

Fair Trade and the Multilateral Trading System

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FAIR TRADE AND THE MULTILATERAL TRADING SYSTEM

I. Introduction

1. The OECD Secretariat has prepared this note on “Fair Trade” as a contribution to discussion of trade-related issues of current interest that fall outside the Trade Committee’s normal work programme. The goals of this paper are twofold. First, the paper is meant as a foundation for better understanding the Fair Trade movement — who its actors are, how it works, and how widespread it is — all of which have a bearing on the extent to which policy makers should pay attention to it. Second, it seeks to identify trade and other policy issues and raise some questions for discussion.

2. The term “fair trade” has various meanings.¹ In this paper, it is used to indicate the “Fair Trade movement”, represented in particular by Fairtrade Labelling Organisations International (FLO) and its associate organisations (and hence the use of “Fair Trade” in this note, that is with capital letters).² These groups aim to provide an alternative business model — one that attempts to redistribute returns to factors of production in a manner that is “fairer” for developing-country producers. In this sense, conventional trading relations involving developing country producers are deemed “unfair” insofar as the returns to those producers are abnormally low in an economic, environmental and/or social sense. Hence, Fair Trade seeks to secure higher earnings for developing country producers that will allow them to cover production costs, earn higher returns and address potential market failures such as environmental degradation and/or low labour standards.³

3. Fair Trade may be viewed as one part along a continuum of related non-governmental activities, which aim at promoting “sustainable trade” and “ethical trade”.⁴ For example, some authors have suggested that “sustainable” coffee products include as main categories Fair Trade, shade-grown, bird-friendly and organic.⁵ What distinguishes Fair Trade is that this movement focuses on producer groups and involves paying participating producers a pre-determined price for their labelled products. “Ethical trade” focuses on production methods and results, and has a corporate focus in that it attempts to ensure that

¹ In domestic trade policy debates, “fair trade” is at times evoked to justify attempts to protect industries negatively impacted by trade, thus mitigating foreign trade practices deemed “unfair”. In other cases, “fair trade” is used to argue against disadvantages that developing countries experience in their international trade, e.g. with respect to market access, developed countries’ export subsidies, and adoption of resource-intensive new trade rules. Fair trade in these meanings is not the focus of this paper.

² For a listing of these groups see Annexes I and II.

³ Such results would be deemed market failures in the sense that the cost of upholding certain environmental and labour standards is not factored into the final price of the good in question. The French and Spanish terms “commerce équitable” and “comercio justo”, respectively, also evoke the concepts of equity and justice, alongside that of the English “fairness”.

⁴ The term “sustainable” trade has been linked to the definition of sustainability used in the Brundtland Report and confirmed at the Rio and Johannesburg World Summits on Sustainable Development.

⁵ Daniele Giovannucci, *The State of Sustainable Coffee: A study of twelve major markets*, 2003, (<http://lnweb18.worldbank.org/ESSD/ardext.nsf/26ByDocName/CropsStateofSustainableCoffee>).

labour, environmental, and human rights standards are upheld within a corporation's supply chain.⁶ Despite the close links and overlapping between these different concepts, this paper will focus exclusively on the Fair Trade movement.

4. The next Section of this paper presents main facts about Fair Trade, including how it operates and what it has achieved, and some of the arguments that have been levied for and against the movement. Subsequently, Section III identifies some trade policy implications and Section IV proposes some specific issues for further discussion.

II. Main facts and arguments with respect to Fair Trade

A. *How the Fair Trade system operates: origin, operation and organisations*

5. Fair Trade can be traced back to several points of origin. In Europe, the student movement of the 1960s provided an intellectual background for Fair Trade activities. In the view of its proponents, Fair Trade was intended to create a more equitable balance between the large multinational corporations (middlemen) and poor producers in the South by applying an alternative trade model. UK-based Oxfam played a leading role and opened in 1959 the first "World Shop", a retail outlet subscribing to the principles that are being promoted by Fair Trade. A Dutch alternative trade organisation (ATO) was formed in 1967. In the United States, similar NGO-led activities began in the late 1940s, with Ten Thousand Villages and Sales Exchange for Refugee Rehabilitation and Vocation (SERRV) trading with poor communities around the world. Fair Trade shops opened in the United States starting in 1958. The 1980s saw two developments concerning Fair Trade: agricultural products began to enter the previously handicraft-dominated Fair Trade markets and a number of Fair Trade labelling initiatives took off.⁷

