility[15]

Force	%
Government policy	83
Public opinion	64
Customer demands	62
International trade	51
Environmental groups	27

While some companies and business association representatives are concerned about the implications of meeting international standards, many of which are considered to be inappropriate in the South African context, most export-oriented companies are resigned to the fact that these will become a routine aspect of doing business. Karin Ireton, Acting Director of the Industrial Environmental Forum of South Africa, cites a speech made by the environmental manager of Nissan South Africa in 1994 arguing that *"while future environmental requirements could pose significant challenges to South African exporters, the options for avoiding or challenging such policies are limited".*[16]

James Mayers

Environmental pressures have driven change in the South African forest products sector

It is clear that the extent of environmental pressure varies considerably according to sector. As part of the Industrial Strategy Project, twenty South African export companies in 12 sectors were surveyed on the extent to which they are subject to international environmental pressure. The study concluded that environmental pressures are building up in export markets and although there were no reported experiences of actual trade restrictions, a number of sectors have had to implement changes in order to remain competitive, notably the forest products and paper, fruit and packaging sectors. The chemical and steel industries were identified as sectors which were going to have to make considerable investments in the environment in the near future in order to remain competitive.[17]

Increasingly, export-oriented companies are turning to internationally recognised accreditation systems, such as ISO, to demonstrate their environmental credentials. One company decided to go for ISO 14001 accreditation to demonstrate its quality and environmental credentials to foreign buyers, who tend to assume that because South Africa is a developing country, it inevitably has lax environmental standards and

enforcement. Another company with subsidiaries in the petroleum, chemical and mining sectors had already experienced the impact of customers demanding proof of implementation of ISO 9000 and Responsible Care. As a result, the company wanted to take pre-emptive action rather than waiting until proof of ISO 14001 certification is demanded: "*In the near future, the company would start demanding ISO 14001 as a prerequisite for doing business because it is the only way of levelling the playing field.*"[18] Certainly the pace of ISO 14000 certification is stepping up in South Africa. To date, around fifty ISO 14000 certificates have been issued in South Africa and there are estimated to be around fifty more in the pipeline.[19]

Box 2.3 Sectoral pressures for change in South Africa

Forest products

Concern in Europe and North America about unsustainable forest management practices and the use of chlorine in the pulp and paper bleaching process have had a direct impact on South African producers. South Africa's two major pulp and paper companies, Sappi and Mondi, have been transforming themselves into global players over the last five years and are having to react to changes in their export markets by moving to elemental-chlorine-free processes.[20]

Sappi and Mondi also own the majority of forested land in South Africa. Within the last three years both companies have implemented FSC and/or ISO certification for their entire forestry operations, even though they export little timber and most of their pulp and paper buyers have not demanded certification. The pressure for certification has been very effectively transmitted along the supply chain. One of the key markets for South African furniture exporters is the UK DIY sector which has also been one of the most active in requesting FSC-certified products. This, in turn, has led to furniture producers putting pressure on their sawmill suppliers, which ultimately convinced the two large forestry corporations and several smaller companies that it would be worth implementing certification.

The impact on South African companies has been mixed. For the two big pulp and paper companies, meeting the certification criteria for their plantations has not been particularly difficult, although the social aspects were more challenging, and they were able to carry the cost fairly easily. They do not seem to have quantified the benefits in terms of sales, but feel that it was worth it in terms of tightening up their systems and improving their reputation.

While some furniture companies feel that being FSC-certified has given them a competitive advantage and enabled them to access new markets, others have not seen either the sales or supply chain relationship benefits they were expecting, finding that price is still the overriding factor in all discussions.[21]

Chemicals[22]
The chemical sector has acknowledged that as companies assume more and more responsibility for the impacts of their products from cradle to grave, they will face increasing environmental pressure. One of the companies surveyed has decided that all new plants in the group will be built to international environmental standards, partly to ensure that products will be able to meet export market requirements. Bringing their existing plants up to international standards is a major challenge due to the cost of retrofitting.

Steel[23]
The steel sector is facing increasing environmental pressure both from the international market and from local sources. A visit to European customers and competitors revealed the extent to which South African producers were behind other international producers on the environmental front. In the industry as a whole, average environmental investment is 15% of operating budget, compared to only 5% in South Africa. With significant old capital stock, the industry faces major challenges but it is aware that without substantial investment and action it is likely to face constraints in its export markets in the coming years.

Energy and energy-intensive industries[24]
Increasing measures to reduce greenhouse gases emissions could have potentially very serious implications for South Africa, which gains significant comparative advantage from its low energy prices. Eskom, the national electricity generating company, supplies the world's cheapest electricity from coal-fired power stations and has committed itself to lowering the real cost even further. Consequently, South Africa is an attractive place for energy-intensive industries such as the aluminium and steel and mineral processing industries, but has high per capita greenhouse gas emissions. If international clients begin to choose suppliers on the basis of their climate loading, this could have serious implications for industries such as mineral processing where energy costs make up around one-third of total costs.

Conclusions

Policy-making on trade and environment appears to suffer from four major weaknesses:

1. **Trust:** Levels of mistrust and misperception between North and South on trade and environment have intensified in recent years, and the legitimacy of the WTO has declined in the public mind.

2. **Vision:** Few, if any, governments have a clear vision of how to ensure that trade is a positive force for sustainable development.

Capespan

South African citrus fruit being loaded for export. To enter high value EU markets it must meet retailer quality and environmental standards.

3. Institutions: The institutional mechanisms to ensure that environmental factors are integrated into the design, implementation and assessment of trade policies are still not in place.

4. Knowledge: There is little understanding of what are the truly significant linkages between trade and environment, and what are merely hypothetical.

5. **Market links:** Policy does not appear to be fully informed by the realities of market pressures for environmental performance, either over-estimating the potential impact of measures (such as eco-labels) or ignoring others.

This disconnection between the agenda of global trade discussions and market practices has potentially serious consequences for producers in the developing world, who could face a lack of the necessary back-up to respond effectively to new requirements.

It is essential therefore, that there is greater awareness of the ways in which market pressures are changing, and how sustainability requirements are being incorporated into routine supply chain management, the subject of the next section.

3 Sustainability in the supply chain

Globalisation is transforming the ways in which companies in the industrialised world are managing production and distribution to meet consumer demands. As businesses concentrate more on their core competencies, so previously internal operations are divested and outsourced, making supply chain relationships critical to corporate competitiveness. This, linked to the dismantling of trade barriers and spread of information and communication technologies, has prompted an internationalisation of sourcing strategies. In parallel with these market-driven trends is the growing importance of social and environmental performance to supply chain assurance for leading corporations. This section reviews the major business and sustainability trends in supply chain management and looks at the implications of these for developing country producers.

Business trends

Three main trends are driving contemporary business management of international supply chains:

A. Global Sourcing;
B. Specialisation; and
C. Rationalisation.

A. Global sourcing

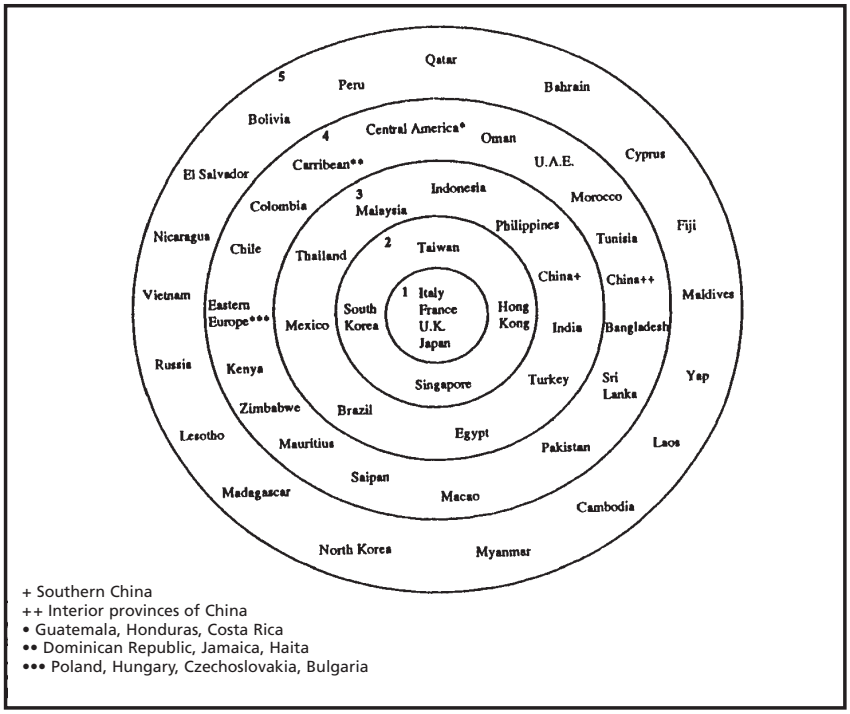
The trend towards global sourcing by companies in industrialised countries is accelerating. Goods sold in the European market are increasingly manufactured elsewhere. Recent reports estimate that half the clothes sold in British high street stores come from developing countries,[26] along with almost a third of food and drink imports.[27]Even companies which traditionally had built strong relations with domestic producers into their brand, such as Marks and Spencer, have bowed to the cost imperative, and are increasing the amount that they source from the developing world.[28]

"High involvement with suppliers… is based on a belief that supplier relationships are valuable assets that can be used for various purposes. It is still a task of purchasing to exploit them but in a different way".

Gadde and Snehota 1998[25]

Sourcing strategies are highly dynamic. Companies and agents look for a balance between low-cost production on the one hand and the quality, reliability and innovation required to build their brand on the other. Companies in the same sector, but catering for different market segments, may have very different sourcing strategies. Figure 3.1 illustrates the various sourcing options of US clothing retailers. High quality retailers with a focus on designer, 'exclusive' products source their expensive, nationally-branded goods from an inner ring of high quality, high value-adding countries (1). Speciality chains which focus on labelled goods source from the most well-established Southern exporters (2, 3). Retailers who sell store brands to mass markets buy from more remote tiers of lower cost, medium quality Southern companies (3,4). Discount stores, whose focus is on selling large volumes of cheap goods, import from the outer rings of low cost suppliers of standardised goods (4,5).[29]

Figure 3.1 Production frontiers for global sourcing by US retailers in the apparel industry



+ Southern China
++ Interior provinces of China
• Guatemala, Honduras, Costa Rica
•• Dominican Republic, Jamaica, Haita
••• Poland, Hungary, Czechoslovakia, Bulgaria

The reality is inevitably more complex. Some retailers of high quality merchandise operate across the five rings, confident that their quality control procedures will result in the production of identical products, whatever the source. Their contracts with higher quality suppliers allow them to respond rapidly to changes in demand and test out new product designs and innovations with confidence. Likewise, discount stores often get some of their goods from the inner tiers; they pay much lower rates than the higher quality companies, but their large volume orders allow suppliers to smooth out their production schedules.[30]

B. Specialisation

One of the consequences of increased company focus on their core competencies is a marked move towards outsourcing. Many functions which have previously been carried out in-house are now purchased from suppliers, from component manufacture and packaging, to service functions such as IT and personnel. Taking the UK food retail sector as an example, supermarkets are increasingly concentrating on the marketing of high quality foods and have been pushing many in-house processing operations back along the chain, from sorting and packing to barcoding.[31] This can lead to opportunities for Southern producers to be involved in more value-adding activities, increasing their skills base, generating increased employment and higher incomes. However, this type of involvement requires investment in facilities and technology, which raises the barriers to entry into such markets and may leave suppliers highly dependent on powerful customers.

C. Rationalisation

Outsourcing is also being accompanied by a dramatic reduction in many companies' supply bases for productivity and efficiency reasons. This is clearly demonstrated by European clothing retailers: C&A, which trades in thirteen countries across Europe, halved its suppliers from 2,800 to 1,400 when it set up a central buying office in 1996, while Bhs, one of the UK's leading mass market retailers, recently cut its suppliers by one-third.[32]

Box 3.1 Nike: Global branding and subcontracting[33]

The approach of Nike, one of the world's leading sport brands, illustrates a number of different trends in supply chain management. Nike has never actually made any of the shoes sold under the famous swoosh logo, concentrating from the beginning on brand development and marketing. The company began life in the 1960s as an importer of Japanese sports shoes. During the 1970s, in an effort to cut costs and increase its control over subcontractors, Nike shifted most of its manufacturing from Japan to South Korea and Taiwan and developed three types of relationship with its suppliers:

- Developed partners – manufacturing the most innovative and sophisticated shoes
- Volume producers – manufacturing specific types of shoes in large quantities
- Developing sources – low cost suppliers, supported by Nike or more experienced subcontractors.

In the 1980s, as costs in Korea and Taiwan rose, Nike began shifting its production to countries with cheaper labour, such as China, Indonesia and Thailand. This reduced the costs of production by a quarter, but also had a number of negative impacts such as reduced ability to deal with innovation, poor quality control and raw material sourcing and high turn-around times. By the middle of the decade, Nike was terminating contracts in China and considering shifting production back to established manufacturing sources in South Korea and Taiwan. In the 1990s, Nike found a compromise; most of its manufacturing still takes place in low cost locations, but is often overseen by Taiwanese or South Korean based firms.

The commercial success of Nike's outsourcing strategy has, however, been matched by intense criticism of the unequal way in which social and environmental costs and benefits have been shared along the chain, making the company one of the primary targets for social justice campaigns (see also Box 3.6).

Companies are increasingly dependent on the other members of the supply chain to ensure that the goods that they sell meet the quality and safety standards required by both market and regulators. This has led to the assertion that, 'companies no longer compete, supply chains compete'.

To ensure they get the products with exactly the characteristics that they require, buyers pass extremely detailed specifications back down the chain. In certain sectors, these include instructions on the process of production as well as requirements of the product themselves. For example, food retailers' market positions are dependent on maintaining their reputations for quality: the retailer needs to be certain

that all the goods it stocks meet both legal requirements and customer expectations. As well as covering taste and appearance criteria, supplier specifications cover food safety and traceability, value-adding activities (such as sorting, packaging and barcoding), worker health and hygiene specifications and, increasingly, production processes, for example, specifying that fresh produce must be grown under Integrated Crop Management regimes (see Box 3.4).

As a result, companies can become highly dependent on their suppliers. It takes significant time and effort to develop a relationship in which the buyer can trust that the supplier understands and can reliably meet all their requirements. Once built up, such relationships are not abandoned lightly. In the UK food retail sector, fifteen year relationships are reported, and buyers state that if problems emerge with formerly trusted suppliers, they would work with them to improve their performance for several years before delisting.[34] Yet, despite all the talk of partnerships, suppliers in buyer-driven markets can still be left vulnerable: *"collaboration is a form of leverage by other means".*[35]

Implications for southern producers

The reduction in corporate supply bases leaves many suppliers out in the cold. Increasingly it is no longer enough simply to be a low cost, efficient or high quality supplier. Labour cost differentials have given developing countries a powerful comparative advantage in certain sectors. Increasingly, however, the entry requirements to high income markets include many factors beyond simply cost. As companies outsource more and more formerly in-house functions, while keeping their supply base to a minimum, exporters need to be able to meet quality, reliability and efficiency criteria and perform other value-adding tasks, as well being seen as cost effective. Sourcing policies are dynamic, and those buyers for whom cost is an overriding factor will be continually looking to move their production to even lower cost locations. For those developing countries for whom low wage rates are their only comparative advantage, it is a dangerously 'low road to development'.

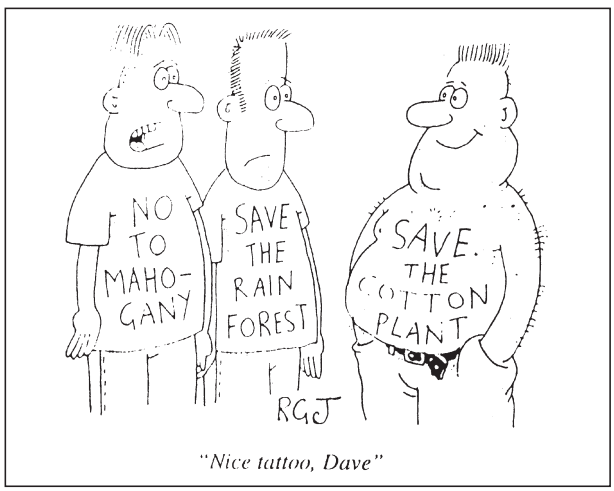
This raises the barriers to entry, which can have negative consequences for developing country producers, particularly smaller companies. But for those who can meet the buyers' requirements, new opportunities are being created in value-adding activities such as processing and packaging.

Sustainability trends

'You're not there until your suppliers are there'
***Ann Goodman*[36]**

In parallel to the business trends outlined above, there have been some much more unpredictable developments in the social and environmental aspects of supply chain management. Just as corporate trends have raised the importance of supply chain management, so public expectations of corporate responsibility now include practices by subcontractors, often many stages removed. Exposure of poor environmental and social conditions in the supply chain can have major repercussions on the public perception and brand value of major companies, and non-governmental organisations are increasingly aware of the leverage this can give.

Numerous examples abound of media exposés and campaigns that have severely embarrassed high profile businesses, including home improvement companies pilloried as rainforest destroyers, sports goods manufacturers accused of exploiting child labour and clothing retailers identified as turning a blind eye to human rights abuses in their subcontractors'. In the UK, a 1997 MORI poll showed that 92% of British consumers think that British companies should have a minimum standard of labour conditions for their third world suppliers.[37]



Campaigns for sustainability exert highly uneven pressures on supply chains

Box 3.2 Media muscle? The global sweatshop campaign

Public pressure on the UK garment industry to improve the conditions for workers in its supply chains is increasing. In September 1999, the *Independent* newspaper launched the Global Sweatshop campaign which:

Marks and Spencer

"urges retailers to ensure that workers employed by their subcontractors do not suffer through low wages and poor conditions. Instead of moving production elsewhere when failings are revealed, we ask them to draw up codes of conduct and to have them independently monitored. In addition we call for:

- All leading retailers to report annually on their social auditing
- A change in the law to make country-of-origin labelling compulsory
- Steps towards an ethical trade "kitemark" indicating standards of pay and conditions"[38]

However, the impact of this type of pressure is highly uneven. Certain companies, particularly those branding or retailing consumer goods, are much more vulnerable than others. Impacts also depend on the extent to which the supply chain issues resonate with the media and public. In environmental terms, deforestation and issues with a direct link to individual health (such as pesticide residues) have been most enduring. On the social side, child labour has attracted more attention than, for example, the right to collective bargaining.

