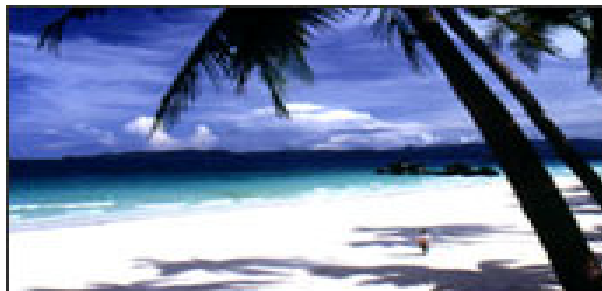




Fair Trade in the Philippines: Challenges and Opportunities

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1. INTRODUCTION

1.1 Understanding Fair Trade

Fair Trade, as a movement, promotes *equitable* standards in international labor, environmental protection and social policy in relation to the production and trading of goods, particularly those that are exported from developing countries to developed countries. It attempts to counter the imbalance between the “poor” producers and the “rich” consumers which conventional trade reinforces.

Fair Trade is a development process that aims to infuse in the trading system the need take forward the partnership between producer and consumer by making their relationship go beyond being buyer and seller. Although continually evolving through time, this concept recognizes the needs of both the producer and consumer and their responsibilities to each other.

Fair trade is also favorable to consumers because it is a mechanism which ensures that goods and services have excellent quality, reasonably priced, and consumer-sensitive.

Four main Fair Trade networks (i.e. Fairtrade Labeling Organizations International, International Fair Trade Association, Network of European Worldshops, and European Fair Trade Association) define Fair Trade as,

“..a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers - especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.”

Fair Trade advocates for a trading system that is socially just and environmentally sustainable.

1.1.1. Fair Trade Principles

Fair Trade empowers marginalized producers and workers by assisting them to be economically-self sufficient. Their economic security is one of the most crucial factors that define their quality of life. However, Fair Trade is not limited to ensuring a *fair price* for their goods. Fair Trade takes into account the costs of production, as well as the social costs and environmental costs.

These principles form the backbone of Fair Trade:

■ *creating opportunities for economically-disadvantaged producers* – Fair Trade endeavors to provide opportunities for producers who are marginalized in the conventional trading system. It is a strategy to alleviate poverty².

■ *transparency and accountability* – Trading partners commit to transparent management and commercial relations.

² The sustainable development-oriented Fair Trade organizations devote a percentage of their income to community development projects (such as scholarships for the workers’ children, environmental protection activities).



☐ *capacity-building* – In Fair Trade, producers and workers are empowered in the process to ensure sustainability. They are provided with management and marketing skills and access to new markets.

☐ *payment of a fair price* – A fair price is agreed upon by the producers and traders based on the cost of production, social costs and environmental costs. The amount is determined through dialogue and participation. Fair Trade also guarantees the principle of equal pay for equal work by women and men. Traders confer punctual payment to the producers, and whenever possible, provides financial support for pre-production costs.

☐ *gender equity* – Aside from getting paid for their contributions in the production process, women are empowered as valued members of the organization and community. They are given equal rights on participation, access to information, management and decision-making..

☐ *working conditions* – Safe and healthy working conditions are made available to workers and producers. The participation of children in the workforce is also sanctioned by the UN Convention Rights of the Child as well as international labor laws.

☐ *ecological integrity* – Environmentally-sound methods of production are observed, by taking into account factors such as the maximum utilization of raw materials, efficiency in energy consumption, and pollution costs.

1.2. The Fair Trade Movement

In the 1940s and the 1950s, Fair Trade was an informal activity perpetuated by religious groups and non-government organizations in developed countries, who, aware of the great inequality in global economy, voluntarily imported handicrafts from Third World countries. The local communities where those products came from were thus provided with livelihood whereas, the buyers in the well-off countries perceive of buying these products as a gesture of ‘donation’.

Fair Trade evolved and gained more support in the 1960s in Europe as waves of protests against neo-imperialism scrutinized multi-national corporations and the flawed global *free market* economic model, both of which obstruct the fair and equal access to the markets by producers. To establish fair trade relations between the developed and developing countries, the United Nations Conference on Trade and Development (UNCTAD) promoted ‘Trade not Aid’.

1.3 Fair Trade Labeling and Certification

Fair Trade labeling is a certification system which is designed to identify which products have been made in accordance with the Fairtrade standards (i.e. the principles). Overseen by an international umbrella organization called the Fair Trade Labeling Organizations International (FLO), the system audits producers and traders to ensure their compliance. Fairtrade products are stamped either with the International Fair Trade Certification Mark³ or the Fair Trade Certified Mark to indicate that they come from FLO-inspected and certified producer organizations.

³ Launched in 2002



2. SITUATIONER

2.1. The Philippines at a Glance

Located in Southeast Asia, the Philippines is a developing country whose economy relies on agriculture, light industries and services⁴. It is comprised of 7,107 islands, which is favorable for tourism but an obstacle for national administration. Its total land area of 300,000 square kilometers is inhabited by 85 Million people, making it the 12th most populous country in the world.

Colonized by the Spaniards for 300 years (with a few years of British Occupation in between), conquered by the Japanese during World War II, and occupied by the Americans until 1946⁵, the Filipino culture (including way of life, politics, religion, food, educational system, infrastructure) is a fusion of indigenous multi-ethnic character and multi-national foreign influences.

