Purchasers are operating in an increasingly competitive and challenging environment. Yet some recent trends in purchasing practice may inadvertently be threatening to undermine the very stability and efficiency of suppliers’ businesses on which purchasers depend.

Purchasing can have a huge impact on suppliers, especially in developing countries. 1.2 billion people worldwide live on less than US$1 a day and most are dependent on agriculture for their survival. Others work in the manufacturing sector. The opportunity to sell to international buyers is a lifeline for millions of people.

The need to secure a reliable supply of products at the right quality, time and price without creating hidden internal costs is a key driver for better purchasing. Meanwhile reputational risk and the importance of not undermining the long-term business operating environment have prompted some purchasing companies to review their buying practices.

But how can purchasers improve their buying, in ways that deliver for their businesses and for suppliers overseas? Is such a win-win possible? Is it justified to expect companies to buy responsibly?

This report seeks to answer these questions. It looks at the realities of the buying desk and asks what ‘responsible purchasing’ might be. By drawing on four case studies – bananas, coffee, cotton & garments and tea – it suggests ways in which companies could assess their own purchasing and make improvements. It also recognises that companies cannot be expected to do everything, and considers the role that governments could play.

There are no quick answers to these questions, which is why this report is a consultation document. It is part of a project being run by four European Fair Trade organisations – Traidcraft (UK), Ideas (Spain), CTM Altromercato (Italy) and Oxfam Wereldwinkels (Belgium) – to raise debate on this crucial area and develop guidance for businesses on how to buy responsibly.

Sourcing from a developing country?

We would welcome your comments and advice on these draft guidelines.

Purchasing and poverty: are they linked?

Millions of people in developing countries depend on international buyers for their livelihoods. Many companies recognise the responsibility this gives them, and have taken steps to stop exploitative practices in their supply chains. Some companies now have codes of practice for their suppliers.

Too often, though, their own purchasing can actually undermine their attempts to meet these standards, with disastrous consequences for the poorest producers.

By contrast, if companies take specific steps to purchase in a responsible way, working conditions could be improved, workers’ rights respected, small farmers’ rights to a livelihood could be realised and environmental damage and costs could be reduced.

Increasing concentration in the supply chain can weaken the negotiating power of the poorest suppliers. Nowhere is this more critical than at the purchasing desk. The highly competitive nature of purchasing puts pressure on both the buyer and the supplier, and it is frequently farmers and workers who suffer most.

The pressures on buyers

Current purchasing practice includes three elements that can inadvertently work against product quality, suppliers’ incomes and good labour practices:

• The need to produce quickly.
• Flexibility to customer or business demand including meeting peak seasonal orders.
• The continual search for lower prices and better deals.

The pressures on suppliers

In responding to these pressures, buyers tend to pass risks back to their suppliers. Buyer-driven supply chains impose their own private standards on suppliers. Speed and flexibility can make it impossible for suppliers to plan:

• Few suppliers receive a deposit at the time of ordering, and payment can be long after the retailer receives the goods. Other purchases may be made on ‘sale or return’ terms.
• Many suppliers, especially in the food industry, have no written contract with their purchaser and have to rely on verbal agreements.

Suppliers have to be flexible enough to cope with orders being changed, cancelled, increased or decreased and delivery dates being altered – sometimes at the last minute.

The Business Case for Responsible Purchasing

i. Sustainable businesses need good long-term suppliers

A successful supply base is the foundation of a successful company. Purchasers’ ability to deliver for their company depends on the continued viability and efficiency of their suppliers. However some purchasing practices may in fact be jeopardising those foundations by undermining suppliers’ efficiency and capacity to provide for workers’ welfare. This can result in high worker turnover and lower productivity, which in turn can lead to poor quality products, delayed delivery and additional costs for the company itself. It also puts at risk the long-term supply of quality products from the same source in the future.

ii. Unfair sourcing increases reputational risk

Consumers are increasingly concerned about who has made their products and how they were produced. Even in shrinking markets, the Fair Trade sector has grown by 40% per year in the UK and 20% per year in 18 other European countries. There is significant reputational risk to being associated with a supplier with a poor human rights record. Customers are unlikely to differentiate between the purchaser and the supplier – so influential purchasers, such as Nike, may be held accountable for the standards of their suppliers.