In most cases, attention has been focused at one stage of the supply chain only. In the case of timber products, the focus has been almost entirely on the initial stage of the chain in terms of forest management practices with very little interest shown in other parts of the life cycle. For textile products, the reverse has been the case with the spotlight firmly on working conditions in garment factories and very little attention on the earlier stages such as cotton production and dyeing, both of which can have severe environmental and social impacts. Ultimately, the scope of supply chain management should extend to the entire product chain.

Figure 3.2 sets out the key sustainability issues associated with cotton clothing. International trade has a role to play at each stage in the chain – thereby generating a complex range of community and environmental problems associated with land, sea and air freight transport. Indeed, much of the debate on trade and the environment significantly underplays the direct and indirect impacts of trade itself, instead mostly focusing on production practices. A recent WTO report stresses this point, concluding that "*trade as such is rarely the root cause of environmental degradation, except for the pollution associated with the transportation of goods*".[39] One estimate suggests that the Uruguay Round would result in a 71% increase in transport, some fifteen times the growth in trade.[40] The environmental impacts of trade are particularly acute for those sectors dependent on air transport, such as tourism and some agricultural goods.

Figure 3.2 Supply chains and sustainable trade – the case of cotton clothing

The supply chain	**Textile challenges**
Raw Materials	• Organic & GM cotton
↓ **trade**	• Worker health and safety
Processing	• Spinning oils
↓ **trade**	
Component manufacture	• Water use and pollution in textile dyeing/bleaching
↓ **trade**	• Worker health and safety
Product assembly	• Child labour, position of women in garment production
↓ **trade**	
Distribution/retail	• Building and construction
↓ **trade**	
Consumption	• Water and energy use for washing
↓ **trade**	• Chemical residues in clothing
Disposal (including re-use)	• Second-hand clothes

Approaches to environmental and social supply chain management

As the social and environmental performance of supply chains becomes more central, so new techniques are being introduced to understand the issues, assess the risks, monitor performance and raise standards along the chain. These include questionnaires, internal company standards, codes of conduct, certification to independent standards and a range of joint buyer-supplier initiatives. Most are still at an early stage of development and there is still considerable uncertainty over which will prove to be practical, credible, cost effective and accountable.

Strategies can vary substantially according to sector, corporate culture and position in the marketplace. Box 3.3 illustrates the experience of B&Q, a UK-based home improvement firm.

Making sustainable practice routine

For truly sustainable trade, companies should be systematically incorporating social and environmental factors into all key purchasing decisions. Although the trends are in the right direction, the vast majority of companies are a long way from this at present.

Environmental specifications have a much longer history of inclusion in supplier specifications than social issues. The most common tend to be consumer health related, such as controls on pesticide residues or the use of toxic chemicals in textile production. In some cases, this due diligence[43] approach is being extended to the specification of the desired 'process and production methods' to be used by suppliers – for example, supermarket requirements for food producers to use integrated pest management techniques, as in the example of the citrus industry described in Box 3.4.[44]

"We've still got suppliers who won't tell us where their products are coming from but they'll have to soon or they'll get delisted. We want all our suppliers to know where their products come from, and if its embarrassing they'll have to act on it."

Alan Knight, Environmental Controller, B&Q[41]

Box 3.3 A DIY approach to supply chain management[42]

B&Q is the largest home improvement retailer in the UK and well known for its stance on environmental and social supply chain management issues. The sector was one of the prime targets of NGO campaigns on forest management issues in the 1980s, questioning the sustainability of UK companies' timber supplies from tropical forests. B&Q realised that it had no idea where the wood in its products was coming from and started to develop a systematic programme on environmental supply chain management. Alan Knight, B&Q's Environmental Policy Controller, puts this proactive approach down to the early recognition by top-level management that the company should develop its own agenda on environmental supply chain management.

B&Q

Certification schemes allow B&Q to ensure that its timber products come from well-managed forests.

In 1991, the company undertook a Supplier Environmental Audit and announced its first timber targets: to have identified all its sources by the end of 1993, and then to ensure that all its timber products would come from well-managed forests by 1995. As a way of meeting its goal, the company decided to support the Forest Stewardship Council (FSC) certification scheme, which provides independent verification that products come from well-managed forests. B&Q committed itself to ensuring that all timber products would be independently certified by the end of 1999; in fact it achieved 99.1%, the bulk of which was accounted for by FSC certification.

B&Q has been through a number of changes in the way that it works on supply chain issues. Its first audit consisted of a forty-page questionnaire on purely environmental issues, which a significant number of suppliers did not even reply to. By 1991, B&Q had concluded that there was unlikely to be significant progress until the environment was made a commercial issue for suppliers. This led to the introduction of an environmental policy in 1994 that stated that *"B&Q will delist suppliers who show no commitment to improving their environmental performance"*.

In 1995, B&Q replaced its Supplier Environmental Audit with QUEST (Quality, Ethics and Safety) which it describes as *"the process through which we assess both the quality and environmental performance of our supply base"*. It is based on ten principles which include environmental policy and awareness, environmental action and achievements, working conditions in developing countries and packaging and environmental claims.

Suppliers are rated from A-E for each of the ten principles and a league table was published in 1998. In 1995, B&Q had announced that all 619 of its suppliers would have to demon-

strate a thorough understanding of their life-cycle impacts backed up with an action plan to address them. B&Q's target was that by the end of 1999 all their suppliers would have a B grade for the first three principles listed above and an A grade for timber (i.e. all from FSC certified forests). In the autumn of 1998, only about 20% of their suppliers had reached these grades. However, by intensifying the assessment programme B&Q achieved 84% by the end of 1999.

B&Q's policies are evidently affecting developing country producers. Interviews carried out in South Africa in 1999 clearly identified requests from buyers such as B&Q as the catalytic factor in the implementation of certification in the South African forest industry (see Box 2.3 above).

B&Q's recent focus has been on integrating working conditions into their supply chain management procedures, and has identified five main approaches:

- **Boycott of suppliers**. This is not a favoured solution as this provides little incentive for improvement, but may be the only option if the company has little influence on the supplier, or the costs of improvement make the product unviable.
- **Imposition through certification**. This is the model used for FSC. Although it provides assurances that standards are being met, B&Q believe that it can undermine trust between buyers and suppliers.
- **Ownership through inspiration.** The focus here is to work with factory managers to improve conditions gradually. This is time-consuming and resource-intensive but leads to learning all round and enhances relationships.
- **Development through trade**. Here the aim is to improve conditions in a community by strengthening the social fabric and capacity to trade. Normally outside the scope of retailers because of cost, but can be a useful learning exercise.
- **Development projects.** This has been used where there is no pre-existing supply chain and where the objective is development through trade. One example is B&Q's support for the Bainings community in Papua New Guinea to win FSC certification. The long-term sustainability of this approach may, however, be questionable.

Wherever possible B&Q is attempting to ensure that its direct suppliers take on board environmental and social concerns and pass them back along the supply chains, thereby spreading the responsibility and reducing the cost to B&Q and the need for external verification. This has been incorporated into the QUEST system through Principle 8, which requires suppliers to know the working conditions of any factory used in developing countries and to take action to improve these conditions.

B&Q stresses the importance of building trust and mutual respect with suppliers. However, it remains a hard-nosed international buyer, which makes no long-term commitment to suppliers, however good their environmental performance.

Box 3.4 The power of supply chain linkages: How supermarket requirements impact on South African citrus farmers

To protect their reputation and minimise risk, European food retailers are increasingly specifying the manner in which the goods sold in their stores should be produced. This is having considerable impact on farming practices in developing countries.

Capespan

Packing South African citrus fruit for export

South Africa's thriving citrus industry is heavily dependent on the international market, with two-thirds of its total production exported. Selling to retail multiples such as Sainsbury's and Tesco in the UK can be lucrative, delivering returns one-third higher than sales to the wholesale market. To keep these markets, South African citrus farmers are having to reduce their very heavy dependence on pesticides and move to the much more knowledge- and management-intensive system of integrated pest management (IPM).

South Africa uses more agricultural pesticides than any other sub-Saharan African country, which has led to considerable negative impacts on workers' health and the local environment. Despite the efforts of local campaigners, until relatively recently few farmers took the negative consequences of their pesticide use seriously. A 1992 survey found that no workers had received formal training in pesticide safety. The shift to IPM has been driven by growing pest resistance, environmental responsibility among some pioneering growers and the reaction by poorer black farmers to the high cost of chemicals. However, it is the need to retain export markets which has been the critical factor in the introduction of IPM in the citrus industry.

While farming under IPM conditions brings health and safety benefits, conditions for most citrus workers remain harsh. Some of the buyers requiring IPM are also requiring good labour practice from their suppliers – for example through their involvement in the Ethical Trade Initiative – but in most cases there seems to be little linkage between the two processes. Integrating social and environmental requirements in the future is likely to deliver greater benefits overall and reduce confusion and administration time and costs.

Source: Who benefits? A social assessment of environmentally driven trade.[45]

More recently, there has been a flurry of activity in recent years as working conditions in subcontracting units becomes a particular source of commercial risk. There are now a number of generic and sector-wide codes being developed, mainly based on International Labour Organisation (ILO) conventions, and some innovative partnerships between companies, NGOs and unions are being formed to ensure that they are both credible and workable (see Box 3.5).

Box 3.5 Learning from experience: Supply chain initiatives to end child labour

The use of child labour to produce goods sold in European and North American market was one of the most high-profile supply chain issues in the 1990s and has had substantial impact on certain developing country export sectors. Initial media exposure of the use of child labour by the subcontractors of high profile brand names in the rug, sportswear and clothing industry led to some subcontractors dismissing their child workers on the threat of being delisted. The realisation that this type of action simply worsened the situation of the children in question has led to new initiatives between Southern trade associations, Northern companies and international organisations such as the ILO to provide education for former child workers (see the Bangladeshi case study in Part 4). With the US government now spending $30 million per year on programmes to reduce the use of child labour around the world, this is an issue that no export sector can ignore.

Source: International Child Labor Programme [46]

Implementation is still extremely patchy and issue of external verification remains a source of disagreement between companies and NGOs. The proliferation of product claims has led to a high degree of cynicism about corporate claims amongst the public and NGOs. Consequently, unverified statements on environmental and social responsiblity carry little weight. However, most companies are reluctant to involve external verifiers, feeling that is costly, undermines trading relationships and is unworkable for large numbers of suppliers.

In the UK, the Ethical Trading Initiative (ETI) was set up at the beginning of 1998 to encourage companies to adopt codes

of conduct, laying out minimum labour standards for their overseas suppliers, and to have these codes monitored and independently verified. Its members include UK retailers, development NGOs and representatives of international trade unions, and it is supported by the UK Department for International Development.

As of October 1st 1999, 14 companies had joined the ETI. Having drawn up a code based on ILO principles, the ETI's main task now is to support its members in piloting the implementation and monitoring of the code. A review in April 1999 revealed that: "*Most companies in the sample were motivated to adopt ethical trading policies by risk management considerations and that the amount of resources devoted to implementing the policies had to be balanced against the perceived benefits of having a policy*".[47] All the companies surveyed had made progress in developing codes of conduct and strategies for their implementation. However, there is little experience to date of actually implementing the codes. Much work will be needed to promote the code within companies, explain it to suppliers and to monitor and verify compliance with the code.

The extent to which such codes of conduct become a burden on developing country producers depends very much on the manner in which they are implemented. If local stakeholders are involved in both the design and implementation, codes have a much greater chance of bringing real benefits to the people they are aiming to help, rather than simply salving Northern consciences – a form of 'ethical cleansing'. Northern environment and development organisations are increasingly urging companies not simply to drop suppliers that do not comply, but to develop longer-term relations that help improve performance. However, the complexity of supply chains and the issues surrounding them mean that a sophisticated response is needed, which requires an expenditure of time and money that many companies currently find hard to justify.

Box 3.6 A sustainable Nike?

Nike has attracted considerable criticism for its record on environmental and social conditions, particularly those at some of its subcontractors' production facilities. One of its responses has been the launch of a new mission statement in 1998, which states that "*through the adoption of sustainable business practices, Nike is responsible for securing intergenerational quality life, restoring the environment and increasing value for our customers, shareholders and business partners*". The company has also committed itself to "*share responsibility with our manufacturing partners to continually improve the workplace for every worker manufacturing Nike products.*"[48] Given the central role of out-sourcing to developing countries, Nike's new approach has a number of implications for the supply chain, since the company has also stated that it will:

- Integrate principles of sustainability into all major business decisions.
- Scrutinise the environmental impacts of its day-to-day operations and throughout every stage of the product life-cycle.
- Design and develop products, materials and technologies according to the fundamental principles of sustainability.
- Promote its practices throughout the supply chain and seek business partnerships with suppliers who operate in a manner consistent with its values.
- Educate its employees, customers, and business partners to support the goal of achieving sustainability.
- Turn awareness into action by integrating environmental responsibility into job responsibility.
- Partner with experts and organisations that contribute to the company's knowledge about sustainability and stewardship.
- Contribute to quality of life in the communities in which it operates.
- Monitor, measure, and report progress.
- Strive for continuous improvement in everything it does.
- Comply with all applicable and relevant regulations wherever in the world it does business.

Nike has been running training sessions on environmental, health and safety issues with its Asian subcontractors. Nike's goal is that all its footwear manufacturers should have a functioning environmental, health and safety management system in place by June 2001. Their training aims to help their subcontractors to meet this objective and provide all the necessary information for them to pursue ISO 14001 if they wish to.

Conclusions

The development of supply chain policies for sustainable development is still very much in its infancy. Ethical sourcing specifications still tend to be limited to those large corporations concerned about their public profile, and touch on a limited range of sustainability issues. Nevertheless, five main trends can be observed which look set to grow in importance in the coming years:

- **Reputation not demand:** What is significant about the supply chain trend is that it is driven by the need to sustain corporate reputation rather than by consumer demand. Instead of developing a niche of 'environmentally-friendly' products – the approach of the green consumer era – companies are now seeking assurance across the product range.

- **Brands not labels:** Although eco-labelling remains a high priority on the WTO agenda, it is playing a declining role in influencing market choice. Increasingly, companies are setting their own, often confidential, requirements to assure the quality of their overall brand. The widespread use of voluntary labels is likely to remain marginal due to business concerns about negative spillover to non-labelled products, the cost implications and the 'policeman approach' undermining buyer-supplier relationships.

- **Production methods not just product checking:** Traditionally, retailer due diligence focused on ensuring that products posed no risk to the consumer. This has been the driving force behind health and safety specifications – for example, on pesticides in food and toxic chemicals in textile manufacture. Now buyers are also specifying the 'process and production methods' (PPMs) that their suppliers must use. Thus, in the South African citrus industry, European supermarkets are not only demanding low levels of pesticide in fruit, but are detailing how farmers should implement integrated pest management to give this assurance.[49]

Waitrose

European supermarkets are starting to specify production methods for fresh produce to satisfy their quality and environmental requirements

- **Social and environmental standards:** Companies are increasingly having to deal with both environmental and social issues. Often these are still implemented in parallel but there are strong market pressures for convergence to liberate synergies and productivity gains – and to provide a clear message to consumers. For example, there are close links between the fair trade and organic food movements; the International Flower Label Programme launched earlier this year in Germany deals with both labour standards and environmental aspects; and supplier codes of conduct in the clothing sector from C&A and Marks & Spencer again cover social and environmental dimensions.[50]

- **The importance of partnership:** Early communication of new requirements and close coordination between buyer and supplier is proving critical to the smooth adoption of improved practices. The way that information on new criteria is communicated and the manner in which new

requirements are phased in are crucial to the type of impact that they have on developing country producers. If the information is not passed on early enough to the affected industries and the national government does not have the time or capacity to respond proactively, then small and medium enterprises in particular may be badly affected.

The next section looks at the extent to which the above trends are impacting on six sectors in Bangladesh, Ghana, India and South Africa and how producers are responding to environmental and social issues.

part b

Country case studies

Introduction

To get a better understanding of the impact of the move to sustainable development for export sectors in developing countries, four country case studies were prepared for Bangladesh, Ghana, India and South Africa, addressing nine key questions in a range of sectors:

Opportunities: Are new trade opportunities emerging for exporters who improve social and environmental performance?

Impacts: What are the main costs and benefits for exporters responding to these new trade opportunities for sustainable goods and services, and how lasting are these impacts?

Constraints: What are the main constraints facing exporters of sustainable goods and services to the EU?

Significance: How significant are the pressures for improved social and environmental performance compared with other critical issues for exporters?

Leverage: Where are the main leverage points for improvement: at the national policy level, at the cluster level or at the enterprise level?

Partnership: What are the critical ingredients for building trust and long-term partnerships along the supply chain?

Scale: What are the particular barriers facing small- and medium-sized firms, and how can these be overcome?

Convergence: How advanced is the convergence of social and environmental criteria?

Dialogue: Are there examples of strategic dialogue with importing countries?

Jorgen Schytte/Still Pictures

Loading cocoa for export, Koko village, Ghana.

Ultimately, these issues boil down to three strategic questions:

Who decides? Who sets the standards, identifies the priorities and determines the allocation of scarce resources?

Who benefits? How are the risks, rewards and responsibilities for sustainable development distributed along the trade chain?

Who wins? How can new trade pressures help to support the local, multi-stakeholder processes that are so essential to resolving the problems often generated by export production?

The authors' contact details are all listed at the front of the document and all the information in the case studies is taken from their reports, unless otherwise referenced.

4 Bangladesh

The last twenty years have seen a dramatic shift in Bangladesh's sectoral export earnings. The following section examines three export-oriented sectors in Bangladesh, which together account for 80% of the country's foreign exchange earnings; leather, garments and shrimp. Leather is a traditional Bangladeshi export, but now contributes less to foreign exchange earnings than the relatively new shrimp and garment sectors. Garments are Bangladesh's major export success story; the only successful industrial sector in the country, it now accounts for two-thirds of the country's total export earnings.

