Taking stock

Fairtrade, fair-trade, fair trade and ethical trade: semantics, politics and development

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> At its inception fair trade was a highly idealistic concept

Fairtrade (with a capital letter, and written as one word) is a trademark. It is illegal to use it on food products in Europe unless the product has been certified as being produced to Fairtrade standards by the European Fairtrade Labelling Initiative (FLO). Fair-trade (two words, with a hyphen) can be used by anyone, and means more or less the same as Fairtrade, but without the legality. All other variants (fair trade, ethical trade and so on) are used by different groups with different meanings in different contexts.

The purpose of this article is to cast some relatively light-hearted light on this muddled situation from the perspective of a long-term insider, hopefully informing and entertaining in equal measure. In the article, the non-dogmatic form 'fair trade' is used to describe all fair trade activities. Where I am referring specifically to FLO Fairtrade products that legal form will be used.

Fair trade grew out of different social and political movements in different parts of Europe during the 1970s. At its inception, fair trade was a highly idealistic concept, usually based on the idea that markets were inherently unfair and exploitative, and that co-operative partnerships between producers in Southern countries linked to enlightened consumers in the North could overcome this exploitation and generate benefits for producers and consumers alike.

Those who initiated fair trade back then did so from widely diverging starting points: church community members, members of the European co-operative movements, people involved in political campaigns such as Nicaragua Solidarity, and a wide range of grass-roots organizations. Each group came to the process with its own idea of what fair trade was or should be. A small-scale factionalism, which is typical of many marginal oppositional

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There was considerable argument about 'my version of fair trade is better than yours'

political movements, developed along the lines of 'my version of fair trade is better than yours'. Many long hours were spent in meetings of differing groups of activists arguing out the points, with some unwilling to sell the products of the others.

Those involved in the movement started from a belief that conventional capitalist mechanisms of trade were inefficient, and that a coming socialist revolution would sweep all this away and replace it with a world of fairness, milk and honey. These people thought of fair trade as the starting point for a broader and deeper revolution in society. Through the 1990s this idealism gradually gave way as it came into contact with reality. Those in the Fairtrade movement who were actually buying and trading with Southern partner businesses came to realize that while there were many faults in conventional capitalist mechanisms of trade, none of these faults was easily overturned, and usually the processes which seemed exploitative and unfair on the surface resulted from far deeper structural realities of the wider world of trade. The hard-knocks of trading in the marketplace were a powerful training ground for fair trade pioneers, and one tribute to the movement is the longevity and stamina of many of those who have involved themselves in it. We took our knocks, learned and grew.

The hard-knocks of trading in the marketplace were a powerful training ground for fair trade pioneers

What we refer to today as fair trade would be virtually unrecognisable to the early pioneers. The idea of a FLO Fairtrade marked 'Kit Kat' (a chocolate confectionery product), or a market for Fairtrade products worth close to £1 bn worldwide would I believe be almost unimaginable. Fairtrade tea, coffee and chocolate are now such well-established concepts that some larger retailers only sell FLO Fairtrade versions of the products. Of course the journey from the 1970s to the present has been one of development, adaptation and compromise.

The commodities see-saw: Why do commodity prices swing?

The starting point for many fair trade campaigns in the 1970s was the horrific suffering of South American and African farmers in the face of severe reductions in the purchasing power of their cash crops, such as coffee and cocoa. Commodity prices fell in nominal and real terms for year after year, reducing to penury many farmers with long-term commitments to a particular cash crop. These were crops that took many years to establish; farmers could not easily switch in and out of production; so they were basically trapped with their net income each year in the hands of the market. This process was seen as completely unfair. Prices for finished

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World commodity price instability is a consequence of global supply/ production varying independently – demand may rise when supply is weakest

products such as retail packs of instant coffee were stable or rose, but the price received by farmers fell. What was happening in the middle? From the perspective of the less than perfectly informed fair trade activist, the giant multinationals were taking super profits and exploiting the poor, small Southern farmer. Of course the reality was more complex than this, but it was definitely true to say that from the 1950s or 1970s through to the early 2000s, global commodity prices in general fell in value to the detriment of the producer countries.

