

Fair Wages & Fair Prices

A report for the European Fair Trade Association



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EFTA (European Fair Trade Association) is an association of 10 Fair Trade importers in 9 European countries. Its aim is to provide services to its members and to encourage them to coordinate and cooperate. Through this, EFTA intends to support EFTA members' trading partners in the South. This study is one of the examples of EFTA cooperation.

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1. Introduction, methodology & definitions

It is a fundamental principle of Fair Trade to seek to pay fair prices and fair wages to workers, producers, farmers and artisans. This report is the conclusion of a six month study which aims to identify a workable definition of fair prices & fair wages which is practical and realistic for farmers and artisans, particularly those outside the Fairtrade International system, and how fair prices & wages can be implemented, taking into account the context in which EFTA (principally crafts) value chains operate, notably:

- other benefits of being involved in Fair Trade, including non-wage benefits
- the informal nature of employment of many producers and their organisations
- ensuring that small scale artisans and farmers are not excluded from Fair Trade

Methodology

The information in this report was compiled in a two stage process. Phase one comprised a literature search and consultations with diverse initiatives working on fair and living wages and stakeholders from EFTA, the World Fair Trade Organisation [WFTO] and its members in Latin America, Africa and Asia (see Appendix 1 Stakeholders consulted). Data on prevailing wages at producers was captured in a survey, supplemented by data from members of WFTO and EFTA on wages and prices at over 30 suppliers. An Intermediary Reportⁱ published in August 2012 was used to stimulate wider debate and consultations across EFTA and the WFTO in the second phase of research. Stakeholders were consulted at European and Asia regional meetings of the WFTO and EFTA. Detailed mapping of the value chain, and interviews with suppliers commercial staff, were carried out through field visits to Bangladesh and India in October 2012. Interviews and focus group discussions with artisans were facilitated by local consultants at 7 producer groups, producing for four Fair Trade exporters, in rural Bangladesh, in Dhaka and Delhi. A survey of the pricing policies of the members of EFTA was carried out and the results used to map the price of a sample of products up the value chain from artisan to consumer.

Definitions

Throughout this document **Fair Trade** is used to denote self-assessed fair trading, as practised by EFTA members (monitored under the EFTA Assessment System) and WFTO (within the auspices of the WFTO Fair Trade Guarantee System); the term **Fairtrade** describes certification and labelling by Fairtrade International.

A **living wage** is defined as enough to meet the basic needs of the worker and his or her family, and allow for some savings and/or discretionary expenditure. It should be earned in a standard working week – i.e. overtime should not be necessary to earn a living wage.

The WFTO definition of **fair wages** (or fair pay) and **fair prices** is contained in **Fair Trade Principle Four (Payment of a Fair Price)**:

A fair price is one that has been mutually agreed by all through dialogue and participation, which provides fair pay to the producers and can also be sustained by the market. Where Fair Trade pricing structures exist, these are used as a minimum. Fair pay means provision of socially acceptable remuneration (in the local context) considered by producers themselves to be fair and which takes into account the principle of equal pay for equal work by women and men. Fair Trade marketing and importing organizations support capacity building as required to producers, to enable them to set a fair price.

To avoid confusion, Fair Trade export companies are referred to as suppliers or Intermediary Marketing Organisations [**IMOs**], while the term producers or producer groups is reserved for organisations of artisans, whether in formal producer associations or informal groups.

Throughout this report, footnotes (in superscript numbers e.g.¹) are used for explanatory texts, while references are shown by endnotes (in Roman numerals like this^{ix}).

2. Issues, opportunities & obstacles to implementing fair prices & wages

Fair Trade seeks markets for smallholder farmers and workers in the artisan crafts sector. Wages are low in these sectors, often below the statutory minimum wage, if there is one. Many producers in Fair Trade supply chains are homeworkers. Homeworkers in commercial supply chains (often minority-ethnic women) may earn as little as one quarter of the minimum wage rate after contractors have taken their marginsⁱⁱ. Furthermore statutory minimum wages in many developing countries are below what a family needs to meet basic necessities. Low wages, especially for informal crafts workers, have become consolidated into low consumer expectations of product price. What will be the **impact of raising wages on prices** and subsequently on sales, if wage rises are passed to consumers? Are there opportunities to **mitigate price pressures**, by addressing productivity, efficiency and how value is shared along the value chain? Finally, Fair Trade is used by EFTA and its members as a model of best practice in advocacy aimed at influencing wider changes in corporate behaviour and trade structures. Consumers have high expectations of Fair Trade. Implementing a lower standard for EFTA supply chains than that promoted in campaigning would undermine the advocacy and the **credibility** of EFTA. These interlinked issues are explored below.

Impact of raising wages on price

There is evident nervousness in both the fair and ethical trade worlds about the impact of implementing the living wage on price, with few precedents from which to learn and little data in the public domain. When a living wage was implemented at the *Alta Gracia* garment factory in the Dominican Republic, the FOB cost rose by 20%ⁱⁱⁱ. This rise was absorbed by the factor's owner, **Knights Apparel**, a US Brand supplying US college garments. The high labour component of many hand-crafts, and lower volumes of Fair Trade crafts chains, which require larger margins for commercial sustainability, could mean a larger impact on price in EFTA chains. Any rise in the cost of production is amplified or 'escalated' by the taxes, charges and margins levied by intermediaries in the chain. Increases in retail price could restrict the appeal and commercial viability of the Fair Trade market. Loading the cost impact onto the consumer alone may not be a viable strategy, without looking at productivity, efficiency, margins and the distribution of value along the value chain. The risk of reducing sales volumes, and consequent impact on artisans' livelihoods, was raised by many stakeholders. This is an issue for suppliers in developing countries as much as EFTA members, since many also sell to local and other markets.

EFTA members report static or falling fair trade orders, and several are trading at a loss. IMOs increasingly complement Fair Trade markets with sales to mainstream companies; even small, informal producer groups sell to mainstream exporters or the local market. A diversity of markets generally increases the sustainability and resilience of a business. Raising wages through the single measure of raising prices could exacerbate commercial dependence on Fair Trade markets.

Focus on building business capacities

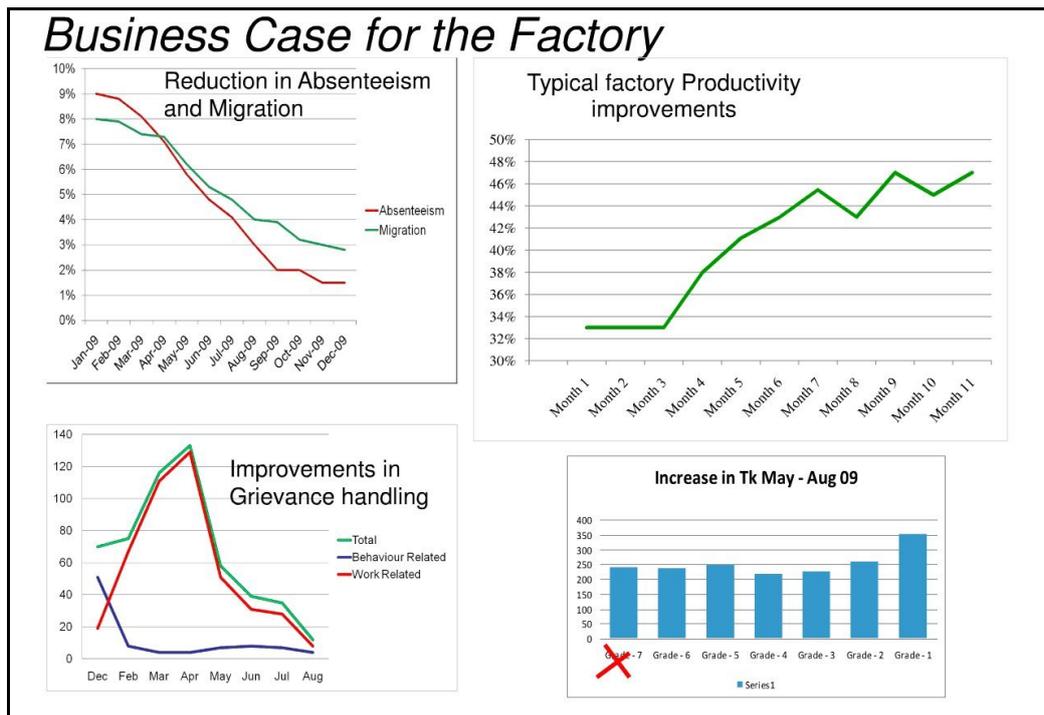
Fair Trade can have impact by paying a higher price, or by supporting producers to reduce production costs. The focus should be on helping them to produce quality products at a competitive price.

– *Mike Muchilwa, WFTO Africa*

Opportunities to mitigate price pressures from raising wages

Leading UK retailers within the **Ethical Trading Initiative** [ETI] have raised wages in garment factories in Bangladesh and China, through a twin focus on improving productivity and human resource management. Productivity gains of up to 50%, and wage rises of 17-40% are reported, bringing substantial benefits to the participating factory – the retention of a skilled and motivated workforce, better quality and lower recruitment and training costs.

Figure 1 Productivity approaches: The business case for the factory ^{iv}



Raising productivity is clearly a very sustainable way to improve wages and is discussed later.

Credibility

After many years of campaigning around wages and conditions in global supply chains, several mainstream retailers are implementing wage increases for workers at factories producing their garments. One ETI Retailer, Marks & Spencer, has gone further by publicly committing to implementing a “fair, living wage” for workers at its garment manufacturers in South Asia ^v. Significantly, Marks & Spencer pledged in 2010 that it would “ensure the prices it pays to factory suppliers are sufficient to cover the wage increases”^{vi} (the statement came with a 5-year lead time so that efficiency and productivity gains could be made).

