

Crossfire:

'Does Fairtrade have more impact than conventional trade or trade certified by other sustainability standards?'

MATTHEW ANDERSON, PHILIP BOOTH and
SUSHIL MOHAN

In this issue's Crossfire, Matthew Anderson discusses with Philip Booth and Sushil Mohan the impact of Fairtrade compared with other sustainability-certified and conventional trade.

Dear Sushil and Philip,

As the Fairtrade Foundation prepares to celebrate the 20th anniversary of the Fairtrade Mark in the UK, it seems like an opportune moment to reflect on the impact of Fairtrade and how its approach to trade and development contrasts with other sustainability standards and the practices of conventional trade.

Fairtrade is an alternative approach to conventional trade and the most widely recognized ethical label globally. It is a strategy for poverty alleviation and sustainable development through ensuring the payment of a minimum price and of a defined additional (development) premium. Its purpose is to create opportunities for small-scale farmers and workers who have been economically disadvantaged or marginalized by the conventional trading system.

Over 70 per cent of the British public now recognize the Fairtrade Mark, and nine in 10 consumers who recognize the Fairtrade Mark regard it as a trusted label (GlobeScan, 2011). This awareness has translated into retail sales of over £1.5 bn in 2012 and there are signs that Fairtrade is moving from the margins to mainstream. One in every three bananas sold in the UK, and 44 per cent of bagged sugar, is now Fairtrade certified. These sales contribute to the £23.3 m Fairtrade premium that is returned to producer organizations annually from sales of Fairtrade labelled products to consumers in the UK.

The academic body of literature exploring the impact of Fairtrade has developed substantially over the last decade and while it can be difficult to attribute economic and social impact from individual studies, a systematic analysis of the existing evidence base reveals a number of areas where Fairtrade supports positive organizational and community development (Nelson and Pound, 2009). The

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economic benefits of Fairtrade are evidenced in the higher returns and stable incomes reported in a high proportion of these impact studies. However, even in situations where household income has not improved, many studies suggest that Fairtrade still offers a range of benefits such as: increased access to credit, increased self-esteem, benefits for the wider community, and organizational capacity building (Nelson and Pound, 2009).

Although harder to quantify, the published literature also strongly supports the argument that Fairtrade is having positive empowerment impacts (Nelson and Pound, 2009). The positive impacts on producer empowerment have been identified in two dimensions: 1) *empowerment for individual producers* – improved producer self-confidence, improved market and export knowledge, greater access to training; and 2) *organizational strengthening* – increased influence nationally and locally, improved democracy in decision-making and levels of participation, stronger organizations able to survive in hard times, and higher ability to attract other sources of funding.

A direct comparison between Fairtrade and conventional trade presents a number of methodological challenges, particularly since non-Fairtrade operations often refuse to participate in studies – citing cost implications and resource constraints. While these commercial considerations may be understandable, the limited transparency in conventional supply chains serves to undermine consumer trust, and reinforces the need for third-party certification.

Similarly, there are few direct comparisons with other sustainability standards – although survey tools, such as those being pioneered by the Committee on Sustainability Assessment (COSA), may make the application of comparative research methods more feasible in the future. Current studies suggest that on ecological and environmental criteria, UTZ Certified and Rainforest Alliance demonstrate a more specific and tangible impact on key sustainability indicators. Despite these limitations, Fairtrade remains a unique tool to promote development and empowerment among marginalized rural communities in the Global South.

*Best wishes,
Matthew*

Dear Matthew,

Fairtrade is part of the rich tapestry of institutions that develops in market economies to bring together consumers and producers. Fairtrade opens up an additional trading channel within the market in a way that matches consumer preferences to the needs of many producers.

However, it does not alter the market fundamentals. The demand and supply conditions for Fairtrade products follow conventional trade practices. Upstream actors in the supply chain exert economic and quality control taking account of consumers' preferences. Fairtrade growth, like conventional trade, is fuelled by the increasing involvement of mainstream corporate and retail circuits.

It is therefore simplistic to assert that Fairtrade corrects inequitable trade because Fairtrade is not changing the market basics. Furthermore, Fairtrade

is not for the poor and marginal producer as it is difficult for them to meet the Fairtrade requirements. The beneficiaries of Fairtrade activity, by and large, are not the world's poorest people.

