

Econ 90A M 4PM

2 May 2011

Making Fair Trade a Reality: How Each Dollar *We* Spend Can Make a Difference

Upon entering Starbucks Company Coffee Shops (Starbucks), one is bombarded by posters declaring that Starbucks participates in Fair Trade endeavors with its coffee providers. Some images are of coffee plantations with long lines of workers depositing their product on truck beds, as they load the truck, they receive their wages. Other images portray coffee bean growers negotiating the price of the product and, presumably receiving a desirable price. One of Starbucks's recent slogans states, "Your Starbucks. Every Latte, every Cappuccino...100% Fair Trade Coffee"¹ Recently, a Starbucks's commercial traces the route of an individual's coffee cup from the coffee plantation to her hand; the message implied is that Starbucks does not have anything to hide, their trading and processing practices are transparent. Thus, they emphasize that fair trade is their way of life. Nonetheless, what is fair trade? Why are Starbucks and other corporations so eager to convince consumers that they participate in fair trade? How does fair trade affect the average consumer? Understanding these questions is essential to making a choice to support fair trade or to be indifferent.

I chose to explore the topic of fair trade because I am greatly interested in doing my part to contribute to a better world. Sadly, many people feel pessimistic about their ability to affect change, but I feel that every action we take can have a positive or negative impact on the people around us, and, consequently, on the world. Before beginning my research, I had some

¹ *Your Starbucks. Every Latte, every Cappuccino...100% Fair Trade Coffee* poster from Starbucks.com

knowledge of fair trade, but I did not know about its origins and the complex nature of ensuring fair trade standards are met. I was introduced to fair trade when I visited a small boutique at the Claremont Village; I purchased a beautiful beaded bracelet that came with a label certifying it was fairly traded. The sale of the bracelet benefited a group of women in rural Mexico, who made the bracelets as a means to feed their families. Initially, when I looked at the price of the bracelet, I was astounded, but when I spoke to the shopkeeper and she explained the benefits of purchasing fairly-traded products, I decided to spend the extra money. If I had not entered that shop, I would^{not} have been informed about fair trade endeavors. Since then, I have become more aware of the things I buy and of the impact they can have on our economy and on the world. Buying fair trade and encouraging others to do the same, allows me to make a difference with every penny I spend.

In order to understand the costs and benefits of participating in fair trade, one must first understand the underlying principles that motivate the world economy, as well as what motivates some companies to choose fair trade when others do not. Currently, most corporations follow the model set by capitalist principles—a model that prompts producers to keep production cost down as an effective means of increasing profits. According to the article “What is Fair Trade” ✓ by Andrew Walton, one of the most common methods of decreasing production costs is to decrease the price of labor and when international trading takes place, that implies underpaying the producer of the product (434). ✓ As a result of the underpaying done by the trader purchasing the product, producers receive less income, which places limits on their ability to gain profit and expand business. The consequences of unfair trade, however, go beyond restraining financial growth. The article, “Ethical Trade Initiatives,” by April Linton notes that without fair trade, environmental concerns rise and workers are exploited, which emphasizes the need to explore

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fair trade options (428). By ensuring the producers receive adequate prices for their goods and by promoting sustainable cultivation, fair trade contributes to trade practices that benefit underdeveloped economies.

The practice of fair trade has existed for some time because some traders have always been concerned about keeping ethical and fair business practices, but, recently, fair trade practices have obtained more support. In the 1980s, Norwegian traders with ethical, socially responsible business practices realized ~~that~~ they were part of a minority and realized ~~that~~ they stood to benefit from highlighting their fair trade practices, so they decided to differentiate their products by labeling them as fairly traded (Linton 427). Like most things associated with business practices, fair trade labeling guaranteed traders practicing fair trade profits by appealing to consumers with similar ethical and social values. In this way, fair trade certification was born, and spread to Europe, and eventually North America. Through fair trade certification, traders were able to set standards for trade and production, which allowed them to continue practicing fair trade, while distinguishing their product from the competition. Today, fair trade certification is practiced by a growing number of traders with high standards and a zealous desire to promote better business practices overseas, especially in the southern hemisphere, which has traditionally suffered the most from under-development and exploitation.

Unlike traditional capitalistic trade practices, which only seek to benefit the traders, fair trade practices are designed to benefit producers and their communities because they allow producers to receive competitive prices for their goods. The World Fair Trade Organization (WFTO) defends fair trade because it defines it as “trading relationship based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions and securing the rights of



disadvantaged producers and workers, especially in the south” (qtd. in Walton 432). Without fair trade practices, a small number of large corporations dominate the world economy providing the majority of goods for the entire world. Since growers and traders who participate in fair trade are smaller organizations, they do not have the capacity to compete with these larger corporations, but through fair trade they are contacted by buyers, which allow them to stay in business. Walton notes that fair trade also allows third world economies to participate in the world economy, which promotes economic and product diversity (461). As a result, most producers are willing to become a part of fair trade, but to do so they must meet the stipulations set by fair trade certifiers.