Although endowed with abundant natural resources (and thus, raw materials) and in excess of labor force, the country is economically struggling and astonishingly, 72% of the Gross Domestic Product (GDP)⁶ goes to debt servicing. Chronic problems of poverty and income inequality persist, manifested in the rise of slums, crimes, unemployment, *brain drain*⁷, etc. It has been estimated that 40% of the population live on less than US\$2 a day⁸.

2.2. Trading Beyond Borders

Prior to the arrival of the Spanish colonizers in 1523, the native people of the islands had trading relations with the Indo-Malays and the Chinese. In the late 16th century, the *Manila Galleons* linked Manila⁹ to Acapulco (now Mexico). Carrying spices, gold, copper, porcelain, ivory, and lacquerware, the Manila Galleons were Spanish trading ships that plied twice a year. They symbolized the exploitation of the Indies whose riches were brought to Spain and the rest of Europe. Adding more damage, the building of these galleons started the destruction of the Philippines' rainforests.

The current Philippine economy remains reliant to its export industry. In 2005, the country's exports alone amounted to US\$41.26 Billion. Its portfolio on export products is very diverse ranging from electronic equipment, machinery and transport equipment, chemicals, garments, copper products, to fruits (mango, banana, nuts, pineapple, coconut), coffee, handicrafts and medical supplies sent to US (18%), Japan (17.5%), China (9.9%), Netherlands (9.8%), Hong Kong (8.1%), Singapore (6.6%), Malaysia (6%) and, Taiwan (4.6%)¹⁰. The performance of the Philippine Peso is also tied to the economic performance of its two biggest trading partners – U.S. and Japan.

⁴ the purchasing power of the Philippine Peso is highly credited to Foreign Remittances (US\$10.7 Billion in 2005) of Filipino Migrant Workers (estimated to be around 4 million in number)

⁵ Spain, after losing in the Spanish-American War, sold the Philippines, together with Cuba, Guam and Puerto Rico, to the United States in 1898

⁶ as of 2005

⁷ professionals (e.g. doctors, engineers, teachers) migrating to other countries for a better pay

⁸ ironically, a 2005 global study of the British think-tank New Economics Foundation revealed that out 178 countries, the Philippines ranks as the 17th happiest place on Earth (based on life satisfaction, life expectancy and ecological footprint).

⁹ the country's capital up to this day

¹⁰ 2005 data



3. FAIR TRADE IN THE PHILIPPINES

3.1. Small and Medium Enterprises: Pillars of the National Economy

Micro, small and medium enterprises are being heralded as the backbone of the Philippine economy. They comprise about 99.6% of all registered firms in the country and employ 69.9 percent of the country's total labor force.

Typical products being traded (particularly for export) are traditional handicrafts, furniture, house decors, novelty items and food products (fruits, sugar, fruit juices). These are traded to Europe, United States, Japan and other Asian Countries.

3.1.1 Inequity and Exploitation

Like in other developing countries, the Philippines experience a prevalent unjust economic system. In the conventional trading system, middlemen take advantage of the small producers, whose goods are given very minimal value. Inadequate infrastructure (such as farm-to-market roads) and the producers' limited networks make them dependent on middle-men to be able to sell their products and take orders from outside. The middlemen, recognizing the vulnerability of these workers (and sometimes their illiteracy and poor self-esteem), sets the price. When sold to the market and exported, middlemen can declare the price of the goods 3x more than its original price.

Producers, workers and farmers suffer from unstable product demand patterns. They might sell more products in one week, but not sell at all in the following. That is mainly, because they do not have access to retailers and thus depend on middlemen.

Farmers, for instance, are also buried in debt before they can even savor their income from their harvest. Lending institutions have high interest rates and yet, farmers do not seem to have any other choice but to borrow because they need money for pesticides, fertilizers, payment for laborers, etc. A typhoon (29 typhoons pass along the Philippines every year) can wipe out an entire would-be harvest. If the harvest does not come to such misfortune, their income remains minimal because of the traditional trading system. Their produce are valued in the market at a fixed price that does not reflect actual cost of production.

Compounded by the low income is the landlessness of the marginalized workers. Owing to the country's history of Spanish colonization and widespread corruption¹¹, land ownership is a dominated by few elite families. Having their own land title is evasive for the Philippines' poorest of the poor¹². The land reform comprising Philippine agriculture and other policies enunciated in the Code of Agrarian Reform of the Philippines (1973), was ineffective and has not changed the situation¹³. Only 2% of the population own about 70% of the land, whereas the vast majority, about 75% of the population only owns about 20% of the land, which is sufficient for their family.

¹¹ particularly during the Marcos Dictatorship which lasted from 1972-1986.

¹² Others call it a tragedy to be "poor" in a country which in itself is "poor"

¹³ <http://www.dar.gov.ph/>



3.2 Brief History of Fair Trade in the Philippines

In the Philippines, organizations started engaging in Fair Trade in the 1980s, which is comparably late compared to developed countries. The fair trade movement gained popularity during the sugar crisis when sugar prices dropped from US 27 cents a pound in 1980 to US 3.5 cents a pound in 1983. Many planters have become bankrupt and their farmlands have been foreclosed by the banks. As a result, over 200,000 workers lost their jobs. Since the Philippine sugar industry is one of the leading export sectors, this event made the unfair payment and working conditions of Philippine workers brought to national and global attention.

