POLICY PAPER 02 / 2014

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CONFLICTING VISIONS

IS "FAIR TRADE" AN ALTERNATIVE TO AID AND FREE TRADE?

"Trade not Aid": this used to be the slogan of third-worldist movements in the mid-1960s, an epoch when intellectual figures in the Third World were denouncing the unequal exchange between the capitalist Center and the Periphery. The aim was then to challenge the capitalist system at its very basis. Some fifty years later, in a global neoliberal context, it seems that the issue of unequal exchange has resurfaced through the Fair Trade movement, a movement which purports to help the poorest and most marginalized producers of the global South. Based on the perceived failures of aid and free trade paradigms, the Fair Trade protagonists count on the generosity and solidarity of Northern consumers in order to achieve fairer trade relationships between the North and the South.

The Fair Trade movement is not monolithic however. There are at least two conflicting visions inside the movement. First, there is "historical" or "alternative" Fair Trade. In this approach, economic intermediaries are specialised in the distribution and/or sale of "Fair" products – agricultural products or handicrafts – which are purchased from producers in the South by specialised group purchasing organisations in order to be sold in dedicated shops in the North. The rationale here is to create alternative trade channels operating outside standard distribution networks and where agrifood giants are excluded. At the global level, the World Fair Trade Organization (WFTO) federates specialised/alternative Fair Trade organisations.

Since the 1980s, another approach, the labelling one, has progressively imposed itself. It is epitomized by the Max Havelaar/Fairtrade label. Unlike the previous approach that certifies "organisations", the labelling approach only certifies "products". As there is no requirement to be "100 per cent fair-trade specialised" in order to obtain a licence for the sale or distribution of Fair Trade products, the sale/distribution of certified products is in theory available to all corporations, provided that they comply with specific standards and pay their annual licence fees to the label holder (namely the national labelling initiative). As a result, the classical sale and distribution channels can be more easily integrated.

In this approach, producer organisations in the South that wish to sell their products under Fair Trade conditions must first of all obtain certification, which is subject to complying with the standards defined in this respect by the certification organisation. It is also important to point out that the label holder does not buy or sell any product. It rather trades the use of the said label. At the international level, Fairtrade International is the federating entity whose mission is to promote the Fair Trade label. Created in 1997, Fairtrade International is based in Bonn, Germany.

The evolution of the Fair Trade movement from an "alternative" approach to a "product certification" approach has sparked many debates. The Max Havelaar/Fairtrade approach has often been accused of having betrayed the original mission of the Fair Trade movement. By working with agrifood giants and standard distribution channels, evolution that has helped boost his sales to unprecedented levels (4.9 billion euros in 2011), it would provide an opportunity of "greenwashing" for these controversial actors.

I will not follow this line of argumentation here. Rather, I will try to defend the idea that the Max Havelaaar/Fairtrade approach (abbreviated by FT), as it is currently conceived and as it currently works, is an alternative neither to aid nor to free trade. In some ways, as we will see, it tends to reproduce their shortcomings.

THE FAIR TRADE ECONOMIC MODEL IN THEORY

Developing countries producers face generally three kinds of interrelated issues in conventional markets: the price of their product is often very volatile; the price they receive for their products tends to be low, sometimes below the cost of production, and non-sustainable ecologically and humanely; due to the influence of middlemen and inequalities of power, their share of the added value created in agricultural value chains tends to be low, even in the circumstances when the price of their products is booming.

To address the issue of price volatility, the FT economic model sets for each product a guaranteed minimum price.

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The second issue is addressed by making sure that the guaranteed minimum price covers the cost of a "sustainable production" (that is a production which is environment-friendly and which is associated with decent working conditions for producers) and by the payment of an additional premium (which amounts to a pre-defined fraction of the FT volume sold by each producer organisation). As for the exploitation of producers by "unfair" middlemen, the issue is supposed to be tackled by the certification process (only buyers complying with FT standards are able to enter FT value chains).

