

WHAT IS FAIR TRADE?

By Paulette L. Stenzel

Executive Briefing: Fair trade is a way of doing business that builds equitable, long-term partnerships between consumers in developed regions and producers in developing regions across the world. It takes steps toward a just and sustainable economic system that ensures that people get paid a fair price for their work. Fair trade is neither synonymous with nor the antithesis to free trade. Fair trade promotes environmental sustainability and bio-diversity – goals articulated by many of those who advocate free trade.



What is Fair Trade and How Does It Relate to Free Trade?

Fair trade should be viewed as a process, not an end result, and an important part of that process is the pursuit of sustainable development. According to *Our Common Future*, a UN–Environmental Program-sponsored report issued in 1997, sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their needs. Characteristics of fair trade include fair wages, cooperative workplaces, consumer education, environmental sustainability, direct trade, financial and technical support, community development, respect for cultural identity, and public accountability (transparency). Sometimes fair wages are achieved by reducing the number of middle people in the chain of distribution of goods, thus allowing funds for a more equitable payment to producers.

Thousands of kinds of goods are available through fair trade, including clothing, coffee, sugar, tea, chocolate, furniture, home décor items, house wares, and toys. Fair trade goods are more widely available in Europe than in the United States, but they are becoming more visible and widely available in the United States. For example, at Michigan State University fair trade coffee is the only coffee sold at all of the nineteen Sparty's Coffee Shops on campus. It is also the only coffee served at MSU cafeterias. Retail stores that offer organic foods often sell fair trade foods, too. And some stores are exclusively devoted to fair trade art and handicrafts. As more people purchase fair trade products, prices are often competitive as compared to goods of similar quality not produced through fair trade.

It is important to clarify that fair trade is neither synonymous with nor the antithesis to free trade. In theory, free trade is a system that allows goods and services to flow across international borders unhindered by government-imposed restrictions. In practice, free trade agreements remove or lessen government restrictions on trade flowing across international borders according to intricate plans resulting from accommodation of multiple interests, especially

producers of what are called “sensitive products.” For example, the North American Free Trade Agreement (NAFTA) and the Dominican Republic–Central American Free Trade Agreement (DR-CAFTA) include intricate schedules for phase out of tariffs on agricultural products such as rice, sugar, and corn. Other provisions facilitate trade by protecting intellectual property rights, opening access to financial markets, and provisions related to transportation of goods. The agreements usually speak of the need for sustainable development, and NAFTA, in fact, includes an environmental side agreement.

Fair trade seeks to improve the quality of life for individuals in sustainable ways whether or not they live in an area covered by a free trade agreement. In practice, free trade and fair trade could be mutually compatible. For example, in Managua, Nicaragua, a women's fair trade sewing cooperative assisted by the Center for Development in Central America (CDCA) has been certified as a free trade zone by Nicaragua's government.

How Can I Recognize Fair Trade Goods?

Fair trade is usually based on grass-roots, ground-up action by individuals and groups. Therefore, many products are made pursuant to the practices of fair trade but are not certified by any governmental or non-governmental organization (NGO). Certification as a tool for identifying fair trade goods is a growing movement, however, and is likely to be used more as market demand for fair trade goods increase.

Many organizations provide certification. For example, Fairtrade Labeling Organizations International (FLO) is a non-profit umbrella organization for twenty-three members around the world. Its FLO-CERT program offers fair trade certification services in more than 70 countries. It develops fair trade standards using a multi-stakeholder process involving producers, workers, mission-based companies, conventional traders, labeling organizations, and independent consultants specializing in fair trade and labor issues. FLO-CERT also provides technical support for fair trade-certified producers.

FLO-CERT standards guarantee a minimum price to producers. For example, in December 2007, FLO

announced an increase of the guaranteed price for washed Arabic coffee to US \$1.25 per pound to take effect on June 1, 2008. This helps farmers by providing a stable price as compared to the fluctuating prices paid for conventionally-farmed coffee.

In addition, FLO-certification requires a “Fair Trade Premium” that the producer must invest in projects enhancing the quality of life in the producer’s community. The premium, paid on top of the per kilo price paid to farmers for their coffee, is 10 cents per kilo for fair trade-certified coffee and 20 cents for fair trade-certified organic coffee. The standards set clear, minimum objectives for social, economic and environmental sustainability, and the money is invested at the cooperative and community level by the cooperatives.

Currently, FLO estimates that fair trade certification benefits over one million farmers and workers in 58 developing countries across Africa, Asia, and Latin America. Transfair, a 501(c)3 non-profit organization, is a member of FLO and is the only third-party certifier of fair trade products in the United States. Transfair-certified products are carried by over 35,000 retail establishments in the United States. Across the world, certification enables consumers to vote for a better world with their dollars, simply choosing labels verifying fair trade certification.

Volume of Fair Trade in the United States and Around the World

In the United Kingdom and Europe, fair trade enjoys far more support and higher volumes of sales than is true in the United States. Worldwide, fair trade sales were close to half a billion dollars a year in 2004, and that total grew by about 500% to about \$2.6 billion for 2006

according to the International Fair Trade Association. Europe accounted for 60-70% of the world’s fair trade market in 2006.

In order for fair trade to expand, it is important for consumers to be more aware of its existence and benefits. With education, more consumers will look for and purchase fair trade goods. Fair trade brings better compensation to producers, enabling them to cover basic needs for themselves and their families, such as food, shelter, education, and health care. Fair trade enables people to care for their communities and natural environment – thus, it is a valuable tool to promote sustainable development in our world. ♦ [gBR Article 02-05](#), Copyright © 2008.

Sources

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Stiglitz, Joseph E. and Andrew Charlton (2007), *Fair Trade for All: How Trade Can Promote Development*, New York, USA: Oxford University Press.

The Fair Trade Federation, www.fairtradefederation.org.

Transfair USA, www.transfairusa.org.

Esperanza en Accion, www.esperanzaenaccion.org.

Fairtrade Labelling Organizations (FLO) International, www.fairtrade.net.

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