HALF A CHEER FOR FAIR TRADE

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The fair trade movement claims that the products it provides are sourced 'justly' and that purchasing fair trade products brings economic benefits for the poor. Whilst it is clear that fair trade might bring some benefits to particular groups, whether it brings significant net benefits to the poor in general is questionable. Moreover, the claim that fair trade transactions are more 'just' cannot be substantiated. Customers also might be surprised to learn that the majority of the Fairtrade Foundation's net income is spent on promoting its own brand.

Introduction

The authors of this article had an innate sympathy for the 'fair trade[1] movement' at its inception. Fair trade organisations offer suppliers particular forms of contractual terms that, it is claimed, bring particular benefits to producers. Most so-called fair trade is conducted in countries where the legal and institutional barriers to development are very high. In this environment, fair trade may be an 'enterprise solution to poverty'. It is certainly better than no trade at all. The institutions that are supported by the fair trade movement, such as worker co-operatives, are a legitimate part of the rich tapestry of a market economy. Whether they are efficient or not is beside the point. Like the Co-operative movement, the John Lewis Partnership, building societies and mutual insurance companies in the UK, the corporate forms promoted by the fair trade movement add to, rather than detract from, the institutional variety of a market economy. Fair trade purchasers can enhance the process of competition where there is market dominance by large firms.

However, the fair trade movement goes further than wishing to add to the variety of institutional and corporate forms that exists within the market economy. It suggests that the production and purchase of fair trade produce somehow lies on a higher moral plane than other business activity. Many Christian groups have seized on and promoted this with alacrity. Churches have become 'fair trade churches' and voluntary-aided Christian schools have become 'fair trade schools'. There are even 'fair trade towns'. A suspicion that all may not be right with the fair trade movement comes from looking at its broader political objectives. The movement seeks to reimpose the trade restrictions on the coffee market that existed before 1989. This will be discussed further below. But it is worth noting that it was only after these controls were lifted that many very poor countries began to produce coffee.

The fair trade movement is entitled to promote specific political beliefs, a practice that is not uncommon with major commercial organisations (for example, the Co-operative movement is affiliated to the Labour Party). But, these political beliefs and the contribution of fair trade to economic welfare should be analysed using the tools of the discipline of political economy. They are certainly not moral positions. The way the fair trade movement moves seamlessly from its own commercial activity to a political agenda campaigning to re-regulate the coffee market should arouse suspicion. We regret the implicit and explicit criticism of other aspects of the market economy by fair trade organisations. The fair trade movement makes strong claims. These claims should be subject to strong tests. Below we pose a number of difficulties with the fair trade model of doing business that suggest, at best, that those promoting fair trade should have the humility to accept that their way of doing business is not objectively better for the poor than other ways of doing business.

For the sake of simplicity we focus on fair trade coffee in this article. We wish to analyse the market where the arguments of the fair trade movement seem to be at their strongest.

Fixing coffee prices

The Fairtrade Foundation is a UK organisation that certifies retailers and wholesalers of fair trade products in the UK. It is part of an international movement. The Fairtrade Labelling Organisation (FLO) certifies suppliers and producers in underdeveloped countries. The Fairtrade contract involves fixing prices to the producer so that a guaranteed price is received regardless of supply and demand conditions at the time the product is delivered. This is common in many markets and is a similar device to the futures and forwards markets that exist in primary commodities.[2] However, the use of such approaches is, by no means, unique to Fairtrade. Many purely commercial organisations, including multinationals, guarantee prices to suppliers in order to bring stability to the supply chain. Such contracts are unquestionably welfare enhancing and bring benefits to both suppliers and customers – that is why they are commonly used in primary product markets. However, they cannot insulate growers from changes in market conditions. If there is a demand shock, at least in the medium run, as the quantity to be exchanged at the fixed price is not itself fixed, there will be a fall in the demand for the Fairtrade grower's product. Indeed, the fall in demand may be greater because of the existence of a fixed price. If there is a supply shock, the spot price of coffee will fall relative to the fixed Fairtrade price and, either other growers may suffer a greater fall in price or there will be a relative fall in demand for Fairtrade produce because the price differential between the Fairtrade product and the product traded in the spot market will have increased.