The crucial element of the FT economic model is however the availability of "ethical consumers" from the North who are ready to pay a higher price for products labelled FT. This element of solidarity forms the basis without which the model is simply impracticable. The growth of FT markets is ultimately dependent on the growth of the population of "ethical consumers". Hence the strong need for the FT movement to have recourse to awareness and marketing campaigns.

This is in a nutshell the logic, or the spirit, of the FT economic model.

Though the rhetoric of FT activists might sound progressive and opposed to free trade, as a matter of fact, the FT economic model obeys in practice to a neoliberal logic. I must add that this unexpected and unfortunate outcome derives from the premises of the FT economic model itself.

SOME LIMITATIONS OF THE FAIR TRADE ECONOMIC MODEL

For the FT economic model to be efficient and to be considered as a superior alternative to free trade, it has at least to provide to producer organisations better outcomes in terms of prices and market access compared to conventional international trade. However, owing to the way in which it has been conceived, there is no guarantee a priori that producers involved in the FT movement should be better-off than conventional producers, or at least that the FT economic model can help stabilise or improve the revenues of FT producers.

First, there are limits to the "generosity" of the FT minimum price. If it is too high relative to standard prices observed in conventional markets, there is the risk that consumers will be discouraged to buy FT products. However, if the FT minimum price is not generous enough, it will probably not have a significant effect on poverty. In other words, there is a trade-off to be made between the need to ensure the growth of FT markets and the need for the FT movement to have a significant economic impact for the producer organisations involved. Given the high level of competition in the field of "ethical consumption" (with the proliferation of "ethical labels" with varying standards), there is a growing tendency in the FT movement to privilege FT sales growth, tendency which implies to lower standards and to align FT prices more closely to conventional market prices.

Second, contrary to a popular belief, the disposal of a FT label does not guarantee producer organisations that they will be able to sell all of their FT production at FT conditions. Labelling initiatives can just simply define the rules of the game for FT markets (certification, minimum price, pre-financing, traceability, etc.) and try to ensure that standards are enforced. They cannot guarantee that each producer organisation involved in the movement will have access to FT markets. They cannot guarantee either that buyers involved in the movement will pay a price higher to FT minimum price. In other words, as in conventional markets, market access and prices are also determined on a competitive basis in the FT value chains. Free trade logic takes place once FT rules and standards are accepted by the different protagonists in the FT value chains. As underscored by one author: "Fair Trade does not pose any challenge to the free market system; rather it is a part of that system that increases the welfare of a target group through a speciality market" (Mohan, 2010: 45/6).

Following this free trade logic, it is not a surprise that FT producer organisations are generally recruited not from the most marginalized but from the better-off among them. Producer organisations that have some "social capital" and some international ties are those that are more likely to enter the FT value chains.

"Over-certification" is the other unfortunate implication of this free trade logic. "Over-certification" means that some FT production (production obtained by following FT standards) had not been sold according to FT conditions. According to estimates from Fairtrade International (FLO), over-certification concerns on average 30 percent of the volume produced by producer organisations and up to 70 percent in the case of "hired-labour" (that is plantation wage workers) organisations. Note however that some case studies tend to report higher over-certification rates. Whatever the case, one scenario must be borne in mind: as FT producer organisations tend to have higher costs on average, they might incur huge losses in the case where their "over-certified" production is sold on conventional markets at prices below their costs.

These limitations regarding price-setting mechanisms and market access explain why the local impact of the FT movement is generally mixed. In some circumstances, involvement in Fair Trade has proved beneficial for producer organisations. In other circumstances, this has not been the case.

THE GLOBAL IMPACT OF FAIR TRADE

If the evidence regarding the local impact of the FT label tends to be mixed, it is all but unambiguous regarding its global impact. It is at this latter level of evaluation that the shortcomings of the FT economy are more apparent. We must say that if Fair trade has been a huge marketing success (revealed by the important sales growth rates recorded until now), it remains until now a very insignificant part of the world trade system.

As an alternative economic model which aims to supersede aid and free trade, the FT approach tends to generate low average revenues for producer organisations involved in it. In 2008, the gross average revenues that accrued to producer organisations amounted to 74 euros annually per worker. This figure which represents 16 percent of the average GDP per capita of the least developed countries in 2008 is not measured net, i.e. costs are not deducted.