Such welcome initiatives increase the challenge for EFTA and its members to demonstrate impact on wages. Fair Trade is used by EFTA and many of its members as a model of best practice in advocacy aimed at influencing wider changes in corporate behaviour and trade structures. An EFTA pricing policy making a comparable commitment would bring coherence with advocacy and credibility to Fair Trade claims. Likewise any EFTA (or for that matter WFTO) Fair Wage/Price standard needs to be based on the most credible living wage benchmarks, such as those of the Asia Floor Wage Alliance, which campaigners are advocating that commercial companies should adopt.

Consumers increasingly expect, in Europe at least, that living wage should be paid to all workers, and many assume this is already the case with Fair Trade products. However the mission of Fair Trade is to give small-scale producers equitable access to global markets and EFTA’s target beneficiaries may lack the ability (know-how, machinery, capital) which would allow them to earn a decent wage. An over-zealous model of implementation which excluded the poor just because they lack capacity to earn a living wage, would be inappropriate. Fair Trade may require strategies which can demonstrate impact on livelihoods while wages are rising to minimum wage level and beyond; building producers’ capacity is a key impact which Fair Trade will seek, and communicate, in this situation.

3. What is a credible standard for Fair Wages & Prices?

The present study aims to produce a workable definition of fair wages & prices, and explore the hypothesis, postulated by EFTA in the Terms of Reference to the study, that:

in recognition of the challenges of implementing living wage with informal workers farmers and artisans discussed in this paper, EFTA may want to distinguish between an aspiration to a *living wage* at a relatively high level, and a recognition that in a development process a *fair wage*, that is above minimum wages but not so high that it damages commercial viability, may be more realistic and acceptable. ^{vii}

Methodologies for defining & calculating a living wage

A **living wage** is defined as enough to meet the basic needs of the worker and his or her family, and allow for some savings and/or discretionary expenditure. A family's basic needs may be estimated from detailed surveys of living costs (food, housing, clothing, education, medical care, transport). Living wage benchmarks compiled for the **UK, USA and other developed economies** consider a wide range of goods and services, including leisure activities. This is a major undertaking, the results are very country specific, and the approach raises complex moral choices when applied across countries with different aspirations and understandings of basic needs.

A simpler methodology is often used to set comparable benchmarks across many countries. Data on national food consumption patterns are used to calculate the cost of a culturally appropriate and nutritious family 'food basket'. This figure is multiplied by a factor which takes into account how much an average family spends on food as a proportion (%) of its total expenditure. Further parameters adjust for family size and the number of wage-earners per family, and an amount may be added to allow for discretionary spending and savings. This formulation is used because it is easier to define and calculate the cost of a family food basket (often published by national governments) and extrapolate this, than to calculate the very variable real expenditure patterns of real families. The most widely used formula was adopted by **Social Accountability International** [SAI]. It assumes: 2 full-time earners in each household; a variable number of dependants based on average (national or regional) household size plus an additional 10% for discretionary expenditure.

$$\text{Living wage} = \frac{\text{cost of food basket} \times \text{number of dependants} \times 110\% \text{ (i.e. 10\% discretionary expenditure)}}{\% \text{ proportion spent on food} \times 2 \text{ (i.e. number of wage-earners)}}$$

The **strength** of the SAI methodology and its variants is that they are not static. The proportion of household income spent on food decreases as income (at family or national level) increases – the so-called Engel's law. In poor countries, around 50% of a typical family's income is spent on food, compared to 27% in Mexico and below 10% in Western Europe. The formula self-adjusts as national living standards rise over time, and with them workers' expectations of what is considered a *basic necessity*. For this reason it generates benchmarks which are reasonably appropriate to the context of the local economy. However the benchmarks are very sensitive to the assumptions adopted, notably the ratio of dependants per earner. Using the proportion of family budget spent on food to estimate non-food needs also has an unfortunate side-effect. A group of workers who by *virtue of low wages spend most of their income on food* would get a lower living wage benchmark than a group of more affluent workers - hence some very low benchmarks produced by less experienced practitioners.

Another approach, used by the drug firm **Novartis**, is to define a living wage in one country based on a detailed study of living costs (in this case Mexico) and extrapolate an equivalent *purchasing power* for other countries, using the Purchasing Power Parity [PPP] methodology developed by the World Bank. In practice Novartis found adjustments are necessary to ensure that benchmarks are appropriate, especially in least developed countries where low wages may mean that even middle class families are unable to meet their basic family needs.

The US campaigning group **Sweat-Free Communities** uses a similar method. It uses the US Government defined poverty line for a family of 3 (\$16,090 in 2005) to calculate benchmarks for other countries by multiplying it by the per capita GDP for that country divided by the per capita GDP of the USA. The significance of these so-called 'non-poverty wage' benchmarks is unclear but they are seen as good enough for campaigning around wages.

The **Asia Floor Wage Alliance [AFWA]**, which unites Clean Clothes Campaign and many other NGOs and trade unions working in the garment sector, uses a hybrid method. Benchmarks are calculated in local currency for each of seven Asian countries (Bangladesh, Cambodia, China, India, Indonesia, Sri Lanka, Thailand) based on the cost of a food basket. These figures are standardised by converting them into US\$, corrected for PPP, and an average of the benchmarks is calculated (in so-called PPP\$), to reach a benchmark based on a common purchasing power across Asia, which is then converted back into local currency.

The Asia Floor Wage [AFW] benchmarks were agreed in consultation with workers and their representatives in each country, as were the parameters underpinning them (the calorific content of the basket of food, how many dependants per breadwinner etc). The involvement of beneficiaries gives the AFW a credibility lacking in benchmarks generated by Northern initiatives, no matter how well-meaning. However the AFW methodology has an anomaly. Using an average purchasing power across the region creates a higher benchmark for less economically-developed Bangladesh than a methodology based on need alone. This is not a problem for the Asia Floor Wage Campaign, which uses the figures in bargaining and campaigning, but it creates a challenging implementation target in Bangladesh.

The NGO **Banana Link** uses the cost of comprehensive baskets of food, goods and services (so called *canasta basica*) which are published by some Latin American Governments. Using government statistics brings credibility, but the *canasta basica* tends to be lower than other benchmarks, may vary between countries, and is not widely computed outside Latin America.

Some Indian exporters argued that **statutory minimum wages** should be considered a fair wage in the Indian context, and questioned the legitimacy of standards defined in Europe. However artisans in Delhi interviewed said that Rs 500/day would be a living wage (i.e. Rs13,000/month - almost double the minimum wage of Rs 7,228).

Studies show that in many developing countries minimum wages can be as little as one quarter of credible estimate of a 'living wage' ^{viii}. This is explored in the table below which compares minimum wages with the Asian Floor Wage [AFW] national benchmarks, which represent an equal *purchasing power* in each country (PPP\$540 /month).

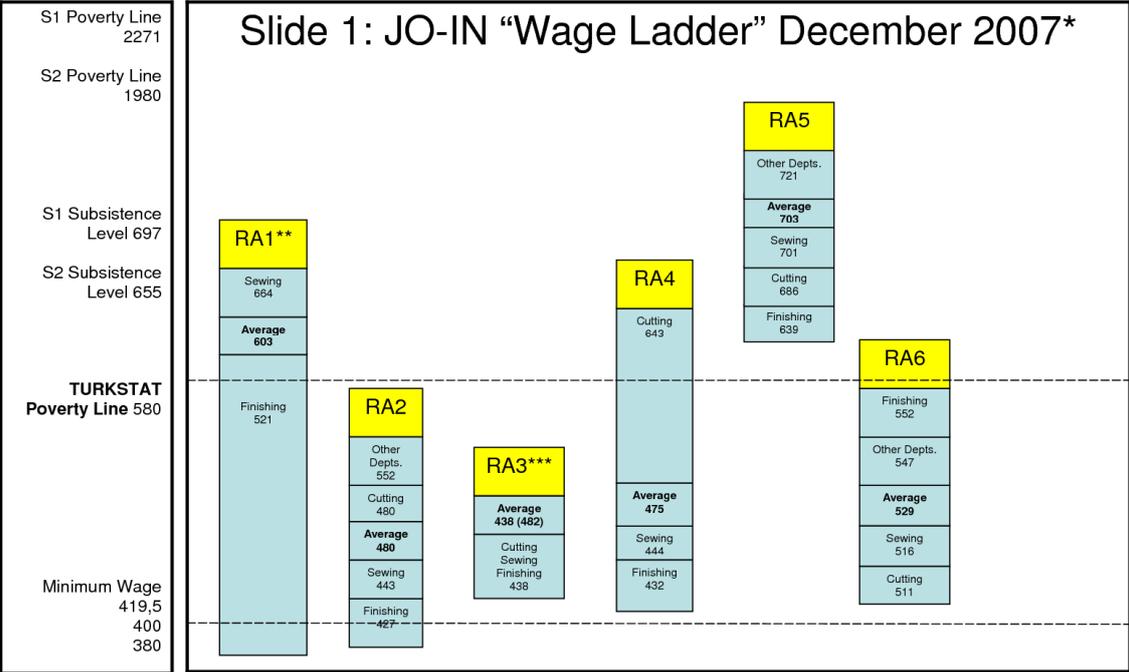
Table 1 Minimum wages in comparison with the Asian Floor Wage benchmarks (May 2012)

Country	currency	AFW (May 2011) ^x	Inflation (May 2011- 2012) ^x	AFW (updated to May 2012)	Minimum wage local currency	Minimum wage as % of AFW
China (Shenzhen)	RMB	1,843	3.40%	1,906	1,500	79%
India (Delhi)	Rupees	7,967	7.50%	8,565	6,422	75%
China (Shanghai)	RMB	1,843	3.40%	1,906	1,280	67%
India (Haryana)	Rupees	7,967	7.50%	8,564	5,617	66%
Indonesia (Aceh)	Rupiah	2,132,202	4.50%	2,228,151	1,400,000	63%
India (Rajasthan)	Rupees	7,967	7.50%	8,564	3,822	45%
Indonesia (Bali)	Rupiah	2,132,202	4.50%	2,228,151	967,500	43%
Cambodia	Riel	692,903	4.80%	726,162	285,600	39%
India (Tamil Nadu)	Rupees	7,967	7.50%	8,564	3,242	38%
India (National)	Rupees	7,967	7.50%	8,564	2,990	35%
Sri Lanka	Rupees	19,077	6.10%	20,241	7,000	35%
Bangladesh	Takas	12,248	9.93%	13,464	3,000	22%