6. The Fair Trade scheme involves the following three actors:

- Fair Trade producers usually represent co-operatives or associations in developing countries. To participate in the Fair Trade scheme, they have to join Fair Trade membership organisations— e.g., Fairtrade Labelling Organisations (FLO), Fair Trade Federation (FTF) and International Fair Trade Association (IFAT). Participation commits producers to abide by Fair Trade standards, pay annual fees and supply products at pre-determined prices.
- Traders are importers, exporters or processors who deal in Fair Trade products, replacing so-called middlemen. They are associated with Fair Trade membership organisations and subject to the standards, predetermined prices and monitoring requirements of the organisations which they join. Prime traders include Solidar' Monde (France), Oxfam (UK), Oxfam Wereldwinkels (Belgium) and Claro (Switzerland), to mention a few.
- Retailers interface with the end consumers of Fair Trade products. World Shops represent the most common outlets for Fair Trade products. Recently, however, Fair Trade products have begun to make their way into general retailers, such as supermarket chains.

⁶ A well-known organization in this field is the Ethical Trading Initiative in the United Kingdom, whose corporate members establish voluntary codes of conduct and have their supply chains monitored independently.

⁷ See Andy Redfern and Paul Snedker, *Creating Market Opportunities for Small Enterprises: Experience of the Fair Trade Movement*, ILO, SEED Working Paper No. 30, 2002.

7. A Fair Trade product moves through these different levels of the Fair Trade system before it reaches the consumer. In practice, however, retailers often import Fair Trade products directly from producers.

B. Standard-setting, certification and labelling

8. The setting of standards or criteria, certification that those standards have been met, and labelling to indicate that the producer has been certified are critical elements for the operation of Fair Trade schemes. Required standards normally include fair producer prices, fair wages, environmental sustainability, respect for cultural identity and public accountability. Fair Trade membership organisations certify and monitor producers, traders and retailers based on these standards and authorise them to use their labels or logos.⁸ Although the FLO is a leading fair trade organisation in this field, there exists a patchwork of other Fair Trade networks which coordinate and promote Fair Trade activities. Examples are FTF, IFAT and the Network of European World Shops (NEWS). *Annex I* provides some details on how the FLO system works. *Annex II* describes some of the Fair Trade membership organisations.

C. How widespread is the Fair Trade movement?

9. Fair Trade products include coffee, tea, rice, bananas, fruit juices, cocoa, sugar, honey, wine, flowers, nuts and spices. There is also a Fair Trade market for certain handicrafts (e.g., toys, glass and paper products, sports balls, music instruments) and clothing (e.g., batik and silk items).

10. It is difficult to obtain reliable estimates on the overall size of the market for all Fair Trade products. Available estimates reckon it is in the neighbourhood of \$ 700 million a year, with approximately \$ 450 million of that attributed to Europe, \$180 million to North America, and \$70 million to Pacific Rim countries.⁹ More conservative estimates would lower this figure by at least 25%. For example, one estimate puts European sales at only \$300 million.¹⁰

11. Coffee is the oldest and most popular product leading other products by far in terms of sales, representing about 30% of Fair Trade sales in both North America and in Europe.¹¹

12. While the Fair Trade coffee market has seen strong growth in recent years, *Table 1* shows that it still represents a very small portion of developed countries' retail coffee sales. However, growth rates in the Fair Trade coffee market have been high historically. Furthermore, Fair Trade organisations have begun to make headway into mainstream retail markets, including supermarkets. Successful penetration of

⁸ Fair Trade labelling originated from Dutch imports of Mexican coffee in 1988, which were labelled Max Havelaar after a protagonist in an 1860 Dutch novel who tries to battle against a corrupt government system in Java. The Max Havelaar label is still being used and some Fair Trade organizations have adopted his name, such as the Max Havelaar Foundation in Switzerland.