As a major exporter of coffee, the Philippine economy was severely affected by the collapse of the International Coffee Organization (ICO) marketing system in 1988 and subsequent decline of world coffee prices which further highlighted the need to support small-scale producers. The international market price collapsed from around US\$1.30 per pound of green beans to below \$0.6014.

As a reaction, organizations started to implement structures that alleviate poverty and weaken the dependency on sugar and coffee exports. Organizations such as Preda, Community Crafts Association of the Philippines and OXFAM pioneered the advocacy and application of Fair Trade principles. OXFAM started its fair trade program (OFT) in 1995, acting as a retailer and exploring export markets.

Alternative Trade organizations (ATOs) evolved, such as the Social Action Foundation for Urban-Rural Development, Inc, (SAFRUDI) and Altertrade (AFTI), who attempted to provide producers with an 'alternative market', where they could obtain higher economic returns for their products. These organizations act as retailers, who buy and sell the products of producers.

In the course of time, more ATOs and Fair Trade Organizations have come to recognize the necessity of expanding market opportunities beyond the traditional fair trade niche market into the mainstream commercial market, assisting producers and introducing commercial marketing techniques at all stages of trading; marketing research, pricing, designing, packaging and increasing quality.¹⁵

Furthermore, the fair trade movement has also been influenced partly by the evolution of green consumerism since the late 1980s. Northern consumers have become more concerned about the way in which the commodities they buy are produced and whether they are environment-friendly. This increasing demand for environmentally-friendly products has been incorporated into the fair trade movement which is concerned with both the producers' conditions and the environment.

Sadly, there is no Philippine data as to the number of firms directly engaged in fair trade and only a small percentage of fair trade products were certified by International Certification Bodies.

¹⁴ <http://www.preda.net/article/contents.html>

¹⁵ <http://www.preda.net/article/contents.html>



3.3 Fair Trade Organizations in the Philippines

Fair trade organizations (FTOs) in the Philippines are small groups, linked to solidarity organizations and consumer outlets¹⁶. Most of these FTOs are small business corporations, which not only provide assistance and training, but focus on trading with small producers. Typically acting as retailers, they buy locally-made products and connect the producers to foreign markets. Most of them provide grants for investing and development. Their mission is to provide livelihood and to provide a better quality of life for the workers. Unfortunately, no study has been made as to their level of compliance with the Fair Trade principles and international fair trade standards

The main fair trade organization (FTO) in the Philippines is called the Philippine Fair Trade Forum (PFTF). It is an umbrella organization composed of 19 fair trade organizations. It started in 2002 and is part of the Asian Fair Trade Forum (AFTF) that has 87 members in 11 countries throughout Asia.

Out of the 19 FTO's in the Philippines, 8 have been certified by IFAT (International Fair Trade Association) as registered fair trade organizations.

▣ **Advocate of Philippine Fair Trade, Inc.. (APFTI)**¹⁷

www.apfti.org

It is certified by IFAT and supports and upholds producers, workers and communities struggling their way out of underdevelopment through trade, business, cooperatives, income-generation projects, entrepreneurship and other socio-economic community-based initiatives. It has assisted more than 1000 enterprises through its “integrated enterprise development”, a 6- 9 months service for enterprises that provides technical assistance. It comprises product development design, trade facilitation and training. Producers pointed out, that this FTO is very helpful in establishing a business plan. APFTI also helps in linking producers to potential markets..

▣ **OXFAM**¹⁸

www.oxfam.com

OXFAM was founded in 1942 in Oxford, UK, as a response to World War II. As a humanitarian agency, it is not a classical FTO but it is a member of IFAT. In order to meet its goal to alleviate poverty, OXFAM Philippines launched the OXFAM fair trade (OFT) program in 1995. A development planning was established among selected local producers, who were assisted with quality and design, building capacity and trainings. It successfully established a fair trade shop in Metro Manila (Mano Mano), buying handicrafts directly from producer groups. Furthermore, it established an export market in

¹⁶ Although big companies and multinational organizations have also begun to take advantage of the growing consumer interest in fair trade goods, especially from Western countries (Europe, USA).

¹⁷ The organization is financially supported by Tradecraft, the European Union, CORDAID, ICCO and the Philippine Department of Trade and Industry.

¹⁸ Its Philippine Office was established in 1988 to help typhoon victims.



England. It was therefore supporting producers by offering substantial grants, and being a trainer for production skills and abilities. The OFT demand reached its peak point in 1996, amounting a trading volume of \$ 240 000¹⁹. After this huge increase in sales, the demand rapidly declined. OXFAM continued as a buyer of fair trade goods, despite the low demand. In order to maintain the success story of fair trade, OXFAM incurred a lot of losses, and has increased the vulnerability of the poor producers. The fair trade project finally ended in 2000 but it has produced a lot of lessons. Its final evaluation highlighted that Fair Trade indeed has vast positive impacts on income, gender relations and empowerment.

▣Preda, Inc.
www.preda.net

Preda provides marginalized producers, small farmers and cooperatives training skills on product design and provides interest-free production loans. In cooperation with Fair Trade importing organizations and World Shops, the producers have access to the export markets and earn better prices. Producer's rights are protected and working conditions are monitored. Preda has also an in house label (i.e. its own certification standards and its own label). This label connects strongly to international standards, but it is not internationally approved as a fair trade mark.

