Un-Fair Trade

Turning the tide on misguided altruism

A World Growth Briefing | January 2013

WORLD GROWTH

TABLE OF CONTENTS

Executive Summary

Fairtrade (FT) represents itself as a consumer-driven long-term development strategy. It claims to support poor producers in the global south and aims to alleviate them from poverty by certifying their production processes and selling their products to consumers in the global north at a price premium. The FT movement has succeeded in convincing conscientious consumers that its labelled products are the most effective in aiding the poor. However, the extent to which the FT model brings net benefits to the poor is largely unfounded.

The FT model of production and trade does not target the poorest countries and producers globally; instead it supports largely middle-income countries and relatively wealthy small landowners. The FT model is restrictive and inefficient. It certifies producers as eligible according to its own labour, environmental and social values. This predicates a host of demands on the poor and picks among them on the basis of their ability to meet criteria and not on the basis of need. Further, the FT model is flawed as its fixed minimum price distorts product markets and props up unproductive industries in developing economies.

The FT movement is misguided and incapable of achieving its stated goals. Alternative consumer based development initiatives, Aid for Trade strategies and free market mechanisms are more effective in targeting the poor.

Based on these findings the paper makes a number of recommendations to key stakeholders including developed and developing economies, consumers and FT organisations.

1. Introduction

Fair Trade's regulation of consumer altruism will not assist poor farmers

Fairtrade (FT) represents itself as a consumer-driven long-term development strategy. The FT movement claims to targets poor producers in the global south and alleviate them from poverty by improving living conditions and economic welfare and correcting the free-market imbalances that they claim to dictate and deepen development issues globally. [1]

To achieve these claims the movement certifies consumer products as FT and attaches fixed-price premiums to them in excess of market prices. The certification encourages conscientious shoppers in northern markets to be charitable at the cash register, where it is understood they can directly contribute to the lives of the poor. FT claims that the premiums paid filter back into the hands of the poor and fund affiliated social groups and initiatives.

The wider economic and social conditions of poor producers are rightly concerning. The global inequality of living standards and country-level development emphasises the importance of spruiking public interest to lobby governments for an effective trading environment that will assist the poor.

In weighing these concerns against the social and economic benefits FT claims, this paper raises a point of caution to loyal consumers and those susceptible to the movement's aims and ideals: The concept of FT clams to bring benefits to the poor. This analysis shows the extent to which it brings net benefits is largely unfounded.

The following review consolidates this critique with a focus on FT coffee given its dominance in FT sales.[2] It sets out in clear terms the short history and mechanics of FT. It then assesses FT's claim to be a long-term development strategy and its ability to target poor producers; drawing on a range of limitations set out in its production standards and policy. It then reviews the economic case of FT, in particular the distortion of price signals and incentives. The argument concludes by recommending alternate pathways to achieve the FT stated goals.

[1] Trade Justice Movement, http://www.tjm.org.uk/about-us.html, accessed 3 January 2011;

[2] Fair Trade Labelling Organisation (FLO), *'2007 annual report: an inspiration for change'*, http://www.fairtrade.net/fileadmin/user_upload/content/FLO_AR2007_low_res.pdf, accessed 10 January 2011.

2. The Fair Trade System

Fair Trade has its origins in the alternative trade networks first developed in the 1950s. Religious and political groups established parallel commercial networks with the objective of assisting impoverished producers in the global south.[3] These groups began purchasing products at above-market prices and selling them on to conscientious consumers in northern markets. Trading routes were said to be established on principles of solidarity and charity, rather than competition and market forces.

The so-called direct market access approach now adopted by the FT movement, which uses conventional trade networks, is relatively new. In 1973 various FT organisations began to offer certifications to producers that met certain labour and environmental standards. It was understood that adherence to these standards would be monitored by the FT organisation through an auditing process of the entire production chain – from grower to consumer.[4]

In 1988 this process was formalised with the introduction of product labelling to signify the certification process and adherence to producer standards. In 1997 the certification and labelling activities of many FT organisations were consolidated under the umbrella organisation Fair Trade Labelling Organisation (FLO) International, which in 2004 created an autonomous inspection and certification company FLO-CERT to avoid conflict of interest and to improve transparency.