⁹ Steve Stecklow and Erin White, What Price Virtue? At Some Retailers, 'Fair Trade' Carries a Very High Costs; Stores Charge Big Markups on Goods Intended to Help Farmers in Poor Countries; Bananas at \$2.74 a Bunch, *Wall Street Journal*, June 8, 2004; McLaughlin, Katy, Is Your Grocery List Politically Correct?; Food World's New Buzzword Is 'Sustainable' Products; Fair Trade Certified Mangos, *Wall Street Journal*, February 17, 2004. See also Fair Trade Federation and IFAT, *Fair Trade Trends*, 2003, (http://www.fairtradefederation.com/2003_trends_report.pdf).

¹⁰ European Fair Trade Association (EFTA), *EFTA Yearbook: Challenges of Fair Trade 2001-2003*, (<http://www.eftafairtrade.org/yearbook.asp>); and EFTA, *Fair Trade: Let's Go Fair*, (<http://www.eftafairtrade.org/Document.asp?DocID=33&tod=4921>).

¹¹ See Fair Trade Federation and IFAT, *Fair Trade Trends*, 2003, (http://www.fairtradefederation.com/2003_trends_report.pdf).

this distribution channel, perhaps benefiting from the significant growth in demand for organic products, could significantly boost Fair Trade sales. A high degree of overlap exists between certified Fair Trade coffee and certified organic coffee. In Europe, an estimated 25-45% of Fair Trade coffee is also organic; in the United States the share is 75-85%.¹²

Table 1: Fair Trade coffee shares of total retail coffee markets (2001 estimates)

	Market share
Belgium	1.7%
Denmark	3.4%
Finland	0.4%
France	0.4%
Germany	1.1%
Italy	0.3%
Netherlands	2.9%
Norway	1.1%
Sweden	1.6%
Switzerland	2.8%
United Kingdom	1.7%
United States	0.3%
Japan	0.4%

Sources: Giovannucci (2001, 2003), Zehner, OECD estimates.

13. Perhaps reflecting variations in local marketing and distribution, growth rates and market shares can vary considerably across countries for other Fair Trade products. For example, Swiss imports of Fair Trade bananas have more than tripled in volume from 1997 to 2002. Significantly, Swiss banana importers do not need to compete for an import license, as they must in European Community countries due to the banana import regime. Therefore, Fair Trade bananas in Switzerland do not differ significantly in price from conventional bananas, which likely facilitates their importation. Many other countries have seen sales decline following initial market growth.¹³

D. Fair Trade in practice: redistributing returns

14. One of the primary goals of the Fair Trade movement is to improve producers' incomes. To what extent is this taking place? From a review of the literature, the magnitude of such redistribution varies by product, with coffee apparently offering the most dramatic change in producer gain on a *per unit* basis. The data shown in *Table 2* indicate that the unit price earned by producers operating within the Fair Trade scheme is almost four times higher than the price they receive per unit of conventional coffee. However, according to figures available for selected other products, producer returns of such a magnitude are not necessarily the norm.

¹² David Zehner, An Economic Assessment of "Fair Trade" in Coffee, *Columbia Business School's Chazen Web Journal of International Business*, Fall 2002; Margot Roosevelt, The Coffee Clash, *Time Magazine*, March 8, 2004; Giovannucci, *opt. cit.*, p. 68, (<http://www.gsb.columbia.edu/chazenjournal>).

¹³ FAO (Cora Dankers), *Environmental and Social Standards, Certification and Labelling for Cash Crops*, Rome, 2003, (<http://www.fao.org/DOCREP/006/Y5136E/y5136e00.htm>).

Table 2: Producer margins for various products

	Producer margins	
	Conventional	Fair Trade
Coffee*	3-8%	10-24%
Black tea/green Darjeeling	7.0%	9.5%
Earl grey/green Ceylon	4.0%	7.6%
Sugar	2.5%	3.8%
Quinoa	6.7%	8.5%
Basmati rice	6.5%	9.5%

Sources: * Coffee estimates based on data from Zehner (2002), Oxfam (2004), Max Havelaar, France (2003), Giovannucci (2003) and using USDA commodity price data, TransFair USA website. Estimates for the other products based on data from Alter-Eco, France, Activity Report 2003.

