

UNFAIR TRADE

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**Adam Smith Institute
London
2008**

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Published in the UK by ASI (Research) Ltd.

ISBN: 1-902737-55-5

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Printed in England.

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Executive Summary

- Fairtrade Fortnight is a marketing exercise intended to maintain the Fairtrade mark's predominance in an increasingly competitive marketplace for ethically-branded products. The hype is necessary, because there is every reason for the shrewd consumer to make other choices.
- Fair trade is unfair. It offers only a very small number of farmers a higher, fixed price for their goods. These higher prices come at the expense of the great majority of farmers, who – unable to qualify for Fairtrade certification – are left even worse off.
- Most of the farmers helped by Fairtrade are in Mexico, a relatively developed country, and not in places like Ethiopia.
- Fair trade does not aid economic development. It operates to keep the poor in their place, sustaining uncompetitive farmers on their land and holding back diversification, mechanization, and moves up the value chain. This denies future generations the chance of a better life.
- Fair trade only helps landowners, not the agricultural labourers who suffer the severest poverty. Indeed, Fairtrade rules deny labourers the opportunity of permanent, full-time employment.
- Four-fifths of the produce sold by Fairtrade-certified farmers ends up in non-Fairtrade goods. At the same time, it is possible that many goods sold as Fairtrade might not actually be Fairtrade at all.
- Just 10% of the premium consumers pay for Fairtrade actually goes to the producer. Retailers pocket the rest.
- The consumer now has a wide variety of ethical alternatives to Fairtrade, many of which represent more effective ways to fight poverty, increase the poor's standard of living and aid economic development.
- Fairtrade arose from the coffee crisis of the 1990s. This was not a free market failure. Governments tried to rig the market through the International Coffee Agreement and subsidized over-plantation with the encouragement of well-meaning but misguided aid agencies. The crash in prices was the inevitable result of this government intervention, but coffee prices have largely recovered since then.
- Free trade is the most effective poverty reduction strategy the world has ever seen. If we really want to aid international development we should abolish barriers to trade in the rich world, and persuade the developing world to do the same. The evidence is clear: fair trade is unfair, but free trade makes you rich.

Definitions

The terminology surrounding 'Fair Trade' can be imprecise, as the phrase is commonly used to describe not only the Fairtrade certification system of the Fairtrade Labelling Organizations International (FLO International), but also all generic attempts to make global trade serve poor farmers and poor countries better, including other labelling schemes.

This report, here agreeing with FLO International and the Fairtrade Foundation, draws a clear line separating Fair Trade proponents and Fairtrade products from other ethical labelling schemes and charitable initiatives aimed at helping poor farmers.

The Rainforest Alliance mark and other charitable alternatives to purchasing Fairtrade products are grouped together as 'Development Assistance'.

Fair Trade:

The Fair Trade movement believes that free trade harms the poor. Trade terms, it is argued, are being set by the richer trading nations and are therefore unfair. Fundamental reform of the international trading system is necessary, including some or all of the following: globally-enforced standards on working conditions; the creation of special tariffs to protect developing economies; and trading agreements (cartels, such as the defunct International Coffee Agreement) that will set national export quotas for global commodities. The Trade Justice Movement, of which the Fairtrade Foundation is a member, exemplifies this world view.¹

The Fair Trade movement includes a number of organizations that encourage the sale of retail Fair Trade goods for which the producer receives guaranteed, Fair Trade terms. For instance, FINE is an initiative bringing together FLO International (responsible for Fairtrade), IFAT (International Fair Trade Association), NEWS! (Network of European Worldshops) and EFTA (European Fair Trade Association).

Fairtrade:

The International Fairtrade Certification Mark was adopted by FLO International in 2002 to unify a number of different labelling schemes for selling retail Fair Trade products worldwide. The mark's standards are set by FLO International, a worldwide network of national Fair Trade organizations. Certification and inspection are performed by FLO-CERT, an independent body created by FLO International.²

¹ www.tjm.org.uk

² www.fairtrade.net; www.flo-cert.net

There are three FLO International members that have not yet adopted the International Fairtrade Certification Mark. These are: Transfair USA, TransFair Canada and Max Havelaar Switzerland. However, their 'Fair Trade Certified' logos represent the same guarantee.

All these marks are licensed for use on products that are judged to have met the same standards in the treatment of producers, derived from the Fair Trade philosophy, including requiring them to form cooperatives and also offering a fixed lowest price for their goods. The mark is not a certification of the company selling the product.

The UK body responsible for the promotion and licensing of Fairtrade-certified products is the Fairtrade Foundation. Formed in 1992 by a coalition of charities, including Christian Aid and Oxfam, the Fairtrade Foundation is a member of FLO International, a registered charity and a registered company.³

Free Trade:

Free trade relies on free individuals voluntarily seizing market opportunities, rather than attempting to manage production and restrict the marketplace. In contrast to Fair Trade, free trade relies on the absence of the price-fixing arrangements and tariff barriers that restrict international trade.

Free trade and Fair Trade groups do agree that richer nations should remove their existing agricultural tariffs (although they differ in their assessment of the scale of economic benefit this will bring to poorer countries). However, free trade proponents also seek to open up the economies of poor countries so that their citizens can participate in the world economy; Fair Trade proponents seek special protectionist measures for the poor to isolate them from the world economy.

Development Assistance:

For those who wish to promote economic growth in the world's poorest countries, so that the poor can escape their poverty, there are many charitable options that eschew the Fair Trade philosophy. These include those alternative labelling schemes not concerned purely with environmental questions, and also more direct forms of giving. Sometimes placed under the Fair Trade umbrella, these are better understood as forms of development assistance.

³ www.fairtrade.org.uk

1. Introduction

CORE PROPOSITION FOR 2008: Feel good by changing your choices, and changing people's lives.

Fairtrade Fortnight 2008: Commercial Briefing⁴

Fairtrade Fortnight is the annual campaign to raise awareness and promote products carrying the FAIRTRADE Mark. Every year campaigners around the country organise thousands of events such as breakfasts, banquets, fashion shows and football matches – all using or promoting Fairtrade items. By encouraging our communities to make small changes and buy Fairtrade products regularly we can trigger a positive change in the lives of producers.

Methodist Relief and Development Fund website⁵

Fairtrade Fortnight is becoming a national fixture, like Red Nose Day or Children in Need.

Unlike those events, however, Fairtrade Fortnight claims to be about trade, not aid – an alternative to charity for the developing world. Choosing to buy products that guarantee a 'fair price' to the producer is presented as only giving poor farmers their due, allowing them to earn the sustainable living that our exploitative trade practises had previously made impossible.

Yet is this true? A thoughtful sceptic must ask: why are these farmers poor? Is it really our fault? Moreover, is a fixed price actually the best way to help them? Does sustaining farmers on the land sound like a good strategy for economic development in the global south?