'FINE', an informal alliance between FLO and other non-aligned FT networks, developed the following definition of FT, now widely accepted, which sets out the movement's credo:

> Fair Trade is a trading partnership, based on dialogue, transparency and respect that seek greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, disadvantaged producers and workers – especially in the South. Fair Trade organizations (backed by consumers) are actively engaged in supporting producers in awareness raising and in campaigning for changes in the rules and practices of conventional international trade.

This passage describes in clear terms FT's philosophy and guiding principles. They reflect an implicit critique that the open market international trading system cannot deliver adequate benefits to low-income producers. This reflects a moral bias which should engender questions about the effectiveness of the trading model.

FTs principles can be better understood by examining FT certification criteria:[5]

- Trading intermediaries must agree to pay a fixed minimum price that is claimed to incorporate the value required to support sustainable production and a secure livelihood. This price gives way to the market price should the latter increase above the FT minimum.

- Trading intermediaries should support development and technical assistance via agreed social investments at 5 to 10 per cent of the fixed minimum price.

- FT producers must adhere to a series of social, environmental and working criteria. For example: Child labour is prohibited; workers must be allowed to unionise; labour must be organised into smallholder co-operatives and not larger plantation and corporate farms; genetically modified crops are banned etc.

[3] Examples of alternative trade networks include: Oxfam, Solidaridad, Traidcraft and Sales Exchange for Refugee Rehabilitation and Vocation (SERRV);

[4] Kerry Howley, *Absolution in your cup: the real meaning of Fair Trade coffee*, http://www.reason.com/news/show/33257.html. (2006, accessed 5 January 2010).

[5] FLO, *'Growing Stronger Together Annual Report 2009-10'*, http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/FLO_Annual-Report-2009_komplett_double_web.pdf (accessed 10 January 2011);

- Producers can seek the provision of credit from the importer of up to 60 per cent of the total purchase amount in advance.

In recent years the prevalence of FT products certified using these criteria has increased sharply. Sales grew by 40 per cent annually during 1998-2007 and 22 per cent in the subsequent year. In 2009 FT sales worldwide was approximately USD $4.6 billion, up 15 per cent on the previous year. FLO claims that at the beginning of 2010 more than 27,000 certified products were available to consumers in over 70 countries.[6]

On the supply side, a total of 827 producer organisations and 1.2 million workers in 60 developing countries were registered with FLO for supply of certified FT products. The centre of production continues to be Central and South America. In 2009 the region received USD $45.7 million in FT premiums, far in excess of the $17 million received in Africa and $7.5 million in Asia.[7]

Overwhelmingly, FT literature celebrates these rates of annualised growth without conceding the increases occur from such a low base that market penetration continues to have little impact on large-scale poverty reduction. At best FT capitalisation represents a fraction of global food and beverage industry sales with estimates at around 0.01 per cent.[8] In the UK, FT's biggest market, FT-certified produce accounts for 0.5 per cent of food and non-alcoholic drink sales.[9] Furthermore, these claims present an unsubstantiated view of the net impact that premiums have had in FT producing regions.

[6] Ibid;
[7] Ibid.
[8] Anthony Nicholls & Charlotte Opal, *Fair Trade: Market driven ethical consumption* (SAGE Thousand Oaks: London, 2005) 230;
[9] Alan Beattie, 'Call for simpler labelling on produce to help poor nations' (Financial Times, 19 November 2008), http://www.ft.com/cms/s/0/3aaf1312-b5d9-11dd-ab71-0000779fd18c.html#axzz1Dzi8sctT. (accessed 20 January 2011);

3. A long-term or misguided strategy?

3.1 Does fair trade target marginalised farmers?

It is the intent of the FT movement to target marginalised and poor producers and lift them out of poverty.[10] The goal is worthy, but does the application and efficacy of FT activities realise it? This section will discuss the limitations of FT, assess its geographical spread and the impact of its labour and environmental production standards.

For a start FT does not target the poorest countries. The International Development Committee observed in 2007 that 'Fair Trade could have a deeper impact if it were to target more consciously the poorest of the poor'.[11] In fact the major recipients of FT activity, and any associated welfare outcomes, are overwhelmingly middle-income countries in relative terms.