15. How does the redistribution take place? The Fair Trade business model seeks to provide higher returns to producers. Also, it eliminates or at least minimises the use of agents and brokers. Most significantly, analysis undertaken by Max Havelaar in France suggests that in its Fair Trade coffee market most of the redistribution is made possible by charging a price premium at the retail level. In fact, retail prices for Fair Trade coffee range from EUR 2.30 to EUR 3.35, compared with EUR 1.80 to EUR 3.00 for conventional coffee (Table 3).

Table 3: Determinants of coffee price (per 250g coffee packet)

	Conventional	Fair Trade
Retail price	€1.80 - 3.00	€2.3 – 3.35
Cost of importing, tariffs, distribution	€1.45 - 2.65	€1.41-2.46
Max Havelaar label rights	€0.00	€0.05
Export costs	€0.14	€0.14
Agents and brokers	€0.06	€0.00
Coop management costs	€0.00	€0.08
Producer	€0.15	€0.62

Source: Max Havelaar France (Feb 2003).

16. Further analysis suggests that not only does the Fair Trade premium cover the increased margin that producers obtain under the scheme, but it allows retailers also to increase their margins. For example, Zehner (2002) examined the retail price premium for bags of Starbucks' conventional and Fair Trade coffee, respectively, to determine who received the observed \$1.50 higher price charged for Fair Trade coffee. He finds that 43% of the premium is passed on to producers and that 39% is retained by Starbucks itself.¹⁴ Starbucks is not an anomaly in this respect; rather, it seems representative of a broader trend in the Fair Trade business model.¹⁵

17. It would thus appear that Fair Trade economics is achieving its goal on a per-unit basis. At the same time, excess supply (or insufficient market demand) creates problems for Fair Trade producers and the movement overall. The vast majority of sources state that supply of Fair Trade products at current prices exceeds the demand for them at those prices.¹⁶ This means that for those producer groups that are

¹⁴ David C. Zehner, op. cit.

¹⁵ Stecklow and White, op. cit.

¹⁶ Examples include Giovannucci, op. cit., and Andy Redfern and Paul Snedker, op. cit.

Fair Trade certified, their products are not guaranteed a Fair Trade purchaser.¹⁷ Furthermore, while additional groups could meet the standards, their registration is either not possible due to insufficient demand for their products, or their inclusion further dilutes the benefits for other Fair Trade producers.¹⁸

Table 4: Arguments for and against Fair Trade

Arguments in support of Fair Trade	Arguments against Fair Trade
<ul style="list-style-type: none"> ▪ Opportunity to target specific groups for aid (e.g. most marginalized groups) ▪ Preserves traditional handicrafts and ways of living ▪ “Tool for philanthropic marketing” – e.g. creates aid funds that would not otherwise exist ▪ If effective, provides a means to increase producer incomes significantly ▪ Producers establish more direct personal contacts with importers and processors ▪ Social and environmental benefits that contribute to local sustainability and stability ▪ Community and organizational development benefits; better organization increases producer bargaining power ▪ Encourages diversity of competing market channels; provides producers with more choices ▪ The movement has positive “corporate social responsibility externalities” ▪ Facilitates access to credit ▪ Can lead to general quality improvements which are valuable in conventional markets as well 	<ul style="list-style-type: none"> ▪ Distorts incentives by setting minimum prices ▪ “Temporary crutch” – prolongs economic dependence of producers by reliance on a niche market of socially-conscious consumers ▪ Some consumer surveys suggest limited willingness to pay a premium for “causes” ▪ Gives certain groups advantages over others (is not a universally accessible scheme) ▪ Specialty producers are most likely to participate but are least affected by low commodity prices ▪ A truly significant effect on producers requires much broader efforts ▪ Inefficient means of transferring income from consumer to producer; a direct transfer would economically be more efficient ▪ Probably does not reduce price volatility, as producers are uncertain how much Fair Trade product can be sold at the Fair Trade price ▪ More market-friendly options exist (such as promoting products in home markets, making market information more accessible to producers, moving into higher-value product markets)