‘The Nike product has become synonymous with slave wages, forced overtime and arbitrary abuse.’

Phil Knight, CEO, Nike
Cases studies: bananas, cotton & garments, coffee and tea

These case studies demonstrate how purchasing in different supply chains can affect people in the developing world. They have been selected because they pose different challenges to the European buyer. While sourcing is different in each one, there are generic principles that can help build a picture of what ‘responsible purchasing’ should be. There are, of course, other factors in international trade with which both suppliers and purchasers struggle.

Economic factors
- Oversupply on the world market leading to low and unstable prices
- Buying power concentrated in the hands of trading companies, retailers and brands

Social and environmental implications of supply chain abuses
- Unstable relationships between workers, producers and purchasers
- Increasing poverty of small farmers
- Lack of freedom of association and right to collective bargaining
- Poor employment conditions: excessive hours of work and irregular employment
- Discrimination and sexual harassment against workers
- Lack of consultation over risks to employment and contracts
- Poor health and safety protection
- Deforestation, decrease in biodiversity and impoverishment of soils
- Hazardous use of pesticides
- Pollution of watercourses

Bananas
Supply chain characteristics: Short, direct supply chain dominated by characteristics of handling a perishable product.
Production context: Many producer countries rely heavily on bananas for income. Approximately 80% of world exports are produced on large input intensive plantations in Latin America, West Africa and the Philippines. Less than 10% of world exports are produced on small family farms and harvested by hand.
Sector characteristics: A huge market – bananas are the world’s most popular fruit. Five companies control 86% of world trade. Some companies are vertically integrated. Role of supermarkets has increased significantly – for many producers, supermarkets have become the only outlet.
Impact on developing countries: Prices paid to workers, farmers and suppliers can vary enormously depending on the region and form of production.

Responsible purchasing practices can make a difference: There are examples of companies paying toward the cost of meeting social and environmental certification of banana suppliers. This is done in recognition of the value they place on improved supplier performance and reduction of reputational risk.

The ‘Banana Split’ - how much of €1.50 retail value of loose Ecuadorian bananas stay with each chain actor to cover costs and margin.

Cotton & Garments
Supply chain characteristics: Long, difficult-to-trace supply chain.
Production context: Key sector for several developing countries’ economies. Provides employment for millions of farmers in Africa alone. But most are unable to make a living due to oversupply, subsidies and dumping by developed countries.

Garments exports made up more than 50% total export earnings for Cambodia, Bangladesh, Dominican Republic and Sri Lanka in 2001. Cut-make-trim stage of garment production is labour intensive. Supply base is mobile as investors (mainly from Asia) move to new low-wage economies with competitive locations.

Sector characteristics: Globally €800 billion spent on clothes in 2000, of which one third were bought in Western Europe. At the end of 1990s 70% of clothing sales in Western Europe were through multiple retailers. Agents play a key role in sourcing garments for retailers and brands.

Impact on developing countries: Cotton farmers in West and Central Africa are struggling to survive. Majority of garment workers are women who rarely receive a living wage.

“Buyers pressure factories to deliver quality products with ever shorter lead times. Most factories just don’t have the tools and expertise to manage this effectively so they put the squeeze on the workers. It is the only margin they have to play with.”
Rosey Hurst, Director of Impactt, Supply chain consultancy

Responsible purchasing practices can make a difference: Twelve international brands are participating in a multi-stakeholder forum focused on the end of the Multi-Fibre Arrangement (MFA) and are developing a plan to review purchasing practices.

“Buying practices need to be reviewed, collaboratively, to ensure that a fair price is paid for sourced products and to minimise the detrimental impact on suppliers, specifically from unrealistic delivery schedules.”
Bangladesh national MFA Forum conference action point

Coffee
Supply chain characteristics: Long, difficult-to-trace supply chain.
Prices for actual coffee beans affected by futures trading in coffee.