It should be noted that these scenarios have not yet been tested because Fairtrade produce has been a growing share of a market that has not recently suffered from significant adverse shocks.

Fixed prices for everyone?

If fair-trade price floors are beneficial to those who supply coffee under such contractual terms but detrimental to those who do not, why not fixed prices for all coffee growers? In fact, the fair trade movement would like to move back to regulated coffee markets. Regulating prices without also guaranteeing that agreed quantities will be bought from farmers at those fixed prices will not alter the fact that growers will suffer when demand falls or supply rises in a particular year: farmers would simply suffer from fluctuations in the quantities bought and sold rather than from fluctuations in the price. Where there are fixed prices and guaranteed quantities purchased, at times of positive supply or negative demand shocks, there will be surpluses (as in the operation of the EU Common Agricultural Policy). Methods then have to be found to restrict supply (again as happens in the Common Agricultural Policy through setaside and milk quotas). Such methods protect incumbents in the market to the detriment of aspiring entrants – who possibly are much poorer than incumbents.

The benefit of the price-floor arrangement is almost certainly not significant, though it may assist growers in markets where hedging instruments are not available.

Cheap credit

Another important commercial aspect of Fairtrade coffee is that producers can be paid before they supply the product to intermediaries. The producers effectively receive credit. This credit is available on reasonable terms. There is no question that this is desirable. Much coffee is grown in countries that have poorly developed credit markets and where credit is expensive. There are many reasons for this, including the difficulty of obtaining secured loans in countries where property rights are not properly recognised and enforced. The provision of an alternative source of credit to growers is a highly desirable market development, although a strengthening of property rights that would help provide many more growers with a potential source of credit would be desirable too.[3]

The fair trade premium – who pays what and where does it go?

'Fairtrade' aims to provide better trading conditions for excluded and disadvantaged producers by improving market access, paying a better price, providing longer-term contracts and requiring producers to provide minimum working conditions.

Fair trade organisations certify producers who meet these criteria allowing them to use the Fairtrade logo. In turn consumers are encouraged to buy Fairtrade produce in preference to other brands that are generally cheaper. It appears that many Western consumers are happy to spend a little more because they want to help the poorest producers in the world.

Prima facie there would appear to be four reasons why fair trade coffee is more expensive than alternatives. There is a 'Fairtrade premium' which goes towards welfare and educational projects amongst the coffee growers; a charge is levied on coffee growers who sell the coffee; a charge is levied on those selling Fairtrade produce into the UK market; and there are costs resulting from inefficiencies in the corporate organisations that are allowed to use the Fairtrade logo. The higher price of fair trade coffee is used almost as a marketing tool attracting customers to shop in an 'ethical' manner. Below we examine the first three aspects of the fair trade mark-up. The final aspect is discussed below.

Fairtrade charges consumers directly . . .

The claims of those who believe that the higher price of fair trade produce leads fair trade shoppers to be shopping 'ethically' is easy to rebut using basic economics. Assume that an individual wishes to donate 10% of their income to charitable causes. The fair trade premium is distinct from the other financial aspects of fair trade contracts as it is a straightforward transfer from the (well-off) consumer to the (presumably less-well-off) producer. Consumers should regard this aspect of the mark-up on fair trade coffee as a charitable donation. There are rational reasons why consumers may wish to make charitable donations in this manner rather than supporting charities directly. They may feel that they are establishing relationships, however tenuous, with the suppliers of their staple products. They may feel that the money will be particularly well used. However, there is certainly nothing intrinsically more efficient or more ethical about this method of helping the needy than other methods of helping the needy. Indeed, other charities might reach people who are more needy than coffee farmers and may be more transparent about how that help is given.

It might be countered that people who buy 'fair trade' products will be providing *additional* help for the poor. The fair trade movement is providing an additional vehicle for charitable giving that might do something to reduce the 'giving fatigue' that citizens of some well-off countries appear to face. This argument may be more valid in the UK, where philanthropy is a minor activity, than in the USA where people take their charitable obligations more seriously. But it does not alter the fundamental argument. It is not more ethical to buy 'fair trade' on the grounds that one is helping the poor through the fair trade premium than it is to buy Maxwell House coffee and pay the equivalent of the fair trade premium to a charitable cause. The fair trade movement may have found a successful marketing device for increasing philanthropy but that does not make their products ethical.