Hard questions are not on the programme for Fairtrade Fortnight. Rather than being encouraged to investigate the claims of Fairtrade advocates, schools, universities, places of worship, even 'Fairtrade towns' are encouraged to join in, quite uncritically, and help sell Fairtrade products.

Here is another striking difference from the fundraising events we are familiar with. In the Fairtrade Foundation's own words, Fairtrade Fortnight is 'a massive nationwide effort to promote awareness and sales of Fairtrade products'. The volunteer-run events aim to increase the sale of goods that bear a licensed mark; in other words, it is about selling a brand. Fairtrade Fortnight is an interactive advertising campaign for Fairtrade goods, repackaged to resemble a fundraising marathon.⁶

⁴ Fairtrade Foundation, p. 6.

⁵ www.mrdf.org.uk/assets/downloads/Resource%20Room/2008%20Church%20Guide%20Insert.pdf

⁶ *Fairtrade Fortnight 2008: Commercial Briefing*, Fairtrade Foundation, p. 1.

Yet Fairtrade is one particular mode of ethical certification, quite aggressively competing with alternative schemes with their own merits and demerits, such as the Rainforest Alliance. It also competes with other forms of charitable giving.

Fairtrade does not have the marketplace to itself and it surely deserves to be set in some context. Indeed the Parliamentary International Development Committee took the same line in its 2007 report.⁷

Instead, where in other circumstances we are highly suspicious of brands intruding into our schools and of advertisers manipulating our judgements, our suspicion has been suspended when it comes to Fairtrade.

Lesson plans such as 'The Advanced Banana Role Play Game' (suitable for Citizenship, PHSE, General Studies and Economics, ages 16 and up) are promoted with the explicit blessing of the Department of Education and teachers are helpfully warned that, 'with more and more companies making fair trade claims, buying products with the FAIRTRADE Mark is the only way to be sure an item is FAIRTRADE certified'.⁸

A typical assembly pack for Key Stage 2 and 3 (ages 7-14) seems designed to indoctrinate the young, rather than to encourage thought.

Explain that more and more people are keen to support Fairtrade because it really makes a difference to the lives of the people who grow or make the goods we consume.⁹

Even assuming Fairtrade goods are all they claim to be, their merit would still deserve to be weighed against the rival schemes or against the possibility that the money might be better spent in other ways. Yet the moral packaging appears to overcome our educational guardians. Fairtrade Fortnight gets a free pass.

Some wariness toward Fairtrade claims is surely not unreasonable, if only because of the rapidity with which the brand has taken off in the United Kingdom. As of 2005, we possessed the fastest growing Fair Trade market in the world and the largest Fairtrade market in Europe. Retail sales for Fairtrade were expected to be 46% higher in 2006 than 2005, and volume of Fairtrade sales rose by more than 60% over the same period.¹⁰

⁷ See *Fair Trade and Development*, June 2007, House of Commons International Development Committee, Recommendations 1. and 22., pp. 38 and 41.

'There are many other credible certification schemes with social and environmental objectives. Consumers should be given sufficient, and easily accessible, information about products made available under these schemes to enable them to make informed choices.'

⁸ *Fairtrade in Your School*, April 2005, Fairtrade Foundation, p. 5.

⁹ *Ibid*, p. 8.

¹⁰ *Fair Trade in Europe 2005*, pp. 67-8, www.fairtrade.net/fileadmin/user_upload/content/FairTradeinEurope2005.pdf; *Annual Report and Financial Statements 2006*, Fairtrade Foundation, p.3.

Such explosive growth in the sector runs far ahead of our ability to assess any unintended consequences or the nature of any benefits provided by Fairtrade. As a Swiss study from 2007 observes, "Research has only recently started to analyse whether Fair Trade indeed lives up to its many expectations." In the meantime, Fairtrade's proponents are content to argue to its customers on the basis of anecdotal evidence, which also conveniently conceals the small scale of its overall achievements:

Continuing with poster copy style showing Fairtrade is credible because it has a direct impact, using actual case studies of farmers and producer groups. Consumers reported they find this emotionally motivating, encouraging them to purchase products for the long-term.¹¹

Smiling photos may improve turnover, but they cannot speak for the overall effectiveness of Fairtrade certification as a means of poverty relief. As we will see later, Fairtrade supporters seems to be less than impressive when it comes to providing up to the minute research to support their campaigns.

We all need to look at the evidence and appreciate the awkward truth it reveals: Fair Trade is unfair.

¹¹ *Assessing the Potential of Fair Trade for Poverty Reduction and Conflict Prevention: A Case Study of Bolivian Coffee Producers*, Imhof and Lee, 2007, Preface, p.1; *Fairtrade Fortnight 2008: Commercial Briefing*, Fairtrade Foundation, p. 6.

2. Fairtrade: seeking a moral monopoly

The rise in ethical labels demonstrates that both retailers and consumers are interested in ethical sourcing. It is important that fair trade organisations do not assume they have a monopoly on this...
House of Commons International Development Committee, 2007¹²

'[I]t's so important that we have one open and rigorous system. If people really want to help, then they should buy Fairtrade'
Harriet Lamb, Director of the Fairtrade Foundation¹³

Fairtrade promotes itself in Britain as the only ethical labelling system worth considering. That attitude is plain in their director's new book, quoted above and published in 2008, but it seems to be a longstanding position.

The Fairtrade insistence that it does not oversee a system of charitable transfer helps to maintain the moral pressure on consumers (fair-dealing is compulsory for honourable people; charity is only voluntary) but it is hard to identify the difference between a direct charitable payment to a coffee community and the extra income provided by Fairtrade. Given the relative inefficiencies of obtaining money by maintaining an international certification scheme, the main difference would seem to be that direct charitable transfers would be far larger. In any case, the essential concern is that the Fairtrade Foundation discourages individuals from even exploring other options, which may well be more effective. It is little surprise that the International Development Committee issued its rebuke against monopolistic assumptions.

Where is the evidence?

The Fairtrade Foundation website reveals that little original research has been produced on the merits and effectiveness of the Fairtrade approach to fighting poverty. Indeed, what research there is appears to be somewhat out-of-date. Given the ever-changing nature of global markets, this may create a misleading impression.

As Philip Booth and Linda Whetstone point out in *Half a Cheer for Fair Trade*, the 1997/2002 coffee report, *Spilling the Beans*, is particularly guilty of this:

¹² *Fair Trade and Development*, June 2007, Recommendation 1., p. 38. See also Recommendation 22., p. 41.

¹³ *Fighting the Banana Wars*, 2008, Rider Books, p. 134, quoting John Kanjagaile.

[M]any of the arguments within the paper have been completely undermined by developments within the market since that time.¹⁴

Instead of hard evidence, Fairtrade advocates usually rely on anecdotes of farmers happy to be part of Fairtrade – perhaps a tacit admission that statistics would be too revealing. These stories may be persuasive and emotionally appealing to the unguarded public, but they do not answer the very real questions about the effectiveness of the Fairtrade model.¹⁵

A question of trust

The continuing expansion of the Fairtrade Mark in the UK rests on public trust in the Fairtrade idea. Yet on closer examination, the concept's positive image appears to rely more on public relations than research.

