Implementation of Fairtrade at the Early Stage and Its Impact on Sustainable Supply Chain

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Abstract. South Halmahera as one regency in North Maluku Province has a potential to increase the prosperity of the people with the agricultural sector. The problem of this sector in North Maluku is the farmers and the workers only get the little benefits of this potential. We propose the implementation of fairtrade to help farmers and local workers for a better standard living. This research aims to support the implementation of fairtrade in South Halmahera and give an overview of the impact of the action plan from the perspective of sustainability. This research focused on the early stage of the implementation of the fairtrade in South Halmahera. The output of this research is the requirement that needs to be fulfilled based on the current condition of the agriculture supply chain in South Halmahera, the action plan at the early stage of fairtrade implementation and its impact on the current supply chain.

1. Introduction
South Halmahera is located in North Maluku province that provides many lots of potential particularly in the spice crops and plantation sectors such as coconut, cacao, clove, nutmeg, vanilla, kapok, pepper, canary, and cashew, covering an area of 42.229 Ha with productivity 2,66 Tonn/Ha. This condition makes the agriculture to be a leading sector to accelerate the economic growth. As the part of an economic corridor of Papua Maluku islands for the development of Food, Fisheries, Energy, and National Mining, South Halmahera need to develop the agriculture sector to increase the prosperity of the people that involved in this sector.

With the long supply chain from the farmers to the end of costumer, most of the agriculture product from South Halmahera is sold as the export product. This activity involved many parties including farmers, individual collector as well as traders. The current condition shows the impact of economic activity on this sector is not able to give the benefits optimally for the farmers in South Halmahera. The farmers still cannot get a right price when they sold their crops for the collector. The plants are also sold based on the weight without the specific measurement. Also, the commitment between farmers and collector is not managed based on a specific contract.

One of the solution to promote the livable wages, fair labor practices with the sustainable farming and production practices, the fairtrade can be implemented. In the previous research, the pre-assessment of the actual condition in South Halmahera was conducted with the comparison between the actual situation and the fairtrade requirement. Based on the gap analysis, the significant actions need to be taken to fulfill the fairtrade requirements is related to the technical aspect. It consists of the preparation of the organization culture, trade activity as well as the production system according to the principle of fairtrade.
This research has the purpose of developing a strategy to implement fairtrade in South Halmahera. The plan is prepared according to the gap analysis in the previous research and the requirement of the fairtrade certification. This research also tries to understand how the impact of the fairtrade implementation on the sustainable aspect. By understanding the effect of the fairtrade implementation, the further strategies for the next stages of fairtrade certification can be planned for the better result. The scope of this research is only for the 0-year strategy when the preparation for the first audit is carried out.

2. Literature Review

2.1 Fairtrade
Fairtrade is an initiative that is trying to advocate the better lives of producers in developing countries [1]. It is strongly related to ethical consumption that can be explained as ‘any practice of consumption in which explicitly registering commitment towards distant or absent others is an important dimension of the meaning of activity to the actors involved’ [2]. Clark and Hussey [3] defined fairtrade as the global social movement of the global system trade and production organized by private certification agencies that provide and control the certification standards for specific commodities. Another definition of fairtrade is explained by FINE [4] that emphasize on the trading partnership with the principles of dialogue, transparency, and respect, as well as trying to make the equity in international trade. As a part of sustainable development, fairtrade offers the better trading and ensuring the rights particularly for producers and workers. Levi et al. [5] stated that the background of the fairtrade is the global trading system is not able to create a fair condition especially for the poor. One of the solution to promote the community development is by giving more for well produced by the poor.

There are two primary components based on the definitions mentioned above. Firstly, fairtrade facilitates the framework that involves producers and consumers with the purpose of social advantages. Secondly, fairtrade tries to avoid the imbalance of power in the international trade [6]. Fairtrade ensure a fair price received by the farmers for their production [7]. Then the buyer will know the fairtrade product by fairtrade label that communicates these ethical principles. To get the fairtrade label, the producer needs to fulfill the several objectives.

Adams and Raisborough [7] mentioned in their research key practices that will be a commitment for the producer in the supply chain. Those essential practices cover the minimum prices, livable wages for workers and farmers, 10% as an additional social premium paid to the producers, the democratic principles involving the farmers to decide how the social premium is spent, direct purchasing to the producers, importers must sign the long-term partnership as well as facilitates the credit in order to make stability for small-scale producers [8]

The advantages following the fairtrade certification according to Jena et al. [9] is to reduce poverty and accelerate the economic growth [10] through the environmental conservation and social sustainability. Fairtrade also avoid the power imbalance in the global value chain among the parties such as trader, producer, and processor. Five methods need to be followed to get the fairtrade certification; labeling and certification, special price, technical support, avocation, and micro-credit. These processes lead to give the higher profit margin for the local farmer by increasing the quality of product and certified product.

2.2 Sustainability
Fairtrade as one of the practices in international trading has a strong relationship with the sustainability aspects. Many research discussed the definition of sustainability. However, they come from the same principle to the one from 1987 [11]. The World Commission on Environment and Development explained sustainable development as “…development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” Based on this definition, the human society should change their perspective from the economic to the environment and natural processes.
The theory of sustainable development developed by Elkington [12] introduced the triple bottom line concept that exhibits three components supporting the organizational sustainability; the natural environment, society, and economic performance. The activities that are the intersection of social, environmental and economic will give the positive impact to the company so that the organization also consider the social and ecological sustainability without separate from its economic sustainability [13].