Production context: Grown in more than 70 tropical countries, providing employment for around 25 million small farmers, who often have few commercial alternatives.

Sector characteristics: Production is in oversupply. Mainly consumed in developed countries. In 2000 the ten largest roasters processed 63% of the world’s coffee.

Impact on developing countries: Prices have fallen to 30 year lows. The farmers’ share of the retail value has reduced due to the increasing buying power of the roasters.

Responsible purchasing practices can make a difference:
- One roasting company is exploring the Rainforest Alliance certification scheme. Another has launched a Fair Trade brand.
- Roasters have joined the multi-stakeholder Common Code for the Coffee Community initiative which has produced a Common Code for the industry

Tea
Supply chain characteristics: Medium length, traceable supply chain.

Production context: China, India, Kenya, and Sri Lanka are major exporters – each produce more than 10% of the world’s tea.

Tea plucking is labour intensive. In India tea is the second largest employer, directly employing more than 1.2 million permanent workers.

Sector characteristics: Oversupply – global demand growing at 1% per year and supply at about 2%. Seven vertically integrated companies control 85% of tea production through their own factories and estates. In the UK, a key tea market, just over 90% of retail tea sales by value goes through supermarkets.

Impact on developing countries: The consumer price has dropped by one fifth since 2002 to €1.92 in 2005 while prices to suppliers have decreased by a greater proportion.

Responsible purchasing practices can make a difference:
In recognition of the importance of the suppliers’ viability some tea blenders pay a premium or operate a minimum tea price to ensure tea supplies to their specifications.
What does sourcing responsibly mean?

Perspectives on responsible purchasing in international supply chains

Purchasers operate in the constantly changing environment of supply and demand, and are usually one part of a longer supply chain. They can help or hinder the achievement of social and environmental standards in the supply chain but they are not solely responsible. Their importance, though, is beyond question. Through extensive consultation we have gathered together different perspectives on what is meant by responsible purchasing. See opposite for a sample.

This suggests that responsible purchasing should enable positive change at the supplier level so that all parts of the supply chain benefit. It requires a trusting, direct and honest relationship where both parties are able to negotiate and share risks equally, and a purchaser who is committed to support human rights within the supply base.

What could buyers do?

Six steps to more responsible sourcing

It is not easy for purchasers to ensure that they have a fair and positive impact on people overseas who supply their products. There are no quick fix solutions or easy answers. However, purchasers as ‘purse holders’ do have some power and the opportunity to support or undermine good working conditions at production sites.

The purpose of this consultation is to help buyers and governments engage with the process and to foster constructive and coherent debate. Change will not happen overnight but progress is possible.

This report proposes a number of steps for buyers and companies to consider, through which they could improve their own purchasing practices and make a difference to the lives of workers, farmers and their families.

Step 1. Understand existing legislation The first step should be for purchasers to ensure that their sourcing is in line with national laws and international agreements (such as the fundamental International Labour Organisation (ILO) conventions and international environmental protocols). This is not easy, which is why various voluntary initiatives have been established. These emphasise progress towards better conditions rather than ensuring superficial tick-box compliance.

Fundamental ILO Conventions

- Freedom of association
- Abolition of forced labour
- Equality
- Elimination of Child Labour

Step 2. Establish a senior management champion to review purchasing practices and develop a business case.

Step 3. Develop company policies Develop a clear and agreed set of policies including a commitment to the promotion of human rights in the supply chain and on key aspects of the treatment of suppliers e.g. a commitment to written agreements, exchanging information on market trends, visiting production sites.

Step 4. Train buyers to understand the impact of their purchasing decisions including how they might be supporting or undermining better conditions at the sites of production.

Step 5. Collect data and set benchmarks which can encourage steady improvement in purchasing performance. Social audits of suppliers can be unhelpful if companies are tempted to withdraw from a supplier who fails to comply with changes requested. They can drive dishonesty as suppliers may be tempted to provide the ‘right’ answers rather than risk being dropped.

Feedback from suppliers – without the fear of retribution – about the impact of purchasing and supply management would provide useful information to companies and help buyers improve. Collecting information that highlights ‘supplier distress’ might indicate particularly damaging buying practices.

