<u>In or Against the Market</u>

Is Fair Trade a neoliberal solution to market failures or a practical challenge to neoliberal trade and the free market regime in general?

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"Before you've finished your breakfast this morning, you'll have relied on half the world."
Martin Luther King

I. Introduction

Fair Trade is the most important and fastest growing market-based mechanism to improve the lives of producers in developing countries. It does so by offering small-scale producers in the global south fairer trade relations, including a guaranteed minimum price above world price and developmental support. Global Fair Trade sales have reached € 1.1 billion (US$1.4 billion), increasing at rates of around 50 percent per year and are projected to continue to grow. Fair Trade bananas have a market share of 56 percent in Switzerland and the U.S. Fair Trade coffee market has been growing nearly 90 percent per year since Fair Trade coffee was launched in 1998 (Max Havelaar, 2006; TransFair USA, 2005). The success of Fair Trade is reiterated time over time by a variety of personalities and institutions, ranging from advocates of Fair Trade in the North and producers in the South to such prominent promoters of trade liberalization as the G 8 and the European Commission.[1] The general feeling of euphoria is captured by one of the pioneers of the Fair Trade movement, Carol Wills, on a conference in the European Parliament in June 2005: "Fair Trade works! It works for poor people; it works for consumers. It works as a business model; it works as sustainable development; it works to protect the environment; it works as an idea!" (Fair Trade Advocacy Newsletter, 2005).

However, one could wonder what this is all about. After all, Fair Trade started as an alternative to free trade, explicitly focusing on solidarity and the well-being of producers and rejecting classical economic notions of competition, the self-regulation of the market and sometimes even employing anti-capitalist rhetoric. How should one asses that at the G8 summit 2005 in Gleneagles leaders of those economically dominant countries that are continually held responsible for global trade injustices (often by actors and organizations in the Fair Trade movement) formally acknowledged the growing success of global Fair Trade and said in their final statement that they "welcome the growing market for Fair Trade goods and their positive effect in supporting livelihoods and increasing public awareness of the positive role of trade in development"? (Fair Trade Advocacy Newsletter, 2005: 4). Or, even more disturbing, how should one think about the fact that Nestlé, famously 2005's "least

[1] Peter Mandelson, EU commissioner for trade, said in 2005, after having emphasized the success of the Fair Trade movement: "Fair Trade has shown that those working in difficult conditions in commodity-dependent and poor developing countries can aspire to a better life for themselves and their families" Mandelson (2005).

responsible company" worldwide and as one of the four big roasters responsible for the coffee crisis that impoverishes millions of producers, prides itself of launching a Fair Trade brand in Britain (Nestlé, 2005)? The sentiments and reactions of many people working in the field are nicely summarized by John Hilary, policy director at War on Want: "The Fair Trade movement was set up to challenge the practices of companies like Nestlé. How can such a company deserve the Fair Trade mark?" (Vidal, 2005).

In this paper I will try to asses if Fair Trade really works for all and – even more importantly – *how* it works for the different participants of Fair Trade, mainly consumers and producers and what the wider effects of Fair Trade are. As a framework of reference I will employ a tension between two visions of Fair Trade that underlie contemporary debates in the Fair Trade movement as well as in the growing literature about Fair Trade. At the one extreme a pragmatic position interprets Fair Trade as a developmental tool to increase the standard of living for disadvantaged producers in developing countries by making neoliberal free trade work the way it is supposed to work. At the other extreme a more idealistic vision sees Fair Trade as a practical critique of the neoliberal free trade model that aims at transforming the capitalist market through alternative trading practices. Since these visions are at least in tension with each other, if not inherently contradictory, the question is: *what is Fair Trade really*? Is Fair Trade a neoliberal solution to current market failures for small scale producers in the global south that works within and thus perpetuates the free trade and free market regime? Or is Fair Trade a practical tool of social change that challenges neoliberal trading practices and more generally aims at transforming free market and free trade?

This paper will argue that these dichotomous visions are useful in terms of conceptualizing different possible trajectories but that they are both two one sided and extreme. Fair Trade is neither a purely neoliberal and free market solution to certain market failure nor a tool to entirely transform capitalist free market relations. Rather, I will argue with Polanyi, Fair Trade can be analyzed as a complex and multilayered process of social defence against destructive effects of unrestricted market forces that tries to re-embed the economy. As such it is a site of contestation, conflict and negotiation between different actors that brings about multiple and partly contradictory effects on different levels.

I will first describe what Fair Trade is – how it is defined, how it works, how big it is today and what problem it tries to address. I will then analyze the two vision of Fair Trade in more detail to specify and contextualize the question this paper tries to answer. The central part of the paper tries then to assess the impact Fair Trade has, first on the level of producers and producer communities and secondly the socio-cultural, political and economic impact on the free trade market in general. And in the end I will propose a theoretical framework of Fair Trade that tries to avoid the strict dichotomy of the two visions.

II. What is Fair Trade?

1. Definition, Functioning and Scope of Fair Trade

During its long history there have been many different definitions of Fair Trade, but in an attempt to come up with an understanding that can be widely accepted, an informal network of the most important Fair Trade organizations called FINE produced the following definition in 2001:[2] "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, marginalized producers and workers - especially in the South. Fair Trade organisations (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" (FINE, 2001).

The goals of Fair Trade that are implicit in this definition have been laid out by Redfern and Snedker in a 2002 report of the International Labour Organization (ILO) as being:

1. "To improve the livelihoods and well-being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship.
2. To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3. To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively.
4. To set an example of partnership in trade through dialogue, transparency and respect.

[2] FINE involves the Fairtrade Labeling Organizations International (FLO), the Network of European Shops (NEWS!), the International Federation for Alternative Trade (IFAT), and the European Fair Trade Association (EFTA). The aim of FINE is to enable these networks and their members to cooperate on strategic levels on crucial issues affecting the future of the Fair Trade movement, such as advocacy and campaigning, standards and monitoring. See http://www.worldshops.org/fairtrade/netw.html (April 2006).

5. To campaign for changes in the rules and practice of conventional international trade.
6. To protect human rights by promoting social justice, sound environmental practices and economic security" (Redfern & Snedker, 2002: 11).

Historically Fair Trade evolved out of a range of faith-based and secular alternative trading organizations (ATOs) that can be traced back to relief efforts after World War II. Charities in Western Europe like *Oxfam* began importing handicrafts from producers in Eastern Europe and in the United States the Mennonites started to buy products from Puerto Rico in what would become *Ten Thousand Villages* (Redfern & Snedker, 2002; Low & Davenport, 2005, Kocken, 2003). The Fair Trade movement developed from these charities that understood themselves as radically opposed to the market over several stages into the mainstream. Fair Trade has thereby changed in a variety of ways, the most import shift being that "Fair Trade has moved from being purely an activist-led advocacy and empowerment model towards being a market-led commercial success story" (Nichols & Opal, 2005: 13). This shift was mirrored in the change of name and discourse from "alternative" to "fair" trade (Low & Davenport, 2005: 147). Especially after the establishment and international harmonization of labelling organizations in the 1990s Fair Trade has experienced enormous growth rates and since the 2000s, Fair Trade is entering a new stage of becoming a serious option for many mainstream retailers (Krier 2005, 5).

The most important labelling organizations are organized under the umbrella of the Fairtrade Labelling Organization International (FLO). FLO was formed in 1997 out of 14 national labelling organizations with the aim of collaborating on defining international Fair Trade standards, certifying and auditing Fair Trade producers organizations and traders and on providing support to producer organizations that need external help (FLO, 2005a: 23). Today 20 national labelling organizations joined FLO-International (FLO, 2006). These marks – in the U.S. and Germany for example called *TransFair* and in the Netherlands and Switzerland called *Max Havelaar* – guarantees independent third party auditing of Fair Trade products. However, due to the complex and expensive process of getting the mark, not all Fair Trade products are sold under these labels – *Tradecraft* for example, the largest Fair Trade company in the UK, offers most of its products without it (Nichols & Opal, 2005: 11).[3]

[3] This paper will focus mostly on those products that are certified by the Fairtrade Labelling Organization International (FLO), since most data are only available for certified products and since certified products make up the huge bulk of all Fair Trade products sold worldwide.

In operational terms Fair Trade is characterized by several key practices that are practiced by the labelling organizations as well as by the alternative trading organizations that do not participate in certification (Nichols & Opal, 2005: 6-7): agreed minimum prices, usually above or independent of world market prices, that allow for a living wage for producers; an emphasis on development and technical support through the payment of a social premium; direct purchasing from producers to shorten the global supply chains and reduce the margins of middle men; transparent and long-term partnerships; provision of credit when requested and pre-financing of up to 60 per cent of the total purchase value; producers are democratically organized, often in a cooperative; sustainable and increasingly organic production is practiced; there are no labour abuses and unionization must me allowed.

Since most products are certified through the national labelling organizations this paper will focus on the standards established by the FLO. These standards, which must be met by producer groups, traders, processors, wholesalers and retailers, can be divided into three parts (FLO, 2006; Nicholls & Opal, 2005: 131): First there are two sets of *generic organizational producer standards,* one for co-operatives of small-scale producers and family farmers and another one for plantations. Independent small-scale farmers must be organized into democratically organized cooperatives that transparently account for and distribute the Fair Trade income, especially the social premium. Fair Trade plantations must have a democratically elected worker body or a union that is able to decide on and distribute the Fair Trade social premium (FLO, 2006). Secondly there are several *sustainable production requirements*. These environmental standards vary by products but in general prohibit the use of pesticides and require protection of drinking water and endangered resources (Nicholls & Opal, 2005: 131). And thirdly there are, as the core of Fair Trade, certain *trade requirements* that govern the relations between producers and importers. Traders have to pay a price to producers that covers the costs of sustainable production and living; they must pay an additional social premium that has to be invest in development; they must pay up to 60 percent in advance, when producers ask for it; and the trading contracts have to allow for long-term planning and sustainable production practices. And producers have to meet the above requirements, have to accord with the labour standards of the International Labour Organization and have to meet certain quality requirements (FLO, 2006). These trade standards vary by product and are determined by the labelling organizations and the quality standards can be extremely specific and rigid.[4]. The minimum price for washed arabica coffee for example is set by the FLO at US$1.21 per pound (455 gram) in Central America, Mexico, Africa and Asia (and at US$1.19 for South America and the Carribean). In addition to this minimum price producers get US$0.15 per pound for certified organic coffee and a social premium of US$0.05 per pound for all coffee. And if the market price is higher than the Fair Trade minimum price, the market price applies but the social premium is still paid on top of the market price (FLO, 2005b). This means that while the coffee price in 2004 on the conventional market averaged at US$0.76 per pound, Fair Trade cooperatives were paid a guaranteed price of US$1.26 for conventional and US$ 1.41 for coffee that is also certified organic (TransFair USA, 2005).[5] For other products the standards are very specific and complex. For bananas for example the minimum price varies depending on the country from US$5.50 in Colombia and Ecuador to US$7 in the Dominican Republic for a box (18.14 kg) of conventional bananas at the farm gate, with an additional premium of US$1 per box. Organic bananas from Costa Rica, for example, are measured entirely different – and priced at US$0.15 plus a 3 cent premium per kg (FLO, 2005c). With market prices in Ecuador currently under the official minimum price of US$3 per box this translates into a substantial benefit for Fair Trade producers.[6]

In order to provide a sense of the scope of Fair Trade it is useful to look at some facts and figures that describe the 'success story' of Fair Trade: World wide sales of labelled Fair Trade products are estimated at €1.1 billion for 2005 (Max Havelaar, 2006: 28). At the end of 2005 there were 510 producer organizations from more than 50 countries that represent over one million producers and – together with their families – over 5 million people are integrated into the Fair Trade system and profit from it (Max Havelaar, 2006: 28). This makes up a

[4] All standards are publicly available under http://www.fairtrade.net/sites/standards/sp.html (Mai 2006). Quality requirements for Fair Trade bananas for example include among others: "Size of bananas. Minimum length 16 cm (baby bananas 14 cm), minimum thickness 27 mm. Tolerance: 10% of the bananas. Packing. slippage and "high pack" are not permitted. There must be reasonable uniformity among the bananas in a carton. Tolerance: 5% of packing cartons. (…) Residue and foreign matter. No residue or foreign matter may be encountered in the cartons. Tolerance: 1% of the cartons." FLO (2005c: 10).

[5] The coffee market price is fluctuating highly. The current prices are summarized by the FAO (Food and Agriculture Organization of the United Nations): "Coffee prices reached 101.44 US cents per pound in March 2005, a 67 percent increase compared to the level of 60.80 US cents per pound the corresponding month last year. In April 2005, the average daily price fell to 98.2 US cents per pound, following some profit taking by investment funds". See http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/008/J5667e/j5667e04.htm (Mai 2006).