18. Giovannucci (2003) notes that less than 20% of coffee that could be sold as Fair Trade is purchased at the Fair Trade premium.¹⁹ According to a recent FAO report, this estimate may even be too high. In the case of Fair Trade bananas, excess supply reportedly forced Agrofair, a Dutch Fair Trade

¹⁷ However, a personal communication with FLO staff indicated the opposite situation– i.e., demand for fair trade products often outstripping supply – citing such products as sugar and honey.

¹⁸ Examples include Redfern and Snedker, op. cit., and Douglas Murray, Laura Reynolds, Peter Taylor (Colorado State University), *One Cup at a Time: Poverty Alleviation and Fair Trade in Latin America*, (<http://www.colostate.edu/Depts/Sociology/FairTradeResearchGroup/doc/fairtrade.pdf>).

¹⁹ Giovannucci, op. cit.

organisation, to sell bananas at prices below cost of production.²⁰ Also, in the case of a coffee co-operative operating in Tanzania, the FAO study notes that “given that only a small portion is sold as Fair Trade, the price premium hardly affects the average price received by individual farmers, and in most cases the premium is not paid direct but used for projects [for the co-operative itself].”²¹

19. These and other observations prompt scepticism and controversy over various aspects of Fair Trade and its overall success. *Table 4* summarises some of the arguments that divide proponents and sceptics of Fair Trade.

E. Government involvement

20. Government support for the Fair Trade movement has been limited. It consists mainly of direct financial assistance to Fair Trade producers or NGOs active in the Fair Trade arena, or promotional activities aimed at enhancing consumer awareness of Fair Trade products.

21. For example, the Department for International Development (DFID) of the United Kingdom has been providing support to Fair Trade schemes for many years. Some of this aid is channelled through Traidcraft, which has established new or strengthened existing business service centres within Fair Trade networks. Agrofair, a Dutch ATO that imports Fair Trade produce, receives financial support from a Dutch development bank that allows it to pre-finance its Fair Trade producer organisations.²²

22. Some governments (e.g., France, Germany and United Kingdom) have participated in promotional campaigns to make consumers more aware of existing Fair Trade initiatives. As part of its activities in support of Fair Trade projects, the European Commission during the period 1997-2002 helped finance 66 projects related to Fair Trade, totalling just over EUR 16 million.²³ Most of this money went to projects aimed at raising consumer awareness. At the present, the EC is exploring the possibility of developing, in co-operation with Member States and the key stakeholders participating in the schemes, objective criteria or guidelines for fair and ethical voluntary trading schemes at the Community level.²⁴

III. Trade and other policy issues

23. Although Fair Trade has not played a significant role in trade policy debates, either at the domestic level or internationally, it raises a number of issues of potential relevance to policymakers.

A. Relationship to WTO rules

24. Some of the issues that Fair Trade schemes raise relate to technical barriers to trade and ongoing discussions in the WTO and elsewhere concerning the trade effects of standards and conformity assessment, including certification and labelling.

²⁰ FAO (Cora Dankers), op. cit.

²¹ FAO (Cora Dankers), op. cit.

²² FAO (Cora Dankers), op. cit.

²³ See European Commission, *Fair trade projects 1997-2002*, (http://trade-info.cec.eu.int/doclib/docs/2003/june/tradoc_113081.pdf).

²⁴ See EC, *Agricultural Commodity Chains, Dependence, and Poverty – A proposal for an EU action plan*, Communication from the Commission to the Council and the European Parliament, 12 February 2004; and personal communication with EC staff, DG Commerce, in August 2004.