Step 6. Assess and reward buyers’ and suppliers’ performance on responsible purchasing.

Case study: Milk and Marks & Spencer (M&S)*

Despite being paid a good price for milk, Marks and Spencer’s farmers told them they needed consistent payments to allow them to plan and budget for the future. The market price for milk fluctuates. Working with their dairy farmers and milk suppliers a ‘long term stable pricing model’ was developed which took into account the fluctuating cost of production by using published benchmarks on, for example, feed price. The pricing model also incorporated a premium to reward farmers for meeting M&S hygiene and non-gm feed standards. M&S’ suppliers now get a stable price for 6 months at a time. Supplier feedback has been positive: they are now able to plan more effectively for the future which in turn is good for M&S’ business.

Case study: Making changes to Gap Inc’s sourcing

Gap Inc has been taking a number of steps to address its impact on workers in response to public pressure. The company examined its overall supply chain and learnt that some of its purchasing decisions were not only affecting working conditions but also causing problems with quality, on-time delivery and cost. Internal research also showed that whilst buyers are not always aware of the impact of their decisions, they do not want to be having a negative impact.

Further steps being considered include:

- training for staff
- involving suppliers earlier, improving adherence to a production calendar and redesigning production processes
- incentivising suppliers to improve standards
- encouraging feedback from suppliers (using an external party)
- building up a business case for change and engaging the CEO

In particular Gap have stressed that reviewing their purchasing practices will favour and not hinder creativity and success.

What do purchasers say?

- long-term, stable and progressive relationships
- not knowingly trading unsustainably with our suppliers, as their continued success is vital to our business and our ability to offer quality
- direct relationships between the decision maker (initiating the order) and the supplier
- straightforward answers by the supplier to queries about production ability and capacity
- clear, honest communication (e.g. on terms and conditions) and feedback
- the impact of purchasing should be positive to all involved in the supply chain. It should result in commercial success all the way through the chain.
- timely communication (late decisions put undue pressure on the supplier)
- finding a price which both buyer and seller are happy with
- decent wages and payments: a price that covers the cost of production with a profit margin
- paying rates which meet local minima
- payment according to agreed terms and conditions – and preferably promptly
- to deliver a value for money product to my customers
- respect of international labour rights
- obtaining products and services at the best value for money considering integrity and ethical issues
- sharing of risks
## Components and indicators of responsible purchasing

This table groups together some of the main aspects of responsible purchasing, the business case for each element, the social issues addressed and suggested indicators to help guide buyers. It aims to provide a starting point for discussion on responsible purchasing in diverse sectors.