▣Community Crafts Association of the Philippines (CCAP)
<http://www.ccapfairtrade.com/index.r&d.html>

It was established in 1973 to export and market handicrafts as a form of social development. Its objective is to assist in providing livelihoods and improving quality of life for the poor. Its focus are on: marketing, product development and socio-economic development, marketing products of home-based workers and entrepreneurs, selling the products to alternative trading organizations (ATOs) and/or commercial buyers. The products are mainly furniture, seagrass, bamboo and wood. The organization is not active in the domestic market, but focusing on export. As a member of IFAT and in cooperation with Social Action Foundation for Urban-Rural Development, it launched the international “tenthousandvillages” project.

▣Social Action Foundation for Urban-Rural Development, Inc. (SAFRUDI)

It was founded in 1966 with the objective of organizing poor communities towards self-reliance. Since then, it has engaged in livelihood projects, craft production and projects that foster employment possibilities for the urban poor. As an alternative trading organization (ATO), it upholds that employment possibilities can only be sustainably created, when markets are reached. It promotes services for poor producers, such as packing and shipping. It takes care of marketing requirements, and receives 20% of the product price. Nevertheless, producers profit, because SAFFY looks for new markets for

¹⁹ "The Impact of Oxfam Fair Trade in the Philippines: An Evaluation" by Maita F. Gomez and Gwendolyn R. Tecson, 23 January 2000



producer groups and absorbs all the risks involved in marketing. Likewise, it provides assistance in terms of product development and holds annual meetings with producers.

▣ *Alter Trade Foundation Incorporated (ATFI)*

Alter Trade was created in 1986 and is a member of IFAT. It aims to help disadvantaged population groups to generate an income that will ensure their livelihoods. At the same time, it encourages sustainable farming methods, particularly organic agriculture. The production focuses mainly on sugar cane, being processed to Mascobado sugar and exported. The employees receive a fixed wage. If the unproductive period lasts more than one month, employees are provided rice in order to feed their families.²⁰

3.2.1 NGO-led Initiatives on Fair Trade

- A Fair Trade Colloquium is held by APFTI annually. Since fair trade in the Philippines remains weak in terms of advocacy, APFTI is conducting a Consumer Awareness Campaign in order to develop a local market. This Campaign includes the involvement of the media in the campaign. Nationally-circulated newspapers like the *Philippine Daily Inquirer* and the *Manila Bulletin* have already published articles in cooperation with APFTI. A short report on fair trade producers in the provinces for the national television is planned as well. A study they conducted validated that aside from tourists, locals also value Fair Trade products.
- APFTI is pursuing the establishment of a national certifying system within the next few years by working together with PFTF members and certifying bodies in the Philippines (like Preda), as well the regional government agencies. The findings based on consultations revealed that some international criteria have to be modified into the local context. APFTI has to put some criteria into context, e.g.: emphasis on the minimum wage.

3.4 Impacts of Fair Trade

Fair Trade turns out to be crucial for producers' livelihoods. OXFAM, found out that one of the producer groups they were working with, namely Bahay Parangap, depend on fair trade production in an unprecedented way. Without their income from fair trade production, 73% of them are below the poverty threshold, out of which 33% are below the food threshold²¹.

Economic self-sufficiency. The most significant and immediate impact of fair trade the increase in income generating opportunities for marginalized workers.²² Fair price for their produce and fair wage enabled them to be able to afford basic needs, most importantly food, and be able to invest on housing and education of children.

²⁰ http://www.claro.ch/english/files/291_Altertrade.pdf

²¹ "The Impact of Oxfam Fair Trade in the Philippines: An Evaluation" by Maita F. Gomez and Gwendolyn R. Tecson, 23 January 2000



Environmental Protection. Because ecological integrity is given importance as a Fair Trade principle, environmental aspects are addressed in the supply chain. Grants for modern technology reduce the carbon dioxide emission; trainings discourage people from using environmental harmful additives for the production process. Producer groups are also involved in environmental projects, such as the bamboo plantation project of CCAP, or the tree planting project of the producer groups Riverside Handicrafts.

Before fair trade production, for example, flower inducer (potassium nitrate), which is sprayed on mango trees, and insecticides have been used by the mango growers in Cebu. The costs of these inputs have been quite considerable for small-scale mango growers because without enough capital, they have to depend on 'contract spraying,' which is conducted by the local traders. Usually, under such contracts, the growers who want their trees to be sprayed have to give up 60% of their total mango harvest in return for the spraying, thus receiving only 40% of the harvest for themselves. As a part of its assistance to fair trade partners, Preda is now encouraging the growers to take low-cost and environmentally friendly measures.²³

Empowerment. There is an impact on capacity, due to trainings and awareness-raising campaign provided to workers. The interventions on product development and seminars on business planning are the most tangible contributions. Improved self-esteem and better relations within the organization helped local communities deal with other socio-economic issues and pursue their aspirations. However, gender relations remain traditional. Most of the producers do not see a need to change their view, which is that the man is necessarily the head of the family²⁴.

Fair Trade projects have also provided a chance for producers with a low education level and/or disabled persons the opportunity to secure their basic needs.