25. For example, do Fair Trade schemes, which are voluntary private schemes and generally process-based, fall under the WTO TBT Agreement's definition of a standard, and if so, do all existing schemes conform to the Agreement's rules governing the preparation, adoption and application of standards?²⁵ Annex 3 of the TBT Agreement (the Code of good practice for the preparation, adoption and application of standards) to which non-governmental standardizing bodies may adhere promotes arrangements on transparency, periods for comments, notification etc. Members are to take reasonable measure to ensure non-governmental standardizing bodies within their territories accept and comply with this Code (Article 4 of TBT Agreement). FLO reports that its standard-setting process conforms to the ISEAL *Code of Good Practice for Setting Social and Environmental Standards*, which ISEAL insists is based on international norms for standard-setting such as set forth by ISO Guide 59 and the WTO TBT Agreement.

26. Another issue is whether the certification procedures of Fair Trade schemes are transparent, open and non-discriminatory, or whether some of their features limit or bias access by developing-country producers to Fair Trade markets. For example, the costs of certification make it difficult especially for small producer groups to join. In the past, the FLO system was able to fund the initial costs of certification for producer groups. This was done by channelling part of the license fees collected by the National Initiatives towards these costs. However, this practice was recently abandoned, as it became financially unsustainable. Producer groups are now responsible for initial certification costs as well as the annual costs of maintaining certification. The initial certification fee depends on the size of the organization but ranges from EUR 2000 to EUR 5200. The renewal fee includes a flat fee of EUR 500/year plus a fee dependent on the volume of Fair Trade products sold in the previous year.

27. Certification is a traded service. GATS negotiations on professional services currently underway may be of interest to experts in developing countries who are involved in various auditing and other relevant measurement services needed to determine conformity with standards. Some of these countries have in recent years built domestic capacity in the area of certification services.

28. Fair Trade also raises issues from a competition policy angle. Only a few Fair Trade membership organizations based in developed countries provide certification services for producer organizations in developing countries. The small number of certifiers and their geographic concentration suggest that competition among certifiers is limited and entry difficult. It is unclear whether governments, by not having or enforcing competition policy, are contributing to maintaining entry barriers for certification services.

B. Consumer confusion resulting from the co-existence of similar schemes

29. Not all Fair Trade products flow through the official FLO certification system. There exists a plethora of similarly-labelled products (e.g. "fairly-traded") that do not follow the same criteria as those of FLO and that may or may not be independently certified.²⁶ There exist also similar private voluntary initiatives. Starbucks, for example, does sell Fair Trade coffee, but it has also introduced a so-called "Preferred Supplier Pilot Program". This programme, like FLO, pays producers premiums, and grades suppliers on "sustainability criteria" that cover environmental, social and economic realms. Third-party certification is used in this process.²⁷ While initiatives such as that of Starbucks are similar to the Fair

²⁵ FAO (Cora Dankers), op. cit.

²⁶ Giovannucci, op. cit. and personal communication with a FLO-cert staff.

²⁷ Elliot Schrage, *Promoting International Worker Rights through Private Voluntary Initiatives: Public Relations or Public Policy?*, A report to the US Dept of State on behalf of The University of Iowa Center for Human Rights, 2004, (http://www.cfr.org/pub6648/elliott_schrage/promoting_international_worker_rights_through_private_voluntary_initiatives_public_relations_or_public_policy.php).

Trade concept, the two sets of standards are not the same. With the number of Fair Trade initiatives, and initiatives similar to Fair Trade, growing, the prospect of consumer (and producer) confusion becomes a very real one.

30. Giovannucci (2003) conducted market research on sustainable coffees (of which Fair Trade coffee is a subclass), with the aim *inter alia* of assessing the degree of consumer confusion due to various labelling initiatives. She concluded that consumer confusion was indeed a problem, especially in European markets with a large number of labelling schemes and similar initiatives; Germany and the UK were prime examples.²⁸ This is a problem not only on the consumer-side, but also for producers who work for and pay for certification.

31. An analogous situation may be found in the regulations developed by the EU, Japan, and the United States over the last 15 years. In each of these economies, a proliferation of organic standards — both private and by sub-national governments — led to confusion among consumers. At the same time, food producers and distributors became concerned that inconsistent and fraudulent use of organic labels could mislead consumers and enable unscrupulous competitors to market products as “organic” when in fact they were not. The promulgation of national standards has made it easier for consumers to identify products of organic farming, while providing them with assurances that these products have indeed been produced organically. For similar reasons, as mentioned in Section II E, the EU is currently considering developing guidelines on the use of the term “Fair Trade”.