There are a number of awkward facts about Fairtrade that the public will not easily discover from Fairtrade publicity.

- *Fairtrade makes some farmers worse off*

As the Mexican example shows, even where Fairtrade can improve conditions locally for some farmers, it will impose a high cost on others who may be even more deserving. Fairtrade must pick among farmers on the basis of whether they are able to bring a buyer to the table and whether they meet Fairtrade standards, not on the basis of need. They must exclude some equally deserving cases. And those who fall outside the Fairtrade regime may then find themselves worse off thanks to Fairtrade, either through international competition, or because Fairtrade segments the market, creating a parallel 'exploitation coffee' sector, as the economist Tyler Cowen has suggested, or because protection of one area of the market weakens the position of the rest, as Philip Booth has argued.

What happens if there is adjustment to world supply or demand and prices in one part of the market are fixed? Prices in other parts of the market must fall by more – others suffer. What happens to employees of large producers when fair trade consumption shifts away from them towards small producers? They may have no alternative employment.¹⁶

- *Mexico is the biggest Fairtrade producer*

According to some estimates, Mexico produces 25% of Fairtrade coffee. Mexico has the largest number of Fairtrade certified producer organisations

¹⁴ Booth and Whetstone (2007), p. 7.

¹⁵ For an instance of this form of argument, see Lamb (2008), p. 114, where she lays out some of the large-scale charges made by Fairtrade's critics, and then answers with an anecdote from one Fairtrade producer, 'But Merling is unequivocal: Fairtrade has changed the lives of the farmers in her cooperative'.

¹⁶ 'Who benefits from fair trade?', Marginal Revolution blog, 20/12/05; 'Is Trade Justice Just? Is Fair Trade Fair?', summary of a 'Churches Together' talk, 25/4/05.

in the world: fifty-one. The whole of India has just forty-nine; South Africa has thirty-eight; Colombia has thirty-four. Most of the subsistence economies that people think of as central to Fairtrade have far, far fewer. Burundi has no Fairtrade certified producers; Ethiopia has four; Rwanda has ten. In Ethiopia, 80% of the population work in agriculture, with an average income of \$700 a year. In Mexico, 18% work in the fields, and the average salary is \$9000. In practice, then, Fairtrade pays to support relatively wealthy Mexican coffee farmers at the expense of poorer nations.¹⁷

- *Most Fairtrade-certified crops are not in Fairtrade products*

For a producer, Fairtrade certification guarantees a fixed Fairtrade price, but not the proportion of any crop that will be bought at Fairtrade prices. It is hard to know exactly how little Fairtrade-certified produce is sold for Fairtrade prices, but FLO International estimate just 20%. Harriet Lamb refers to a producer who is glad to see it reach 15%, having at one time only sold 5% of his crop at Fairtrade prices.¹⁸

Since most Fairtrade crops are not sold at Fairtrade prices, the price-fixing regime is far less generous than it sounds, especially as farms must make expensive adjustments to all their working practices and pay certification fees just to qualify. Fairtrade also becomes a worse deal for the consumer, as farmers can sell their best beans on the free market and collect the fixed Fairtrade rate for their worst produce.

- *Just 10% of the premium paid for Fairtrade coffee reaches the producer.*¹⁹

While it may still be true that the money reaching a farming cooperative via Fairtrade will be significant to them, Fairtrade is an inefficient way to transfer money, with 90% of the premium paid going to retailers. Given that the consumer very likely pays the large Fairtrade premium on the understanding that it is a direct charitable contribution, they would be willing to send far more to poor farmers than farmers receive through the Fairtrade certification process. The Fairtrade tendency to discourage individuals from donating directly to charities arguably draws them away from the most efficient way to give, in favour of Fairtrade, losing the producers money.

- *Fairtrade is irrelevant*

Sales of Fair Trade coffee do not make up more than five percent of the coffee market in any consuming country.²⁰

In the Fairtrade literature, the emphasis is on their extraordinary rate of growth, with sales growing forty per cent year on year. Yet these increases

¹⁷ 'Is Fairtrade coffee a good idea?', Alex Singleton, Globalisation Institute blog, 17/1/2005; *Shaping Global Partnerships*, FLO International Annual Report 2006/07, p. 14.

¹⁸ *Shaping Global Partnerships*, FLO International Annual Report 2006/07, p. 12; Lamb (2008), p. 134.

¹⁹ 'Voting with your trolley', *Economist*, 7/12/06.

²⁰ *Does Fair Trade Coffee Help the Poor?*, Colleen Berndt, June 2007, Mercatus Center, p. 5.

are taking place from such a low base that the market share continues to remain irrelevant to large scale poverty relief. We can see this in another way by observing how Fairtrade is rapidly diversifying into new product lines. This is because it is much easier to take a small proportion of sales in many different kinds of produce than to seriously increase market share in one. Fairtrade bananas, one of Fairtrade's greatest success stories, account for just one in every five bananas sold in the UK. However, in the process of diversifying, any negative consequences of Fairtrade will be multiplied across many different kinds of producer, without resolving the problem that Fairtrade cannot be a large scale answer to producer poverty. In fact, the alternative labelling schemes such as the Rainforest Alliance may well do more good simply because they are adopted by large corporations and are put into effect on a much wider basis.

- *The Fair Trade movement has a political agenda*

At times, the wider Fair Trade movement admit that retail Fairtrade is not intended to be the answer to poverty it is commonly understood as, but the softening-up exercise to a sweeping alteration in the rules of global commerce and the attempted control and management of production and trade.

Fairtrade turns the fact that we all go shopping into a new tactic for us to act together to tell those who run trade, that we not only don't like the way they do it at the moment, but we want them to back a fairer alternative.

Fairtrade also plays a more practical role in building a broad-based movement for change... Fairtrade is an easy way in... It helps give our governments a mandate to take the big, bold steps needed to change world trade rules.²¹

Do most consumers realize that the real value of their Fairtrade purchase is considered to lie in the weight it adds to a campaign to radically remake the international economic order? Surely not. In fact, even economists sometimes point to Fairtrade as an example of voluntary market exchange that should not be gainsaid by free trade enthusiasts. Like most consumers, they do not recognise the antipathy to free market principles that lies beneath the consumer friendly packaging.

Conclusion

The Fair Trade movement undoubtedly means well, and its supporters truly believe that buying Fairtrade products helps to reduce developing world poverty. Unfortunately, closer investigation reveals that this is not the case. On a dispassionate analysis, it is hard to conclude that Fairtrade does much good and, indeed, it may even do some harm. Certainly, were the Fair Trade movement to realize its broader political objectives, the cause of international development would be severely compromised – an issue the next two chapters take further. Consumers surely deserve to know these awkward truths, so that that they can make genuinely informed decisions in the goods they buy and the charities they support.

²¹ Lamb (2008), pp. 42-3, 111.

