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Ethical Objections to Fairtrade

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Abstract The Fairtrade movement is a group of businesses claiming to trade ethically. The claims are evaluated, under a range of criteria derived from the Utilitarian ethic. Firstly, if aid or charity money is diverted from the very poorest people to the quite poor, or the rich, there is an increase in death and destitution. It is shown that little of the extra paid by consumers for Fairtrade reaches farmers, sometimes none. It cannot be shown that it has a positive impact on Fairtrade farmers in general, but evidence suggesting it harms others is presented. Many of the weaknesses are due to an attempt to impose political views on farmers and others. Secondly, the unfair trading criteria require that sellers do not lie about their product, nor withhold information that might alter the decisions of a substantial proportion of buyers. It is argued that the system only can exist because of the failure of the Fairtrade industry to give the facts on what happens to the money and what it can be proved it achieves. This unfair trading compromises the reputation of charities in general. Much of the trading may constitute the criminal offence of Unfair Trading in the EU.

Keywords Fairtrade · Fair trade · Ethical trading · Third world marketing · Agricultural and food marketing

Introduction

This study analyses the claim that Fairtrade is ethical trading. It starts with a brief outline of Fairtrade. It sets out the basic ethical criteria to be used. These are expanded and extended as fuller details of the operation of Fairtrade are presented. This analysis covers only Fairtrade and not the other systems whose participants think of themselves as Fair Trade (two words).

Fairtrade is a commercial brand. Its owners, the Fairtrade Foundation, have been very successful in persuading customers that it does 'ethical trading', and that by buying Fairtrade goods they are giving producers a fair price, dealing fairly with them and giving money to poor producers in the Third World. It has had considerable support from grassroots to ministerial level, and has received gifts of time, money, marketing and preferential trading opportunities from private individuals, firms and public bodies. The retail turnover in the UK alone was £799 m in 2009.

For a fee, the Fairtrade Foundation gives companies in the developed world—coffee processors and packers or supermarket chains for instance—a licence to use the brand (with the Fairtrade brand being displayed on their own branded goods). 85% of the income of the UK Fairtrade Foundation income comes from this, with the remaining 14% coming from donations and government grants (Fairtrade UK 2009). At least 70% of this licence income is spent in the UK, mainly on promoting the brand. The accounts are not clear on how or where the rest is spent, but it appears to be spent by the Fairtrade organisation, some of it for administration and control of standards by the international umbrella organisation, The Fairtrade Labelling Organizations International, rather than being given to farmers in the Third World. Licensees use the Fairtrade brand in addition to the normal commercial brand, not as a substitute. Licensees and retailers do marketing and advertising both for their own brand Fairtrade and for Fairtrade in general. They benefit in three ways: they can charge a higher margin; they expect higher turnover; and

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they can launder their image, becoming perceived as a fair organisation helping the Third World.

The money intended for the Third World is an entirely separate income stream, which does not pass through the Fairtrade organisation. The product must be produced by Fairtrade-certified suppliers in the Third World, nearly always members of a marketing cooperative, but plantation companies for a few products. These suppliers must meet a range of political standards to be certified. For coffee, the flagship product, there are typically several levels involved: the farmers themselves, the primary cooperatives which do the assembly and processing, and the secondary or tertiary cooperatives which export on behalf of the primary cooperatives. The exporting cooperative is paid a price 10c a pound higher than the world price for any coffee that, first, meets the Fairtrade standards and, second, is sold with the Fairtrade brand. The higher price is termed the 'social premium' and may be spent by the exporting cooperative on business expenses including the costs of meeting Fairtrade standards, or on social projects like health, education or constructing baseball fields. Some cooperatives pass on cash to farmers, giving them a higher price. A significant aspect is the minimum price, which gives the exporting cooperatives a price above the world price when the world price collapses, as it does from time to time. These price commitments apply to the exporting cooperatives only, not to the primary cooperatives or to farmers, and they cover only goods sold under the Fairtrade brand, which may be a small part of the product meeting the standards, and a small part of the cooperative's turnover.

