



New evidence of old concerns:
Fair trade myths exposed ... Again

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April 2008



Executive summary

Fair Trade Fortnight is held every year to celebrate the ‘benefits’ of fair trade for fair trade developing world producers. In 2008 Fair Trade Fortnight is being held from the 3rd to the 28th of May.

In 2007, Tim Wilson and Sinclair Davidson wrote to the ACCC raising concern about the failure to enforce fair trade certification standards and highlighting that consumers were being duped. The ACCC did not investigate the claims because it argued the material provided ‘may be subject to different interpretations’.

Since Fair Trade Fortnight 2007 two major studies have been published identifying new, shocking concerns about fair trade’s alleged environmental, social and economic ‘benefits’.

This paper outlines new evidence questioning the benefits of fair trade; and demonstrates that concerns about fair trade’s environmental, social and economic benefits are not merely differing ‘interpretations’. The two new studies have found:



- Fair trade coffee is not speciality, quality coffee, but only slightly higher-grade commodity coffee.
- Despite fair trade advocates employing the principles and rhetoric underpinning the International Coffee Agreement (ICA), the evidence shows the ICA did nothing to reduce poverty.
- Fair trade encourages people to stay in poverty and excommunicates successful farmers.
- There is an abundance of fair trade product, and not enough buyers; causing over-supply that harms non-fair trade producers and is stopping new farmers from joining fair trade.
- Fair trade producers are selling their better quality product on the free market because it delivers better prices and sells its inferior product through fair trade.
- The costs of fair trade regulations absorb much of the fair trade ‘premium’ consumers pay.
- Fair trade advocates are misrepresenting the benefits of fair trade through promotions claiming new schools and clinics are being built with fair trade money. Developing country producers, however, argue that fair trade makes little contribution in this area.
- Fair trade relies on anecdotes to justify its affect, not hard evidence.

Organisers of Fair Trade Fortnight 2008, Oxfam International and the Fair Trade Association of Australia and New Zealand, need to address these shocking problems in the fair trade system. Further, the ACCC should investigate the legitimacy of the fair trade campaign’s claims.

Introduction

Fair Trade Fortnight (FTF) is held from the 3rd to the 18th of May this year. FTF is an annual umbrella event for fair trade activists to promote fair trade as an alternative to the poverty-eradicating free market system. In Australia, FTF is organised by Oxfam and the Fair Trade Association of Australia and New Zealand.

Fair trade is a certification program for goods and services that are produced according to specified standards outlined by the Fair Trade Labelling Organisation (FLO). Producers or collectives of fair trade products are certified against these standards after payment of fees. Being certified allows the producer or collective's product to then carry the fair trade certification mark and be identified as a fair trade product. The certification mark identifies the product to consumers who choose to buy into the idea of fair trade.

Fair trade is promoted as a means to promote environmental, social and economic development in developing countries by harnessing market forces and consumer-behaviour. But there is increasing evidence that the foundation for these 'benefits' is hollow. Further, there are questions about the level to which these certification standards are being enforced.



In 2007 Director of the IP and Free Trade Unit at the Institute of Public Affairs, Tim Wilson, and Professor of Institutional Economics at RMIT University, Sinclair Davidson, wrote to the Australian Competition and Consumer Commission raising concerns that fair trade certification standards were not being enforced. This followed a number of media reports making the same allegations.

Since FTF 2007 two new studies have been released that have detailed new evidence which contradicts the supposed 'benefits' being promoted by fair trade advocates. This paper identifies new evidence and demonstrates a compounding concern about the 'benefits' of fair trade.

New studies question fair trade's 'benefits'

Since FTF 2007 two new studies have been published raising concerns about the questionable benefits of fair trade. The studies include:

- Assistant Professor at San Jose University, Colleen Berndt, has completed an extensive field study on how fair trade is operating in Costa Rica and Guatemala for the Mercatus Center at George Mason University titled '*Does fair trade help the poor?: Evidence from Costa Rica and Guatemala*'.¹
- Marc Sidwell from the Adam Smith Institute in London has completed a macro-analysis of the benefits of fair trade titled '*Unfair trade*'.²