Table 4.1 Comparison of key export sectors

	Leather	Shrimp	Garments
Number of firms	207	9,000	2,700
Direct Employment	70,000	Not known	1.4 million
Indirect Employment	0.5 million	1.5 million	0.5 million
Share of Bangladesh's exports (%)	6	7	68
Foreign Exchange Earnings (US $)	224 million	270 million (1996)	3 billion

All figures are for 1997 unless otherwise stated

There are significant environmental and social issues associated with all three sectors. In some cases, sustainability concerns have yet to impact on export competitiveness; in

others, local and international pressure have had the potential to close companies and lead to dramatic changes in production practices.

4.1 Garments

Background

The garments sector has expanded rapidly, from only four firms in 1976 to over 2,700 in 1999.[51] The main growth took place in the late 1980s when garment manufacturers from Hong Kong, Taiwan and Korea, facing increasing restrictions from export quotas and rising labour costs, set up factories in Bangladesh, either fully-owned or with local partners. As more local entrepreneurs entered the market, many of the foreign owners withdrew from manufacturing and concentrated on buying and exporting the products. The value of garment exports almost trebled between 1991 and 1997, to over US $3 billion, and in 1998-99 accounted for over 75% of total foreign exchange earnings in Bangladesh.

Export oriented garment manufacturing started in Chittagong in the south-east of the country, but today over 80% of firms are located in Dhaka and the surrounding suburbs. The sector employs about 1.4 million people directly and it is estimated that another half a million are involved in linked activities. Women make up around 65% of garment sector workers and tend to be concentrated in the lower-skilled jobs.

The garments industry is almost entirely dependent on imported textiles. About 90% of the woven fabric and 60% of the knitted fabrics used in the garments sector are imported. This results in longer lead times and additional costs. Local fabrics have tended to be poor quality and are rarely used for export garments. A number of composite mills have recently been set up, some as joint ventures, to manufacture higher quality textiles. Bangladesh is more self-sufficient in accessories, supplying around 80% of the buttons, elastic, collar bands, clips, zips, bags and hangers used by the industry.

Although there is a high degree of competition amongst garment firms in Bangladesh, there is also a significant

amount of subcontracting between companies. Most firms accept orders beyond their production capacity and subcontract out part of the order.

Supply chain and markets

Bangladesh garment production is destined almost entirely for the USA and European Union. Traditionally, the bulk of Bangladeshi exporters have produced shirts for the low end of the mass market, selling to companies such as Littlewoods in the UK and C&A in the Netherlands. Some firms are now beginning to diversify into higher value items such as jeans.

Table 4.2 Garment exports 1996/97

Countries/Regions	Value US$ millions	%
EU	1,624	55
USA	1,245	41
Others	132	4

Exports to the Middle East, Japan and the former Soviet Union are currently low but are expected to grow.

The Bangladeshi garment industry is dominated by brokers and intermediaries. Buying agents carry out a range of intermediary functions, including collecting orders from importers, procuring raw materials and complying with banking and shipment formalities. In the past, the majority of the intermediaries were Korean, Hong Kong or Singaporean owned but they are now being joined by Indian, Pakistani, European and local firms. Increasingly, large manufacturers are doing their own marketing and have set up offices in major importing countries.

The international trade in textiles has long been controlled through tariff, quota and other barriers, in particular to limit imports from developing countries and so help preserve employment in the industrialised world. In 1974, the Multi-Fibre Arrangement (MFA) was adopted, setting quotas for imports into the industrialised world in clear violation of the free trade spirit of the General Agreement on Tariffs and Trade (GATT).[52] The Agreement on Textiles and Clothing, reached during the Uruguay Round of trade negotiations in the early 1990s, provides a timetable for the phased dismantling of the MFA by 2005. However, most of the

changes have been end-loaded and will not materialise until 2005 itself. Furthermore, considerable barriers to imports will remain.[53]

Bangladesh has benefited substantially from the preferential treatment received as a 'least developed country' through the EU's General System of Preferences (GSP) and the restrictions imposed under the MFA on its main competitors. The garments sector went through difficult times in the mid-1980s when the USA introduced quotas on garment imports. To try and reduce the number of firms facing bankruptcy, the Bangladesh government banned new firms from producing garments under the quota. Firms that survived did so by diversifying. The ban was lifted in 1991 and the resulting increase in new firms has led to greater competition and a reduction in profit margins.

Shahidul Alam/Panos Pictures

Cutting section, garment factory, Dhaka.

The removal of the GSP and the MFA poses fundamental challenges for the garment and textile sectors in Bangladesh. Globally, the garment sector is fiercely competitive, and numerous other developing countries with similarly low wage rates, such as India, Indonesia and particularly China, are competing for the same markets. Bangladesh has been hampered by its poor infrastructure (such as irregular energy supply) and an inefficient banking sector. Industrial production and exports have also been disrupted in recent years by political instability and strikes.

Sustainability in the supply chain

Bangladesh has featured in numerous campaigns featuring poor working conditions and the use of child labour. Children are legally allowed to work in shops, commercial establishments and some workshop settings, although only children of fourteen or over can work in factories. A 1998 US Department of Labor survey estimated that there are 6,584,000 children working in Bangladesh and 19% of

those were under the legal minimum age.[54] Working conditions in many factories are poor and there are numerous reports of working days of 12 to 15 hours, compulsory overtime, dangerous working conditions and sexual harassment.[55, 56] In the garment sector, 10,546 children were identified as working in 891 garment factories in 1995.[57]

Box 4.1 Ending child labour and improving lives[58, 59]

The agreement between the BGMEA, ILO and UNICEF was innovative in a number of ways. The Memorandum of Understanding (MoU) committed the three parties to removing all children currently working in the garment sector and enrolling them in schools. It was agreed that no children should be removed from work until an appropriate school programme was in place and that factory owners could not hire new under-age workers, or retain children once school facilities were available. The MoU established processes for referring under-age workers, paying monthly stipends of 300 taka (US$ 6.88) for children attending school and monitoring employment at garment factories. All activities are jointly funded by the three signatories of the MoU.

UNICEF has the responsibility of ensuring that former child workers receive regular schooling. 353 schools were established and are being run by two NGOs, in consultation with the Bangladesh government. Children had to attend for between two and three hours per day until they turned fourteen. From the time of their first establishment and the end of 1997, the schools catered for 9,710 children. As more and more of the children turned fourteen, the number of schools has declined.

The ILO has set up a monitoring system to ensure that factories are complying with the agreement and to check that the children are attending school regularly and not working in other sectors. Twenty-five monitoring teams made up of ILO, BGMEA, and Government of Bangladesh representatives visit registered factories in designated zones monthly and interview workers. In 1995, 43% of BGMEA's 2,152 factories were identified as using child labour. By 1996, the percentage of BGMEA factories employing children had fallen to 32%, and by 1997 to 13%. In October 1998, only 35 children were found working in garment factories.

Overall, it is estimated that over 10,000 children will benefit from the programme. At the same time the industry has improved its reputation and averted the threat of a boycott. However, it has also raised a number of dilemmas. It has only targeted children in the garment industry, thereby rewarding families who sent their children to work rather than those who made sacrifices to send them to school. Stipends have been crucial to the success of the programme but are unsustainable and other ways need to be found to boost families income in the long term. The steering committee is considering a number of options including projects focusing on food supplements, vocational training, skill training, microcredit facilities and health care facilities.

Non-governmental campaigns began to generate responses from buyers in the early 1990s. However, it was the threat posed by the introduction of the 1992 Harkins Bill in the USA, which sought to ban imports of garments manufactured by children under the age of fourteen to the USA, that led to serious action in Bangladesh.

Some factory owners reacted to the prospect of losing business by dismissing all their child workers, attracting criticism for worsening an already poor situation. In a bid to develop a more comprehensive approach, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) started working with the International Labour Organisation (ILO) and UNICEF. In 1995, the three organisations signed a memorandum of understanding aimed at eliminating child labour in the garment industry, which is now being used as a model for other industries.

The BGMEA and its member factories are very proud of the scheme. Industry observers are confident that garment manufacturers will continue to avoid the use of child labour, now

Box 4.2 Sharanika Garments Limited

Established in 1982, Sharanika Garments Limited is now one of the largest garment manufacturers and exporters in Bangladesh, with an annual turnover of US$ 324 million. It produces a range of garments for export; around 60% of production goes to the USA and 40% to the EU. The company had to suspend production temporarily following the imposition of quotas by the US in 1987 but regained market share by diversifying its product range.

Child labour has not been an issue for Sharanika who were certified as child labour free by the joint BGMEA/ ILO and UNICEF inspection team. However, the company is having to respond to increasing numbers of requests from importing companies for information on health and safety issues, such as ventilation, fire equipment and toilet facilities, and environmental questions such as waste management. In May 1998, the company was visited by an organisation inspecting the facilities on behalf of the American retailer Wal-Mart. Sharanika's management are concerned about the implications of possible future additional conditionalities such as labour standards and minimum wage requirements.

that pressure is coming from local human rights groups and NGOs as well as the international market. Most of the major clothing retailers in Europe and the USA now have codes of conduct covering both labour practices and environmental performance. These codes can often set more stringent standards than local or international regulatory requirements.

Looking to the future

The Bangladesh garments industry appears to have successfully responded to the challenge of child labour, due to collective action by the BGMEA in partnership with local and international agencies. Many other sustainability issues remain unresolved, such as the impact of the removal of the MFA on competitiveness; the challenge of developing backward linkages with textile production; and the spread of buyer concerns beyond child labour to other social and environmental priorities. Signs are emerging that leading textile manufacturers and garment producers are starting to take a more proactive approach to social and environmental performance as a way of improving their competitive position in world markets.

4.2 Leather

Background

Leather tanning is the world's largest by-product industry. Tanning is highly polluting and since the 1960s the majority of the industry has relocated from industrialised to developing countries, as effluent treatment regulations and enforcement, intolerance to pollution and labour costs in the North increase.

Leather accounts for 6% of Bangladesh's exports and in 1996 generated earnings of US$ 224 million. Around 70,000 people are employed in the 207 leather processing tannery units, almost all of which are located in the Hazaribag area of southwest Dhaka, on the banks of the river Buriganga. It is estimated that a further half a million people are involved in the collection of skins and hides. Most of the 70 firms operating in the 1960s were nationalised after independence in 1971. Today, the vast majority of tanneries are locally owned, although four have been bought by foreign multinationals.

Bangladeshi leather is generally of low quality. Skinning tends to be crude, reducing the quality of the leather, and the country suffers from a shortage of trained tannery staff. Bangladesh has the lowest rate of leather industry pay, which means that owners receive a high rate of return, despite the low quality product and inefficiency of many firms.

Until recently, little value-addition took place in Bangladesh and exports were almost entirely made up of hides and semi-processed or 'blue' leather. Government policy is to increase the proportion of in-country processing, and the state has been providing a variety of 'sticks and carrots' to achieve this goal. The introduction of tax holidays and other financial incentives and the ban on exports of blue leather introduced in 1990 have increased the proportion of leather products in exports from 2% in 1991 to 19% in 1998. Although this has increased domestic value-adding it has also contributed to the demise of some smaller firms. There have been few signs

Shahidul Alam/Panos Pictures

Bangladesh is aiming to increase the proportion of processed leather exports.

of co-operation between the remaining small leather firms, most of whom are now dependent on intermediaries or large tanneries to export their products.

The main value-added products exported are shoes. There are currently about 15 export-oriented shoe manufacturing units in the suburbs of Dhaka and about fifty units producing wallets, briefcases, handbags and belts. Large units hire qualified leather technologists from India, Italy and Pakistan. The German aid agency, GTZ, is supporting a programme to improve the quality of finishing, dyeing and product design. Bangladesh's Fifth Five Year Plan (1997-2002) and national export policies have identified leather and leather products as a key sector. The priorities for the future are seen as quality improvement, technology upgrading and providing incentives for investment.

Supply chains and markets

Leather is used for a range of purposes and is traded in a variety of unprocessed, semi-processed and ready-to-use forms. Consequently, the sector is characterised by a complex pattern of international trade with few set standards for suppliers. The market is divided according to quality. Leather for the top end of the market is generally sourced from US and European tanneries, while most mass market brands import their leather from, and subcontract their manufacturing to, firms in Asia and other developing countries.

The major markets are the EU, Hong Kong, Japan, China and Taiwan, with Hong Kong accounting for over 40% of total exports, followed by Italy which takes around 13%.

Table 4.3 Leather exports 1990-1998

Year	Value of exports (US$ million)
1990-91	137
1995-6	241
1996-7	222
1997-8	224

Source: Bangladesh Export Promotion Bureau

Environmental and social issues

Leather tanning is classified by the UN as a high impact sector and, according to the Bangladesh National Environmental Management Action Plan, is more harmful to the environment than the textile, medical, fertiliser and paper industries. The industry uses a huge amount of chemicals and water, and the main pollution problems are related to the liquid effluent which contains organic matter and chromium. The concentration of the firms in Dhaka means that huge quantities of effluent are discharged into a small area of the river, leading to severely polluted surface and ground water.

Tanning also generates significant amounts of solid waste. Around 200 tonnes of waste (mainly pieces of raw hides, lime fleshings and shaving dust) is generated during the peak season and although some is removed to landfill by the city garbage trucks, the open drains often get clogged. The result is that even leather importers are reluctant to visit the tanneries due to the '*prevailing unhygienic conditions*'.

Workers in tanneries are exposed to a range of dangerous and unhealthy conditions, in many cases working in plants with little or no effluent or solid waste treatment and handling toxic chemicals with no protective clothing. Health studies have indicated that those living in Harazibag were 31% more likely to suffer from skin diseases, 21% more likely to have jaundice and 17% more likely to have kidney problems.

There have been numerous studies by the government and international donors into the extent and impact of pollution from tanneries, and the problems are well known. Strict environmental legislation exists on paper but has never been enforced. For example, tanneries are required to undertake a detailed environmental impact assessment and have an effluent treatment plant, yet none do.

Julio Etchart/Still Pictures

Debris from a leather tannery in the slums of Dhaka, Bangladesh

For the last ten years, the government has been considering moving the tanneries to a more isolated location, in order to minimise the impacts on the city, but has been unable to overcome resistance from tannery owners. Another option, which is finally being implemented with assistance from UNIDO, is the construction of a central waste treatment plant. This is expected to be completed by 2001.

Sustainability in the supply chain [60]

The leather industry is fairly similar to the garment sector in terms of the environmental and social trade issues it has faced. However, there has been far less media attention on

the conditions faced by tannery workers, which is somewhat surprising in light of the poor social and environmental conditions in many tanneries.

Since environmental legislation in Bangladesh is rarely enforced, it is legislation in importing countries which has had most effect on the industry. This is generally focused on chemicals that can remain in the leather after processing and thereby affect consumers. At present the most important restrictions are related to azo-dyes. Germany and the Netherlands have been the most proactive in their legislation, but there are increasing moves to harmonise European regulations, and forthcoming EU legislation will ban the use of 300 of the approximately 2,000 azo dyes in use. There are also restrictions on a range of preserving agents, including pentachlorophenol (PCP), cadmium and some whale oils. Other substances likely to be included in forthcoming legislation are chrome IV and formaldehyde.

Box 4.3 Paramount Tanneries

Paramount Tanneries is a typical medium-sized leather manufacturing unit located in the heart of the tannery district in Dhaka. Between the 1950s and 1980s, the owners produced and exported blue leather until its export was banned. The manufacturing unit was set up in 1980 and produces 'crusts' for shoes and jackets and finished leather, from blue leather supplied by a sister organisation. They export TK80 million (around US$1.6 million) worth of goods to Europe and Hong Kong, with 80% going to Italy.

The unit employs 150 people, of which only fifteen have any formal educational or technical training. Although they made major investments in machinery in 1990 with financing from the Asian Development Bank, it lay idle for four years until the company could afford to operate it.

The plant uses about US$ 100,000 worth of chemicals each year, the majority of which are imported from Germany, the UK, Italy and China. Mr Akram Hossain explained that he had had no choice but to comply with the guidelines laid down by European exporters, although this had increased costs and reduced profit margins. His leather is now azo-dye and arsenic-free, and the use of pentachlorophenol is within the German limit.

Like other leather manufacturing units, Paramount releases liquid waste into open drains. However, one of the company's employees is currently attending a UNIDO sponsored cleaner technology course in India, which they hope will lead to the plant undertaking a first stage refinement of the water before releasing it into the drain.

Individual buyers also have their own specifications and in some cases these will include codes of conduct for their sub-contractors and suppliers. Clarks Shoes, for example, one of the major footwear brands in the UK, has a code which covers workers' minimum ages, maximum hours, minimum wages, freedom of association and discrimination and health and safety issues. Their Territory Managers are responsible for monitoring compliance with the code.[61]

In order to keep their export markets, Bangladeshi firms have had no choice but to find alternatives to azo-dyes, which has proved particularly burdensome for some small firms. Buyers' and legislative requirements have also meant that most chemicals used in leather processing have to be imported from the EU. The only input made in significant quantities in Bangladesh is chromium sulphate.

Looking to the future

Despite government initiatives to increase domestic processing, the value of Bangladeshi leather exports has remained relatively static over the last few years and the industry faces volume constraints due to a shortage of hides.

Low wages, poor working conditions and serious pollution problems abound in many tanneries. Tannery owners have shown little interest either in health and safety issues or in improving their environmental performance, despite significant local impacts. While environmental legislation in Bangladesh's export markets has forced leather processors to change their chemical usage, as yet there is little evidence that leather buyers requirements will go beyond consumer health and safety issues. Somewhat surprisingly, given the response to working conditions in the garment sector, there has been little concerted action on labour and health and safety issues nor pressure on the supply chains to act.

4.3 Shrimp

Background

Increasing demand for shrimp has stimulated a rapid expansion in shrimp aquaculture or shrimp farming, now a $6 billion global business. At present, shrimp farming accounts for over a quarter of the total harvest, and it is predicted that this will increase to 50%, as aquaculture expands and wild catches decline.[62]

Shrimp production has grown rapidly in recent years in Bangladesh in response to both growing demand and trade liberalisation – but at the cost of significant environmental degradation and severe social tensions. Shrimp is now Bangladesh's third largest earner of foreign currency making up around 7% of total exports. Almost all the shrimps harvested are sold for export and usually only those shrimps which cannot be exported remain in the domestic market. In 1995-6, Bangladeshi shrimp exports accounted for around 3% of global shrimp exports and were valued at US$270 million.

