



THE NEW MORAL ECONOMY

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IS THERE A DIFFERENCE BETWEEN BUYING FAIR-TRADE
COFFEE, AND BUYING CONVENTIONAL COFFEE
ALONG WITH MAKING A CHARITY DONATION?
FINANCIALLY, NOT REALLY. SO WHY BOTHER?

The fair-trade movement is growing apace in Europe and the US, despite economic factors which appear to make it illogical and unsustainable. From Peruvian brazil nuts, Kenyan roses, Cafédirect (now the sixth-largest coffee brand in the UK), Ben & Jerry's vanilla ice-cream and Sainsbury's new range of cotton clothing, through to footballs made in India and boiled sweets in Scotland, the fair-trade phenomenon might be on its way to challenging traditional trading practices across the world.

The movement began in the 50s and 60s, when a feeling that something was wrong with traditional business models took hold in anti-establishment groups. Alternative Trading Organisations opened 'Worldshops', which sold mostly handicrafts. These were so popular that dozens opened in Europe and North America, and were successful until the fashion for handicrafts faded in the 80s. This was the defining time for fair trade, as it moved into mainstream agricultural commodities such as coffee and tea.

Coffee, the most traded legal commodity after oil, has had a huge role in the development of the current fair-trade model, and is arguably its most contentious crop. Between the mid 80s and early 90s, the real price of commodities such as sugar, tea and coffee fell by about 30%. Before 1989, coffee prices had been regulated by the International Coffee Organisation, keeping supply and demand roughly equal. When the system was dismantled due to disagreements between producer and consumer countries, production patterns changed rapidly. On advice from the World Bank in 1990, Vietnam, previously not a coffee-producing country, grew a large amount of cheap, low-quality coffee, which then flooded the market, dramatically lowering the price worldwide. The

drop was so vast that coffee is still sold below the cost of production in most places. If that wasn't bad enough, the reaction by many producers to low prices was to work harder than ever to grow more and more coffee, increasing the overproduction levels and inadvertently keeping the price low.

In many small coffee-producing towns and villages, the ongoing 'coffee crisis' continues to effect permanent social change. Lack of work and a rock-bottom coffee price obliges young men to look for work in cities or abroad, or spend months of the year working as paid labourers in large plantations. Families who for generations had lived in the same small town are split up. The need for a viable solution prompted the FAIRTRADE labelling initiative which we know today.

Throughout its various incarnations, the fair-trade movement has sought to redress inequalities inherent in the free market. It's not that the producers are unable to grow high-quality crops, or that their methods are inefficient, it's that they have no direct access to consumers (generally in Europe and North America), and are at the mercy of middlemen. Global commodity trade is vast, and producers at the very beginning of the process are often isolated, poorly educated, and without access to credit. Fair trade seeks to give them greater autonomy and provide direct interaction with the northern market.

FAIR-TRADE ACTIVITY MANIFESTS ITSELF IN A VARIETY OF WAYS. Most visibly, the FAIRTRADE Mark, administered by the Fairtrade Foundation in the UK and TransFair in the US. Most of us are familiar with the logo, but it's interesting to know how the system actually works. If

ETHICAL CONSUMERISM IS GROWING YEAR ON YEAR AND IT'S BEGINNING TO AFFECT THE MULTINATIONALS' BOTTOM LINE. WHAT BETTER REASON FOR CHIEF EXECUTIVES TO MAKE CHANGES TO THEIR TRADING POLICIES?

cocoa growers in Panama decide to become FAIRTRADE producers, they have to fulfil various requirements – such as creating a democratic organisation and using fewer pesticides, as well as producing high-quality crops. Once satisfied that these criteria are in place, the Fairtrade Licensing Organisation then declares that cooperative or plantation FAIRTRADE-certified. At the other end of the chain, the Fairtrade Foundation or TransFair work with a large retailer to establish connections between the buyers and producers. They also ensure that ethical standards are upheld at all stages in the creation of the end product. Once all the links are in place, producers have a direct relationship with the buyers of their crop, along with a guaranteed minimum price. In addition, the buyers pay what is called a 'social premium' on top of the crop price, which the producer group can spend on community projects.

Recognition of the FAIRTRADE Mark is widespread, probably more so than its market share, which at US\$400m is a tiny 0.01% of global trade. However, this is not insignificant: FAIRTRADE sales in the UK have grown by 265% to £300m since 2002, and are predicted to double by 2009. Across the Atlantic, US FAIRTRADE sales are predicted to grow to \$20–25bn by 2020, while FAIRTRADE-certified coffee is the fastest-growing segment of the speciality coffee market, estimated in 2006 at \$750m and still growing.