Thus, fair trade certification prompts producers and traders to achieve fair trade status by meeting the standards set by fair trade organizations. The two prominent fair trade certifiers are the Fair Trade Organization and the World Fair Trade Organization, which work with the Fairtrade Labelling Organizations International (FLO) to continually review the requirements for fair practices and ensure that those who place fair trade labels on their products meet fair trade standards (Linton 228). Although standards vary slightly from product to product, they generally follow specifications, which promote effective communication between producers and traders to promote long-term trade (Fridell 80). The stipulations require that producers and traders must be part of democratic cooperatives that sell directly to importers or second-tier organizations made up of many small cooperatives, plantations must pay minimum wages, provide housing if necessary, follow health and safety codes, and have labor unions. Additionally, child and slave labor cannot be employed, producers and traders must work closely with each other to promote sustainable production and living, and traders are also under the obligation of providing producers credit if required. These stipulations are set to promote longevity of trade

relationships, development of working conditions, and increase product quality (Linton 228).

The benefits of fair trade agreements, thus, benefit the producers by providing a framework for everyone involved in the process of trade to reap benefits.

The benefits of fair trade are felt, primarily, by the communities of the producers, but in the long-run, everyone can benefit. According to the WFTO, a primary group benefited by fair trade operatives is women of rural areas in developing nations because trading enables them to continue producing crafts from home and makes it possible for them to have personal income and allows them to provide better living conditions for their children². Fair trade organizations are aware that women, especially mothers, have much influence in the quality of life of their children; thus, they seek to empower women with the hope they are planting the seeds for progress (Hutchens 449). While most women, who participate in fair trade, produce hand crafts such as jewelry, accessories, and clothing, larger plantations primarily produce agricultural goods. The income from fair trade allows producers to contribute directly to the betterment of their communities by providing funding for schools, clinics, and other necessary services that are not readily available in developing countries. Without the option of fair trade, the people within those communities would have to be satisfied with the bare minimum and without expectations of bettering themselves.

In order ^{to} continue expanding fair trade practices, it is necessary to disperse information about fair trade and prompt more people and consumers to continue purchasing fair trade products. To test the knowledge and accuracy of information that consumers receive about fair trade Alter Eco, an organization that participates in fair trade, conducted a study where participants were asked to relate their knowledge about fair trade. One of the first questions was

² WFTO.com "Inspiring Women in Free Trade."