Fairtrade promotes the social objectives through the freedom of labor association, fair wages for the payment, support the woman role in the economic development [6]. The other practices are to support community development through the Fairtrade premium that can be applied to community projects such as improving the clean water supply and developing the education facilities for the children [8]. Fairtrade can make stronger farmer organization by encouraging democratic leadership, administrative efficiency, transparent accounting and improved governance. In the area of environment, fairtrade with its principle in environmental protection and climate change implement environmentally friendly practices. Fairtrade also support farmers to improve the results of their crops and increase the quality of the product. Fairtrade ensures farmers earn more from their production and make to be a more reliable supplier because farmers can maintain the amount of crop they produce and the quality of their output. From the economic perspective, fairtrade give the solution to make the fair wages for the workers and small producers. It leads to more balance power in the whole supply chain.

3. Methodology
This research is based on the previous research by Suzianti et al. [14] that exhibit the gap analysis of the implementation of fairtrade in South Halmahera. In the last study, the current condition of South Halmahera and the supply chain of the agriculture product are shown. For this project, the next goal is to map the requirement that still needs to be fulfilled in the 0 year when the first audit will be carried out, to analyze the action plan and the impact of sustainability in the supply chain.

There are several steps to conduct this research. Firstly, analyzing the gap analysis in the previous study. The output of the first step is the requirement that is still needed to be fulfilled. Secondly, developing the action plan to prepare the first audit for the fairtrade certification. Thirdly, analyzing the impact of sustainability on the supply chain.

The analysis of this research uses the requirement from FLOCERT. FLOCERT is one of the global certifications for fairtrade. They facilitate the organization that wants to be certified as fairtrade by the list of requirement that needs to be reached for the specific period. For this research, the criteria that will be considered is the criteria in the 0 year when the first audit will be conducted.

4. Analysis
4.1 Requirement
Table 1 shows the requirement that needs to be fulfilled for the 0-year. This table was generated based on the gap analysis in the previous research. There are several topics covering of this table including the organization, trading and production system and business development. This table will be a basis for creating the action plan for the next stage of this research.

| Requirement                                                                 |
|----------------------------------------------------------------------------|
| Improving the organization following the fairtrade value.                  |
| Ensuring the whole trade activities based on the fairtrade standard from the farmers to the end of costumer. |
| Implement sustainability aspects covering economy, social and environmental aspect. |
| Implement the democracy principle in the organization.                     |
4.2 Action plan and sustainability impact

Based on the requirement mentioned in the previous section, the action was developed by involving the farmers, collectors as well as the trader in the supply chain of agriculture product in South Halmahera. The action plan and sustainability impact are shown in the table 2.

| Action Plan | Applicable for | Sustainability impact |
|-------------|----------------|-----------------------|
| Preparing the organization with democratic leadership, administrative efficiency, transparent accounting and improved governance. One of the tools to encourage this culture by developing Standard Operating Procedure (SOP) for each level in the supply chain. | Farmers, collectors, traders | Fairtrade can make the stronger organization. It means that farms are well represented and trust their leadership that makes the organization has a good position as a business partner in the supply chain. |
| Supporting the farmers to improve the output and the quality of their production. | Farmers | By developing the technical skills of the farmers, it increases the capacity of the farmers that make them more confidence to expand their enterprises. Another advantage for the farmers is they will earn more when the output and the quality of the product increase. |
| Preparing the Standard Operating Procedure in production system referring to the fairtrade requirement. It covers the area of production management, environment, and labor. | Farmers, collectors, traders | Increasing the awareness the elements in the supply chain regarding the energy and greenhouse gas emission reduction, soil and water quality, pest management, biodiversity protection, prohibition of a genetically modified organism and harmful chemicals, and waste management. For the farmers and workers, the fairtrade protect the worker’s basic right such as safe working environment, the right to join a trade union, negotiate with their employer on wages and conditions, avoid the discrimination and illegal child labor. |

Production management:
- Ensuring the procedure in the area of transportation, logistics, and storage based on fairtrade standard

Environment:
- Reducing the negative impact of the whole supply chain activities on the environment.

Labour
- Protect the fundamental right of farmers and workers.
Developing the SOP to the trade system including the sourcing of the product, the contract among parties involving in the whole supply chain, and labeling.

Fairtrade creates the strong relationship between producers and buyer. Fairtrade also provides the networks that will be useful to get the greater market access.

| Preparing the fairtrade premium to increase the impact of fairtrade to the community | Farmers, collectors, traders | Fairtrade premium gives the opportunity for the farmers and workers to invest in their community in term of developing the better basic services. Farmers and workers can decide the development of their communities, prioritize and plan the social project as a result of the fairtrade premium. |

After doing focus group discussion regarding the initial stage for the fairtrade implementation in Halmahera Selatan, we decided several things to make the process more manageable as a part of the initial phase. The important thing is the coordination center in the Ternate city because this city is very close with South Halmahera as well as the center for the collectors and traders when they collect the product from several islands in North Maluku.

Another strategy is to develop the pilot project by choosing the appropriate location that produced nutmeg with the best quality in North Maluku. The product from Ternate, Tidore and Makian island will be a pilot project for the fairtrade implementation at the beginning. One of the difficulties of this project is to invite people to participate in this program. By using the pilot project, people could see the benefits when they get the fairtrade certification and interested in joining the program in the future.

5. Conclusions

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