

NON-AGRICULTURAL FAIR TRADE
AN ANALYSIS OF ECONOMIC AND DEVELOPMENTAL BENEFITS AND
CHALLENGES

Master of Arts in Law and Diplomacy Thesis

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**NON-AGRICULTURAL FAIR TRADE:
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∞ ABSTRACT ∞

Fair trade has experienced significant growth in the past decade, particularly in the agricultural sector. An expanding body of literature analyzing fair trade reflects this growth; however, this literature overwhelmingly ignores non-agricultural fair trade, despite the fact that it makes up a quarter of the fair trade industry. The primary argument of this paper is that the failure to acknowledge or distinguish non-agricultural fair trade from agricultural fair trade results in an incomplete analysis of the benefits and challenges of fair trade because non-agricultural fair trade is characterized by several important features that differentiate it from agricultural fair trade. Some of these differences arise from institutional variations in strategy and structure, while others are a function of the agricultural and non-agricultural markets.

These strategic and structural differences are outlined in Section 1, while the market differences are addressed in Sections 2 and 3. Although there is an abundance of literature regarding the benefits of fair trade, there is almost no analysis of fair trade's intended benefits using economic theory. Section 2 develops the economic theory behind the benefits of fair trade and applies this analysis, as well as the developmental benefits of fair trade identified in the literature, to both agricultural and non-agricultural fair trade. In addition it identifies benefits that are particular to non-agricultural fair

trade. Section 3 utilizes the existing body of literature on the economic and development challenges of agricultural fair trade as an initial framework and discusses the applicability of these features to non-agricultural fair trade. It also identifies additional challenges that non-agricultural fair trade faces. Sections 2 and 3 demonstrate that not only is fair trade a useful tool for poverty reduction, but non-agricultural fair trade and agricultural fair trade should not be mistaken for being the same tool due to differences in the demographics of the population that they reach as well as differences in the supply chain and product design, quality, and uniformity. Section 4 discusses the incomplete analysis regarding the effectiveness of fair trade as compared to other development interventions and the necessary steps and associated challenges of evaluating fair trade programs.

This paper concludes that although agricultural and non-agricultural fair trade have the similar underlying goal of improving the livelihood security and well-being of economically disadvantaged producers in developing countries, as a result of the differing strategies and markets, these two varieties of fair trade function differently, affect different populations, and analysis of one should not be assumed to apply to the other.

1. AN INTRODUCTION

1.1 Introduction

Fair trade has existed in some form since the 1940s and has undergone many changes, adapted its market strategy, and demonstrated that it is not a passing phase. Fair trade's market share has grown significantly in the past ten years, with average annual growth of 40% and a 47% growth in 2007.¹ Fair trade sales totaled 2.3 billion euros in 2007.² Awareness of fair trade products has expanded rapidly as well. The number of developing country fair trade producers has grown to 1.5 million, but including affected dependents, the effect of fair trade is much more far-reaching at 7.5 million beneficiaries.³ Given the growth of fair trade as a tool for poverty reduction in recent years, it has also been subject to criticism regarding its effectiveness.

The bulk of the literature on fair trade focuses on agricultural commodities such as coffee, tea, cocoa, and bananas, which make up the majority of all fair trade goods. Non-agricultural fair trade, which includes artisanal goods such as jewelry, ceramics, and textile goods, e.g., clothing, handbags, table linens, has received less focus in the existing literature and has not been evaluated as a tool of poverty reduction separately from agricultural fair trade despite making up 25%⁴ of fair trade. By failing to disaggregate the effects of non-agricultural fair trade from agricultural fair trade and in other cases ignoring non-agricultural fair trade altogether, the existing literature fails to

¹ FLO, "FLO International: Figures," <http://www.fairtrade.net/figures.html>.

² Ibid.

³ FLO, "FLO 2007 Annual Report: An Inspiration for Change," 21.

⁴ Debora C. Randall, "An Exploration of Opportunities for the Growth of the Fair Trade Market: Three Cases of Craft Organisations," *Journal of Business Ethics* 56, no. 1 (January 1, 2005): 56.

assess a dimension of fair trade that has some important distinctions from agricultural fair trade.

A second gap in the literature is the absence of economic theory to analyze the intended benefits of fair trade. Although there is some, albeit limited, economic analysis used to critique fair trade, there is virtually no discussion of the economic benefits of fair trade utilizing economic theory. A third gap in the literature is the lack of analysis regarding fair trade as compared to other poverty reduction strategies and evaluating the effectiveness of fair trade.

This paper begins to fill the first gap in the literature by disentangling the arguments both for and against fair trade in Sections 2 and 3 and examines the applicability of such arguments to non-agricultural fair trade. Section 2 addresses the second literature gap by employing economic theory to analyze the intended benefits of fair trade. Section 3 draws on existing literature as a framework to begin discussing the economic, developmental, and technical challenges for utilizing non-agricultural fair trade programs. Sections 2 and 3 identify additional benefits and challenges, respectively, that are specific to non-agricultural fair trade. Section 4 discusses the effectiveness of fair trade as compared to other development interventions and important steps to evaluating fair trade. Section 5 provides conclusions and recommendations regarding the use of fair trade as a tool for poverty reduction.

Before delving into the analysis, however, the remainder of this section clarifies the definition of fair trade, provides a brief history, and outlines the current structure of the fair trade industry. These clarifications are more than purely informational but

explain some of the key differences between agricultural and non-agricultural fair trade with regards to strategies, institutions, and actors.

1.2 What is Fair Trade?

There are two primary categories of fair trade that are related but distinct. The first relates to fair trade *policy*, the rules and regulations of international trade and whether or not these rules and regulations disadvantage developing countries by undermining their rights and interests. The second category relates to fair trade *programs*, which provide poor producers with the wages and skills to improve their livelihood security and well-being. Oxfam, one of the oldest proponents of this second category defines fair trade as “paying poor producers a fair price and helping them gain the necessary skills and knowledge to develop their businesses and work their way out of poverty.”⁵ Definitions of fair trade in this context generally state that fair trade includes:

- Income generating opportunities that provide fair wages.
- Development of technical skills and other skills and knowledge.
- Raising awareness of negative effects of international trading policies.

Four of the major fair trade umbrella bodies, Fairtrade Labeling Organizations International (FLO), International Federation for Alternative Trade (IFAT) now known as World Fair Trade Organization (WFTO), Network of European Worldshops (NEWS!), and European Fair Trade Association (EFTA), informally joined in 1998 to create FINE.

⁵ Susan A. Aaronson and Jamie M. Zimmerman, “Fair Trade? How Oxfam Presented a Systemic Approach to Poverty, Development, Human Rights, and Trade,” *Human Rights Quarterly* 28, no. 4 (2006): 1017.

Because most fair trade programs are affiliated with one or more of the umbrella bodies that make up FINE and it is one of the most widely agreed upon definitions,⁶ its definition of fair trade is relevant to this discussion. FINE's states:

Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, disadvantaged producers and workers – especially in the South. Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising, and in campaigning for changes in the rules and practice of conventional international trade.⁷

It is worth noting that this definition does not include labor standards and codes, which is captured under the definition of ethical trade.

The goals of fair trade programs, as evidenced from the various definitions of fair trade, are not only to provide fair wages, but also to provide advanced credit or subsidized product inputs and programming, such as workshops on technical skills, savings, credit, health care access, and literacy, which generally falls under the purview of development agencies.

1.3 A Brief History of Fair Trade

The first example of fair trade as we conceive of it today was seen in the 1940s when small organizations and churches began trading directly with poor communities in

⁶ Stephanie Barrientos and Catherine Dolan, "Transformation of Global Food: Opportunities and Challenges for Fair and Ethical Trade," in *Ethical Sourcing in the Global Food System* (London: Earthscan, 2006), 6.

⁷ Fair-Trade Advocacy Office. "What is Fair Trade?" <http://www.fairtrade-advocacy.org/index.php>

developing countries in order to provide income to poor populations.⁸⁻⁹ Fair trade became a wider movement in the 1960s and 1970s as an act of solidarity with communities in the South via technical assistance to poor producers.¹⁰ Until 1973, when the first fair trade coffee was exported from Guatemala to the Netherlands, handicrafts were the primary fair trade products.¹¹ In the first half of the 1980s fair trade's focus changed from solidarity to "laying the groundwork for an alternative trading system composed of alternative trade organizations that would form part of a new international economic order based on strong state intervention at the national and international levels."¹² In the late 1980s, however, the goal of an alternative trading system was subordinated to the new goal of working within the existing conventional markets, and "fair traders adopted a new, market-driven vision of fair trade based on non-binding, voluntarist commitments for private corporations."¹³ Although this shift has allowed an expansion of fair trade, settling for a voluntary system of equitable trading has meant that the network has abandoned an alternative trading system based on international regulations.¹⁴

This entry into the conventional market has not been uniform throughout the fair trade industry. Instead, this strategy has been dominated by the agricultural sector,

⁸ Geoff Moore, "The Fair Trade Movement: Parameters, Issues and Future Research," *Journal of Business Ethics* 53, no. 1 (2004): 73.

⁹ Gavin Fridell, "Fair Trade and Neoliberalism: Assessing Emerging Perspectives," *Latin American Perspectives* 33, no. 6 (November 1, 2006): 9.

¹⁰ Marlike Kocken, "WFTO - 60 Years of Fair Trade," February 9, 2009, http://www.wfto.com/index.php?option=com_content&task=view&id=10&Itemid=17.

¹¹ Kocken.

¹² G. Fridell, 10.

¹³ G. Fridell, 10-11.