Research undertaken by Mohan on FT producing nations shows that in 2007 the top four countries in terms of certified producer numbers were Mexico, Colombia, Peru and South Africa with a combined total of 189 certified organisations (notably Mexico accounts for some 25 per cent of the FT coffee producer market).[12] In that same year the average GDP per capita of these nations was $6,045. In comparison, ten FT participating nations with one FT producer organisation had an average GDP per capita of $1,360, while countries with no FT organisations sustained an even lower GDP per head. In general, FT penetration is higher in countries with a greater level of income distribution.[13]

Export earning portfolios and agriculture participation rates must also be considered. World Bank estimates coffee exports in Burundi and Ethiopia – two endemically poor countries in sub-Saharan Africa – provide for 60 per cent and 54 per cent of total export earnings respectively. Similarly, agricultural participation rates are nearly 80 per cent in Ethiopia and more than 90 per cent in Burundi.[14] In both these countries economic growth depends on coffee exports, yet the penetration of FT is minimal. In 2007 Ethiopia had only four FT producer organisations and Burundi had none.[15] In Mexico, Colombia, South Africa and Peru agriculture participation during 2007-08 was 13.5, 18.4, 9.8 and 9.3 per cent respectively, and in each case contributed less than 20 per cent of export earnings.[16]

3.2 Dividing labour – a fair deal for whose benefit?

The FT movement claims that it 'provides tangible benefits to small-scale farmers and workers, consumers and the environment'.[17] Unfortunately, the FT system inhibits the delivery of these benefits.

Certification is not granted simply because a farmer wants to receive greater returns from his or her produce. Rather, receipt of certification requires compliance with FT labour and environmental standards, which predicate a host of demands and have the effect of excluding the poorest of the poor. For example, in production of many FT products, farms must be expressly a smallholder concern approximating 12-acres or under in size and are required to seek membership with a larger certified producer co-operative. In addition, longer-term employment contracts, as well as child labour are prohibited.[18]

This attempt to divide labour is impractical and anti-development. By servicing only smallholder farms, the FT model assists relatively wealthy small landowners and excludes the poorest of the poor. This includes the vast majority of workers in larger plantations and processing businesses including seasonal undocumented workers. Given FT's geographical footprint, this aspect is particularly relevant in the case of Central

[10] FLO (2009-10);
[11] Fair trade and development, *International Development Committee seventh report of session 2006-07*, vol. 1 (Pro Quest, 2007);
[12] Sushil Mohan, *Fair Trade Without the Froth*, http://www.iea.org.uk/sites/default/files/publications/files/upldbook524pdf.pdf (Institute of Economic Affairs: London, 2010, accessed 20 January 2011).
[13] Mohan (2010); Data verified and adjusted see: World Bank Data, http://data.worldbank.org/ (2007a, accessed 20 January 2011);
[14] World Bank, *Employment in Agriculture (% of total employment)* (2007); Agriculture participation rates for Burundi were taken from the CIA World Data Book https://www.cia.gov/library/publications/the-world-factbook/;
[15] FLO (2007)
[16] World Bank (2011);
[17] Fair Trade Association Australia and New Zealand, http://www.fta.org.au/about-fairtrade/faqs (accessed 27 January 2011);
[18] FLO (2011).

America. For example, workers seasonally migrate to Costa Rica from Guatemala and Nicaragua to find employment in coffee plantations. Under FLO rules these migrant workers are not recognised.

FT standards disallow children's involvement in labour activity. This disregards the role of family in underdeveloped countries. It is well known that child labour plays a crucial role in ensuring the welfare of very poor families by assisting in the generation of a basic income to meet household living expenses. In these cases children are not being subjected to slave labour, they are a part of the cultural fabric of community and family. The evidence on this clearly shows that regulating child labour in such circumstance does not address the root cause – poverty. As incomes rise the rate of child labour activity decreases.[19]

FT labour standards require small-holder farms to seek membership with a certified cooperative (producer organisation) to obtain the FT premium. Authors have written extensively on the problems with this model. Booth & Whetstone describe cooperatives as a 'notoriously inefficient form of business organisation particularly when made up of small producers.'[20] Several studies confirm this. Murray et al found that numerous Latin American coffee cooperatives were under extensive strain because they were routinely forced to use FT premiums to cover procedural and administrative costs, simply to stay afloat.[21] Similarly, Griffith points to the admission of Fedecocagua, a large Guatemalan FT representative body, who after meeting FT programme costs were left with little if any of the premium to support the field workers themselves.[22]