[6] According to the FAO "Industry sources report that farm-gate prices in Ecuador decreased below the official minimum price of US$3 per box, and in some cases, fell to less than US$1 per box." See http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/008/J5667e/j5667e04.htm (Mai 2006).

considerable amount of all small scale growers world wide.[7] Between 2003 and 2004 the sales of labelled Fair Trade products grew by 56 percent, exceeding the annual growth of 42 percent between 2002 and 2003 (FLO, 2006). The growth of Fair Trade sales since 1999 is illustrated in table 1.

These growth rates are projected to continue (Nicholls & Opal, 2005: 190). The market share of Fair Trade products, on average only amounting to below 3 percent is partly substantial. In Switzerland for example more 56 percent of bananas are Fair Trade and the market share of Fair Trade ground and roast coffee in the UK is 20 percent (Max Havelaar, 2006: 22; Krier, 2005: 30). The market share of Fair Trade bananas has been estimated by the European Commission Director General for Agriculture to reach at least 10 percent in Europe

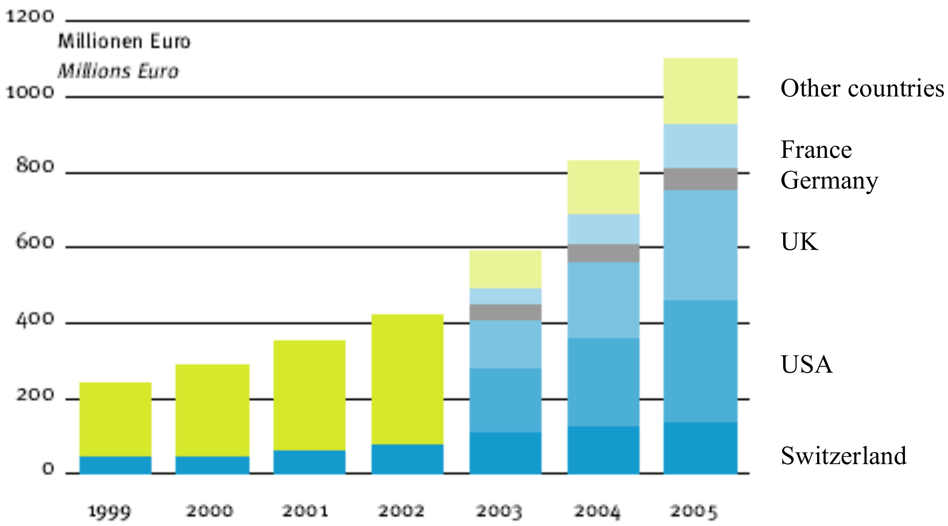

Table 1: Sales volume in comparison in million Euro (Source: Max Havelaar, 2006/FLO).

(TransFair USA, 2006c). The largest national Fair Trade market is currently the U.S. market, amounting in 2004 to €215 million, followed by the U.K. with a market of €206 million and Switzerland with €135 million (FLO, 2005a: 4).

Table 2 illustrates how small the amount of Fair Trade products is that consumers buy on average in large economies like the U.S. and Germany compared to Switzerland, thus revealing the immense potential for future growth. While consumers in Germany for example

[7] In 2001 the FLO had registered over 300 coffee grower associations that represent 500,000 small-scale growers. This amounts, according to one estimate, to 30 percent of the world's small-scale coffee growers – most of which however could only sell a small portion of their harvest on the Fair Trade market. (Murray et al, 2003: 6).

only spent €0.70 on average on Fair Trade products, in the U.K. consumers spent €3.46 and in Switzerland an impressive €18.47 per year (Krier, 2005: 29).

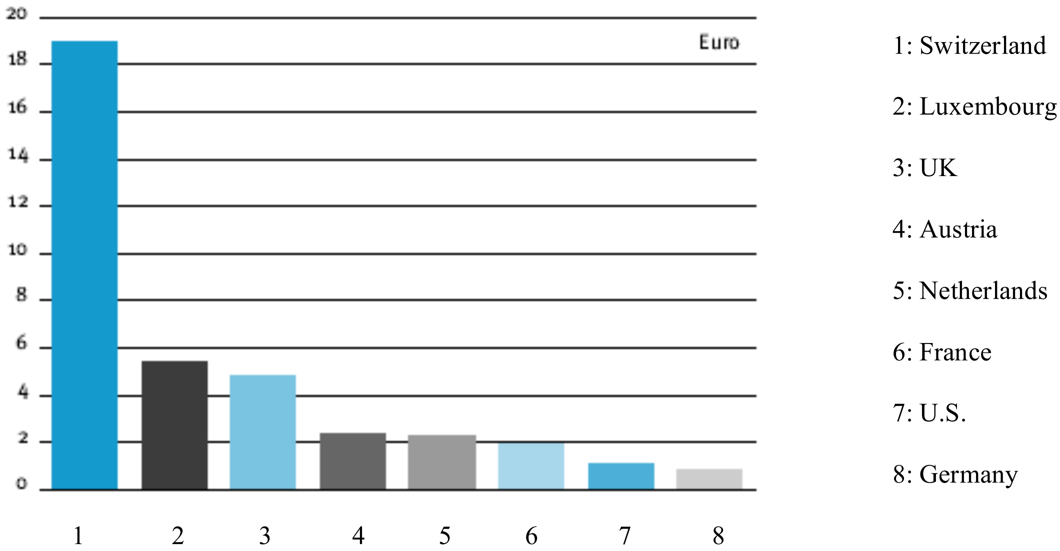

Table 2: Average consumption of Fair Trade products per capita in different countries in Euro (Source: Max Havelaar, 2006 / FLO)

The most comprehensive study of the exact facts and figures about Fair Trade organizations is a 2005 study "Fair Trade in Europe" published by the four largest Fair Trade organizations(Krier, 2005). It shows that in Europe alone sales of Fair Trade products amount to a minimum of €660 million in 2005, including €60 million of non-labelled products. Fair Trade sales increased in Europe by 154 percent in the last 5 years or on average 20 percent per year and these increases are mostly due to the participation of supermarket chains in Fair Trade. Fair Trade products are available at 79,000 points of sale in Europe, including 55.000 supermarkets. In Europe more than 100,000 volunteers are involved in the 2.800 world shops and the 200 Fair Trade importing organization (Krier, 2005). In the U.S. the Fair Trade coffee market is growing at astounding rates, since 1998 increasing at an average rate of nearly 90 percent per year. Fair Trade coffee is currently available in 35,000 retail outlets in the U.S. alone (TransFair USA, 2005; 2006d).

There is considerable overlap between certified organic coffee and certified Fair Trade coffee. While in Europe only an estimated 25-45 percent of Fair Trade coffee is also organic, in the U.S. this share is 75-85 percent (Zehner, 2002).[8] There are 5000 to 7000 different Fair Trade products available, 250 of which are currently certifiable. Most of the uncertified

[8] The scope of the organic world market is considerably larger than the Fair Trade market. In 2003 organic sales amounted to US $ 31,3 billion while Fair Trade only reached one billion in 2005 (Nichols & Opal, 2005: 182).

products are handicrafts, but the bulk of all Fair Trade products sold worldwide are agricultural products, mostly coffee, bananas, other fruits, tea and cacao. According to Leatherhead Food International the most important Fair Trade products globally are in bananas (in terms of volume) and coffee (value) (Nicholls & Opal, 2005: 191, see also FLO, 2005a).

2. The Problem: The "Un"-Fairness of the Neoliberal Free Trade Regime

It is important to understand the reasons why we need Fair Trade in the first place. Classical free trade theory, which originates from Adam Smith's and David Ricardo's theory of comparative advantage, claims that countries specialize in and export what they are relatively good at producing and they import what they cannot produce sufficiently. Since for example the climate in Germany does not allow for the production of coffee and since the infrastructure and the technological advancement for the manufacturing of cars is not developed in Bolivia, both countries benefit from opening their markets for mutual trade. In theory, free trade is a win-win situation in which everyone benefits. But social reality proves the opposite: international trade (among other things) has contributed immensely to the present situation of devastating poverty for the majority of humanity (McMichael, 2004). And instead of increasing the wealth of both trading parties, the relations between producers and consumers in commodity markets like coffee or bananas can be described as a "perverse transfer of wealth, by some of the supermarkets, from farmers and farm workers of developing countries to the consumers of developed countries" (Tallontire & Vorley, 2005: 5).

The aggressive liberalization of international trade through international institutions such as the World Bank and the International Monetary Fund has led to an enormous increase in the volume of trade – global trade in 2000 was 22 times the level of 1950 (Nicholls & Opal, 2005: 17) and world exports have almost doubled over the last decade (HDR, 2005: 114). But global inequality has grown simultaneously – so drastically, that many question the basic assumption that trade benefits all. The United Nations Human Development Report 2005, for example, introduces its section on international trade with a telling quote by Eduardo Galeano: "The division of labour among nations is that some specialize in winning and others in losing." And – to give a flavour of what the outcome of neoliberal trade is according to this report – the "world's richest 500 individuals have a combined income greater than that of the poorest 416 million. Beyond these extremes, the 2.5 billion people living on less than $2 a day

– 40% of the world's population – account for 5% of global income. The richest 10%, almost all of whom live in high-income countries, account for 54%." (HDR, 2005: 4)

There has also been much scholarly attention to a series of commodity crises of falling prices and to changes in the structure of the supply chains that further concentrate power and benefits within a few supermarkets based in the Global North. The price index of commodities for example declined by 47 percent between 1982 and 2001, and the present the real prices for key agricultural commodities are near a 30-year low (Vorley, 2003). And the globalization of sourcing, shifting the distribution of power along the global supply chain, gave increased leverage to a small group of oligopolistic supermarket chains, the "new gatekeepers" (HDR, 2005: 139). „These companies have tremendous power in their negotiations with producers and they use that power to push the costs and risks of business down the supply chain. Their business model, focused on maximising returns for shareholders and keeping costs competitively low for consumers, demands increasing flexibility through 'just-in-time' delivery, but tighter control over inputs and standards, and ever-lower prices" (Brown, 2005: 3). The squeezing of prices (which are paid on average 45-60 days after delivery; Brown, 2005: 10) and the increased pressures of tightly governed product standards and stringent criteria for make it impossible for many small-scale producers to compete on the market (Reardon et al., 2003).

Both the commodity crisis of falling prices for agricultural products and the concentration of power by a few supermarket chains are general patterns in the agricultural industry that are exacerbated in the coffee sector (Lang, 2003). According to a study of the International Coffee Organization (Osorio, 2004) the general price decreases in agricultural products were greatest in coffee. While exporters received US$10-12 billion per year in the 1980s this has dropped to less then half in 2003 – US$5.5 billion. This immense loss in income in developing countries is contrasted with the opposite development in high income countries – retail sales in consuming countries increased from US$30 billion in the 1990 to around US$80 billion at present (Osorio, 2004: 2). Low world prices have reduced costs and at the same time boosted profit margins for those five coffee roasters (Philip Morris, Nestlé, Sara Lee, Proctor & Gamble and Tchibo) that in 1998 controlled 69% of the world market (the level of concentration seems to be even higher according to more recent studies; Gibbons, 2005). Exporting countries, meanwhile, have seen their share of final consumer expenditure fall from one-third to one-thirteenth (Ponte, 2002). Studies on the impact of falling commodity prices show that especially for small-scale producers the effects are disastrous, directly translating into diminished opportunities for human development and increasing poverty (Gibbons, 2005).

Small-scale producers of agricultural products in rural societies in many developing countries are confronted with the absence of several key conditions on which classical and neo-liberal trade theory is based (Nichols & Opal, 2005: 132-54): Many small scale producers face a lack of market access, in terms of transportation, language, education and market information, making it easy for middlemen or big corporations to exploit this uncompetitive situation of 'monopsony' (a market situation with only one buyer) and create a race to the bottom. Most producers are excluded from financial markets or insurances and especially the lack of access to credit and the inability to switch to other sources of income in response to price changes make it extremely hard for small-scale producers to survive under the global free trade regime. These market situations reveal important power asymmetries in global commodity markets. Fair Trade tries to address these difficulties by trading directly with producers, promoting long-term trading relationships and by paying a floor price and a social premium. But what is Fair Trade, conceptually, and what are its effects? Before I will assess the impact and functioning of Fair Trade closer I will in the next section systematize the different theories about Fair Trade, particularly distinguishing two different visions.