<Please See Appendix A for the perceptions on how Fair Trade has helped local communities. The consultation was conducted by OXFAM among its partners (small producers) involved in Fair Trade.>

3.5 Barriers to Fair Trade in the Philippines

3.5.1 Low Level of Awareness on Fair Trade

Fair Trade principles and objectives are widely misunderstood in the Philippines. A high percentage of people regard the fair trade movement as a means of improving product quality²⁵.

An APFTI study revealed that the level of awareness of consumers on fair trade in the Philippines is only 10 percent, associated with weak advocacy and second, lack of supporting policy both at the national and local level. Moreover, there is no government agency that leads fair trade activities.

²³ <http://www.preda.net/article/ftpovertyreduction.html#2>.

²⁴ Based on the Oxfam study

²⁵ product control carried out by the national government only considers quality standards, and neglects social and environmental costs of production



3.5.1.1 Fragmented Advocacy

There is no cohesive advocacy that complies with international fair trade standards. Many local enterprises have their own definition of Fair Trade. Thus, they do not have a common goal. Many organizations only focus on one principle and do not adopt the whole set of criteria for fair trade. This is partly due to the fact that most local FTOs are export-oriented and depend on support from foreign buyers.

3.5.2 Varying Standards by Certification Bodies

In the Philippine context, certification of products is coursed through the Bureau of Product Standards (BPS) of the Department of Trade and Industry (DTI). Standards used by the department are different from international fair trade standards. The local standard for certification considers only the quality and environmental friendliness of the products. It is geared more for the protection of the consumers than the producers and workers.

Within the national government itself, specifically the DTI and its Bureau of Product Standards, there is relatively low awareness on what Fair Trade *means*.

While stringent and difficult to comply with, producers recognize and try to adhere to the international standards. The People's Global Exchange, a small marketing organization, however, reiterated that these standards are still too steep for their partner producers to comply with.²⁶

There is an informal certification body in the Philippines, called Preda Foundation, Inc. or People's Recovery, Empowerment and Development Assistance Foundation, Incorporated. The organization also informally accredits NGO's cooperatives, community enterprises and even family-based micro enterprises as fair trade producers, if they operate within their criteria. The major criteria that they used are the following:

- √ Promotes producer's welfare;
- √ Promotes people's participation;
- √ Promotes environmental sustainability;
- √ Promotes Local and Export Market; and
- √ Promotes socio-economic development.

3.5.3 Layers of Bureaucracy

The countries' policies for establishing a new business and complying with rules, is marred with red-tape, bureaucracy and corruption which discourages small enterprises and producers to invest in a business. Add to that the frequent conflict in the interpretation of national laws versus local laws.

²⁶ Cabilo, Zuraida Mae (2006) "Analytical Report on the Stakeholders' Meeting/Validation Workshop of the Case Study on the Philippine Movement on Fair Trade".



3.6 Recommendations

3.6.1 Establish Fair Trade National Labeling Standards

The international standards or criteria for fair trade must be integrated into the national labeling system. This in a way will make Philippine products more competitive.

Internationally acclaimed labeling organizations charge a high amount for the fair trade label, which small scale producers find exorbitant. Most of the small producers cannot afford to have their products stamped with international labels nor do they even have the connection to these international networks. In the Philippines, there has been a great loss of credibility in terms of fair trade, since large enterprises like Nestle and Chiquita Banana (both companies have on-going cases filed against them on grounds of labor rights and environmental pollution) have fair trade products labeled by the FLO. That involved a lot of money, but gave the company credibility in terms of the quality their products (even if they probably do not serve it for violation of the fair trade principles).

A national Certification Body, that would make labeling affordable to small producers, would make fair trade in the Philippines competitive and socially just.

3.6.1.1 Installing a Monitoring system

A periodical monitoring process of producer groups is important, in order to uphold principles. A monitoring system would serve as a reminder for producers, and a means of evaluating compliance with fair trade principles in the supply chain.

3.6.2 Awareness-raising

Activities like the Advocacy Campaigns of APFTI should be supported and extended to expand the fair trade movement and establish a cohesive advocacy of fair trade. Dissemination of best practice should be showcased in the awareness raising campaigns perpetuated by NGOs and government agencies.

Fair Trade should also be incorporated in the high school and college educational curriculum on economics.

3.6.3 Capacity-building

The lack of information in the Philippines on fair trade bolsters the need for not only for awareness-raising but capacity building so that beyond understanding Fair Trade principles, government agencies, local authorities and the industrial sector can translate them into positive actions that manifest the adoption of Fair Trade. The interest is already there. They want to know how they can implement fair trade in the local context and effectively link it to sustainable development goals.

Producers also need the assistance of FTOs particularly on product development and networking. Producers must be made aware of the principles and ideas of fair trade, and then



product placement and development activities can proceed. Producers need help in terms of business planning, equipment, design, gender sensitivity, disaster prevention, market trends, etc.

Local producers must be capacitated to assess market strategies and an incentive of improving and adapting their product quality constantly.

3.6.4 Stabilizing Supply and Demand

There is a need to establish a local market and a local demand for fair trade products. The Western and developed countries cannot absorb all products, since they have a lot of imports also from countries in Latin America. In order to make the fair trade market grow, and to increase the number of producers involved in fair trade, a fair trade market needs to be established locally.

A more direct exposure of producers to market activities must be implemented so that they get a clear picture of the demand for their products. These prevent excessive surplus and loss of income.