3. 'Fair' Trade: discriminating against success

"Fair Trade directs itself to organizations and regions where there is a degree of marginality... we're talking about unfavorable climates [for coffee production] ... regions which are not competitive."

Eliecer Ureña Prado, Dean of the School of Agricultural Economics, Universidad de Costa Rica²²

[I]t has become clear that international fair trade sales are not and will not become a panacea, even for coffee growers. [...] Mexican civil society groups and organized producer groups came to realize that even with enormous growth, fair trade exports could never constitute a major development solution in and of themselves.

Jaffee, Kloppenburg and Monroy, 2004²³

The Fairtrade system, despite its well-meaning intentions, cannot lift poor farmers out of poverty. At best, it makes some slightly less poor at the expense of others while drawing energy away from the possibility of genuine economic development.

The Fairtrade model fails because it is profoundly unfair: it rewards inefficient farmers who produce poor quality goods. The Fairtrade model assumes that poor farmers must always remain farmers, and it seeks to subsidize their agrarian niche, denying them the possibility of dreams of a better life.

By guaranteeing prices, the Fairtrade movement tries to hold back the tide. Instead of helping unsustainable farming communities to develop new sources of income, they encourage them to continue in the old ways. According to Oxfam, in the time it takes five hundred people in Guatemala to fill a large container with coffee, the same amount of coffee can be picked in Brazil by five people and a mechanical harvester. Fairtrade supports inefficient, labour-intensive cooperatives in a battle they can never win, trapping them in their poverty.²⁴

Imhof and Lee (2007) note blandly that, "Fair Trade-sponsored organic production helps generate sufficient additional income and labour opportunities, allowing more family members to stay in coffee production." Yet as the documentary film *The Bitter Aftertaste* makes clear, these additional labour opportunities are incredibly inefficient, and by resisting mechanisation

²² Berndt (2007), p. 18.

²³ 'Bringing the "Moral Charge" Home', *Rural Sociology*, Vol. 69, No. 2, June 2004, pp. 169-196 (184).

²⁴ *Mugged: Poverty in your coffee cup*, Oxfam International, 2002, p.18.

can conflict with national plans for economic development. No country has ever become rich while remaining agrarian. Fair Trade keeps farming families working the land: it refuses to consider that they might wish the next generation to do better than the last.²⁵

The standard Fairtrade reply to this criticism is that there are simply no other options for small farmers: they must keep producing the same crops. That seems an oddly defeatist attitude for a charity that prides itself on fighting battles against the odds. To imagine how the creative energy that went into pursuing Fairtrade certification might have stimulated diversification is to see that much could have been done. Indeed, the charities that are now supporting entrepreneurial activity within the developing world – microfinance and microfranchise initiatives and direct funding websites such as *www.kiva.org* – present far more tempting options for those wishing to support development assistance than Fairtrade.

Even if we deny the possibility of diversification, it should have been possible to work with farmers to increase their income by promoting greater efficiency, by improving the quality of their coffee or by encouraging them to move up the value chain and process their produce themselves. Technoserve is working with coffee farmers in East Africa in exactly this way.

But as we have seen, improving efficiency is not a Fairtrade priority. And the Fairtrade requirements also militate against improving quality or moving into higher value processing.

This is especially unfortunate in the case of quality, since gourmet coffees continue to command high prices, often higher than Fairtrade prices. Jeff Teter, the president of Allegro Coffee, argues that market incentives and a focus on quality offer farmers a better deal:

“To get great quality coffee, you pay the market price. Now in our instance, it’s a lot more than what the FT [Fairtrade] floor prices are. One hundred percent of what we bought was more than \$1.41. . . . It’s not the FT price; it’s much higher.”²⁶

Rwanda’s speciality coffee was trading at \$2.25 a pound in 2006, approximately 80% above the guaranteed Fairtrade price. Speciality prices also seem likely to be more reliable than the Fairtrade premium, since they are not at risk from compassion fatigue or the possibility that the current fashion for Fairtrade will fade as rapidly as it has arrived.²⁷

From the start, Fairtrade products had a reputation for poor quality: ‘crap chocolate wrapped in cardboard’, is a Harriet Lamb phrase. Although today there are a number of gourmet Fairtrade products, quality remains a secondary issue. The Fairtrade system resists improvement primarily because it rewards farmers whose produce is not competitive in quality. Fixing prices for only part of a farm’s output also means the best of the crop may be kept

²⁵ Imhof and Lee (2007), p. 13; www.worldwrite.org.uk/bitter/bb256.htm

²⁶ Berndt (2007), p. 29.

²⁷ Booth and Whetstone (2007), p. 9.

back to sell on the open market. Finally, because the cooperative system blends together the produce of several farms, individual responsibility for quality improvements is discouraged. Although the packaging has improved, Fairtrade is not a reliable mark of delicious coffee or food.²⁸

Because the Fairtrade system was designed to pay a guaranteed price for unprocessed crops, any efforts to improve the lot of producers through encouraging them to take on processing roles can again only be an afterthought. Here, as in many other areas, a better option is to turn to an alternative supplier, such as Café Britt, which set out from the beginning to roast its coffee in the region where the beans are grown.²⁹

Even once we accept the variable quality and the constrained ambition that accompany Fairtrade certification, the system presents further levels of injustice.

Shutting out the poorest

The impression given by those who promote Fairtrade products is that they are designed to help the poorest. In reality, this is not the case. We have already seen that Mexico is the largest Fairtrade coffee exporter. Colleen Berndt observes that the poorest in the coffee industry are casual labourers, not small landowners.

The small landowner is not the poorest segment of the coffee production line. In Costa Rica, coffee, like many other agricultural products, is hand picked by undocumented workers from neighboring Nicaragua, Panama and Colombia. In Guatemala, typically the indigenous Mayan population makes up the preponderance of the seasonal labor. These workers are not wealthy enough to own land of their own, making them the poorest segment of the industry. Because Fair Trade is targeted at the small landowner, it is missing the neediest people in the industry.³⁰

Fairtrade not only disregards the poorest, it makes their condition worse by requiring that certified farms do not hire permanent full-time employees, reducing hired labour opportunities to infrequent seasonal work where wage levels are hard to monitor and may be illegally low. In 2007, the International Development Committee officially declared, "fair trade could have a deeper impact if it were to target more consciously the poorest of the poor." Yet it is not easy to see how the Fairtrade model could be adapted to serve the very poorest. By its very design, it excludes the truly poor.³¹

²⁸ Lamb (2008), p. 41; Berndt (2007), p. 17 ('Roasters acknowledge that the quality of Fair Trade coffee, while usually better than exchange grade, is often not as high as they might like').

²⁹ www.cafebritt.com

³⁰ Colleen Berndt, www.cberndt.com/Research.htm

³¹ *Fair Trade and Development*, p. 3.

Corruption

The Fairtrade system is open to abuse in a number of ways. This is a serious matter since it operates in countries which often already have high levels of corruption. It is also serious for a brand that relies on a reputation for bringing honest dealing to an allegedly corrupted industry.