World demand for commodities is enormously complex, with products rising and falling in favour with customer groups and the interplay of consumers' purchasing power in different countries. As an example, at present there is an unprecedented rise in the cost of cocoa which some claim is due to rising demand for chocolate products by the previously non-chocolate consuming Chinese. The world commodity price instability is a direct consequence of the fact that global supply/production of each key commodity also varies exogenously. A frost in Brazil or a bacterial wilt in East Africa is not guaranteed to coincide with a reduction in global demand; in fact demand may rise at the precise moment when supply is at its weakest.

The situation is probably made more, rather than less, complex by the large-scale action of agencies such as the World Bank. Interventions such as substantial investments in coffee production in Vietnam occur while other producer countries continue or expand their own production. Suddenly the world market sees production levels that exceed immediate demand. Commodity products have a limited shelf life and traders have to sell or face a 100 per cent loss if the product spoils, so products are sold at prices below the cost of production.

Many supply chains are long, and contain extensive opportunities for speculation, which further destabilizes prices. Cotton is a key example of this, where the commodity is traded as seed, fibre, yarn and cloth before finally being transformed into garments for sale to the consumer. Spot markets for the commodity at each step in this chain see speculatively driven price swings that are often out of synchronization with each other, adding greatly to the risk for those involved in the industries.

What (or who) is fair trade?

One of the central tenets of fair trade (in all its flavours) from the outset, was a 'normalization' or reduction in price fluctuation and speculation.

Fair trade operates by setting a minimum price that is linked to the cost of production

The minimum price is intended to assist farmer during periods of excessive world price fluctuation

Fair trade tends to operate by setting a minimum price that is linked to the cost of production. If the world price rises above this minimum price then the farmer may receive more, but if the world price falls below the minimum price the fair trade buyer must continue to pay the minimum price. In addition to this minimum price, the fair trade farmer should also receive a 'social premium' which is an extra payment to the farmer, plus other forms of less direct assistance, such as help with the local development and management of the farmers' supply chain, guaranteed forward planning and forward ordering.

In some commodities there is also a 'fair trade maximum price'. The idea is that if the Northern buyer is being generous during the price down-swing by continuing to pay the fair trade minimum, surely the same buyer should get something back during the times of peak prices. In practice this 'maximum' is rarely acted upon, primarily because small-scale farmers rarely have the maturity or long-term vision to remain loyal to their fair trade buyer during the good times. If they can sell for more they do, leaving the fair trade buyer with nothing. Given this, in practice the fair trade buyer tends to pay the full market price during the peak periods, but pay at least the fair trade minimum price the rest of the time.

Conventional economists tend to react with horror to the idea of fixing prices, as they believe that this is always wrong and is guaranteed to result in over production or inefficient allocation of resources. A key point for those wishing to counter this argument is that the fair trade minimum price is set at a level that delivers no profit to the farmer. It is intended as a mechanism to assist the survival of the farmer during periods of excessive world price fluctuation. Given the cost of re-establishing a farm producing a crop such as coffee, there is a simple economic rationale in a process that damps the level of price variability in the market. Otherwise farmers waste valuable resources, expending energy destroying and re-establishing fields of crops as the world price see-saws violently up and down over time. Also, as with mechanisms such as unemployment benefit or welfare payments, there is a purely social argument for such minimum prices as they guarantee human dignity and reduce suffering. Beyond the minimum price and the idea that fair trade should work on the basis of long-term partnerships between buyers in the North and producers in the South, there is not terribly much agreement on what really constitutes fair trade.

FLO, the main European voice for fair trade, has very clear standards for what it says fair trade is. In the USA a similar role is taken by Transfair. The FLO Fairtrade symbol is the most widely recognized consumer logo representing fair trade and we are reaching a stage where people are starting to say that FLO Fairtrade (with a capital 'F' and spelt as one word) is the primary or only definition of fair trade, but this is definitely a simplification. The people working at the World Fair Trade Organization (formerly IFAT) and at labelling organizations such as Rainforest Alliance definitely believe that there is more to fair trade than FLO Fairtrade. A number of small businesses conduct fair trade without engaging with FLO, seeing it as a cumbersome bureaucracy. These small businesses have to communicate the fair trade message of their product without relying on the advertising and public relations skills, or the substantial public, international aid agency and donor support which FLO commands.

Some small businesses conduct fair trade without engaging with FLO, seeing it as a cumbersome bureaucracy

FLO Fairtrade is without doubt the dominant force in fair trade: many retailers only recognize the FLO symbol and do not carry alternative symbols. In any case, the FLO symbol is overridingly dominant in the marketplace.