<Please See Appendix B for the recommendations to improve impacts of Fair Trade. The consultation was conducted by OXFAM among its partners (small producers) involved in Fair Trade.>



4. LOCAL GOVERNMENTS AS CONDUIT IN FAIR TRADE: CHALLENGES & OPPORTUNITIES

4.1 Local Authorities and the Local Economy

Local authorities (referred to as “L.G.U.s” in the Philippines which is short for Local Government Units) play an important role in the national economy and as a matter of fact, sets the course of local development. Because the Philippines has a decentralized form of government, local authorities wield enormous power over their territorial jurisdictions. This is further magnified by Republic Act 7160 or the Local Government Code which gave local authorities the autonomy on local planning, implementation of ordinances, and resource allocation, among others.

Aside from income generated within their boundaries, local authorities get an annual allocation from the national government for its operations and to implement programs. This is called the Internal Revenue Allotment (IRA), which, depending on the local government’s economic stability, could comprise between 10-90% of the total provincial or municipal budget.

Administrative powers given to LGUs enable them to regulate activities within their areas of responsibility. LGUs issue business permits, regulate small and medium industries, develop livelihood programs, maintain symbiotic ties with local chambers of commerce²⁷, and monitors environmental quality. These are just some of the areas where they can play a major role in mainstreaming Fair Trade. LGUs can impose on local producers and traders to apply the Fair Trade principles.

<In June 2006, ICLEI–Southeast Asia conducted a short scoping among Philippine local authorities about their awareness and interest in Fair Trade. Majority of the nineteen (19) local authorities who were present shared that they are not familiar with Fair Trade and its principles. Seven (7) of them signified interest to learn more about Fair Trade and how they can use it as a tool to combat poverty.>

4.2. Local Governments’ Initiatives on Fair Trade

Even though Fair Trade is still a new concept in the Philippines, local governments, have been for several years already, carrying out some of the Fair Trade principles.

4.2.1 Promoting Local Produce

Each province, city and municipality in the Philippines annually celebrate a festival (typically associated to the patron saint) for a week with activities ranging from product expos, tourism packages, as well as, cultural, religious and social events. These festivals generate domestic and foreign tourism. This is an opportunity for local craftsmen and producers to directly sell their goods to consumers. Often, this is also where they meet foreign traders who will eventually export their products²⁸ in bulk.

²⁷ Membership association of local business operators

²⁸ Food items, handicrafts and furniture.



In the Bicol Region (south of Manila), they have an activity dubbed as “Meeting people behind the products”. The concept is to combine tourism with local production which effectively links producers to consumers²⁹. Moreover, tourists see how the products are made as well as the working environment. Consumers gain understanding on the social and environmental costs of their consumption. This likewise exerts pressure on producers and traders to provide safe and healthy working conditions for the workers.

4.2.1.1 Support to Small and Medium Enterprise

Small and Medium enterprises (SME’s) are also being propped up by local governments. For instance, Bohol Province has supported 4369 SME’s while Linamon Municipality supported 150 SME’s. These local governments assist the SME’s in product development, financing, marketing (including exporting) and enterprise management. They either provide them with loans or link them (and serve as co-guarantors) to bank facilities.

4.2.2. Labor Rights and Gender Equity

Philippine local authorities uphold national laws on wage (e.g. there is a minimum wage set which is currently US\$7 for 8 hours of work), equal pay for equal work for women and men, number of hours worked, safe working conditions (also health insurance), and security of tenure³⁰. Because local authorities issue and renew business permits (done annually), they have the power to stop the operations of enterprises within their territorial jurisdiction.

Local authorities also aid in litigation when employers fail to provide the benefits and the rights of the workers. Local authorities provide resources and professional staff (typically a City Attorney).

Aside from compliance with international and national laws on the rights of children, trailblazing local authorities enacted their Children’s Code on their own initiative which also encompass the participation of children in the workforce. For instance, the Provinces of Bohol and Lanao del Sur, Linamon Municipality and the Cities of San Fernando (La Union) and San Fernando (Pampanga)³¹ has enacted measures which put up mechanisms preventing exploitative child labor³².

4.2.3. Ecological Integrity

An Environmental Compliance Certificate (ECC) from the local governments is required before an enterprise can put up its facilities. This is where local authorities assess the environmental viability of the facility³³.

²⁹ <http://www.responsibletravel.com/Trip/Trip900084.htm>

³⁰ after 6 months of satisfactory work performance, an employee must be considered a permanent staff and thus be given benefits such as social security premium and 13th month pay

³¹ all ICLEI Members

³² Another pioneering example: Bohol organized a Provincial Children’s Welfare Council.

³³ Unfortunately, it does not fully assess the environmental viability of the methods of production, and is limited to the appropriateness of the site and end-products (e.g. sewage, solid waste)



Local authorities impose fees on industries (whether big or small in operations) for utilization of resources, access to water, and recently the environment users' fee which takes also into account pollution costs. These funds are channeled to adaptation and mitigation measures.