Indeed, the use of fair trade as a marketing device is also integral to understanding the economics of fair trade. Where it is practical all suppliers try to segment their markets and charge consumers who have a low elasticity of demand a higher price than those who have a higher elasticity of demand. Such 'price discrimination' explains why corporate entertainment packages at cricket matches are generally very much more expensive than buying a group of individual seats, for example. Thus fair trade can be seen as a device to segment the retail coffee market to raise profits for retailers by charging a higher price to those who are willing to pay. This is not a pedantic theoretical point – increased profits for retailers from charging customers more who are willing to pay more are an intrinsic feature of fair trade products. Again, this practice cannot be described either as ethical or unethical: it is the market at work.

Fairtrade charges producers . . .

Becoming a Fairtrade producer presents challenges. Producers must be certified by the International Fairtrade Labelling Organisation (FLO).[4] It has an extremely complicated 14-page document explaining the process for, and cost of, certification. But this is only the start.

Producers must first form a group which complies with Fairtrade criteria, usually a co-operative, although some employers are allowed in subject to good wages and conditions. This group must obtain a letter of intent, from a wholesaler or retailer, to buy some or all of their produce at the Fairtrade price before applying for certification. As the Fairtrade price for Robusta coffee is currently about 50 cents higher (nearly 100%) than the market price and that for Arabica is 10 to 20 cents higher, this is not easy to achieve and many fail to do it.

The minimum charge for certification for the smallest group (under 100 producers or employees) is €2,200 (about £1,530) rising to £2,400 if the group provides central services. Then there is an annual renewal fee of at least €1,260 (£867). The average Kenyan income is around £185 per annum so for the poorest producers to find this money will be a challenge. Again, the question must be asked whether the fair trade philosophy benefits the incumbent at the expense of the aspirant.

More generally, as has been noted above, Fairtrade started because prices were low and producers poor. Higher prices for some will help incumbents in the short term but, if prices rise, farmers generally produce more and consumers eventually consume less, pushing prices down again. So it is difficult to see how it can benefit more than a few and probably only in the medium term.

Fairtrade charges wholesalers . . .

Wholesalers are charged 1.8% of turnover to use the Fairtrade brand name. This cost will be passed directly on to the consumer. Whatever misgivings the authors have about the efficacy of the Fairtrade principles and practices, we understand why consumers might wish to pay a premium for Fairtrade products. We assume that consumers expect the additional costs of products to help guarantee prices, working conditions and living conditions for farmers.

The fees charged to wholesalers are the main source of income for the Fairtrade Foundation (nearly 90% of unrestricted income in 2005).[5] Fifty per cent of this income was spent on so-called educational activities and most of the remainder was spent on certification, licensing and product development. In fact, the educational activities involve campaigning and promoting the Fairtrade brand through Fairtrade fortnight, promoting Fairtrade schools etc. These are all activities that effectively promote Fairtrade's own brand. Of the money spent on certification etc. about 40% was paid to the FLO, with most of the rest being spent on the administration of licensing procedures and product development within the Fairtrade organisation itself. Fairtrade also has some voluntary donations but the cost of generating voluntary income was 50% of the value of those donations.

It is most unusual for a charitable foundation whose objectives are to help the poor in underdeveloped countries to use such a large proportion of its revenues on activities simply designed to increase its own size. It would be surprising if Fairtrade customers were aware of this.[6]

Even its educational activities proper[7] must be called into doubt. Its major scholarly educational paper on the coffee industry was published in 2002 (Fairtrade Foundation, 2002). It is widely quoted by fair trade activists. Yet many of the arguments within the paper have been completely undermined by developments within the market since that time. The deregulation of the coffee market has been described as leaving a situation that 'penalises the weakest'. Since deregulation, farmers in poor countries such as Vietnam have entered the market. There is certainly no evidence that deregulation has been detrimental in those countries. We look further at this paper in the next section.