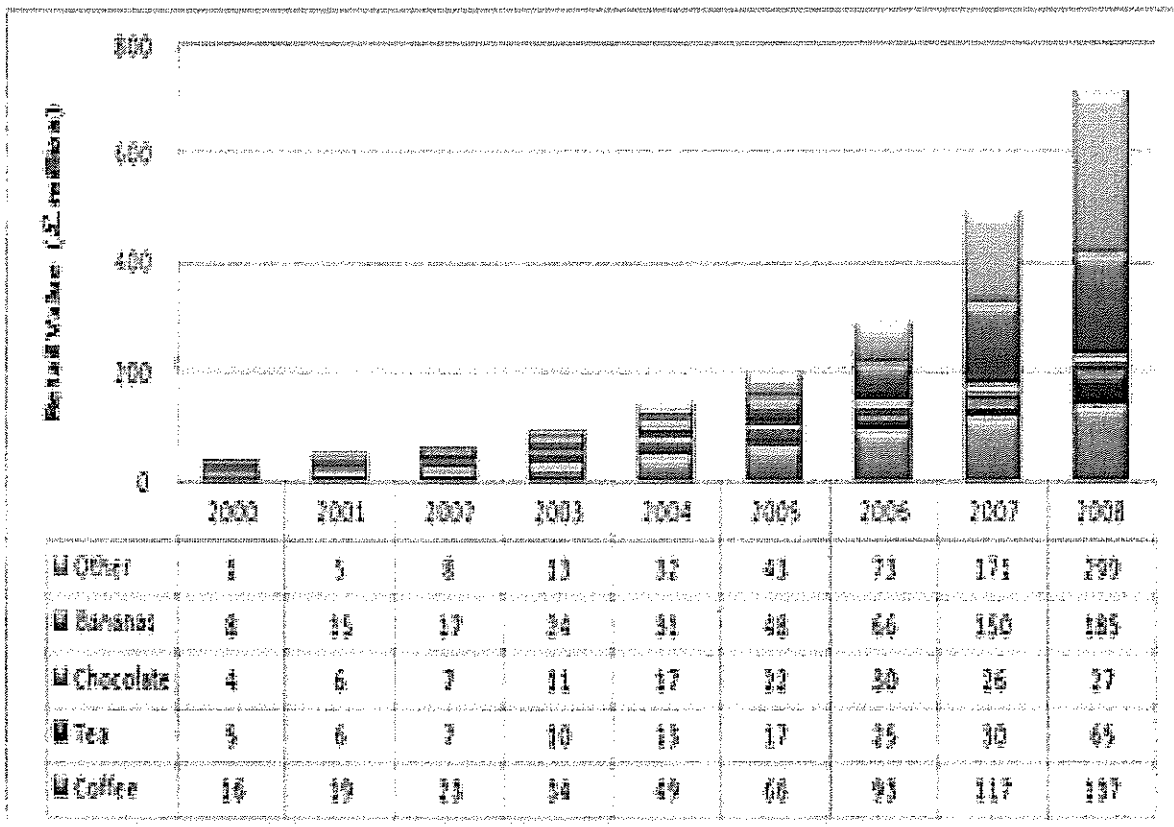


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to ask people what came to mind when they thought of fair, most participants mentioned things such as fair wages and good working conditions, which shows some knowledge of what Fair Trade stipulates (Alter Eco 7). Nevertheless, the consumers questioned did not have a full understanding of the implications and benefits of purchasing fair trade products; most felt that fair trade only benefits producer (Alter Eco 8). If consumers were more educated about the overarching and extensive benefits of purchasing fair trade goods; such products would be more popular. ~~Since~~^M many fair trade participants are aware that consumers are not fully informed about the value and benefits



Since the year 2000, the European-centered Fairtrade Foundation has noted an increasing supply and demand of fair trade products. As seen in the following chart, total retail value of fair trade products was below 100 million euros; but in 2009, the total retail value was over 700



Source: Fairtrade Foundation, Facts and figures

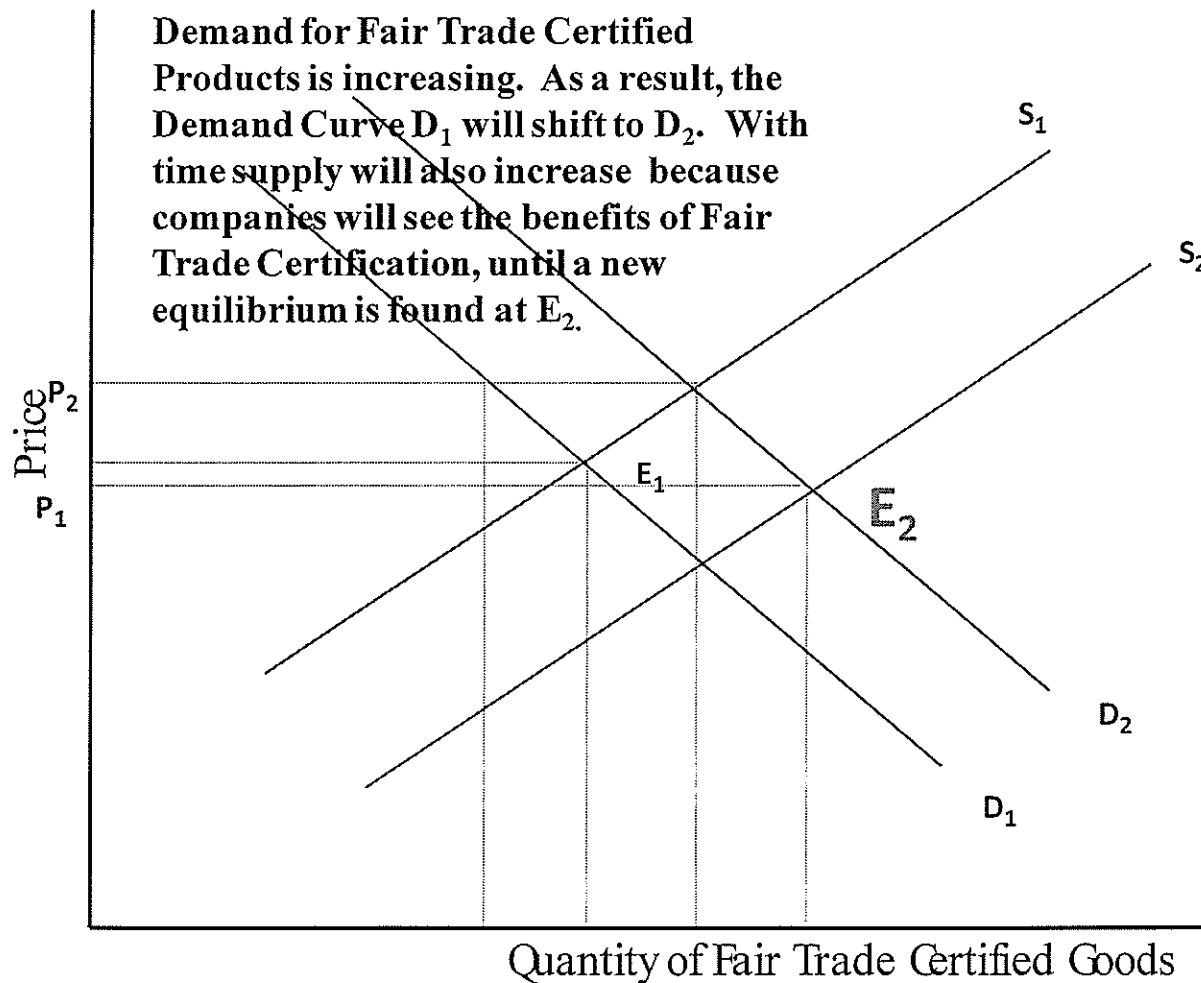
million euros³. Such growth demonstrates the potential for fair trade market, ^{SA} as more publicity is given to fair trade, more people will know about the benefits and become interested in purchasing. Nonetheless, for people to be able to purchase fair trade goods and for companies to meet the demands for fair trade goods, more information needs to be available, but the products must also receive more exposure; marketing methods must rise to the opportunity and prompt the buying and selling of fair trade products. Furthermore, the structure of fair trade importing and reselling needs to undergo transformation or, at least, be updated to meet the needs of the modern consumer and become more competitive with other markets. In the article, "Fair Trade, Diversification, and Structural Change: Towards a Broader Theoretical Framework Analysis," Alastair Smith notes that fair trade organizations must develop a competitive structure by following the sales and advertising models of successful corporations by providing both producers and vendors with more information about making the products marketable (467). Smith's point holds substantial weight because many fair trade organizations obtain quality products from producers, but they do not attract many customers. Smith notes that part of the problem is ^{due to} poor product display and lack of prepared employees ~~is part of the problem~~ at fair trade shops because many follow the volunteer model, which does not provide much of an incentive for employment or progress (468). The volunteer-base model originated when early fair trade initiatives stemmed from charity organizations; as result, rather than hire employees charities helped foment the idea that fair trade should keep functioning as a result of compassionate endeavors, rather than profit gain. Critics of the fair trade structure note that such method ^{is} ~~is~~ unrealistic because ^{it} ~~it~~ will never lead to long-term growth. Due to such criticism, some vendors are beginning to change their selling methods and ~~to~~ hire employees, which prompts