<table>
<thead>
<tr>
<th>Elements of responsible purchasing</th>
<th>The business case</th>
<th>Social concerns addressed</th>
<th>Suggested indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Good relationships with suppliers</td>
<td>Stable mutually beneficial supplier relationships are not only essential to product delivery but can also bring continuous improvement, efficiency, and new product innovation. Frequent supplier turnover costs time and money.</td>
<td>Increasing numbers of workers are on temporary contracts and investments (e.g. training or technology) are not made for fear that business will stop after the current order. With ongoing and more predictable relationships the local community will benefit from the &quot;multiplier&quot; effect of supplier’s investments and reliable jobs created.</td>
<td>• Are there transparent criteria for selecting suppliers? • Percentage of first-tier supplier locations known. • Percentage of products bought in a fixed-term or ongoing relationship compared with percentage of spot purchases. • Differential in value purchased per supplier year on year. • Percentage annual turnover of first-tier suppliers (‘churn’).</td>
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<tr>
<td>2. Clear, timely communications</td>
<td>Poor communication jeopardises the arrival of supplies and product quality. Well-informed suppliers will feel valued by the company and invest in improving the relationship and product.</td>
<td>Suppliers and farmers are able to plan ahead if they receive feedback on their products and know how much they are likely to sell in future months.</td>
<td>• Percentage of suppliers issued with terms of trade explaining the buyer’s policy on ordering, poor quality products, promotions, and complaints. • Is there a complaints mechanism? What percentage of suppliers know about it? • How many times per year is there two way exchange of information with suppliers on all aspects of products including social or environmental improvements at production sites?</td>
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<td>3. Sustainable prices and pricing</td>
<td>Cost pressures often lead to cutting corners in health and safety, and the use of exploitative management practices. These practices at the supplier level can impact on product quality, and pose a reputational risk.</td>
<td>Prices which cover the cost of production and include a profit margin are vital to ensure that workers and farmers and their families have enough money to cover their basic needs. Higher margins enable social improvements.</td>
<td>• Do you have a mechanism for suppliers and their employees and sub-contractors to approach if costs are not sustainable? How does this work? • In specific industries where raw material producers are known to be vulnerable – what percentage of business is covered by sustainable minimum pricing model (e.g. an exporting country’s national minimum price or fair trade)? • Percentage of supply base with collective bargaining agreement in place covering wages.</td>
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<td>4. Clear lead-times and payments</td>
<td>Short lead-times pose risks to the quality of products, while late payments can sometimes place a supplier’s whole business at risk, potentially jeopardising supply.</td>
<td>Short lead times and fluctuating orders terms directly impact a supplier’s ability to provide secure, regular employment and may result in forced overtime. Unpredictable ‘off invoice costs’ of doing business with powerful companies and long payment terms can destabilise less highly capitalised producers, resulting in delayed payment.</td>
<td>• Is the timing of payments set in written legal contracts? • Percentage of payments made at or before the time agreed. • Number of days between latest change in requirements and the shipping date. • How often is volume or price changed after placing order? • How much is volume or price changed per order?</td>
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<tr>
<td>5. Respect for human rights in the supply chain</td>
<td>Suppliers with improving social practices frequently have high productivity, produce better quality, and pose a lower reputational risk.</td>
<td>The minimum international human rights standards are not met in most globalised supply chains. Buyers are encouraged to work with existing suppliers to improve conditions, rather than end relationships, which damages workers.</td>
<td>• Percentage of suppliers who know about expected minimum labour standards before engaging in business. • Are there systems in place to help suppliers to meet minimum standards? Please describe. • Percentage of company buyers trained to understand these minimum standards and how their practices might impact on suppliers’ ability to meet them. • Is improvement of human rights in the supply chain included in buyers’ job descriptions, incentives and reviews?</td>
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<td>6. Support for small scale producers and homeworkers</td>
<td>Valuable supply chain partners, such as smallholders and homeworkers often work in labour intensive sectors and produce supplies to a higher quality standard, frequently at lower unit costs. (E.g. West African cotton.)</td>
<td>Smallholders and homeworkers contribute vitally to rural communities but are increasingly invisible in global supply chains. Their position is becoming weaker as supply bases consolidate.</td>
<td>• Is there a policy to acknowledge the role played by smallholders and homeworkers in supply chains? • Are there systems to ensure that major procurement changes to products produced by smallholders and homeworkers require management authorisation? • Does the company have specific tools or mechanisms to help small suppliers, farmers and homeworkers contribute to the development of the supply chain? How does this work?</td>
</tr>
</tbody>
</table>
What could governments do to help?

Companies and buyers cannot be held solely responsible for improving the impact of supply chains which source from developing countries. Governments have a significant role to play in shaping the public policy environment in which businesses operate.

The respective responsibilities of companies and governments is a huge area of debate. This section suggests areas in which a stronger government role is needed. As part of this initiative’s on-going consultation we aim to stimulate discussion rather than set out a definitive agenda.

I Existing public policy instruments

Competition rules

Existing competition policies are designed to deal with monopolies which damage consumers' interests. They do not tackle excessive buyer power which can cause such damage to vulnerable producers overseas.

Governments could extend the remit of competition policy by:

• investigating market concentration in particular supply chains
• strengthening co-operation between competition authorities for action over global markets, perhaps eventually establishing a global authority
• being prepared to break up corporations where the needs of competition require it

Buyer power

There is a case for action at an EU level to level the power imbalance caused when a few companies control a large proportion of a product's market share.