This analysis covers the Fairtrade system as a whole, from farmer to consumer, including cooperatives, importers, packers, wholesalers, supermarkets and cafes. It covers the Fairtrade Foundation UK (the system may operate differently in other rich countries) and the umbrella organisation, the Fairtrade Labelling Organizations International. It also covers those advocates of Fairtrade who do not have any financial interest in it, but give money, time, effort and preferential trading opportunities to it and who publicise it. These include firms, politicians, public servants and teachers.

Ethical Criteria

The ethical approach used here is the Utilitarian one of the greatest good for the greatest number, as is normal in dealing with public money. This uses the hedonic calculus, applying resources where they produce the greatest marginal utility. Two sets of ethical criteria derived from the Utilitarian principles will be used throughout the analysis. They are set out in this section, but they will be expanded on, and new criteria will be identified, as more information is presented.

The first set derives from the fact that there will be an increase in death and destitution if money or resources intended for the very poorest people are diverted to people who are less poor or relatively rich. A very poor person who is made £5 worse off may not be able to buy a mosquito net or buy enough food to keep the children alive in the hungry season before the harvest. A less poor person losing £5 may suffer only not being able to buy batteries for a radio or to visit relatives. And the shareholders of a supermarket in a rich country may not notice £5 more or less. This is standard economics. These criteria mean that it is not sufficient to prove that some farmers benefit from Fairtrade: any meaningful analysis must also cover other Fairtrade farmers, and non-Fairtrade farmers.

These criteria are applied at two levels: it is asked whether the money should be given to Fairtrade at all, and it is asked whether, once the money has been given to Fairtrade, it is spent in such a way as to maximise its impact. The criteria may be applied by comparing the impact of Fairtrade with the impact of alternative ways of delivering aid or charity to the Third World, using as a standard either giving money directly to a Third World government or giving it to one of those charities which guarantees that all donations are spent in the Third World. One widely used approach is to state on the label exactly how much of the price reaches Third World communities. Formally, those low-cost:high-impact aid interventions with a payoff of thousands to one are also an alternative.

The second set of criteria, Unfair Trading, includes two relevant principles: that it is unethical to lie to a customer about a product and it is unethical to fail to give consumers important information about a product, information that is likely to cause the average consumer to make a different purchasing decision. Under the Utilitarian approach it is wrong because it is a way of facilitating the allocation of money in a way that increases death and destitution, as in the first criterion—a derived wrong. Secondly, there is the cost when donors realise that their money has been used for purposes that they had not intended. Thirdly, the use of lies and suppression of evidence damages the efficiency of markets, and can collapse them entirely, causing widespread public harm. To the extent that this happens in the charitable sector, there is a risk that the public will stop giving money to any charity. And risk is an economic cost. This is recognised by legislators: both lying and failing to give relevant information to customers would constitute the criminal offence of Unfair Trading throughout the EU under Directive 2005/29/EC on Unfair Commercial Practices (European Commission 2005). While I refer to these regulations from time to time, I would emphasise that only the courts can interpret them, and decide what practices are unfair, and whether it is, for example, the retailer, the wholesaler, the manufacturer or the brand owner who commits the offence. However, the fact that a practice may not be a criminal offence does not mean it is ethical.

What Happens to the Money?

With Fairtrade, as with charity Christmas cards or free range eggs, customers pay a higher price in the belief that nearly all the extra will go to the intended beneficiaries. The Fairtrade Foundation's basic guarantee is, 'A fair and stable price to farmers for their products' (Fairtrade Foundation 2011). A reasonable consumer might assume from this that 80%, say, of the extra amount paid went in higher prices to the farmers, in such a way as to get the greatest good for the greatest number. This section examines what actually happens to the money. First, it asks how much reaches the exporting cooperative, half way up the marketing chain. Then, it asks what happens to this money: how much goes in added costs to the Fairtrade cooperatives; how much is spent on social projects; how much goes in extra money to Fairtrade farmers; and what harm is caused to non-Fairtrade farmers. To the extent that the money does not reach the intended beneficiaries, there is an increase in Death and Destitution. To the extent that consumers are not given information that might change their decision to buy Fairtrade, there is Unfair Trading, which is unethical.

How Much Gets to the Exporting Cooperative?