¹⁴ G. Fridell, 11-12.

while the non-agricultural sector remains somewhat outside the mainstream markets. The large growth experienced in the agricultural fair trade industry is a result of a campaign to mainstream these products through sales in supermarkets, “where most people do their shopping,”¹⁵ rather than boutique markets. This strategy has been realized in both Europe and North America, as evidenced by the sale of fair trade products along side conventional food products in supermarkets such as Co-op in Europe and Whole Foods in North America. The success of mainstreaming agricultural fair trade products was a result of a rigorous certification and labeling strategy.¹⁶

Agricultural products – both food and non-food items – have taken the lead in fair trade sales, making up 75% of fair trade products.¹⁷ Fair trade food items, in particular, have contributed to recent growth, making up 69% of all fair trade sales.¹⁸ All the growth in fair trade has been a result of expansion in the commodities sector,¹⁹ and in particular, growth in the fair trade coffee industry.²⁰ Non-agricultural fair trade sales, on the other hand, make up only 25% of all fair trade sales,²¹ and growth in this sector has been stagnant.²²

This decision to mainstream sales was not one that carried over to the non-agricultural fair trade market. The limited distribution of crafts through specialty stores

¹⁵ Laura T. Reynolds, Douglas Murray, and Peter Leigh Taylor, “Fair trade coffee: building producer capacity via global networks,” *Journal of International Development* 16, no. 8 (2004): 1111.

¹⁶ Laura T. Reynolds and Michael A. Long, “Fair/Alternative Trade: Historical and empirical dimensions,” in *Fair Trade: The challenges of transforming globalization* (New York: Routledge, 2007), 17.

¹⁷ Randall, 56.

¹⁸ Ibid.

¹⁹ Randall, 61.

²⁰ Reynolds, et al, 1110.

²¹ Randall, 56.

²² Randall, 61.

or mail order is a significant problem for this sector of fair trade.²³ Randall, one of the few scholars to look explicitly at non-agricultural fair trade, concludes in her study of three of the largest fair trade craft organizations that they have focused on niche markets rather than attempting to move into mainstream markets, “which has resulted in limited growth and profitability.”²⁴

Another important divergence in the history of fair trade is the difference in the European and North American markets. The European market is responsible for approximately two thirds of the total fair trade market²⁵, although the North American market is growing at a faster rate.²⁶ The primary difference between these two markets is the significant support by both the public and private sectors in Europe.²⁷ In a comparison of the European and North American market, Hira and Ferrie find that in addition to the NGO campaigns for fair trade, “the European public sector has been willing to aid fair trade efforts not only directly in terms of public financing of ngos but also in promoting fair trade through public statutes,” while the private sector has willingly stocked fair trade products.²⁸ In Switzerland, the Netherlands, and Germany, the large share of fair trade products sold is a result of long running public campaigns.²⁹ In the United Kingdom, France, and Italy, the growth in fair trade sales is a result of

²³ Randall, 62.

²⁴ Randall, 64.

²⁵ Reynolds and Long, 20.

²⁶ Reynolds, et al, 1111.

²⁷ Anil Hira and Jared Ferrie, “Fair Trade: Three Key Challenges for Reaching the Mainstream,” *Journal of Business Ethics* 63, no. 2 (January 1, 2006): 111.

²⁸ Hira and Ferrie, 111.

²⁹ Reynolds and Long, 21.

increased consumer interest as a result of non-governmental campaigns.³⁰ Growing consumer interest has also driven growth in the United States and Canada, but NGOs supporting fair trade in these countries have not enjoyed the same level of support from the public and private sector that has been experienced in Europe.

1.4 The Structure of the Fair Trade Industry

The fair trade system, at times, appears to be somewhat fragmented, and it is often difficult to discern which actors are responsible for what and where they fit into the larger industry structure. The principal actors in fair trade are producers, importers, retailers, and fair trade organizations. These actors are not always distinct, for example, fair trade organizations may also be the importer and the retailer. In addition to these actors who participate directly in fair trade, there are also several associations of each group of principal actors as well as third party institutions that create fair trade standards, certify producers and products that are compliant with those standards, and label certified products. To further complicate the industry structure, some actors only operate in Europe or North America. Table 1 and the following discussion help to elucidate these actors and the roles they fill.

³⁰ Reynolds and Long, 22.

Table 1: Industry Roles and the Actors Who Fill Them

Role	Agricultural		Non-Agricultural	
	Europe	North America	Europe	North America
Standards	FLO e.V.	FLO e.V.	WFTO*	WFTO*
Certification of Products	FLO-CERT, e.g., Max Havelaar	FLO-CERT, e.g., TransFair		
Certification of Producers	FLO-CERT, e.g., Max Havelaar	FLO-CERT, e.g., TransFair	WFTO*	WFTO*
Certification of Traders	FLO-CERT, e.g., Max Havelaar	FLO-CERT, e.g., Transfair	WFTO and FTF	WFTO and FTF
Importers' Associations	EFTA	FTF	EFTA	FTF
Retailers' Associations	NEWS!	FTF	NEWS!	FTF
Fair Trade Organizations' Associations	WFTO	WFTO and FTF	WFTO	WFTO and FTF

Producers' Associations	AFN – African Fairtrade Network CLAC – Coordinadora Latinoamericana y del Caribe de Comercio Justo NAP – Network of Asian Producers	COFTA - Cooperation for Fair Trade in Africa IFAT LA - Asociación Internacional de Comercio Justo Latinoamérica AFTF – Asian Fair Trade Forum
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*WFTO is in the process of developing standards and a system of certification for non-agricultural fair trade.

1.4.1 Producers in Developing Countries

Producers in developing countries must be organized into cooperatives in order to participate in fair trade. These producers are generally economically disadvantaged as per the mission of fair trade. There are major producers' associations in Latin America, Africa, and Asia, but not all producer cooperatives are members of these associations.

1.4.2 Traders, Importers, Retailers, and Fair Trade Organizations

During the early days of fair trade, what are now known as fair trade organizations were known as alternative trade organizations (ATOs), whose name reflected the early ideology of the fair trade movement, i.e., fair trade was setting up an alternative system of trade that would run parallel with the global economy. Fair trade organizations' primary role in the larger system is to link producers with consumers by creating direct relationships with both sides of the market.³¹ Due to this "face-to-face" relationship with producers, in particular, fair trade organizations have "historically provided critical information and support to consumers and producers."³²

Fair trade organizations are still of critical importance in non-agricultural fair trade. The World Fair Trade Association (WFTO), which was previously known as the International Federation for Alternative Trade, is the largest association for fair trade organizations in both Europe and North America. In addition to WFTO, North American fair trade organizations can join Fair Trade Federation (FTF), which is a joint association of importers, retailers, and fair trade organizations. In Europe, non-agricultural fair trade organizations primarily sourced their products through World Shops, which sell only fair trade items but are not owned by the fair trade organization. In North America, sales have been conducted through dedicated stores owned by non-agricultural fair trade organizations such as Ten Thousand Villages or via orders placed in catalogs or on the internet. As a result there appears to be a greater differentiation among traders,

³¹ Reynolds and Long, 18.

³² Ibid.

importers, retailers, and fair trade organizations in Europe than in North America. The separate associations for importers, retailers, and fair trade organizations in Europe is evidence of this: the association for importers in Europe is European Fair Trade Association (EFTA); the association for retailers is the Network of European World Shops (NEWS!); and the association for fair trade organizations is WFTO. Fair trade organizations have a diminished role in agricultural fair trade, due to the mainstreaming of these commodities. Instead, the focus is on the producers and importers, which are subject to stringent standards.

1.4.3 Standards, Certification, and Labeling Organizations

Standards, certification, and labeling in agricultural and non-agricultural fair trade are in two very different states. In part, this is a result of the strategy to mainstream fair trade commodities, which required branding, standardized criteria, and certified producers to back up the brand. A second factor is the different structures of agricultural and non-agricultural fair trade. A third contributing factor to the differences between agricultural and non-agricultural fair trade is the difficulty in creating standards for the production of non-agricultural goods. The first two issues are discussed below. The third issue will be discussed further in Section 3.

National organizations involved in creating standards, certifying producers, and labeling agricultural fair trade products operated separately until 1997 when they agreed upon standards under the umbrella of Fairtrade Labeling Organizations (FLO) in order to enhance visibility. FLO is divided into two sub-units. FLO e.V. is responsible for

developing standards, while FLO-Cert is responsible for monitoring and certifying producers and importers via 20 independent national organizations. Among these, Max Havelaar and Fairtrade Mark are the most prominent in Europe and TransFair is the only certifier of products and producers sourcing to North America. The FLO provides generics standards for producers and traders of agricultural products as well as product specific standards for bananas, cocoa, coffee, dried fruit, fresh fruit and vegetables, fruit juices, herbs and spices, honey, nuts and oil seeds, quinoa, rice, cane sugar, soybeans and pulses, tea, wine grapes, flowers and plants, and seed cotton.

Related to the decision to mainstream agricultural fair trade products, came the movement away from fair trade organizations. “The labeling model of Fair Trade hinges on independent certification, where interactions between producers and consumers are mediated by increasingly formalized rules, standards, and product labeling procedures.”³³ In this model, importing and sales are primarily done by mainstream businesses and communication is done indirectly through standards and labels.³⁴

The non-agricultural fair trade industry has been far outpaced by agricultural fair trade in terms of standards, certification, and labeling. This is partially a result of the non-agricultural fair trade industry’s resistance or inability, it is unclear which, to mainstream its product as well as the continued central role of fair trade organizations. Instead of being sold in mainstream markets, non-agricultural fair trade products are

³³ Reynolds and Long, 18.