[19] Krisztina Kis-Katos and Günther G. Schulze, 'Regulation of Child Labour,' *Economic Affairs*, vol. 1, number 3, http://www.iea.org.uk/sites/default/files/in-the-media/files/upldrelease94pdf.pdf (Institute of Economic Affairs: London, 2005, accessed 1 February 2011);
[20] Phillip Booth and Linda Whetstone, 'Half a cheer for Fair Trade', *26th IEA Current Controversies Paper* http://www.iea.org.uk/publications/research/half-a-cheer-for-fair-trade-web-publication (Institute of Economic Affairs: London, 2007, accessed 5 January 2011);
[21] Douglas Murray and Laura Raynolds, 'One cup at a time: poverty alleviation and Fair Trade coffee in Latin America', *Fort Collings: Fair Trade Research Working Group,* http://www.colostate.edu/dept/Sociology/FairTradeResearchGroup/doc/fairtrade.pdf (Colorado State University: Colorado, 2003, accessed 5 February 2011).
[22] Peter Griffiths, *Why Fair Trade Isn't Fair*, http://www.griffithsspeaker.com/Fairtrade/why_fair_trade_isn.htm (accessed 7 February 2011);

FT certification also comes at a cost. For a small group of producers (50 or less) approximately USD $3,000 is required to certify a product in its first year and annual recertification fees upwards of USD $2,000[23] are also payable. This is an unattainable sum of money for poor producers in underdeveloped countries. Simply put, the organisation of such work practices and finances requires substantial initiative and capabilities that are generally beyond the very poor, thereby excluding their participation.

The lack of transparency between cooperative managers and farmers also calls FT into question. Milford examines the efficiency of FT systems and finds 'clear evidence' that memberships are awarded to access a corresponding volume of coffee and not on a basis of need and FT principal.[24] Other problems such as 'free rider effects' and corruption in the management and control of co-ops further distance the FT premium from the very poor worker.

Environmental requirements are also restrictive and fail to follow a systematic approach to poverty alleviation. FLO states '…Genetically Modified Crops are incompatible with Fair Trade.' This ban has been criticised as particularly damaging to the banana industry – the second most valuable FT product with sales of 311,465 million tonnes in 2009[25] – whose product is prone to disease and wherein GMO may be a feasible way of providing reliable banana cops to subsistent developing countries.[26] Bananas contribute to food security throughout the developing world. In East and Central Africa, banana and plantain represent a major source of nutrition and income for smallholder farmers. In Uganda, Burundi and Rwanda annual per capita consumption is estimated at 191 kilos, however, disease such as black sigatoka fungus, wilt and weevils has led to food insecurity in these countries and a resulting

[23] FLO-CERT, http://www.flo-cert.net/flo-cert/main.php?lv=2&p=2 (accessed 1 February 2010);
[24] See: Martin Richardson, 'Fair Trade', *Australian National University (ANU) Working Papers in Economics and Econometrics*, http://cbe.anu.edu.au/research/papers/pdf/wp481.pdf (2007, accessed 7 January 2011) 2;
[25] FLO (2009);
[26] Colleen Haight and David Henderson, 'Fair trade is counterproductive and unfair', *Economic Affairs*, vol. 30, number 1, http://ideas.repec.org/a/bla/ecaffa/v28y2008i3p62-64.html (accessed 17 January 2011);

40 per cent decline in production since the 1970's.[27]

It is hard to see how FT labour and environmental standards can contribute to poverty alleviation. FT entry requirements and preconditions are most often beyond the reach of the very poor – the FT target market. It is more likely that such regulation is based on the western ideals held among civil society about of how the very poor and their livelihoods should be organised. The FT model chooses its participants on the basis of whether they are able to meet FT criteria, not on the basis of need. Unfortunately, these are not standards but restrictions to development.

[27] Association for Strengthening Agricultural, Research in Eastern and Central Africa (ASARECA), *Agro-biodiversity and biotechnology Programme*, http://www.asareca.org/agrobio/index.php?page&as=2 (accessed 15 February 2011).

4. What is the economic case of Fair Trade?

Although well intentioned, FT's interventionist approach to lift prices above market levels ignores market realities and extends the inefficiencies it claims to resolve.