Shrimp cultivation for export began in Bangladesh in the 1960s and developed swiftly during the 1970s due to high demand from the USA, EU, Japan and the Middle East. There are now 9,000 shrimp farms in the country, concentrated in two coastal areas, Chittagong and Khulna, with over 80% of the area in Khulna.

The total area under shrimp cultivation in Bangladesh is estimated at 145,000 hectares, about 1% of the total land area. Bangladeshi shrimp farmers use an extensive method of cultivation, and the yield per hectare is one of the lowest in the world; approximately 230kg/ha, compared with 2,400 kg/ha in Thailand and 750 kg/ha in India. There are only eight shrimp hatcheries in the country, compared to the 110 in India serving 5,000 farms, so the Bangladeshi industry is almost entirely dependent on natural fries. It is estimated that around one and a half million people, mainly landless women and children, are involved in the collection of fries from the sea and channels.

The government supports the shrimp export industry through a variety of mechanisms, including leasing government land to shrimp farmers and financial incentives such as tax rebates and duty free import of machinery. A joint government and World Bank project is trying to improve technology in the shrimp industry. In 1996, the FAO assisted Bangladeshi fish processing plants to implement the Hazard Analysis Critical Control Point (HACCP) safety and quality assurance programme, in order to improve the export potential of the industry.

Supply chain and markets

There are around 200 shrimp processors, all located in Khulna and Chittagong. Large farmers sell directly to Bangladeshi processors, while smaller farmers sell to intermediaries. Processors sell the shrimps to importers and wholesalers in developed country markets, who then sell them on to supermarkets and the catering trade. Despite higher quality requirements in the supermarket sector, selling to the catering trade brings importers higher margins due to the market power of the major supermarkets. The Director of the UK Shellfish Association, Dr Edwards confirmed that *'it is a buyer's market'*, allowing buyers to dictate terms and conditions since there are plenty of alternative suppliers.[63]

Table 4.4 Shrimp exports 1995-96

Countries/Regions	Value US$ million	%
EU	116	43
USA	75	28
Japan	68	25
Others	11	4

The major EU importers of Bangladeshi shrimps are the UK, Germany, Belgium and Netherlands. The USA imports vast quantities of shrimp, yet despite being Bangladesh's second largest market, Bangladeshi exports only account for 3% of total US shrimp imports.

Environmental and social issues

There are long-standing and ongoing conflicts between shrimp farms and traditional paddy cultivation. Most shrimp farms are on land leased or bought from paddy farmers by entrepreneurs from outside the area. Shrimp requires saline water; therefore coastal embankments are breached during the dry season, making adjoining farms unusable for paddy. This forces paddy farmers to sell or lease their land to the more powerful shrimp farmers, often for a pitiful price. The result has been continuing tension, including violent conflicts, between local people and shrimp farmers.

Rates of return to shrimp farmers are high, partly as a result of the externalisation of their environmental and social costs, leaving local residents with unproductive land, scarce drinking water, higher unemployment and a host of environmental problems, including:

- Soil degradation: Increasing waterlogging and salinity, as well as reductions in grazing land.

- Loss of biodiversity: Shrimp farms have led to destruction of coastal vegetation, deforestation (for example, the destruction of mangrove forests in Chittagong) and the collection of seedlings has led to damage in the Sundarban mangrove forests.

- Declining fish stocks: Around 4 billion shrimp fries are collected each year, the vast majority by untrained people, and it has been estimated that for every shrimp fry collected around 100 fries of other species are destroyed.

One recent assessment carried out by the Bangladesh Centre for Policy Dialogue calculated that the financial costs of the environmental degradation caused by shrimp production amounted to about 20-30% of total export revenues.[64]

A variety of Bangladeshi non-governmental organisations are now campaigning on shrimp issues. Some are linked into the Industrial Shrimp Action Network, an international network of NGOs from shrimp producing and exporting countries who oppose the expansion of industrial shrimp farming. Most Bangladeshi NGOs would like shrimp cultivation to cease, due to its severe environmental and social impacts, although some think it has the potential to be beneficial, provided it is carried out in a way that takes into account the environment and local needs. Caritas is one such NGO that has been providing training and access to credit so that the poor, especially women, can to go into shrimp farming themselves, rather than leasing out their land. This has been successful in a small area.

There are some examples of compromise. In Khulna, about 60% of the land under shrimp cultivation is also used for growing paddy. Shrimp is cultivated between December and July and Aman paddy is grown from July to November, when the monsoon rains arrive and reduce the salinity. In Chittagong, salt is produced on some shrimp land between December and April. Stakeholder dialogue has been initiated in a number of areas to try and resolve on-going conflicts.

Sustainability in the supply chain

Bangladeshi fishery products have faced serious trade restrictions from the EU and USA on quality and health and safety grounds. In 1997, 143 shipments of frozen shrimp were automatically detained by the USA, and a number were refused entry on quality and safety grounds. In the same year, an EU inspection of seafood processing plants in Bangladesh resulted in a ban on imports of Bangladeshi fishery products by the EU.

Some fishery firms managed to find new markets for their shrimp in the Middle East and East Asia but many businesses declined dramatically. Companies were only allowed to start re-exporting to the EU once their plants had been approved by an EU inspection team as meeting their required quality and safety standards. One year after the introduction

of the ban, the EC approved 11 plants; by March 1999 this had increased to 27.

During the ban, importers simply increased exports from other Asian suppliers but most switched back to Bangladeshi suppliers once they had been re-approved for exports. The shock of export restrictions has made the government and shrimp processors take safety and quality much more seriously. Implementation of HACCP principles is seen as a way of regaining market confidence in Bangladeshi standards; consequently implementation is now viewed as a priority. Since mid-1997, 20% of the country's fish processing plants have implemented the principles, and a further 35% have prepared a HACCP quality assurance manual.

"We don't want to deal with someone who's got a bad reputation for wrecking the environment because later that's going to bounce back on us"

Norman Young, Chairman, Anchor Seafoods, UK[65]

Food safety legislation in most importing countries is very strict and is often applied via certification standards such as HACCP. Individual importers and retailers also apply their own quality systems, which go beyond legal requirements, and which are often supported by independent accreditation bodies such as the European Food Safety Inspection Service. Most importers source from a range of countries. Due to the structure of the market, buyers are able to dictate standards to potential suppliers and shift to alternative sources if these are not met. However, UK importers also stressed the need for long-term relationships with reputable suppliers and reported that they would usually attempt some improvement work with existing suppliers before dropping them.

A number of European NGOs have been campaigning against unsustainable aquaculture practices. Greenpeace is supporting local groups opposing shrimp farming[66] and is running a press campaign calling for a consumer boycott of unsustainably produced tropical shrimps.[67] Some NGOs have suggested ways of making the transition to more sustainable production. For example, Christian Aid has outlined a code of practice for smaller scale extensive shrimp farming by local people.[68] Many NGOs are keen to engage in dialogue with industry representatives in order to:

- identify and encourage the adoption of ecologically responsible and socially equitable production practices;
- support the restoration of ecosystems degraded by industrial shrimp farming; and
- develop means, such as certification and labelling systems, to allow consumers to make informed decisions about purchasing and eating shrimp. [69]

Since 1997, NGOs have been participating at meetings of the main global industry body, the World Aquaculture Society.

John Paul Kay/Still Pictures

Shrimp aquaculture, Bangladesh

Although parts of the industry have dismissed NGO campaigns as 'biased' and their claims as 'unrealistic', some do see benefits from engagement with NGOs. Anchor Seafoods, a major UK importer of shrimp, was an early member of the Ethical Trading Initiative, which Paul Byrne, Anchor's Managing Director, sees as an effective way for relatively small companies to influence ethical standards in the industry.[70]

Most importers emphasise the need for sustainable shrimp supply, to ensure the future of the whole industry. Some importers include environmental criteria in their quality requirements, recognising that their long term interests depend not only on their own reputation but also that of their suppliers.

Despite the positive statements and the many claims by importers that they only source shrimp that are 'sustainably produced' or from 'environmentally approved' units, there are no overall industry standards or independent accreditation to back up the claims of individual companies. In the UK at least, campaigning pressure appears to have diminished.

According to Dr Edwards of the UK Shellfish Association, concern about the impact of shrimp production has died away in the last year.[71]

Looking to the future

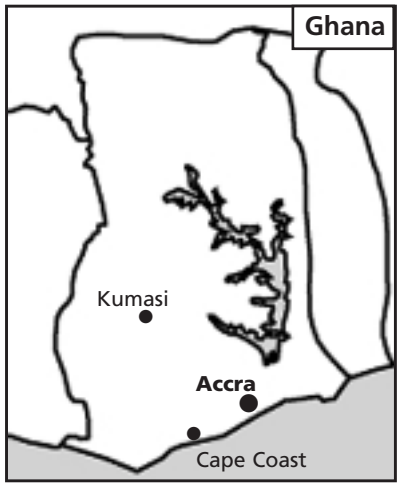
Shrimp production in Bangladesh is an example of an industry which has developed purely to serve export markets and whose expansion has caused severe local environmental and social impacts.

Although local and international NGO campaigns have effectively raised awareness of the problems associated with shrimp aquaculture, there is as yet no credible supply chain action to support sustainable shrimp production. In contrast, concerns about quality and safety of shrimp processing have led to severe regulatory restrictions on shrimp imports from Bangladesh in both Europe and the USA, stimulating concerted action on the part of Bangladeshi processors.

The time may now be right to push for more coherent shrimp sourcing policies aimed at reducing the local impacts of production. Effective NGO networks already exist and renewed pressure on buyers to demonstrate the moves they say they are making to source sustainably could pay off, now that there is more experience of industry-NGO dialogues in the development of industry wide standards and verification procedures.

5 Ghana

Ghana's economy has traditionally been dependent on three commodities – cocoa, gold and timber – all of which are now making a declining contribution to GDP. In contrast, non-traditional exports, particularly horticulture and seafood, are increasing. This study looks at the sustainable trade issues facing one traditional and one non-traditional export sector; cocoa and pineapples.



Although much has been done to promote both the traditional and non-traditional agricultural exports in recent years, many constraints still remain (see Box 5.1).

Box 5.1 Constraints to export growth in Ghana

- High dependence on natural resources and climatic conditions
- Foreign exchange fluctuations
- High interest rates and inflation
- Absence of long-term lending facilities
- Poor infrastructure, such as road and port facilities
- Relatively high labour costs
- Low or inappropriate use of agricultural technology

5.1 Cocoa

Background

Cocoa is one of the most important commodity exports from the South, and it has played a pivotal role in Ghana's economy for over 100 years. Although Ghana lost its long-held position as the number one cocoa producer in 1978, and both the volume and area of production are declining, cocoa still provides around 35% of the country's foreign exchange and more than 40% of government revenue.

Ghana and Côte d'Ivoire together account for over half of world cocoa supply. Cocoa is estimated to account for 12% of Ghana's GDP and employ about 17% of its labour force. In the 1960s, Ghana produced 560,000 tonnes of cocoa per year, but by the 1990s, a harvest of 400,000 tonnes was regarded as good. Today, around 1.2 million hectares are under cocoa, 33% less than in the 1980s, when serious drought and bushfires wreaked havoc in key cocoa growing areas. Yields per hectare are low and declining in comparison with other cocoa producing countries – around 30% lower than Côte d'Ivoire and 13% lower than the African average. However, Ghanaian cocoa is renowned for its quality.

In Ghana, cocoa is produced by smallholder farmers as one part of their overall livelihood strategy. The vast majority are men and most have two or more 1-2 hectare farms, which can be a considerable distance from each other. It is estimated that there are around 265,000 cocoa farm owners, and roughly 500,000 people are involved in cocoa growing if sharecroppers and 'caretakers' are taken into account.

Despite a significant increase in demand over the last two decades, due to the expansion in the chocolate market, cocoa prices have declined dramatically. Between 1986 and 1996, Ghana exported nearly 80% more cocoa, but received just 2% more income. Within Ghana, real producer prices have also fallen below the minimum suggested by the government. Consequently, farms have been abandoned and young people's interest in entering the sector is declining. There is little incentive to invest in new plantings or new technologies. Much of Ghana's cocoa stock is now very old and it is estimated that about 30% of the existing plantings yield very little due to their age. Cocoa production has fallen in the Eastern Region due to the Cocoa Swollen Shoot Virus Disease (CSSVD), and about half the current production comes from relatively new areas in the Western Region.

The Ghana Cocoa Marketing Board (Cocobod) is responsible for buying and marketing cocoa. Only licensed buyers can pur-

chase cocoa and their numbers have recently been expanded to increase competition and improve marketing efficiency.

The vast majority of the cocoa harvested is exported in the form of beans, although some cocoa has been processed in Ghana since 1947. Today, about one-fifth of the crop is processed into confectionery and other semi-finished products. Around 1,000 tonnes of chocolate is produced by the Cocoa Processing Company (CPC), mainly for sale in Ghana and other West African countries. Intermediate products (butter, liquor and powder) are exported to Europe, the USA, Japan and Russia. Domestic processors feel that they are at a disadvantage since they are not allowed to import cheaper foreign cocoa to blend with their local, high quality, expensive beans.

Various marketing strategies are being followed to try to increase export success. The Cocoa Processing Company has adopted a quality assurance policy in order to keep access to high value markets, and has also formed an alliance with Ghana Airways to sell specially packaged chocolates on their planes and at duty free shops. The Ghana Export Promotion Council is providing assistance in developing new chocolate wrappers.

Table 5.1 Production and exports of cocoa products from Ghana

Year	93/94		94/95		95/96		96/97		97/98	
Production/Export (thousand tonnes)	P	*E*	P	*E*	P	*E*	P	*E*	P	*E*
Confectionery:										
Chocolates	427	*3*	94	*0.5*	639	-	526	-	341	*9*
Pebbles	110	-	496	-	102	-	84	-	58	-
Drinking chocolate	182	*8*	3,839	*37*	918	*7*	928	*84*	909	*266*
Other products:										
Butter	4,148	*2,600*	3,839	*3,150*	3,680	*3,225*	3,935	*3,700*	3,783	*3,600*
Liquor	6,087	*5,493*	8,393	*7,093*	5,726	*6,167*	6,844	*6,267*	7,862	*n/a*
Cake - natural	3,169	*1,200*	3,334	*400*	3,334	*1,866*	3,972	*3,266*	3,225	*2,851*
Cake - alkalised	1,459	*n/a*	731	*n/a*	731	*10*	316	-	n/a	-
Powder - natural	1,002	*170*	1,147	*11*	913	-	579	*18*	n/a	*355*
Powder - alkalised	491	-	389	*41*	552	-	445	*2*	n/a	*291*

The supply chain and markets

Western Europe is the largest market for cocoa, representing 40% of global cocoa consumption, and consuming two million tonnes of chocolate a year. However, growth rates in Europe have been declining as markets reach saturation. It has been estimated that the share of the retailer price of a typical bar of milk chocolate which accrues to the producer is about 0.5%.[72]

The vast majority of cocoa processing takes place in importing countries where the market is tightly controlled by a few firms. Four firms – ADM, Barry Callebaut, Cargill and the Hosta group – control 40% of cocoa processing capacity. Three-quarters of chocolate sales are from three firms in the UK (Cadbury, Nestle and Mars) and from just two in the USA (Mars and Hershey).

Cocoa exporters also face an additional threat from changes in EU regulations on cocoa processing. Under the present EU Directive, cocoa butter is the only fat allowed in chocolate. However, in some member states, notably the UK, Denmark and Ireland, chocolate includes up to 5% vegetable fat. In 1996, it was proposed to reform the directive to allow the addition of up to 5% non-cocoa butter in all states. Cocoa producing nations and fair trade organisations lobbied hard to defeat the revision, arguing that the only people who would gain are large chocolate manufacturers.

It has been estimated that the revision, which is likely to come into effect within the next two years, will reduce demand for cocoa beans by up to 200,000 tonnes per year resulting in a drop in producer revenue of up to 20%. The International Cocoa Organisation have calculated that this could cost producer nations US$ 780 million per year. The European Fair Trade Organisation had argued that the EU should not allow member states to include any fat other than cocoa butter in products labelled as chocolate.

Environmental and social issues

In Ghana, the main social issues associated with cocoa production are the employment generated by the cocoa industry and the distribution of benefits from exports. Real producer prices have been falling and consequently cocoa is becoming less attractive to the younger generation.

Like other commodity crops, most of the environmental costs of cocoa production are borne locally, including:

- **Land use:** Cocoa production is increasing through expansion into new areas and this has led to forest depletion, environmental degradation and adverse climatic changes. Poor planting practices can also lead to soil erosion and declining soil fertility, due to the continuous drain in nutrients.

- **Production techniques:** Although many farmers cannot afford to buy agro-chemicals, those who can often use them in an inappropriate manner, partly due to the high illiteracy rate.

- **Processing pollution:** Effluent from cocoa processing can lead to serious water pollution, often breaching environmental regulations. Some factories have started putting environmental protection measures in place, for example sedimentation tanks and fat traps to filter out solids prior to discharging the effluent.

Cocoa production can also have positive environmental effects, such as the provision of tree cover. Furthermore, many of the negative effects could be prevented through the adoption of improved production techniques, for example, through the rehabilitation of old farms. However, the vulnerability of cocoa to pests poses a major constraint to rehabilitation efforts.

Box 5.2 Towards sustainable cocoa production

With almost complete depletion of Ghana's forest, except what is left in the Western Region, the government has recognised that increasing production through expansion into forest areas *"is approaching its land limit and is no longer the best method to increase cocoa production in an environmentally sustainable manner"*.[73] Other options for increasing production include:

- intensifying production on existing acreage under cocoa,
- rehabilitating abandoned cocoa farms, and
- replanting cocoa in old growing areas.

Research results indicate that replanting in old cocoa areas could be economically successful. Yields of cocoa can be increased in the short term by:

- more effective disease and pest control, particularly, CSSVD and black pod diseases, by applying pesticides according to recommended quantities and frequencies,
- proper farm maintenance, particularly, weeding, pruning and shade management,
- use of inorganic and organic fertilisers to replenish soil fertility due to losses resulting from harvesting and leaching
- harvesting of the crop at the right time.

In the medium term, yields can be increased by replacing the low-yield Amelonado and Amazon varieties with fast growing, high-yield hybrid varieties.