³⁴ Reynolds and Long, 18-19.

still sold through fair trade organizations, which guarantee fair trade standards based on their reputation rather than a certified label.³⁵

Fair trade organizations and FLO and its national initiatives pursue the goals of fair trade differently.³⁶ Fair trade organizations believe fair trade is a balance between income-generating opportunities and other developmental projects, while FLO and its member organizations practice a more institutionalized version of fair trade that revolves around fair prices, which include a social premium that is funneled into community development projects.³⁷

Still, this does not mean that non-agricultural fair trade is without standards and certifications of some kind. WFTO and FTF have long required that their members, who produce both agricultural and non-agricultural goods, meet specific standards in order to join their associations. The standards, however, are more principled than FLO's standards, which are more technical. WFTO is currently working to develop a certification program called Sustainable Fair Trade Management System (SFTMS). SFTMS is unlike FLO for two reasons. First, it is geared towards non-agricultural products. Second, "Unlike the [FLO] label which is applied and paid for on a product-by-product basis, the SFTMS applies to an entire business and all of its products and services."³⁸ The realization of SFTMS could have important effects on non-agricultural fair trade and will be important to watch.

³⁵ Stephanie Barrientos, Michael E. Conroy, and Elaine Jones, "Northern Social Movements and Fair Trade," in *Fair Trade: The challenges of transforming globalization* (New York: Routledge, 2007), 54.

³⁶ Reynolds and Long, 18.

³⁷ Reynolds and Long, 18-19.

³⁸ WFTO, "WFTO - Certification: the Sustainable Fair Trade Management System," March 13, 2009, http://www.wfto.com/index.php?option=com_content&task=view&id=898&Itemid=303.

1.5 Conclusion

This section demonstrates that the fair trade industry is not uniform across the agricultural and non-agricultural sectors in terms of strategy and structure. These variations are the result of the decision to mainstream agricultural fair trade products and the subsequent development of standards and certification and labeling of these products, which is in sharp contrast to non-agricultural fair trade. This key decision by the agricultural sector has resulted in significant growth in terms of sales and the number of producers affected.

This expansion, however, is not without costs. In particular, the increased focus on “transnational corporate traders, branders, and retailers,” has pushed out the fair trade organizations in agricultural fair trade,³⁹ which are the providers of developmental programming that has traditionally accompanied the income-generating opportunities provided by fair trade. If agricultural fair trade wishes to stay true to the goal of fair trade, it will need to bolster its development programming.

Non-agricultural fair trade has the potential for growth if it follows in the footsteps of the agricultural sector and forges into a more mainstream market. Expansion, however, must be done thoughtfully by keeping the goals of fair trade in sight. Additional analysis regarding a purposeful expansion is explored in Sections 3 and 4.

³⁹ Laura T. Reynolds and Douglas L. Murray, “Fair Trade: Contemporary Challenges and Future Prospects,” in *Fair Trade: The challenges of transforming globalization* (New York: Routledge, 2007), 224.

☞ 2. ECONOMIC AND DEVELOPMENTAL BENEFITS ☞

Although most people associate the provision of fair prices and wages with fair trade, this is only one of the many benefits of fair trade. The intended goal of fair trade is to improve the livelihoods of poor producers in developing countries, which is achieved by employing both economic and development tools. On the economic front, fair trade organizations or traders attempt to improve livelihoods by overcoming the market failures of imperfectly competitive markets and imperfect information. Furthermore, fair trade organizations often attempt to reduce risks producers face by insulating against price fluctuations and/or providing advanced credit on inputs. Finally, fair trade addresses issues of barriers to market entry. On the development front, fair trade organizations contribute to improved livelihoods through a number of capacity building programs such as technical education, financial literacy programs, workshops on reproductive and general health, and educational scholarships.

Although the existing literature widely discusses the benefits of fair trade, these benefits are rarely analyzed in economic terms. This section addresses this gap in the literature by analyzing the theoretical benefits of fair trade in terms of its ability to address market failures and other economic obstacles. It also discusses the capacity building component of fair trade, which is increasingly recognized as a key component of fair trade programs. Benefits that are common to both agricultural and non-agricultural fair trade are discussed and similarities and differences in terms of the applicability are identified. Additional benefits that are specific to non-agricultural fair trade are also identified.

2.1 Benefits of Agricultural and Non-Agricultural Fair Trade

2.1.1 Economic: Improved Competition

Unequal market power is a common feature of market structures that are not perfectly competitive. In the both agricultural and non-agricultural markets, small producers in developing countries face unequal power that disadvantage them in terms of pricing and market entry. Producers of agricultural commodities such as coffee, tea, cocoa, and bananas face oligopsonistic markets, which provide the few major buyers (middlemen) with the monopsonistic power to drive down prices they pay to the large supply of small producers. Although the market for clothing and accessories is one of monopolistic competition, in the areas where fair trade operates, producers of non-agricultural fair trade products face oligopsonistic markets for those products.

In response to this market failure, fair trade organizations stop the bidding down of prices by setting fair prices for labor and the final product, which act like a price floor. While price floors can be economically inefficient when applied to an already competitive market, fair trade wages can increase wages paid while not exceeding the competitive wage because the markets in which fair trade producers operate are not perfectly competitive. Ideally, fair trade increases economic efficiency by moving wages towards the competitive equilibrium. The reality of this is further elaborated on in Section 3.

2.1.2 Economic: Improved Information

Imperfect information occurs when one or more actors in a transaction do not have complete information regarding market prices or product quality. In the agricultural market, poor rural farmers may not have access to the most current pricing information, which may reduce their ability to use price signals effectively to maximize their profits. Agricultural fair trade addresses this market failure by providing either a fixed price or a price set in a formulaic manner. Small producers know that when they engage in a transaction with fair trade traders, they are receiving, at minimum, a competitive price.

As in the agricultural market, non-agricultural fair trade organizations address the market failure by providing more pricing power to the producer. In the instance of non-agricultural fair trade, artisans may not be aware of the value of their product or labor time due to general lack of knowledge regarding how prices are calculated, i.e., they do not know which variables to include, or due to lack of information regarding the value of the product in the market. Because producers often lack perfect information regarding how much a product is worth in the market, they receive less than they would if they were aware of how the product was priced in the market.

Fair trade organizations often aid in making information more symmetric. For example, fair trade organization World of Good, with consultation from many other non-agricultural fair trade organizations, developed a free online fair price calculator to help producers get a better grasp of the minimum value the final product is worth and

to standardize pricing of non-agricultural products in the fair trade industry.⁴⁰ This price calculator includes variables such as country; rural or urban; additional benefits received such as healthcare, transportation costs, and education; the type of product; how many artisans participated in production; how many hours were spent creating the product; whether or not the artisan had to pay for materials; whether or not the artisan had to pay for overhead costs such as electricity; and whether or not the artisan had to pay for shipping.⁴¹ While still in the development phase, this tool is intended to empower artisans to negotiate for fair prices by improving artisans' pricing knowledge. Clearly, this tool is limited to those who have access to the internet and are computer literate. However, other organizations, such as Mercado Global, try to directly educate their partner artisans regarding the various components of pricing so that they are aware of their labor and product value.

2.1.3 Economic: Reduced Barriers to Entry

A third economic problem that fair trade organizations attempt to address is barriers to entry such as economies of scale and market access. To address disadvantages related to economies of scale, fair trade organizations generally work with cooperatives, whether agricultural or non-agricultural. By insisting on the cooperative structure, fair trade organizations help producers take advantage of

⁴⁰ World of Good: Development Organization, "The Fair Wage Guide Project," <http://www.worldofgood.org/calculator/>

⁴¹ "The Fair Wage Guide," <http://www.fairtradecalculator.com/>

economies of scale. For example, the cooperative structure allows producers to pool assets such as tools, land, and workshops.

The problem of market access is primarily an issue for non-agricultural producers. Artisans in developing countries are numerous, but there is rarely a local market for artisanal goods. Although there is a demand for products that employ artisanal skills in developed country markets, artisans lack the ability to access these. Those with access generally gain it through a middleman, and thus are hindered by monopsonistic power and asymmetric information. As a result, fair trade organizations aid these producers in fairly reaching markets they would otherwise be unable to reach.

2.1.4 Economic: Reduced Risk

A fourth economic problem that fair trade attempts to address is to reduce producers' risk. This is done somewhat differently in agricultural and non-agricultural markets due to the nature of each industry.

In agricultural markets, the primary mechanism for risk reduction is price stabilization, which insulates producers from fluctuations in commodity prices. Although, this mechanism has been criticized for causing price distortions, according to a study of two coffee and banana fair trade programs, in addition to improved earnings, price stabilization is one of the most notable impacts for producers.⁴² During the coffee crisis, for example, this helped coffee farmers maintain wages that were sufficient to support their families. According to Reynolds, et al, during the coffee crisis, fair trade

⁴² Elisabeth Paul, "Evaluating fair trade as a development project: methodological considerations," *Development in Practice* 15 (April 2005): 148.

prices were “the difference between survival and bankruptcy for many small-scale producers.”⁴³

A related mechanism for risk reduction in the fair trade agricultural market is that it provides developing country producers with the ability to enter markets, such as organic, or the adoption of new technologies, which were previously inaccessible due to farmers’ risk aversion and lack of knowledge. Fair trade programs facilitate farmers’ ability to access these markets by providing technical assistance and price incentives that allow farmers to experiment with organic farming. One study found that a central area in which fair trade makes an impact is in “enlarging market access for the producers by providing openings for new products, in particular by providing additional incentives for production quality and for converting to organic crops which are growth markets and thus offer a greater guarantee of sustainability.”⁴⁴

Although non-agricultural fair trade programs are predicated on the concept of fair prices, like agricultural fair trade, in practice this has limited repercussions due to the nature of the non-agricultural market. While both markets have limited demand, agricultural commodities have a world market price from which fair trade prices are able to insulate. Non-agricultural fair trade products, on the other hand, are highly varied in terms of the actual product, the price attained on the market for those products, and the demand for them. Fair trade, in this case, helps ensure that the artisan receives a fair price, but artisans are not directly exposed to risk through large price fluctuations that can be experienced in the agricultural market.