Education, education, education . . . ?

Fairtrade Foundation (2002), the Foundation's most important educational paper, suggests that coffee market prices are controlled by roasters but, at the same time, opines that fluctuating supply and demand conditions are responsible for changes in prices. Both statements cannot be true. In fact, the evidence suggests that roasters prefer to pay a higher price for coffee, not a lower price – and also charge a higher price of course. Roaster groups are active in promoting the case for higher coffee prices at International Coffee Organization (ICO) meetings, on the grounds that higher prices prevent fluctuations in supply and improve quality. If roasters controlled prices, they would keep them stable, whereas they are demonstrably not stable. Of course, in a competitive market, the price will move to equilibrate supply and demand. Given the desire of large roasters for higher prices it would appear that it is the presence of competition, not of market power, that keeps prices low. The document blames the free market for the volatility in prices, yet it is clear from its analysis that the major share of the blame must lie with aid agencies and central planners within governments who responded to high prices in the mid-1990s by increasing the supply of coffee dramatically through increased planting.

Technological change, something that is outside anybody's control, was also partly responsible for the fall in prices. The market has now adjusted, though, and the spot price of Arabica coffee is within 5% of the Fairtrade price. Indeed, for much of 2005 it was equal to the Fairtrade price. The price of Arabica coffee is now 120% higher than the level at the time Fairtrade's main 'educational' document was written. Such price recovery is an entirely normal response in a market that has been subject to successive supply shocks. Given the proportion of its budget spent on 'education', not updating its papers in these circumstances gives the impression that Fairtrade is trying to distort the underlying message.

It is genuinely a pity that Fairtrade present their research in this way. Its analysis of aspects of the market and the practical problems that growers face is very helpful. Yet, nowhere is there any recognition that the key to prosperity for farmers in underdeveloped countries is the ability to seek alternative economic opportunities, underpinned by effective legal, political and economic institutions within the countries concerned.

Another example of the way in which Fairtrade Foundation (2002) distorts understanding of how markets operate appears under the heading, *Speculative Business* (pp. 9 and 10). The document describes the futures market and strongly implies that the market makes the price of coffee more volatile. Yet the typical transactions it describes could only make the market price more *stable*. It suggests that the benefits of the futures markets are obtained by the North and the costs fall on the producers in the South (p. 10). Yet it is impossible to see from the description any rational way in which costs for the South could arise from the operation of the futures market.

Given the proportion of its budget that Fairtrade uses for education to promote its own brand, one would expect more objective and up-to-date analysis.

Fairtrade restricts the corporate form of its suppliers . . .

In general, the fair trade movement only deals with co-operatives made up of farms that are not reliant on hired labour. Child labour is generally not allowed either. This model is damaging in many respects. Co-operatives are a notoriously inefficient form of business organisation, particularly when made up of small producers. They suppress incentives and efficiency and can make the effective deployment of technology prohibitively expensive.

Also, child labour is essential to the welfare of many poor families in the underdeveloped world (see Kis-Katos and Schulze, 2005). Its abolition and restriction in some parts of the world has had well-documented catastrophic effects on the poorest families. Its restriction can also prevent families from being able to afford school fees for their children.

Whilst there was legitimate concern that farmers, with poor quality information about the value of their crop, were being squeezed by middlemen in the coffee market, there is no evidence that workers in a co-operative are treated any better than workers in organisations with other corporate forms. Large commercial firms that hire workers and treat their workers well are generally disqualified from the fair trade model. This is despite the fact that larger, more productive farms that have an incentive to use technology are likely to pay higher wages.

Co-operatives also prevent producers migrating up the quality chain into speciality coffees (see Howley, 2006). If beans from different farms within the same co-operative are blended, no individual producer has an incentive to produce better beans and to migrate up the quality chain. Speciality coffees are an important and growing business. In many respects the fair trade brand represents a speciality coffee – but it is one that has a strict limit on the price that the farmer can charge because the quality of the coffee is dictated by the quality of the beans that the farmers produce in aggregate. Indeed, Starbucks paid only marginally below the fair trade price and well above the average market price for its high-quality, non-fair-trade coffee in 2004 (Howley, 2006). Speciality coffee produced in Rwanda trades at around $2.25 per pound, about 80% higher than the guaranteed price to fair trade producers (Boudreaux, 2006).