Unfortunately, by offering high prices for goods if they have been produced under certain conditions which make no detectable difference to the goods themselves, FLO International presents an open target for cheats. Coffee beans that have been grown under non-Fairtrade conditions can be passed off as Fairtrade.

While FLO-CERT works hard to inspect its certified farms, the space for misrepresentation clearly remains large. In 2006, Hal Weitzman gave the *Financial Times* a shocking glimpse at how Fairtrade farms are sometimes run in practice, as against the optimistic theory. Working in Peru, Weitzman found that labourers (the poorest of the poor) were being paid less than the legal minimum wage.

A number of industry insiders also claimed that coffee from uncertified sources was regularly exported as Fairtrade. One said that of ten mills he visited in a year, all had sold uncertified coffee as certified. We have already seen that most of the produce grown in Fairtrade conditions is not in Fairtrade products. It now becomes clear that Fairtrade products themselves may not have been grown under Fairtrade conditions.

Environmental laws were also breached. A Canadian NGO found that one-fifth of the coffee on one Fairtrade-certified association was planted in protected virgin rainforest.³²

Risk

Fairtrade price-fixing does help insure small farmers against price fluctuations. However, belonging to the Fairtrade family introduces farmers to novel risks.

In the last several years Fairtrade sales have increased enormously. Yet the risk of compassion fatigue or of the public discovering a more effective form of charitable giving and diverting their Fairtrade spending accordingly remains. To say that 'Green has become the new Black' is to acknowledge that Fairtrade sales are currently riding on a wave of fashion. It is, of course, in the nature of fashion to change rapidly.

Farmers who have been promised long-term contracts and sustainable prices may be unprepared to cope if Fairtrade's stock suddenly falls in the public eye. The instability of a licensing mark that trades so heavily on a trustworthy

³² 'Bitter cost of 'fair trade' coffee', *Financial Times*, 9/9/06; 'Ethical-coffee' workers paid below legal minimum', *Financial Times*, 9/9/06; 'Trading on Fairness', *Financial Times*, 12/9/06.

reputation is real. The immediate risk of a global economic downturn also presents the prospect of wealthy westerners choosing to cut back on premium, Fairtrade products.

Fixing the price of goods is always a financially risky endeavour. In Bangladesh, the protection afforded to the jute industry ultimately ended in collapse. Those farms that choose to take part in Fairtrade may not appreciate that they are being asked to take on similar risks.

Fairtrade fails the poor

In the words of Daniel Jaffee, “Fairtrade [...] does not bring the majority of participants out of poverty.” The proponents of Fairtrade may argue that getting a better price for a small fraction of unprocessed poor-quality crops and thereby sustaining small farmers in their poverty is the best that can be done for them. This is to ignore the harm that such subsidies may visit on those outside the Fairtrade net, including the very poorest. It is also to sidestep the corruption and new forms of risk to which the system exposes participants. By incentivising unsustainable agricultural practises, Fairtrade encourages oversupply where it will do most damage: among marginal producers, who should be helped to diversify and develop economically, not subsidized to stay poor.³³

³³ *Brewing Justice: Fair Trade Coffee, Sustainability and Survival*, Daniel Jaffee, 2007.

4. Free trade is fair trade

'When a retailer participates in the Fair Trade Movement, essentially, this is the message that he communicates to his customers: 'Some of our products are 'Fair Trade' and all the rest are based on the exploitation of peasants by an unjust and exploitative economic system.' And that is simply untrue, deceptive, and unfair to the vast majority of producers who are working just as hard in the market economy to satisfy the requirements of their customers by producing the best product possible at the best price possible.'

Philip Sansone, President, Whole Planet Foundation³⁴

Free trade and markets have lifted more people out of poverty than all the fashionable political movements loaded with good intentions but pernicious consequences.

Michael Miller, Acton Institute³⁵

We have to reaffirm unambiguously that open markets are the best engine we know of to lift living standards and build shared prosperity.

Bill Clinton, speech at the World Economic Forum, 2000

It is possible to have a vision for the poor in which they escape their poverty. India and China are currently lifting people out of poverty at an entirely unprecedented rate. As the economics editor of the Sunday Times, David Smith, observes in his 2007 book, *The Dragon and the Elephant*, "The rise of China and India is [...] the most effective anti-poverty programme the world has ever seen."³⁶

China and India are succeeding because they are revolutionising their agriculture and embracing free markets after decades committed to well-meaning economic theories that were in practice devastating. They are a reminder that economic development is possible for countries that seem intractably poor, and that it can occur at great speed.

At the end of the Second World War, Hong Kong was poorer than many African countries. Advocates of 'fair' trade argued for boycotts of items produced in Hong Kong 'sweatshops'. Yet by working with the free market – abandoning tariffs and resisting regulation – Hong Kong's economy soon outstripped not just the African economies it once lagged behind, but overtook the UK within thirty years.

³⁴ Berndt (2007), p. 29.

³⁵ 'Does Fair Trade Help the Poor?', Acton Commentary, 31/10/07.

³⁶ *The Dragon and the Elephant: China, India and the New World Order*, David Smith, 2007, Profile, p. 238.

At the same time, some African countries have actually become poorer. An important part of the reason why they did not keep pace with Hong Kong is that they adopted diametrically opposed attitudes to international trade. Poor countries are by and large those that ring fence their economies with tariffs and where over-regulation makes it almost impossible to start and run a business. Thanks in part to protectionism and heavy regulation, they also suffer from high levels of corruption. Any scheme for the control of trade provides opportunities for bribery and graft, and Customs officials, the front line of economic protection, are among the worst offenders. In one African country, the bribe merely to train as a customs officer was ten times the average national income.

When trying to understand why some poor countries have stayed poor, we must look to their rulers' resistance toward free trade and their rulers' restrictive attitudes toward entrepreneurs. Kenya, Nigeria and Ethiopia operate some of the most protectionist economies in the world. While according to the World Bank the USA has the Ease of Doing Business Rank of 3 and the UK is only slightly less impressive with its rank of 6, Vietnam comes in at 91, Nicaragua 93 and Brazil 122. Guatemala and Costa Rica provide very little protection for investors, impose high taxes on business and have low levels of contract enforcement and lengthy licensing processes. These are countries where the time and the money required to set up and run a business have been made prohibitive.³⁷

It is true that developed nations have tariffs of their own, which prevent poor countries from accessing their markets. These are a disgrace to the rich world, and should be dropped.