4.3. Sustaining Local Initiatives on Fair Trade: A Bottoms-Up, Top-to-Bottom Approach

In light of the issues raised in this initial report, ICLEI-Southeast Asia Secretariat recommends the following measures:

4.3.1. Advocacy: From Agenda to Action

Awareness-raising on Fair Trade must evolve from being an international / national agenda to a principle that local traders and producers can and should embrace. The Philippine local authorities are in the best position to link the national government to local communities and thus, they can be used as partners in advocacy and program implementation. Awareness-raising should form an integral part of the strategy to mainstream Fair Trade because it is through understanding and accurate information that will enable local communities, particularly small and medium scale enterprises and their workers, to appreciate Fair Trade.

Fair Trade Advocacy, particularly marketing campaigns and training, should be done at three levels: the national government, local authorities and local producers and their trading partners.

Fair Trade principles must be explained in such a way that various sectors in the country can comprehend it and thus, link it to their respective issues of concern. Awareness on Fair Trade must not be limited only to the business sector and government agencies who are regulating industries. Even the agencies, academe and non-government organizations who are working for the environment, human rights, science and technology, and community development need to know about Fair Trade. It is through mainstreaming in the vertical and horizontal linkages of multi-stakeholdership governance that full adoption of the Fair Trade principles can be achieved.

At the local level, local authorities must disseminate Fair Trade information among their departments who are directly/ indirectly involved in the provision of basic public services. By making available venues for exchange of ideas on Fair Trade (e.g. dialogues, information nooks, newsletters) within a local authority, integrating Fair Trade in domestic transactions would be made easier.

Because local authorities have the (responsibility and the) resources to influence local trade, they must be at the forefront in educating local producers and traders about Fair Trade. Since local producers typically belong in networks who conduct assemblies periodically, these events are good opportunities to alert them about Fair Trade. Bringing the concept to the grassroots require creativity, culture-sensitivity and diplomacy. If need be, Fair Trade resource materials



should be translated in Filipino (i.e. the national language) or the dialect specifically used by certain producers/workers' groups.³⁴

4.3.2. Capacity-building

4.3.2.1. From Theory to Practice: Applying Fair Trade Principles

Mere awareness on Fair Trade is not enough for local authorities to translate the Fair Trade principles into actions. A local government within itself has layers of bureaucracy (i.e. organizational structure) which are working independently and yet related intrinsically, whose programs should be coordinated and harmonized. Fair Trade, because it affects the local economy, influences all other social sectors, such as, but not limited to, infrastructure, poverty alleviation, health services. Thus, for a Fair Trade adoption to be successful, all departments in the municipality must be involved in developing a Fair Trade action plan. This action plan implies that a municipality must commit financial resources and human capital to carry out Fair Trade goals.

Aside from institutional-building, capacity-building at the individual level is necessary so that they can create action plans and strategies on mainstreaming Fair Trade. The local authority must invest in its people through trainings and workshops aimed to empower them. A certain number of municipal staff should also be provided with *trainer's training* so that they can relay their knowledge and skills on Fair Trade within the local authority and to the producers' organizations.

4.3.2.2. Helping Local Producers Help Themselves

Assisting local producers and traders in practicing Fair Trade entails information sharing. Local authorities should meet with local producers and provide them not only with background definition of Fair Trade but also how the concept can be infused in the supply chain. This could, at the same time, improve the relationship between the local authorities and the workers. Because Fair Trade can make them economically self-sufficient, workers' will view this not as dole-out assistance but *empowerment*.

4.3.3. Policy Review and Development

The absence of a national policy on Fair Trade hinders the participation of local governments in fair trade activities on a larger scale. However, local authorities are vested with powers (through Republic Act 7160) to craft local fair trade policies which they can enforce within their territorial jurisdictions.

In the Philippines, despite the limited availability of information about Fair Trade, local authorities have, for decades, implemented municipal ordinances and resolutions pertaining to labor rights, trading ethics, ecological integrity and gender equity. The challenge is to review all these policies and integrate the Fair Trade principles, particularly those that were not mentioned or emphasized.

³⁴ Although the Philippines has a very high literacy rate (93%), workers in the marginalized sectors are typically those who have difficulties in reading and writing, and English is viewed as the language of the elite. If Fair Trade brochures are given to them in English, it is possible that some of them will feel socially excluded.



To fuel local economy, local authorities must make favorable to producers the application of Fair Trade. Tax incentives and recognition are tangible rewards which could motivate local producers and traders to shift from the conventional trading system to Fair Trade.

4.3.3.1 Municipal Procurement

RA 7160 or the Local Government Code, which was promulgated in 1991, should be amended. Title 6 which details the responsibility of the local authority with regards to supply and property management, does not mention about Fair Trade products, and the major criteria in public bidding is the price and limits the access of marginalized producers.

Section 357.a "Lowest Complying and Responsible Bid" refers to the proposal of one who offers the lowest price, meets all the technical specifications and requirements of the supplies desired and, as a dealer in the line of supplies involved, maintains a regular establishment, and has complied consistently with previous commitments;

This section must be revised to encourage the purchase of Fair Trade (and locally-produced) products. It must also present opportunities for other public bidders and service providers who may not have previously engaged with the local authority³⁵.

Changing local procurement patterns within the municipality aids in increasing demand for Fair Trade products, avoiding surplus of locally-produced materials, consideration of environmental costs of production, and monetary savings³⁶.

4.3.4. Infrastructure Development

Beyond devoting resources for the building of roads, bridges, irrigation canals, and assembly halls for local producers, a sustainable development-oriented municipality should ensure that its spatial (i.e physical lay-out) plans and investment plans support Fair Trade.

