

PROFIT

National Working Group Meet

January 29th - 30th 2007

**Hotel Karl Residency,
Andheri (W),
Mumbai**

Report of the National working group meeting held on January 29th-30th 2007, at Hotel Karl Residency, Andheri (W), Mumbai.

Introduction to the workshop:

Mr. Arun Raste and Ms. Maveen Pereira from Traidcraft moderated the sessions. **Ms. Maveen Pereira** introduced agenda for the two days, and expectations from the workshop. The two days were meant for the group to come up with practical steps and decisions in terms of what needs to be done to make the Domestic Fair Trade vision a reality and to draw a roadmap for this initiative.

Setting the Scene: Sharing of experiences and outcomes from the Hyderabad workshop.

Ms. Vinita Singh, who was one of the moderators at the Hyderabad workshop presented the **“Vision for Domestic fair trade” as it was firmed up in Hyderabad.**

The salient points:

- Consensus about the need to establish FT in India and its bright future.
- Standards for domestic FT should be relevant to the Indian context and be harmonized with global standards.
- Building capacity of the grass root producers so that they adhere to FT requirements related to quality, delivery, and ethical standards.
- Need to create a business case for the products that need to be taken up.
- Nomination of a smaller group of individuals – the National Core Group (NCG) to carry the process forward. NCG would set in motion a process that is participative and inclusive. For this it would require stakeholders with expertise or varied backgrounds like marketing, consumer awareness, producer support background, standard setting, certification and monitoring backgrounds etc.
- The house mandated IRFT and Traidcraft to finalize the nominations and take the process forward.
- Maintenance of the centricity of the producers in the process was a point of concern. (Producers / workers could be both urban and rural.)

Session I

Presentation by Mr. Binod Mohan from NAP (Network of Asian Producers):

Overview of FLO certification system: -

FLO has so far focused on food sector except that they now source footballs from Pakistan. FLO has 13 members on their board, consisting of representatives of the network, traders, consumers and National Initiatives. They have regional producers network like Regional producer network in Africa called AFN, CLARK in Latin America, NAP in Asia and two committees 1) Standards 2) Certification.

Standard setting in FLO system

FLO has formed a separate organization called FLO-Cert. for conducting certification and is independent of FLO as it was a requirement of ISO 65 standards. Thus FLO has separate certification and inspection bodies. Standards have been set for many products but it's a slow process as it involves consultation with the stakeholders. There is lot of pressure to introduce new product standards. Coffee and banana contribute maximum to FLO sales and the other add-ons like Rice, Tea and spices are present in smaller quantities. FLO has two sets of standards:

- Producers' standards: The producer standards focus mainly on the organization building, strengthening and ensure product quality and quantity
- Traders' standards: The trader needs to be certified, inspected in order to be a part of the system and, make it easier to trade.

Producer standards, are further divided into two:

- **Hired labor standards** - for organized workers in the farms plantations and factories.
- **Small farmers standard** - for small producers who are legally structured as a cooperative, or an associations of persons, Separate standards exist for both of these. The producer standards, both, for the small farmers and the hired laborers, concentrate on the social, economic and environmental development and labor conditions.

Issues in setting standards for food (FLO perspective)

- Definition of small farmers. Indicators could be, size of farm owned, yield, production, do small producers mean poor as per local standards?
- Definition of hired labour.
- Extra benefits to the farmer, in terms of premium. Premium has to be spent according to standard guidelines. This has to be inspected and certified by the certifying agency.
- Costs to the Producer: A) Membership fees (B) Certification fees.
- Traders to be inspected and certified at their end to be able to trade in FT labeled food products.

Mr. Adarsh Kumar, AIACA made a presentation to share their experience of setting up a crafts mark and challenges.

Salient points.