SOME COMPANIES HAVE BEEN PURSUING THEIR OWN VERSION OF FAIR TRADE for some years, notably the Body Shop, whose 'Community Trade' system began twenty years ago. Illycaffè has been buying all of its coffee directly from producers for fifteen years, and provides support to its growers in Brazil. People Tree, a FAIRTRADE fashion clothing retailer, works directly with local producers. Some companies have taken the principles of fair trade and developed it further. Take Divine Chocolate. In 1997, the Kuapa Kokoo cooperative in Ghana voted to produce its own chocolate bar to sell in the mainstream market. For the first time, a group of African producers were controlling the entire process from cocoa-growing all the way to marketing in the north. In 1998, the Divine chocolate bar was one of the first FAIRTRADE chocolate products to be sold in the UK, and was launched in the US in February this year. Now the company supplies all the UK Starbucks stores with their own-brand FAIRTRADE chocolate, as well as all the Co-op own-brand chocolate, and is predicted to have a £9m turnover in 2007.

From its inception, the fair-trade movement has had its critics who believe that it's a well-intentioned, interventionist scheme doomed to end in failure. Economists argue that the coffee market, if left to its own devices, would eventually level out, or that farmers would grow different crops if they couldn't continue to sell coffee at a sustainable price. There would be short-term poverty, but eventually supply would equal demand and the price would regulate itself. Fair trade artificially inflates the price of coffee for some farmers, which encourages them to produce larger amounts of crop, which in turn contributes to keeping prices low. So the argument goes: that fair-trade activity actually militates against solving the very problems it aims to eradicate.

Fair-trade supporters argue that they are teaching farmers to diversify, to intersperse their coffee with other crops, and that the added benefits of the system are widely felt: a new well or repaired road funded by the 'social premium' will be used by the whole community. Simple improvements can be the first rung of the ladder taking people out of poverty and improving the chances of the next generation. Fair trade is still in its infancy, and its full effects will likely be proved in the longer term. Members of cooperatives are being introduced to democracy and accountability on a daily basis, and female empowerment is growing in communities where women have traditionally had little or no input in decision making. Fair trade aspires to create long-term sustainability by increasing local skills and knowledge, thereby establishing a more equal distribution of power, on both a local and international level.

THAT'S ALL WELL AND GOOD, BUT SINCE WHEN did multinational companies give a monkey's about fair trade? How could it become mainstream, when the principle of paying producers as little as you can get away with seems to lie at the very base of the capitalist system? In the 80s, no one would have believed that a small, expensive brand based on ethics would have become a major player in the retail market, and yet it has. Originally seen as a niche market salving a few western consciences, fair trade is now a serious commercial proposition. Ethical consumerism is growing year on year and it's beginning to affect the multinationals' bottom line. What better reason for chief executives to make changes to their trading policies?

The FAIRTRADE labelling mechanism provides a ready-made model for retailers, along with a recognisable logo with a high approval rating. Brand values are so immensely influential that companies are happy to take a hit on profits in one area in return for a positive reputation. From July 2007, Sainsbury's in the UK is planning to sell only FAIRTRADE bananas in its stores, at a cost of £4m in 'social premium' payments – effectively a loss. In addition, people who are inclined to buy fair trade generally have a higher income and are less price-sensitive, which means the retailer can make a higher profit on fair-trade goods because they know that the consumer won't mind that much. Have a FAIRTRADE product on your shelves, charge a good mark-up, your customers will buy it, and they'll like you for it.

The larger question is, how long can this trend continue? The current fair-trade system is symbiotic with conventional free trade,

and its products are subject to market vagaries as much as any other. Popularity is high and sales are increasing, but even the most optimistic projections can't suggest that a free market will convert to fair trade by virtue of market forces – there just aren't enough people buying fair trade for that to happen. The Kuapa Kokoo cooperative produces 1% of the world's cocoa crop, yet only 2-3% of that is sold on the fair-trade market. Fair-trade coffee makes up less than 0.5% of the \$80bn global coffee market, so there is still a long way to go.

ANOTHER UNKNOWN IS HOW THE ETHICAL CONSUMER WILL BEHAVE in the future. According to TransFair, fair trade is set to follow in the footsteps of organic and sustainable as a buzzword for conscientious consumers. However, that doesn't take into account the paradoxical situation the ethical shopper often encounters. People have different views as to what constitutes buying ethically. For some, fair trade is the central issue, but for others, organic is more important, or for others, global warming. If a grower can produce a crop which is both fair trade and organic, he will be able to sell that crop at a higher price. However, that price isn't high enough to compensate for the drop in productivity concomitant with not using pesticides. And in some cases it's just too risky to go organic. Cocoa, for instance, is particularly susceptible to disease, and converting to organic could jeopardise the entire crop. In Ghana, where cocoa is the main export, taking that kind of risk would be unthinkable. So the ethical consumer has a choice: organic or fair trade, and 'what is good for me?' might trump 'what is good for others?'

Alongside the organic premise, a greater threat to fair trade comes from the environmental lobby, which seeks to reduce the number of 'food miles' attached to foodstuffs. Environmentally friendly and fair trade are mostly mutually exclusive. The consumer might prefer to buy local organic produce rather than fair-trade food, which is not certified organic and has the environmental cost of being shipped across the planet. While use of pesticides is restricted under the FAIRTRADE system, the fact that the crop is grown on one side of the earth and sold on the other can't be ignored. The environmentally conscious consumer might argue, save the planet first, and if that works, concentrate on the people left living on it. If global warming destroys farmers' ability to grow crops then the fair-trade question becomes more than a little redundant.