The minimum wage in Delhi of Rs247/day (Rs 6,422 for a 26 day month) is around three quarters of the AFW for India (Rs 7,967/month). Minimum wages in industrialised parts of China are similarly high. The minimum wages for poorer regions like Tamil Nadu, Rajasthan and the Indian National Minimum Wage of Rs 115/day, stand at around 40% of the AFW or less. In Thailand the minimum wage was recently increased to 300 baht/day (equivalent to PPP\$ 445, or 82% of the AFW). At the opposite extreme, the minimum wage in Uganda (6,000 shillings) has not been revised since 1984 and is currently worth under \$100 per year. This variability means that Fair Trade cannot use minimum wages as a 'proxy' for a living wage. However, prevailing wages tend to be close to the minimum wage. While Living Wage benchmarks may estimate what a family *should* earn, the links between wages and product prices mean the minimum wage also affects what wages are *achievable* and sustainable. While the minimum wage is very low in Bangladesh, and therefore the arguments for raising wages above it are strongest, the AFWA benchmark may be unsustainable in the informal sector, especially in rural areas.

The proliferation of methodologies, and the subjective nature of the task, mean there are often multiple benchmarks for any region. The **JO-IN project**¹, a collaboration between six multi-stakeholder organisations implementing labour codes in the Turkish garment sector, invented the Wages Ladder tool to sidestep discussions about benchmarks and focus instead on monitoring progress in raising wages towards the benchmarks. ^{xi} The ladder plots actual wages against any number of benchmarks, including the minimum wage, and can show a range of wages (as usually found within any company or supply chain). In the example below wage rates are shown at six hypothetical factories.

Figure 2 JO-IN Wages Ladder ^{xii}



The wages ladder allows wages to be compared (in this case between six different factories) to inform purchasing decisions e.g. where to place an order. It can be used sequentially to demonstrate trends in wages over time. Looking at wages for different workers and averages gives a measure of wage differentials within a company. The **Fairwear Foundation** uses the Wages Ladder in its implementation of living wage in garments sector.

¹ JO-IN comprised Fair Labour Association, Ethical Trading Initiative, Fairwear Foundation, Social Accountability International, Workers Rights Consortium and Clean Clothes Campaign

Many stakeholders affirm that workers must be consulted about what *they* consider to be a fair or living wage. Fears that “some NGO in Washington or London will decide how much workers across the world should earn for all time”^{xiii} have underpinned scepticism by international unions to living wage initiatives. According to several interviewees - confirmed in several studies^{xiv} - workers and producers have a very good idea of how much they need to earn to meet their basic needs.

Mention should be made of the Fair Wage Guide calculator^{xv}, an on-line costing and pricing tool developed by the US non-profit organisation, **Good World Solutions**. It does rapid calculations which result in an easily understood visual and numerical comparison of wages or piece rates with several benchmarks including: the national minimum wage; the \$2/day and \$4/day International Poverty Lines² and the so-called **Fair Wage Guide Minimum [FWGM]**, which is defined as the local minimum wage + 10%. Good World Solutions adopted **minimum wage + 10%** as a benchmark precisely because they struggled to find a global formula or definition for living wage:

... we were never able to find an existing living wage indicator that could work across all countries. We could find occasional research on one country, but nothing that could be applied more broadly... Secondly, when we looked at existing data being collected into the Fair Wages Guide, we realized that for most organizations, just getting people above the minimum wage mark was a triumph.

Audrey Seagraves, ex-CEO, Good World Solutions

Finally, FLO and SAI are discussing collaboration to develop a global set of living wage benchmarks, and the UN International Trade Centre is considering a role as depository of wages benchmarks. Both developments would be very helpful to EFTA and other fair and ethical trading initiatives.

Discussion

An authoritative study of living wage, conducted for the ILO, concludes:

there is no such thing as a definitive estimate for a living wage... because reasonable people can honestly differ about what living standard they think a living wage should be able to support ... and the number of people in a household they think should work. We think it is important to recognise and admit that it is somewhat subjective and so there is not one specific number which represents the ‘real living wage’. (Anker, 2011)^{xvi}.

This is not to say a definition of fair and living wages is impossible (indeed the present research aims to propose working definitions of both), but a reminder not to get drawn into illusory technical discussions, nor get distracted by arguments over benchmarks, from the task of raising wages. There is no universal definition of a living wage, nor could there be. In such a subjective landscape, artisans, workers and smallholder farmers must be central to agreement of fair wages & prices.

The need to involve workers and artisans in agreeing a fair wage

... in defining a fair wage ... active participation of stakeholders and workers should be considered so that the amount is not only the result of technical considerations but also the perceptions and expectations of workers....

Winnie Lira, WFTO Latin America, written submission

Any proprietary EFTA living wage benchmark would need credibility and robustness. Setting benchmarks and keeping them up-to-date, is no small undertaking. FLO, ILO, Fairwear

² \$2 /day equates to the \$1/day global poverty benchmark used in the MDGs, allowing for intervening inflation

Foundation and other actors have invested considerable resources in assembling data; there seems little to be gained by EFTA (or WFTO) investing resources in duplicating these efforts. Such benchmarks also have credibility; their adoption by EFTA would lend coherence to campaigns for living wage in global supply chains, which EFTA and its members support.

What elements should be included in the definition of Fair Prices & Wages?

Some stakeholders suggested adding the monetary value of health and welfare schemes into computation of fair prices & wages. Most codes of corporate responsibility require a range of entitlements in addition to wages and it would lack coherence (double counting) to count welfare provisions within the Fair Trade definition of living wage, when Fair Trade advocates living wage plus health & welfare benefits from companies. This does not prevent Fair Trade from talking about these benefits, which are certainly denied other informal workers.

Finally most artisans in Fair Trade chains are informally employed. Regularity of work is known to be of the highest importance to homeworkers and other informal workers. A wage paid as a salary is more valuable than a piece rate equivalent on an hourly basis. The EFTA monitoring system should be able to confirm how this is viewed by artisans, and resolve other questions which can be expected to arise during implementation.

Conclusion – a definition of Fair Prices & Wages

The goal of EFTA is payment of a living wage. In recognition of the challenges of implementing *living wage* with the informal workers, farmers and artisans, EFTA is justified in implementing a *fair wage* (or equivalent *fair price*) that represents progress towards this goal.

EFTA can support processes to agree fair wages & prices between exporters and the artisans/workers and smallholders supplying them. Artisans/workers and smallholders must be central to the agreement of fair wages, if they are to have credibility. Such discussions will consider living wage benchmarks, and also the impact of wage rises on commercial viability. The Wages Ladder may be a useful tool in discussing and monitoring fair wages. Non-wage benefits, including annual bonuses and training etc which Fair Trade brings, will naturally be brought into discussions, without the need for a monetary value to be computed. Thus EFTA will not need its own *living wage* benchmarks, and can use those set by other organisations. This will help EFTA avoid circular arguments about benchmarks and allow it to focus on the task of raising wages.

To guide progress towards living wages, ***implementation benchmarks*** of fair prices and wages can be used. Implementation benchmarks should be calibrated to achieve maximum traction on wages – i.e. above what is prevailing, but achievable within market constraints. The benchmark currently being used by EFTA members is the relevant statutory ***minimum wage***. The ***Fair Wages Guide Minimum*** (minimum wage +10%) would be a good initial milestone for implementation, which would both represent progress on wages, and was considered an achievable target by stakeholders in most countries and regions.

Setting fair prices for smallholder farmers

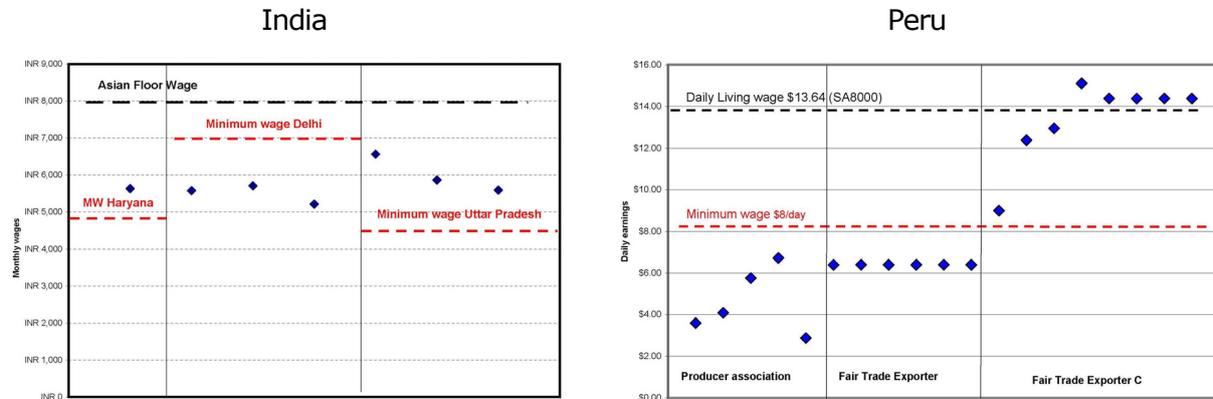
EFTA can draw upon existing models for ensuring fair prices for ***smallholder farmers***. FLO methodologies for calculating the Cost of Sustainable Production [COSP] and defining a Fairtrade Price are applicable, and have been well tested. The ETI Smallholder Guidelines also record good practice and learning around the engagement of smallholders in commercial supply chains, including models for setting a fair price (minimum wage equivalent) of agricultural products. Furthermore, gaining access to an external market which does not get depressed at harvest time, learning to meet the quality requirements of global markets, and building the capacity of producer-owned businesses to access commercial as well as Fair Trade markets, may in any case afford an impact on the livelihoods of smallholder farmers which is larger and more sustainable than any Fair Trade price differential.³

³ See <http://www.oxfam.org.nz/what-we-do/issues/fair-trade/about-fairtrade/producer-stories#coffee> (accessed 22 March 2013) for a good case study of the impact of Fair Trade with smallholder farmers

4. What is the gap with existing prices and wages paid?

The study collected a snapshot of data about wages from 30 Fair Trade chains in different countries and continents. Results from two countries, which illustrate and typify both the situation and challenges, are presented below.