Rich nation protectionism often makes it difficult for developing world producers to move higher up the value chain, as tariffs may be placed on processed goods but not the original crop. So, for instance, 90% of cocoa is produced in the developing world, but only 4% of chocolate. This should end, and not only out of charity: European and American consumers would benefit from lower prices as a consequence.³⁸

Yet while free trade and Fair Trade campaigners should be able to unite on this issue, the Fair Trade movement is torn by its fundamental belief in agricultural subsidy. Harriet Lamb reveals that the Fairtrade Foundation only turned down the opportunity to work with the Soil Association in the UK with reluctance, and her ambivalence on the question is clear:

[T]he Foundation appreciates all that is shared in the positions of farmers here and overseas; and welcomes other organisations supporting British farmers' demands for fairer prices [...] we ourselves are keeping our focus on tackling poverty in developing countries.³⁹

³⁷ 'Philip Booth speaks on Free Trade and Fair Trade: A Four Minute Defence of Free Trade', Philip Booth, 14/3/07; www.doingbusiness.org.

³⁸ Booth and Whetstone (2007), p. 12.

³⁹ Lamb (2008), p. 173.

Put simply, tariffs everywhere should be reduced. The evidence is clear: free trade works. Developing countries that significantly lowered their trade barriers in the 1990s grew three times more quickly than those who did not. If we want to understand what keeps poor countries poor, the answer is not unfair trade terms imposed by big business and richer nations, nor is it solely developed world tariffs, but the resistance to free trade by their own leaders.⁴⁰

Believers in Fair Trade respond that even if this is true, free trade's successes do not reach down to the poor. Yet in reality economic development through free market reform actively favours the poor. Because free markets reduce prices while improving quality, they serve the interests of the poor consumer. Poor nations that open their markets and pursue economic development grow at much faster rates than developed economies, for the latter have already introduced the changes that make the most difference – explaining how Hong Kong could overtake the UK economically despite our head start. Moreover, within nations, economic growth improves life for the poor at least as much as the rest of the population, if not more so. A famous paper produced by the World Bank in 2002 called *Growth is Good for the Poor* finds that growth benefits the poorest fifth of society as much as the rest and notes some suggestion that reducing the size of government and stabilizing inflation benefits the poor even more than the rest.⁴¹

How, given the weight of evidence against it, has Fair Trade gained such traction? The movement dates back at least to the 1960s, but only began gaining momentum in the unique circumstances following the collapse of the International Coffee Agreement (ICA) in 1989. This was a very difficult time for producers, with prices falling 70% between 1997 and 2001. At the same time, the consumer revolution in coffee saw prices in coffee shops double or treble. It was in this context that Fairtrade was able to portray itself as saving farmers from the cruelty of free trade, and it is by reference to the ICA that the Fair Trade movement now argues for a return to export quotas and the heavy regulation of trade.⁴²

However, the extremity of the coffee crisis was produced by the attempt to manage production through the ICA, distorting price signals with regard to efficiency and quality, and also by the overplanting of coffee in the mid-1990s subsidized by misguided economic planners and aid agencies. It was not a free market failure.

Activists argue the cartel could have been sustained, propping up price levels 20% above the market rate. But such a gap between price and reality was bound to suffer a heavy correction, just as Bangladesh found by attempting to maintain jute prices. Alan Beattie, world trade editor of the *Financial Times*, observed in 2007 that for coffee this seems especially naïve:

⁴⁰ 'Philip Booth speaks on Free Trade and Fair Trade: A Four Minute Defence of Free Trade', Philip Booth, 14/3/07.

⁴¹ 'Growth is Good for the Poor', Dollar and Kraay, 2002, World Bank.

⁴² *From Bean to Cup: how coffee choice impacts upon coffee producers and the environment*, 2005, Consumers International, p. 6; *Grounds for Complaint? 'Fair trade; and the coffee crisis'*, Brink Lindsey, 2004, Cato Institute, p. 8.

It is hard enough holding together a cartel like Opec, where countries either have the commodity or they don't. Trying to support a global price in a commodity where production can be expanded rapidly almost always fails. The previous coffee cartel, along with a whole bunch of similar commodity arrangements in decades gone past, collapsed precisely for that reason.⁴³

Even if the ICA could somehow have been held in place, the Fair Trade movement makes the error (which they repeat in their own licensing system) of confusing higher prices on world markets with more money reaching the poor. In fact, as must be expected from a complex bureaucratic intervention, governments profited from the arrangement while economic analysis suggests that coffee farmers received below market prices while quotas were in effect. The ICA had no effect on poverty reduction at all.⁴⁴

Finally, the point which Fair Trade disciples are most reluctant to concede is that after some terrible years, the market price began to recover. The spot price of Arabica coffee was equal to the Fairtrade price for much of 2005, and the difference is generally within 5%. This is an enormous change, yet the Fair Trade movement is unwilling to acknowledge that it matters. The price of Arabica coffee is 120% higher than it was when the Fairtrade Foundation wrote its main educational document on the coffee trade. In her 2008 book, Harriet Lamb acknowledges the change in passing, but fiercely resists the possibility that it should alter the campaign's direction:

Undoubtedly higher prices for some commodities have given some producers some respite after many years of disastrously tumbling prices. However, this does not mean the pressure is off...⁴⁵

Yet the price recovery does matter. It means that free trade is now considerably kinder to poor coffee farmers, so that consumers who were troubled by their plight at the depth of the coffee crisis can feel less morally vexed by purchasing freely traded coffee.

The change matters more generally, because it shows that the Fair Trade movement gained popularity by misinterpreting what low coffee prices meant and what to do about them. The Fair Trade movement is reluctant to let go of the coffee crisis, but the industry is moving on anyway.

The Fair Trade movement's mistaken nostalgia for the ICA should remind consumers where its real interests lie. Some observers argue that the Fairtrade movement is simply a form of free trade:

⁴³ Booth and Whetstone (2007), p. 8; 'The Price of being fair', Alan Beattie, *New Statesman*, 26/2/07.

⁴⁴ Lindsey (2004), p. 8; Mary Bohman, Lovell Jarvis, and Richard Barichello, "Rent Seeking and International Commodity Agreements: The Case of Coffee," *Economic Development and Cultural Change* 44, no. 2 (1996): 379–404, quoted in Berndt (2007), p. 10.

⁴⁵ Lamb (2008), p. 99.

[F]air trade is a triumph of the free market. It works not because it subsidises goods no one wants, but because relatively rich consumers are willing to support a scheme that guarantees certain benefits to producers.

It would be a shame if these lapses discredited the idea of fair trade, a dynamic market-based idea that is voluntary...⁴⁶

To the extent that buying Fairtrade is based on voluntary exchange, these observers are correct (although not necessarily about Fairtrade's actual impact). However, the long-term objective of the Fair Trade movement seems to be to create a broad-based constituency with which to achieve radical restrictions on free trade, with the return to an ICA-style arrangement just one aspect of a larger reformation.