In practice, retailers, wholesalers and manufacturers are free to charge whatever they wish for Fairtrade products. Fairtrade does not monitor or control how much extra they charge. It is almost never possible for a customer to determine how much extra is charged, because retailers almost never sell identical Fairtrade and non-Fairtrade products side by side. There are differences in brand, quality, origin, etc. which make price comparisons impossible.[1] There is no shortage of evidence that consumers are willing to pay more for Fairtrade coffee, and it would be surprising if retailers did not price accordingly.

Very occasionally, it is possible to calculate how much extra is paid. One of the largest British café chains let it be known that they were charging 10p a cup extra for Fairtrade coffee, which made it possible to calculate that less than 1% of the extra price reached the Third World exporter. That is to say customers would have achieved at least 100 times as much if they had given the 10p to a reputable charity instead of buying Fairtrade. Valkila et al. (2010, p. 266) were able to get information not normally available on coffee sales, and found that consumers in Finland paid considerably more for Fairtrade-certified coffee than for alternatives, but that only 11.5% of the extra paid went to the exporting country. The amount reaching the farmer is not calculated. Kilian et al. (2006) talk of US Fairtrade coffee getting $5 per lb extra at retail, of which the exporting cooperative would have received 10c, or 2%. Mendoza and Bastiaensen (2003, p. 38) calculated that in the UK only 1.6 to 18% of the extra charged for Fairtrade reached the producers for one product line. It would take a great deal of evidence to show that these figures are not typical or at least common. However, there is no prospect of the evidence becoming available, as it would require retailers, wholesalers, packers and importers to expose their business to independent examination by forensic accountants and economists.

Fairtrade's own figures do not suggest that these figures would be unusual. Calculations from figures produced by Fairtrade Labelling Organizations International (2010) show that on average 1.53% of the retail price reaches the Third World as extra payment from Fairtrade membership—52 m Euros from sales of 3.2 billion. However, they do not give sources for their figures, and figures for previous years are not available. The figures for the total cost of Fairtrade organisations, world wide and nationally, and the amount reaching the Third World, nationally and in total, should be readily available, but are not. It is possible to make rough calculations from what information is available, assuming that Fairtrade UK is typical of the national organisations (as all national organisations are subject to the same system and collect the same fees). It appears that the cost of operating the Fairtrade organisations in the rich countries is of the order of 75–100% of the gross amount of extra money reaching the Third World. There are also some unavoidable costs to processors, wholesalers and retailers in handling Fairtrade. That is to say, the absolute maximum proportion of the donations reaching the Third World would be 50 to 60%, in an ideal world where nobody charged higher mark-ups. This is consistent with the fact that Fairtrade charges wholesalers a fee of 3%, and 1.53% of the retail price reaches exporters as extra payment. These proportions would be considered unacceptably low by many donors.

That is to say much of the extra price paid, the donation, goes as extra profit in rich countries, which is unethical under the Death and Destitution criteria, and there is a

[1] One UK Sainsbury superstore, in November 2010, had 76 product lines for coffee and 53 product lines for Fairtrade coffee. The most expensive coffee was nearly four times the price of the cheapest, £21.20 per kg, compared with £5.36. Many of the more expensive lines were Fairtrade. Some of the objective characteristics were stated, such as organic, Arabica, produced in Costa Rica, but there was no indication of most of them. Most of them would have been blends of at least half a dozen different qualities and different growths, produced by different suppliers.

failure to disclose this, which is unethical under the Unfair Trading criteria.

For a product like a garment made of Fairtrade cotton, the system is even more opaque. How much extra does one pay for a dress made with Fairtrade cotton? How much Fairtrade cotton is in the dress? How much of the extra goes to the exporter? Even if I had been able to find an explanation of Fairtrade cotton on the Fairtrade website, I could not have made the calculation.

Failure to Pay the Fairtrade Price

The calculations on how much of the extra price reaches the Third World exporters have been made on the assumption that the exporters receive the full export price. However, products may be fraudulently marketed as Fairtrade when they are not. Some traders say that control is inadequate: a pre-announced visit by a Fairtrade accountant every 5 or 6 years is not likely to pick this up. It would be prohibitively expensive to monitor all the cafes and restaurants claiming to sell Fairtrade.