Of course, like other speciality market producers, Fairtrade producers benefit from the additional trade channel that is opened up. But so do a very large number of conventional market producers – and other labelling schemes such as Rainforest Alliance. Most conventional trade buyers want stable supply chains and good relationships with suppliers and Fairtrade is not unique in achieving such relationships. For example, the growth of speciality coffee, encouraged by buyers, provides a huge premium for growers and has led to much greater prosperity in Africa's poorest countries.

Despite the growing visibility of Fairtrade in some Western markets and some products, one cannot ignore the fact that Fairtrade sales represent only around 0.01 per cent of the total food and beverage industry sales worldwide (Mohan, 2010). So, when it comes to the relief of poverty, Fairtrade will always be a bit-part player.

The main drivers of poverty reduction are peace and stability, the rule of law, the protection of property rights, good systems of justice, and the right conditions for enterprise and markets to work. This includes a commitment to free trade.

Fairtrade is a small player in a general environment of institutional and policy improvements in many poor countries. It is these other policy improvements that lead to greater competition for labour, more efficient supply chains, and the movement into

higher-value-added production that are the sustainable solution to poverty.

It is not Fairtrade that has in recent years led to the highest level of economic growth in sub-Saharan Africa in its history; it is not Fairtrade that has led to significant reductions in inequality in Africa. It is the extension of free trade that has lifted hundreds of millions out of absolute poverty in countries such as Vietnam, China, and India. Indeed, those poor economies that opened to trade grew three times faster in the 1990s than those that did not (OECD, n.d.).

Thankfully the Fairtrade Foundation has fallen relatively silent on the issue, but it was certainly not helpful in the 1990s and early 2000s when it was making the case for more trade regulation – a policy destined to promote bad governance and increase poverty. There is enormous potential for much greater poverty reductions in India, Pakistan, and Bangladesh but, again, Fairtrade is largely irrelevant. Of course, significant responsibility lies with developed economies too. They should reduce their trade barriers (for example in cotton, sugar, and rice). This would also help the poor, but not because of Fairtrade.

To repeat, we welcome Fairtrade! We believe in a market economy. We approve of private certification schemes (though the cost of such schemes should be borne in mind and those promoting such schemes should not use soft or hard coercion to promote membership).

Fairtrade deserves credit for opening up a trade channel that provides an additional marketing opportunity for some producers and possibly allowing them to capture a price premium. That

participation brings greater diversification, empowerment, and capacity building.

However, Fairtrade is to the primary product market what the fan-owned clubs such as Exeter City and Wycombe Wanderers are to the football league in England and Wales – welcome institutional diversity, but not of huge significance.

*Best wishes,
Philip and Sushil*

Dear Philip and Sushil,

Thank you for your response. There is much that I agree with in your account of the development benefits of conventional trade and enterprise. However, the reality is that almost 1.3 billion people still live below the global poverty line (Chen and Ravallion, 2008: 44). Unfortunately many of the benefits of economic growth are not trickling down quick enough, if at all.

Smallholder farmers are among those that often find themselves economically marginalized and trapped in a cycle of poverty. There is evidence from recent studies that half of the world's hungriest people are themselves smallholder farmers (IAASTD, 2008). Despite being part of potentially lucrative international supply chains, smallholders producing commodity cash crops remain disempowered within them. Commodity production and trade are dominated by large transnational corporations (TNCs) resulting in low returns to growers. Even when world commodity prices are high, it is the large TNCs and financial investors that tend to capture most of the gains (UNCTAD, 2012: 13).

While still a small proportion of total global trade, the institutional

diversity that Fairtrade offers presents an opportunity for mainstream businesses to engage in trading partnerships that genuinely benefit those within their global supply chains. And as Fairtrade develops and expands, so does its geographic diversity. Figures from 2011 show that 59 per cent of all farmers and workers within the Fairtrade system live in Africa, with Kenya having the highest number of people participating in Fairtrade overall (Fairtrade International, 2012: 18).

Understandably it takes time to alter the market fundamentals, but there is evidence that this is happening. As businesses look for alternative models that are able to deliver mutually beneficial sustainable supply chains, Fairtrade is acting as a moral entrepreneur – disrupting old institutions and initiating new ones. Perhaps one of the clearest examples of this is in the banana supply chain, and the conversion of UK supermarket chain Sainsbury's to 100% Fairtrade bananas.