4.1 Coffee - the unfair indicator?

'*The fact that Fair Trade has allowed producers to transform their lives also shows that the current system of trade is not working. The price of coffee didn't plummet in recent years simply due to oversupply: oversupply was created when dozens of countries were forced to move into cash crops as a condition for loans from the World Bank.'*[28]

This FT contention gained momentum following the collapse of the International Coffee Agreement (ICA) in 1989 and the subsequent 70 per cent decline in coffee prices between 1997 and 2001.[29] The United Nations-administered ICA had sought to establish a price floor in the global coffee market using a quota system to limit the amount of coffee that could be exported and in so doing artificially raise the price of coffee in poorer countries.

Since the failure of this price-setting ambition and the ICA's collapse the coffee industry did what a well-functioning market should do when unconstrained by supply-controls – it improved productivity and lowered prices. Viet Nam increased its production from 119,200 metric tonnes (MT) in 1991 to almost ten times that figure in 2008.[30] Brazil's increase in efficiency in the 1990s more than doubled its production output from 1.3 million MT in 1991 to 2.8 million MT in 2008.[31] It is true that oversupply exaggerated the drop in prices, but as a result of the adjustment process following the collapse of ICA efforts to regulate the global market, not because of predatory market forces and free market multilateral conditions.

[28] Fairtrade foundation, http://www.fairtrade.org.uk/SearchResults.aspx?searchterm=strategy+for+poverty+alleviation (accessed 20 January, 2011);
[29] Marc Sidwell, *Unfair Trade*, (Adam Smith Institute: London, 2008) 20;
[30] Food and Agriculture Organisation Statistics (FAOSTAT), http://www.faostate.fao.org (accessed Tuesday 15 February).
[31] Ibid.

An important consideration missed by FT is that the ICA collapse was a direct result of a misguided attempt to manage production and in turn distort prices, efficiency indicators and the incentive to innovate – all of which were detrimental to a strong coffee industry. Despite its operation for over four decades evidence shows that the ICA did nothing to alleviate poverty.[32] FT disregards these economic realities and the ongoing potential that deregulated trade presents for development by arguing for a return to managed trade and by actively applying this philosophy through the FT system.

4.2 Fair or inefficient?

Much like the failed ICA, FT intervention sets a price floor above the market price thereby insulating FT producers from the market and distorting the price setting function – a crucial element to efficient resource allocation. This promotes an inefficient trading system with negative net consequences over and above any short-term gain. This can induce excess production and as a result lower the natural price at the expense of those not privy to FT price supports.[33] [34]

FT price distortions reduce producer incentives for diversification and may result in keeping unproductive industry's in operation and their poor workers in poverty. Dr Paul Collier, has argued extensively (as have others) that by artificially improving trading conditions without a thorough analysis of that industry's potential for long-run development, poor producers may be kept working in an industry which should otherwise be allowed to decline.[35] Sustaining unproductive industries and holding back market forces may indeed inhibit a country's growth potential and the prosperity and welfare of its future generations.

This argument has further implications for market development as any rewards gained from adapting production to fit the FT system may be offset by

[32] Colleen E. H. Berndt, 'Does Fair Trade coffee help the poor? Evidence from Costa Rica and Guatemala', *George Mason University Global Prosperity Project,* http://mercatus.org/sites/default/files/publication/Fair%20Trade%20Coffee.pdf (2007, accessed 17 January 2011) 9-11;
[33] The Economist makes a similar argument see: The Economist, Voting with your trolley, http://www.economist.com/node/8380592 (7 December 2006);
[34] See: Leclair (2002) and Singleton (2005);
[35] See: Booth and Whetstone (2007) & Berndt (2007).

rent-seeking behaviour, resulting in a net loss for producers in general. Assuming a finite supply of certifications – a case documented heavily for a variety of reasons[36] – the FT premium provides incentive for multiple producers to expend resources, which can outweigh its marginal gain.[37] The net-effect here is to protect one area of the market while weakening another.

FT's advocacy of price stability must also come under scrutiny. Despite its 'fixed' minimum price the FT product is not protected from positive demand or supply shocks because the system provides no guarantee of quantities purchased at that price. Either other growers may suffer a greater fall in price, while an isolated few reap the benefits of a price premium, or there will be a relative fall in demand for FT produce because other products traded in the spot market will be available at more competitive prices. Either way, FT doesn't secure producers from the volatility of market prices.