III. Two Visions of Fair Trade

The variety of objectives and characteristics of Fair Trade and the theories about Fair Trade have in the literature been conceptualized in terms of two visions of Fair Trade (Renard, 2003: 91; Moore, 2005: 74; Goodman & Goodman, 2001). While the first and pragmatic position sees Fair Trade as a way to increase the standard of living for some of the disadvantaged producers in the South through fairer trade relations, the second and more idealistic positions sees Fair Trade as a means or a tool to modify the neoliberal economic model and to transform the entire economy into one in which Fair Trade abandons free trade.[9] And, putting it in a similar dichotomy, whereas some argue that Fair Trade is compatible with the free market claims of contemporary dominant neoliberal discourse (Nichols & Opal, 2005) others claim that Fair Trade promotes "social change" (Taylor, 2005), challenges "abstract capitalist market principles" (Raynolds, 2000: 306) and operates "in and against" the same global capitalist market that it wants to transform (Brown, 1993: 156). The main

[9] "Though blurred by the uniform term "Fair Trade" tension remains between two visions: one, a more radical conception that sees ''fair'' trade as a tool for modifying the dominant economic model, and the other, more pragmatic, that emphasizes the insertion of products from the South under fair conditions in the markets of the North." Renard, 2003: 91.

dividing line centres around the question if Fair Trade is an attempt to bring neoclassical economic theory "closer to reality" (Nichols & Opal 2005: 19), or if Fair Trade is a practical critique and departure from free trade theory and practice that opens up an alternative way of trading.

Before I will criticize these two conceptions of Fair Trade as both being too extreme and missing the real impact of Fair Trade I will take a closer look at the specific claims these theories make. The moderate view of Fair Trade as perfect neoliberalism argues that the aim of Fair Trade is to create trading conditions that are beneficial rather than exploitative to the most disadvantaged producers in the Global South. Nicholls and Opal (2005) argue in their comprehensive account that Fair Trade as "market-driven ethical consumption" (so the subtitle), "by correcting market failures to make the trading system work for everyone [is], in fact, a neo-liberal solution to the problems with trade" (p. 13). Instead of construing Fair Trade, like many others, as opposed to free trade, they argue that Fair Trade "makes the free trade system work the way it is supposed to." (p. 31). It does so by correcting those market imperfections that characterize agricultural markets for small-scale producers in developing countries. And this "market-led commercial success story", so the authors conclusion along the same lines, "works within a capitalist system, rather than abandoning the liberal trade model entirely" (p. 13). Interestingly Paul Rice, president of the U.S. labelling organization *TransFair USA* seems to share this view. In the 2004 annual report of TransFair he writes: "Fair Trade makes globalization and 'free trade' work for the poor" (TransFair USA, 2005).

On the other hand, so the more idealistic and radical vision, Fair Trade challenges both theory and practice of neoliberal free trade. It does so by criticizing conventional competitive trade relations as "unfair", as socially and ecologically destructive and by campaigning for broad change in the way trade between the powerful industrialized countries and the countries of the Third World works. Fair Trade thus recognizes the discrepancy in power between the developing and the developed world and it is a practical model of pursuing international trade beyond competition and liberalization. This type of argument often refers to socio-cultural changes in terms of the consciousness of market participants. Raynolds (2002a) for example analyses Fair Trade in terms of new kinds of 'consumer/producer links' that shorten and humanize the supply chain and introduce values such as fairness, equality and global responsibility into the market. And Tallontire (2000) sees this cooperation as a new 'partnership'. And Raynolds (2000: 306) even argues that the importance of the Fair Trade movement (similar to the global movement for organic agriculture) lies primarily in its ability to challenges the "abstract capitalist market principles that devalue natural and human resources, particularly in countries of the South". The idea of this line of argument is that consumers as well as producers through participation in Fair Trade change their attitudes towards markets and trade in general and that this change of mentality has further implications for the free market in general. Some claims even go as far as Goodman and Goodman (2001: 99) who would prefer to have Fair Trade result in a "fundamental transformation of capitalist society and its distinctive rationality."

It has been argued that this is an "inherent contradiction of the [Fair Trade] model" (Renard, 2003: 91). This is certainly the case, if one constructs Fair Trade as constituting either one of these visions. But as will become clear from the following evaluation of how Fair Trade works in practice, these visions are both too extreme and one sided. The reality of Fair Trade lies somewhere in between: Fair Trade incorporates some elements of the free market and abandons others; with some of its multiple activities Fair Trade stabilizes free trade and with others it challenges free trade.

IV. Fair Trade in Practice

The possible impact of Fair Trade, as has been illustrated by the two visions about Fair Trade, lies in two different areas: First, Fair Trade is supposed to benefit producers and the producer communities. This is more or less straightforward and uncontroversial and the results of different case studies will be summarized and systematized in the following section. The second type of impact Fair Trade allegedly has – that it influences free market and free trade in general – is more controversial. In order to analyse this claim I will divide it up in three areas. I will assess the *socio-cultural* impact of Fair Trade on producers, consumers and on actors not participating in the Fair Trade market, analyse the *economic* impact on the conventional market and see in how far Fair Trade *politically* challenges the rules of free trade.

1. Impact on Fair Trade Producers

Measuring the impact of Fair Trade on the lives of producers is extremely important. Fair Trade claims to be an effective way of improving the living standard of producers in the global south, and consumers buy Fair Trade products in the belief that their purchase is having this developmental effect. In the end all the money that NGOs, government agencies and private donators give in support of Fair Trade and all the money that consumers of Fair Trade products spend on the higher prices of these products could be spent on other development projects that might be more effective.

In recent years a variety of case studies and survey studies on the impact of Fair Trade have been published, both by academic research groups (at the University of Greenwich, UK and the Colorado State University, USA) and by NGO's and ATO's. These studies, most of which are qualitative non-systematic analysis, converge on several general points: Fair Trade has a positive impact on the lives of producers; Fair Trade benefits the producers in a variety of ways beyond increasing income; and the most pervasive problem is that Fair Trade products make up only a part of the sales of producers.

There are some limitations to these impact studies, the most important being that most studies do not compare the changes in incomes and livelihoods of the Fair Trade producers to non-Fair Trade producers and communities (an exception is Bechetti & Constatini, 2005) and that it is analytically hard to separate the unique contribution of Fair Trade from other influences, especially since Fair Trade projects are often supported in various ways by development agencies (Raynolds 2002b).[10] As has been convincingly argued by a survey study of the United Nations Food and Agriculture Organization (FAO), the benefits from developmental aid and from participating in Fair Trade are highly mutually supportive and interlinked (Dankers, 2003: 64). Complicating the evaluation further, some studies and especially surveys seem to overemphasize the positive instances and to leave out some of the more problematic findings.[11]

There are a variety of different impacts on producers. The direct impacts include an increase in income due to the Fair Trade minimum price and the social premium; access to credit; improved education; psychological and organizational effects such as producer empowerment and its effect on civic participation (Nicholls & Opal, 2005: 204). I will first analyze the benefits from the price premium and other directly financial benefits, I will then assess the non-monetary benefits and the organizational and political impacts of Fair Trade on producers and finally I will try to give a picture of how effective Fair Trade is in transferring money from consumers to producers.

[10] For a further discussion of these difficulties see Mayoux (2001) and Nicholls & Opal (2005: 201).
[11] A report of the Fair Trade coffee market in Latin America that is based on seven case studies concludes, for example, by exclusively citing the most positive study (Perezgrovas and Cervantes, 2002), concluding (and thereby implying this as the general finding) that the direct financial "revenues for Fair Trade coffee [are] twice the street price for conventional coffee, even after deductions were made for cooperative management and other expenses." (Murray et al, 2003: 7). Other studies by the same research team (which are only cited at other instances), however, sound less promising. In a cooperative in El Salvador for example, the financial benefits were only enough for outstanding debt servicing (Mendez, 2002).

A. Benefits from the price premium

Fair Trade producers receive for their products a floor price, which is, depending on the fluctuations of the world market prices, significantly higher then what conventional buyers pay and an additional social premium. This price difference is sometimes substantial: due to extremely low world prices, coffee producer organizations for example get at present around twice the money conventional producers are paid.

On an aggregate level the direct benefits of this extra income for producers are impressive: This extra income – calculated from the difference of Fair Trade floor prices and world prices for all the certified global retail sales (estimated at US$ 1 billion for 2004) and the social premium – amounted in 2004 to US$100 million, so the 2004-2005 annual report of the FLO (FLO, 2005a: 4, 21). And similarly, the extra benefits for coffee farmers during 2003 amount to over US$22 million, if one calculates the difference between the world market price as defined for Arabica by the New York and for Robusta by the London stock exchange with the Fair Trade minimum price and premium (FLO, 2006).[12] All these benefits are distributed among the 531 producer organizations that are certified by the FLO, representing over one million farmers and workers and, including their families, five million people are affected by the extra income earned through Fair Trade sales above world prices (FLO, 2006). Just looking at these aggregate numbers this means that in 2004 out of US$100 billion consumers spent on Fair Trade products an extra income of almost US$100 on average was transferred to more than one million farmers.

On the micro level the picture is, however, more complex. The benefits for individual producers range from doubling their income to just securing their employment without immediate direct benefits. All studies and surveys conclude that Fair Trade has a positive influence on the income of cooperatives and individual producers, significantly improving their standard of living (Riedel et al, 2005; Mayoux, 2001; Ronchi, 2002; Nicholls & Opal, 2005; Taylor, 2002; Dankers, 2003).[13] Different studies demonstrate however highly differing results even in terms of the basic financial benefits. This reflects the different particular

[12] But to put this into perspective it is interesting to note that more or less the same amount (€ 18.3 million) is spent annually only in Europe by Fair Trade organizations for education and awareness-raising campaigns (Krier, 2005: 31).

[13] And even the most studies point at several advantages of Fair Trade. Robbert Maseland and Albert de Vaal (2002) at the University of Nijmegen in Holland for example compared Fair Trade with free trade and protectionism and concluded that it was "obvious" that Fair Trade is the only way to guarantee the fulfilment of minimum requirements such as stopping child labour or environmentally harmful effects. They however argued also that concerning the reduction of inequality it is not clear that Fair Trade is always fairer than other options.

circumstances of producers and their environment as well as the uneven distribution of Fair Trade benefits among the producers organizations.

Let's look, at some examples: In a cooperative of 1500 small coffee producers in Chiapas, Mexico, the individual members received up to 200 percent of the conventional price for their coffee - and since coffee incomes made up some 80 percent of family incomes, this made a huge difference (Perezgrovas and Cervantes, 2002: 16, 19). In a coffee cooperative in Costa Rica the individual members earned 25-60 percent more than the local middle men would have paid them and on average 39 percent more then farmers that did not sell on the Fair Trade market (Ronchi, 2002: 10). In a coffee cooperative in Bolivia the prices in 2000, compared with the conventional market, ranged from 106 percent to 123 percent for Fair Trade, and from 109 percent to 195 percent for organic Fair Trade (Dankers, 2003: 59). In one of the only economistic studies on a Fair Trade farm in Kenya Bechetti & Constatini (2005) conclude that Fair Trade improved the social and economic well-being and the nutritional life quality and that participation in Fair Trade resulted in a higher perceived income, which they attribute mainly to lower expectations among Fair Trade farmers who had access to complementary welfare services. Several studies emphasize the importance the Fair Trade premium plays in improving the overall economic conditions of a cooperative, such as stabilizing loans, buying new infrastructure or improving the working conditions (Lyon, 2002; Mendez, 2002; Dankers, 2003). The wages at a Fair Trade banana plantation in Ghana, however, were only insignificantly higher than the wages of casual labour in the region (Dankers, 2003: 57, 59). And in a cooperative in El Salvador the financial benefits of participating in Fair Trade were only enough for outstanding debt servicing, in both cases mainly because only a small percentage of products could be sold on the Fair Trade market (Mendez, 2002). Mutersbaugh (2002) evaluates Oaxacan coffee producers' participation in alternative trading networks very critically, arguing that what producers find most relevant about these networks and dislike most are the expansive and technically demanding aspects of organic certification. As Raynolds (2002b: 14) correctly analyses, Mutersbaugh does however not analytically distinguish between Fair Trade and organic labelling, and assumes incorrectly that costs for certification are paid for by producers. Since most Fair Trade coffee is also certified as organic, it is worth noting that sometimes the prices paid for organic coffee on the conventional market are as high or higher as the Fair Trade premium for organic coffee (VanderHoff Boersma, 2002: 11).

In addition to the direct monetary benefits from the Fair Trade price premium another important benefit is the provision of credit at reasonable rates and the pre-financing of up to 60 percent of the price of the purchases, if the cooperative demands that. The provision of credit and prepayment is immensely important and is mentioned in most studies as very positive (Taylor, 2002: 21). A problem that has been reported however is that – contrary to the rules of the different Fair Trade labelling organizations and ATOs – the actual payment comes very late, creating immense financial pressures for producers (Lyon, 2002: 32). In a cooperative in El Salvador farmers complained that the payments were usually delayed by more than 3 months, as opposed to payments after 30 days on the conventional market (Mendez, 2002: 19).

The most pervasive problem and at the same time the major explanation for the difference in the direct benefits for individual producers and cooperatives is that many Fair Trade producer organizations are only able to sell a small portion of their products on the Fair Trade market. The supply by far outstretches the demand. On a world-wide average Fair Trade producers are only able to sell around 42 percent of their product on the Fair Trade market (Bechetti & Constatini, 2005: 3), while Fair Trade coffee cooperatives are selling half of their crops at Fair Trade prices (Levi & Linton, 2003). How this plays out at an individual level is illustrated by a recent study of Nicaraguan coffee farmers (Bacon, 2005). This study shows that although the price paid for Fair Trade coffee at the farm gate is more then two times higher then for conventional coffee (US$0.84/lb as opposed to US$0.39/lb to an agro export company or US$0.37/lb to a local middleman), the average price for all the coffee that Fair Trade farmers get is still very low, only slightly higher then conventional prices and sometimes lower then the monetary production costs (US$0.56/lb as opposed to the conventional average of US$0.40/lb, while the monetary production costs average US$0.49 to 0.79/lb, see p. 505).