Figure 3 Prevailing wages in Fair Trade Supply chains



Wage and piece rates are currently close to the minimum wage, sometimes above sometimes below. This shows that Fair Trade is succeeding, *as paying a minimum wage may itself represent impact*. One contradiction which EFTA must address is illustrated by the producer association in Peru. At the average prices received in Fair Trade and local markets, its members struggle to pay a minimum wage. A mechanistic approach to implementation could see this group excluded from Fair Trade, whereas it needs support in raising wages.

Wages and prices were studied in detail at 7 producer groups in the supply chains of four Fair Trade suppliers in rural Bangladesh, Dhaka and Delhi, India. All the groups visited used costing and pricing processes based on EFTA models, to agree piece rates with artisans and in price negotiations with EFTA members. Suppliers in both India and Bangladesh said that EFTA costing and pricing sheets helped ensure equitable agreement of prices and wages. All the artisans confirmed that they had been paid the piece rate which had been agreed.

Both Indian suppliers sourced from informal producer groups, organised by a contractor, himself an artisan. Costing and pricing was initiated by the contractor, who estimated a price, based on artisans' labour at an agreed rate, and the actual costs of raw materials sourced from the local market, plus a margin for his role in managing production. The IMO added margins for packaging and other services.

Usually the resultant price was accepted by the EFTA member. If not, negotiations took place between the IMO and contractor, and/or between the IMO and the EFTA member, until a mutually fair price was agreed. This often involved amending designs to reduce cost rather than bargaining down the product price.

The two Bangladesh IMOs had been set up by NGOs and producer groups were formally structured. Both IMOs used sophisticated costing and pricing processes, and book-keeping and administration systems to manage production. The product price was built up in detail (including artisans' labour, raw materials, overheads, operating and staffing costs; profit margins for both IMO and producer group; social benefits; export and administration costs).

Piece rates largely followed prevailing wages in the local labour market, which was buoyant in urban areas. The wage rates at the four producer groups in Delhi had been set well above the minimum wage (Rs 247/day). A revised rate of Rs 278/day came into force on 1st October 2012, a few days before the visits. Piece rates had not been revised and although they had been negotiated in good faith, were therefore below the new minimum wage.

Artisans in rural Bangladesh were earning around the garment sector minimum wage rate (Tk 3000/month), depending on their skill level, and could earn more in peak season and less in low season. The IMO in Dhaka (which had artisans on its Board of Directors) had a policy of

setting wage rates well above the minimum wage and a transparent system for setting piece rates and communicating them with producers, who had been trained in book-keeping. Both Bangladesh IMO's had profit-sharing systems which would further enhance artisans' earnings.

Table 2 Artisans' wages at Fair Trade producers in India & Bangladesh

Country		Supplier	Product	Monthly earnings at agreed piece rate	Minimum Wage	Earnings as % of minimum wage
Bangladesh	Rural	P	paper	Tk 4,095 (peak) – Tk 3,100 (average)	Tk 3,000	137%
		P	paper	2,782 (actual)	Tk 3,000	93%
	Urban	C	bag	Tk 3,328	Tk 3,000	111%
		C	homeware	Tk 3,230	Tk 3,000	108%
India	Urban	M	jewellery	Rs 8,736	Rs 7,228	121%
		M	jewellery	Rs 5,200	Rs 7,228	72%
		F	jewellery	Rs 6,656	Rs 7,228	92%
		F	jewellery	Rs 6,656	Rs 7,228	92%
		F	jewellery	Rs 6,240	Rs 7,228	86%

In focus group discussions artisans confirmed that a minimum wage is not sufficient to meet the basic needs of a typical family, and that artisans in Fair Trade chains, like people in poverty everywhere, employ several livelihoods strategies to make up the shortfall. Most households have several wage earners, and artisans take other work or work longer hours to boost their earnings.

What do artisans in Bangladesh and India consider a fair wage?

It was not easy to get artisans to give an opinion as to what would constitute a living wage, and most did not expect that their family needs would be met by a single bread-winner. Women artisans in rural Bangladesh said that between Tk 5,000 and Tk 8,000 would meet the needs of an ordinary family. They were earning roughly half this amount. They struggled to survive when orders were short and their earnings fell below minimum wage, and outside harvest time when there is less work in agriculture. Women artisans in Dhaka, whose wage rates were set 10% above the minimum wage, reported they were able to meet their family needs, with several family members earning. They were able to save, had a pension scheme run by the supplier, and were investing considerable sums in the education of their children. Artisans in Delhi estimated their total family expenditure at around Rs 9,000 per month, and that Rs 13,000/month would be a living wage, roughly twice what they earned in an 8 hour shift. Work from other contractors brought their total incomes to around Rs 10,000. A group of migrant workers sent Rs 3,000 per month to support their families in rural areas of Bihar. The picture that emerges is that if artisans are able to earn at a rate **equal to or above** the minimum wage, and have regular orders from Fair Trade or commercial markets or both, they report they are able to meet their basic needs, and invest in the education of their children and in savings. Conversely, where piece rates are **below** the minimum wage, where orders fluctuate throughout the year, and where (in rural areas) alternative livelihoods and employment options are limited, artisans struggled to make ends meet.

The prices paid by EFTA members, and Fair Trade in general, in India and Bangladesh were reported to be comparable with those paid by commercial exporters, and higher than prices in domestic markets. Local retailers demanded long credit terms and were slow and bad payers. The main advantages of Fair Trade are access to new markets, and fair terms of trade – predictable orders, achievable volumes, where necessary with advance payments – coupled with support (e.g. on designs) and capacity building. Learning to meet quality demands of Fair Trade and other international markets was seen as beneficial.

5. What is the likely price impact of raising wages?

Information on the price composition of crafts products sold to EFTA members was collected through interviews with suppliers in Bangladesh and India. The export (FOB) price of a typical product from rural Bangladesh is broken down in the table below.

Table 3 FOB Price breakdown of a Fair Trade product from rural Bangladesh

Current monthly wage rate Taka 2,782 (equivalent to 93% of the Wages Board Minimum Tk 3,000)		Cost / item	% of FOB price
Artisans' labour (per piece)		Tk 24.2	8%
Materials		Tk 131.7	45%
Fixed costs Overheads		Tk 50.3	17%
Variable costs Training & community development (4% on running total)		Tk 8.2	3%
IMO margins (10% on running total)		Tk 21.4	7%
IMO recharge for product design, marketing and management		Tk 23.6	8%
IMO recharge for export administration and charges (60%)		Tk 35.4	12%
Total FOB cost		Tk 294.9	100%

The impact on product price of raising the wages of artisans at this producer is extrapolated in the table below. Overheads are unaffected by any rise in wages. There is a small increase in the costs of raw materials because these are processed in-house and have a significant labour component. Other costs are projected to rise (e.g. training) not because they would increase but because they are currently charged as a percentage of product price.

Table 4 Impact on FOB price of raising artisans' wages at a Fair Trade Producer in rural Bangladesh

Breakdown of FOB – (Producer in rural Bangladesh)	Current wages	Minimum Wage	Minimum wage + 10%	Asian Floor Wage
Monthly wage rate (as % of Minimum Wage)	Tk 2,782 (93%)	Tk 3,000 (100%)	Tk 3,300 (110%)	Tk 13,464 (449%)
Artisans' labour/piece	Tk 24.2	Tk 26.1	Tk 28.7	Tk 117
Materials	Tk 131.7	Tk 132.6	Tk 133.9	Tk 176.7
IMO fixed costs (overheads)	Tk 50.3	Tk 50.3	Tk 50.3	Tk 50.3
IMO variable costs & margins	Tk 88.6	Tk 89.9	Tk 91.5	Tk 149
FOB cost	Tk 294.9	Tk 298.9	Tk 304.5	Tk 492
Increase in FOB		1%	3%	67%

This projection suggests that raising wages and piece rates, either to the minimum wage, or to the **Fair Wages Guide Minimum** (minimum wage +10%), would not affect the export price (FOB) substantially. However implementing the Asia Floor Wage [AFW] would raise the export price by 67%, if the producer group and exporter levy margins *pro-rata*.

The other Bangladesh supplier already pays 10% above the minimum wage. Raising wages to the AFW would have a greater impact on its FOB price (the model predicts 150%) because of its lean costing structure and the high proportion of the price which goes to artisans.

In practice, prices would rise less than this for three reasons:

- Costs such as transport are unaffected by artisans' wages
- Raising wages does not increase the cost of product development, management etc.
- Higher wage levels would incentivise rapid gains in productivity and efficiency

Implementing AFW in Bangladesh is particularly challenging, because of the low minimum wage, less so in Delhi (where minimum wage is closer to a living wage). This is shown in the table below, which extrapolates the impact on the export price of raising wages with a range of products from India producers. The lower estimate assumes the IMO maintains existing

gross earnings (reducing its % margins); the higher estimate assumes the IMO maintains the same % margins as labour costs rise. The best achievable will probably lie between the two.