Source: Ministry of Finance, Accra, 1998

Sustainability in the supply chain[74]

Concerns about the long term sustainability of cocoa supply have led to a number of initiatives by European and North American cocoa and confectionery bodies. According to John Newman, director of the UK Biscuit, Cake, Chocolate and Confectionery Alliance, there is now a '*big push*' towards more sustainable cocoa production.[75] Cocoa has a very high incidence of disease and fungal infestations, and there is concern that reduced yields will lead to rising prices. As a result, there is growing emphasis among the major chocolate processors on developing more appropriate production methods to tackle disease and pests including the use of Integrated Pest Management techniques. For example, the American Cocoa Research Institute (ACRI) is developing a major research programme on sustainable cocoa. Although the primary aim is to assure a continuing supply of cocoa, other objectives include conserving biodiversity and improving the livelihoods of small farmers.

Cocoa farmers in Ghana are also starting to benefit from working through fair trade marketing arrangements. Fair trade organisations commit themselves to enter into trading agreements with Southern producers which will bring real benefit to producers. They aim to pay a fair price, enter into long term relationships with producers and provide support, pre-financing, trade facilitation and skills development where required. Small quantities of fair trade cocoa from Ghana are sold through recognised fair trade organisations such as Oxfam and Traidcraft in the UK. Alternatively, companies who buy cocoa from the fair trade register are entitled to use the Fairtrade Mark on their products. This guarantees that a number of criteria have been met, including:

- that the cocoa has come from a democratically controlled co-operative; and
- that producers are guaranteed a minimum price, and are paid a premium if the market price is above the minimum price.

Max Havelaar has been working to get fair trade cocoa and cocoa products into the mainstream market since 1994 and now sells around 800 tonnes of Fairtrade marked cocoa products across Europe. This represents a market share of less than one percent, compared to 3-5% for fair trade coffee. This modest growth is explained by the huge variety of product types in the chocolate market, which makes market penetration difficult. Max Havelaar are aiming for sales volumes of 1,000 tonnes per year and see product diversification as the way forward, including products which are both organic and fair trade. According to Heini Conrad of Max Havelaar, "*fair trade and organic cocoa are a selling proposition with good potential.*"[76] Oxfam have just begun selling fair trade cocoa through a mainstream UK supermarket with the aim of raising sales and awareness.

DCC

The Divine bar is made with fair trade cocoa from the Kuapa Kokoo cooperative. It is sold in mainstream retail outlets in the UK.

An innovative new entrant to the fair trade market in 1998 was the Day Chocolate Company (DCC). This is the result of collaboration between the fair trade organisation, Twin Trading, the Kuapa Kokoo cocoa producers organisation in Ghana and the Body Shop, which uses fair trade cocoa butter from Kuapa Kokoo in some of its cosmetics. The DCC has been described as an 'alternative multinational' corporation, with Kuapa Kokoo contributing 33% of the equity, yet receiving 66% of the profits. The company has received loan guarantees and other support from the UK Department of International Development. Divine chocolate, DCC's first product, is currently sold in all Iceland and Co-op stores in the UK as well as some Sainsburys and many health food shops. Sales are modest but increasing.

Looking to the future

The case of cocoa in Ghana illustrates a familiar story. While the world market for cocoa products has grown, the majority of value-addition is taking place in importing countries and the real prices paid to producers have declined. As a result, the cocoa sector is marked by old trees and ageing farmers, with depressed prices providing little incentive for investment in new stock and technologies.

However, the Ghanaian cocoa sector does have several positive aspects. It is renowned for its quality product and fair trade links are becoming established. As mainstream companies investigate more sustainable production techniques and the fair trade market expands, these may provide Ghana with a competitive advantage.

The relative prominence of fair trade cocoa products has stimulated some interesting reactions from conventional companies, keen to demonstrate that their trading relationships with cocoa farmers are also fair. A key question for the future is whether mainstream companies will start to adopt new trading practices to encourage sustainable cocoa production, for example, by supporting IPM and organic cultivation, and paying premium prices to encourage farmers to continue in the sector.

Box 5.3 Kuapa Kokoo

Kuapa Kokoo is Twi for 'Good Cocoa Farmers' and is an organisation of cocoa farmers run by cocoa farmers. Kuapa Kokoo Ltd (KKL) was founded in the early 1990s by Nan Frimpong, a farmers' delegate in Cocobod as a farmers-owned trading organisation. Under the existing legislation, it could not be formed as a co-operative and so was set up as a private company.

In order to meet the Government's strict rule for the registration of private cocoa buying agencies (assets, legal form, board of directors, trademark, geographical propagation), KKL badly needed assistance which eventually came from Twin and the Netherlands Development Organisation (SNV), who provided financial, personnel and institutional support. In November 1993, KKL obtained a Cocoa Buying License.

In 1996 the co-operative Kuapa Kokoo Union (KKU) was formed and expanded rapidly: 468 primary societies are now members of KKU, who together have a membership of 30,000 farmers. KKU owns KKL, but KKL has its own management structure and purchases cocoa from non-KKU farmers as well as co-operative members.

All cocoa exported from Ghana has to go through the Cocobod. In the mid-1990s, Cocobod agreed to facilitate fair trade sales by ensuring that any fair trade order received KKL-labelled cocoa. Cocobod receives the market rate for cocoa and the fair trade premium is paid into the Kuapa Kokoo Farmers Trust. The funds can only be spent on proposals originating from primary societies, which are felt to reflect local needs. So far, eight grants have been made, six for piped water, one for a latrine and one for a palm nut cracker for a women's group.

KKL has been through some troubled times, almost going bankrupt at one stage. However, it has brought benefits to farmers, notably providing accurate information and transparent accounting, paying cash, implementing a gender programme, promoting efficiency improvements and developing a pilot project for organic production.

5.2 Pineapples

Background

Since 1984, the Ghanaian government has been promoting non-traditional exports in order to diversify the economic base of the country.[77] Horticulture has been one of the success stories, with the value of horticultural exports growing at around 30% a year for the last six years. Pineapples are the cornerstone of this success, accounting for over half of all horticultural export earnings. Ghana is now the third largest exporter of pineapples to Europe and the number one supplier of top quality golden pineapples.

Table 5.2 Exports of pineapples from Ghana

Year	Number of Exporters	Export quantity (metric tonnes)	Value (US$)
1992	59	9,754	4.4
1993	53	13,156	5.2
1994	66	14,954	5.3
1995	69	15,763	5.6
1996	73	27,602	11.0
1997	57	25,123	n/a

Pineapples are grown by both commercial farms and smallholders. Commercial pineapple farms range from between 50 and 3,000 acres and most are also involved in exporting. In 1997, there were 57 registered exporters, although 72% of all exports were accounted for by just nine companies, who buy fruit from commercial farms and smallholders.

Pineapples are cultivated in the semi-deciduous forest zones of Nsawam, Wineba, Aburi and the savanna regions of the Accra Plain. The expansion of pineapple production has contributed in some areas to deforestation, for example, in Kraboa Cottie District.

There is significant local processing, the main products being juice and jams, 70% of which goes to the domestic market. Most exports of processed products remain within West Africa, although some companies export the majority of their production to Europe.

Supply chains and markets

The European Union is the world's largest single importer of fresh fruit and vegetables and is the major market for Ghanaian pineapples. Exporters sell into both the wholesale and retail markets.

Although pineapples generate significant income, the majority of revenues goes to the exporter rather than the farmer. However, even the exporter receives only a small proportion

of the wholesale value due to the cost of freight, typically around 45% for air freight and 25% for sea freight. Sea freight has only been developed over the last few years and this has vastly broadened the markets available to exporters. Air-freighted pineapples are only viable if they can access the high quality, but low volume, premium-priced niches in European markets. The environmental costs of air freight are not, however, internalised into this price equation.

Table 5.3 Principal markets for Ghanaian pineapples

Country	Volume
Belgium/Luxembourg*	14,300
Switzerland	5,450
Netherlands	3,000
Germany	2,600
UK	1,000
Italy	850
France	275

* The majority of pineapples arriving in Belgium and Luxembourg are re-exported to other European countries

Prices for Ghanaian pineapples have been declining as a result of competition from other producers, particularly from Central America, and a downward pressure on prices from retailers. In particular the Costa Rican 'Extra Sweet' pineapple marketed by Del Monte is capturing premium quality markets. Producers also suffer from substantial price variations, relating due to seasonal and competitive factors. Fluctuations tend to be more dramatic for fresh pineapples and for the wholesale market rather than the retail market.

Table 5.4 Mode of export of Ghanaian pineapples

Year	Sea Freight	Air Freight
1994		15,000
1995	2,710	13,000
1996	13,644	15,800
1997	15,674	ca. 12,000

Environmental and social issues

The expansion of pineapple production generates new employment opportunities: women make up about three-quarters of the labour force on pineapple farms but are concentrated in the low-paid, menial jobs. The pressure for land on which to farm commercially has led to changes to the traditional communal ownership system. In some areas, land has been sold to commercial farmers (who are often from outside the area) under long-term leases. This can displace local people, whose options are reduced to selling their labour to commercial farms or cultivating marginal land.

Plantation pineapple production can also result in 'ecological deserts', caused by land clearance and deforestation and the mismanagement of agro-chemicals, leading to soil depletion and sterilisation.[78] In the Akwapim area, fallow plots formerly used for pineapple cultivation, have not reverted to their original, heavy vegetative cover. Heavy pesticide use also poses considerable health risks. Abraham Aborgeh, head of the Fotobi Pineapple Producers and Marketing Co-operative Association at Amanfrom in Akwapim recognises that "*the use of such chemicals is a great source of worry to the farmers and to the local community. But there is nothing we can do, since they enhance efficient clearing of the land. Moreover, the sources of drinking water in the community are mainly hand dug wells and streams that are sometimes only metres away from the pineapple farms and are therefore very polluted*".

Sustainability in the supply chain[79]

In general, environmental requirements are more widely applied to fruit imports into the EU than social standards. The main driver for improved environmental performance has been legislation, particularly relating to chemical residues and the 'due diligence' requirements.

'Due diligence' requires growers, marketing organisations and retailers to 'take all reasonable precautions' to ensure that pesticide residues do not exceed prescribed maximum levels. In order to satisfy this, European buyers seek to ensure

'traceability' of all imported fruit. Many companies use sophisticated procedures which ensure that they know exactly where a particular batch of fruit has been grown. Buyers also require all suppliers to sign an undertaking which defines exactly what chemicals have been applied to their crops and other measures of good practice, in line with their due diligence requirements. In most cases, this is enforced through a combination of self-assessment by the grower and inspection by the buyer. The strongest pressure is coming from food retailers and supermarkets which have a direct link with consumers; there is little demand for good environmental performance in the wholesale market.

Some retailers, particularly the large European supermarkets, apply higher environmental standards than those required by legislation. In most cases the main issue is pesticide use, and requirements are linked into the companies' quality systems. To be sure that pesticide residue levels are not breached, retailers are increasingly requiring that fruit is grown under Integrated Pest Management (IPM) systems or broader protocols such as Integrated Fruit Production (IFP) and Integrated Crop Management (ICM), rather than simply stipulating acceptable levels (see Box 3.4).

Ron Giling/Still Pictures

Harvesting pineapples for export, Ghana

Fifteen of the major European fresh produce retailers, including Albert Heijn in the Netherlands, Delhaize in Belgium, along with Safeway, Sainsbury's, Tesco and Waitrose in the UK, are members of EUREP, a body committed to raising standards in the production of fresh fruit and vegetables. EUREP has recently published guidelines on Good Agricultural Practice (GAP), which incorporates IPM and ICM practices as well as some social and environmental measures.

Retailers are currently running pilot schemes using the GAP guidelines as a benchmark prior to developing full implementation strategies.

Individual retailers have also developed their own joint environmental and social standards for some produce. For example, Tesco's 'Nature's Choice' programme covers environmental issues (such as waste disposal and protection of local habitat as well as agrochemical use) and social issues (such as working conditions for employees of suppliers). The aim is that eventually all suppliers will be accredited under either the Nature's Choice scheme or equivalent local standards. For Tesco the benefits of this type of initiative are increased knowledge of activities in its supply chains, closer relationships with its suppliers and increased ability to respond to queries from customers and NGOs.[80]

With continually growing demand for organic produce, all retailers are keen to expand their range and proportion of organic goods. Estimates of the market size vary, with some as high as 15% of the total European market by 2005. It is expected that demand will be sustained, although it is likely to remain a niche market. One supermarket, Waitrose, is striving to provide customers with the option of purchasing organic, as opposed to conventional, produce for all product lines.[81] Sainsbury's is reported to be investigating the option of taking over the agricultural production of an entire Caribbean island and converting it to organic, simply in order to ensure a reliable supply.[82]

Another potential growth area is the market for fair trade fruit. Fair trade bananas are already on sale in some European countries, and the Max Havelaar Foundation is planning to introduce fairly traded citrus, pineapples and mangos in the Netherlands, Switzerland, and then other countries.

Most UK supermarkets are involved in the Ethical Trading Initiative which is developing codes of conduct on working conditions. However, many companies are developing their

own social codes of conduct while they see how this initiative progresses. In practice, few social requirements are applied to fruit imports at present. A manager at one large importer admitted that he was not aware of any changes in retailers' requirements as a result of supermarkets' codes of conducts or the Ethical Trading Initiative. The only stipulations related to social issues which the importer asks of suppliers are that local regulations on minimum employment age and Health and Safety standards are met, and that employees are paid at rates which are 'reasonable within the context of the local economy'.[83]

Overall, it is clear that current pressures to improve social and environmental conditions in the fruit industry are primarily a result of legislation in developed countries. Some further pressure is exerted on suppliers by individual retailers, but this is primarily due to retailers' desire to raise overall quality standards and to gain a competitive marketing edge. These pressures are likely to continue to increase, although it appears that it will be some time before social pressures are as significant as current environmental pressures on an industry-wide basis.

ICED

Packing pineapples for export, Ghana

However, many pineapple producers are still unaware of the range of sustainability concerns in export markets. One survey of producers found that about 40% of exporters were aware of the shift of demand. Some NGOs are actively trying to increase this percentage; the UK based Natural Resources Institute has launched a process to educate farmers on the need for sustainable production practices while Technoserve, a US organisation, has been trying to raise environmental awareness among smallholders.

Looking to the future

Serious doubts hang over the long-term sustainability of intensive, mono-cropping of pineapple for export. Developing a culture of good management practice is an essential precondition for sustainable production and trade, and crucial if exports to high value European retailers are to be sustained. The awareness raising and capacity building efforts of NGOs need to be built on, so that Ghanaian producers are in a position to use the information on export market requirements to improve their competitiveness. This is going to require increased networking and integration between farmers, exporters, government departments and NGOs.

Equally essential is development of competitive distribution systems. This is going to require investment in roads and port facilities and the continued increase in air and sea freight capacity. Unless Ghana manages to improve the sustainability of production and efficiency of distribution it is going to continue to lose market share to its competitors.

6 India

Textile and garment production

Background

The global trade in textiles and textile products is fast approaching US$ 250 billion per annum, with world textile exports increasing over 50% in the last decade. China is the only developing nation in the top ten textile exporting and importing nations, accounting for 7% of world exports and 6% of imports. The Indian textiles industry currently makes up 2.5% of world exports.

India's textile production is predominantly concentrated on cotton. With raw materials and labour in abundant supply and a thriving mill sector, India had few competitors in the booming international textile trade, during the post-independence period of the 1950s and the 1960s. But during the next two decades government industrial, trade and monetary policies constrained the nation's textile and apparel industries. Unable to establish a significant international presence in the face of growing competition from newly industrialising countries in an expanding global economy, the Indian textiles and apparel industry stagnated.

With textile imports virtually banned and a relatively undemanding domestic market, Indian fabric designers and manufacturers were under little pressure to keep up with technological and fashion trends in Western markets or to improve product quality and variety. The 1990s have seen a noticeable shift in the attitudes of both the government and the industry. Liberalisation has raised awareness of the emerging trends in global trade practices, and industry is gearing up to meet these challenges.

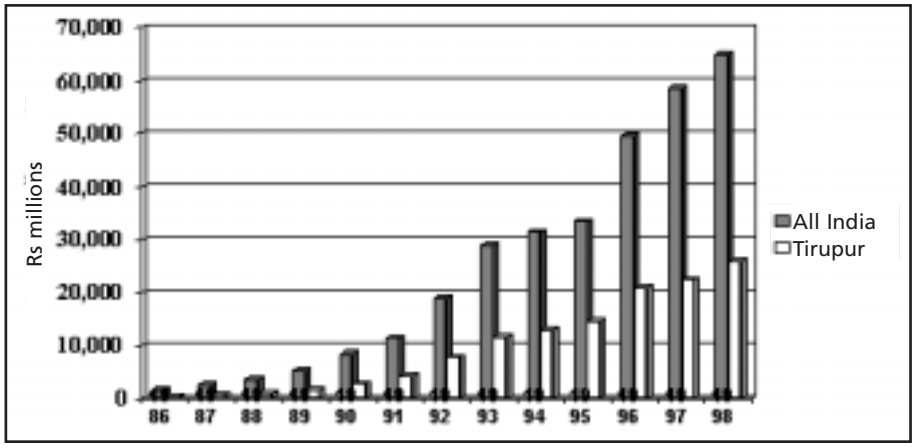
Textiles and fabrics account for about 12% of India's total exports. About 45% of these are in the form of knitwear, and here the Tamil Nadu centre of Tirupur plays a pivotal role, generating as much as 90% of knitted garment exports – in other words, about 4% of India's total export trade. Known as 'T-Shirt City', the fate of Tirupur is thus critical for the country's commercial prospects and progress towards sustainable development.

The city's rapid growth and industrialisation has been accompanied by mounting pressure on the local environment. The amount of water used and effluent generated during textile processing have generated considerable local controversy. Added to this, foreign buyers have been placing new requirements, particularly with regard to chemical use and child labour. Looking ahead, the central challenge is how the city can maintain its reputation for competitiveness, while putting its operations on a sustainable basis – particularly with the phasing-out of the Multi-Fibre Arrangement by 2005.

Supply chain and markets

In the twelve years from 1986 to 1998, the textile and garment industry in Tirupur boosted its exports from close to Rs 1,000 million to Rs 25,000 million (see Figure 6.1).