- Commercial domestic chains like Fabindia and Anokhi etc. managed to achieve staggering sales yet the terms offered to them were not very satisfactory. Thus there was a need of some sort of certification, trademark to represent a common brand. AIACA was set up 5 years ago with the aim to organize crafts sector and connect them to mainstream market.
- AIACA, a membership based association focuses on:
 - (a) Policy Research and advocacy - research on credit policy, tax structures, infrastructure and bottlenecks at the cluster level.
 - (b) Certification – Cluster or Sector based for hand made products, involving minimal labour and process standards.
- The standards committee comprises of: - (a) Crafts sector (b) Private sector (c) representative of Development Commissioner, Handlooms.
- AIACA has devised a set of minimum labour standards and production standards and started with a continuous improvement certification process.
 - Minimal set of standards - Higher Penetration
 - Comprehensive Standards - Lower penetration
- Promotion of the tag on the product, to ensure traceability and what the certification means.
- AIACA has now set up production structures i.e. set up companies where there is significant shareholding by producers, and private funders like banks and equity funds. AIACA trains these artisans about their rights and responsibilities, help these various companies to sign supplier agreements with mainstream buyers, facilitating discussions between them and the private investors

Challenges faced:

- Not successful in building commercially sustainable supply chains
- Squeezing of the wages due to the machine made products sold as crafts product, which costs half the cost of craft products.
- How to enforce the standards when the market is so fluid?
- This has been difficult with the private producers as they have some genuine issue (we need to look at them).
- Least successful at the consumer awareness level as this is not a grant funded program. Money for advertising and outreach has been minimal.

Q&A session: Summary of Opinions/questions

- The benefit of standards/mark and price performance/ penetration?
- Exploring possibility of self-certification i.e. the producer group themselves certify that the standards indicated on products have been followed
- Why the insistence on pegging certification with the minimum wages?
- Considering different agro-climatic conditions how to decide standards in agrochemical.
- Commonality between the two types of standards as well as challenges/ learnings for what we are trying to develop for Indian Consumers
- Whether tea and textiles are too large baskets to focus on. Resource requirement to handle textile and tea at the same time and whether we need to focus specifically on tea or textile?
- Since FLO standards have been made keeping western consumers in mind, any variations are required for Indian consumers?
- Selection of model - low penetration and high standards or vice versa? This would determine basket of products and producer support
- How does benefit of scale work for artisans as compared to machines? How to distinguish between mechanized and hand made? While considering standards whether to look at Quality, Capacity building, producer support and then standards?
- As FLO is an established Fair Trade model which is successful. Can a National Initiative of FLO be considered for India? So does PROFIT really want to be NI of FLO? If FLO regulations were followed we would be into a system, which is well established internationally.

Conclusion

After the discussions, it was agreed that the house wasn't on even keel as far as the standards are considered. People had different opinions. Thus it was decided that few people who would be the part of the standards committee could do this work within a timeframe of 3 months and then share it with the house and a larger group of stakeholders.

- It was agreed that, label/standards should not result in high cost being placed on the producers, and disproportionate to the benefits they would derive through it. Optimize costs maximize benefits should be the motto.
- The label could be a progressive one (social - socio economic).
- Product, process and organization certification. These will depend on how the cooperative, association is going to market their products, sometimes an organization may not depend on only one position i.e. FT for markets. In such case organization certification would be more beneficial than product
- It was also agreed upon that there's no need to reinvent the wheel, though, not every existing standard could be adopted. Thus there's a need for indianisation of the standards. It's needed to find the balance that how we optimize the cost and maximize the benefits.
- There should be two sets of committees, one for food, the other for craft.
- Secretarial support to the committees would be provided by IRFT at least for the next two years.

Mandate for the committee:

- It should be a win/ win situation for producers as well as the consumers.
- A cost benefit analysis would be required, while deciding on the standards
- The entire process needs to be simplified.
- Initially, the basic standards need to be set and once the process starts, then they could be periodically modified based on the needs of the consumers and producers.
- There should be applicability of standards in domestic markets from both consumer and producer view.

Suggestions for the committee:

- Adaptability of different international standards to suit Indian need and not to reinvent the wheel
- To shape the consumers view to prepare them to support FT.
- The committee needs to look at what is the bare minimum we want to do. And once we have defined our minimum achievable. There can be some standards higher than what we want and that automatically qualifies such label holder for our label. So if one has a FLO certification one automatically has a Fair Trade certification. Hence wherever there is an overlap possible, we don't need to replicate the process.
- Focus on the operations of big retailers coming to Indian market and ensure fair deal to the producers through this effort.
- Product certification could have an added advantage as compared to process or organization, for e.g. a spinning mill cannot exclusively deal in FT spinning. Similarly if you are looking at organization here again, an MNC may produce many products, very few may be FT compliant

- Corporate perspective: **Standards must be set for the industry**, and not just the launch as a FT brand as (a) If you label something as fair trade the entire industry is labeled as unfair. (b) It will be difficult to get the backing of the government. (c) You would attract competition from a larger player (d) the Indian consumers may not be willing to pay a premium for a regular product.
- How does the handicraft certification gain acceptability to consumers and stores, again both domestic and internationally?