Guaranteeing a minimum price also diminishes the producer incentive to improve quality and innovate – a situation compounded by FT production standards and producer cooperatives (section three) as when a collective of farmers pool their yields, each has little reason to add-value. This disincentive keeps FT farmers isolated from a growing specialty coffee market. Allegro Coffee, a specialty coffee producer, argues that a focus on quality will offer farmers more opportunity:

> 'To get great coffee, you pay the market price. Now in our instance it's a lot more than what the Fair Trade floor prices are. 100 per cent of what we bought was more than $1.41[per kilo]... It's not the FT price; it's much higher.'[38]

Rwanda's specialty coffee industry presents a good case in point of the market potential for developing countries. Importer companies have incentivised production improvements offering higher prices and longer-term contracts to reward quality. These market mechanisms have assisted Rwandan producers to increase their earning capacity. In 2005, regular Rwandan coffee sold for USD $1.30 per kilo while value-added higher-grade coffee received $2.50 per kilo – far in excess of the FT price.[39] Notably, in 2008, Solberg and Hansen, a Norwegian importer of high-quality coffee, bid just under USD $40 per kilo for Rwandan specialty coffee.[40] It is doubtful FT has the capacity to capitalise on this trend or to improve on its economic shortfalls as its standards, pricing system and overarching worldview block entrepreneurialism and the rationale to innovate and add value.

[36] Berndt (2007) 13.
[37] Mike Munger and Russel Roberts, *EconTalk: Fair Trade and Free Trade,* http://www.econtalk.org/archives/2007/12/munger_on_fair.html (2007, accessed 5 January 2011);
[38] Passage quoted in Sidwell (2008) 14.
[39] Mohan (2010) 97;
[40] Karol Boudreaux, *a better brew for success*, http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/rwanda_Coffee.pdf (2007, accessed 20 January 2011);

5. Refocussing the public interest

Free trade is a natural, voluntary interaction of people for mutual benefit. Free trade is simply letting people sell and buy without restrictions. Free Trade is fair trade because voluntary exchange improves economic progress by promoting efficient use of resources and by providing a continuous stimulus for innovative improvements.[41]

FT risks diverting at least some focus away from proven long term strategies for development. Poverty alleviation requires a multi-disciplinary approach by civil society, business and government, this includes: continued efforts to reduce trade barriers and provide greater market access opportunities for the global south; initiatives to foster innovation and economic development so the poor can increase their productive value; and, ensuring that the basic ingredients exist for good governance so transparency can be instilled at each level of the production-chain, and the creation of sound political and legal institutions – in particular property rights – can take effect.

FT has very little chance of achieving such targets due to its limited scope, penetration and the inhibiting nature of its certification standards and agenda. This paper suggests more efficient and systematic mechanisms in the free market system would be more effective than a Northern organisation acting on the whim of its own ethical model.

Eliminating protectionist and market-distorting national agricultural policies by wealthy economies would contribute greatly to the developing world.

These tariffs and farmer subsidies place downward pressure on world prices and therefore the export earnings received by producers in the global south.[42] As well, they inhibit producers from increasing their labour productivity and moving up the production chain.

[41] James Shikwati, *Inter Region Economic Network*, http://www.irenkenya.com/ (accessed 11 February 2011);
[42] Nicholls & Opal (2005).

Recent OECD Producer Support Estimates (PSE), a measure of trade protection as a percentage of gross farm sector receipts in OECD member economy agriculture sectors, confirms this situation. The PSE over the last decade averaged 29 per cent in the EU, 53 per cent in Japan, 20 per cent in Canada and 15 per cent in the US – the average for OECD member economies was 27 per cent.[43]

The problem of agricultural trade protectionism is also true for the developing world. Trading regimes in developing economies make widespread use of non-tariff measures (NTMs), such as import licensing requirements, limits, quotas and lengthy administrative protocols. NTMs inevitably impact the efficiency of domestic markets and inhibit that economy's position as a favourable and competitive global trading partner.

These structural reforms must be addressed and rich countries should show some regard for the diverse impacts their agricultural protectionism can have on increased agricultural production in developing countries.

Similarly, there are more effective labeled choices available to conscientious consumers who have largely mistaken FT as an initiative beneficial to poor countries.