Other factors that play into the difference in income revealed by the case studies are different local price levels for conventionally grown products and the fact that depending on the internal organization and the social context of the different cooperatives differing proportions of the extra income are absorbed by administrative activities and communal projects. Some producer groups decide to return most of the extra income to their members, but many decide democratically to retain part of the extra income and use it communally for health, education, community projects, debt repayment, infrastructure, organic conversion and technical training (Nicholls & Opal, 2005, table 9.2 on p. 206). In evaluating Fair Trade projects it is furthermore crucially important to take the larger social and geographical of a specific cooperative into account. Bacon's study on Nicaraguan coffee farmers emphasizes correctly, that although the vulnerability of farmers in the Fair Trade cooperatives to loose their land titles due to low coffee prices is four times lower then for farmers selling for the conventional market, the more important finding is that a vast majority of surveyed farmers, both those selling to Fair Trade and to conventional markets, reported a decline in the standard of living during the last years (Bacon, 2005: 506). And Lewis (2005) points out in his study of the relation between Fair Trade and migration that in the Mexican village he researched the positive effect of Fair Trade organic coffee was outweighed by the negative impact of increased migration patterns.

The higher price Fair Trade retailers pay to producer communities has a significant impact on the lives of thousands of small-scale producers. A closer look at different Fair Trade farms and cooperatives shows however that the impact is very different depending on a variety of factors. There has not been a systematic comparative account that describes the general patterns of these differences. But all studies point out that the biggest problem for producer communities is that they cannot sell all their products on the Fair Trade market. The fact that most producer groups in different studies emphasize the need to increase the Fair Trade market furthermore reveals the importance participation in and benefits of Fair Trade has for small-scale producers (Murray et al, 2003: 5).

B. Non-monetary Benefits

Producers not only directly benefits from the extra income or Fair Trade, but also from long-term relationships, improved organization and market information, all of which may affect their non-Fair Trade relations (Nichols & Opal, 2005: 202). In several studies psychological benefits like improved self esteem and pride in the higher level of control over the value chain are evaluated as very beneficial and important. Murray et al (2003: 8) for example reports from seven case studies with coffee farmers in Latin America that "in case after case, farmers reported that the increased attention to their farming –including the visits of Fair Trade and organic inspectors, buyers and even visiting Northern consumers (…) promoted renewed pride in coffee farming." (see also Mayoux, 2001; Ronchi, 2002: 17). Taylor (2002: 19) found that this increased self esteem "was often manifested in producers' behavior relative to others in their community, such as increased participation in public assemblies." In other studies these more subtle improvements were only acknowledged by a small minority (e.g. of only 14 % in a case study in El Salvador; Mendez, 2002: 21).

Other indirect benefits of participation in Fair Trade reported in case studies are increased spending on education of children (Lyon, 2002: 9; Ronchi, 2002: 8; Murray et al, 2003: 9) and the preservation of indigenous cultures (Murray et al, 2003: 4; Lyon, 2002: 32). It must however be noted that the evidence for the claim that high proportions of the extra income through Fair Trade is spent on education and that Fair Trade supports the survival of indigenous cultures is more anecdotal than systematic and that other factors like low success rates in schools or powerful trends like urbanization and migration may neutralize these impacts (Nicholls & Opal, 2005: 209).

An important issue in Fair Trade is the apparent gender bias. A variety of studies has shown, that since the income generated from Fair Trade crops is generally controlled by male household members, and since less woman are employed in Fair Trade cooperatives, there is no or little female empowerment or improvement of the livelihoods of woman through Fair Trade (Nicholls & Opal, 2005: 208; Tallontire, 2000: 170; Redfern & Snedker, 2002: 39). Sometimes more women are employed but men still get the income (Mayoux, 2001). Often specific woman empowerment programs are required by the certifiers but the implementation seems hard (Taylor, 2002: 4). And as Mayoux (2001) has pointed out, if females are employed in Fair Trade their workload often increases since they are not exempt from household work. There are however also positive examples: In a producer organization in India in the increased participation of females in the production process had broader impacts like "increase in self-confidence, economic independence, better access to health, and participation in decision-making in the family, community, and local council" (Redfern & Snedker, 2002: 39; see also Paul, 2005: 148).

Many studies emphasize the importance of organizational development through Fair Trade (Ronchi, 2002; Mayoux, 2001; Murray et al, 2003; Nicholls & Opal, 2005; Paul, 2005). A report by the FAO that is based on seven case studies concludes for example: "In all the cases involving farmer cooperatives, it is clear that the fair-trade price premium is only part, and often only a small part, of the benefits derived from the fair-trade system. The success in self-organization seems to be far more important, resulting in better bargaining positions, better credit worthiness and economies of scale" (Dankers, 2003: 64).

Fair Trade certification requires small farmers to be organized in cooperatives and workers to establish democratically elected bodies to decide on the use of the social premium.

It is important to note the mutually supportive effects of Fair Trade and cooperatives. Cooperatives enhance producer power in local markets, increase income for both members and non-members by creating competition to private intermediaries and democratically empower its members to express their voices collectively. Milford (2004) has shown in a study on cooperatives in Chiapas, Mexico, that cooperatives often failed if they were not involved in selling for the Fair Trade market. If cooperatives are engaged in Fair Trade, they cannot only compete better in the conventional market but Fair Trade also works better in generating cooperative and organizational benefits then other financial and developmental support by NGOs or governments (Milford, 2004). Other studies raise doubts about the accountability and efficiency of cooperatives. A study from a coffee cooperative in Nicaragua argues that the cooperative as a organizational structure “involves an expensive, top-heavy entrepreneurial hierarchy, including a large administrative staff and substantial representation costs for its leaders” (Mendoza & Bastiaensen, 2003: 42). Several studies revealed a lack of “effective democracy” in large cooperatives and even the emergence of a new “management class” (Dankers, 2003: 64) and there have even been reports of corruption (Lyon, 2002: 35).

Other organizational benefits that have been highlighted in several studies are access to market information and the increased credibility of producer organizations that participate in Fair Trade. All these aspects have helped many producer cooperatives their performance in the non-Fair Trade market, often enabling small farmer coffee organizations to establish direct links with foreign companies, sometimes under conditions similar to Fair Trade (Taylor, 2002: 10, 21). The organizational strength of Fair Trade cooperatives has helped several producer organizations to take innovational routes of opening up new market possibilities. *La Selva*, a coffee cooperative in Chiapas, Mexico, for example started to sell their coffee in a Mexican chain of cafeterias, the first of which opened in San Cristóbal de Las Casas in 1994 (Cabanas, 2002: 30). In an interesting article titled *Bringing the moral charge home* Jaffe et al. (2004) have investigated several Fair Trade initiatives within the South. Realizing that conventional Fair Trade is only able to benefit a small fraction of cooperatives, civil society organizations and producer groups in Mexico launched their own label called *Commercio Justo México* in 1999 (Jaffe et al, 2004: 184). In 2001 the first coffee was sold under this Mexican domestic label, thus addressing the problems of small producers that sell to the domestic market and changing a situation in which the best coffee products had to be imported (Comercio Justo, 2006).[14] A similar initiative is the network ANEC (National Association of Peasant Marketing Enterprises) that started to sell domestically labelled Tortillas to counter recent trends of deteriorating quality of corn which were caused by cheap U.S. imports after NAFTA (Jaffe et al, 2004: 186). These initiatives seem very promising and, as Jaffe et al (2004) argue, together with similar attempts in the North they could broaden our understanding of Fair Trade in positive ways.

Another interesting aspect of Fair Trade – one that is extremely hard to measure and that only few studies take into account – are the possible spill-over effects to non-Fair Trade producers and the entire community stemming from the organizational power of Fair Trade cooperatives. There are obvious benefits to the families of producers through the extra income and on the producer communities through the impact of the developmental projects (Nicholls & Opal, 2005: 213; Taylor, 2002: 24). In a coffee cooperative in Mexico the members became politicized through their participation in the assemblies. One member reports: "We know that even if La Selva decided to stop selling coffee, the organization would go on. We know this because in the assemblies we discuss the sale of coffee and management of the farms, but also the people are concerned about more wide reaching problems about our relationship with the rest of the world. For example: how the government projects are run, the problems in the *Registro Civil* (office for births, marriages, and deaths), land tenancy questions, and religious festivals." (Cabañas, 2002: 30). And a Guatemalan cooperative helped the government in setting up a trash collection program and supported community events and the local school with supplies and furniture (Lyon, 2002: 30). In general Fair Trade seems to increase what Putnam (2000) called the *social capital* of communities by thickening organizational structures and strengthening civil society (Nicholls & Opal, 2005: 215).

Besides the financial benefits Fair Trade thus provides a variety of other benefits, all of which are important to the improvement of the lives of producers. Especially the organizational and cooperative benefits of Fair Trade, even if sometimes not perfectly effective, are crucial in increasing the market power of producers, in providing new sources of income and in strengthening the political struggle of farmers. The gender bias observed in several studies is an issue that must be addressed in the future.

C. Efficiency of Fair Trade

[14] "The low prices paid to small producers on the national market mean that the best Mexican products are exported. Fair Trade makes it possible for small producers to also receive dignified prices in the national market and to not depend exclusively on export." Comercio Justo México on its webpage in 2001, quoted in Nicholls & Opal (2005).

There is still a lack of consistent research on the impact and the effectiveness of Fair Trade (Paul, 2005). Especially the attempts to come up with quantifiable methods of calculating if the money spent on Fair Trade products or donated to Fair Trade organizations is well spent, is only in its preliminary stages. Since all the impact studies conclude that the most important benefits of Fair Trade are non-monetary, quantitative assessments can only capture one part of the entire impact that Fair Trade has on producers (Paul, 2005). The non-monetary impact on the life of producers is hard to quantify, but the qualitative research summarized above should give some insight. Nicholls & Opal (2005: 225) attempted to use a quantitative and highly sophisticated account to measure the social return on investment for a South African wine cooperative and found with this somewhat contingent and problematic method that "for every £1 spent on Fair Trade wine (at the import level), a value of £6.89 was returned to the community."

Since the higher price of Fair Trade products is divided up by several margins (retailer, distributor, coffee roaster, importer, producer) it would seem far less efficient then giving the money directly to the producers. There has not been a systematic account yet. While some studies suggest that a reasonable percentage of the extra price for Fair Trade actually reaches producers, other reports seem to imply that sometimes Fair Trade is a pretty inefficient way to transfer money to producers in the South. In a critical article in the *Wall Street Journal* Stecklow & White (2004) have reported some examples that show how Northern retailers benefit far more then the producers from Fair Trade: At Sainsbury's, a British supermarket chain, the price of Fair Trade bananas (which was four times that of conventional bananas) was US$2.74 per pound. The producers receive only 16 cents per pound, 55 cent go to all the middlemen and importers and the rest to the supermarket, which earns approximately US$2 with every pound of organic Fair Trade bananas.[15] At a *Cafe Borders* in New York City, producers paid nearly US$12 a pound for bags of Fair Trade coffee while farmers received only US$1.41. A comparative study of the coffee supply chain of *Nestlé* and the Fair Trade supplier *Cafédirect* found that out of the 34 percent Fair Trade mark-up for the consumer price only 4 percent ended up with the producers, mainly due to

[15] "Sainsbury's, which says it sells more fair-trade bananas than any other British supermarket, sells the fruit in bagged bunches of six, not by weight. A bag of fair-trade Dominican Republic bananas, weighing about a pound, recently cost around $2.74 in London. That's more than four times the price of a pound of unbagged regular bananas, also from the Dominican Republic. According to FLO, Dominican Republic fair-trade banana growers receive about 16 cents a pound from middlemen. Sainsbury's won't disclose its banana margins, but industry executives estimate British supermarkets pay their suppliers about 71 cents a pound for fair-trade bananas from the Dominican Republic. If that's the case, Sainsbury's is earning almost $2 a pound."

higher costs of advertisement and marketing licence (Mendoza & Bastiaensen, 2003: 40). Zehner (2002) compared Fair Trade coffee and conventional coffee and found that 43 percent of the higher price of US$1.50 is passed on to producers while 39 percent went into the increased margin of Starbucks itself. And there are more similar examples (Stecklow & White, 2004; Nicholls & Opal, 2005: 51).