Some buyers pay the licence fee, but do not pay the exporters the money that they are obliged to if they are to call the product Fairtrade. The Fairtrade system requires importers to

1. Pay the minimum price set by Fairtrade,
2. Pay a premium price,
3. Provide credit for prefinancing so that Fairtrade cooperatives can pay cash on delivery,
4. Enter into long-term contracts.

Companies are in a position to say, ‘We will buy your Fairtrade coffee but we will pay you less than the proper price. If you refuse, we will buy from another Fairtrade cooperative, and you will have to sell at an even lower price, the world commodity price. As you know, there is three times as much Fairtrade-certified coffee available as the market will take.’ It is difficult for the cooperative to refuse. There is evidence that companies do this, sometimes paying the full Fairtrade price, but demanding a higher quality (Raynolds 2009, p. 1089; Valkila et al. 2010, p. 264; Valkila 2009). There is also a failure to provide the credit. Importers may pay cash on delivery, or pay late, or just not honour their contracts if world prices move against them (Utting 2009, p. 139; Valkila 2009 pp. 3022–3023; Raynolds 2009, p. 1089). The mainstream traders sometimes provide better credit to farmers at significantly lower interest rates (Valkila 2009, pp. 3022–3023). The Fairtrade requirements on long-term contracts are not strictly enforced (Reed 2009, pp. 12, 21).

These evasions are mentioned by some of the most enthusiastic supporters of Fairtrade, but they do not give details or discuss them, and appear not to have investigated them to find out how common they are. This is surprising as the evasions could make the whole system unworkable.

The ethical problems raised are, first, the failure to control these problems effectively, second, the failure to admit to the problems, and, third, adopting a system where these problems arise—they do not arise with normal charity to the Third World.

Ethical Implications

It has been shown that a small amount of the extra amount that consumers pay for Fairtrade gets even as far as the exporter. In a few cases it may be as much as half; in many cases it is much less. Much of the extra price paid, the donation, goes either in higher profit in rich countries, or in the Fairtrade organisations’ administration costs and their cost of collecting donations. This is unethical under the Death and Destitution criteria,

It is likely that Fairtrade sales would be much lower if this were known by consumers. However, the extra amount consumers pay for Fairtrade products is almost universally concealed by retailers and the costs of the Fairtrade organisations and the amount reaching the Third World has not been disclosed. This is Unfair Trading and is unethical. The criterion that relevant information should not be concealed requires that a pack of Fairtrade coffee, say, should have the label ‘This pack costs 50p [say] more than an equivalent pack of non-Fairtrade coffee. A maximum of 3.4p of this reaches the Third World.’

Even those retailers who feel that they, and their supply chain, are beyond reproach, and that it is acceptable that only half the extra money paid reaches the Third World in their particular operation, are under an ethical obligation to give this information. If they were to disclose their figures, they would put pressure on others to do the same, so there would no longer be firms pocketing 90 to 99% of the extra price charged.

Similarly, all charities have to publish their accounts. Many reputable ones publish them in great detail: they hope to drive out those charities that spend nearly all their revenue on collecting more revenue, that spend almost nothing on the intended beneficiaries, that are incompetent, and that are dishonest. That is to say they are acting according to the Ethical Trading criteria. Fairtrade, on the other hand, has been set up in such a way that most of the money donated does not even enter their accounting system, and it is not possible to find out what it is spent on.

How Much Reaches the Farmer?

Fairtrade monitors the price paid to exporters. It does not control what happens to the money, nor does it monitor how much reaches the farmer. There can be no evidence for the claim, 'Fairtrade guarantees a fair price for the producer'.

Some of the extra money is spent on meeting the Fairtrade criteria for certification, sometimes a large proportion (Utting 2009, p. 139; Valkila and Nygren 2010; Valkila 2009, pp. 3022–3023; Berndt 2007). The exporting cooperatives, the primary cooperatives and the farmers all have to reach these criteria. They have to meet the criteria for all they produce, whatever proportion they manage to sell as Fairtrade branded. Obviously, they would prefer to sell all they produce at the higher Fairtrade price, but the world market for the brand is about a third of the quantity produced, so two thirds is sold, unbranded, at the commodity price (Kilian et al. 2006). Some cooperatives struggle to sell 10–15% of their total production as Fairtrade, so their added costs are higher than their added income. Nothing is left for social projects or for the farmers. Presumably they hope to sell more in future and make a profit. Others manage to sell most of their output as Fairtrade so the social premium is higher than the extra costs, but even here the cooperative management may say, 'It's not worth the trouble, Fairtrade.' (Berndt 2007, p. 27)

This gets some support from Fairtrade's own figures (Fairtrade Labelling Organizations International 2010). Calculations show that 40% of the premium reaching the Third World goes on business and production, rather than on social projects or extra price to the farmer.