In 2006, Sainsbury's initiated a review of its entire banana supply base. Matt North, Sainsbury's banana and citrus fruit buyer at the time, began to ask questions about living standards and what could be done to improve the situation for grower communities. North decided that although the Rainforest Alliance mark would have been easier to achieve, no real social benefits were returned to the communities (North, 2011: 145). The only way to achieve a real difference was through Fairtrade and the only way to achieve this with real scale was by converting the entire range of bananas to Fairtrade (North, 2011: 146). Interestingly the driver

for this supply chain overhaul was only partly a response to consumer preference. One in five customers were already choosing to purchase Fairtrade bananas, but Sainsbury's were still not able to sell all of the Fairtrade bananas available from the growers (North, 2011: 140).

Sainsbury's now sells 650 million Fairtrade bananas each year and in addition to the guaranteed minimum price for their crop, the Fairtrade banana partnership generates around £4 m annually in Fairtrade premiums. This conversion to Fairtrade represented a significant investment (equivalent to 2 per cent of Sainsbury's operating profit). It also involved supporting suppliers through the certification process and Fyffes' rescheduling of shipping arrangements to provide a direct service from Colombia to Portsmouth on a weekly basis (North, 2011: 150). But the significance of this conversion went beyond Sainsbury's own supply chain. When Waitrose and Co-op announced that they would also convert all of their bananas to Fairtrade, Matt North's work became a catalyst for change.

Building scale remains a challenge for Fairtrade; but with the growing support of a range of retailers and major brands, producers will continue to benefit from increasing volumes of Fairtrade sales and profit from their involvement in sustainable trading partnerships.

*Best wishes,
Matthew*

Dear Matthew,

While we agree with much that you have written and repeat that we see Fairtrade as a welcome part of the

market economy – and certainly not separate from it – there are perhaps two main differences between us. The first relates to the scale of Fairtrade: How much difference does it really make? The second is the ability of the extension of trade, globalization, and good governance to make many more people better off more quickly than Fairtrade can (though, of course, we do not see the two as mutually exclusive).

However, another issue has arisen which is important too. You say: 'There is evidence from recent studies that half of the world's hungriest people [say, 650 million] are themselves smallholder farmers'. We agree, but Fairtrade is not going to dramatically change this. Free trade may raise global prices for certain products where there is currently Western protectionism and Fairtrade might provide them with slightly higher prices. However, given that there are currently only 7.5 million Fairtrade workers (including their families and those who are not farmers) (Traidcraft, 2014), Fairtrade is too small to contribute significantly to resolve this problem. Furthermore, the bulk of Fairtrade workers are not smallholders partly because of the certification requirements (Mohan, 2010).

As the discussion of bananas above shows, Fairtrade might be able to raise the living standards of growers by about 5 per cent if all the premium was used for the benefit of the growers. In addition, Fairtrade might provide some price stability when market conditions fluctuate. But even this is doubtful. A Fairtrade contract involves fixing prices for the producer so that a guaranteed price, higher than conventional world market price, is received regardless of supply and demand conditions at

the time the product is delivered. A literal interpretation of this contract condition has resulted in the propagation of a fallacy, which finds expression in the view that Fairtrade protects primary product producers against the volatility of market prices. However, although there is a price guarantee, there is no enforceable guarantee of the quantities that buyers will buy. Fairtrade can fix the price but it cannot fix supply and demand curves and therefore cannot guarantee quantity. In conventional markets, in fact, some commercial buyers of commodities, including transnational firms, do guarantee both prices and quantities through hedging (Russell et al., 2012).

We in no way doubt the value of Fairtrade as a channel for some producers, but it should be understood in context.

Ultimately, the development problem is not a question of whether we can make 10 per cent of smallholders 5 per cent better off through Fairtrade or 30 per cent of smallholders 20 per cent better off through an extension of free trade – or whatever figures we might dispute. Our ancestors were probably smallholders. We became rich not because of a 19th-century version of Fairtrade that kept us in agriculture but because development provided many more employment opportunities enabling the minority who stayed on the land to be far more productive with much more capital equipment. More recently, within a generation, the proportion of people living from the land in South Korea has fallen from over 50 per cent to 7 per cent (Agriculture and Agri-Food Canada, 2009) while output has increased.

This is how countries develop given the right environment in terms of good governance, the rule of law, the protection of private property, and the right conditions for business to thrive.

We do not decry the efforts of Fairtrade in trying to improve the lot of producers including some smallholders – the here and now is important. But the question we were asked was about its impact overall compared with conventional trade. The development of conventional trade enables people to produce things that are of much greater value in world markets rather than simply paying people a little more for producing what they were previously producing. It is this which pulls whole nations out of poverty towards prosperity.

*Best wishes,
Philip and Sushil*

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