Does fair trade coffee help the poor?: Evidence from Costa Rica and Guatemala

Berndt has completed a major study based on research and field work in Guatemala and Costa Rica. In her research Berndt breaks down the individual problems that fair trade causes and the myths supporting fair trade's 'benefits'. In particular, Berndt identifies:

- **Fair trade is not speciality coffee:** Despite the claims of fair trade advocates, fair trade coffee is not speciality, quality coffee, it is only labelled as such. Fair trade coffee is only a slightly higher grade than commodity-traded coffee. It is treated as speciality coffee because of the fair trade standards that limit its trade with commodity coffee. (Page 4)
- **Fair trade coffee is made up of off cuts, not quality product:** In an interview with representatives from the US-based Transfair, fair trade advocates conceded that fair trade producers provided lower-grade coffee for sale through the fair trade system. Fair trade producers sell their best coffee on the free market when it commands a higher speciality price than fair trade. Producers then keep their lower-grade quality through the fair trade system where they receive a guaranteed price. They do this because there is an oversupply of fair trade coffee and an undersupply of buyers for fair trade coffee. (Page 22)
- **The International Coffee Agreement did nothing to alleviate poverty:** The philosophical foundations of fair trade and many of the fair trade certification standards are based on the principles underlying the International Coffee Agreement (ICA) that was administered by the United Nation's International Coffee Organisation. The ICA essentially fixed prices by balancing available supply to demand to promote price stabilisation and economic development. Despite the ICA operating for more than twenty years studies have shown it had no effect on poverty reduction. (Page 9)

¹ Berndt, C., "Does fair trade coffee help the poor: Evidence from Costa Rica and Guatemala", Mercatus Policy Series, Policy Comment Number 11, Mercatus Center, George Mason University, June 2007, available at http://www.mercatus.org/repository/docLib/20070702_GPI_PS_Costa_Rica.pdf

² Sidwell, M., "Unfair trade", Adam Smith Institute, London, 2008, available at http://www.adamsmith.org/images/pdf/unfair_trade.pdf

- **Fair trade encourages non-success:** Fair trade certification standards require that coffee farms not be structurally dependent on hired labour. Fair trade standards only allow for the use of a family-labour force, with occasional assistance from hired labour. Therefore, if you run a successful coffee farm and can afford to hire labour to manage the farm, you are either ineligible to apply for certification or your certification is revoked. As an example, plantation-style farms, such as those operating in Brazil, are ineligible for fair trade certification. Having such strict rules inhibits a producer's capacity to permanently lift themselves and their family out of poverty. Further, by disallowing permanent hired labour, it undermines producers who may have the potential to help lift other workers out of poverty. (Page 13)
- **The fair trade club doesn't want new farmers:** There is a significant oversupply of fair trade-produced coffee, and not enough buyers. In order for new producers to join the fair trade club they are required to bring a new buyer for their product before they can join. (Page 15)
- **The development benefits of fair trade are sketchy:** An investigation found that the manager of a fair trade cooperative in Guatemala argues the fair trade premium delivered little real benefits. The farmer further advised that many fair trade organisations go to Guatemala and take photos of schools and health clinics for fair trade promotions alleging that these facilities were a result of fair trade. Yet the local fair trade manager argues that these facilities were not normally delivered because of fair trade. (page 23)
- **Fair trade certification requirements consume much of the fair trade 'premium':** In order to achieve and maintain FLO certification, farms are required to meet FLO certification standards which include expensive adjustment costs and certification fees. The price premium provided by fair trade above the free market price is nominal and hence, to achieve certification, much of the cost is lost in fair trade compliance. One fair trade cooperative admitted that none of the fair trade premium was passed onto farmers. (Page 27)



Unfair Trade

Sidwell raises many of the same concerns as the Berndt study. Additionally Sidwell identifies:

- **There is no hard evidence that fair trade works:** Hard evidence supporting the benefits of fair trade is exceptionally weak. Instead fair trade advocates rely heavily on 'anecdotes' from fair trade farmers, rather than environmental, social and economic indicators and statistics that would provide real evidence of fair trade's success. (Page 10)
- **Fair trade harms non-fair trade producers:** Fair trade buffers producers against market signals of oversupply. By doing so fair trade producers rarely reduce their output. During periods of oversupply prices plummet. By removing the disincentive to produce product during periods of over-supply fair trade pushes down the price for producers who cannot afford fair trade certification. (Page 13)

These are not new concerns

Concerns about fair trade are not new. In addition to the concerns raised by Berndt and Sidwell, the Institute of Public Affairs has raised its own concerns previously³, including the voluntary nature of fair trade and whether fair trade certification standards are being enforced.