Fairtrade Labelling Organizations International figures do not show that any money goes to farmers. Workers on Fairtrade plantations may do no better: tea workers in Kenya and India may get a thermos flask every few years as their payoff from Fairtrade (Bahra 2009a, b). However, researchers suggest that some farmers have demanded to receive cash, rather than have the money put into underperforming social projects.

Some Fairtrade employees claim that Fairtrade Labelling Organizations International is wrong. Martin Hill, Director of Commercial Relations, Fairtrade Foundation UK, spoke at the European Coffee Symposium (2009), and said that *all* the Fairtrade Premium was passed on to farmers at farm gate—not just to the cooperative exporter, nor spent on business and production expenses, or on social projects.

Is Cooperative Marketing Efficient?

The possibility must be considered that the Fairtrade export cooperative gets a higher price than other exporters do, but cooperative marketing is so inefficient that the producers would get a lower price, even if nothing was spent on social projects. This is of fundamental importance as nearly all Fairtrade producers are compelled to sell through their cooperative and cannot switch to another buyer without losing their Fairtrade status.

Much of the Fairtrade literature claims that alternative marketing systems are inefficient and pay farmers less than they should, and cheat them. It then claims or implies that these problems will vanish with Fairtrade and cooperatives, which is a non sequitur. The Fairtrade literature does not refer to the standard literature on agricultural marketing which confirms that all marketing systems are inefficient in some ways and have some cheating, and that some systems are terrible, but presents tried and tested ways of investigating and reforming them. These reforms are examples of low-cost:high-impact aid, where an input of two or three person-months may double or quadruple the net cash income of millions of farmers—producing payoffs higher than the whole of Fairtrade. Marketing economists have to keep pointing out the facts. Marketing is more expensive than growing the crop and takes more skill. Where there are many traders competing, it is unlikely that they are in a ring, conspiring to reduce producer prices. The fact that there are many layers of middlemen does not imply unnecessarily high marketing costs; on the contrary, the many, small, specialised and flexible traders produce a product that is cheap and reliable—if this were not so, the large monolithic traders which handle all levels from farmer to supermarket would have forced them out of business. Cooperatives are traders which carry out the same marketing functions as other traders and these functions cost money. They have the same problems with dishonest scale operators, graders and buyers. The fact that they have a different ownership does not imply that they are lower in cost. The market does not operate in a markedly different manner because some of the traders are owned in this way. Nor do cooperative members necessarily have any more control than shareholders of other firms.

There has been an enormous amount of research on agricultural cooperatives in the last hundred years, by the government departments supervising them, by aid agencies and by academics. The experience is that when rich capitalist farmers set up marketing cooperatives and employ professional managers, they can be very successful. When small farmers who are ill-educated and have no business experience set up cooperatives, serious problems are common, even when professional managers are employed—it is easy for an educated clique to take over, and they, or the managers, can easily cheat illiterate and innumerate farmers. These problems do arise with Fairtrade cooperatives: see for example Utting (2009, p. 140), Jones and Bayley (2000), Mendoza and Bastiaensen (2003) and Berndt (2007). When, in addition, the cooperative has political objectives, problems are normal.

One example of research showing the problems with Fairtrade cooperatives is Mendoza and Bastiaensen (2003, p. 42) .

> A more detailed analysis [of a Nicaraguan Fairtrade Cooperative] reveals that the disadvantage is mainly the result of higher administrative costs; to a lesser degree disadvantageous access to local financial services also plays its role (Mendoza 2002, pp. 34–39). The crucial weakness in terms of administration costs is directly related to the co-operative model, which compares unfavourably with the decentralized brokerage system of the commercial network of intermediaries and local traders. The co-operative structure involves an expensive, top-heavy entrepreneurial hierarchy, including a large administrative staff and substantial representation costs for its leaders (12 in the case of Prodecoop). The administrative inefficiencies of such co-ops can be very serious: the Empresa Cooperativa de Cafetaleros Organicos de Nicaragua (ECOCOONIC), a quite promising co-operative of organic coffee producers with a turnover of 88000 tonne/year, went bankrupt in the 1990s due to the administrative inefficiency of the co-operative model

Cooperatives have received enormous support from governments, donors and NGOs over the years, in the form of cash, management support and market opportunities, but they have failed to maintain their market share, which suggests that they cannot always compete with normal traders.