This is however not the general rule. Other retailers, by selling Fair Trade products at the same price as conventional products, have shown the way to increase the market share of Fair Trade and to decrease exclusion on the side of consumers. At the supermarket chain *Migros* in Switzerland for example Fair Trade bananas have almost the same price as non-Fair Trade bananas (which made it possible to increase the market share of Fair Trade banana to 56 percent) and *Wild Oats Natural Marketplace* in the U.S. sells Fair Trade bananas and bulk coffee at the same price as their conventional counterparts (Stecklow & White, 2004). To change this situation, in which consumers pay very high prices with the intention of helping producers, but end up mostly increasing the margin of the retailer, it would be interesting to investigate the possibility of establishing a further criterion for Fair Trade certification, ruling that the margins of retailers cannot be higher for Fair Trade products than for conventional products. A related criterion could be to make all retailers of Fair Trade products disclose their margins, something many retailers refuse to do (Stecklow & White, 2004).[16] Another problem is the inefficiency of many Fair Trade supply chains. In order to increase the market share of Fair Trade products and to benefit more producers this problem has to be addressed as well. (Mendoza & Bastiaensen, 2003).

Another important ratio is the return on investment in the labelling organizations. If one just takes into account all the money the FLO and its member organizations spent in 2002 and calculates the return on investment of this money by dividing it with the total benefits for farmers, the ration is 2.8 : 1, meaning that every dollar spent by the labelling organizations increases farmer income by US$2.8 (Nicholls & Opal, 2005: 216). And TransFair USA claims that since 1999 "each dollar of TransFair USA's budgets has been translated into more than $7 in supplemental income for farmers and farm workers."[17] These measures, however,

[16] This claim totally goes against what Paul Rice, chief executive of Transfair USA argues: "As a core philosophy, Fair Traders believe in as little market intervention as possible [and: regulating retail prices goes against the idea of] using the market as a vehicle for creating a win-win scenario for farmers and for industry." The growth of fair-trade sales in the U.S. suggests "millions of U.S. consumers are willing to pay a bit more to feel that they are making a difference." (Stecklow & White, 2004)

[17] "In the past six years, TransFair has leveraged limited resources to certify 74.2 million pounds of Fair Trade coffee. This has provided coffee farmers in some of the poorest communities in Latin America, Africa, and Asia

do only include one part of the extra money consumers spent on the higher prices for Fair Trade products.

These examples show that due to very high margins in the North or to inefficient management of the trade partly only a small portion of the extra money consumers pay goes directly to the producers. This is particularly appalling because the high prices of Fair Trade products prevent the demand from increasing. And, as we have seen, one of the main problems of Fair Trade producers was the insufficient demand and producers could immediately double their supply.

2. Impact on the Free Trade Market

Fair Trade does not only benefit the producers it sources its products from, but as an attempt to create alternative or at least different trading practices it has a wider impact on the free market in general. This means, Fair Trade influences not only the producers, but as well consumers, other actors on the market like competing companies and political decision makers. Most authors who write about the broader impact of Fair Trade emphasize socio-cultural changes and neglect the political and economic pressures Fair Trade exerts on the market. But all are important and I will address them separately.

A. Socio-Cultural Impact of Fair Trade

There has been no systematic research on how participation in Fair Trade brings about socio-cultural changes. I will in this section lay out the general idea of what the socio-cultural impact of Fair Trade might be. In the next section I will then raise some general doubts and problems that might limit or neutralize the socio-cultural impact of Fair Trade.

What is this socio-cultural impact, the "quiet revolution"[18] Fair Trade is supposed to bring about in the values and practices of its participants and even among those who don't participate? Fair Trade links consumers and producers together in ways that are fundamentally different from the conventional market, so a claim held by many activists and researchers (Raynolds, 2002a). It 'humanizes' the trade process (so ETFA, the European Fair Trade Association, Raynolds, 2002a: 404) by shortening the consumer-producers chain and by introducing values like solidarity, cooperation and equality into the market. While in conventional markets the interests of producers and consumers are inherently contradictory and gains for the one are losses for the other Fair Trade re-personalizes trade by introduces

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with over $60 million more than they would have earned selling their harvests to local intermediaries. This means that each dollar of TransFair USA's budgets has been translated into more than $7 in supplemental income for farmers and farm workers since 1999." TransFair USA (2006).

[18] Harriet Lamb, Fairtrade's executive director in the UK, in Jones (2004).

real deliberative decisions and values into the otherwise automatic and anonymous price mechanism. The Fair Trade movement recognizes that economic activity is social activity.

Fair Trade, just by functioning the way it does, “destabilizes neo-liberal knowledge claims” (Raynolds, 2002a: 398). Whereas the quality of conventional products just consists of the physical features and the image attached to it by the brand (Klein, 2002), thus excluding the conditions of production from the value or the quality, Fair Trade includes these into the quality of the product. Producer and consumer links that make the conditions and lives of producers visible to the consumers are created, maintained and “performed” through the discursive and narrative tactics of images and label texts about corporate policies, personalities and lives in the producer community (Goodman & Goodman, 2001: 109). This competition for the “hearts and minds” of the consumers through disclosing facts about the production process, which are absent from other, changes the geography of production: The power of who defines what is “quality” in a product is to some degree shared by producers and consumers as partners (Goodman & Goodman, 2001: 112).

Fair Trade furthermore uncovers that conventional markets are dominated by the most powerful actors that create the market and shape its rules in their own interests, thus contributing to counter the neoliberal view of the economy as a level playing field (Taylor, 2005: 139). Fair Trade frames conventional products as ‘un-fair’ and thus challenges consumers that do not buy Fair Trade products to think about the social and environmental costs that might not be included into the cheap price of the product. Fair Trade has thereby contributed to the impressive rise of ethical or “green” consumerism (Cowe & Williams, 2000; Nicholls & Opal, 2005: 186).

Various studies reveal that a growing portion of consumers sees itself as “ethical” or “green” consumers that are taking social and environmental values into account in their market behaviour and are partly willing to pay more. Different studies estimate the percentage of ethical consumers differently, but there is increasing evidence that 50 to 80 percent of all consumers fall under this category and that the market for ethical goods and services is growing at rates of 20 percent per year and already amounts to U.S.$8 billion (Nicholls & Opal, 2005; Cooperative Group, 2004).[19] From these surveys it is obvious that the market for

[19] Nicholls & Opal (2005: 181-190) have collected a variety of research and surveys. A survey of 30.000 consumers in Britain by the Cooperative Group and MORI in 2005 for example showed that 84 percent of consumers are willing to pay a little extra to help producers in developing countries and 6 out of 10 are willing to boycott for their ethics. Producers especially emphasized the importance of complete product information on food labels, which was important to 96 percent of the sample (Cooperative Group, 2004). Another study argues:

ethical products is huge and growing and that many consumers care about the social and ecological externalities of the production process. This is a clear signal that self interested utility maximisation is not the only driver of economic action – certain values associated with the dislike of global inequalities are becoming additional determinants of individual choices.[20] It is important to notice however the "ethical gap" between the preferences consumers state in surveys and their actual behaviour on the market (Nicholls & Opal, 2005: 187). Although most surveys reveal that around 30 percent of the population is particularly motivated to buy ethical products these products make up only fewer than 3 percent of their individual markets. This phenomenon has been termed the "30:3 syndrome" and it is one of the most important challenges Fair Trade faces for the future to close this gap (Cowe & Williams, 2000: 5).

Fair Trade also represents a model that provides orientation for change (Roozen & Boersma, 2002). Fair Trade establishes, in contrast to the competitive trade relations, a partnership approach to trade that aims at incorporating ethics into trade by focusing on values such as equality of exchange, cooperation and fairness and by trying to increase the terms of trade in favour of the producer (Tallontire, 2000).[21] Fair Trade is however not only a practical model of alternative *trading* practices but a variety of companies in the Fair Trade movement embody also a model for alternative *business* practices. Instead of being characterized by external shareholders and profits like conventional companies, many of the alternative trading organizations involved in Fair Trade are cooperatively run, owned by the workers and some do not work for profit (Nichols & Opal, 2005: 96). One example is *The Day Chocolate Company* that directly connects small-scale cocoa farmers into global markets by making the farmers shareholders in the company (Doherty & Tranchel, 2005).

"The most in-depth research into ethical consumerism to date reveals that just over half the population have bought a product and recommended a supplier, because of its responsible reputation, at some time in the last year. A third of consumers are seriously concerned with ethical issues when shopping and a quarter have investigated a company's social responsibility at least once. Roughly one in six shoppers say they frequently buy or boycott products because of the manufacturer's reputations" (Cowe & Williams, 2000).

[20] In a recent survey the "*2003 Corporate social responsibility monitor*" finds that the amount of consumers looking at social responsibility in their choices jumped from 36 percent in 1999 to 62 percent in 2001 in Europe.

[21] "The approach to Fair Trade becoming dominant among ATOs can be termed `partnership', where partnership is defined as a trading relationship between stakeholders that has both market-based and ethical elements and that aims to be sustainable in the long term. For Fair Trade, the key stakeholders are the producers, the producer group, the ATO, and the consumer; and the partnership between these stakeholders is based on a combination of market and ethical elements." (Tallontire, 2000: 167). Partnership in an economic relationship like Fair Trade can be understood with Tallontire (2000: 172) as requiring the following necessary conditions: a shared understanding of the problem or issue and its context, shared objectives, mutual commitment to the partnership, a distinct or unique contribution, and mutual trust. Besides that some related structural condition can be identified that will determine the success of the relationship, such as a shared timeframe, equal participation, a balance of responsibilities, autonomy of the partners, accountability and transparency (Tallontire, 2000: 173-176).

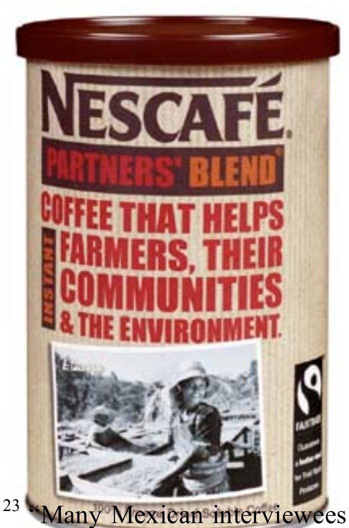
The social impact of Fair Trade is multilayered and complex. Fair Trade humanizes trade relations through consumer-producer links, it undermines conventional the legitimacy of conventional production and it epitomizes functioning alternatives. Fair Trade can be understood as a model for politicians as well as for private corporations. A model of alternative trading practices that restricts competition, includes social externalities into the price and is fairer in its outcomes; and an example of an alternative company model that does not only aim at increasing profits, but at serving both producers and consumers. The section on the political impact of Fair Trade will discuss deliberate attempts by Fair Trade actors to lobby for political change of the rules of international trade by invoking the Fair Trade system as a model of cooperation in trade that works. And the section on economic impacts of Fair Trade will see in how far Fair Trade influences competing corporations to improve their practices, both through market pressures by conscious consumers and by representing a functioning alternative.

Although – and most researchers agree on this point – participation in Fair Trade has important socio-cultural impacts on consumers along the lines laid out above, some concerns can be raised about these claims. Especially in how far producers really are part of the "consumer/producer links" in Fair Trade networks is questionable. Many studies reveal the limited sense of understanding and identification producers have towards Fair Trade – for most it is just another market that demands higher quality and pays higher prices (Mendez, 2002; Perezgrovas and Cervantes, 2002; Lyon, 2002; Dankers, 2003). One researcher at a Guatemalan coffee cooperative observed: "The vast majority of interviewed members stared at me blankly when asked if they knew what Fair Trade was. Some came up with creative responses that exhibited a minimum level of comprehension such as 'Fair Trade is the good price that they pay us for our coffee'" (Lyon, 2002: 24).[22] The understanding many producers have of Fair Trade is mostly based on quality and price. Taylor (2002) reports in his summary of seven case studies that it was easier for producers to understand the impacts of organic production since it was more related to their farming activity and they got a higher price for improved quality. And one producer claimed: "In Fair Trade there are higher quality products, and in the conventional market the produce is contaminated and at the same time

[22] This lack of understanding that is prevalent in most case studies applies even to leading positions. An example given by Lyon (2002: 24): A member of the Junta Directiva in this cooperative told a researcher that the FLO had visited their plantations and, asked whether the FLO had certified the cooperative, answered: "no she [the FLO person] is just here to see how everything is going with us."

sold at lower prices." (VanderHoff Boersma, 2002: 18). Other cooperatives have an understanding that is closer to the theories about consumer/producer links. Isaías Martínez, a farmer in Mexico, for example says: "The most important contribution of the Fairtrade Labelling system is in my eyes that our 'dignity as a human being' is recovered. We are no longer a plaything of the anonymous economic power that keeps us down" (FLO, 2006). This gap in understanding Fair Trade is, according to several studies, a new development that is commonly attributed to the increased activity of big national labelling organizations and large retailers that see Fair Trade more as business than the alternative trading organizations.[23]