⁴³ Reynolds, et al, 1118.

⁴⁴ Paul, 148.

Fair trade organizations that work with non-agricultural products, however, do reduce artisans' risk by prefinancing inputs such as thread for textiles and beads and wire for jewelry. By providing these inputs, not only is the fair trade organization able to control the output, but the artisan also does not have to buy the materials his or herself, which reduces upfront costs of production and insulates against fluctuations in input prices.

This is particularly important where poverty is severe. For example, a textile artisan with the skill and time to create the twenty handbags requested through a fair trade organization may not be able to afford all the necessary materials to fulfill the order. This artisan has limited options. First, if micro credit is available, the artisan could take out a small loan to cover the costs. Although the services of micro credit institutions are increasingly available, many participating artisans may still lack access due to lack of presence or lack of knowledge regarding credit. Second, the artisan could use informal money lending channels. However, with formal or informal money lending, the artisan will need to repay the principal plus interest, which cuts into the total income. Third, the artisan could try drawing on social networks such as the cooperative and family members to gain the necessary capital. This option may have limited viability due to the depth and wide presence of poverty in areas where fair trade operates. Thus, by prefinancing inputs, fair trade organizations allow poor producers to participate without incurring risk.

A second way in which fair trade organizations are able to reduce artisans' risk is through the ordering process. Because fair trade organizations utilize a market strategy,

they are cautious not to produce more of a product than existing demand dictates. Although this means that the volume of products varies throughout the year, it also means that artisans (and the organization) are not taking a risk by prefabricating a supply for which there is no demand. In the absence of such fair trade programs artisans are forced to create products, which they sell on the street or market or to a middleman. In this situation, the artisan has very little market power because there are so many producers and a limited number of buyers.

2.1.5 Development: Capacity Building Programs

Many fair trade scholars have recognized that the capacity building component of fair trade is of equal or greater importance than the monetary gain in fair trade. Paul, for example, states, "Most evaluations of Fair Trade conclude that its main benefit lies in the reinforcement of local producers' capacities rather than in monetary gain."⁴⁵ Bechetti and Constantino agree that "the main role of fair trade is capacity building, an activity which is deemed crucial to support inclusion of local producers in international trade."⁴⁶ These capacity building programs within fair trade take the form of both technical and non-technical educational programs.

Technical programs focus on improving producers' skills in producing the final product. In agricultural fair trade technical programs may focus on farming methods. In non-agricultural fair trade technical programs may take the form of workshops that

⁴⁵ Paul, 134-135.

⁴⁶ Leonardo Becchetti and Marco Costantino, "The Effects of Fair Trade on Affiliated Producers: An Impact Analysis on Kenyan Farmers," *World Development* 36, no. 5 (May 2008): 824.

introduce new jewelry making techniques, for example. In general, these programs are intended to augment the producers' skill and knowledge regarding production.

Non-technical programs included in fair trade programming are more akin to programs traditionally conducted by development agencies and are intended to increase producers' access and knowledge regarding services that can increase human capital. These include programs such as financial literacy, health access, reproductive health, and scholarships. However, as mentioned in Section 1, these non-technical capacity building programs have become less central in agricultural fair trade.

2.2 Additional Benefits of Non-Agricultural Fair Trade

In addition to the benefits articulated above, there are a couple of additional benefits specific to non-agricultural fair trade. First, non-agricultural fair trade is better equipped to target the poor as beneficiaries. Second, depending on the location, non-agricultural fair trade has important gender implications that should be considered. These benefits are further discussed below.

2.2.1. Pro-Poor

Agricultural fair trade, due to the nature of the sector is likely to exclude the poorest, namely the landless, for clear reasons – those without land cannot easily gain from agricultural fair trade. Reynolds and Long admit that agricultural fair trade comes into conflict with fair trade's goal to help disadvantaged producers because "in most of the Global South, landless workers are the most severely disadvantaged" and "many key

export commodities are rarely produced on a small scale.”⁴⁷ Hira and Ferrie find that “because most fair trade [organizations] certify only co-ops, the poorest of the poor, namely landless workers on large coffee plantations, are untouched by fair trade.”⁴⁸ Pirotte, et al, found that benefits of fair trade fail to reach the poorest group of farmers in Nicaragua, that is the coffee-plantation workers who lost jobs on plantations due to the fall of coffee prices.⁴⁹ Luetchford notes that, while fair trade lends itself to small coffee producers with large families due to the labor-intensive nature of coffee production, the industry does not address inequalities between landowners and the landless, men and women, and residents and migrants.⁵⁰

Additionally, those who have enough capital to be organized in a cooperative, and therefore participate in a fair trade program, are already likely to be better off, because “To be a registered producer or not is highly path dependent, so that being advantaged in the past makes it likely that you will be advantaged in the future.”⁵¹ Fair trade organizations are unlikely to start working with individuals rather than producers organized in cooperatives; however, they can make choices among relatively advantaged cooperatives and less advantaged cooperatives.

Raynolds, et al, acknowledge that decisions regarding which producer groups should be granted participation in fair trade “requires balancing social equity and

⁴⁷ Raynolds and Long, 28.

⁴⁸ Hira and Ferrie, 108.

⁴⁹ Gautier Pirotte, Geoffrey Pleyers, and Marc Poncelet, “Fair-trade coffee in Nicaragua and Tanzania: a comparison,” *Development in Practice* 16 (August 2006): 443

⁵⁰ Peter Luetchford, *Fair Trade and a Global Commodity* (Ann Arbor, MI: Pluto Press, 2008), 71.

⁵¹ Stefan Mann, “Analysing fair trade in economic terms,” *Journal of Socio-Economics* 37, no. 5 (October 2008): 2039.

economic efficiency concerns.”⁵² Inclusion of cooperatives that are already well organized may be appealing for fair trade organizations because well organized cooperatives are likely to have more streamlined and efficient production. Raynolds notes, “The strength of producer groups’ internal organization – their group identity, leadership, and organizational capacity – is central to Fair Trade success.”⁵³ However, “while pre-existing strengths bolster successful participation, the material and non-material benefits derived from Fair Trade can build capacity in each of these areas and thus enhance the conditions for future success.”⁵⁴

Although non-agricultural fair trade organizations also primarily interface with cooperative producers, the nature of non-agricultural fair trade production requires fewer assets. For example, in order to participate in textile production, only weaving skills plus a loom are required. Looms vary, but many that are commonly used can be easily constructed from readily available resources. In Latin America, for example, *tela de cintura* or a waist loom requires only a combination of sticks and a strap that ties around the weaver’s waist. These looms are already commonly used in poor indigenous communities. Non-agricultural fair trade, therefore, allows poorer individuals to take advantage of fair trade programs because this industry does not require that producers have land, which the poorest populations do not have.

⁵² Raynolds, et al, 1115.

⁵³ Ibid.

⁵⁴ Raynolds, et al, 1119.

2.2.2 Gender

Fair trade programs also have gendered dimensions depending on the context. In a recent study on gender and agriculture, the World Bank reports, “In East Asia and Latin America, women participate more often in the rural non-farm economy than in the agricultural wage labor market. However, in South Asia the reverse is true. In Sub-Saharan Africa, women, particularly poor women, rely increasingly on agricultural wage labor.”⁵⁵ This has important implications for fair trade programs that are interested in targeting women. In East Asia and Latin America, therefore, fair trade programs that rely on agriculture are less likely to affect women due to their limited participation in commercial agriculture. In Latin America, the primary exception to this trend is in coffee, where women participate in coffee harvest.⁵⁶ In these contexts, fair trade organizations are likely to have a more significant impact on women if they focus on non-agricultural production.

In addition to the particular dynamics of a given geographic region, Kocken of EFTA notes that even where there are additional sources of income, crafts often provide supplementary income to families.⁵⁷ Kocken further notes that income from crafts is of “crucial importance to households headed by women who have limited employment opportunities.”⁵⁸ Female-headed households are frequently among the most marginalized in developing countries due to social and cultural norms as well as prohibitive laws regarding property rights.

⁵⁵ World Bank, “Agriculture for Development: The Gender Dimension.” *World Development Report 2008*, http://siteresources.worldbank.org/INTWDR2008/Resources/Brief_AgDev_GenderDim_web.pdf.

⁵⁶ Luetchford, 73.

⁵⁷ Kocken.

⁵⁸ Kocken.

2.3 Conclusion on Benefits

In addition to fair wages, both agricultural and non-agricultural fair trade provide a number of benefits that address economic obstacles that many small producers in developing countries face and capacity building programming that address dimensions of well-being that go beyond income-generating opportunities. Analyzing these benefits using economic theory, provides a robust platform from which to argue for the use fair trade. Furthermore, by explicitly including non-agricultural fair trade in this discussion, it is evident that non-agricultural fair trade has some desirable features in terms of its capacity as a poverty reduction tool: non-agricultural fair trade is better able to target women and the poor in certain contexts.