Table 5 Impact on FOB of raising artisans' wages in India Fair Trade chains visited

	Existing	Raising wages to minimum wage	Raising wages to MW + 10%	Raising wages to AFW
Monthly wages <i>Wages as % of Minimum wage</i>	Rs 6,698 93%	Rs 7,228 100%	Rs 7,951 110%	Rs 8,565 118%
FOB would rise by		1 - 5 %	5 – 13%	11 – 24%

Up to half the FOB price is made up of margins which are internal to the IMO (profit margin, charges for design, marketing, export administration and management). Most businesses use a rule-of-thumb formula to budget for profit margins and running costs. If the product costs rise, for whatever reason, internal charges will rise as they are calculated as a % margin, even though raising wages does not actually increase the cost of these services.

Discussion

Wages in Fair Trade chains are currently close to the level of the statutory minimum wage and can be brought up to the minimum wage at little cost. Raising artisans' wages to the AFW would have a larger impact on the FOB price, which could jeopardise the viability and sales of those products even in Fair Trade markets. It will be a particularly steep climb in Bangladesh where meeting the AFW benchmark would mean raising wages by 400%, triggering a rise in FOB prices of 67-150%. The **Fair Wages Guide Minimum** (minimum wage + 10%) in India and Bangladesh would be achievable in a relatively short term.

While caution should be exercised in extrapolating this small sample, from a single region, across the globe, the impact on FOB price of raising wages was lower than expected, and in many cases could be absorbed by IMOs. In other products FOB prices will have to rise. How will this affect prices as the product traverses the value chain, accruing Government taxes and the profit and operating margins of companies until it reaches the consumer?

The escalation of price up Fair Trade value chains

In order to explore how wage rises might 'escalate' as they are passed up the value chain, a survey was carried out of the pricing policies of EFTA members. EFTA members have different trading models. Some are mainly wholesalers to world shops; others supply their own shops. Most have a mixture of markets which may include mail-order, sales through local volunteer groups and wholesale to Fair Trade shops and even supermarkets. The end market has a big effect on price composition. EFTA members' mark-up covers:

- Trading expenses: freight to Europe; import duty; insurance; agent's fees; logistics; VAT
- Retailer margins/cost of sales through EFTA members own outlets or mail-order
- Support to producers, including product design, producer capacity building and monitoring
- Cost of pre-finance
- Promotion of Fair Trade, product marketing; educational materials aimed at consumers

The mark-up is flexible. It is squeezed to prevent goods from high cost regions, notably Latin America, becoming unsustainably expensive, and varied for different kinds of products (food, gift-wrap), reflecting seasonality, perishability and the specifics of the consumer market.

EFTA members do not routinely keep data on the *actual* cost components in their accounting. This, and the diversity of trading models, make it impracticable to do an integrated analysis of the evolution of cost up EFTA chains; however a typical cost structure looks like this:

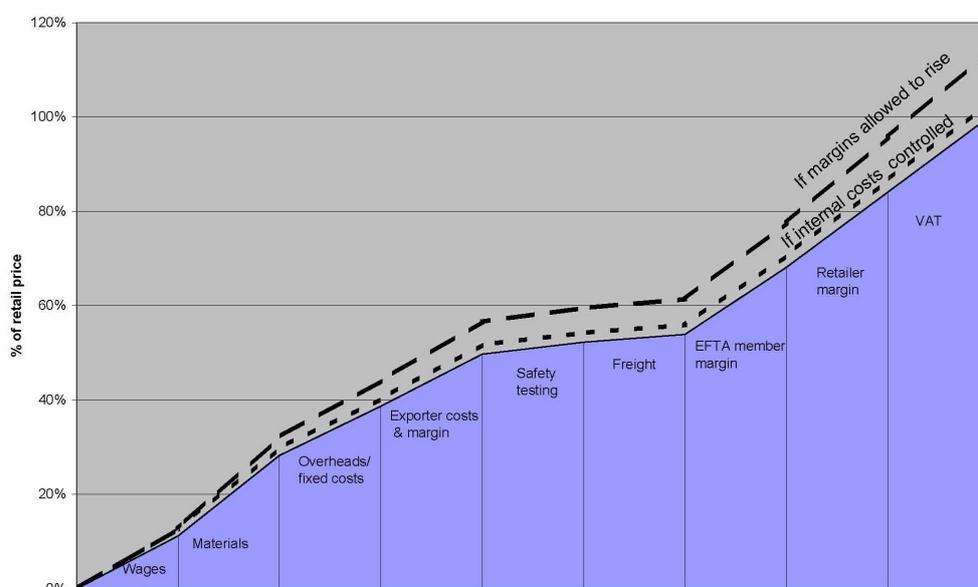
Table 6 Detailed breakdown of the fixed & variable mark-up costs of an EFTA member

How costs will be affected by any wage-related increase in FOB			Proportion of retail price
	FOB		27.0%
Fixed costs (unaffected by any rise in FOB price)	Import costs	Packaging; Shipping; Transport from port to warehouse	4.7%
	Logistics	Distribution; Handling & Packaging; Warehouse rent	9.0%
Obligatory (EFTA member is obliged to increase if FOB rises)	Import costs	Pre-financing; Duty (EU); Import agents' fee; Insurance	1.3%
	VAT		15.3%
Discretionary (EFTA member can control cost rises)	Retail costs ⁴	Promotion; Rent shops; Sales force ; Travel; Other shop costs	33.3%
	Fair Trade programme	Awareness-raising, producer support, monitoring, management	12.0%
TOTAL			102.6%
Profit (loss)			(-2.6%)

Any increase in FOB price will be amplified by an additional 16.6% for VAT and other *obligatory* charges. The remaining costs are either *fixed* (e.g. freight) and not affected by product price, or are internal to the EFTA member and therefore under its control, and often (e.g. warehouse rental) similarly unaffected by product price. EFTA members should control these *discretionary charges* during implementation, to minimise the impact on retail price of wage-related increase in price. This will mean squeezing the percentage margins used for calculating retail price, while maintaining absolute earnings, as product price rises.

Implementing the **Fair Wage Guide Minimum** (minimum wage +10%) across the groups in the study would raise retail prices of the products by an average of 3%, if IMO and EFTA members are able to control internal charges, or up to 14% if they allow charges to rise.

Figure 4 The impact of raising wages along EFTA crafts value chain from Bangladesh & India



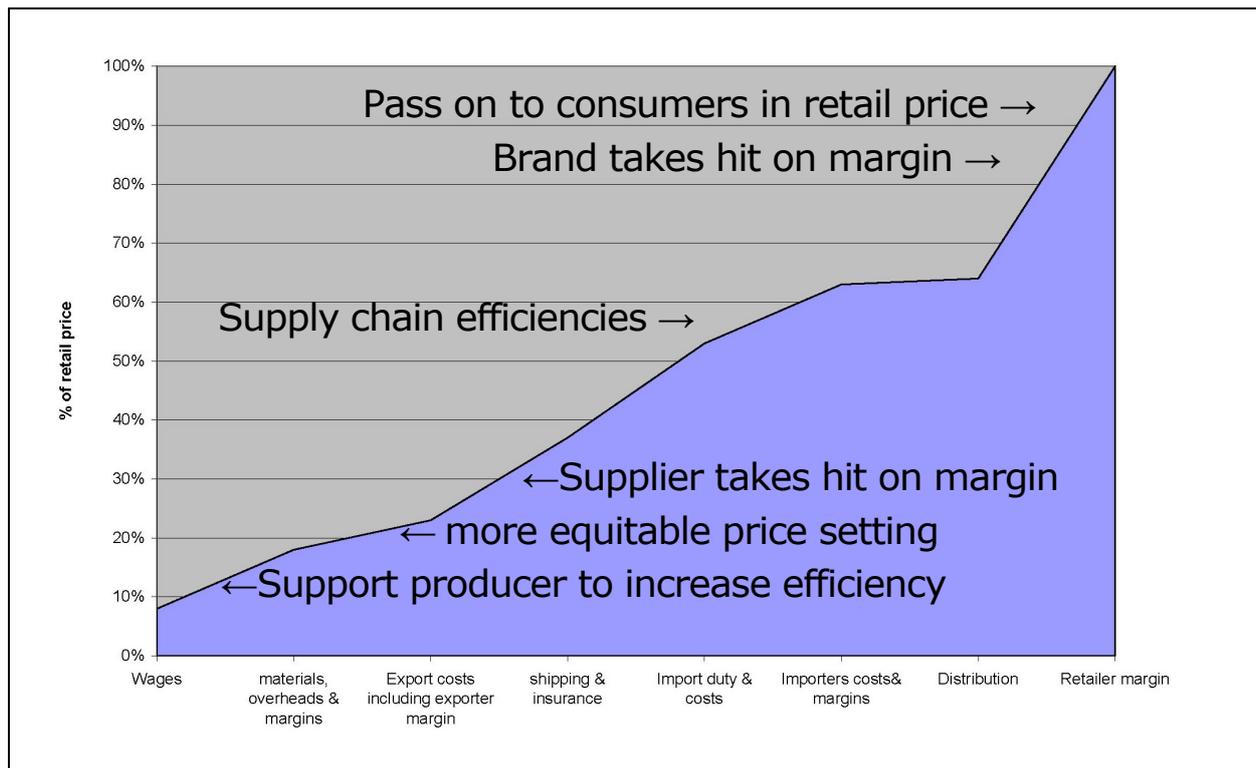
This is a big challenge, as the use of internal margins is engrained in business practice.

⁴ This EFTA member sells through its own shops; EFTA members selling to world shops etc have to offer retailers a margin, which **would** rise in proportion with any rise in FOB.