So, rather than leaving fair trade to the mercies of the current market, should we be campaigning for legislation to effect permanent change? For this, significant political input would be required – a considerable challenge given the power of multinationals, and the fact that many nations would have to sacrifice benefits to their own producers. It's hard to see many politicians being elected on that manifesto.

There's nothing wrong with one person working harder and thus doing better than another. But they do end up unequal. If equality of power and influence is what we understand 'fairness' to mean, then there's a great deal of positive discrimination to be done.

MANY ARGUE THAT A LIBERALISED MARKET WILL NEVER BE FAIR while the players have unequal power. Money makes money, poverty begets

poverty, but in the modern world it is often believed that it behoves those with power to help those less fortunate. Rules and regulations need to be kept in place, checking the strong in order to protect the weak.

Currently, the US has free-trade agreements with developing countries, yet protects its own producers with massive subsidies every year. EU subsidies have the same effect: farmers produce inefficiently and sell at below production costs because they can afford to. Take cotton, where world prices have been in decline for thirty years. The US subsidises cotton production by \$4.2m (on average \$160,000 per farmer), which is equivalent to the value of entire crop. Across West Africa, cotton growers receive around 30% of the world price compared to US farmers who are paid 70% above it. 60-75% of the US crop is exported and sold at around 40% of the cost of production. In 2004, the World Trade Organisation upheld Brazil's objection that these US subsidies were illegal, but the US government has promised to 'defend US agriculture in every forum we need to'.

The current debate is dominated by EU negotiations with some 75 African, Caribbean and Pacific countries to form Economic Partnership Agreements (EPAs) – that is, free trade bargains – in order to liberalise the market. There is much dispute as to whether these are desirable, and indeed, the Trade Justice Movement in the UK is mounting a huge campaign against them. Despite the EU claim that it has no 'offensive interests' in pursuing an open market,

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The Fairtrade Foundation www.fairtrade.org.uk

TransFair USA www.transfairusa.org

The Trade Justice Movement www.tjm.org.uk

Make Poverty History www.makepovertyhistory.org

Divine Chocolate www.divinechocolate.com

www.divinechocolateusa.com

Ben & Jerry's www.climatechangecollege.com

People Tree www.peopletree.co.uk

ActionAid www.actionaid.org

Oxfam www.oxfam.org

Make Trade Fair www.maketradefair.com

fair-trade campaigners such as Celine Charveriat from Oxfam claim that EPAs 'require enormous irreversible concessions from developing countries and almost nothing in return from rich countries. It is hugely unjust.'

SUPPORTERS ARGUE THAT EPAs ARE INTENDED TO PROD developing countries into becoming more financially sophisticated, which could address ground-level poverty. Many developing countries depend on easily administered import tariffs for a large proportion of their income. In effect these tariffs are paid by local consumers, whereas income taxes or VAT duties, though more cumbersome, would be more equitable. Hence, a liberalisation of the market demanding a reduction in tariffs would prompt these poorer countries into developing a sound fiscal infrastructure and taxing their populations more justly. In addition to gaining easier access to the northern markets, they would become more financially self-reliant.

On the other hand, EPAs would put poor countries in a worse bargaining position against mature economies, which are able to subsidise their own producers and skew the market. For an open market to be fair, subsidies and protectionist tariffs by stronger economies, along with cartelisation by large US companies against producers in the South, need to be removed. There also needs to be help for weaker economies which may make costly errors if plunged headfirst into a free market. In the first ten years of the North American Free Trade Agreement, Mexico lost 1.3 million agricultural jobs, and research predicts that EPAs with West Africa would likely lead to import surges of over 15% on key commodities such as onions, beef and potatoes, which would devastate the rural sector.

Is an alternative framework for trade, using poverty eradication and equality as its central tenets, actually feasible? Economists would argue that it is naive and unrealistic to attempt to subvert economic trends. But then, as Jenny Ricks of ActionAid suggests, 'the major success of the fair-trade movement has been to prove that you can intervene in markets and everybody wins'. She continues, 'The main issue is the lack of political will on the part of rich countries. There needs to be a fundamental rethink on how world trade is run. Fair trade is a good first step, but the heart of the issue is about working to change the rules that govern global trade. Currently, fair trade is good for those farmers involved, but what about the other 99% of trade that is still unfair and the farmers still in poverty?'

Fair trade is still a niche market salving a few western consciences, but that niche is fast becoming mainstream, and trade equality is slowly becoming a major political issue. As Charlotte Berger of Divine says, 'Fair trade is not an end in itself, it's a means to an end. It proves that successful, commercially viable, profitable businesses can be run on this basis. It can help a lot of people, and it can work. The idea is that it grows and grows until the people who are in a position to make the most change in world markets can't ignore it any more.' ■

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