☞ 3. ECONOMIC, TECHNICAL, AND DEVELOPMENTAL CHALLENGES ☞

In order to understand the challenges of non-agricultural fair trade, this section draws from the literature regarding the challenges of agricultural fair trade as a framework to being analyzing non-agricultural fair trade. Fair trade programs have been met with challenges of an economic, technical, and developmental nature. The primary economic criticisms are that fair trade causes price distortions and that it is not the most efficient way to allocate resources. The main technical challenge is that fair prices are difficult to calculate. The final challenge, which is of both a technical and developmental nature, is reconciling the tensions between scaling up and expansion on the one hand and the fair trade goal of helping the most economically disadvantaged and creating exit strategies on the other. These challenges apply to both agricultural and non-agricultural fair trade. In addition, there are two technical challenges specific to non-agricultural fair trade.

3.1 Challenges of Fair Trade and Applicability to Non-Agricultural Fair Trade

3.1.1 Economic: Price Distortion

A central economic criticism of fair trade is that it is inefficient because it causes price distortions and false price signals to producers.⁵⁹ The premise of this criticism is that fair trade programs increase the price of a good, in essence creating a price floor. This false price signal causes an increase in production – market flooding – that does not have the corresponding market demand.

⁵⁹ Becchetti and Costantino, 825.

The counter-argument to this criticism is three-fold. First, many fair trade products are not produced in a perfectly competitive market. Instead, transactions between producers and middlemen occur in an oligopsonistic market.⁶⁰ In the coffee market, for example, half of the world's harvest is bought by five companies – Sara Lee, Nestlé, Kraft, Proctor & Gamble, and Tchibo.⁶¹ In an oligopsonistic market, producers have very little power and sellers drive prices below the marginal value of the product. As a result the market prices are already distorted by the oligopsony, which pushes prices below what a perfectly competitive market would dictate. Fair trade can efficiently increase wages, as long as it does not drive them above the competitive market equilibrium.

Second, there is a high level of product differentiation in the food industry and fair trade agricultural products are simply another variety.⁶² For example, there are many different types of tea both in terms of flavors and quality which are sold at varying prices; fair trade tea is yet another variety.

Third, fair trade does not cause market flooding because there are barriers to entry. For example, the FLO is very careful not to certify additional banana cooperatives, for example, unless there is a specific increased demand for fair trade bananas. In a business sense, it is contrary to business efficiency to have more product than there is a demand for, so efficient fair trade organizations do not produce unless there is demand.

⁶⁰ Becchetti and Costantino, 825.

⁶¹ Mara Fridell, Ian Hudson, and Mark Hudson, "With Friends Like These: The Corporate Response to Fair Trade Coffee," *Review of Radical Political Economics* 40, no. 1 (March 1, 2008): 10.

⁶² Becchetti and Costantino, 825.

The applicability of this criticism and its counter-argument are similar for non-agricultural fair trade. There are two transactions that have to be considered. First, is the transaction between the producer and a middleman. In the absence of fair trade, producers of non-agricultural products face buyers with monopsonistic power due to the scarcity of buyers. As in agricultural fair trade, fair trade organizations reduce monopsonistic power and are able to provide higher prices without distorting prices. The second transaction is between the fair trade organization and the consumer. Non-agricultural fair trade products are part of a monopolistically competitive market where prices vary among producers and product differentiation is expected. In monopolistically competitive markets such as the clothing industry, consumers spend more than the marginal cost of the product because consumers add value to the product due to other factors such as brand recognition. In the instance of fair trade, consumers are willing to pay a similar premium for the guarantee of ethical production standards.

3.1.2 Economic: Fair Prices and Inefficient Allocation of Resources

There are few very articles that explicitly discuss the inefficiency of resource allocation in economic terms, although this argument is commonly utilized as a criticism of fair trade. Yanchus and de Vanssay are among the few that look at fair trade in terms of economic efficiency; therefore, their paper warrants a closer examination.

Yanchus and de Vanssay define fair prices as “the market-determined price of a good plus an additional premium that consumers are willing to pay for the guarantee

that specific inputs are paid at a certain socially acceptable rate.”⁶³ They first look at the effect of these higher fair trade prices on the countries receiving fair trade prices. Using Figure 1, which employs a combination of budget constraints and indifference curves, they show that fair trade prices changes the relative price of goods, which in turn changes production incentives.⁶⁴

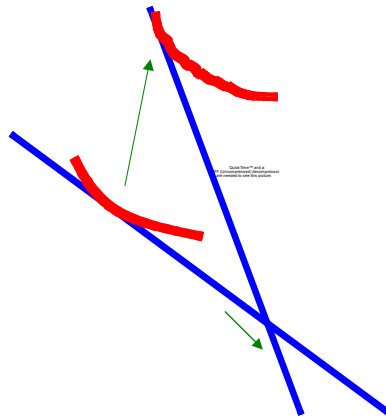


Figure 1. Source: Adapted from Dennis Yanchus and Xavier de Vanssay, “The Myth of Fair Prices: A Graphical Analysis,” *Journal of Economic Education* 34, no. Summer 2003 (2003): 237.

This changed incentive, they argue, results in a shift of productive resources from production of other goods to the production of fair trade products.⁶⁵ This is depicted as a shift from A to B on the graph. This change in prices and shift in

⁶³ Dennis Yanchus and Xavier de Vanssay, “The Myth of Fair Prices: A Graphical Analysis,” *Journal of Economic Education* 34, no. Summer 2003 (2003): 236.

⁶⁴ Yanchus and de Vanssay, 236.

⁶⁵ *Ibid.*

production allows consumption to increase from A' to B'. Yanchus and de Vanssay conclude that the country producing fair trade goods “benefits unambiguously.”⁶⁶

There are costs, however, for those who do not produce fair trade products, i.e., the fair trade consumers in developed countries and producers of non-fair trade products in developing countries. The first cost is to the consumer who pays a premium on the product. This is represented in Figure 2 as UT. The second cost results from the shift of productive resources from non-fair trade goods to fair-trade goods due to the favorable pricing. This cost is illustrated in Figure 2 as the shift from U to V. The total cost to the consumer is VT.

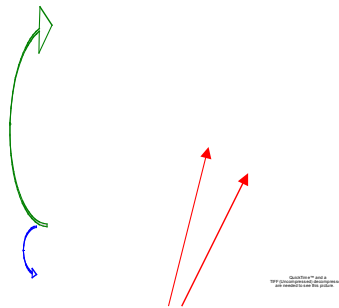


Figure 2. Source: Adapted from Dennis Yanchus and Xavier de Vanssay, “The Myth of Fair Prices: A Graphical Analysis,” *Journal of Economic Education* 34, no. Summer 2003 (2003): 237.

⁶⁶ Yanchus and de Vanssay, 236.

The third cost results from the shift of production from conventional to fair trade.⁶⁷ Because demand for commodities like coffee are inelastic, an increase in production of fair trade coffee means that there must be reduced production of conventional varieties; “[t]argeted growers are made better off, but non-targeted growers must reduce their output.”⁶⁸

Yanchus and de Vanssay argue that “fair pricing strategies can be looked upon as a suboptimal device for redistributing the gains from trade as compared with a transfer of funds” for three reasons.⁶⁹ First, the transfer necessary to achieve the same level of consumption is smaller – UT rather than VT in Figure 2. Second, the transfer will be distributed throughout the economy, leaving production incentives unchanged and eliminating price distortions.⁷⁰ Third, transfers allow developing countries to achieve greater levels of income than fair trade prices.⁷¹ In Figure 2, aggregate income levels due to a transfer of UT is represented by point C, which is on a higher indifference curve than point B, which represents income levels achieved as a result of fair trade prices.

Given the assumptions Yanchus and de Vanssay make, it is evident that transfers are a more efficient allocation of resources than fair trade. The assumptions the authors of this paper demonstrate, however, that the authors have failed to understand the nature of fair trade and the markets in which they operate.

First, Yanchus and de Vanssay state that higher prices for coffee, for example, will result in a shift away from the production of other goods towards the production of

⁶⁷ Yanchus and de Vanssay, 238.

⁶⁸ Ibid.

⁶⁹ Yanchus and de Vanssay, 235.

⁷⁰ Yanchus and de Vanssay, 238-239.

⁷¹ Yanchus and de Vanssay, 239.

coffee.⁷² This would not necessarily be the result of fair trade prices because fair trade organizations generally take advantage of what is already being produced in a targeted area. Additionally, there are barriers to entry into certain markets both in terms of the necessary capital and the limited opportunity to participate in fair trade.

Second, this criticism assumes a large impact of fair trade prices on the producing countries. Although there has been significant growth of fair trade in recent years, this reach of fair trade is limited even in the coffee industry, which is the highest value fair trade commodity in terms of sales and the “backbone” of fair trade.⁷³ Fair trade coffee makes up a small percentage of the world’s total coffee market, making up only 1.2% of the European markets and 0.5% in the US market.⁷⁴ Furthermore, the benefits of fair trade are limited to a small number of producers rather than the entire country.

Third, this argument assumes that a fair price paid to producers is significantly higher than the market price. In reality, the price may be equal to or close to the market price. The premium is paid by the consumer and is transferred to the producer via capacity building programs rather than inflated monetary remuneration.

Fourth, in arguing the benefits of budget transfers over fair trade prices, Yanchus and de Vanssay ignore the issue of distribution of funds, stating only that a transfer “spreads the donation throughout the economy.”⁷⁵ One of the benefits of fair trade is that it attempts to target a specific marginalized population. Assuming that transfers will

⁷² Yanchus and de Vanssay, 236.

⁷³ Reynolds, et al, 1110.

⁷⁴ Reynolds, et al, 1111, 1112.

⁷⁵ Yanchus and de Vanssay, 238.

benefit those who need it most in the same way fair trade does is inaccurate, as fair trade transfers benefits directly to the targeted population.