6. How can risk & responsibility for raising wages be shared along Fair Trade value chains?

A recent SAI seminar identified the following top-line strategies for sustainable implementation of living wage: Pass costs on to consumers in retail price; Supply chain efficiencies; Support supplier to increase efficiency; Brand takes hit on margin; Supplier takes hit on margin. To these we can add the issues, posed above, of imbalances in bargaining power within the value chain, which according to value chain theory, affect the price setting, to the detriment of the weakest actors in the chain, usually those at the bottom, especially workers/artisans. Our complete model might look more like this.

Figure 5 Supply chain intervention strategies which support wages implementation



There is broad consensus from stakeholders interviewed and the wider CSR, labour rights and Fair Trade movements, that integrated approaches to implementing fair or living wages will be more sustainable and will reduce potential negative effects on commercial viability. The undesired side-effects from not addressing the causes of low wages, including low productivity and quality also needs to be brought into the equation.

Increasing efficiency at producers

Commercial retail chains have achieved wage rises of around 40% for garment factory workers by raising efficiency at suppliers and ring-fencing gains in productivity for wages.⁵ Many respondents noted the need for investment in better production techniques, but also the tension between recognising the proper value of a hand crafted product and mechanisation. Major production losses from failure to meet quality specifications, which were common fifteen years ago now largely appear to be under control. All the groups visited operated some form of quality control or QA system and reported low reject rates of around 1% (although in one product as high as 6%) at the final quality control stage. Rejected pieces could be traced back to the artisan, for re-work and repair, and training and support

⁵ Although critics have pointed out that the gains in productivity may not be equitably shared with workers – see http://www.actionaid.org.uk/doc_lib/actionaid_garment_workers_booklet_.pdf (accessed March 2013)

was available for artisans whose production was below standard. Some paper and ceramic products had higher reject rates, reflecting fragilities intrinsic to the production process. While there may be scope for improvement there are no longer major gains in efficiency to be made by improving quality systems at producers.

Scope to raise productivity was noted at several producers, for example through the use of templates e.g. to guide the positioning of components prior to soldering. Order volumes are intimately linked with efficiency, for example whether or not it is cost-effective to produce templates or organise production lines. The on-going need for capacity building was raised by many stakeholders.

Increasing efficiency along the value chain

EFTA members operate similar margins to commercial garments and accessories companies. To many stakeholders in the global South these appear high. However EFTA members pointed out that their margins are inherent to their ability to trade with small-scale crafts producers. EFTA members support product development, are flexible and creative in how they carry out trade and offer relatively low order volumes. The retail chains they sell to, whether World Shops or their own outlets, are also small-scale. Flexible, low volume chains with a high level of New Product Development are of necessity less 'efficient' than high volume chains. Re-packaging or labelling (usually a result of the inexperience of producers) added 3% to the FOB costs of a sample of products; air freight to make up for delays in production can add even more (50% relative to FOB cost).

The cost of product safety testing, e.g. to demonstrate absence of nickel in silver-plated jewellery, was also high relative to the volume of orders, and can exceed artisans' wages. Without testing the product cannot be sold, but EFTA needs to ensure that low order volumes and subsequent 'inefficiencies' are not consuming an excessive part of product cost and therefore the benefit of Fair Trade. One EFTA member halved the cost of safety testing by using the same components in two different products. There is further scope for cutting the cost of testing by increasing order volumes through joint sourcing of similar products.

Substantial variation was noted in value chain costs between EFTA members and across different products, which merits further study. Value chain theory states that prices agreed between actors in a value chain reflect their bargaining power. The steep gradient in Figure 4 suggests there is great scope for attenuating the impact on price of wage rises by raising efficiency at the top of the value chain and by sharing the risks and responsibility for raising wages throughout the chain.

More equitable price setting

The labour component of the FOB price at the groups studied ranged from 6% to 38%.⁶ This variation did not coincide with any obvious category of product or the degree of hand-work involved. The cost of materials clearly plays a part. One IMO purposefully ran a 'lean' operation, with lower internal margins, in order to pay better wages. Otherwise wages in Fair Trade chains were comparable to those in commercial markets, and tended to be around the minimum wage.

A great deal of effort is made by Fair Trade to ensure that price setting is equitable; strengthening this work will be central to sharing the burden of implementing fair prices & wages in Fair Trade chains. The introduction of costing and pricing sheets has substantially improved the ability of EFTA members to ensure (and demonstrate) equitability of price-setting, but further measures may be needed to embed costing and pricing at producer level.

⁶ This is higher than in industrial production (e.g. garments), where labour is typically under 2% of FOB price.

7. How can fair wages & prices be implemented

The implementation approach proposed has three main components:

- Agreement of fair wages & prices between EFTA members, suppliers and artisans
- Implementation of fair purchasing policies by EFTA and WFTO members
- Measures to build efficiency and productivity at all levels of the value chain

Fair Trade has high levels of trust, dialogue and transparency which facilitate the implementation of fair wages and prices. The rationale for the approach chosen, over alternatives which had been postulated, is briefly sketched out at the end of the section.

Agreement of Fair wages & prices

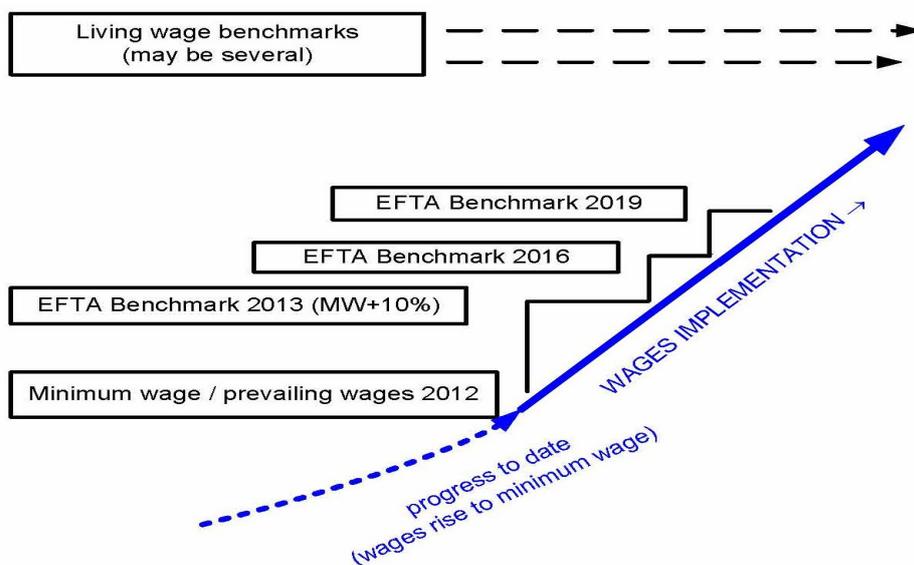
EFTA members will want to ensure that artisans are involved in price setting and agree that prices & wages are fair. Such discussions can be informed by living wage benchmarks (possibly using a simplified version of the Wages Ladder) and by the suppliers' ability to pay. The EFTA monitoring system is well suited for monitoring artisans' satisfaction with wages & prices. An additional module is proposed, based on the methodology used in the study, to help artisans discuss if wages are enough to meet their basic family needs.

EFTA should set achievable intermediate **implementation benchmarks** to guide both price setting and its own purchasing:

- **Minimum wages.** The local statutory minimum wage should be the minimum requirement for any Fair Trade product, as at present.
- The **Fair Wages Guide Minimum** (minimum wage + 10%). This would be a good across-the-board minimum benchmark, which is achievable and represents good progress. Many artisans in the situations studied would consider it fair. Exceptions to this benchmark should (only) be with agreement of artisans, e.g. artisans may agree that a regular salary set at minimum wages (as opposed to piece rates) is a fair wage. Regular employment is important to artisans and should be encouraged.
- Where a higher **local benchmark** has been agreed (e.g. some IMO's in Bolivia agreed a rate of minimum wage + 20% with artisans) EFTA should use the higher benchmark.

EFTA implementation benchmarks should be revised periodically, to ensure optimal impact on wages. Once the Fair Wages Guide minimum (minimum wage + 10%) has been achieved, and shown to be achievable without negative impacts on producers' livelihoods, a higher target/benchmarks can be set.

Figure 6 Calibrating implementation benchmarks to maximise impact over time



Where minimum wages are relatively high (e.g. Delhi, Thailand) wages should rapidly get close to the living wage. In low-wage countries like Bangladesh, reaching a living wage may take longer; artisans in the meantime will need to deploy several livelihoods strategies to meet their families' basic needs, as at present; however they are likely to consider wages which are better than alternatives (e.g. garments factories) as fair. In time the Fair Trade movement may agree national benchmarks of fair wages. For such discussions to be credible artisans need to be better represented in the governance structures of WFTO than at present. Implementation benchmarks have a dual function: i) to raise wages and ii) to ensure that prices paid by EFTA members are fair – that is sufficient for fair wages to be earned; they are not a top-down prescription of what artisans should earn.

Implementation of fair purchasing policies

Implementation will be driven by purchasing practices (formalising and sharpening existing good practice) which ensure equitable price setting between the EFTA member and their suppliers/IMOs and between IMOs and artisans:

- **EFTA members** – costing and pricing ensures that prices paid to suppliers allow artisans to earn a fair wage
- **Suppliers/IMOs** – transparent costing and pricing processes to agree a fair price with artisans, especially when sourcing from informal producer groups.

The costing and pricing systems of EFTA members should be more robustly transparent, so that artisans are informed about the wages element agreed between the IMO and the EFTA member. This should be accompanied by record-keeping (order books, pay-slips) at producer level, which allow verification of the payment of fair prices & wages. Fair Trade has developed much good practice to ensure that the proceeds of trade are shared equitably, including training for producers in costing and pricing procedures, and on good governance of co-operative organisations. More transparent costing and pricing will give EFTA greater confidence that artisans are enjoying the wages and other benefits declared by IMOs.