Figure 6.1 Indian exports of garments, 1986-98



Although more than 50% of Tirupur's exports are destined for the US market, they contribute less than half of Tirupur's income, since the main export to the US is white underwear, which has very little value added. The EU on the other hand represents nearly 40% in volume, but more than 60% in value. International buyers are increasingly phasing out agents and buying direct from Tirupur manufacturers, a move which the Tirupur Exporters' Association supports.

One of the main explanations for Tirupur's remarkable commercial success is the congregation of hundreds of small (less than 30 employees) units performing different phases of the production chain, from spinning and knitting through bleaching and dyeing to embroidery and stitching.[84] The high degree of vertical and horizontal integration results in a highly flexible production system. There are many industry associations in Tirupur who look after their members and act as quasi-judicial institutions which help resolve inter-firm commercial disputes.

Tirupur's competitive position has been built on the back of skilled labour, low wages, production flexibility, a strong customer-focus, entrepreneurial drive and inexpensive sources of local cotton. The city's greatest advantage over its competitors is the minimum order quantity. Small orders allow importers to develop large sample ranges in a cost-effective manner and Tirupur's willingness to make very small sample runs is highly regarded.

Most firms in Tirupur have taken a 'cost minimisation' approach to their production facilities, and obsolete technology, poor pollution control, and an unsafe working environment are now posing serious problems for small- and medium-scale firms. The main barriers facing them in overcoming these problems are lack of finance, technological know-how and skilled workers. Yet, there are now signs that producers are aware of the limitations of a purely cost-based approach to competitiveness, and are gearing up towards production and delivery of higher order garments in the value chain.

The phasing out of the MFA, and the consequent lifting of quota restrictions provides Tirupur with new opportunities in the global market place, since quotas were to some extent protecting inefficient exporters in South East Asia. Looking at the knitwear value chain, three sets of issues will combine to determine Tirupur's competitive position: 'hard issues', relating to labour and technology; 'soft issues', linked to markets and consumer needs; and infrastructural issues, such as energy and water supply. These are compared with the position of China/Hong Kong and other Asian countries, mainly Thailand, Indonesia, Sri Lanka and Bangladesh in Table 6.1.

Table 6.1 Tirupur's competitive position

'Hard' Issues	*Tirupur*	*China/Hong Kong*	*Other Asian countries*
Raw material cost	Low	Low	Medium
Labour cost	Low	Low	Low
Technology level			
- spinning	High	Medium	Low to Medium
- knitting	Low to Medium	Medium	Low to Medium
- finishing/processing	Low to Medium	Medium to High	Low
Accessory quality and supply	Low to Average	Good	Average
Product quality	Low to Medium	Medium to High	Low
Skill levels	High	Medium	Low to Medium
'Soft' Issues			
Product positioning	Low to Medium End	Medium to High End	Low to Medium End
Lead time/ Responsiveness	Medium/Average	Low/Good	Medium/Average
Flexibility	High	Medium	Medium
Minimum order quantity	>500	>3,000	>3,000
Design capabilities	Average	High	Poor
Infrastructure Issues			
Communications	Average	Good	Poor to Average
Power and water	Poor	Good	Average
Shipping and clearing	Medium	Quick	Quick

Although many importers perceive apparel from Tirupur to be of low to medium quality, they also believe that the town's manufacturers possess the skills and technology to provide a quality product. According to the Tirupur Exporters Association, as market forces replace managed trade, *'price and quality will be mere qualifiers'* and the key factors that will determine global market shares post-MFA in 2004 will be:

- Responsiveness
- Timeliness
- Consistency
- Flexibility
- Understanding of buyers' requirements
- Social and environmental performance

Environmental and social issues

The sustainability of Tirupur's export growth is under threat. One of the most significant challenges for the Tirupur textile industry today is water. Textile production, particularly dyeing and bleaching, can be water-intensive and can generate large quantities of effluent. Tirupur is in a dry, water-scarce region, and the rapid expansion of the textile industry has taken place in an unplanned manner, with no associated development of supporting infrastructure or institutional capacity. As a result, the growth has led to the depletion of groundwater reserves and a serious deterioration in environmental quality of both surface and groundwater.

Typical water consumption in Tirupur is around 200 to 400 litres/kg of finished product, compared with the international norm of 120 to 150 litres/kg. The city does not have a reliable piped water supply, and private water suppliers abstract ground water and supply it to the textile industry using tankers. Ground water in neighbouring areas has been decreasing and becoming contaminated. This has forced the tankers to travel ever-larger distances to draw the water. Lack of adequate water supply has inhibited growth and slowed down the flow of new investments.

"The situation in Tirupur seems to be an example of the classical problem of negative externalities from one economic activity affecting another and thereby causing a conflict between upstream and downstream water users. Bleaching and dyeing units do not bear the total costs of their activities but instead externalise them to other water users such as households and farmers".

Anna Blomqvist, Food and Fashion[85]

Pumping and selling water to industry has aggravated economic inequalities between urban and rural areas. The contamination of groundwater and over-exploitation of the ground water resources has led to a serious shortfall of water for farmers for irrigation, prompting court cases and local protests. Poor enforcement of environmental regulations has led to citizen campaigns, judicial action to close non-complying firms and measures to install common effluent treatment plants and locate new sources of water supply.

Joerg Boethling/Still Pictures

Eastman Exports: production for the European market.

Even to retain its existing markets, let alone take advantage of new opportunities, the industry will have to develop a new approach to water management.

Some of the roots of the water crisis lie in inefficient processing techniques. Tirupur lacks high quality, modern dyeing and finishing technology, and producers have traditionally given insufficient attention to developing consistent processes that ensure high quality. Consequently, re-dyeing is common and washing fastness is poor. Senior members of the Tirupur Exporters' Association (TEA), quoted a re-dyeing rate of more than 30% in the case of small dyers, compared with a recommended level of less than 5%. One of the prin-

cipal reasons for re-dyeing is due to the high level of hardness and total dissolved solids in the ground water. Not only does the high reject rate undermine the image of companies in the marketplace, it also has negative environmental implications. Reprocessing means more dyes and chemicals, water and energy, as well as more effluent and pollution load.

Most of the bleaching and dyeing units in Tirupur are located in clusters along the banks of the River Noyyal and River Nallar, into which they were, until recently, discharging effluent. The two rivers are natural drainage courses that only carry water in the monsoon period. During the remainder of the year, they only carry industrial effluents that stagnate in the riverbeds and percolate into the groundwater. As a result, the groundwater quality around the cluster of bleaching and dyeing units is polluted to such a level that it is unfit for domestic, industrial and agricultural activities.

Estimated wastewater generation from the nine industrial clusters in Tirupur is around 102 million litres per day. The bleaching and dyeing process are the main causes of pollutants which include caustic soda, hydrochloric acid, sodium hydrosulphate, hypochlorites and peroxides. Typical characteristics of the effluent are presented in Table 6.2. As recently as 1996, there was still no regular treatment of effluent water.

Table 6.2 Typical characteristics of wastewater from bleaching and dyeing units

Parameters	Bleaching	Dyeing	Composite
PH	10	9.5	8.8
Biological Oxygen Demand (mg/L)	300	380	330
Chemical Oxygen Demand (mg/L)	650	700	660
Total Suspended Solids (mg/L)	300	350	300
TDS (mg/L)	6,560	9,000-10,000	8,620
Colour	Whitish	Intense colour	Intense colour

Box 6.1 Signs of change

A number of producers in Tirupur are now looking for new, more sustainable ways of producing clothing products. One example is Aurora Textiles, which has been exploring innovative approaches for continuous improvement. In collaboration with the US Asia Environment Partnership, Aurora developed a pilot plant to recycle its wastewater. The use of reverse osmosis reduced total dissolved solids so much that the recycled water quality was superior to the raw water Aurora had previously purchased. Old machines have been replaced by modern soft-flow jet dyeing machines to increase productivity and quality and reduce the need for re-dyeing.

SS Textile Processing is a yarn processor and fabric manufacturer who invested heavily after recognising that process water quality was crucial to product quality. A new water softening plant was set up to treat the raw water, the dyeing winches were replaced by jet dyeing machines, and effluent management was improved by segregating the dyebaths and reusing the treated water.

Popy's Art is the first company in Tirupur to have acquired the Swedish eco-label. This has led to process improvements and improved export earnings. According to Mr A Sakthivel, owner of Popy's Art, "*the textile industry in Tirupur is aware of the significance of environmental issues. There is also awareness about social standards such as SA 8000. At Popy's Art, a 5% increase in operating costs will be required to bring the production practices up to international social standards. We are prepared to take up these costs.*"

Tirupur has thus been faced with a vicious circle of excessive water use and pollution degrading the water supply and requiring the extraction of water from further afield, exacerbating social tensions.

Public pressure to improve the situation has been a powerful force for change, notably numerous actions by local farmers', labour, environmental and consumers' organisations. This pressure has helped to prompt the Tamil Nadu Pollution Control Board (TNPCB) to take action to enforce environmental regulations on water pollution. The authorities have been hampered by a lack of resources, compounded by the difficulty of controlling the discharges of hundreds of small producers. For this reason, the TNPCB has focused on the installation of Common Effluent Treatment Plants (CETPs) as the most effective solution. Working closely with the Tirupur Dyers Association, independent boards have been set up to manage 11 CETPs, financed by local industry and subsidised by central and local government.

To tackle the problem of free riders, closure notices have been served by the courts on non-complying companies. In 1997, the Madras High Court shut down 44 dyeing and bleaching units in Tirupur for failing to participate in CETPs. In January 1998, the High Court granted temporary permission to the TNPCB to allow the units to restart operations for three months to enable them to complete work on the CETPs but, a year later, 42 units had been closed once again.

The Government of Tamil Nadu is taking steps to improve the situation, drawing up the New Tirupur Area Development Plan (NTADP) to supply 185 million litres of water per day for industrial and domestic use, collect and treat sewage and industrial effluent and improve city roads. The New Tirupur Area Development Corporation Ltd (NTADCL), India's first public-private partnership, has been formed to manage the industrial water supply part of the Plan. Piped water will be provided from the River Cauvery to Tirupur at an estimated cost of Rs 10,000 million, of which industry has put up Rs 100 million in the form of equity. Producers will pay a water rate which will include the cost of wastewater conveyance and treatment, a resettlement action plan and an environmental management plan. Although this will increase production costs for the industry, improved water quality and supply should generate long-term quality and productivity benefits. In addition, the more realistic pricing of water introduced with the NTADP will provide a strong incentive for water conservation and recycling.

As part of the project, there will also be free supply of drinking water to the wayside villages and water will be supplied to the Tirupur municipality at a cross-subsidised rate. If the project is commissioned, then the pressure on ground water use would be lowered, and the annual recharge would help in returning the ground water reserve to original levels. Once the NTADCL project is underway, the Government of Tamil Nadu is planning to impose a ban on the use of ground water.

Joerg Boethling/Still Pictures

Textile production using organic cotton, Tirupur.

Sustainability in the supply chain

Tirupur has also been faced with growing pressures from buyers to demonstrate high levels of social and environmental performance. The key environmental driver has been exports to Germany and the European Union more broadly, while social issues, notably child labour, have emerged from the US market. Interestingly, the US markets have shown comparatively little interest in environmental issues.

The azo-dye legislation introduced by Germany in 1994 to reduce potentially carcinogenic residues from clothing, was critical in the development of environmental consciousness in the Indian textile sector. To comply, manufacturers needed to shift to alternative dye sources.[86] Although there are a number of eco-label schemes, such as Eco-Tex and the Swedish Natural Fibre mark, discussions with local textile associations indicate that only three units in Tirupur have been certified.

Far more important are corporate codes of conduct, such as those of the German clothing manufacturer, Kunert, and buyers' requirements for garments to be tested. Meeting

these requirements gives exporters access to the large EU market, and the possibility of premium prices. Although there are no process-specific bans or modifications, these are bound to upsurge once recommendations drafted in the Paris Commission are made mandatory. Buyer requirements do not seem to have gone beyond the azo-dye issue, despite their awareness of wider water supply and pollution problems.[87]

To support the transition to higher standards, the Ministry of Textiles undertook a massive awareness raising campaign on eco-friendly textile processing and set up more than a dozen laboratories to check that Indian textiles met international standards. In Tirupur itself, there is one such Government-established laboratory but, although it is cheaper than its private rivals, such as SGS, it does not yet have international accreditation, and many of the exporting units prefer to send their samples to the SGS laboratory. A significant proportion of Tirupur's production is still failing to meet the required standard, SGS reports failure rates of 30%, yet there is little technical assistance available.

Social pressures, notably on child labour, have proved to be a more significant pressure for change. Most of the child labour in the Indian garment industry is found in subcontracting shops or in homework situations. At least 5% of the Tirupur apparel production takes place in people's homes, with families carrying out operations such as attaching buttons and other accessories or operating a knitting machine.

A prominent milestone was a US Department of Labor visit to Tirupur in 1996 which concluded that "*children are found making T-shirts and young boys often work as tailor's helpers in small, local garment shops.*" Since then, there has been increased sensitivity and awareness of child labour, driven by pressure from foreign enterprises and retail networks who source their garments from Tirupur. A number of practical issues have confronted companies responding to these demands. Birth registers – as known in Western coun-

tries – do not exist, making it extremely difficult to determine the exact age of a young worker. A medical doctor's certificate or school records may be the only ways to determine a person's age. Some foreign buyers are taking a more active stance. For example, C&A launched a partnership in May 1999 with the development NGO terre des hommes to set up a voluntary education centre for child labourers in the hosiery sector in Tirupur.

Despite this, manufacturers report that many customers show no interest in environmental and social issues, and consequently mills still have little awareness of international codes of conduct. Some of the trade union representatives in Tirupur were not aware of any US corporate code of conduct or terms of engagement for garment exporting companies.

Looking to the future

Responding to the commercial and sustainability challenges facing Tirupur will require a multi-level strategy, involving action:

- at the national policy level to create financing schemes for improvement of infrastructure and upgrading of processing technology;
- at the regional and sectoral levels to encourage collective action to tackle problems common to the textile cluster;
- at the enterprise level to stimulate greater management commitment to process efficiency, cleaner production and social responsibility; and
- along the supply chain, developing new relations and partnerships with clients.

At the enterprise level, gradual shifts are already being observed, involving the use of more water- and process-efficient softflow jet dyeing machines, the segregation of effluents and effluent recovery through reverse osmosis.

Units in Tirupur are also devoting more attention to developing consistent processes that ensure good quality – 'right first time'. Discussions with the local industry and export associations indicated that in order to meet the exacting requirements of the export market, quality control systems need to be implemented and the skills of the workers and overall level of supervision needs to be vastly improved.

As a cluster, Tirupur also faces some major challenges both in ensuring that the CETPs are not just constructed but are actually operated, and also launching the NTAD. Nationally, the Government of India has launched a US$6 billion Technology Upgradation Fund, which could provide some of the financial foundations for more efficient production.

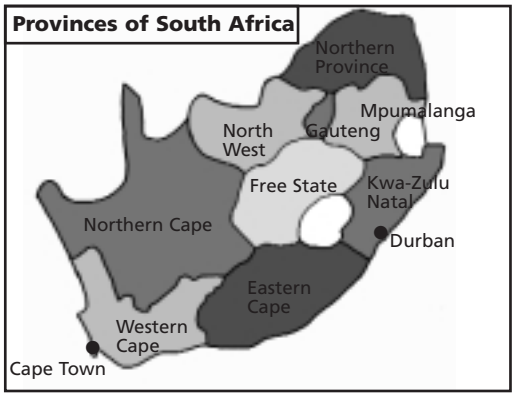
One noticeable gap is the lack of proactive cleaner production programmes of environmental management. The promotion of CETPs and to some extent the NTAD are based on a traditional, supply-driven, end-of-pipe approach to pollution control. Given the high costs of end-of-pipe treatment, it would be more effective to move towards source reduction strategies which enable both environmental compliance and productivity improvements.

The business community in Tirupur has been known for its entrepreneurial ability reflected in its resilience in overcoming hurdles. The industry has achieved success over the last decade despite poor infrastructure. It has ploughed back earnings for improving competitiveness through investing in technology and process improvements to meet the requirements of buyers. The issue now is how Tirupur can now address the pressure for improved social and environmental performance – from local stakeholders and international buyers – while improving its competitive edge.

7 South Africa

Tourism

Background



Tourism is one of the world's largest industries and also one of the fastest growing. By 2015, it is expected that there will be one billion tourists travelling every year, one in four of whom will be going to developing countries.[88] South Africa has seen a rapid growth in tourism since the change of government in 1994 and is just waking up to the role that tourism could play in the country's development. South Africa is now the continent's leading tourist destination and ranks as the twenty-fifth most popular destination in the world. Tourism accounts for around 13% of total exports, and the sector now exceeds agriculture as a foreign exchange earner. Tourism contributes over R53 billion to GDP, accounting for 8.2% of the total, up from only 2% in 1994. It is estimated that the sector accounts for 7% of total employment, with 187,170 tourism jobs created over the past 3 years.

Many people in South Africa have high hopes for tourism, seeing it as a foreign exchange earner, a mechanism for rural development, an employment generator and a facilitator of community empowerment. Tourism policies of the ANC government promote 'responsible tourism' and the role of community-based tourism is stressed throughout. The Minister of Environmental Affairs and Tourism, Pallo Jordan, has stated that "*the country's tourism sector is well on track to realise its target of 10.3% contribution to GDP by 2010*". It is estimated that this level of tourism would translate into the creation of half a million jobs, direct and indirect.

However, growth rates are now slowing, implementation strategies remain weak and the marketing capacity and finance are still highly constrained. If tourism is to fulfil at least some of its potential role in South Africa's development, it is essential that effective strategies are developed and implemented to ensure that there is sufficient domestic, regional and international demand for the type of tourism products that South Africa is offering.

The ownership base of the tourism industry is beginning to change, as foreign hotel chains enter the market and domestic interest in the entrepreneurial opportunities of tourism increases. Prior to 1994, tourism facilities were almost entirely owned by the government or the local white private sector. Today, foreign direct investment now accounts for 15% of overall investment and new local black players are entering the tourism market.

Table 7.1 Growth in foreign visitor arrivals

Year	Tourism arrivals	Rate of growth
1993	3,098,183	n/a
1994	3,668,956	18%
1995	4,488,272	22%
1996	4,944,430	10%
1997	5,436,848	10%

South Africa's attractions

South Africa has a wide range of tourist attractions, based on its diverse flora and fauna, cultural resources and well-developed infrastructure. The Department of Environmental Affairs and Tourism (DEAT) believes that cultural tourism, sports tourism, ecotourism, wildlife and hunting tourism, cruise tourism and conference and incentive travel all offer good potential for development.