As a transfer mechanism, the FT economic model seems also to lack efficiency. To take the case of the United States, for each dollar paid by "ethical consumers" to buy an FT coffee product, only 0.03 US dollars are actually transferred to producer organisations. This low rate of transfer is illustrative of the fact that the surplus paid by consumers is appropriated by intermediaries, including the labelling initiatives.

If the FT economic model is supposed in principle to benefit producers in the poorest countries, in actual practice, the FT movement targets more those in the richest developing countries. The least developed countries are, for example, underrepresented among FT producer organisations (13 percent of the total). This outcome derives from the bias associated with the FT certification model. To be involved in the FT value chains, producer organisations have to pay for the certification (which is to be renewed annually). Given that the certification process is relatively costly, this tends to favour producers in countries with a higher level of development. There is also the fact that the offer of certification by labelling initiatives is biased towards products exported by Latin American countries (coffee and bananas for example), a region which is on average richer than Africa and developing regions in Asia.

Besides excluding producers in the poorest countries, the FT movement tends also to marginalise the countries which are the most dependent on the revenues obtained from the exports of primary products. To illustrate this, let's take for example the case of coffee, the FT flagship product. Ethiopia and Burundi are the two countries most dependent in the world on coffee revenues which account respectively for 34 and 26 percent of their export revenues. Until 2009, there were only three FT coffee certifications in Ethiopia and none in Burundi. Paradoxically, Mexico and Peru, which are not dependent at all on coffee exports (less than two percent of their export revenues), accounted for 31 percent of the total FT coffee certifications, that is a share superior to those of Latin American countries like Honduras and Nicaragua which are much more dependent on coffee exports. For products like bananas and cocoa, the same pattern can be observed. In these different cases, the geography of trade flows obeys the classic determinants of conventional trade flows: development level and distance. American buyers of FT products will prefer to buy FT coffee in Mexico at lower costs than to travel until Burundi just to make the world trade exchanges "fairer".

CONCLUSION

Despite the generous intentions of its protagonists, the FT economic model is not in practice an alternative to aid and free trade. It tends rather to reproduce their deficiencies, those of free trade notably. If the FT label has been more successful than previous attempts ("historical" Fair Trade) in terms of sales, it owes that performance to its association with standard distribution networks and the giants of the agrifood business, i.e. the same actors who are considered by many as responsible for a non-negligible part for the "unfairness" of the international trade system. Looking at its global socioeconomic impact, the limits of the FT economic model are certainly illustrated by the way in which it marginalises the poorest producers and the most dependent countries as well as its low average returns.

However, the most important criticism that can be levelled at the FT movement is that it does not challenge the current structure of the international trade system. Its acceptance of the current global division of labour is a serious impediment to the achievement of fairer distributional outcomes. For producer organisations in developing countries are not poor because they receive low prices. The fundamental reason is that they are trapped in low-productivity economic activities. Unless developing countries change their economic specialisation, by starting to process locally their own primary products, it will be in vain to expect a strong economic development. Centuries of history within the capitalist global system show that specialisation in the exports of primary products is not conducive to economic development. That lesson is still to be learnt by the FT movement.

The current challenge is not to adapt to the current neoliberal order (what the FT movement does) but to transform it. This radical idea of "alternative" Fair Trade remains relevant more than ever. Its practicability will no doubt necessitate stronger mechanisms of international solidarity between peoples.

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IMPRINT

POLICY PAPER is published by the Rosa-Luxemburg-Stiftung
Responsible: Henning Heine
Franz-Mehring-Platz 1 · 10243 Berlin, Germany · www.rosalux.de
ISSN 1867-3163 (Print), ISSN 1867-3171 (Internet)
Editorial deadline: February 2014
Proofreading: Linguatransfair, Berlin
Setting/Production: MediaService GmbH Druck und Kommunikation
Printed on Circleoffset Premium White, 100 % recycled paper

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