IV. Conclusion

32. Although Fair Trade has received much attention from civil society organisations — and, to some extent, from governments and the private sector — and has been showing large growth rates in recent years, it remains a small movement. The most widely sold Fair Trade product, coffee, has achieved less than a 1-2% share of the retail coffee market in most OECD markets. Many sources believe that sales prospects are limited, largely because of the higher prices charged for Fair Trade products. This is supported by several accounts claiming that, at least at the current level, demand is insufficient even for existing Fair Trade producers.

33. As for issues of potential interest to trade policymakers, the plethora of different types of Fair Trade claims and related initiatives creates confusion in the market, which in turn undermines consumer confidence in Fair Trade certification. On the producer side, the scheme’s accessibility seems problematic in terms of how producer groups are and have been targeted for inclusion, especially given the limited market for Fair Trade products. Issues related to producer transparency also exist; for example, how producers learn of Fair Trade opportunities, and how information is made available to them to make it clear which opportunities would be the most lucrative. Hurdles exist also, especially for smaller producer groups, with respect to certifying their conformity with the standards, in part due to high costs of the imported services.

²⁸ Giovannucci, *op. cit.* In the coffee sector alone, a recent International Coffee Organization document analyzed the proliferation of “coffee sustainability” initiatives, mentioning (without being exhaustive) four different government initiatives, five private-sector initiatives, and five NGO initiatives.

ANNEXES

Annex 1: Overview of the Fairtrade Labelling System



Source: Andy Redfern and Paul Snedker, *Creating Market Opportunities for Small Enterprises: Experience of the Fair Trade Movement*, ILO SEED Working Paper No. 30, 2002 (<http://www.ilo.org/dyn/empent/docs/F1057768373/WP30-2002.pdf>).

35. Most Fair Trade products enter the market via the FLO system, which confers the right to use the “Fair Trade” label by certifying that products have met required Fair Trade standards. FLO itself is based in Bonn, Germany and co-ordinates the labelling initiatives of 20 countries in Europe, North America and Japan via so-called “National Initiatives” such as Fairtrade(**Austria**), Max Havelaar (**Belgium**), Transfair (**Canada**), Max Havelaar (**Denmark**), Max Havelaar (**France**), TransFair (**Germany**), Fairtrade Foundation (**UK**), TransFair (**Italy**), Fair Trade Mark (**Ireland**), Fairtrade Label (**Japan**), TransFair Minka (**Luxemburg**), Stichting Max Havelaar (**Netherlands**) Max Havelaar (**Norge**) Reilun kauppan edistämisyhdistys (Finland), Rättvisemärkt (**Sweden**), Max Havelaar Stiftung (**Switzerland**), TransFair (**USA**), Comercio Justo (**Mexico**), Fair Trade Association (**Australia, New Zealand**).

36. FLO sets Fair Trade criteria, and an affiliated but separate entity, FLO-cert Ltd., is responsible for certifying producers and traders. The National Initiatives monitor Fair Trade retailers and thus the end-use of the label. FLO is one of eight members of the International Social and Environmental Accreditation and Labelling Alliance (ISEAL).

37. Generic Fair Trade standards exist for all Fair Trade products, which then are complemented by product-specific minimum price, quality and processing requirements. The generic standards certify that products satisfy the following principal Fair Trade criteria:²⁹

- fair prices for farmers and decent working and living conditions for workers;
- direct trade with farmers, bypassing middlemen;
- free association of workers and co-ops, with structures for democratic decision-making;
- access to capital;
- sustainable agricultural practices including restricted use of agrochemicals.

38. The *FLO Standards and Policy Setting Committee* researches and publishes recommended standards which are then ratified by the *FLO Board of Directors*. This process, and the publication involved, conforms to the *ISEAL Code of Good Practice for Setting Social and Environmental Standards*.³⁰ This Code was developed by ISEAL members based on international norms for standard-setting such as the ISO Guide 59 and the WTO's TBT agreement, but adapted for voluntary process and production method standards.³¹ It is meant to maximize the credibility of standards that are developed based on the code's guidelines. ISEAL members, and thus, FLO, also submit themselves to internal peer reviews on their standards.