Session II

Products and Producer Support

The objective of selecting sectors, tea and textiles was to select those products where India has some say and maximum impact is possible for value addition in domestic and international markets. But if the group was looking at the other products or a basket of products then the points of deliberation were:

- Whether to look at more products? Choice should be based on available markets and number of people being impacted.
- To give consumers a wider choice of every day products like tea, coffee to be able to influence demand.
- Find ways so that FLO suppliers from India can put their products in the Indian market

Issues on Products, producer support

- If we select two different categories like Tea and Textiles, the set of standards would be different. Also the consumers and context of purchase are very different. And thus the kind of investment required would be double for awareness creation.
- Which segment of consumers should be targeted in order to make 1st impact?
- In tea, if it is linked with Coffee houses like Barrister or Café Coffee day, in that case it would be required to look at high quality tea, and we may not impact smaller growers in the initial phase.
- Existing Indian FLO certified producers would not be able to market their produce with the FLO label, as there is no FLO national initiative, hence we need to consider the option of launching a domestic label and build retailer interest to stock these products?
- There are not enough markets abroad but in India can we get a premium?
- Cost of labeling need not be borne by consumers. Shortening of value chains and reduction of inefficiencies can generate savings that can start paying for the labeling.
- How do we enlist producer support for the FT movement and if logistically it will be feasible in the next two to five years.

Suggestions

- Initially it could be started with food and textiles. Depending upon the overseas demand, the food basket could be decided. There was a consensus for tea being one of the sectors for starting the FT initiative in India. There is a need for more discussions on textile as the product choice, since it is more challenging
- Investment done for consumer awareness and Promotion of the Fair Trade concept will be viable if there is a basket of products rather than just Tea.
- Products like tea and textiles are two different categories, one is in staples category and the other one is in lifestyle, each has different sets of consumers, buying decisions, consumption modes. Thus outlays for awareness generation double. There is a need to look at the bandwidth of resources to decide if we have sufficient funds to go multi category or focus on one.
- Must do a pilot with one or two products. Once the system is in place, then there's no limit to the number of products that could be added.

Issues to consider in Pricing

- Whether more research needs to be conducted on pricing aspect?
- Is it feasible to reduce cost of production?
- Is it an issue of reducing supply chain tiers/ more consumer awareness?
- Consumers are price sensitive when it comes to staples.
- What are the volumes aimed to be sold?
- What would it cost to bring the product to the market?
- Products should be priced at the intrinsic value, however if the product does have an edge e.g. in handicraft, it could be priced considerably higher.
- Significant feature of FLO is that 90% products are organic also. So pricing wise the FLO products are higher in price than the normal standards.
- Certain pitfalls envisaged in the Supply Chain i.e. Producer perspective:

(a) Producers may not be willing to comply and implement standards to earn very nominal premium.

(b) If we need to ensure producer support, ensure that producers earn more.

(c) Ensure prompt payment.

(d) How do you convince producers to hold on to produce till they get the right price?

Mr. Arun Ambatipudi from Chetna Organics shared his experience about the kind of support that is needed for any kind of certification

Problems Faced

- Training producers especially on Fair Trade Standards is a challenge. Producers say that the real problem is about the price that they get is that they don't get it on time. Even if they get 50 paise less, they are willing to sell it off. But they are not willing to go through the hassles of Fair Trade standards and organic standards, to get those 50 paise more. Its far too cumbersome and time consuming. Time costs their money.
- How to convince the farmers to hold on to their produce for 5-6 months to get the Fair Trade price. So now do we crack the pricing policy? We can include 10 crops but how do you decide the pricing policy, is crucial

Mr. Girish Sohani from BAIF shared his experience of selling FT tea esp. in the international market

Salient Points: -

- Started the concept in 2001 as a mean to try and help the marginal and small growers to have a place where they can sell the leaves (tea) because majority of the farmers, were not able to sell the leaf during the second peak cropping periods. They get 60% in the second period.
- Got into the concept of Fair Trade through a Company in Scotland and they have supported us by taking teas that are blended with Binod's (NAP) tea, so that makes it a little more higher and value added tea sold in Scotland.
- Catered Tea to the local market by putting it into the supermarkets.
- Feels, if awareness can be generated about the concept of Fair Trade, there is a market in India.