Good practice in agreeing fair piece rates – Dhaka, Bangladesh

Artisans are organised into semi-autonomous producer associations. Women artisans have learned to manage production and orders and do book-keeping. Orders and payments books enable everyone to know how much they will earn, that orders are fairly shared between them, and also permit verification.

The costing and pricing process is transparent. Piece rates are agreed by timing a group of named artisans whose mixed abilities reflect those of the producer group. The base pay rate for calculations is above the minimum wage (although below living wage benchmarks) and has been agreed in discussions with the representatives of artisans.

The high level of satisfaction and empowerment of minority-ethnic women artisans was striking.

Implementation will ensure that artisans are paid a fair wage. Competition, innovation and the search for supply chain efficiencies (both at the level of producers and EFTA members) will be encouraged in other respects.

Good intentions will need to be underpinned by hard policies so that artisans, as the least powerful actors in the chain, do not lose out in price negotiations between exporters and EFTA members. These policies will create obligations both on IMOs/suppliers to pay fair prices and wages and on EFTA members to pay a price which allows fair prices and wages to be paid.

Measures to improve efficiency and productivity at all levels

Where costing and pricing shows that meeting the fair wages & prices benchmarks will be challenging, or would price a product out of the market, a plan should be developed jointly between the IMO and EFTA member(s) trading with it, to examine ways of raising

productivity, and the resources which EFTA members can provide in support of this.⁷ Learning from the commercial sector suggests that productivity gains can help meet the cost of implementing fair wages & prices. This should not be seen as an excuse to off-load onto IMO and producers at the foot of the value chain the shared responsibility for raising wages. The plan should also consider improving efficiencies along the value chain.

However building producer capacity is the proper function of Fair Trade. Several stakeholders noted that resources from Fair Trade organisations for capacity building were waning. There is abundant evidence that Fair Trade has greatest impact when it combines market access (under favourable terms of trade) with capacity building and other support to producers.

The important role of EFTA in improving value chain efficiency

The low volumes of EFTA craft chains make for a value chain with high margins and steep gradients. Margins at the top of international value chains are worth more in hard currency than margins in sourcing countries. EFTA members should therefore seek to be as lean as possible in their trading operations. The following measures are suggested:

- EFTA members should monitor and benchmark their value chain costs (testing, freight) against other EFTA members, to identify potential savings and minimise margins.
- Sharing learning. Several cost-cutting innovations were noted: paying air freight in the sourcing country where rates are lower; bulk dyeing of pieces across several orders.
- EFTA members should continue to seek economies of scale, through collaboration in sourcing, product development and testing, warehousing and importation, etc

EFTA has an important role in co-ordinating such collaboration, which would otherwise be difficult between Fair Trade companies that are in other respects competitors.

Several southern actors flagged up an opportunity for EFTA members and other Fair Trade organisations in the global North to identify and access mainstream commercial markets for Fair Trade products. EFTA members have been and are active in this area. Body Shop plays a useful role by offering larger volume orders to producers who can meet its quality and volume requirements. There may also be opportunities to explore higher value markets. Several actors also identified the need for differentiated marketing strategies for high *volume* products and high *value* hand-made products. Such strategies are widely used by commercial businesses to optimise profitability and sustainability.

Major retail chains could be interested in Fair Trade value chains as a source of products. Sales into mainstream markets will attract greater scrutiny, and raises the risk to the credibility of Fair Trade if impact on wages can not be demonstrated. WFTO needs to take on board the challenges of paying fair wages & prices if it is serious about selling WFTO-branded goods into the mainstream.

Why the adopted approaches are more effective than alternatives

The approaches adopted are recommended for reasons of credibility and sustainability of impact. Credibility is enhanced because the fair purchasing practices and transparent price setting proposed are coherent with campaigning and advocacy by EFTA members and others aimed at changing the behaviours of commercial companies. IMOs will be better able to compete on other markets if they implement modest wage rises. This will reduce the dependency of artisans on Fair Trade markets, and there is a greater chance that wage rates set for EFTA orders will be consolidated into artisans' wages. These will contribute to more sustainable outcomes. Some stakeholders posed alternative approaches, which were not supported by the research. These are discussed below:

Funding wage rises through parallel payments or 'Premium'

Several stakeholders suggested the use of payments in parallel with purchase orders, or through a Fair Trade Premium, to supplement wages. The advantage of parallel payments is

⁷ This only restates existing good practice amongst EFTA members, who routinely provide capacity building

that the price rises to meet fair wages are not subject to escalation by margins and taxes levied up the value chain. However authorities in Europe and sourcing countries alike could justifiably view these payments as a device to avoid payment of taxes. Many countries, such as India and Bangladesh, have currency exchange controls under which such payments could be illegal. Also the benefit is transient and the impact is less sustainable if premium payments are not consolidated into wages.

The credibility of Fair Trade, as a movement and model for a better trading system, is enhanced by the purchasing practices approach taken, but would be undermined if it has to resort to financial trickery to pay fair wages & prices. What is the point of Fair Trade if it cannot say that payments to suppliers are sufficient for artisans, farmers and workers to be able to earn a fair wage?

Compliance approach

Some Fair Trade actors aim to implement living wages through an approach which makes *compliance* with a standard a requirement of trade. This focuses the responsibility for implementation mainly on suppliers (both Fair Trade companies and IMO's in developing countries), without looking at the reciprocal responsibilities of purchasing companies to pay adequate prices and addressing inefficiencies in the value chain.

It is in the best interest of artisans that IMO's have sustainable businesses (especially in the current context of low and falling Fair Trade order volumes), selling not only to Fair Trade but also to a range of mainstream markets, which may be unwilling to pay a cost which factors in the full living wage. A hard-line approach to payment of a living wage is likely to result in:

- increased dependence on Fair Trade orders, and greater vulnerability of artisans if Fair Trade markets decline
- exclusion of artisans with a (possibly thriving) business which pays them above minimum but below living wages.
- perverse behaviours to conceal or fabricate (e.g. sub-contracting to reduce wage costs)

Under the proposals in this paper, EFTA members may need more explicit agreement with their trading partners over the rate of progress towards living wage for these systems. Suppliers in India and machine knitters from Peru may find it easier to meet living wage targets than suppliers in Bangladesh, and hand knitters everywhere. As a result, Fair Trade imports may increasingly be of products with a lower hand-craft content, from relatively stronger economies in the developing world.

EFTA and other actors alike want to pay wages sufficient for artisans to be able to work their way out of poverty. Both are juggling with the same contradiction between aspiration and implementation. It will be interesting to see which approach is most effective in practice.

8. How can fair prices & wages be communicated to the public?

In a market place full of (at times spurious) claims to Fair Trade, what distinguishes Fair Trade as practised by EFTA and WFTO? What credible statement about fair wages & prices would make it stand out from other offers?

Above all Fair Trade must have an impact on wages and be able to demonstrate this impact. The EFTA monitoring system puts EFTA in a very strong position both to implement wage increases and demonstrate impact. (WFTO has also made good progress in its own self-assessment system, although some areas of weakness need to be addressed). If the proposals in this report are adopted EFTA will be able to say that:

- EFTA members pay their suppliers a fair price which allows producers to earn a fair wage, which is above the minimum wage, and has been agreed with producers and workers.
- Where wages & prices are low, a plan is in place to strengthen producers' livelihoods in a sustainable way so that wage rates are sufficient to meet basic family needs and allow for discretionary spending.
- Systems are in place to ensure that producers agree they are receiving a wage or price that they consider to be fair. By informing and involving producers, monitoring is effective yet does not consume resources which could otherwise benefit producers.

Other benefits of fair trading should also be communicated, especially building capacity to access markets. In situations where minimum wage only is paid, for example in bona fide training workshops, communications should focus on what the IMO is able to achieve e.g. "a minimum wage is paid and producers are trained ..."

EFTA and its members will also be able to advocate with greater confidence that commercial companies adopt purchasing practices and prices to suppliers which permit workers in their supply chains to earn decent wages, knowing that it is doing the same, within the bounds of what is sustainable, in its own supply chains.

9. Conclusions

Leading companies will soon be able to make credible claims of paying a fair or living wage. Fair Trade needs, more than ever, to be able to demonstrate an impact on wages if it is to have relevance, and earn the continued support of consumers. Inaction is not an option.

There are market constraints on the rate of increase in wages which can be sustained. Product prices, and consumer price expectations, reflect the cost of production and current labour costs, which tend to be around minimum wages. Seeking to raise artisans' wage too quickly could impact on sales of EFTA members and damage the competitiveness of IMOs on mainstream markets, increasing the vulnerability of artisans. In this context EFTA will achieve greatest impact on the livelihoods of artisans by raising wages towards the living wage in a cautious and step-wise manner.

In order to avoid arguments over living wage benchmarks which have held back other initiatives, the study proposes raising wages through the use of implementation benchmarks, set relative to prevailing wages, to be used in price-setting between producers, suppliers and EFTA members. Benchmarks will be revised periodically to raise wages gradually towards the living wage, at a rate which does not jeopardise commercial sustainability. The Fair Wages Guide Minimum (minimum wage + 10%) is seen as achievable by many stakeholders, and likely to be considered fair by many artisans, and is proposed as an initial implementation benchmark.

The direct nature of Fair Trade supply chains give Fair Trade companies (IMOs and EFTA members) more control over how much of any wage-related price increase is passed on to the consumer. EFTA members and suppliers will have to control their internal costs during transition to avoid damaging increases in retail price. EFTA can play a key role in helping members improve value chain efficiency by sharing good practice and promoting commercial collaboration including joint sourcing, product development and testing, which will increase volumes and value chain efficiency. The EFTA monitoring system is also important as it affords a cost-effective way for EFTA members to demonstrate, and subsequently communicate, its impact on wages.