Some EU member state governments are already beginning to address the following issues in the supermarket sector:

• below cost selling
• predatory pricing
• unilateral changes in contract terms at short notice (which can devastate small suppliers)
• ad-hoc discounts requested of suppliers
• removal of product (de-listing) at short notice
• limiting acquisitions of smaller stores by large supermarket groups

II What governments can do through international institutions

United Nations: human rights conventions

The Universal Declaration of Human Rights was developed more than 50 years ago. In 2002 the UN human rights subcommittee proposed a text specifying human rights norms that businesses should be required to observe. It seeks to guarantee rights in six areas: personal security; workers' rights (including those relating to forced labour, child labour, health and safety, remuneration, and freedom of association); equal opportunity; respect for national sovereignty; consumer protection; and environmental protection. This text and other approaches are currently being reviewed.

World Trade Organisation (WTO)

The WTO's trade rules should be revised to create a better balance between developed and developing countries in international trade.

• Agriculture
  - Six African countries have submitted a proposal to the WTO for action on the commodity price crisis referring to the earlier GATT agreement.
  - Developed countries should reduce their subsidies on their agricultural production.
  - Tariff regimes could be improved. For example, banana tariffs could vary according to the different social or environmental standards of producers.
• The negotiations on Non-Agricultural Market Access cover products which are of concern to developing countries. Developing countries need to be allowed the domestic policy space to protect key sectors of their economy including the right to maintain or raise tariffs.

III More could be done: public policy proposals being explored

Supply management – for sectors in oversupply

With the collapse of commodity prices there is a growing rationale for the EU to investigate supply management agreements. Supply management agreements could be developed market by market according to specific technical or political conditions.

Corporate accountability

At national and EU level there are initiatives to develop regulation which would create a level playing field and make companies legally accountable for their impacts on human rights and the environment.

Access to information

Proposals are being developed to provide for more information on corporate affairs. They include statutory access to more information for farmers and workers, and a widening of the information available to the general public for example, on the traceability of a product.

IV Other actions Governments could take

Use of aid disbursements

The EU and its member states could ensure that their aid:

• does not increase supplies of a commodity without considering the impact on other developing countries and the current supply – demand trends
• helps improve the bargaining position of workers and farmers
• assists small-scale producers to access markets for example by participating in official standards-setting processes.

Public Procurement in coherence with public policy commitments

EU member states could review their procurement of products originating in developing countries, in line with the suggestions in this consultation document.

International Labour Organisation

Most countries have signed and ratified the core ILO conventions (see p7) but few implement them. Exporting countries could be encouraged to raise awareness of ILO core conventions amongst workers and increase resources for their labour departments.

Reporting by companies

Some EU countries have made reporting on specified social issues or key non-financial business issues mandatory. This information helps governments, investors and others to understand a company's impact and future prospects.

Some EU member state governments are already proportion of a product's market share.

There is a case for action at an EU level to level the power
damage to vulnerable producers overseas.

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Purchasers are at the front end of business. The suppliers they source from are crucial to a company’s success. Get your supply chains working well and you’re on the way to a profitable business. But in today’s competitive business environment and increasingly globalised world, is it possible to source well from a developing country? And what does this mean for the people who grow or make the products?

This report is a contribution to the debate about how to source responsibly. Drawing on case studies from four sectors and real-life business examples it examines the pros and cons of purchasing fairly and sets out possible guidelines for the way forward.

As part of an ongoing initiative by four Fair Trade companies we would welcome comments on this report and the ideas within it.

Please tell us what you think
We welcome your feedback on any of the ideas and suggestions in this report.

How to feedback:
Email your thoughts and comments direct to responsible-purchasing@traidcraft.org.uk

Complete and return the enclosed feedback form to:
Responsible Purchasing Initiative, Traidcraft Exchange
Unit 306, 16 Baldwin’s Gardens, London EC1N 7RJ
Fax: 020 7242 6173

Or to one of our partners, whose contact details are below.

Or visit our website www.responsible-purchasing.org to download a form to complete. Email this form to responsible-purchasing@traidcraft.org.uk or print and return to the address above.

You need not use this form if you prefer to present your response in a different format.

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