Hayes, on the other hand, more convincingly argues that fair trade is welfare maximizing. Hayes finds that “fair trade improves welfare mainly by strengthening competition for the labor of households and eliminating monopsony rents, and that there are no grounds for any *a priori* claim that fair trade necessarily distorts competition and promotes inefficiency.”⁷⁶ Hayes shows this by looking at the relationship fair trade organizations have on the labor market.

Hayes argues that workers face a monopsonistic market, where employers drive the wage price down by reducing the number of laborers hired in order to maximize profit where marginal revenue product of labor equals the marginal labor cost. The monopsonist employer, therefore, maximizes profits at point C with n_1 laborers at w_1 wages in Figure 3, while the competitive employer would maximize profits at point A with n_2 laborers at w_2 wages.

⁷⁶ Mark Hayes, “On the Efficiency of Fair Trade,” *Review of Social Economy* 64, no. 4 (December 2006): 450.

QuickTime™ and a
TIFF (Uncompressed) decompressor
are needed to see this picture.

Figure 3. Source: Mark Hayes, “On the Efficiency of Fair Trade,” *Review of Social Economy* 64, no. 4 (December 2006): 455.

Hayes argues that fair trade acts like a trade union or a minimum price, which is a common intervention to address employer monopsony.⁷⁷ This is illustrated in Figure 4, with the thick black line labeled MLC^U for union marginal labor cost. Because monopsonists maximize profit where $MRPL=MLC$, the entry of the union shifts this profit maximizing point from C to E in Figure 4 and creates an incentive for the employers to bid up the wage above w_1 and hire more laborers than at n_1 .⁷⁸ Hayes argues that the MLC^U will shift upwards and to the right until it converse with the competitive equilibrium A.⁷⁹ This is illustrated in Figure 4 with the thick blue line.

⁷⁷ Hayes, 457.

⁷⁸ Hayes, 457.

⁷⁹ Ibid.

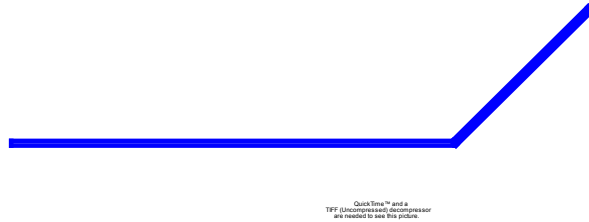


Figure 4. Source: Adapted from Mark Hayes, “On the Efficiency of Fair Trade,” *Review of Social Economy* 64, no. 4 (December 2006): 457.

The above analysis does not assume that the consumer pays more than the market price, because the primary economic benefit of fair trade is from improving the competition for labor and the long-term access to product and credit markets.⁸⁰ Hayes, however, acknowledges that a fair trade premium is often present in the transaction between the fair trade organization and the consumer.⁸¹ The fair trade premium would shift the MRPL towards $MRPL^F$, the marginal revenue product of labor at full employment, indicated in Figure 3. Hayes notes that if the premium shifts the MRPL beyond $MRPL^F$, this could result in inefficiency.⁸² Inefficiency could occur if a premium is introduced in a state of full employment because it would create incentives that would

⁸⁰ Hayes, 463.

⁸¹ Hayes, 464.

⁸² Ibid.

result in overproduction of a given product; this in turn, would reduce prices received by producers not participating in fair trade.⁸³ Inefficiency could also occur if the premium is introduced when there is already full employment, because producers might chose to increase leisure.⁸⁴

Hayes concludes, "Fair trade is economically efficient in any plausible circumstances and in a state of aggregate involuntary unemployment compensates for a lack of competition in the market faced by households."⁸⁵ The implications of this analysis is that both agricultural and non-agricultural fair trade programs must understand the local markets in which they operate in terms of wages, unemployment, and marginal revenue product of labor if they are to be economically efficient.

3.1.3 Technical: Fair Prices

In addition to the economic discussion regarding the efficiency of fair prices, fair prices also pose a technical challenge. The fair trade movement acknowledges that defining fair prices is problematic.⁸⁶ There are a couple of issues with determining fair price.

First, the technical issue of determining what costs are included in a fair price varies among fair trade organizations. Common fair trade pricing criteria include the cost of production as well as a social premium to fund development projects. Buyers or fair trade organizations may include various additional costs in the price such as

⁸³ Ibid.

⁸⁴ Ibid.

⁸⁵ Hayes, 466.

⁸⁶ Moore, 78.

transportation or subsidized inputs. Marlike Kocken, the manager of EFTA suggests that fair price is less important than the long-term relationship, advanced payment, and the certainty of a fixed price.⁸⁷ Kocken concludes that “[i]t might be better to give up the image of paying a fair price, particularly for handicrafts. It would be closer to reality to say that Fair Trade pays the maximum amount that is feasible in the market.”⁸⁸

Kocken’s statement reflects the second technical issue in pricing. Agricultural commodities have a world market price from which to base pricing decisions on, while non-agricultural fair trade products have no such baseline due to the wide variety in products. This complicates the calculation of fair prices for non-agricultural products, but it does not make it impossible. As mentioned in Section 2, there are currently efforts to create transparent pricing tools for non-agricultural fair trade products.

3.1.4 Technical and Developmental: Scaling-Up, Dependence, and Exit Strategies

A critique related to that of fair pricing is that while the fair trade industry is experiencing significant growth and there is significant emphasis on expansion, neither agricultural nor non-agricultural fair trade has an explicit strategy to reduce dependence on fair trade or an exit strategy. The first task is to take a step back and determine whether or not fair trade is able to or should scale up.

The primary concerns with scaling-up fair trade are slightly different for agricultural and non-agricultural fair trade. For agricultural fair trade, the concern is that there is something lost in terms of effective capacity building. Reynolds and Long, for

⁸⁷ Ibid.

⁸⁸ Ibid.

example, note “The growth of large-scale production raises questions about the ability of Fair Trade to empower workers and build capacity within these new organizational frameworks.”⁸⁹ Connecting with producers with the same attention that fair trade organizations did in the early days of agricultural fair trade, and notably continue to do in non-agricultural fair trade, is a challenge given the structure and scale of agricultural fair trade.

For non-agricultural fair trade, which has remained faithful to a structure that utilizes fair trade organizations to connect producers and consumers as well as to implement development projects, the question is whether or not scaling-up would require changing this structure. Although fair trade organizations were successful in the early stage of fair trade when they sold a small volume of goods through dedicated retail outlets and still function relatively well with non-agricultural fair trade, the structure is less effective in the larger networks.⁹⁰ Some non-agricultural fair trade organizations are beginning to enter into the mainstream market, which if successful, will require some form of scaling-up to meet growing market demand. The benefit of expanding non-agricultural fair trade is that it could benefit many small producers who are excluded from participating in agricultural fair trade due to landlessness.

Scaling-up of fair trade, however, is at odds with the idea of having an exit strategy. Some fair trade experts are concerned that scaling-up without also thinking about an exit strategy will result in a situation of dependency. Reynolds, et al, note that dependence on or monopolization of fair trade products may become a serious

⁸⁹ Reynolds and Long, 29.

⁹⁰ Reynolds and Long, 18.

problem.⁹¹ Yanchus and de Vanssay warn that after fair pricing policies are enacted, there is a possibility that the beneficiaries will “become dangerously dependent on these policies.”⁹² If there is no exit strategy, small producers may be vulnerable to changes in market conditions. For example fair trade organizations may be forced to end partnerships with producers because of their own financial difficulties or a reduced demand.

Because fair trade is committed to working with marginalized producers by providing income-generating opportunities and other welfare improving projects, if fair trade is successful, it can be assumed that fair trade producers will at some point no longer need the aid of fair trade. However, there is very little evidence that the fair trade industry has consistently considered exit strategies.

In the agricultural side of fair trade, there has been an overt commitment to the business model and a successful venture into the mainstream market. The focus has been on standardization and expansion. It is unclear whether or not this part of the fair trade industry hopes to expand until it captures the whole market on coffee, bananas, etc., or whether or not there is a threshold at which they can declare that fair trade has been a success for certain producers and are then going to proceed to phase out of working with those producers and begin working with new producers. Reynolds, et al, believe that agricultural fair trade should employ the model of phasing out successful

⁹¹ Reynolds, et al, 1117.

⁹² Yanchus and de Vanssay, 239.

producer cooperatives. They state, “A key test of the organizational capacity of co-operatives may be whether they are able to move beyond Fair Trade markets”⁹³

The non-agricultural side of fair trade is equally silent with regards to their exit strategy. There has been a proliferation of fair trade organizations, but this expansion has been more decentralized than the agricultural sector. Like the agricultural sector, non-agricultural fair trade does not seem to have a vision for what success would look like, whether an increase in market share or partner producers that have reached some measurable level of well-being. This lack of definition in what constitutes success in fair trade is symptomatic of a failure to think carefully regarding evaluation of fair trade as a development program. The topic of evaluating effectiveness is further developed in Section 4.

3.2 Additional Challenges of Non-Agricultural Fair Trade

Section 3, thus far, has used the critiques of non-agricultural fair trade in the literature as a framework to analyze non-agricultural fair trade in these terms as a point of reference. Using this framework, however, is only a starting point. In addition to the critiques discussed above, there are two additional technical challenges that pertain specifically to non-agricultural fair trade.

⁹³ Reynolds, et al, 1117.