Presentation by Hasmukh Patel of Agrocel- a success story in organic.

Salient points:

- Agrocel have products both organic as well as Fair Trade certified.

- Has cut down the middleman and shortened the supply chain and thus can give their products to producer for lower price.
- Identifying the use of all byproducts and thus generating extra revenue.
- From the support of their corporate companies, have already started institutional sales like for the Sports Authority of Gujarat and now all sports persons playing at district and state level competition are wearing their T shirts

Outcomes of the session

- Committee to be formed for producer support and product development

Session III

Corporate Perspective and Distribution.

Mr. P. Rambabu of Carbon Trading shared his views on Fair Trade and experience and with Carbon Trading and sustainable business solution group of PWC

Issues:

- In terms of whole issue of FT and CSR as not just being philanthropy but carrying out of justice.
- Whether market oriented solution is the call of the time?
- Do we actually begin with what the demand is or do we just build capacities and bring our products to the market?
- Can we take the benefit and challenges, both due to globalization? And how can we bring the small producers to the mainstream market?
- Inputs needed from various sources to be able to support the suppliers in terms of how they can produce their cost of production, in order to be able to make their products competitive in the market?
- How do we make a marketing strategy inclusive of the products?
- Issue around demand- do we look at demand and than look at how to meet it or do we actually begin to create a demand?

Suggestions:

- There might be opportunities to consider piggybacking on existing initiatives.
- We need not look at it as charity, but actually as delivery of justice. Can we learn from the other business models?
- Fair Trade should look at more market-oriented solutions; there is a need to look at production and start planning the production so that when there is demand, there is capacity to supply.

Distribution Strategy

- Choice of distribution, could be the in-home and institutional route, the out-of-home route would be easier as there would be less price problem, force of habit problem.
- Farmer centers through networks like Agrocel could be used as points-of-sale for FT products; Agrocel has had a positive experience of distributing through these. Similarly Government institutions could be roped in to start procuring fair trade supplies e.g. Agrocel selling its fair trade and organic t-shirts to the Sports Authority of Gujarat.
- Will we look at exporting domestic FT labeled products?
- Could we consider the prospect of network marketing? However this will require a set-up cost.

Session IV

Marketing and communication strategy

Rajesh Sahadevan, based on the consumer research undertaken by Centre of Gravity, initiated the discussions

For right kind of communication strategy, certain issues have to be addressed;

- Issue of who is central to the program? Producers/ small producers/ consumers?
- As the major issues like, what markets are there? What products are there? Which segment we are getting into? Thus the presentation showed what are the key barriers that we need to address before formulating a communication strategy.
- How will the whole process be monitored?
- Amway kind of direct approach could be considered for few years of incubation to reach out to the masses. But this might need an organizational set up.
- Another approach suggested was that of approaching the organized retail to provide with a separate shelf space for FT products.
- Whether PROFIT needs to get into distribution, packaging or selling of the products or should we just look at labeling, certifying and let the products go through natural distribution channel?
- As far as consumer end is concerned, its good to keep things simple and the consumer need not be confused by feeding him with too much information on Fair Trade.

Suggestions:

- Identify the target audiences and the products that will have the highest impact potential on the selected target audiences.
- Create awareness for fair trade along with other processes.
- For a product like tea, which is a habitual consumption product for millions of Indians, it will be extremely difficult to break the cycle (brand of choice v/s fair trade); this would also cost a lot of money.
- FT could be positioned from the health angle.

- Awareness of benefit to producers as well as the consumers must be communicated.
- Marketing and communication strategy must be producer-oriented as well.
- Should we work on a market-oriented solution, build the supply chains so that consistent supply is ensured that will take care of demand when it arises.
- The term Fair trade is unique and must be retained as it: (a) conveys the essence of FT. (b) If we are looking at harmonizing with various international initiatives we would need to go with the term. (c) The term FT conveys a lot of values and value systems.
- Promotion of the FT label in a coffee / teahouse, can we add some value by promoting the FT label there because in a way it promotes the culture.
- Encourage the use of FT handicrafts by promoting its usage in everyday life

Pitfalls to be avoided in communication:

- Blanket statement that x% goes back to the producer
- If only the source component is FT certified we cannot brand the final product as FT.