Many retailers only recognize the FLO symbol and do not carry alternative symbols

This said, it is now also true to say that the European marketplace for most commodities is characterized by a complex range of different auditing and marking systems; FLO Fairtrade is only a small part of a larger jigsaw puzzle, which includes auditing standards such as Organic, GlobalGAP, RSPO (for palm oil), FSC (for wood products) and many others. We live in the era of the audit, standard or certification process.

FLO Fairtrade involves a minimum price, long-term buying relationships, and a social premium for the farmers involved in the production of the raw materials in the South. Beyond these primary tenets, meeting the fair trade standard involves a number of other detailed issues that are outlined in certification standards. Producers wishing to carry the FLO mark must submit themselves to independent auditing by an external certifying officer to verify that they meet these standards: a process that carries a very significant cost. FLO charges a fee for all businesses that retail products with their mark, and also charges a fee for all farmer groups that submit to certification. Those involved also carry additional production costs, compared with non-fair trade producers, in a number of ways. For example, their employees are required to be paid at levels which often exceed local wage norms, and there are a range of requirements on issues such as child labour, which may raise the cost of FLO Fairtrade products compared with products produced on the open market.

All of these factors combine with the basic fact that most fair trade still operates between relatively small businesses (and therefore is relatively low-volume and does not achieve economies of scale) to produce a situation where fair trade and Fairtrade products are often significantly more expensive than conventional market equivalents. Some supermarkets exacerbate the problem by demanding that Fairtrade products deliver higher profit margins than conventional products, pushing the price to the consumer higher still. The price difference between the fair trade and conventional version of a product is much larger than the difference in price paid to the farmer, leading consumers to complain that they are being 'ripped off'.

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If consumers feel 'ripped off' the problem is caused by irrational pricing policies of the supermarkets

Sometimes it feels as though we are back in the 1970s again, but now it is the fair trade business people themselves who are being accused of exploitation and corruption. Of course fair trade business people are not corrupt: they simply operate in the context of these multiple disadvantages while trying to do the best they can. A typical example of this is a when a conventional product receives support from a retailer. A big supermarket might decide to run a publicity campaign with a multi-million dollar, euro or pound budget. Part of this budget could be given to offering a low price to the consumer. The supermarket sells the product at a loss, but gains publicity and 'footfall' (number of customers entering the store). These irrationally priced products – and there are many hundreds of them in every supermarket – confuse the consumer, who assumes they reflect the products' true cost of production. The consumer compares prices on these products with the prices he or she pays for fair trade products and again feels ripped off. But the problem is not caused by exploitative pricing by fair trade business people; rather it is a function of the irrational pricing policies of the supermarkets.

What are the real impacts of fair trade?

The fair trade mantra of minimum price, long-term relationship and social premium is trotted out whenever this question is posed, but I for one doubt that these represent the most significant aspects of the trade. Returning to the issue of child labour, which interestingly is one of the areas where fair trade can have its strongest social impacts via indirect as well as direct influence, let us start with an admission: child labour is relatively endemic in cocoa production in West Africa. Children work on their parents' farms as a matter of course, which is really not laudable, but at least parents are generally careful in regard to the range of work their children do and try their best to send their children to school where one is available. But there is also extensive trafficking of children around the West African region to work on farms in terrible conditions on the fringes of the trade.

FLO standards specifically exclude the use of child labour

FLO Fairtrade has made a strong stand on this: FLO standards specifically exclude child labour and evidence of it is justification for immediate exclusion from FLO certification. FLO has done excellent work moving children from cocoa fields into schools, and in direct training to farmers and cocoa-collection company staff on this issue. FLO's stand has forced many of the larger players in the cocoa sector to wake up and pay attention. Child labour is now high on the agenda right across the cocoa producing industry in the Fairtrade, fair trade, ethical and conventional sectors. There are a number of other examples where fair trade business practices are increasingly coming to be the norm in conventional business. Organic labelling can claim similar victories in their own sector of sustainable farming practices: cases where particularly damaging chemicals have now been removed from the conventional trade, or where less destructive farming practices are now recognized and used by conventional farmers. Advocates of GlobalGAP make similar claims for the beneficial 'catalytic' impact of their work.