The voluntary nature of fair trade

Fair trade is currently promoted as a consumer-driven campaign. Yet Oxfam has made it clear that they want to end the voluntary nature of fair trade through their international campaign to *Make Trade Fair*.⁴ The campaign attempts to introduce principles of free trade where Oxfam identifies benefits to developing countries; while maintaining hostility to the principles of free trade where developing countries are not advantaged.

One of the core focuses of the *Make Trade Fair* campaign is supporting the voluntary sale and consumption of fair trade certified coffee in developed country markets. Yet behind the public efforts to promote voluntary consumption of fair trade goods, Oxfam is also advocating regulation of the international coffee market to achieve compulsory consumption of fair trade products.

In its 2002 report 'Mugged: Poverty in your coffee cup',⁵ Oxfam International identifies numerous criticisms against the contemporary international coffee trade that could be addressed through increased consumption of fair trade certified coffee. But in the recommendations section of the report, of the 48 recommendations made, 5 are directed to consumers. The remaining 43 include recommendations such as:

- destroying at least five million bags of coffee
- organising producer governments to stop commodities entering the market that cannot be sold; and
- establishing a long-term commodity management initiative.⁶

Fair trade standards are not being enforced

In 2007 the authors of this report wrote to the Australian Competition and Consumer Commission (ACCC) raising concerns about the certification standards used by FLO and whether they were being enforced based on consumer expectations.

Fair trade certification standards require fair trade producers to pay any hired labour at minimum wage. Yet an investigation by the *Financial Times* in 2006 found that a number of coffee producers in Peru were

³ Wilson, T., "Fair trade no substitute for intellectual property", IPA Review, March 2007, Wilson, T., "Fair trade coffee only brews more poverty", Australian Financial Review, 12/08/2006 and Wilson, T., "Macchiato Myths", IPA Review, 07/2006

⁴ Make Trade Fair, Oxfam International, <http://www.maketradefair.com>

⁵ Gresser, C. & Tickell, S., "Mugged: Poverty in your coffee cup", Oxfam International, 2002 available at <http://www.maketradefair.com/assets/english/mugged.pdf>

⁶ *Ibid.*, 2002, pp49-51

being paid below the minimum wage.⁷ By failing to enforce the standards, fair trade is deliberately misleading consumers about its benefits.

In its letter responding to the request for an investigation the ACCC stated that the evidence ‘provided in support of (the) allegations comprises newspaper articles, reports and analysis of these reports which may be subject to different interpretations’. Yet the number of serious studies being produced questioning the benefits of fair trade is becoming more significant each year. The ACCC can no longer claim that the questions about fair trade are merely caused by differing interpretations.

Further, the ACCC stated that they are ‘mindful there is a history of disagreement between the Institute of Public Affairs and Oxfam over the pros and cons of fair trade coffee’. It is clear that there is a difference of opinion between the IPA and Oxfam; but the evidence and number of opponents openly questioning fair trade’s ‘benefits’ are mounting.

Conversely, as the new studies show, the material supporting fair trade is not dependent on hard studies, but anecdotes and misrepresentations.



⁷ Weitzman, H., “Bitter taste of ‘fair trade’ coffee”, Financial Times, 08/09/2006, available at http://us.ft.com/ftsuperpage/superpage.php?news_id=fto090820061713126650

Conclusion

New studies demonstrate that the evidence supporting fair trade's contribution to development for the world's poor is dubious, at best. The studies also show that fair trade creates a number of problems for fair trade and non-fair trade producers.

Despite constant assertions by fair trade advocates that fair trade:

- delivers high-quality product
- encourages people to lift themselves out of poverty
- delivers a premium to poor producers

The evidence suggests otherwise.

Fair trade fortnight is held annually to promote the 'benefits' of fair trade to consumers. Yet consumers are being deceived into supporting a pro-development campaign with a bitter after-taste.

Fair trade advocates need to address the outcomes of these new studies. And the ACCC needs to reconsider the honesty of fair trade's claims to consumers.



Reference list

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