Fairtrade should focus on its core objectives

The fair trade brand arose partly as a result of a desire to create transparency for consumers and suppliers. This is probably its strongest card. The relationships in the production chain are better understood by the consumer than are relationships in the production chain of non-certified coffee. Consumers do not need to have an ideological attachment to fair trade principles to be attracted to the brand.

But, there are problems with the practical application of the principles. Howley (2006) argues that the farmer does not necessarily receive the price guaranteed by the fair trade certifier. The price received by individual farmers is decided by the co-operative as a whole. There are also significant opportunities for corruption within the fair trade co-operatives. There is little available published evidence about the extent of corruption but there is strong and increasing anecdotal evidence of problems. It appears that fair trade certifiers are unable to police co-operatives adequately, despite the charges that they levy. Firstly, it is possible for the head of a co-operative to mask from the farmer the price that the co-operative receives – and then pay a lower price per pound of coffee to the farmer. Secondly, it is possible for a co-operative to buy coffee on the world market and add this to the coffee produced by the co-operative's farmers. It is extremely difficult to police this practice. There are very large payoffs from this kind of behaviour when the world price deviates significantly from the fair trade price, whereas the chances of discovery and the penalties are limited. Weitzman (2006) describes visits to five fair trade suppliers in Peru. Four of the five farms paid less than the legal minimum wage despite the requirement to do so under the agreement with fair trade organisations. The reporter was also told by a number of industry insiders that non-fair trade coffee was being mixed with fair trade coffee and sold as fair trade coffee.[8] The same article reported a Canadian NGO (using global satellite imaging) that had found that one-fifth of fair trade-certified coffee in one association was illegally planted in protected virgin rainforest. Weitzman was told of similar practices in Peru.

The Fairtrade Foundation states[9] that, 'The uniqueness and rigour of our certification system means that consumers trust the FAIRTRADE Mark.' Anecdotal evidence suggests, at best, that this trust should not be taken for granted. The resources clearly exist, as a result of the premiums charged to Fairtrade producers and wholesalers, to maintain good systems of inspection. We would argue that this is more important than using those resources to pursue continual expansion of the brand through recycling money into campaigning projects – particularly if it is the expansion itself that is undermining the auditing process.

A 'fair price'?

The concept of a 'fair' or a 'just' price, in the eyes of many fair trade supporters, particularly in churches, arises from the desire to reward labour for the work that they have put into producing a product. The provision of a 'fair' price is precisely what the Fairtrade Foundation promise (www.fairtrade.org.uk). However, the price of something reflects its value to those who are purchasing the product, not the amount of labour that is put into a product's production. Clearly there is a relationship between those two concepts. The greater the cost of production of an item, the greater will be its scarcity in the face of a particular shaped demand curve and the higher will be its price. But there will be times when the market price of any product may fall due to a lack of demand or an increase in supply and, therefore, times when existing farmers will not be paid a price to which they are accustomed. In this situation, roasters, who are the intermediaries in the market, have little option but to pay lower prices. The mechanism of a market requires a reallocation of economic resources when the price of a product falls below the cost of production. The fact that such resources can lie unemployed, rather than be reallocated to more productive sectors, in many of the countries from which coffee is purchased, is a serious problem that cannot be overcome by fixing prices.

The often-suggested idea that roasters hold farmers to ransom by exercising monopsony power is not, in general, true. Falling coffee prices at the turn of the millennium were bound to hurt significant numbers of farmers, whatever the market structure. If prices had not been allowed to fall there would have been significant and continuing surpluses in the market. At various times, in various markets, institutions have been put in place to prevent prices falling in response to shocks and to restrict supply. The regulated coffee markets before 1989, milk markets in the EU and medieval guilds are three obvious examples. These mechanisms are perceived to enable the producer to receive a 'fair' or 'just' price. But there is a strong economic argument against their use. They prevent the market adjusting and prevent resources reallocating. There are also two strong political arguments against such mechanisms. Firstly, they benefit relatively well-off insiders in the market and penalise relatively poorly-off outsiders. Secondly, there is a premium for being inside the market which encourages corruption between people who wish to be 'inside' and those who police the perimeter of the market.