3.2.1 Technical: Supply Chain

In the agricultural industry, the final product is the raw commodity and requires a limited number of inputs and steps in the supply chain. The non-agricultural industry, on the other hand, has a significantly more complex supply chain. This complicates fair trade because fair trade programs do not always work with producers at all steps of the process. For example, the production of fair trade jewelry requires a number of inputs such as beads, clasps, and wire. In the production of textile products the supply chain may include a number of steps such as cotton growing, cotton ginning, cotton milling, weaving, and sewing. There are no standards regarding the sourcing of these inputs and whether the production of these inputs also must to meet fair trade standards. As mentioned in Section 1, WFTO is in the process of developing standards and certification for the production of non-agricultural fair trade products. As of now, however, the designation of fair trade for non-agricultural products is less clear than it is for agricultural commodities.

3.2.2 Technical: Product Design, Quality, and Uniformity

An associated challenge specific to non-agricultural fair trade is the need to design products. Agricultural commodities are general sold in their raw form and do not require the step of product design, which is much needed in the non-agricultural sector in order to achieve some level of success. If non-agricultural fair trade begins to go the same direction as agricultural fair trade in terms of mainstreaming, this challenge may be magnified if the business with which it works requires the fair trade organization to

design the product, or it may be minimized if the business takes on the responsibility of design.

Although quality and uniformity is also an issue for agricultural fair trade, particularly as it has moved into mainstream markets, this is further complicated for non-agricultural fair trade due to the more complicated supply chain in the production of non-agricultural products. If the non-agricultural sector begins to sell more products through mainstream venues, this is a challenge it will need to address through increased training and quality control measures.

3.3 Conclusion on Challenges

This section has used some of the key criticisms of fair trade, which have been geared towards the agricultural sector, as an initial framework from which to analyze non-agricultural fair trade. Using this framework, it is evident that non-agricultural fair trade faces the same or similar challenges that face agricultural fair trade. In addition, non-agricultural fair trade faces two sector specific challenges that are technical in nature, but these are both obstacles that can be overcome.

On balance, reflecting back on the conclusions from Section 2, both agricultural and non-agricultural fair trade offers significant economic benefits to producers in developing countries and both face many of the same challenges. There are, however, two key differences. First, non-agricultural fair trade is better able to reach the most marginalized populations such as women in Latin America and East Asia and the landless. Second, the agricultural and non-agricultural sectors differ in the development

programming provided. Both agricultural and non-agricultural fair trade provide income-generating opportunities for small producers in developing countries. However, as agricultural fair trade has grown, the depth of partnership with producers and provision of development programming, which characterized earlier periods of agricultural fair trade, has diminished. Non-agricultural fair trade continues to focus heavily on development programming, but this could be lost if scaling-up becomes the primary goal of fair trade organizations.

∞ 4. EFFECTIVENESS OF FAIR TRADE ∞

Sections 2 and 3 have analyzed the theoretical benefits and challenges of fair trade and compared agricultural with non-agricultural fair trade. One question that remains is whether or not fair trade organizations are good vehicles for poverty reduction as compared to other development programs. This section first briefly compares fair trade to other classes of development aid such as budget support. It then compares fair trade to development aid that provides services through similar programming. It concludes with some challenges of evaluating the effectiveness of fair trade.

4.1 Fair Trade v. Budget Support

Section 3 discusses in some depth the issue of efficiency of fair trade as compared to budget transfers. Effectiveness, while related to efficiency in economic terms, is distinct. Even if fair trade is less efficient than budget transfers, development interventions such as budget support, do not address issues of distribution. The recognized benefits of budget support are that it does not create parallel systems to the government in question but supports government capacity, continued funding is more predictable and less conditional on certain behavior, and it creates greater ownership by governments. This does not mean, however, that budget support is an appropriate solution for all countries. A report by the World Bank finds that “budget support is an approach better suited to countries with a good track record and a reasonably sound policy and institutional framework, including transparent budget management and

adequate financial management arrangements.”⁹⁴ Fair trade, however, frequently operates in countries where these characteristics are not present. In addition, the implementation of budget support does not obviate the need for other types of development aid. Indeed, “An appropriate mix of instruments is needed to ensure the greatest effectiveness of development assistance.”⁹⁵

4.2 Fair Trade v. Program/Project Model

Fair trade programs not only provide income-generating activities, but they serve as the vehicle for a range of development projects that are regularly provided by international development agencies and NGOs. If both fair trade organizations and development agencies are providing the same programming, this begs the question of whether or not one model of service delivery is better suited for the job.

There is one important difference between development agencies’ program/project model and the fair trade model that suggests that fair trade organizations are a better vehicle of development aid than traditional aid organizations: fair trade organizations utilize a market-based solution. That is, fair trade organizations invest profits from sales into development projects for the benefit of its partner producers. This has three repercussions. First, fair trade organizations depend on their partnership with the “beneficiaries,” developing country producers to continue operating. This partnership relationship creates the appropriate incentives for the fair

⁹⁴ Stefan Koeberle, Zoran Stavreski, and Jan Walliser, *Budget Support as More Effective Aid?: Recent Experiences and Emerging Lessons*. (Washington DC: The World Bank, 2006), 11.

⁹⁵ Koeberle, Stavreski, and Walliser, 24.

trade organization to provide programming that is demanded by the partner organization. Second, because fair trade organizations self-generate the funds for development programming, unlike development agencies, they do not have to depend on donors. The FLO argues that because fair trade, unlike traditional development aid, is not dependent on donors, it is a more sustainable solution to improved livelihood security for developing country producers.⁹⁶ Third, fair trade organizations are not mobile in nature, because it takes an investment of time to establish relationships with cooperatives, whether agricultural or non-agricultural. As a result of its market-based model, fair trade is better positioned for long-term sustainability and more likely to provide programming that is meaningful to the “beneficiary.”

Despite this structural difference, fair trade and aid organizations are not at cross-purposes. Paul finds that fair trade programs complement rather than compete with other development projects, because the benefits of fair trade are magnified when producer cooperatives are supported by NGOs.⁹⁷ This finding suggests that better coordination between fair trade and aid organizations could improve the benefit for producers involved in fair trade.

4.3 Evaluating Effectiveness of Fair Trade

The literature widely agrees that evaluations of fair trade are rare despite increasing demand for them. Those evaluations that are conducted are done internally, lack external validity, and are driven by the commissioning body rather than scientific

⁹⁶ FLO, “FLO International: Products,” <http://www.fairtrade.net/producers.html>.

⁹⁷ Paul, 148-149.

inquiry.⁹⁸ Although these evaluations likely have internal value, in order to demonstrate the effectiveness of fair trade, more academic evaluations of fair trade are needed. The lack of evaluative data is “a barrier to further analysis of trends” in fair trade.⁹⁹

The evaluations that do exist suggest that evaluating fair trade must go beyond looking at effect of income. One key finding common to several evaluations is that the income-generating portion of fair trade programs is less important to the development projects. Raynolds, et al, concludes, “Fair Trade has brought significant broad ranging benefit streams to participating organizations, communities, and producers. While the financial benefits appear the most significant in the short run, in the long run, it is the empowerment and capacity building nature of Fair Trade that will prove the most important.”¹⁰⁰

The first, and much overdue step that was mentioned in Section 3, is to determine what success looks like. Based on the definition of fair trade, the overall goal is to improve the livelihoods and lives of small economically disadvantaged producers, but it is unclear what this looks like, or in the language of evaluation, what the indicators for such a goal are. This may be quite different among fair trade organizations as well as different between agricultural and non-agricultural fair trade. Importantly, Pirotte, et al, point out that although in theory fair trade has global standards, the application and impact of fair trade vary, because as with any other development project, “fair trade is established in a particular context, where it is then re-interpreted by the range of actors

⁹⁸ Paul, 135.

⁹⁹ Moore, 77.

¹⁰⁰ Raynolds, et al, 1119.

within the relevant arena.”¹⁰¹ It is unreasonable to speculate as to what indicator the industry or sectors of the industry believe best represents success, but the following analyzes the implications of a model where expanding market share is the goal versus a model where achieving particular levels of identified indicators results in some turnover.

There is consensus that the success of agricultural fair trade during recent years is a result of its entrée into the mainstream market, namely supermarkets. This great success has focused attention on further expansion and greater market shares, but with no consideration of how this expansion may conflict with the goal of fair trade. Expansion could conflict with the goal of fair trade because fair trade strives to help the poor, but the longer fair trade works with certain producer cooperatives, it is expected that those producers would become better off over time. The question becomes whether or not those well off producer cooperatives remain in partnership with fair trade and if not what indicators of effectiveness will be used.

Non-agricultural fair trade has been much slower in entering the mainstream market, but they face a similar conflict between expansion to reach more qualified beneficiaries and the mission of working with the most disadvantaged. An additional conflict is that fair trade invests resources into both technical and non-technical capacity building projects in addition to providing income-generating opportunities. Due to this investment in producer cooperatives, fair trade organizations may be reluctant to institute any turnover, particularly when they are faced with concerns of quality.

¹⁰¹ Pirotte, et al, 442, 449.

At this stage, there does not seem to be a necessary choice between expansion and also preparing exit strategies and policies, because there is still capacity for growth both in terms of producer cooperatives that would benefit from fair trade and in terms of the market demand. Given the mission of fair trade, however, if fair trade is successful in reducing poverty of partner producers, even with an increasing demand for fair trade products and a growing capacity to support more producers, as producers attain increased levels of well-being they should no longer be beneficiaries of fair trade. The strategy for returning producers back to the world market remains to be developed.