Farm-to-market access roads should be improved so that local producers will not be reliant on the *middle-men*, and their produce will reach the market in good condition. Land, air, and sea routes which are used for export should also be developed and administrative proceedings made more responsive to the needs and limitations of producers³⁷.

In cooperation with the local authorities, the national government can also set up a Network of Fair Trade Shops throughout the country.

4.3.5. Building Partnerships and Networks

It is through partnerships and networks that information is gained, ideas are shared, plans are made and projects are implemented. Networks are support mechanisms and safety nets that make

³⁵ As opposed to what is implied in the last phrase of Section 357.a

³⁶ local products are typically cheaper because they entail only minimal transport costs.

³⁷ Graft and corruption in the Philippines' Bureau of Customs is widespread, and it has become *customary* (S.O.P.) for exporters to give "lagay" (bribe) to port officials.



local governance work. It permits a municipal authority to consult and form a relationship with its stakeholders. It allows full participation of the people.

A municipality must designate a Fair Trade Focal Person whom producers, traders, researchers and interested parties can approach to learn more about fair trade and how partnerships can be developed.

A local Fair Trade network must be established to synchronize Fair Trade goals and activities within a municipality. This also makes resource mobilization more efficient because organizations can pool together funds for Fair Trade mainstreaming strategies. A municipal-based Fair Trade network must be open to memberships from other sectors of the society and not limit itself to industries and government agencies.

On a national scale, a Network of Local Authorities Practicing Fair Trade, can serve as a knowledge hub on 'best practices'. Technical exchange and site visits could be arranged between and among local authorities so that they can learn from each other and replicate appropriate Fair Trade measures. Innovative ideas on the 'localization' of Fair Trade can spring from these activities. This network can also have the clout to influence national policies on trade and commerce. It can prepare its own platform agenda of equitable economic growth founded on the Fair Trade principles.



Applying Fair Trade pose challenges and opportunities for local authorities. If they can lead by example, collective actions can make so much difference to defy the global economic divide. *Local Actions Move the World*³⁸.

³⁸ ICLEI Motto



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Appendix A

- "Impact Assessment Study of Oxfam Fair Trade" by Raul Hopkins (coordinator of the study), 4 November 2000

BP, BAMPCI, RHA and RBPA as shown in Table 7, are producer groups OXFAM has worked with

Table 7
Respondent's Perceptions of How FT/OFT Has Helped Them

Response	BP	BAMPCI	RHA	RBPA
Has given us work/ income opportunity.	✓ ✓ ✓ ✓	✓ ✓ ✓ ✓ ✓	✓	✓ ✓ ✓ ✓
We can support our families.	✓			✓
Helps us pay for our daily expenses.				
We have food on the table.		✓		
We do not go hungry.				
Has improved our standard of living				✓ ✓ ✓
Our wages have increased.	✓	✓		
We earn more because of overtime work.	✓			
We improved our homes			✓	
We are able to send our children to school			✓	
We can buy clothing			✓	
We do not have to borrow from others		✓		
We do not have to depend on our relatives			✓	
I was able to meet schooling and household expenses during a time when my husband had no income.			✓	
I can send money to my mother.	✓			
When I got an ectopic pregnancy, I had money to pay the hospital bills.			✓	
We have free work uniforms.	✓			
It is an additional source of income.		✓		
I had money to pay for a piece of land that was being pawned.			✓	
Bonus/ Income in a big chunk/Savings			✓	✓

Source: Personal Interviews



Appendix B

- "Impact Assessment Study of Oxfam Fair Trade" by Raul Hopkins (coordinator of the study), 4 November 2000

BP, BAMPCI, RHA and RBPA as shown in Table 10, are producer groups OXFAM has worked with

Table 10
Suggestions for Improving the Impact of Fair Trade

Suggestions	BP	BAMPCI	RHA	RBPA
For OFT				
Continue/ Increase Orders.	✓ ✓ ✓ ✓	✓ ✓ ✓		✓ ✓
Continue Support.	✓ ✓ ✓ ✓	✓	✓ ✓ ✓	✓
Help through Capitalization	✓			
Increase their Salaries	✓			
Workers security, like SSS benefits		✓		
Grant for Vehicle				✓
Give Grants Directly	✓			
Good Policies/ Management	✓			
Help us find new buyers			✓ ✓	
Trust us.		✓		
For Producers				
Strive/ Do our work well/ Improve our quality		✓ ✓ ✓ ✓	✓	✓
Deliver on time		✓		
Make more samples.			✓ ✓ ✓	
Be supportive of OFT/ Take into consideration what OFT wants		✓	✓	
Join exhibits to meet new buyers		✓		
Venture into bigger items like furniture		✓		
Attend training sessions.			✓ ✓	
Consult OFT about their needs.			✓	
We are considering the possibility of with them directly but we do not have sufficient capital.			✓ ✓	
Unity and cooperation among members			✓	
For Both				
Unity and Cooperation	✓	✓	✓	✓
More Frequent/ Regular Communication.			✓ ✓ ✓	✓
Find new designs so that the market does not get tired of their products		✓		
No Suggestion/ Do Not Know	18%	4 %	8%	10%
No Answer		25%		30%

Note: Respondents may have more than one suggestion.

Source: Interviews