Fairtrade barking up the wrong tree

Given that a market such as that in coffee cannot be effectively 'managed' to guarantee all producers a 'fair' price, what is required? Coffee-producing countries need to operate in an institutional setting that provides more opportunities for employment and business. A viable long-term growth strategy for a whole country cannot possibly be based upon charging prices for products above spot market prices. Even studies sympathetic to the concept of fair trade and by authors who favour re-regulation of the coffee market find that the gains from fair trade, even to those whom would be expected to benefit most directly, are limited (see Calo and Wise, 2005). Milford (2004) confirms the difficulty of using co-operatives in primary product markets as a sustainable vehicle for development – even in the context of 'fair trade'.

The root cause of fluctuations in coffee prices is the low price elasticity of demand for coffee. This problem cannot be solved by so-called fair trade. Also, coffee is an income-inelastic product. This means that poverty is unlikely to be alleviated through a country focusing resources on coffee production. It is necessary instead to have a higher degree of mobility of labour in the context of free trade and a market economy so that resources move into product areas where they are most valued. Both developed and developing countries have a responsibility here – particularly in the promotion of free trade.

Free trade may be anathema to the fair trade movement but has proved capable of lifting millions of people from poverty over hundreds of years. In the 1990s, real income grew three times faster for developing countries that significantly lowered their trade barriers than for those who lowered them less. The potential benefits from liberalising world trade far exceed the combined total of $80 billion of worldwide foreign aid in 2005. Free trade brought prosperity to Hong Kong which was poorer than many African countries at the end of World War II but had overtaken the UK within 30 years. Open economies such as post-war West Germany and South Vietnam became prosperous whilst their protected neighbours, East Germany and North Vietnam, languished. Trade brought prosperity to South Korea while North Korea is one of the poorest places on earth. The examples are endless (see Henderson, 2004).

Hypocrisy of global proportions prevents trade liberalisation. Politicians and bureaucrats in poor countries like the income from tariffs and the potential for bribes arising from trade regulation. Cynical Western politicians weep crocodile tears for the poor whilst often increasing their own protection from developing-country imports as a knee-jerk reaction to the demands of producers. Tariff protection means higher prices for consumers. Who could possibly want that in poor countries? Despite the misdemeanours of developed countries, regrettably it is poor countries that are generally the most protectionist in the world.

Hypocrisy and cynicism reach new heights when rich nations subsidise their farmers. For example, US subsidies to their 25,000 cotton farmers are estimated by the Cotton Advisory Council to reduce cotton prices in the rest of the world by 26%. This has devastated Central and West African countries with 10 million people directly affected and this despite the fact that these countries are amongst the lower-cost cotton producers in the world. The value of these subsidies exceeds the market value of cotton production in the USA by 30% (see Watkins, 2002).

Similarly the developed world tries to keep tariffs on processed products even when they are reduced on raw materials. For instance, high tariffs on chocolate mean that 90% of cocoa is produced by developing countries but only 4% of chocolate, thus denying poor countries this higher value-added activity and the opportunity of increasing returns on their raw materials. Similarly, there are tariffs on the importation of processed coffee into the EU and the USA. Even if the fair trade movement is correct in their analysis of the coffee market, the gains from the de-regulation of other trade would be much greater than the gains from a so-called fair trade regime in coffee. Freer trade in basic processed goods would also help to disperse market power within the coffee market. Indeed, Café Britt, which does not use fair trade coffee because of the administrative costs it would impose on the small farmers from which it buys, processes its coffee in the country in which it is grown but, because of trade restrictions from the West and unfriendly business environments within developing countries, this model is unusual.[10]

Poor countries do not just need trade. They also need the correct institutional framework within their own countries that allows prosperity to arise from internal growth and greater business opportunities. On this count, fair trade may hinder the development of a thriving business sector due to its insistence on dealing with co-operatives, although, on the other hand, it could be argued that the fair trade movement deepens relationships with Western business institutions.