Moreover, the Fairtrade Foundation seems to be increasingly seeking to circumvent the market. The foundation often seems uncomfortable with the idea of competition (as evidenced by apparent dislike for other 'ethical' brands), and it is happy to seek government subsidy for its activities. New grants were accepted from the European Commission and the Department For International Development in 2006, and between 1999 and 2007 the foundation received approximately £1.8 million in grants from DFID. It currently receives around £250,000 every year. In 2007 Harriet Lamb announced that she was seeking a strategic investment of £50 million over five years to support their work, and asked the government to contribute – she then spoke out in the press when the funding received was less than she had hoped.⁴⁷

Rather than emphasising individual consumer choices, the pattern of Fairtrade growth is increasingly corporatist, concentrating on persuading large organizations to declare themselves Fairtrade: Fairtrade schools, towns, and even potentially nations in Scotland and Wales. Choice is steadily removed from the consumer, either because a decision to source only Fairtrade products has been taken on their behalf, or because Fairtrade status exerts a kind of social blackmail: to be accepted as a Fairtrade nation, Scotland's parliament would be committed to increasing the proportion of the population who know about Fairtrade every year by 5%, and ensuring that 75% of people bought a Fairtrade product every year, and that 40% bought Fairtrade products regularly. The buyer's choice exists in the shadow of a government or a management target; free exchange seems a less and less accurate description of any such transaction.⁴⁸

The Fairtrade Foundation apparently also hope to institute their voluntarily-imposed standards upon their competitors, to prevent their products losing out:

⁴⁶ 'Free doesn't mean unfair', Julian Baggini, *Guardian*, 5/3/07; 'Trading on Fairness', *Financial Times*, 12/9/06.

⁴⁷ Fairtrade Foundation Press Release, 23/2/07, www.fairtrade.org.uk/pr230207.htm; 'Fairtrade 'disappointed' by government commitment to ethical trade movement', Sarah Butler, *Guardian*, 24/12/07.

⁴⁸ 'Scotland set to become Fair Trade nation', Scottish Government News Release, 3/7/06.

I believe that we need global rules to set minimum social and environmental standards to prevent those companies increasingly committed to fairer trading practices being undermined by the unscrupulous traders. And, through TJM, we are pressing for those.⁴⁹

If we misread the Fair Trade agenda it is not entirely surprising: there is a disconnect between buying Fairtrade, presented as a consumer choice that will correct a market failure, and lobbying government in the belief that free markets must be stopped by law. But it is our own fault if we do not take Fairtrade advocates at their word; many of them are actually quite open about their mistrust of free markets and their preference for top-down control:

[Fairtrade] does show that you can manage markets in a way that is commercially, socially and environmentally successful. And that is the message for governments.⁵⁰

Of course, when you look at the reality of Fairtrade, it is clear that government should get no such message. The truth is that only free trade is fair: it is voluntary and uncoerced; it does not rely on government subsidy or indulge the paternalistic fantasy that human beings can be planned and managed.

Most of all, free trade is fair because it offers the poor the single greatest hope of a better life through economic growth and development. Free trade is not content to simply sustain the poor in their place; rather it offers them and their children the hope of a more comfortable and prosperous existence, released from the backbreaking toil and sweat of agricultural labour.

Fair trade, ultimately, is not fair. Free trade is the future.

⁴⁹ Lamb (2008), p. 110.

⁵⁰ Ibid, pp. 107-9.

5. Fairer Options for Development Assistance

Kids don't need Fair Trade. Kids need free trade.

Colleen E. H. Berndt⁵¹

The best way to help the poor of the developing world is to campaign for an end to tariff barriers, both at home and abroad, and to buy more of their goods.

Unfortunately, we seem to be labouring under a collective misapprehension. According to Nick Mathiason at *The Observer*, "Fair trade is, in a sense, the purest form of aid and the British public knows it. Government surveys show that people believe it is more effective than giving to charity."⁵²

That the nation believes Fairtrade is more effective than charity does not make it true. Fairtrade *is* charity: and an extremely inefficient form of charitable transfer at that. Its immediate actions at best help a select few at the expense of others while making no real effort to sustainably bring anyone out of poverty. Far from being pure, Fairtrade goods may well contain non-Fairtrade crops due to the system's unavoidable corruption, while the great majority of Fairtrade-certified crops are to be found in ordinary, unbranded products. The consumer-friendly packaging belies a long-term political agenda that is antagonistic to free trade, and therefore damaging to the best hope we have for an end to human poverty.

Happily, for those who are interested in supporting economic development, there are a wealth of development assistance charities to choose from, any one of which is a preferable alternative to Fair Trade and its unfair, unfree politics. The following list is offered only to demonstrate some of the variety which exists in a marketplace that the Fairtrade brand too often appears to believe it should have to itself. The charities and companies suggested are not an exhaustive catalogue and their inclusion should not be taken as an absolute recommendation, but merely a basis for further investigation. As the Fairtrade phenomenon demonstrates, claims to the moral high ground should be not be taken at face value.

Coffee Certification Schemes

- *C.A.F.E. Practices* (www.starbucks.com/aboutus/sourcingcoffee.asp)

C.A.F.E. stands for Coffee And Farmer Equity practices. Starbucks does sell some Fairtrade coffee, bowing to popular pressure. However, Fairtrade

⁵¹ 'Fairly Caffeinated', TCSDaily.com, 18/5/07.

⁵² 'Fair trade hopes take root', *Observer*, 27/1/08.

coffee could not supply all the beans required by such a large company. Instead, by developing an approach that does not rely on fixing prices and focuses on supporting premium coffee (the coffee on which farmers can make the most profit), Starbucks has created a pro-market initiative that seems likely to assist in economic development. In 2005, the company received an award from the World Environment Centre in recognition of its work developing C.A.F.E. Practices. In 2006, Starbucks paid an average of \$1.42 per pound for its coffee. The guaranteed Fairtrade price is \$1.26 per pound (although a social premium may also be added). It seems that you can feel good about ordering any Starbucks coffee – apart from the Fairtrade specials.

- *4C Association* (www.sustainable-coffee.net)

The Common Code of the Coffee Community Association. Brings coffee producers, roasters, NGOs and others together to work to improve baseline conditions for mainstream coffee, as opposed to the relatively insignificant Fairtrade sector. Individual membership is €50 per year.

- *Cup of Excellence* (www.cupofexcellence.org)

Cup of Excellence is a competition to identify the very best coffee produced in specific countries each year. The winning coffees are auctioned to the highest bidder. Supporting high quality, highly-priced coffee, this appears to be an excellent initiative, and highly efficient: on one estimate, 85% of the sale price goes to the farmer. The website has details of who has purchased Cup of Excellence coffee from auction. In the UK, 2007 buyers included Fortnum & Mason, Taylors of Harrogate, the Monmouth Coffee Company and the mail-order firm Andronicas Coffee (www.andronicas.com).

- *Rainforest Alliance* (www.rainforest-alliance.org)

This is the certification scheme that the Fairtrade Foundation has most publicly traded blows with. Rainforest Alliance certification indicates that producers have met their standards for protecting wildlife, wild lands, workers' rights and local communities. Certified farms should hire locally, ensure safe working conditions and access to clean drinking water and proper sanitary facilities. The Rainforest Alliance avoids price-fixing and provides training, advice and better access to credit, all important contributors to development.