Other coffee certification schemes exist which do not aim to own the production chain, fix and distort prices and set a moral plane upon which 'fair' is determined.

Starbucks' producer sourcing initiative, 'Coffee and Farmer Equity Practices' (otherwise known as C.A.F.E practices), represents a good example of how the market should and *does* respond without the limitations imposed by managed trade agendas.

C.A.F.E is a pro-market initiative; it rewards growers for high-quality premium coffee, incentivised through higher prices.[44] Allegro coffee follows a similar model. It buys premium quality coffee and provides preferable financing arrangements to consistent, quality driven producers.[45] Research into Costa Rican and

[43] Organisation of Economic Cooperation and Development (OECD), Producer Surplus Estimate (PSE) Data, http://www.oecd.org/document/59/0,3746,en_2649_33797_39551355_1_1_1_1,00.html (accessed 9 February 2011);
[44] See: http://www.scscertified.com/retail/rss_starbucks.php;
[45] See: http://www.allegrocoffee.com;

Guatemalan coffee producers found that these companies and others are encouraging the effective business practice required to elicit market driven higher incomes from coffee production.[46]

Notwithstanding the positive contribution that these initiatives and others provide to just causes, it is also important to consider that consumer choice of 'conventional' products is not objectively worse than a preference for those labeled otherwise.

[46] Berndt (2007).

6. Conclusion and recommendations

This analysis suggests the FT movement is more driven by ideological preference to manage trade of small holders then concerns to reduce poverty. FT is incapable of achieving its stated goals. Perhaps unsurprisingly, it finds that development strategies based on free market mechanisms are more effective in targeting and aiding the poor.

The paper presents clear evidence that the Fair Trade system fails in its attempt to target poor producers in the global south and alleviate them from poverty. And it finds that any benefits FT may provide are tempered by a system of requirements that actually impose costs on the poor. These costs stem from an insistence on using western civil society ideals about poverty alleviation to address the real needs of poor producers.

The FT business model also fails to effectively target the poorest countries, focusing instead on producers in middle-income economies. The FT economic model is also flawed; FT's fixed minimum price distorts product markets and props up unproductive industries in economies desperately needing diversification and entrepreneurship.

Despite these shortcomings the FT movement has succeeded in convincing conscientious consumers that its labeled products aid the poor. And by condemning the consumer choice to purchase 'conventional' products or other 'labeled' alternatives, FT diverts the focus away from proven long term development strategies.

This paper identifies a handful of long term development strategies which offer labeled alternatives and have proven to more effectively target and support poor producers in developing economies. Pro-market initiatives in coffee, such as Starbucks 'C.A.F.E Practices,' have successfully nurtured significant income growth, while encouraging entrepreneurship, innovation and quality improvement.
Long term, sustainable development in the global south requires behavioural change from all stakeholders including developed and developing economies, consumers and Fair Trade Organisations.

In light of this, this paper makes a number of recommendations:

- **International Fair Trade Federations** should commission an independent evaluation of the FT system specifically addressing:
    - FT's inadequacies in targeting the poorest countries and producers globally;
    - FT's restrictive and inefficient standards and the costs to poor producers;
    - The FT economic model and its negative impact on global markets and trade.

  Based on the results of this evaluation **Fair Trade Organisations** should re-assess the merits of continued involvement with the FT system.

- **Conscientious Consumers** are urged to reassess their support for the Fair Trade movement. A number of alternative programs exist which have proven to be more effective in targeting the poorest producers and offering realistic incentives to encourage development. These programs rely on market forces rather than the imposition of western civil society ideals to achieve their goals.

- **Developed Economies** must reassess their contribution to sustaining poverty in the global south and work to eliminate protectionist and market-distorting agricultural policies which negatively impact on poor producers in developing economies.

- **Developing Economies** must work to promote trade by undertaking structural reform that improves the efficiency of domestic markets. The widespread use of non-tariff measures must be curtailed and development programs which focus on poverty alleviation, cultural sensitivity, entrepreneurship and free market principles should be prioritised.

Bibliography

Alan Beattie, *'Call for simpler labeling on produce to help poor nations'* (Financial Times, 19 November 2008), http://www.ft.com/cms/s/0/3aaf1312-b5d9-11dd-ab71-0000779fd18c.html#axzz1Dzi8sctT.