One way of structuring this exit strategy would be through the development of a logical framework, which is widely used in development programming. Paul, who discusses evaluation of fair trade, attempts an example logical framework. Paul, argues that fair trade can be thought of in similar terms to traditional development projects, which provide activities and services with the intention of achieving pre-defined objectives.¹⁰² Paul provides a framework for evaluation based on the five OECD DAC criteria – effectiveness, sustainability, relevance, efficiency, and impact – which are ideally used to evaluate other development projects. An effort to evaluate both agricultural and non-agricultural programs using the same criteria will not only help highlight their relative success as compared to other development projects, but it will clarify the differences among these two categories of fair trade. The following is a simplified logical framework that might be used in determining the criteria for identifying successful producer cooperatives.

¹⁰² Paul, 135.

Table 2: Simplified Logical Framework for Determining Success in Fair Trade

Inputs	Outputs	Outcomes	Goal
Input 1.1: Fair trade product orders sourced to cooperatives	Output 1: Increased income <ul style="list-style-type: none"> • Change in income due to participation in fair trade. 	Outcome 1.1: Increased food consumption <ul style="list-style-type: none"> • Change in consumption of food-items, controlling for changes in prices • Change in quality and quantity of food consumed 	<p>To improve the livelihood security and well-being of economically disadvantaged producers and their families</p>
Input 1.2: Technical skills workshops <ul style="list-style-type: none"> • X% of producers participate in technical skills workshops 		Outcome 1.2: Increased expenditure on education <ul style="list-style-type: none"> • Change in expenditure on school fees per child, controlling for changes in education costs and number of children enrolled in school, and children receiving a scholarship 	
Input 1.3 Pricing workshops <ul style="list-style-type: none"> • X% of producers participate in pricing workshops • X% of producers understand what variables are included in pricing 		Outcome 1.3: Increased capital investment <ul style="list-style-type: none"> • Percentage of producers who invest in capital • Amount producers invest 	
Input 2.1: Capacity building workshop on health care access <ul style="list-style-type: none"> • X% of producers participate in healthcare access workshop 	Output 2. Increased knowledge regarding utilization of public services <ul style="list-style-type: none"> • Change in producers' knowledge regarding how to access public services 	Outcome 2.1: Increased ability to utilize healthcare services <ul style="list-style-type: none"> • Percentage of producers and their family members who need medical services access these services 	
Input 2.2: Capacity building workshop on financial literacy <ul style="list-style-type: none"> • X% of producers participate in financial literacy workshop 		Outcome 2.2: Increased savings <ul style="list-style-type: none"> • Percentage of producers who save money, formally or informally 	

There are a few observations regarding the simplified logical framework that are worth pointing out. First, the actual percentages and changes in the indicators have been left out because they would need to be determined by the fair trade organization. However, this simplified logical frame demonstrates how fair trade organizations could begin thinking about how specific inputs, outputs, and outcomes contribute to the overall goal of fair trade and what indicators might best demonstrate that those inputs, outputs, and outcomes have been achieved. Additionally, logical frameworks also generally include key assumptions about how one step leads to the next. Table 2 does not include such assumptions, for simplicity's sake, but a fully developed logical framework would need to include these assumptions.

Second, the logical framework includes both measures of increased income as well as benefits of the development projects. Evaluating the wide range of economic and social components that are part of fair trade is difficult. Evaluation of interventions that effect income is challenging due to the difficulty of accurately tracking how income is used. Pirotte, et al, for example, conclude, "It is not easy to measure the impact of fair trade on the incomes of producers who have diversified their production and commercial partners. In many cases, the principal advantage of fair trade to small-scale producers is its access to the world market and its niche markets."¹⁰³ In addition measuring the outcomes of increased income is complicated by problems of recall and household dynamics.

¹⁰³ Pirotte, et al, 450.

To further complicate evaluation, fair trade not only has economic outcomes but developmental outcomes. As a result, fair trade can be analyzed as a development project that provides services in order to improve living conditions for a target population.¹⁰⁴ While measuring the pieces of these two categories of intended outputs will likely be complicated and difficult, a point “shared by the empirical literature is that the impact of [fair trade] must be assessed not just on the price rule but mainly on the whole set of criteria with particular attention to those of price stabilization, prefinancing, and provision of technical assistance.”¹⁰⁵

Evaluation design requires careful planning. Measuring the outcomes of development projects will depend, clearly, on the number and types of development projects included. The fair trade industry or fair trade organizations that wish to evaluate the effectiveness of their work, will have to make considerable effort, though worthwhile, to generate evaluations whether or not they are intended to for internal or external use.

¹⁰⁴ Pirotte, et al, 441.

¹⁰⁵ Becchetti and Constantino, 825.

☞ 5. CONCLUSIONS AND RECOMMENDATIONS ☞

This paper has begun to fill several important gaps in the existing literature on fair trade. These gaps include the lack of economic analysis of the benefits associated with fair trade; the absence of thoughtful consideration of non-agricultural fair trade as a poverty reduction tool separate from agricultural fair trade with a number of its own economic, technical, and development benefits and challenges; the subsequent failure to disentangle non-agricultural fair trade in the analysis of fair trade; and the limited discussion regarding the evaluation of fair trade.

Section 2 addressed this first gap – lack of economic analysis of the benefits associated with fair trade – and demonstrated that fair trade is not only the provision of fair prices but addresses market failures and other economic obstacles such as barriers to entry and risk. This economic analysis of the benefits of fair trade provides a robust argument for the potential strength of fair trade as a tool of poverty reduction in particular contexts.

Sections 1, 2, and 3 address the second and third gap by first identifying the benefits and challenges of fair trade articulated in the existing literature and discussing the validity of these claims on fair trade in general and to non-agricultural fair trade specifically. It then identified additional benefits and challenges to specific to fair trade. This analysis importantly revealed that much is lost by lumping together agricultural and non-agricultural fair trade, which operate in very different fair trade structures and markets. In addition, it demonstrated that non-agricultural fair trade does not suffer from significant challenges that do not also face fair trade, and which are surmountable,

but non-agricultural fair trade does have some desirable characteristics in terms of targeting the most economically disadvantaged producers in developing countries, as per the goal of fair trade.

Sections 2 and 3 demonstrate that non-agricultural fair trade could be utilized as a poverty reduction tool, however, it currently has limited reach as compared to agricultural fair trade. Analysis of both markets reveals that “While the fair trade market is small and is growing, all the successes have been concentrated in the food sector with the growth of fair trade commodities.”¹⁰⁶ If non-agricultural fair trade is to effect more producers through expansion, it must increase the demand for its products. According to a study that models the relationship between factors that effect consumer behavior with regards to fair trade products in Belgium, knowledge of fair trade, quantity and quality of information regarding fair trade, and attitude towards fair trade have significant effects on the consumption of fair trade.¹⁰⁷ As a result, non-agricultural fair trade organizations must work at both expanding the producer base as well as expanding demand through investment in campaigns that improve the quantity and quality of information, knowledge, and positive attitudes towards fair trade.¹⁰⁸ A study of several large fair trade craft organizations in the UK, New Zealand, and Canada, revealed that the primary method for products is through specialty stores or mail order.¹⁰⁹ They rarely utilize the mainstream market.¹¹⁰ Increasing the visibility of fair

¹⁰⁶ Randall, 61.

¹⁰⁷ Patrick De Pelsmacker and Wim Janssens, “A Model for Fair Trade Buying Behaviour: The Role of Perceived Quantity and Quality of Information and of Product-specific Attitudes,” *Journal of Business Ethics* 75, no. 4 (November 1, 2007): 361-380.

¹⁰⁸ De Pelsmacker and Janssens, 76.

¹⁰⁹ Randall, 55-67.

trade through branding and shifting the distribution of fair trade products from specialty stores to mainstream distributors is an important method of increasing consumer demand.¹¹¹ This expansion, however, must be accompanied by careful consideration regarding the overall goal and exit strategy.

Section 4 addresses the fourth gap in fair trade, by looking beyond these theoretical economic and development analyses to discuss the current lack of evaluations publicly available regarding the effectiveness of fair trade and key steps to conducting evaluations of fair trade. This section points out the contradiction that would form over time between the mantra of expansion and scaling up that dominates fair trade and fair trade's goal of helping the world's most economically disadvantaged producers. As a result, it is recommended that both agricultural and non-agricultural fair trade identify indicators that would demonstrate that fair trade had been successful, monitors producer cooperatives for achievement of these indicators, and create a policy for "weaning" producer cooperatives off of fair trade. This could include, for example, a schedule of reduced buying from these successful producer cooperatives accompanied by monitoring of these producers. Prior to this stage, fair trade programs could introduce financial literacy and connect producers with credit and savings programs.

Vestiges of fair trade's historical goal of creating an alternative trading system linger and may be partially responsible for the lack of thinking regarding fair trade as a results-bound program rather than a continuous institution that allows for an alternative trade regime. Reframing fair trade as a results-bound development project

¹¹⁰ Randall, 61.

¹¹¹ De Pelsmacker and Janssens, 76.

would resolve the inherent conflict between fair trade's goal and expansion and addresses the future inevitability of a limited demand for fair trade products. Additionally, introducing fair trade as a results-bound project with distinct inputs, outputs, and outcomes with the appropriate indicators could help fair trade gain support from development agencies, which would be valuable in meeting the development goals of fair trade, since the benefits of fair trade are magnified when producer cooperatives are supported by NGOs.¹¹²

Fair trade should not be dismissed as a tool of poverty reduction, but application of this tool should be done thoughtfully. Thoughtful application can be achieved by analyzing whether fair trade is the most effective tool given the context, considering whether agricultural or non-agricultural fair trade better meets the goal in specific contexts, developing evaluation plans with indicators to better assess fair trade's effectiveness, and incorporating a results bound model rather than a model that has no end point.

¹¹² Paul, 148-149.

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