- *Utz Certified [previously Utz Kapeh]* (www.utzcertified.org)

Utz offers complete traceability from grower to roaster in an attempt to reduce corruption. Workers and their families have access to healthcare and education, and workers are carefully trained.

Coffee Producers

- *Café Britt* (www.cafebritt.com)

A rare example of a coffee roaster located in a coffee-producing nation, Café Britt is based in Costa Rica and focuses on gourmet quality coffee using local expertise. Individual orders can be placed on the website, although the shipping charges to Europe are high.

- *Allegro Coffee* (www.allegrocoffee.com)

Buying premium quality coffee and offering long-term contracts and pre-financing arrangements, Allegro also give 5% of their net profits to a charitable initiative of their own creation, High Five for Farmers, directed to coffee grower communities.

- *Intelligentsia Coffee* (www.intelligentsiacoffee.com)

Intelligentsia purchases green coffee, often direct from the growers, cutting out middlemen. By focusing on quality, they ensure the growers receive a premium price.

Coffee Development Charities

- *Coffee Kids* (www.coffeekids.org)

For 20 years, Coffee Kids has worked with local organizations in Latin America to create education, health care, micro-credit and community-based programs for coffee farmers and their families. Their efforts allow coffee farmers to reduce their dependence on the volatile coffee market and to confront the most pressing community needs.

- *Coffee Corps* (www.coffeeinstitute.org/coffee_corps.asp)

Coffee Corps matches industry experts with farmers seeking technical assistance. Experts volunteer their time to help growers improve their production methods, quality control processes or their marketing skills.

- *Grounds for Health* (www.groundsforhealth.org)

A partnership between American coffee companies and their coffee-growing communities, Grounds for Health aims to provide improved healthcare, especially cervical cancer prevention.

Beyond Coffee

- *Technoserve: Business Solutions to Rural Poverty* (www.technoserve.org)

A grant of \$47 million from the Bill and Melinda Gates Foundation will fund a project to double the incomes of small-scale farmers in East Africa by improving quality, increasing production and linking them to markets.

However, Technoserve's remit to encourage entrepreneurship is far wider, and based on expertise gathered in the field over four decades.

- *Whole Planet Foundation* (www.wholeplanetfoundation.org)

This foundation is dedicated to creating economic partnerships with the poor in the developing countries that supply Whole Foods Market stores. Innovative assistance for entrepreneurship, with almost \$6 million in microlending pledged worldwide. There is a Whole Foods Market store in London, 63-97 Kensington High Street, W8 5SE.

- *globalgiving* (www.globalgiving.com)

Globalgiving allows individuals to support small development initiatives of their choice.

Beyond Charity

One of the claims of the Fairtrade Foundation is that the poor do not want charity. But this is no reason to stick with Fairtrade: there are now many exciting initiatives for those who want to help the poor help themselves.

- *Kiva.org* (www.kiva.org)

At Kiva, anyone can go online and loan small amounts to directly support small-scale entrepreneurship in the developing world.

- *Five Talents* (www.fivetalents.org.uk)

This is a development program run by the worldwide Anglican church, which aims to fight poverty, create jobs and transform lives through micro-finance initiatives.

- *Grameenphone* (www.grameenphone.com)

The Village Phone Program provides telecommunications services to rural areas all over Bangladesh, by offering a business model where the owner operates a payphone service having purchased the handset with a microfinance loan from Nobel Laureate Muhammed Yunus's Grameen Bank.

- *Scojo Foundation* (www.scojofoundation.org)

Through a microfinance business model where local entrepreneurs train vision advisers and sell low cost glasses, increasing access for the poor to reading glasses in El Salvador, India and Guatemala.

6. Conclusion

Fairtrade Fortnight is a marketing exercise intended to maintain the Fairtrade Mark's predominance in an increasingly competitive marketplace for ethically-branded products. The hype is necessary, because as we have seen there is every reason for the shrewd consumer to make other choices.

The Fairtrade certification system and the Fair Trade movement from which it springs are fundamentally unfair. They offer a small improvement in prices to very few primary producers, while leaving most out in the cold and possibly even worse off than before. Of the farmers Fairtrade helps, many live in Mexico, a relatively wealthy and well-developed country. Fairtrade does little for the poorest of the poor in the agricultural sector, the landless labourers who are refused permanent employment under Fairtrade rules.

Fairtrade is not an answer to poverty. For those who promote it, Fairtrade is not even necessarily intended to aid economic development. Instead, Fairtrade operates to keep the poor in their place, sustaining uncompetitive farmers on their land and holding back the changes that could give their children a richer future by encouraging mechanization and diversification. Proponents of Fairtrade seek to present a consumer-friendly face, and have persuaded some commentators that it is an example of the free market in action. Yet the ultimate goals of the fair trade movement include the management of production and the rejection of free trade.

The Fair Trade movement seeks to control trade in the name of 'justice', but this is neither economically prudent nor just. Such a move would place more power into the hands of the few, increasing corruption while restricting options and raising prices for the average consumer. It would not succeed in relieving poverty. Instead, by slowing the growth of the global economy it would actively and severely harm the poor.

Economic growth in India and China is lifting more people out of poverty than ever before in human history. The insignificant scale of Fairtrade has no prospect of improving so many lives. Indeed, its economic vision, if implemented, would undoubtedly prevent such improvements from continuing.

Fairtrade advocates operate a very skilled PR campaign, relying on anecdotal evidence, emotional appeal and sheer trust. The evidence, however, points in a different direction. It shows that four-fifths of all Fairtrade crops go into ordinary, uncertified products, that Fairtrade products may well contain non-Fairtrade crops due to corruption, and that just 10% of the premium paid by consumers for Fairtrade actually reaches the producer.

The Fairtrade system arose from a historical episode – the coffee crisis of the 1990s – from which coffee prices have now recovered significantly. Fairtrade was designed for a situation that no longer applies, and there is every reason

to suppose that its current rapid growth will be followed by an equally swift decline in popularity as ethically conscious consumers turn to newly fashionable interventions more suited to the times, even simply choosing to patronise Starbucks, with its award-winning C.A.F.E. Practices code. Those who are interested in helping poor farmers to develop high quality produce can consider supporting Cup of Excellence. Those seeking a more direct relationship with development projects can turn to *globalgiving.com* or *kiva.org*. Those who wish to encourage producers to migrate further up the value chain can buy Café Britt coffee direct from Costa Rica. Technoserve is seeking to double coffee incomes in East Africa with a multimillion dollar donation from the Bill and Melinda Gates Foundation. All of these initiatives favour supporting entrepreneurship and reject the Fair Trade approach of fixing prices.

Fair Trade is unfair: it seeks to reduce voluntary exchange to a government-controlled privilege and to refuse agrarian societies the opportunity to become rich. By selling itself as the only option for the ethical consumer, Fairtrade directs the public away from new and exciting alternatives that may do much more good.

Ultimately, for those who want to see the poor lift themselves out of their poverty, the only fair choice is to support free trade.