³ Fairtrade.org.uk "Facts and Figures."



economic growth, while exposing more people to fair trade products and increasing demand.

The following graph portrays an *ideal* situation where increasing demand leads to increasing supply and prompts a new equilibrium with appealing prices.



Through a more competitive structure, fair trade ^{products} ~~participants~~ are able to become a more appealing market option, which will attract more producers and contribute to more product diversification, although critics may remain skeptical of fair trade growth. As the Alter Eco study demonstrated, most people associated fair trade with coffee because it is one of the most widely produced and traded fair trade products, but as more companies join fair-trade initiatives,

people will begin to ask for more products. Increasing demands[§] for varied products can only mean that a variety of producers will be able to join fair trade, expanding fair trade's sphere of influence. Currently, about 1000 corporations participate in fair trade with about 3000 products offered, which shows the increasing size of fair trade.⁴ The question, thus, arises if fair trade seems so beneficial, why are not more corporations participating? Generally, the answer is that fair trade does not always offer immediate profits or immediately visible benefits. Most corporations are profit-driven and seek immediate returns, thus fair trade becomes an undesirable option. Nevertheless, as more information becomes available and if people continue to demand fairly traded products, corporations will begin to shift toward fair trade products. When one enters Starbucks and is bombarded by the images declaring the company's fair trade endeavors, one is witnessing the effects that public pressure can have on a company. Over the years, Starbucks has increased its ethical norms regarding the production of coffee and reached fair-trade status, which shows that consumer demands can have an impact on the products made available.

Although ^uuniversal fair trade does not, currently, seem probable and trade prices cannot change overnight. Reviewing the benefits of fair trade and noting how each dollar we spend and each opinion we voice can make a difference should prompt consideration about increasing our support for fair trade. It is difficult to imagine sleeping soundly at night knowing that we could be doing something to better the lives of other people, but we did not. Purchasing some if not all fair trade goods is an opportunity to make a difference, to know that we are simultaneously helping other people and ourselves because when we purchase fair trade goods we help people who care about our planet—a planet we *all* need.

⁴ *Fairtrade.org.uk*



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A few more sources needed.