39. Fair Trade traders are required to implement such standards as:³²

- pay the minimum (pre-determined) price to producers that covers the costs of sustainable production and living;
- pay a premium (pre-determined) that producers can invest in development;
- partially pay in advance, when requested by producers;
- sign contracts that allow for long-term planning and sustainable production practices.

40. The method for setting the minimum Fair Trade price differs by product, but it is intended to cover the cost of production and to include a reasonable margin. In the case of coffee, Giovannucci (2003) reports that minimum prices were set in a process that entailed consultation with international bodies such as the International Coffee Organization.³³ According to a recent FAO report (2003), the minimum price for Fair Trade bananas is set based on different production costs by region. The minimum price includes a Fair Trade "premium". Part of this premium is meant to be used by the producer organizations to improve the organization itself or the product's quality. The rest of the premium is meant to be used for environmental or social improvements.³⁴

²⁹ TransFair USA, (<http://www.transfairusa.org>).

³⁰ ISEAL Alliance, (<http://www.isealalliance.org>).

³¹ ISEAL Alliance, op. cit.

³² FLO International, (<http://www.fairtrade.net>).

³³ Giovannucci, op. cit., p.40.

³⁴ FLO International, (<http://www.fairtrade.net>). See also FAO (Cora Dankers), op. cit.

Annex 2: Fair Trade Membership Organisations

- **IFAT (International Fair Trade Association):** Established in 1989, IFAT is the global network of producer co-operatives and associations, export marketing companies, importers, retailers, national and regional Fair Trade networks and financial institutions. Currently, it comprises over 220 members in 59 countries. Approximately 65% of its members are Fair Trade product producers based in the South (that is: Asia, the Middle East, Africa and South America) with the rest coming from North America & the Pacific Rim and Europe. IFAT's mission is to improve the livelihoods and wellbeing of disadvantaged producers by linking and promoting Fair Trade Organizations, and speaking out for greater justice in world trade. (<http://www.ifat.org/>)
- **NEWS (Network of European World Shops):** NEWS is the network for European World Shops, Fair Trader retailers. The network consists of 15 national World Shop associations in 13 countries all together representing about 2,500 World Shops in Europe. NEWS aims at linking World Shops, promoting and undertaking campaigns to raise European citizens' awareness of Fair Trade and ethical issues, and stimulating and supporting the development of World Shops national associations in Europe. (<http://www.worldshops.org/>)
- **EFTA (European Fair Trade Association):** EFTA is an association of 11 Fair Trade organizations in 9 European countries. It was established in January 1990 after 10 years of informal cooperation. EFTA members import from over 550 producer groups in 44 countries. Its core objectives are to make Fair Trade importing more efficient and effective and to promote Fair Trade towards commercial and political decision-makers. (<http://www.eftafairtrade.org/>)
- **FTF (Fair Trade Federation):** FTF is a US-based association of Fair Trade wholesalers, retailers and producers. The FTF has its own Fair Trade criteria and one third of its members include US Fair Trade wholesalers and retailers. (<http://www.fairtradefederation.com/>)
- **FLO (Fairtrade Labelling Organizations International):** FLO is the worldwide Fair Trade standard setting and certification organization which confers to use the "Fairtrade" label by certifying that products have met required Fair Trade standards. It permits more than 800,000 producers, workers and their dependants in more than 45 countries to benefits from labelled Fair Trade. In fact, most of Fair Trade products enter the market via the FLO system. (<http://www.fairtrade.net/>)
- **FINE** is a network of organisations promoting Fair Trade in Europe. As reflected in its name, it consists of **FLO**, **IFAT**, **NEWS** and **EFTA**. The objective of FINE is to share information and coordinate lobbying and awareness-raising efforts for Fair Trade. The most important achievement made by FINE is to agree on a definition of Fair Trade: *Fair Trade is a trading partnership, based on dialogue, transparency and respect, which 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.*

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