Presentation on brand building, by Roopal Sharma SPJIMR

Brand: A brand is more than a product, it is a promise or a contract, which we make and as an organization one needs to be very clear, what is this core promise or a contract, which we are giving. The core promise could be equal share, fair share in the profits by the people who are working. The Core promise for FT would be that this product is being produced without exploiting anybody.

Important points from presentation: -

- Communication is only one aspect of the brand building exercise. The actual experience that the consumer will have with the FT product, the relationship that we build with the consumer, and if we are able to have an emotional connect with the two.
- The value proposition must be clear. The functional benefits could be the certification while the emotional or the self-expression benefit would be the fact that we are making you contribute to be a good citizen, the fact that we are making you contribute to the society. This should be targeted at both producers and consumers.
- The core benefits to the consumer should be meaningfully defined. The core benefits for FT would be, a distinct advantage to target group. Is the

proposition believable/ transparent? Are the systems clear? Once the core benefits are clear, one can start work on visibility.

- Building associations around the brand would help create distinct position in the consumer's mind. Make consumers feel the part of the process.

Important aspects of the brand:

- **Physical aspect** of the brand, defining what is the scope of the brand? The scope for FT would include no. Of products, quality levels etc.
- **Brand Personality:** Different brands have different personalities. Brand personality could be physical and cultural. Some of the physical adjectives for FT would be Sincerity, ethical, confident or an activist mode, caring for consumers or for producers.
- **Organizational culture** represented by the brand? Openness, transparency. In tune with the time? In tune with current business trends and one with the customers? Adaptability to different languages
- **Packaging:** If we tie up with existing brands and go to market, then we need to add an identifier on their packaging. It should be distinctive and easily recognizable by the people.
- Criteria, for choosing brand element like **logo, label, tagline** etc. is, to make it memorable, Easy to read and remember, **meaningful**. Either the person derives direct meaning or an additional tagline is there which gives meaning to it.
- Options of **branding** the label.
- And last but very important, it needs to be **protectable**. The legal issues, like copyright etc. on trademark have to be clarified/protected.

Questions

- Are we looking at a new brand or are we looking to start a new process?
- What if we look at FT as a process of certifying and tomorrow an international Fair trading agency comes in and there's a competition within the Fair trade movement??
- If the FT label is added to a product, where does it take the product?
- Does it expand the market for the Products?
- Does it improve the price realization for the Product?

- Can we have two different prices for the same product in two market segments?

Issues:

- Launching a brand/ certification mark/?
- Process certification? Product /Organization certification?

Session V

Structure of PROFIT- organization form

Session chaired by Mr. Girish Sohani.

Discussions:

It was envisaged that, once the duration of the project (funded by European Commission) gets over, it could be converted into a National Initiative. PROFIT could have its independent form of organization and thus involvement of people from different areas. Also a full time secretariat would be required to coordinate the activities.

So it was important to formulate the structure with a long-term view it could be a trust, a section25 company, a society, a cooperative, etc.

- With the assumption that PROFIT would be a non-profit organization, Mr. Sohani suggested that 2 aspects need to be looked at viz. Nature of the organization and Form of the organization

He opined that; **the best-suited option for PROFIT could be that of a Sec. 25 Company. There was a consensus on this.**

Core strategic group

One of the aims of this two-day meet was to identify members for core group and for other different committees and then the committees would address different issues related to standards, producer support and product development, communication strategy etc.

This core group is expected to concentrate on the Indian scenario for FT, government of India policies, external environment (e.g. the outlook of European commission) etc. It would decide a long-term -strategy and look at the scalability and impact. Also it needs to critically look at ways and means of raising resources and also to raise them to sustain the process.

The group suggested names of people who could be a part of this group. (See *annexure1*)

Other issues:

There are institutions that are already talking with the GOI for FT Certification what happens to this initiative if they get the government backing?

Whether it'll be a product label or it'll be a process label? The FLO model or the IFAT model?

The pricing part of the process wasn't discussed in detail and thus the committees will have to look at this aspect.

It was also suggested to do a testing of few standards with some producers on tea and see how feasible, practical and possible it is to do so.

Also Readily available products from organization like Amul, BAIF etc could be used to test the standards