On the consumer side there is another set of worries. Especially the mainstreaming of Fair Trade has led to a diffusion of its message that changed from participation in an international project of trade reform to one in which consumers are "shopping for a better world" (Low & Davenport, 2005b). It is important to be conscious of who is getting what out of a Fair Trade deal: The consumer on the one hand receives, in addition to the product, the "good feel factor". A reason to perceive herself as an "ethical" and "responsible" consumer is given by the message on the Nestlé coffee: "Partners' Blend: Coffee that helps farmers, their communities and the environment".[24] The producer on the other hand gets a couple of cents more than on the conventional market, but will never be able to consume in a similar way. In light of the asymmetry in wealth between consumers and producers one could ask if the standards in Fair Trade are an "adequate representation of 'equal exchange' or 'fairness' in relation to the rich consuming North?" (Goodman & Goodman, 2001: 115). Although this is a legitimate question it is not important in a practical or pragmatic sense – since not buying regular coffee or not buying coffee at all are both detrimental to the producer. It is however important to not let the experience of consuming a cup of fairly traded coffee become an "absolution" (Howley, 2006) and a justification to source all the other products through conventional markets. There are some further general concerns that can be raised about the power relations in Fair Trade, in particular about the commodification of the lives of producers in



[23] "Many Mexican interviewees concurred in calling for a renewed commitment to developing and maintaining direct ties between Northern consumers and Southern producers. These visits help producers better understand the nature of the Fair Trade market, and create positive impacts on producer self-esteem and coffee quality." Taylor (2002: 10).
[24] The source of the picture is http://www.babymilkaction.org/update/update37.html (Mai, 2006).

advertising for Fair Trade and exclusive standards and prices, but both are necessary mechanisms to make Fair Trade effective and successful on the market.[25]

B. Economic Impact of Fair Trade

Besides the socio-cultural impact of Fair Trade described above and its attempts to influence the politically established rules of the market explained in the following section the most recognized impact Fair Trade has on the market is economic. The argument has two parts. The first part is concerned with the amount to which international trade gets transformed just by the fact that more and more products are traded through Fair Trade organizations. And since that is limited somewhat, the other part analyses the indirect impact Fair Trade has on competing companies in forcing them to change their trading policies by raising awareness about the social and environmental externalities of the production process.

Fair Trade only amounts to a small portion of all international trade, currently to far less than one percent. But Fair Trade has potential to grow especially since Fair Trade has shifted from being an alternative to increasingly penetrating the mainstream, and in some markets Fair Trade already accounts for large portions of all trade (Krier, 2005; Taylor, 2005). There is an extremely controversial discussion about the recent development of Fair Trade into the mainstream which gives practical importance to the debate between the two visions of Fair Trade described above. The positive sides of selling Fair Trade products through mainstream channels and commercial supermarkets such as Starbucks in the USA or Tesco in the UK are fairly uncontroversial: immense increases in the volume of Fair Trade products, which thus benefit more producers, an increase in the availability and range of products and opening up the message of Fair Trade to a much wider audience then through 'alternative' trade (Low & Davenport, 2005a: 150). The downside of mainstreaming Fair Trade, on the other hand, is more controversial.

There are several concerns about mainstreaming Fair Trade. A general critique comes from conservative free market advocates. Philip Booth (2005) from the London based *Institute of Economic Affairs* argues that by paying a minimum price Fair Trade is disturbing the automatic market mechanisms of Adam Smith's invisible hand. While it might help the

[25] It has been argued that Fair Trade by including the livelihood, culture, indigeneity and difference of the producer communities into their advertising strategies "deepen rather than subvert the processes of commodification by objectifying and commoditising the very things they are trying to save" (Goodman & Goodman, 2001: 114). Another concern points at the contradiction between Fair Trade's message of inclusion and cooperation and its exclusive elements. Since it is a label that relies on quality standards and higher prices, Fair Trade is exclusive both on the producer side with its "dictates of quality" (Goodman and Goodman, 2001; Mutersbaugh, 2005c) and on the consumer side with its higher and sometimes extraordinarily high prices (see Jaffe et al, 2004: 183).

producers that sell on the Fair Trade market it is detrimental to all other producers in that market. Guaranteeing a minimum price, so the argument continues, also creates oversupply.[26] While this critique overestimates the power of Fair Trade to disturb the market and to create oversupply and although it suppresses the far more important market disturbances described above (market power of TNCs, monopsony, imperfect access to credit and information etc.), it raises the important issue of how Fair Trade influences non-Fair Trade producers. The argument against Fair Trade is however flawed. In order to avoid negative impacts on other producers and to decrease the dependency of Fair Trade producers the labelling organizations encourage producers to diversify their production and help them to access new markets. Furthermore, as I will discuss in the next section, contrary to harming other producers, Fair Trade has contributed to a broader trend of social standards and certifications that might bring about positive change for all producers.

Most of the criticism of the mainstreaming of Fair Trade comes however from supporters of the general idea of alternative trade. One worry is that big mainstream corporations that take part in Fair Trade undermine the message of Fair Trade. Whereas the Fair Trade movement started as a movement of alternative trading organizations that practiced trade not along cooperative lines and challenged conventional competitive and exploitative trading practices the mainstreaming of Fair Trade introduces new actors with different interests and practices into Fair Trade. Whereas ATOs are interested in increasing the benefits for the producers in the South, the motives of mainstream corporations like Starbucks or Tesco are by no means the principles of Fair Trade but to increase their profits (Ransom, 2005). Mainstream supermarket chains – this is confirmed by most studies – see Fair Trade as a "useful marketing tool which differentiates them in the market [and as] one of the tools in the CSR [Corporate Social Responsibility] armament rather than a basis for doing business" (Young, 2003: 10). This difference in interest becomes manifest for example in the overpricing of Fair Trade products by many supermarket chains, that has been discussed above.[27]

[26] "What happens if there is adjustment to world supply or demand and prices in one part of the market are fixed? Prices in other parts of the market must fall by more – other growers suffer more. What happens to those employees of large producers when Fair Trade consumption shifts away from them towards small producers who frequently offer poorer working conditions than the multi-national corporations?" Booth (2005: 7).

[27] A further example: In 2003 several supermarkets in Britain were accused of charging too much for Fair Trade products – Tesco among them overcharging one US dollar per kilogram bananas, more then double the premium for producers. The Sunday Times, 29 June 2003, quoted in Ransom (2005).

Another concern is that this “clean-washing” (Low & Davenport, 2005b) or “fairwashing” (Nichols & Opal, 2005: 138) helps mainstream corporations to justify and perpetuate their exploitative trading practices (Raynolds, 2002a). By selling a small percentage of their products under the Fair Trade certification, mainstream companies can use the strategy of “parallel production” (Mutersbaugh, 2005b: 398) to improve their image as socially conscious without fundamentally changing their sourcing practices. Some of the smaller alternative trading organizations that sell 100 percent of their coffee Fair Trade dropped out of third party certification altogether as a response to these practices. *Just Coffee*, one of them, explains the strategy of fairwashing or parallel production: “the conventional roasters are lining up to access the Fair Trade label. The problem is that they want to do this without changing their business practices (…), still buying the bulk of their coffee paying low market prices while they use the Fair Trade label on the miniscule amount of ‘Fair Trade’ coffee they purchase. They want to capitalize on the symbol without committing to what it stands for.” (quoted in Nicholls & Opal, 2005: 138).

Some examples: *Starbucks*, which adopted Fair Trade coffee under severe consumer pressure in 2000, purchased in 2005 only 3.7 percent (5.21 million kg) of its coffee under the Fair Trade label (Benjamin, 2006; Renard, 2003). And, as mentioned in the introduction, *Nestlé* is using the Fair Trade label to make up for being labelled 2005s “least responsible company” worldwide by selling some of their products with the Fair Trade label – the actual amount is not laid open but are estimated to be less than 1 percent (Nestlé, 2005). As Booth (2005) has noted, the biggest retail promoter of Fair Trade in Britain, the *Coop*, is at the same time the biggest recipient of subsidies from the EU common agricultural policy in the country. “There is no doubt whatsoever that the subsidies do more damage to the developing world than the sale of Fair Trade products does good” (Booth 2005: 8). Bill Vorley (2003: 77) gives another interesting and telling example: The *Asda Wal-Mart* excused its shift away from sourcing most of its bananas from small farms in the Caribbean by pointing to its Fair Trade bananas, highlighting the fact that it is still possible to buy Caribbean bananas. It did however suppress the fact that the Fair Trade bananas only made up an extremely small percentage of all the bananas it sold.

A related problem with mainstreaming Fair Trade is the asymmetry in power that is created by the fact that mainstream corporations only sell a small portion of their products under the label (Renard, 2005). Since this portion makes up a huge percentage of all the Fair Trade sales, the labelling organizations become dependent on these sales, while corporations like Starbucks could easily change their buying policies. In the U.S. for example, where Fair Trade coffee is growing at impressive rates of almost 90 percent per year, huge parts of these increases are due to the participation of mainstream actors like *Peet's Coffee & Tea, Starbucks, Dunkin' Donuts, McDonalds and Tully's* (TransFair USA, 2006a; 2006b). If Starbucks would decide to trade its 3.7 percent of Fair Trade coffee under its own label C.A.F.E. (Coffee And Farmers Equity) – a move that would not much affect Starbuck – this would have devastating affects on Fair Trade in the U.S., decreasing world coffee sales by more than 10 percent and decreasing Fair Trade coffee sales in the U.S. by 21 percent (Starbucks, 2006; TransFair USA, 2006). Renard (2005: 30) mentions a similar dilemma: "Would TransFair USA be capable, at this point, of stripping Starbucks of its seal if in fact Starbucks practices were shown not to comply with Fair Trade norms or generally unethical, despite the importance of Starbucks Fair Trade sales in the US?" Another threat is the strategy of "standards dilution" (Mutersbaugh, 2005b: 398) employed by TNCs to alter the standards set by an NGO like the FLO, using their immense power and share of sales (Renard, 2005).

The growth of Fair Trade into the mainstream bears immense possibilities; but at the same time it creates some new dangers, mainly the undermining of the message of Fair Trade, the fairwashing of socially and environmentally destructive corporations and increasing dependency of the labelling organizations on large retailers. The question is thus one of finding the right balance between these, or as one scholar has put it: "At what point do increased sales and economies of scale cross the fuzzy line between more income and benefits for producers to dependency on mainstream markets and potential loss of the cutting edge in challenging unjust world trade relations?"[28]

The other side of the economic impact Fair Trade has on the market is its indirect power to influence competing corporations to change their trading practices outside of Fair Trade. This power of Fair Trade is mainly its ability to indirectly influence and change the preferences of consumers by pointing attention on the producers and the conditions of production and by providing a viable alternative. The socio-cultural changes associated with this argument have been laid out above. Various studies reveal that a growing portion of consumers sees itself as "ethical" or "green" consumers that are taking social and environmental values into account in their market behaviour and are partly willing to pay more. Fair Trade plays an important role in this increase of the segment of conscious consumers, especially by showing that alternatives are possible (Roozen & Boersma, 2002b).

[28] Thomson (2003), quoted by Low & Davenport (2005a: 151); see similar comments in Tiffen (2000)

Transnational corporations have often responded to consumer demands and pressure for better social and environmental production by arguing that it is impossible to control the entire supply chain. The new division of labour, involving the establishment of export processing zones (EPZs), global subcontracting and lean production are used by TNCs to justify exploitation and environmental destruction as inevitable and impossible to control (McMichael, 2004). Fair Trade shows in practice that social and ecological exploitation are not natural and that corporations can take responsibility, thus proving the standard apologetic reactions of corporations wrong.

It is a well established fact that more and more corporations react to these market pressures and shifting consumer preferences by establishing CRS (corporate social responsibility) standards and by creating guidelines and standards for internal monitoring (Mutersbaugh, 2005a; 2005b; Renard, 2005). This has been described as a “paradox of globalization” (Barrientos, 2000: 556; Tallontire & Vorley, 2005): On the one hand there are strong trends to deregulation and market liberalization in the context of the rise of neoliberalism and on the other hand there are more and more attempts to privately re-regulate the market; while transnational corporations abuse their increasing market power to further lower the price of production and externalize social and environmental costs these same corporations take part in the rise of different and mostly private measures that claim to improve social and environmental sustainability of production.

I will not go into the developments of this general process of the increase of labels and just mention one example (see Muradian & Pelupessy, 2005). Starbucks, which sells 3.7 percent (5.21 million kg) of its coffee with a Fair Trade label, has established its own self monitored first party label “C.A.F.E” (Coffee and Farmers Equity) practices that amounts to another 24.6 percent (34.84 million kg) of total sales. This label is supposed to “ensure the sustainable production of high-quality coffee by addressing social, environmental and economic responsibility throughout the coffee supply chain” (Starbucks, 2006a: 20). Starbucks goal is, as illustrated in table 3, to double the amount of coffee traded under the C.A.F.E. practices to around 70 million kg in 2006 and further increase it to 102 million kg in 2007, which would mean that almost three fourths of all the coffee Starbucks buys is monitored under its own label (Starbucks, 2006a: 4; Benjamin, 2006).