Despite the variety of attractions, most overseas tourists only visit one region and a very small number of places of interest within that. The top five most visited attractions are all in the Western Cape, and despite the splendour and diversity of South Africa's natural features, the most popular tourist

Box 7.1 South Africa's tourism resources

- Accessible wildlife
- Varied and impressive scenery, unspoiled wilderness areas
- Diverse cultures
- Sunny and hot climate
- No 'jet lag' from Europe
- Well-developed infrastructure, good communication and medical services
- Wide range of opportunities for special interest activities such as whale-watching, wild water rafting, hiking, bird-watching, bush survival, deep-sea fishing, hunting and diving, and other adventure tourism activities
- Unique archaeological sites and battlefields
- Availability of excellent conference and exhibition facilities
- Wide range of sporting facilities
- Internationally known attractions (Table Mountain, Cape of Good Hope, Sun City, Kruger National Park, Garden Route, Maputaland)
- Easy access to other regional, internationally known attractions (e.g. Victoria Falls and the Okavango Delta)

destination is the Cape Town Waterfront, an entertainment and shopping centre.

Government policies on tourism

Tourism is seen as having strategic importance for the economy in terms of job creation and foreign exchange earnings and also as a mechanism for addressing past inequalities and achieving a range of social and environmental goals. In 1996, the government released the White Paper on the Promotion and Development of Tourism in South Africa[89] which set out a new vision for the sector:

> "*Tourism creates opportunities for the small entrepreneur; promotes awareness and understanding among different cultures; breeds a unique informal sector; helps to save the environment; creates economic linkages with agriculture, light manufacturing and curios (art, craft, souvenirs); creates linkages with the services sector (health and beauty, entertainment, banking and insurance); and provides dignified employment opportunities.*"

The guiding concept for tourism development in the White Paper is 'responsible tourism', which is defined as: "*tourism that promotes responsibility to the environment through its sustainable use; responsibility to involve local communities in the tourism industry; responsibility for the safety and security of visitors and responsible government, employees, employers, unions and local communities.*"

The White Paper has been criticised for being strong in rhetoric and weak in implementation. DEAT has long been marginalised within government, and a lack of resources and capacity constrain efforts to put policies into practice. In order to try and translate some of the policy statements into action, the department issued *Tourism in Gear: Tourism development strategy 1998-2000*, which strives to construct a framework for implementation within the context of the government's Growth, Employment and Redistribution policy (GEAR). It was put together in consultation with provincial tourism authorities and sets out a detailed programme of action, including steps to build institutional capacity and improve marketing and promotion. One proposal is to establish a community entrepreneurship pilot programme, in order to evaluate and demonstrate the potential of tourism as a community-based economic activity. However, initiation of this programme is reliant on external funding and no funds have yet been forthcoming.

"*Tourism is much more complex than trade in commodities*".

Miguel Mistel, Co-ordinator, Fair Trade in Tourism, IUCN

Another potential implementation vehicle for new tourist initiatives is the Spatial Development Initiative (SDI), a short term investment strategy which uses public funds to leverage private sector investment in historically underdeveloped areas. There are ten SDIs, several of which have significant tourism components. The SDI team have developed principles of community tourism projects designed to avoid the negative effects of tourism-led growth elsewhere in the world, and designed a set of frameworks to promote community empowerment and participation in tourism projects. SDIs have the very difficult task of trying to bring in foreign investment to meet government economic and social goals (such as widening the ownership base) whilst involving local people. Implementation has proved to be complex and slow

and there has not been much interest in investing in SDI tourism projects (see the case study below).

The supply chain and markets

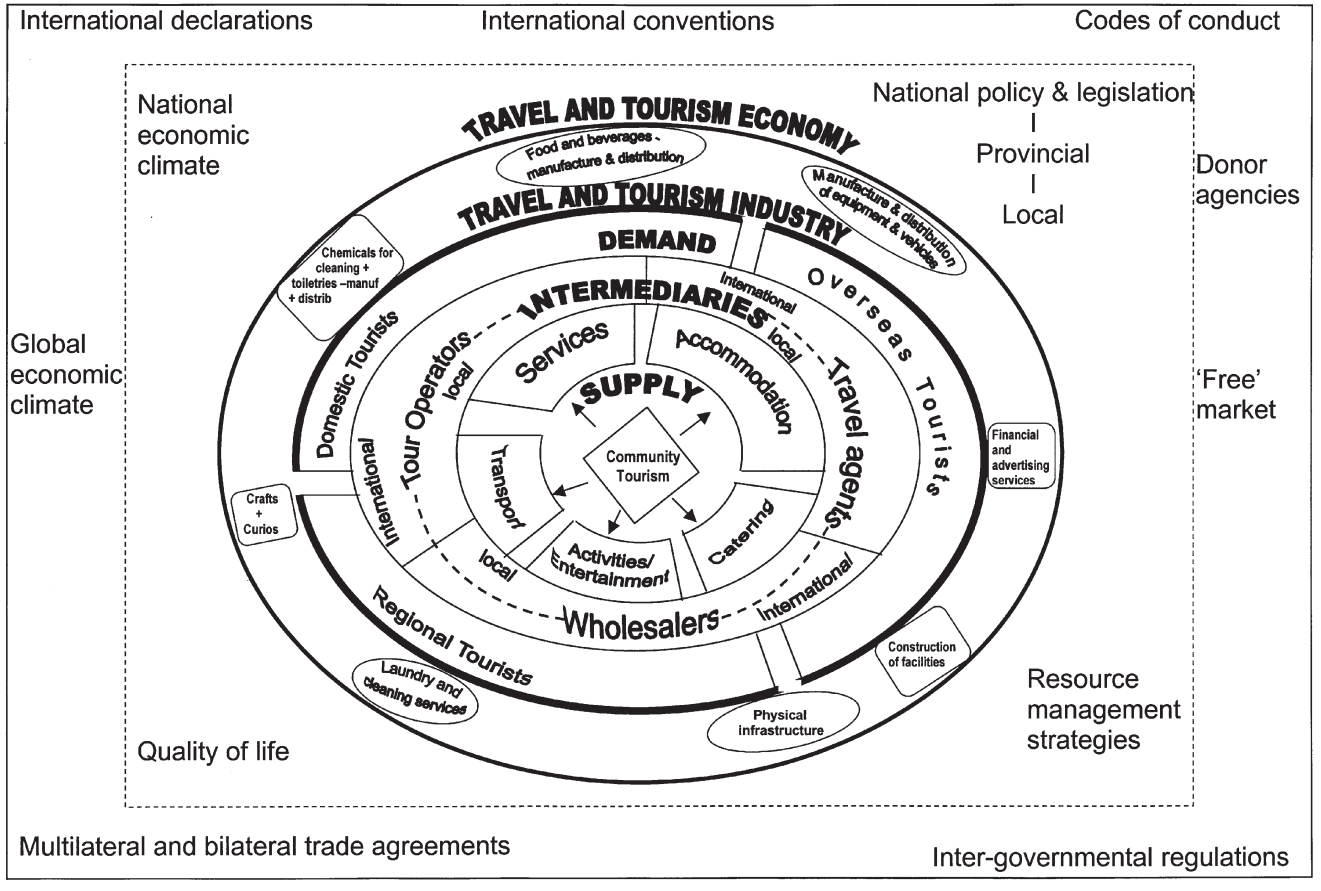
Tourism is a particularly complex sector in which to map supply chain relationships. The modern tourism product goes beyond travel and accommodation to include many services such as insurance, entertainment and shopping. In addition, tourism is a fashion industry and demand-supply relationships are very dynamic. Table 7.2 sets out the key elements of the supply side.

Figure 7.1 tries to illustrate the variety of organisations involved in providing tourism services in South Africa and the complexity of their interactions. Community tourism has been placed in the centre of the diagram due to the emphasis being placed on it in tourism strategies and to show the variety of forces that can influence it.

Table 7.2 Key elements of the tourism supply side

Supply Element	**Accommodation**	**Activities/ Entertainment**	
Components	Hotels Game lodges Guest houses B&Bs Self-catering Hostels Camping Traditional venues	Cultural Arts Culinary Festivals Hiking trails Scenic routes Nature-based Sport	
Supply Element	**Catering**	**Transport**	**Services**
Components	Restaurants Cafés Open-air venues Take-aways Traditional food Market/ street vendors	Airlines Trains Taxis Minibus Boats Animal-power	Information bureaux Reservations systems Advertising Consultancies (local & international) Tour guides

Figure 7.1 Supply chain diagram



Intermediaries, essentially the tour operators, wholesalers and travel agents, play a key role in the tourism industry and consist of both local and international companies. They stimulate, and are influenced by, the broader travel and tourism economy, which in turn is influenced by a range of national and international factors, including policy and regulatory frameworks, the economic climate, free trade agreements, and 'intangible' factors like quality of life within the destination country.

Tour operators in originating countries play a major part in generating the current volume of tourism, and will continue to be an important element in the future growth of the industry, despite an increasing trend in independent travel.[90] Foreign tourism operators and multinationals currently control eighty percent of the world industry and eighty percent of all international travel is undertaken by nationals of just 20 countries – 17 European countries, the US, Canada and Japan.[91] Of these, the UK, US, Japan, Germany and France account for over half of all tourism spending.[92] Current international visitors to South Africa broadly fit within these international trends as illustrated in Table 7.3. Zimbabwe, the largest regional source of tourists, was in 11th place in 1995.

Table 7.3 Top 10 markets for South African tourism services, 1995

Country of residence	Total bed nights	Market share (%)	Growth 1994-95 (%)
United Kingdom	469,356	18	8
Germany	358,052	14	78
USA	174,760	7	56
Taiwan and China	148,416	6	52
France	135,654	5	93
Netherlands	75,199	3	83
Hong Kong	72,403	3	444
Australia	60,949	2	88
Switzerland	58,500	2	46
Italy	54,796	2	63

South Africa now attracts a range of tourists, from high spending travellers to the budget conscious who stay mostly with friends and relatives. Much of the increase in the immediate, post-apartheid growth in tourism has been linked to the desire to visit the country and view first-hand the effects of the peaceful transition to democracy. In the past, many of the Europeans arriving in South Africa, especially the British, were visiting friends and relatives. The German market is considered the largest 'pure' tourism market – fewer people on business or visiting friends and relatives and more holidaymakers – and independent travel is very popular. Demand for cultural tourism has shown above-average growth from France and the Benelux countries, and Scandinavia has shown exceptional growth after the political transformation.

Perceptions amongst international tourists of South Africa as a destination were highlighted by a survey of international demand generators carried out by KPMG Leisure and Tourism. Survey respondents scored the exchange rate, improving air access and accommodation positively. Quality of service and safety and security received negative scores, with 60% of respondents rating the latter as 'very negative', and indicating an area for decisive and major effort if South Africa's tourism is to be sustainable in the long term.

An increase in regional African tourism also contributed to the recent high growth rates. The principal motivation for the African leisure segment is shopping and entertainment. The domestic tourism market is also increasing since the political changes due to the resultant freedom of movement, as well as the emerging black middle class.

Marketing – the missing link

As expectations of the potential of the tourism sector increase, marketing becomes even more crucial. However, marketing has been fragmented partly as a consequence of the individualistic nature of the industry and partly due to the inefficiencies and funding constraints faced by the South African Tourism Board, Satour. As a result, the country has

not been able to develop a strong internationally recognised brand. A recent report for DEAT concluded that there is an urgent need for a coherent tourism strategy since in their view "*South Africa's tourism opportunity remains undefined, unarticulated and unexplored*".

Satour has recently been relaunched as South African Tourism and intends to pursue an aggressive marketing of the country under the theme of 'Tourism Renaissance', which strategically echoes the 'African Renaissance' strategy of President Thabo Mbeki. There are also some very interesting regional marketing initiatives under way. For example, a tourism dimension is included in the new Coast 2 Coast African Experience SDI. This covers a route stretching for more than 3,000km from Maputo in Mozambique, through northern Swaziland, the provinces of KwaZulu-Natal, Mpumalanga, Gauteng and the North West in South Africa, southern Botswana and then across Namibia to Walvis Bay on the Atlantic Coast.

Penny Urquhart

Typical inland Wild Coast scenery, with rolling hills covered by homesteads and traditionally cultivated fields

Environmental and social issues

The tourism sector is faced with a range of social and environmental issues. In some cases, tourism developments exacerbate existing national problems such as water scarcity and inadequate waste management facilities. Tourism can also cause new problems such as overuse of natural resources or increases in demand for illegal activities such as child prostitution. As impacts increase, so too do the risks to the industry, as local resistance to tourism grows and the attractiveness to visitors diminishes.

Critical issues include:

- **Water use, waste and pollution:** Reduced availability of water to local people; air, water, noise and light pollution; increased waste
- **Land use and exploitation of natural resources:** Potentially severe environmental and aesthetic impacts from poorly planned tourism development; potential for ribbon development
- **Inappropriate tourist behaviour:** Harm to fragile areas; impact on wildlife and biodiversity; damage to cultural resources
- **Inequities in jobs and incomes:** Racially motivated pay; poorly paid, low-skilled jobs for local people
- **Opportunity costs:** Significant livelihood opportunity costs for those involved in the fickle tourism industry
- **Increase in undesirable activities:** Increases in sex tourism, gambling and crime
- **Effects on culture:** Changing roles and power structures within communities involved in, or affected by, tourism; role in supporting cultural activities
- **Benefit sharing:** The proportion of tourism revenue remaining in country, distribution of revenues with communities.

Box 7.2 The downside to golf

Golf tourism is a high-growth sub-sector in South Africa but comes with its own set of environmental and social problems. For instance, the exclusive Sparrebosch estate and country club, currently being developed by a Thai-Italian consortium, is situated on the last extensive coastal fynbos plateau on the Garden Route. Despite its having undergone environmental assessment, many environmentalists believe that this development, when considered within a regional context, should not have occurred. It also serves to further exclude Knysna's low income communities from limited coastal amenities in the area.

As part of the White Paper process, DEAT has set out specific environmental and social objectives, including:

- the need for social and environmental audits for tourism development;
- promotion of sustainable consumption of water, energy and other resources; and
- the need to ensure that tourism development does not deprive communities of access to coastal resources on which they are dependent.

Much emphasis has also been placed on the need for tourism growth to be based on effective community involvement. However, there is little experience of tourism in most communities, and long term support and training will be required. Mechanisms for this are only just being developed. Provincial authorities are beginning to identify their own ways to promote community-based tourism, for example KwaZulu-Natal has prepared a Community-Based Tourism Strategy.

Environmental issues are yet to be taken seriously by many of the major players in the South African tourist industry, although the influx of international chains is beginning to raise awareness of standards in other countries. However, a few initiatives are emerging, such as the Tourism Business Council of South Africa (TBCSA) promotion of environmental programmes, and plans for a voluntary environmental rating system by a private quality assurance company, Qualitour. However, most companies still see the environment as an expensive optional extra.

Certain niche providers such as game lodges and other ecotourism facilities at the high end of the market are thought to have internalised environmental and social considerations. South Africa has a long history of using tourism to support the conservation of wildlife and biodiversity, and conservation-based tourism has often been at the forefront in terms of delivering benefits to communities, although very few operations involve local people in the management of the venture. The Conservation Corporation Africa, the largest

private company involved in conservation-based tourism in South Africa has developed a model for community involvement, see box 7.3 below.

Box 7.3 Conservation Corporation Africa's model

Conservation Corporation Africa (CCA), is the largest private company involved in conservation-based tourism in South Africa. Its stated mission is to apply a "*balanced approach to tourism, conservation and local community involvement which promotes ecological sustainability, while providing guests with a quality wildlife experience and investors with viable returns*".

Since the early 1980s, the company has successfully raised equity from overseas investors by stressing the social responsibility aspects of its operations. Much of this foreign-generated capital has gone into the construction of four luxury lodges at the 30,000 hectare Phinda Game Reserve, in the southern part of Maputaland in KwaZulu-Natal, one of the most biodiverse areas of the country.

While Phinda has already created more jobs than the proposed titanium mine on the Eastern Shores of nearby Lake St Lucia, the CCA model involves mostly passive participation of neighbouring communities, with no ownership or involvement in management of the core ecotourism business. Rather, CCA attempts to optimise secondary benefits through stimulating development of local entrepreneurs to provide satellite industries, such as small brickmaking and charcoal industries, as well as broader rural development projects, such as water provision, schools, clinics and crèches. These are funded from the Rural Investment Fund, which was established to channel capital from outside funding and donor agencies. Thus CCA serves as a catalyst and facilitator, rather than entering into profit-sharing agreements with local communities. Despite these attempts, abject poverty in the village of Huntingdon still exists alongside one of the richest game reserves in the world.

The company has reportedly begun to realise that entering into joint ventures with landowning rural communities makes more financial sense than costly land purchase. In Kenya and Tanzania, CCA now leases land and pays rental to the Maasai owners, thus bringing about a more active partnership with rural communities.

Tripartite ecotourism partnerships between conservation agencies, the private sector, and local communities are another possible way of integrating conservation and development. This variation is the one favoured by the KwaZulu Department of Nature Conservation (KDNC), a conservation agency that has now merged with the former Natal Parks board to create the KwaZulu-Natal Nature Conservation Services (KZNNCS). The KDNC's pioneering model involved the establishment of a Section 21 (not-for-profit) company called Isivuno. Through Isivuno, the KDNC facilitates the formation of joint ventures between the three partners. Wilderness Safaris has now established lodges on land controlled by KDNC in Maputaland (see Box 7.4).

Across the country a growing number of community tourism initiatives are springing up, as people look for new means of income generation (see examples below). Very few of these are truly community-based, in the sense of being owned and managed by the community, since most have been initiated by an external agency such as an NGO. In those cases where

Box 7.4 The Isivuno model

In 1995, a tripartite partnership between the KDNC, a local community and an established private sector operator, Wilderness Safaris, resulted in the establishment of a lodge at Banzi Pan in Ndumo Game Reserve. The local Matenjwa community holds 12.5% of the equity in the lodge and shares decision-making responsibility in the operating company, while Wilderness Safaris owns 50% and Isivuno 37.5%.