The approaches selected strengthen both the sustainability of implementation and the coherence and credibility of campaigning by EFTA. Implementing these proposals would mean that EFTA members can make a strong and credible statement about Fair Trade:

- that they pay producer organisations a price which allows producers to earn a fair wage, which is above the minimum wage, and has been agreed with producers and workers.
- a plan is in place to strengthen producer's livelihoods in a sustainable way so that wage rates are sufficient to meet basic family needs and allow for discretionary spending.

Implementing decent wages (*salario digno*) could have positive and negative consequences for small producers... Fair Wages and Prices should be a medium or long-term goal, backed up by serious studies and realistic projections which will allow us to achieve this goal in a planned and sustainable manner.

Moner Lizana, CIAP, a confederation of crafts producer associations in Lima, Peru

10. Recommendations for EFTA⁸

1. Embrace existing **living wage benchmarks** calculated by other organisations, favouring those which have been set in consultation with workers, such as the Asian Floor Wage Alliance.
2. Use intermediary **implementation benchmarks** to monitor progress towards the living wage and the difference which Fair Trade is making. The **Fair Wage Guide Minimum** (minimum wage + 10%) is proposed as an initial implementation benchmark. Implementation benchmarks should be revised regularly (e.g. every 3 years) to optimise progress on wages towards the living wage.
3. Formally adopt a policy that EFTA members should ensure that **prices** paid to suppliers are sufficient for artisans to earn fair wages & prices. Instruct buyers to ensure, through transparent costing and pricing processes, that prices paid to suppliers are sufficient for artisans to earn a fair wage. Modulation of margins (but not artisans' wages) to achieve price points, may be considered if accompanied by relaxing margins on other products.
4. Strengthen the **transparency** of existing EFTA costing and pricing processes, and promote and support their use by trading partners through requirements for transparent costing and pricing mechanisms which demonstrate the payment of fair wages & prices to artisans workers and smallholder farmers.
5. Continue to invest in **capacity building** to strengthen costing and pricing by producers and artisans, and their ability to negotiate an equitable share of value, relative to actors up the chain.
6. Where wages are low, EFTA members should provide capacity building to producers to improve productivity and quality, and identify ways to reduce costs and **increase efficiency throughout the value chain**, including in their own operations, in order to pay fair wages & prices.
7. Commitment to and demonstrable progress towards paying fair wages should be a **condition of trade** for suppliers.
8. EFTA members should monitor **value chain costs** (testing, freight), benchmark operational costs against those of other EFTA members, and share learning about how these can be reduced, in order to increase value chain efficiency and better control internal margins during transition.
9. EFTA members should continue their efforts to increase value chain efficiency through **collaboration** including: joint sourcing and other ways of sharing the costs of product development and product safety testing; pooled warehousing and importation.
10. Consider if there is a role for EFTA or its members in identifying **mainstream markets** to increase efficiency through increased volumes.
11. Develop a new module for the **EFTA Monitoring system** based on methodologies used in the present research to check that artisans and workers consider prices and wages to be fair.
12. Share learning about implementation of fair wages and prices with WFTO and other Fair Trade organisations and discuss how to improve compatibility between the approaches taken by each organisation.

⁸ Many of these recommendations are already being done by some EFTA members

11. Recommendations for WFTO

The present report was commissioned by EFTA, primarily to guide its own decision-making about how to implement fair wages & prices. EFTA however recognises that its efforts would be more sustainable, and the credibility and effectiveness of the Fair Trade movement as a whole would be strengthened, if coherent policies on fair wages & prices were adopted by the World Fair Trade Organisation, whose members in developing countries are in the front line of implementing any proposals.

The proposals in the present paper have much overlap with the WFTO Fair Trade standard, which promotes transparent costing and pricing processes to ensure that artisans are paid wage rates and prices which artisans consider to be fair, and in other respects. For example the standard makes written purchase orders mandatory after 2 years. Such documentation between a supplier and producer group will aid transparency, and empower artisans in discussions over wages and prices and subsequently verification that fair wages and prices are paid.

Therefore some tentative recommendations are made for consideration by WFTO, recognising that WFTO is already developing policy and practice in many areas:

1. Recognise that wages and prices are of the highest priority both to the artisans and workers who are the target of Fair Trade, and for the credibility of Fair Trade, and make raising wages a priority for WFTO and its members
2. Adopt and promote a policy that purchasing companies (retailers, importers, exporters) should ensure that prices paid are sufficient for artisans to earn Fair Wages & Prices
3. Consider aligning the language of the WFTO standard with the proposals in this paper, notably to embrace living wage benchmarks developed by other organisations rather than setting its own benchmarks, and the adoption of the Fair Wages Guide Minimum (minimum wage + 10%⁹) as an initial implementation benchmark
4. WFTO should require members to ensure that artisans and producers are consulted about what they would consider to be fair wages and piece rates and are involved in price setting

WFTO could do more to promote collaboration in capacity building, for example regional training to build the capacity of artisans and producer associations in costing and pricing and in book-keeping, and to promote associative models of Fair Trade. The impact of Fair Trade was demonstrably greater in producer groups visited where artisans were organised as autonomous groups (especially where governance structures gave artisans a voice in the IMO).

Above all WFTO needs to stimulate a debate and develop understanding amongst WFTO and its membership, around fair and living wages, and to discuss, develop and put into practice these and other concepts and recommendations contained in this report.

⁹ The latest draft (3.4) of the WFTO Fair Trade Standard, refers to: ensuring that at least minimum wage levels are met in payments to producers and that a fair wage is paid to workers that equals or exceeds national/local minimum wages or market rates if these are higher

Appendix 1 Stakeholders consulted

Agung Alit (*Mitra Bali, Indonesia*)
Aleema Khan (*Sabah, Pakistan*)
Alessandra Governa (*CTM*)
Alistair Leadbetter (*Traidcraft*)
Andrea Fütterer (*Gepa*)
Audrey Seagraves (*Good World Solutions*)
Bertha Gity Baroi (*Corr the Jute Works*)
Birgit Calix (*EZA*)
Bishnu Dass Dangol (*Bhaktaphur Craft Paper, Nepal*)
Bitten Hogh (*Yunnan Danyun Fair Trade Development Co Ltd*)
Catella Willi (*Oxfam MDM*)
Chinthaka (*Gospel House, Sri Lanka*)
Chitra Bahadur KC (*New Saddle, Nepal*)
Connie Valkhoff (*Fair Trade Original*)
David How (*O.T.L., Bangladesh*)
Dilly Prasa Sharma (*Children-Nepal, Nepal*)
Elizabeth Tsui (*Twine, Taiwan*)
Elsbeth Fabels (*Dutch Association of World Shops*)
Fabio Sagliocca (*Claro*)
Gerald Godreuil (*SoM/FAM*)
Hani Duarsa (*Mitra Bali, Indonesia*)
Heather Franzese (*Good World Solutions*)
Immanuel Bundellu (*Asha Handicraft, India*)
Jackie Bonny (*MESH*)
Jaishree and Emam (*Manjeen Handicrafts*)
Jean Johnson (*SERRV*)
Jiju Oak (*Korea Fair Trade Association*)
Johnny Joseph (*WFTO Africa and Creative Handicrafts*)
Joshua Begbie (*Crossroad Foundation Limited, Hong Kong*)
Julian Havers (*Fairtrade International*)
Kangbaek Lee (*Korea Fair Trade Association*)
Kathleen Campbell (*Ten Thousand Villages*)
Kiran Khadgi (*KTS, Nepal*)
Lisa Ismiandewi (*Forum Fair Trade Indonesia*)
Lynda Yanz (*Maquila Solidarity Network*)
Margaret Vrieling (*Fairwear Foundation*)
Maria Amelia Wood (*SERRV*)
Marlike Kocken (*EFTA*)
Martin Moritz (*WFTO Europe, El Puente*)
Mike Muchilwa (*WFTO Africa and Kisumu Innovation Centre Kenya*)
Milton Suranjit Ratna (*Corr the Jute Works*)
Miyoung Lee (*Fair Trade Korea*)
Moner Lizana (*CIAP, Peru*)
Monju Haque (*Artisan Hut, Bangladesh*)
Moon Sharma (*WFTO and Tara Projects*)
Noah's Ark (*WFTO Asia*)
Pankaj Mehndiratta (*Tara Projects*)
Rafa Sanchez (*Oxfam Intermon*)
Ramkali Khadka (*WSDO, Nepal*)
Ranvir Sisodia (*SAHAJ*)
Retno Hapsan (*XS Project, Indonesia*)
Robin Roth (*GEPA*)
Rudi Dalvai (*WFTO*)
Samina Khan (*Sabah, Pakistan*)
Sandra Wanduragala (*Selyn, Sri Lanka*)
Sasha (*WFTO Asia*)
Shah Abdus Salam (*Ecota Forum and DEW, Bangladesh*)
Shyamla Nath (*Women's India Trust, Women's Trust, Pakistan*)
Soo Jung Han (*Beautiful Trade, Korea*)
Sophie Tack (*Oxfam MDM*)
Sulochona Gosai (*Bhaktaphur Craft Paper, Nepal*)
Susan Lynch (*Rehab's Rope*)
Susi Vidal (*Oxfam Intermon*)
Swapan Das (*Prokritee*)
Taeho Cho (*Korea Fair Trade Association*)
Tejshimini Yalawar (*Sabala, India*)
Tenzing Wangchuk (*Federation of Tibetan Co-operatives in India*)
Toshinori Takasawa (*Lofty Bamboo, Thailand*)
Vania Rivero (*Ayni, Bolivia*)
Verena Albert (*Gepa*)
Vinka Yang (*Twine, Taiwan*)
Wil Flinterman (*Fairtrade International*)
Winnie Lira (*WFTO Latin America*)
Young-eun Lee (*Korea Fair Trade Association*)
Youngju Park (*Fair Trade Korea*)
Zénen Santana-Delgado (*Traidcraft*)
Zulma Britez de Santander (*WFTO – LA*)

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