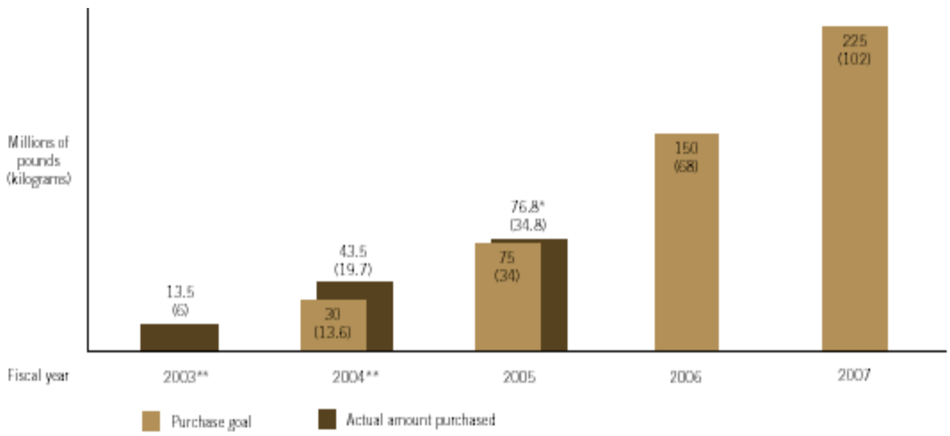


Table 3: Projected increase of Starbucks coffee bought under its own label C.A.F.E. practices (Source: Starbucks, 2006a: 19).

In assessing these developments one first has to take into account the extremely high price Starbucks pays to its producers. Starbucks has paid an average price of $2.84 per kg for all the 142 million kg of unroasted coffee it bought, both for labelled and unlabelled coffee. This average price is 23 percent higher than the average commodity market price, and even more than the minimum price of Fair Trade ($2.80 per kg) (Starbucks, 2006a: 17; Benjamin, 2006). This is an extremely promising and extremely effective development. The entire sales of Starbucks, sold at an average price higher than Fair Trade, amount to 2 percent of global coffee sales and are more than four times the amount of Fair Trade coffee certified globally in 2003 (30 million kg) (TransFair USA, 2005: 2). It is however also important to take a close look at the supply chain, to dig into the reasons why Starbucks does not substantially increase its participation in Fair Trade and to see in how far these high prices are outweighed by the high costs of standard compliance to the high quality requirements. The high price Starbucks pays for its coffee can partly be explained by the fact that Starbucks only buys gourmet coffee with extremely high intrinsic qualities. And the C.A.F.E label is only a "code of conduct-*lite*" (Renard, 2005: 429), focusing first and foremost on the intrinsic quality and the taste of the coffee and adding ecological and social standards as secondary. Further important differences to the Fair Trade label are among others (Starbucks, 2006b): the payment of higher premium prices increases with better performance instead of a guaranteeing a minimum price; the infrastructure of certification remains internal to Starbucks, making it impossible for producers to influence the standards (Mutersbaugh, 2005a); there is no substantial third party monitoring; verifiers are not autonomous, making it a "fully private" as opposed to the "semi-public" space in Fair Trade certification (Mutersbaugh, 2005b); and there is less organizational and developmental support. Since the high price is only one of the benefits of participation in Fair Trade, and as shown in the case studies above not even the most important benefit, all the non-monetary benefits of Fair Trade do only partially apply to those producers selling to Starbucks through its C.A.F.E. scheme. Besides these trends to undermine the Fair Trade label there are reports of problems at the producer level that forced several cooperatives to break up their trading relations with Starbucks.[29]

There are some important dangers in this general trend towards voluntary certification that are important to fully assess the economic impact Fair Trade has on the market. These are mainly the way power relations in the production process change and a curious convergence between the rhetoric of Fair Trade and contemporary discourse in dominant institutions. While voluntary standards are often praised as the positive influence of consumer power on corporations and the increasing social and environmental accountability and awareness of those corporations, studies like the Human Development Report conclude that "the growth of private standards is acting as a barrier to market entry for smallholder farmers" (Brown, 2005: 5; Vorley, 2003: 70). It has been argued that this "just in space production" of certified products transforms rent relations, shifting the costs of standard compliance to the producers, increasing rents for retailers and giving the retailers more power and governance over the supply chain (Mutersbaugh, 2005a; 2005b; 2005c).[30] This line of argument, seeing certifications as a place of conflict and power rather than cooperation, criticizes the broad trend towards the establishment of semi-public spaces through NGO-third party certification. Fair Trade, so the argument, by promoting the privatisation of standards, facilitates the already existing tendency of the demise of the state in market regulations. Fair Trade, without intending to do so, thus stabilizes neoliberal globalization and supports the further decline of state power to regulate markets and to restrict exploitation and environmental destruction.

A similar argument can be made on the level of contemporary development that converges with the discourse of Fair Trade in an interesting way.[31] Faced with the

[29] Renard (2005: 430) reports: "Furthermore, Starbucks obligates producers to sell their coffee through Starbucks-affiliated importers which, in this case, turns out to be the largest Mexican coffee marketing corporation, AMSA (of the Omnicafe-Atlantic Coffee group), which engages in decidedly non-equitable commercial practices. A few cooperatives have broken off from Starbucks, denouncing the AMSA practice of misusing the registry of certified-organic producers for AMSA's benefit."

[30] While this is an important critique for international trade with organic products and might apply to first party certifications of some TNCs like Starbucks it does not apply to Fair Trade. Contrary to Mutersbaugh (2005a) the cost for compliance with the standards are in the Fair Trade system paid for by the consumers, not by the producers (Raynolds, 2002b).

[31] The contemporary discourse and practice regarding development in the dominant institutions and in academia has been characterized by several observers as constituting an important departure from orthodox neoliberalism

controversial debate about the East Asian miracle in the early 1990s, the destructive Asian economic crisis in 1997 and the emergence of powerful NGOs and social movements, the dominant paradigm in the major development institutions like the World Bank and the IMF shifted in the late 1990s from neoliberalism towards a more "inclusive liberalism" (Porter & Craig, 2004; Gore, 2000; Hart, 2001; Wade, 1997). Revisionist or inclusive neoliberalism, while using a slightly different, more inclusive and empowering discourse, shares with orthodox neoliberalism the preference of the market over the state, has enabled processes of immense social and environmental destruction and is in similar ways interpreted as yet another discourse of domination and control (Porter & Craig, 2004; McMichael, 2004). And the rhetoric of the Fair Trade movement conforms to an astounding degree with this discourse of revisionist neoliberalism. Central parts of both discourses converge – albeit with different connotations – on notions like market 'opportunity', 'empowerment', social and economic 'inclusion', 'social capital', 'civil society' and 'partnership'. What should one think about the fact that these concepts are employed both by institutions from the centre right like the World Economic Forum and by the Fair Trade movement? This convergence of revisionist neoliberal discourse and Fair Trade discourse helps explain why this small movement of alternative trading organizations could move into the mainstream; why several studies interpret Fair Trade as part of neoliberalism or social capitalism; and why such prominent supporters of free trade as the European Commission and the G 8 summit are celebrating the success of Fair Trade. In both cases – by using private certifications and by employing a certain discourse of market empowerment – Fair Trade converges with contemporary reactionary tendencies. While this certainly carries the dangers of supporting (as an unintended consequence) the privatisation of market regulations and the justification and naturalization of neoliberal discourse, there is also the potential for change. Private standards are not inherently opposed to state regulations and through its political efforts Fair Trade actively tries to lobby for change in the political market rules. And discourses are contradictory, unstable and contested and political and social pressures can, alongside with Fair Trade, transform a discourse of domination and oppression into a discourse of entitlements and rights, taking serious the 'inclusive' and 'empowering' part and turning it against the inhumane consequences of neoliberal hegemony.

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and the Washington Consensus of the late 1980s and the early 1990s. While the Washington Consensus held that good economic performance merely required getting the prices right through liberalized trade, macroeconomic stability and by getting the state out of the market, the post-Washington Consensus is a more inclusive approach that focuses on good governance, new institutional economics and the state (Williamson 1990; 1993, 2000)

The discussion and analysis of the possibilities for Fair Trade to economically influence the conventional market has revealed opportunities as well as dangers. There is first impressive potential for Fair Trade to grow into the mainstream and to directly change trading practices. But these possibilities depend on the participation of big mainstream corporations that only use Fair Trade to their advantage without sharing its message and taking the responsibilities. This brings along the dangers of undermining the message of Fair Trade and of becoming dependent on these mainstream companies. Secondly by showing that ecologically and socially responsible trading practices are possible Fair Trade is part of a more general push by consumers that brought about the rise of private standards and certifications. This development in a similar way opens up new possibilities to introduce social and environmental standards on a broad basis into the mainstream economy but at the same time bears the danger of getting down-washed into intransparent and unenforceable standards-*lite* that are (mis)used by big mainstream corporations to control and exploit the supply chain in new ways. Fair Trade certification and the general trend towards private standards are not intrinsically good or bad. Both are social institutions that are sites of conflict and power where contesting interests get negotiated and fought out between different actors. Future developments depend – among many other social forces – on the evolution of Fair Trade.

C. The Political Impact of Fair Trade

Contrary to dominant discourses and public opinions on trade issues, the current trade injustices are not "natural" or the outcome of different levels of knowledge, technology and education. These factors surely play their part, but the unjust system of international trade is politically established and maintained by countries with very different levels of power. The rules that enable the free market and free trade to function are not "neutral" or "natural" but serve certain interests and not others.

Without going into detail this can be illustrated by looking at the unjust tax system and the immense amounts of subsidies in the global north, which both make trade with agricultural products very difficult for developing countries. According the United Nations Human Development Report 2005 the average tariffs low-income countries, which are exporting to high-income countries, face are three to four times higher than the barriers applied in trade between high-income countries (HDR, 2005: 126).[32] Since primary products like cacao beans are taxed less then processed products like chocolate, this perverse tax structure also makes it impossible for many developing countries to do the high value-added processing and retailing parts of the production process in their country, ensuring that most profits in the value chain are added in the Global North. In the European Union, for example, tariffs rise from 0 to 9 percent on cocoa paste and to 30 percent on the final product, which explains why 90 percent of cacao beans are produced in developing countries while only 44 percent of cocoa liquor and 29 percent of cocoa powder exports originate in those countries, making Germany the worlds largest exporter of cacao products (HDR, 2005: 127). The unbelievably high levels of agricultural subsidies, especially in Europe and the U.S. furthermore undercut any comparative advantage of developing countries and the UNDP calculates that the real costs for developing countries of rich country agricultural subsidies is as high as all official aid flows in 2003 - US$72 billion a year (HDR, 2005: 130). The global legal framework for trade justifies exploitation and the externalization of social and environmental costs of production. This can be illustrated by the fact that the WTO under the PPM clause (Production and Processing Methods) does not allow discriminating against products that are produced through social and ecological exploitation.[33] There is considerable discussion in the Fair Trade movement if the PPM clause, created for governments, does also apply to labelling organizations like the FLO, but it is generally assumed that voluntary discrimination does not violate the WTO rules, even if they include non-physical characteristics such as the real social or environmental costs.[34]

Whenever those institutions that currently determine how the markets function – mainly the World Trade Organization and its sisters World Bank and International Monetary Fund – there are powerful attempts by NGOs and social movements to protest and lobby for market and trading rules that are fairer to the most disadvantaged producers. This Trade

[32] This translates into the following: "Developing countries account for less than one-third of developed country imports but for two-thirds of tariff revenues collected. They also account for two-thirds of developed country imports subjected to tariffs higher than 15%." (HDR, 2005: 127)

[33] The WTO makes bans this as discrimination against foreign or domestic "like products" on the basis of "related characteristics", wher like product is defined as "products with the same or similar physical characteristics or end uses" (Dankers, 2003: 74; Young, 2003: 11).

[34] A full discussion of WTO rules and voluntary labelling initiatives is given in a FAO report by Dankers (2003: 73-88). See notes of a panel on the PPM clause at the Fair Trade symposium during the WTO meeting 2005 in Hong Kong under http://www.fairtradeexpo.org/symposium.cfm?refID=78673. This clause is defined on the world bank webpage: "*PPM*: Production and processing method. Used in instances where trade policy action by a country is motivated by a desire to ensure that imports have been produced in a way that satisfies a national or international production or process norm. Often these norms will be environmental in nature." http://www.worldbank.org/research/trade/glossary.htm#P (April 2006).

Justice Movement is "campaigning for trade justice - not free trade - with the rules weighted to benefit poor people and the environment" (Trade Justice Movement, 2006). Fair Trade is part of this push for fair market rules. And it is the deliberate goal of Fair Trade, stated by the four major Fair Trade organizations as one of three strategic intents, to "play a wider role in the global arena to achieve greater equity in international trade" (FINE, 2001: 1). Also the above mentioned widely recognized definition of Fair Trade states: "Fair Trade organisations (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" (FINE, 2001).