Alex Singleton 'The poverty of Fair Trade', (Adam Smith Institute: London, 2005).

Anthony Nicholls & Charlotte Opal, *Fair Trade: Market driven ethical consumption* (SAGE Thousand Oaks: London, 2005).

Association for Strengthening Agricultural, *Research in Eastern and Central Africa (ASARECA),* Agro-biodiversity and biotechnology Programme, http://www.asareca.org/agrobio/index.php?page &as=2.

CIA World Data Book, https://www.cia.gov/library/publications/the-world-factbook/.

Colleen E. H. Berndt, *Does Fair Trade coffee help the poor? Evidence from Costa Rica and Guatemala,* George Mason University Global Prosperity Project (Mercatus Center: Arlington, 2007).

Colleen Haight and David Henderson, 'Fair trade is counterproductive and unfair', *Economic Affairs*, vol. 30, number 1 (Institute of Economic Affairs: London, 2008).

Douglas Murray and Laura Raynolds, 'One cup at a time: poverty alleviation and Fair Trade coffee in Latin America', *Fort Collings: Fair Trade Research Working Group* (Colorado State University: Colorado, 2003).

International Development Committee seventh report of session 2006-07, *Fair trade and development,* vol. 1 (Pro Quest, 2007).

Fair Trade Association Australia and New Zealand, http://www.fta.org.au/about-fairtrade/faqs.

Fair Trade Labelling Organisation (FLO), *'2007 annual report: an inspiration for change'*, http://www.fairtrade.net/fileadmin/user_upload/content/FLO_AR2007_low_res.pdf.

FLO, *'Growing Stronger Together Annual Report 2009-10'*, http://www.fairtrade.net fileadmin/user_upload/content/2009/resources/FLO_Annual-Report2009_komplett_double_web.pdf.

Karol Boudreaux, *a better brew for success*, (Mercatus Center: Arlington, 2007).

Kerry Howley, *Absolution in your cup: the real meaning of Fair Trade coffee*, http://www.reason.com/news/show/33257.html. (2006).

Krisztina Kis-Katos and Günther G. Schulze, *'Regulation of Child Labour,'* Economic Affairs, vol. 1, number 3 (Institute of Economic Affairs: London, 2005).

Lindsay Brink, Grounds for Complaint, (Adam Smith Institute: London, 2004).

Marc Sidwell, *Unfair Trade*, (Adam Smith Institute: London, 2008).

Martin Richardson, 'Fair Trade', *Australian National University (ANU) Working Papers in Economics and Econometrics*, http://cbe.anu.edu.au/research/papers/pdf/wp481.pdf (2007).

Mike Munger and Russel Roberts, EconTalk: Fair Trade and Free Trade, http://www.econtalk.org/archives/2007/12/munger_on_fair.html (2007).

M.S. Leclair, 'Fighting the tide: alternative trade organizations in the era of global free trade', World Development vol. 30, number 6 (2002).

Organisation of Economic Cooperation and Development (OECD), Producer Surplus Estimate (PSE) Data, http://www.oecd.org/document/59/0,3746,en_2649_33797_39551355_1_1_1_1,00.html.

Paul Collier, (2007), *The Bottom Billion: Why The Poorest Countries are Failing and What Can Be Done About It*, Oxford University Press: Oxford, 2007).

Phillip Booth and Linda Whetstone, *'Half a cheer for Fair Trade'*, 26th IEA Current Controversies

Paper (Institute of Economic Affairs: London, 2007).

Sushil Mohan, Fair Trade Without the Froth (Institute of Economic Affairs: London, 2010).

The Economist, *Voting with your trolley*, http://www.economist.com/node/8380592 (7 December 2006).
Tim Harford, *The Undercover Economist,* (Oxford University Press: Oxford, 2005).

World Bank Data, *Gross Domestic Product Indicators,* http://data.worldbank.org/ (2007a).

World Bank Data, *Employment in Agriculture (% of total employment),* http://data.worldbank.org/ (2007b).

WORLD GROWTH

About World Growth

World Growth is a non-governmental organization established with an educational and charitable mission to expand the education, information and other resources available to populations in developing countries to improve their health and economic welfare. At World Growth, we embrace and celebrate the new age of globalization and the power of free trade to eradicate poverty and improve living conditions for people in the developing world. For more information on World Growth, visit www.worldgrowth.org.