

## When Ethics Meet Profits: Is Fairtrade Really a Fair Go for All?

Published : March 20, 2012 in [Knowledge@Australian School of Business](#)

The Fairtrade movement was formed with the best of intentions. Third world producers are paid fair and stable prices for their produce. They receive a minimum floor price that never drops while commodity prices may fluctuate alarmingly. Farmers also receive a premium on top of the price, which must be spent on community improvements.

When consumers buy Fairtrade-certified products they know the farmer is being paid fairly. Entrepreneurs and companies benefit from socially responsible practices and enhance their reputations.

Everyone wins.

However, it's not a black and white issue, according to [Fanny Salignac](#), a researcher at the Centre for Social Impact, based at the University of New South Wales, whose doctoral research explored the institutionalisation of the Fairtrade movement. While growers' response to being involved in Fairtrade certification was reasonably consistent, Salignac found the Western world quite fragmented in its view of how the movement should operate.

From field research in Vietnam and India, Salignac discovered farmers almost uniformly acknowledged the benefits of being part of a Fairtrade cooperative. Overwhelmingly, their responses were positive, although a few farmers had issues. These mainly stemmed from lack of knowledge of where their products were ending up, but there were also some concerns over price. At one point, a pepper producer stopped selling his product through the Fairtrade channel, turning instead to the local market where he could command higher prices.

Meanwhile, in the west, Salignac looked at the ongoing tussle between those who see it as purely an ethical and alternative movement, and those who take a rationalised economic viewpoint. There are also naysayers who believe that Fairtrade artificially sustains uneconomic farming practices and claim it's effectively an empty marketing exercise. It's not surprising that there is this conflict; Fairtrade doesn't play by the recognised economic laws of supply and demand. In the capitalist world, when there is a glut in a particular commodity, prices generally go down, or if there is high demand and scarcity of product, prices go up. Not so in Fairtrade, where prices are kept stable and the minimum floor price is adjusted accordingly when commodity prices rise.

### Market Comparisons

In her thesis, Salignac compared how Fairtrade plays out in the UK – an incredibly mature market – and in France, where competing voices mean the establishment of the movement has been less effective. "In the UK it's all about pushing the products into the mainstream retailers and getting as much profit as they can to benefit the producers," Salignac says. "In France it's all about the ethics of Fairtrade, it has a very militant feel to it especially in the language used."

Salignac also examined Australia, a relatively immature market, but one of the world's fastest growing. Consumer awareness is on the increase but it is nowhere near as high as it is in the UK, where nine of out 10 people understand what Fairtrade is, how it works and how the farmer benefits.

When academic and former politician [Cheryl Kernot](#) was working in the UK she was impressed by the uptake of Fairtrade products by major supermarkets and thought, "we've got to have something like this in Australia". Now director of social business at the Centre for Social Impact, Kernot also chairs the [Fair](#)



This is a single/personal use copy of Knowledge@Australian School of Business. For multiple copies, custom reprints, e-prints, posters or plaques, please contact PARS International: [reprints@parsintl.com](mailto:reprints@parsintl.com) P. (212) 221-9595 x407.

[Trade Association of Australia and New Zealand](#). She predicts growth for Fairtrade products in the Australian mainstream market, aided and abetted by consumer demand and corporate CSR policies. One example is a staff-driven decision at National Australia Bank, one of Australia's big four banks, to have Fairtrade tea and coffee served in branches and office tearooms. "That's five million cups across the country a year," Kernot points out. "NAB's creating shared value for their employees. They've had very good publicity and you could argue that they've [taken] good reputational advantage from it. They are also creating value for the grower communities elsewhere in the world. It's an innovative example of corporate social responsibility."

Kernot believes that it doesn't matter that there are different views: "Diversity is important but only so long as we are getting to the same end." She adds a caveat, "but you'd want the real Fairtrade product to be understood and not be confused with the imitations". By this she means only products that carry the official label, accredited by the umbrella group Fairtrade Labelling Organizations International (FLO), based in Germany. The Australian organisation, Fairtrade ANZ, is a member, as are most European countries, and Japan and South Africa. Not the US though – in 2011 the hugely influential Fair Trade USA organisation left FLO to start its own accreditation system.

Fair Trade USA has pledged to double the amount of sales of Fairtrade goods in the US by 2015. To achieve this goal it will need to allow plantations into its coffee accreditation system. "The US market is so huge and Fairtrade products can only cater for a certain size of market," explains Jacqueline Arias, founder of Australian Fairtrade company [Republica Coffee](#). "If the US wants to double sales they really need to be able to buy product from plantations."