Just one example: At the WTO meeting in Hong Kong in 2005 FINE, the informal network of Fair Trade organizations, organized a "Fair Trade Fair" that featured producers from Asia, Africa, the Middle East and Latin America which were displaying and selling their products, including coffee, chocolate, spices, crafts, textiles and many others. At a symposium producers shared their stories the impact Fair Trade had on their communities and experts discussed the development of Fair Trade and the implications of the WTO rules for its functioning.[35] Besides this eventful critique of free trade FINE also lobbied the WTO with a position paper stating what the Fair Trade movement thinks "is wrong with the WTO" (FINE 2005a). The style of this document is captured in its beginning statement: "We, members of the international Fair Trade movement, know from experience that trade can reduce poverty and contribute to sustainable development. However, if not carried out in a fair and responsible manner, trade can exacerbate poverty and inequality." FINE, acting as the advocate of small scale producers around the world, demands the end of subsidies and tariff escalation mechanisms, argues against deregulation and liberalization and promotes the expansion of Fair Trade principles of regulating and managing the global supply chain (FINE, 2005a). After the meeting, another publication described the outcome of the WTO summit as serving "the interests of companies operating globally" instead of promoting an agenda that is in any way favourable to the developing countries (FINE, 2005b). The political impact of Fair Trade operates as well on the micro level. Besides contributing to a necessary change in consciousness that has been described above Fair Trade politicizes people and strengthens the Global Justice Movement through the thousands of world and solidarity shops that are

[35] The webpage http://www.fairtradeexpo.org/index.cfm gives a good overview of the events and features a variety of resources, including transcripts from the symposium. A similar event was staged at the 2003 WTO summit in Cancun.

important centres of this movement. Although some activists might see this as the most crucial part of Fair Trade, arguing that the structural change promoted by the Global Justice and Third World Movements is necessary for real improvement in the producers lives, the political side of Fair Trade should not be used as an excuse for the economic and social problems described above (Mendoza & Bastiaensen, 2003: 41).

Organizations working with Fair Trade are thus using the practical example of Fair Trade to lobby for a change in the international trading rules away from free trade and towards cooperative trade, essentially seeing Fair Trade as a practical prefiguration of a more desirable trade.

V. Conclusion: Fair Trade as a Re-embedding Countermovement

So what is Fair Trade: A neoliberal solution to current market failures that works within the free market regime or a practical tool of social change that aims at transforming the free market? The discussion of the impact of Fair Trade on the level of producers as well as on the level of the free market in general has shown that there is no easy and clear-cut answer to this question. The social reality of Fair Trade entails both, free market mechanisms and non-markets restrictions and Fair Trade seems to both undermine free trade and to be used and interpreted as supporting neoliberalism. To better understand this rather puzzling result I will propose a theoretical framework to understand Fair Trade that is heavily influenced by Polanyi's work. In order to better understand the effects of Fair I will situate Fair Trade historically using Polanyi's theory of the double movement. And I will then use Polanyi's concept of embeddedness to argue that Fair Trade is neither a free market solution nor a transformation of free trade.

In order to situate the emergence of Fair Trade in a broader context the work of Karl Polanyi (1944), especially his understanding of capitalism as progressing in form of a 'double movement' concerning the relations between the market and society has been increasingly used and seems very instructive (Barham, 2002: 350-352; Murray & Raynolds, 2000; Mutersbaugh, 2005a). Polanyi argued that the unleashing of markets for the three 'fictitious commodities' land, labour and money causes intense social and environmental destruction and generates counter-tendencies that demand regulation, intervention and social protection from these destructive market forces. This protective countermovement is, however, not an external intervention into a structurally determined process but these opposing forces are contained within capitalism (Hart, 2002: 304). Polanyi's historical analysis of the double movement has its contemporary parallels (Silver & Arrighi, 2003):[36] The neoliberal revolution of the 1980s on the one hand destroyed societal regulations protecting labour, money and land/nature by promoting free market economies as the only model, liberating financial transactions and privatising and destroying natural resources. The growing importance of civil society in the 1990s and the rise of transnational social movements that push for "counter-hegemonic globalization" (Evans, 2005) on the other hand represent efforts to re-embed the destructive market forces into societal norms and regulations. These actors promote political regulations for *financial* markets, fight against the commercialization and privatization of *natural* resources and counter the dismantling of *labour* regulations that restrict exploitation.[37] It is important to note that these attempts to re-embed the market have also been incorporated into conservative discourses and practices where they represent efforts to contain dissent and to enable the neoliberal project to continue. They are employed by personalities in neoliberal institutions like the world bank and the IMF (Wade, 1997; 2001; Sachs, 1998; Stiglitz, 2000) and have shaped the paradigm shift from orthodox neoliberalism to 'revisionist' or 'inclusive' neoliberalism (Hart, 2001; Porter & Craig, 2004).

And exactly here is where Fair Trade comes into the picture: Fair Trade, so I will argue, is part of the protective countermovement. I will come back to this point, but first I want to employ Polanyi to argue that Fair Trade is neither a neoliberal free market approach nor an attempt to transform free trade.

Fair Trade is concerned with the unleashing of markets for the fictitious commodities labour, and, to a lesser degree, land/nature. While markets might be useful and efficient mechanisms to produce and distribute products, if labour and nature are included into the

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[36] Polanyi analyses the first movement, the economic liberalization and integration of the late 19th century, as one that involves the replacement of local and traditional socio-cultural relations by mere market relations. In particular the incorporation of the three fictitious commodities money, labour and land/nature into the market and thus the total disembedding of the market from society unleashed destructive tendencies, which in turn lead to a variety of counter movements. This second and embedding moment is the attempt by social movements and 'enlightened reactionaries' to counter the social disruption of the market-led liberalization with social and environmental protection and intervention. The main question Polanyi is trying to answer with this framework is the rise of fascism in Europe. He interprets fascism as part of the protective countermovement, suggesting that the protective countermovement is not inherently good but rather that it contains a variety of different responses to the destructive market forces, some of which are very dangerous.

[37] Examples would be firstly the promotion of the Tobin tax by the international 'anti-globalization' network ATTAC that would tax all the financial transactions and invest the money in poverty alleviation (Ancelovici, 2002); secondly the environmental and the anti-privatization movement that fight deforestation, genetically engineered food, patents on living beings or destructive infrastructure projects like the Narmada dam in India; and lastly efforts to counter the neoliberal agenda to create a global labour market without any restrictions, that has produced an incredibly destructive downward spiral of wages and, especially in the Global South, leading to conditions of immense exploitation. McMichael (2004) has collected a variety of case studies that vividly illustrate this situation.

market as free and unrestricted commodities the results are destructive. Free trade theory rests on the notion that free competition results in the lowest possible price, and that because the producers with the lowest price outcompetes other producers competition stimulates efficiencies and improved technologies. Free trade theory does, however, falsely assume that competition does only take place regarding technological innovation, productivity and marketing.[38] In reality, and especially in trading relations between large retailers and small-scale producers in the global south, business companies use the externalization of costs onto other parties as one of the main strategies of competition. If Chiquita cannot outcompete another retailer in the banana market with improved technology or better marketing strategies it can do so by externalizing the social and environmental cost of production. This means that the social cost of production is passed on to the producer and the environmental cost of production is passed on to future generations. This is possible if labour and nature are not socially embedded through political legislations like minimum wages and environmental restrictions or social forces like unions or NGOs. And Fair Trade is exactly this, an attempt to re-embed the market within society by internalizing both the real social and environmental cost of production into the price. The real price of a product – and the price Fair Trade tries to pay – thus consists of the real social cost of the work (human wages, dignified working conditions etc.) plus the real environmental cost of production. Roozen and VanderHoff Boersma (2002), two founders of the first labelling organization *Max Havelaar*, argue convincingly: "The costs of a socially responsible production are included in the price of the product in the Fair Trade market. Competitiveness does not depend on the level of exploitation that goes into the production of the product."

Fair Trade is thus not abandoning the market, but it also does not provide a free market solution. Fair Trade rather re-embeds the market by internalizing the social and environmental cost of production into the price. By paying a guaranteed minimum wage that reflects the real social and environmental costs of production it restricts market competition from exploiting labour and nature, but at the same time uses competition in the production process to function in the market. The essence of Fair Trade is according to Brown (1993: 158) "that the consumer should be told the truth, not only about what is in the product but also the truth about the producer, her or his conditions of life and work, what they get for their work and what it does to the environment." Far from pure competition or state-led planning,

[38] This argument is explained in length in Roozen & Boersma (2002).

Fair Trade combines the power of producers and consumers to create links between them that both limit and engage competition and that consist of information:[39] "Connections between consumers and Fair Trade organizations [and producers] are rooted largely in flows of information. Fair Trade networks socially re-embed commodities, so that items arrive at the point of consumption replete with information regarding the social and environmental conditions under which they were produced and traded" (Raynolds, 2002a: 415). Fair Trade challenges the idea that the setting of prices on the market as an automatic and depersonalized process is the only instrument for valuing commodities (Raynolds, 2002a: p. 409). Instead of competition as the main driver of the market, Fair Trade introduces an interesting type of "contract economy" into the market, in which the price is negotiated between consumers, producers and salesmen and their contradictory interests are resolved in cooperation. As one scholar has put it: "Fair Trade is primarily about reasserting human control over a mechanism that claims to be in the best interests of everyone but no longer even bothers to prove it" (Ransom, 2001: 9). The fact that Fair Trade does not challenge the existence of the market as such does not mean that it is not a *radical* vision, since, as the domestic Mexican Label *Comercio Justo* insists, Fair Trade is about transforming the very purpose of markets; by reorganizing markets in a way that can benefit the more disadvantaged members of society Fair Trade creates *un mercado donde todos quepamos* – "a market where we all fit" (quoted in Jaffe et al, 2004: 192).

Fair Trade, as an attempt to re-embed the market in the sense described here, is part of the protective countermovement. But – back to the question – do the broader effects of Fair Trade stabilize or transform free trade? The dichotomous and somewhat mutually exclusive conceptualizations of Fair Trade in the two visions that underlie the question this paper tried to answer both turn out to be present and future tendencies and trajectories of the Fair Trade movement rather than descriptions of Fair Trade. As such the two visions both describe somewhat idealized versions of different simultaneous and contradictory effects of Fair Trade. A definite answer to this 'either, or' question is impossible since the impact study shows that Fair Trade as a multilayered social phenomenon works both in and against the market, partly

[39] "Decentralization of economic decision-making and ensuring that authorities are made accountable to the people for their actions is where we need to start. But such democratic models have generally been based either on workers' control at the work place or on consumer power in the market. The fact is that the two have to be combined. Markets which split us into two halves - into producers and consumers - have to be modified so that we can once more become whole.(...) The conclusion of this book is that it will be by new forms of cooperation and not by relying solely on competition, that this [the new economic order] will be done. We cannot now foresee what the new structures will be." (Brown, 1993:191).

stabilizing neoliberal free trade and partly challenging it. Instead of the question *what* Fair Trade is in terms of its broader effects the impact study forces one to ask more specific questions about *how* Fair Trade works and what exactly its effects and outcomes are in the multiple arenas it works in.

Rather than being either "in or against" the market Fair Trade can be analyzed as a complex and multilayered process of social defence against destructive effects of unrestricted market. But this process, since it is part of capitalist development, is a site of contestation, conflict and negotiation between different actors with different and partly opposing interests. Because the protective countermovement as a whole is fundamentally threatening those power structures that rely on the exploitation of land, money and labour, these power structures, Polanyi's "liberal creed", engage in containing, controlling and weakening the movement. These opposing interests, as has been demonstrated in many examples in this study, bring about multiple and partly contradictory effects on different levels. Anticapitalist activists support and propagate Fair Trade as a practical alternative to capitalist trading relations while revisionist neoliberals see Fair Trade as useful mechanism to privately regulate a small part of the market without fundamentally changing the political market rules. Both support Fair Trade for different reasons, they thus understand Fair Trade differently and these contradictory understandings in turn shape and change what they try to explain, the Fair Trade movement. Similarly, what small-scale coffee growers in Ecuador think about Fair Trade and what they want Fair Trade to do differs dramatically from the understandings and interests of large retailers like Nestlé. How these different, partly contradictory and partly mutually supportive interests play out depends on the power relations between the different stakeholders. Particularly since Fair Trade entered the mainstream market in the late 1990s and actors with opposing interests became stakeholders, Fair Trade is at a crossroads: On the one hand the mainstreaming of Fair Trade opens up immense possibilities to increase the impact of Fair Trade in transforming neoliberal trade relations, in benefiting more disadvantaged producers and in further re-embedding the market. But on the other hand the mainstreaming of Fair Trade bears a variety of dangers, mainly due to the power of the mainstream companies to undermine the meaning and practice of Fair Trade and, instead of using Fair Trade to the advantage of producers, to misuse it for the interests of their shareholders.

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