Conclusion

The desire to help others is a wonderful and important part of civil society but if we genuinely want to help people, all people, escape from grinding poverty we really must not ignore the facts. Fair trade may be fashionable and give people a nice warm feeling but only free trade backed up by the rule of law and the protection of private property have actually lifted entire populations out of poverty for the long term. If consumers feel better as a result of understanding the supply chain that gave rise to their cup of coffee, fair enough. But that does not put their choices on a higher moral plane than the choices of other consumers. Certainly, we should not generalise the model of fair trade and re-regulate the coffee market. Instead, both developed and developing countries should take the steps necessary to achieve enduring prosperity.

Fair trade products offer certain advantages to some coffee suppliers, for whom they widen the range of contracts available, providing insurance against price fluctuations and making credit more easily available. They may provide alternative purchasers for suppliers thus lessening market dominance. But the system can only ever encompass a minority of producers and not necessarily the poorest ones. It may also increase market instability for those who are excluded.

The Fairtrade organisation is strongly critical of open markets in coffee yet it is clear from their own studies that a major reason for the coffee glut and the fall in prices at the beginning of the twenty-first century was the centrally planned increase in coffee production, with incentives for planting being given by development agencies.

Fair trade organisations should concentrate on delivering their promises to consumers by properly inspecting their suppliers and providing appropriate contractual terms. They should avoid putting themselves and their own consumers on an elevated moral plane and trying to enforce their commercial principles through government regulation. It is likely that fair trade does little good in the long term, but we do not dispute that it may assist the suppliers with which it deals in certain respects. We believe that Fairtrade consumers would be surprised by the levies that the organisation charges farmers through FLO and would be disappointed by the way in which the premium charged to wholesalers is used to further the aims of Fairtrade as a corporation in the UK.

1. In general we will use the words 'fair trade' to refer to the concept of 'fair trade' as understood by its promoters and 'Fairtrade' to refer to the UK Fairtrade Foundation and its associated products, though the distinction is not always absolute or easy to make. In the USA 'fair trade' is also used to refer to regulations on trade that are often said to 'level the trade playing field' such as anti-dumping duties. This is a distinct use of the term and should not be confused with our use.
2. Strictly speaking the contract offered is more like a put option because Fairtrade suppliers also receive higher prices if the market price of coffee rises, though the quantity to be purchased is not guaranteed (see below).
3. A list of references here would be endless. One very practical piece relating to the particular problems of credit for the very poor is Chamlee-Wright (2006). A more general source is de Soto (2000). As usual it is disappointing that fair trade organisations blame the West and big business for problems that are essentially the fault of governments of underdeveloped countries.
4. http://www.flo-cert.net.
5. See Fairtrade Published Statement of Financial Activities for the year to 31 December 2005.
6. It should be noted that Fairtrade's justification for this approach is clever and subtle. Fairtrade's primary charitable objectives are to relieve poverty and provide education on the causes and effect of poverty as they relate to trade. Its stated way of pursuing its objectives is by the promotion of the Fairtrade mark (see annual reports and accounts, 2004, for example). Hence it could justify the very high proportion of income spent on marketing. Two criticisms could be made. The first is that the role of education could not possibly be pursued by simply promoting the brand. Secondly, any commercial business could make the same claim – that the pursuit of its business, by creating wealth, helps the poor. Should all businesses be allowed to be charities? Fairtrade's other main objective is a political one, campaigning against (in its words), 'the injustices of conventional trade'.
7. As opposed to the marketing of the brand.
8. The Fairtrade Foundation responded, suggesting that there was very little mixing of coffee occurring. Indeed, it would be surprising if there were much mixing at current free-market prices. The system will not be tested until the fair-trade price diverges from the free-market price.
9. www.fairtrade.org.uk/suppliers_become_a_licensee.htm, p. 7.
10. See note by Alex Singleton, 17 March 2006, on www.globalisationinstitute.org.

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