Measuring the impact of fair trade rarely involves any significant long-term analysis

Some fair trade business practices are increasingly becoming the norm in conventional business

Larger firms do not want to be perceived as bad guys: their brands have value that is rapidly eroded if they are tarnished by association with inhumane or environmentally damaging practices. At the same time the world of European campaigning is fickle and more fashion-driven than it is willing to accept. Hardened campaigners may stick to their chosen political topic for years, but the general public bores easily and quickly moves on to the next big issue. Hard-won gains from Fairtrade campaigners can be eroded surprisingly quickly if the public looks away and bigger business interests apply their substantial market power to breaking down the carefully constructed fair trade systems.

The key point is that measuring the impact of fair trade is hard. Speaking personally, I cannot see how any assessment methodology could incorporate a measure for the fact that conventional trade has been forced to improve as a result of the pressure from fair trade. The methodologies mostly involve simple like-for-like comparisons between the social conditions of farmers involved in fair trade and those involved in conventional trade. They rarely even involve any significant long-term analysis, which might uncover the greater security of income experienced by fair

Donor agency interest in fair trade may be as ephemeral as other big ideas that have come and gone over the last decade

trade farmers, let alone try to measure the catalytic impact of fair trade on the wider economy or conventional trade systems. There is clear evidence that fair trade has raised the bar for practice in the conventional sector, but quantifying this is virtually impossible.

The development 'industry' now seems to have ethical trade, fair trade, fair-trade and Fairtrade firmly in its sights. Having ticked along for years ignoring the marketplace altogether, development agencies have woken up to the fact that there is no point in training farmers to grow more of their product if they are unable to sell it. A slew of big-word policies such as 'making markets work for the poor' have been announced and agencies have identified some variant of ethical or fair trade as a possible route to achieving these goals. Hardly a day goes by without one study group or another getting in touch with me to explain that they have received funding to run a sectoral analysis, value chain review or baseline survey to assess the impact of fair trade in East, West or Southern Africa. They then announce their methodologies and workplans, and most frighteningly of all, state that some major agency or other will decide whether or not to spend a significant amount of money on 'fair trade' based on the results of their research.

The sudden donor agency interest in fair trade seems likely to be as ephemeral as any number of other big ideas that have come and gone in the development sector over the last decade. There is little doubt that in two or three years time the development agenda will have moved on to pastures new, with agency experts nodding to each other as they agree with each other that fair trade was a wasted effort which never really delivered any measurable benefits. The reality of course is that it is impossible for fair trade, or Fairtrade to be adopted casually as a policy or strategy. Those who do so are almost bound to fail, and those measuring these flawed versions of fair trade will see little or no benefit accruing to farmers or other Southern participants.

I am still trading with people I first met more than 20 years ago

Fair trade starts first as a contract between equals who agree to trade together for the long-term; a form of partnership that is almost like marriage. I am still trading with people I first met more than 20 years ago and will probably continue to do so for as long as my business exists. Through those 20 years we have learned and suffered together, informed each other and co-operated. We now know and trust each other and collaborate well; we understand each other in ways that only those who have such depth of mutual experience can. When I travel to meet these partners I meet the children of the people who started to work with me all that time ago. The children are educated, often very well, and have grown up in environments with a reasonable amount of stability and security. They and the stability that their households experience are the real measurable outputs from the trade we began all those years ago. The educated children and the stability that their households experience are the real measurable outputs from our trade.

Conventional business people regularly contact me to find out how they can 'invest in' fair trade. What they actually want to know is how they can make a quick profit out of it. The process is always the same: the first phone call explains that they have money to invest and they want to 'make a difference'. Then comes a meeting at which they talk about the bucket-loads of cash they have, and how they are willing to put millions into the right kind of venture. At this stage there is usually still a pretence of philanthropy. Beyond this, things vary a bit from case to case, but the end is always the same: they ask how much we need to build the business up so that it can be sold on for a quick buck and a massive return; 'achieving exit' is a typical dubious euphemism. When I explain that there is no exit with fair trade, it is for the long-term, it is about relationships, learning about people and building something lasting, they look at me as though I am insane. From time to time I have thought they were right, but last year I met Muhammad Yunus (a Bangladeshi economist and founder of the Grameen Bank) and, having talked to him, I know that I am not.