Other benefits flowing to the community include a percentage of land rental, 4% of turnover, profit-sharing and 25% of gate fees. The arrangement has been in place for four years, and appears to be financially sustainable. Tourism management expertise is provided by Wilderness Safaris but it is not clear whether this capacity is being transferred to the local community. Environmental management is still the responsibility of the state, through the KZNNCS, while community members still have access to traditional harvesting rights. On the downside, harnessing of entrepreneurial opportunities for community members has been slow, due to the lack of a support programme.

Box 7.5 Empowerment through tourism

The Isinamva Cultural Tourism Programme offers visitors the chance to stay in homesteads in four villages in the Mount Frere region. Tourists take part in household chores, milking cows and goats for the men, fetching water and cooking for the women, and share stories and history with their hosts. The aim is inter-cultural understanding and revival of traditional culture. Most visitors are from overseas and stay an average of 2 nights for a charge of R200 (around £20).

As Zola Magida, director of the Isinamva Community Development Centre (ICDC), the organisation facilitating the project, explains: "*initially we were not even aware that we were doing tourism*". Early visits had arisen from requests from Scandinavian donors to experience life in the villages that they were supporting. By 1996, interest had increased and the organisation approached the Eastern Cape Tourism Board for assistance with marketing.

Penny Urquhart

Hosts show a guest how to feed dried corn to the chickens in a typical Xhosa homestead, part of the Isinamva Cultural Tourism Project

The project has been enthusiastically received by visitors but is being deliberately kept low volume at the moment. There have been many positive benefits and some negative impacts for the community. Most of the money goes directly into the pockets of tourism groups in each village and represents a substantial source of income for members. Tourism groups, advised by ICDC, have complete control over the project. They chose to temporarily reject requests by a tour operator to bring 142 overlanders through a week, preferring to take some time to consider the impacts of such a visit.

The presence of tourists can be intrusive and local customs and practices are not always respected. The project has also resulted in a divide between the people who are participating in the project and those who are not. The project is planning to improve pre-trip education for visitors and build visitor accommodation centres near the homesteads, to reduce intrusion and widen community involvement. Zola sees the tourism initiative as an important means of empowerment but this is a long process, since "*psychological liberation is a prerequisite to social and economic development*".

The project has also highlighted increasing tension between the need to take an entrepreneurial, business-like approach and the ethics and practice of communal life, or as Zola Magida put it *"how do you integrate **ubuntu** into business?"*

the community do own the venture and are responsible for its day-to-day operation, they often receive considerable support from a facilitating agency. However, while many community tourism projects are not yet fulfilling ownership and management objectives there can be significant benefits in terms of skills development, job creation, income generation and increasing empowerment.

A review of a range of community tourism projects has indicated that market and product assessment is often only considered at a very late stage – with negative implications for the viability of the enterprise. This is a fundamental weakness, especially as most initiatives are dependent on international rather than national markets. Networks for linking community tourism projects are now being established.

Sustainability in the supply chain

Globally, there are a growing number of initiatives to improve the environmental and social performance of the tourism industry and raise awareness amongst travellers of the impact of their tourism. Regulation of tourism is difficult because of the characteristics and diversity of the sectors and activities of the industry. Nevertheless, the EU Package Holiday Directive (90/314/EEC) has important international ramifications as it makes the tour operator liable for the health and safety of its clients while overseas. This has the potential to impact negatively on some small-scale producers in developing countries if foreign tour operators only book accommodation and other services of a certain standard.

However, a 1997 survey of 69 tourism companies and institutions in the UK revealed that while businesses have adopted a wide range of practices these are "*weak regulatory instruments because ultimate responsibility lies with the host government via legislation*".[94]

A number of surveys have concluded that a significant proportion of European consumers are interested in, and willing to pay more for, environmentally and/or socially responsible

"*European, Far Eastern and American markets … are beginning to question the environmental policies of many of their outbound destinations. We believe that in spite of this growing awareness by our principal trading partners, operators of hotels, restaurants and other tourism related products in southern Africa remain largely unaware of the effect their activities have on the environment around them.*"

Qualitour[93]

Box 7.6 Industry initiatives for sustainable tourism

- **The International Hotels Environment Initiative (IHEI):** A programme of the Prince of Wales Business Leader's Forum (PWBLF), which promotes environmental management as a cost-effective, integral part of running a successful hotel business. It represents over 8,000 hotels worldwide which pool resources and experience to produce self-help tools for use of the wider industry (IHEI 1999).[95] Hilton International is a member of the IHEI and their first hotel in South Africa was "*designed with environmental issues being foremost*" according to chief engineer Paul McDivett. The 329-room Hilton is the same size as the old Elangeni hotel on Durban's beach front (and has the same manager), yet only uses 10% of the energy. The IHEI programme in South Africa is voluntary at present, although McDivett notes, "*it is my opinion that all operators will eventually begin to follow a programme of this sort, not through environmental issues but because of the economic value*".[96]

- **Ecomost:** Developed by the International Federation of Tour Operators (IFTA), an organisation which represents tour operators and associations throughout Europe. The programme investigates ways in which long-term quality improvements can be implemented, including developing dialogue with host communities to ensure full understanding of the potential implications of new policies and regulations. IFTA also actively works against sex tourism and child prostitution.

- **The Green Globe Programme:** An initiative of the World Travel and Tourism Council (WTTC), a global coalition of CEOs from the major travel and tourism companies including international airlines, hotels and holiday groups. Green Globe administers a certification scheme (in association with SGS), which incorporates an ISO 14001-based Environmental Management System and ensures compliance with prevailing environmental legislation and Agenda 21 principles. The programme has, however, received a significant amount of criticism, not least for a lack of independence – as it is financially supported by the same companies it assesses – and for keeping assessments secret from public scrutiny.[97] Green Globe was launched in South Africa in May 1999. One of its first initiatives is to include tips for travellers in all airline, hotel and car-hire wallets issued by ASATA-registered travel agents.

- **The Centre for Environmentally Responsible Tourism (CERT)** is a UK membership organisation representing tour operators, tourists and conservationists. Tour operator members must demonstrate commitment to an environmental policy as a condition of membership. CERT also makes an environmental award to tour operators based on the clients' opinion of the environmental performance of the operator.

- The UK-based **Association of Independent Tour Operators (AITO)** has developed a Quality Charter, which lays down strict criteria, including environmental standards and operational practices to which members must adhere.

tourism. A 1997 study found that 65% of UK tourists travelling in developing countries feel that too small a proportion of the cost of their holidays stays in the destination country. In addition, over a third of tourists were prepared to pay up to 10% more to help ensure that local communities benefit.[98] A survey in Germany, carried out by the Ministry of Economic Development between 1992 and 1994, established that of the 1.25 million Germans who travelled to destinations beyond Europe, 38% of them wanted the ecological, social, cultural and developmental aspects of tourism to be taken into account.[99] However, such results need to treated with caution, since in other sectors similar results have not translated directly into increased purchases of more sustainable products.

Box 7.7 Citizen pressures for change

UK NGOs have long campaigned for more socially and environmentally friendly forms of tourism. More recently, a number of UK-based NGOs and other campaigning and research organisations with an interest in tourism have started to investigate how the principle of fair trade can be applied to the tourism sector. Action for Southern Africa (ACTSA) operates a "*people-first tourism*" campaign which is attempting to harness consumer pressure on the UK tourism industry to "*package a fairer deal*". ACTSA is recommending investing in the local economy and using local services and products; providing jobs of good quality to local people; and respecting the rights of workers, local communities and their environments.[100]

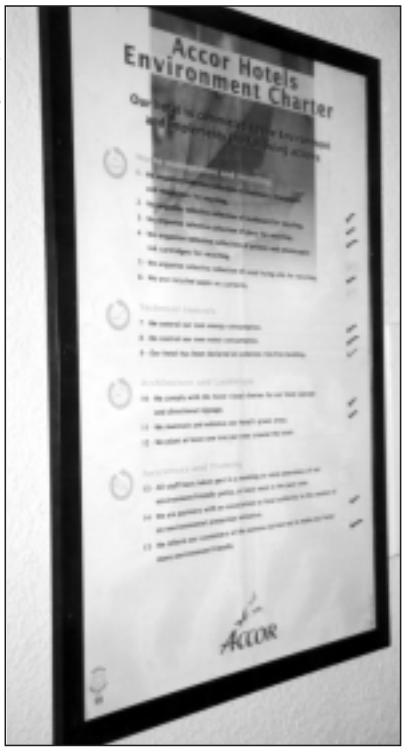
Voluntary Service Overseas' WorldWise tourism campaign aims to put the case for fairer tourism on the public agenda with their slogan "*It is time to travel to a fairer world*". It offers an online service for tourists, offering practical advice on how to get more from your holiday and benefit host communities. VSO has also started to work with AITO on an ethical policy.

Following three years of research in conjunction with VSO and the University of North London, Tourism Concern have just launched a 'Fair Trade In Tourism' project. This "*aims to find constructive ways of establishing collaborative partnerships, based on equality, between tourism organisations in the North and destination communities in the South*". IUCN in South Africa are also running a fair trade in tourism initiative, which aims "*to promote a tourism in South Africa which links its natural assets to sustainable income generation for communities and disadvantaged groups and strengthen fair trade relations between tourists and hosts/service providers*". This is linked into Tourism Concern's international network. Tourism Concern also operates an online Community Tourism Directory, which details operators and initiatives in the UK and in the South that offer community-based tourism.

Looking to the future

The success of tourism is clearly central to progress in the post-Apartheid era. Domestic, regional and international tourist arrivals have all grown substantially in the last five years but the policy and institutional framework required to ensure that this expansion leads to community empowerment and environmental sustainability has still to be implemented.

Penny Urquhart



South African hotel chains are keen to publicise their environmental policies

While South Africa has a long track record in successful conservation-based tourism, there is still little domestic pressure to improve the environmental performance of the industry as a whole, and the vocal support for community tourism has not been matched by effective practical support.

Conservation and community-based tourism are both highly dependent on international markets, and continued interest in South Africa as a tourist destination will require crime and violence to be kept in check and sophisticated marketing efforts. Although there is a plethora of campaigning initiatives on fairer and more sustainable tourism in Europe and the US, there is little hard evidence that this is as yet influencing consumer demand or operator behaviour.

part c

Making trade sustainable

8 Lessons, recommendations and next steps

As the first output of the *Stimulating Sustainable Trade* project, the aim of this report is to shed light on the current reality of sustainable trade, focusing on the impact on developing country producers of regulatory and market trends towards greater environmental and social responsibility.

Lessons

1. Progress towards sustainable trade is patchy: Inspiring examples are now emerging, where trade acts as a driver for better social and environmental performance, such as Century Textiles and Kuapa Kokoo. But aside from these, a wide spectrum of experience exists that defies easy characterisation either as new 'green trade opportunities' or as 'eco-protectionism'. Pressures for change are not uniform within or between sectors, and demand-side requirements may not necessarily coincide with local social and environmental priorities. While there have been strong pressures for change in garment and textile production in Bangladesh, for example, the trade relationship has not generated much change in the leather sector. Furthermore, it can be difficult to predict which issues will attract continued attention. The impact of shrimp farming attracted significant NGO and media interest for a couple of years, but this appears to have faded from sight.

2. Policy negotiations and market realities often operate in parallel: There appears to be a profound disconnection between the often abstract discussions of trade, environment and development in global policy negotiations and the realities facing developing country producers operating in international supply chains. Efforts to fuse the trade and sustainable development agendas have so far foundered on the growing distrust of the industrialised world by Southern governments and NGOs, yet in some sectors meeting environmental and social requirements has become an accepted part of doing business.

"Whether governments engage or not, exporters will, because they have to"

Adil Najam [101]

3. **Export production can face serious sustainability constraints:** Whether it is mismanagement of water in Tirupur, the conflict in the Bangladesh shrimp industry or the demographic decline threatening Ghana's cocoa sector, the case studies have revealed that the sustainability constraints facing export production are often acute (see Box 8.1). The social, economic and environmental dimensions of sustainable trade are not related in a linear way: environmental improvements do not always bring social benefits. Many of the cases present the classic problem of economic expansion flourishing at the cost of significant social and environmental externalities. In some cases, these externalities are already starting to constrain further export growth, and there is little evidence of systematic attempts to identify and address the critical sustainability issues affecting different trading chains. For example, the environmental costs of transportation are still generally overlooked.

4. **Market action can lead to dramatic change:** International buyer requirements are becoming a more effective force for good practice than local regulation in some cases – for example, child labour in Bangladesh and pesticide management in South Africa. This can be particularly powerful where it connects with demands from local communities for producers to clean up their act. But as social and environmental criteria become part of core supplier specifications, opportunities for earning premium prices from good performance diminish.

5. **Production and process specifications are a market reality:** Unlike importing governments, companies are not constrained from specifying production and process methods (PPMs) of their suppliers; they can require suppliers to meet quality, environmental and social standards; they can make inspection part of contractual obligations; and they are free to use the failure to meet such conditions as a reason for terminating supplier relationships. But as B&Q and others are finding, imposing requirements risks undermining trust in the supply chain in just the same way as unilateral policy measures do.

Furthermore, consumer-driven concerns about trade can be based on easy messages and lead to crude responses which are not adapted to local circumstances.

6. **A vacuum in global governance is opening up:** Supply chain pressures for social and environmental standards can be a '*double-edged sword*', bringing technical gains, but also raising serious questions about decision-making in global product regimes.[102] Trade liberalisation is creating a buyers' market, where the expansion in the possibilities of supply place businesses in industrialised countries in commanding positions. Producers in the four developing country cases often expressed a lack of awareness of emerging requirements, and when these became real, a resignation to the inevitable.

7. **Positive change requires new partnerships:** A variety of intermediaries – buying agents, government agencies, importers etc – play a critical role along the supply chain, particularly in transmitting information and monitoring the performance of producers. A complete supply chain picture needs to be taken rather than just focusing on the retailer and the producer, and a more sophisticated understanding of intermediaries' roles is required that goes beyond the simplistic typecasting of them as 'middlemen'. Furthermore, technical support agencies are often required to build up the capacity of producers to innovate and generate productivity gains from environmental measures.

Box 8.1 Key challenges for sustainable trade

Bangladesh

Garments
- Child labour and working conditions
- Backward linkages to textile production
- Phase out of the Multi-Fibre Agreement

Leather
- Low wages and poor working conditions
- Serious water pollution and solid waste problems
- Low quality production

Shrimp
- Conflicts between shrimp production and local priorities
- Severe soil degradation and damage to biological diversity
- Processing standards and concerns about consumer health

Ghana

Cocoa
- Declining commodity prices and changes in EU regulations
- Ageing workforce and cocoa trees
- Environmental impact of expansion into forest areas

Pineapple
- Environmental impact of production, 'ecological deserts'
- Community displacement and benefit sharing
- Due diligence pressures along the supply chain

India

Textile and Garments
- Excessive water consumption and serious water pollution problems
- Child labour and labour standards
- Product quality, technology upgrading and cleaner production

South Africa

Tourism
- Controlling environmental and social costs of mainstream tourism expansion
- Realising the potential of community tourism
- Linking supply chain pressures to local needs

Recommendations

The agenda now needs to shift from the question of whether to integrate trade and sustainable development to how to do so in a way that yields benefits along the length of the supply chain.

1. **There is a need for a strategic response:** Few if any of the problems identified in the case studies can be dealt with at the micro-level alone in terms of changes to individual corporate practice. Critical to achieving broad-based change is collective action focusing on the common problems affecting particular production clusters. It is here that a strategic response is required,

bringing together the key stakeholders in the supply chain and linking market dynamics, regulatory frameworks and citizen action. In consumer markets dominated by brands, developing countries urgently need to find a way to demonstrate their distinctiveness and capture more of the 'rent' from the trade chain.

2. **Mechanisms need to be found to link policy and market developments:** Policy makers have a duty to be better informed on corporate developments on trade and sustainability issues and the implications that they have. On-going interactions between business and policy makers are likely to lead to more systematic and fair corporate requirements and more effective policy. Governments in both developed and developing countries need to raise awareness of increased demands for more sustainable trade, and support capacity building efforts to enable all members of the supply chain to respond effectively.

3. **The governance of supply chains needs to be improved:** The overall impacts of increased attention to sustainability issues are highly dependent on communication and trust in trading networks. Whether or not such action leads to overall benefits in producer countries depends on the relationships along the supply chain, the way in which new requirements are introduced and the extent to which buyers' demands resonate with local priorities. If higher environmental and social standards in trade are a result of discussions between producers, intermediaries and buyers and are introduced in a planned manner, they have a much greater likelihood of leading to enduring benefits in producer countries as well as reducing buyers' risks. Workshops where buyers and suppliers meet to discuss the sustainability issues affecting their sector, and mechanisms to address them, could be a useful first step.

Next steps

To date, businesses in the South have been forced into a largely defensive position, reacting to a growing range of pressures for improved social and environmental performance. The challenge for the future is to enable business in the South to get involved in the 'co-evolution' of sustainability requirements along the supply chain: to be a standard-setter and not a standard-taker. This means developing a spirit of reciprocity along the supply chain – and asking the question how the trade relationship can provide positive incentive for change towards sustainable development in export production?

"Goods produced sustainably under reciprocal conditions are creating new market opportunities for the South, instead of barriers to trade"

Dale Anne Bourjaily, Ecooperation[103]

This report has highlighted the urgent need for action that reconnects policy frameworks with market-led initiatives to improve the sustainability of trade. Central to this will be identifying the changes that are needed in regulation, corporate practice and citizen action both on the demand-side within importing countries and also on the supply-side in the developing world to deliver sustainable development.

Based on the findings of this report, the next phase of *Stimulating Sustainable Trade* will look in more depth at four supply chains. These assessments will link up on the ground analysis and consultation in Bangladesh, Ghana, India and South Africa with complementary work at the consumption end in the European Union, in order to:

- understand the critical sustainability issues in the chain
- identify the pressures and leverage points for change
- engage in dialogue with producers, intermediaries and buyers to determine the best ways for improving the sustainability of the chain
- identify the reforms required at both the supply and demand side
- identify key principles for sustainable trade
- identify options for action for subsequent work.

This analysis is designed to yield valuable lessons on the practical issues that need to be addressed in improving the sustainability of trade as well as case studies of good practice that can inspire further action.

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