### Cracking the Mainstream

Arias, a former journalist at Australian broadcaster ABC, was inspired to start the business to help local people in her birth country Colombia, where Republica buys coffee from a region controlled by guerillas. "Many young people were leaving their communities to join the guerillas," Arias explains. "A group of community members got together and started reclaiming their lands from the guerillas. They were able to stop growing coca, which is used in the manufacture of cocaine, and start growing coffee instead. They joined the Fairtrade movement and have also converted their lands to organic production." She says the coffee crops under the Fairtrade certification system provide a steady income, and are bringing about social change. "Through this, they were able to reclaim their young people," says Arias, who also buys from other third world producing countries, including East Timor.

Republica Coffee has cracked the mainstream market. Its products are sold in Coles and Woolworths supermarkets and its chocolate was included in the heavily publicised Oprah gift bag when the US's high priestess of talk shows visited Australia in 2010. However, Arias says she does have issues with the Fairtrade model as it exists under the FLO accreditation system. "It is a model that was designed for the European market, where a lot of commodity products are already imported from third world markets. For example, sugar is not grown in Europe, and therefore the FLO argues it must be imported to make the product Fairtrade. I have argued long and hard with Fair Trade Australia that, as Australia has a thriving sugar industry, why do we need to import Fairtrade sugar?"

Bananas are also a case in point. In the UK, supermarket giant Sainsbury's only sells Fairtrade bananas, this is not possible in Australia. "It's a step too far, particularly as a lot of banana growers were affected by the floods (in Australia)," notes Cheryl Kernot, who acknowledges there is an issue with sugar, but says "pretty much all Australian sugar has been bought out [by foreign interests] now".

On a global level, Fairtrade production has stepped up a notch, with companies such as Nestlé and Cadbury joining the fray, the latter moving its iconic Dairy Milk block to Fairtrade. "When a really big producer like that switches, that means the products are readily available to consumers and that has a huge impact on the uptake," Kernot says.

However, global giants can play by special rules. Arias says the locally produced Fairtrade Cadbury's Dairy Milk has an exemption and can buy Australian sugar, because the company buys Fairtrade sugar elsewhere in the world. "That doesn't make it a level playing field," she argues.

And when multinationals start playing on turf dominated by small local artisan brands this can have a less

than desirable effect on range and choice in the market. "That is a hitch," concurs Kernot. "When retailers take on the Cadbury's Fairtrade range that means less space is given to some of the original Fairtrade brands. It's a double-edged sword. Let's say we haven't solved that one yet, but I'd like to see that happen."

The collision of a profit machine with an alternative ethical ideal is central to Salignac's findings. She argues the market-based system of Fairtrade could facilitate reconciling profit-seeking behaviours with alternative ethical-seeking ones. While her studies show Fairtrade licensees tending towards reconciliation, other retailers tend to be biased one way or another. Interestingly, she found the farmers do not differentiate between economic and social value – they're always linked. She says the producers "when asked about what motivated them to go to Fairtrade, they say Fairtrade gives them access to a stable income and an additional premium to invest in the community and create social value. From the farmers' perspective, it shows that Fairtrade is fulfilling its purpose as well as creating a market system where profit-seeking behaviours and alternative ethical ones are reconciled".

### **Future Prosperity?**

But for Fairtrade to prosper, Salignac found the producing countries must also become the consumers. "The farmers in India told me that they would benefit further if the consuming market was opened to the producing countries as well," she explains. "There's criticism that while some farmers are able to benefit from Fairtrade, other farmers are left on the side and are actually worse off. During my interviews, the farmers kept referring to the need to increase volumes of sales so that more farmers can be part of Fairtrade.

"If you don't have a big enough market you can't get everyone involved. They didn't talk about their personal financial well-being, but about getting as many farmers as possible involved into Fairtrade so that they would be able to benefit from it, as well as their families, their communities and the country as a whole."

India – with 1.22 billion people and a growing middle class, but with just 41 Fairtrade cooperatives – would seem to be the perfect place to grow the movement, beyond even USA Fair Trade's wildest dreams. In fact, some Fairtrade-certified products are already on sale in India, such as rice, tea, coffee and clothing made of Fairtrade-certified cotton, and FLO research shows many metropolitan consumers in India are familiar with the concept.

Certainly, FLO believes there's great potential there. India is one of its top priorities for new markets for 2012 (it is also bent on establishing organisations in Kenya and Brazil). It is in the process of forming a Fairtrade marketing organisation in India, working in close collaboration with the Fairtrade Network of Asian Producers and the Fairtrade Foundation in the UK. A similar approach has worked successfully in South Africa, where a marketing organisation was formed in 2009. Since then sales of Fairtrade labelled products in South Africa have grown to estimated R18,4 million (A\$2.2 million), up from R 5,7 million (A\$689,000) in 2009.

---

This is a single/personal use copy of Knowledge@Australian School of Business. For multiple copies, custom reprints, e-prints, posters or plaques, please contact PARS International: [reprints@parsintl.com](mailto:reprints@parsintl.com) P. (212) 221-9595 x407.