The fact that cooperatives' accounts are audited does not mean they are honest: virtually all firms' accounts are. Any accounting firm that blows the whistle on corruption is likely to lose its clients very quickly. It is possible to analyse the operations of cooperatives to identify corruption and inefficiency, but in my experience it is physically dangerous, as exemplified my personal experience where the manager of an agricultural cooperative 'just looked me in the eye and said, "Mr Griffiths. In this country, you can get a man killed for $150—Jamaican."' (Griffiths 2003, p. 205). Researchers are seldom trained to do this sort of forensic accounting investigation. Ethical problems arise when they are reluctant to print their findings because of the law of libel, and because neither they nor their colleagues will get access to cooperatives or other firms for future research, if academics start exposing corruption.

Inevitably, some cooperatives are less efficient than some traders and pay lower prices, and some Fairtrade cooperatives are less efficient than other, non-Fairtrade, cooperatives. Fairtrade farmers have to stick with their cooperative, even if it is failing, while other farmers can switch to whoever pays the best price. This suggests that one should leave it to farmers to decide which buyer offers the best deal. The failure to do so is a design fault.

Do Fairtrade Farmers Get Higher Prices?

Do Fairtrade farmers get higher prices? The Fairtrade Foundation's basic guarantee 'A fair and stable price to farmers for their products' (Fairtrade Foundation 2011) implies that they do. If this were so, cooperatives would manage to pay higher prices in spite of spending most of the extra money on certification costs, business expenses, social projects and inefficient marketing. Even this would not necessarily mean that Fairtrade farmers benefited, with a higher net cash income, as they have to spend some of their revenue on paying the costs of conformity—higher expenditure on employed labour for instance. Fairtrade does not monitor the costs to the farmer of achieving Fairtrade certification, and I have not found any study of these.

Many anecdotes show that traders paid a higher price to farmers than Fairtrade cooperatives did, or that Fairtrade cooperatives paid a higher price, but very few of these anecdotes have any evidential value as they do not allow for the well-known practical and conceptual problems of collecting and analysing agricultural prices as described by Bowbrick (1988) for instance. Some examples of the problems that arise with the flagship product, coffee, will show the problems.

A single 'headline' price is quoted when there is a wide range of prices on the market. Traders may choose to compare their price for specialty coffees with the Fairtrade price for standard grades, while Fairtrade supporters may compare their price for the highest quality organic coffee with the traders' price for the very lowest qualities. In principle, one would like to compare the weighted average price for the mix of qualities produced on a 'representative' farm, but this begs the question of what is representative, especially since Fairtrade and non-Fairtrade farmers typically produce a different quality mix. And, of course, the mix of prices which is best for one producer may not be the best for others.

Coffee may be sold in different forms such as fresh cherry which would be processed by the trader or cooperative, as dry beans needing further processing, as parchment, etc. The price per pound is very different, even when the price of the final exported product, green coffee, is identical. Similar variations exist for most products.

In economics and marketing, it is normal to talk of the 'price package' of which the headline price, the cash payment, is just one component. For example, transport to the buying centre or factory, bags, inputs, sprays and credit may be provided free, in which case the headline price is low. An important part of the price package is the availability and price of production credit and the promptness of payment when the crop is delivered. The cooperatives may pay a higher headline price, and then make deductions. Traders buying tree crops may buy under a range of contracts, including a payment per tree at the beginning of the season, with the trader doing some or all of the fertilising, pruning, spraying, picking, packing, transport and processing, as well as taking all the risks of crop failure and price changes. In this case, de facto, the trader is the farmer and the peasant is the landlord. Farmers may quote any of these prices in a survey, and questionnaires should be designed to allow for the possibility that they quote prices that show they are being paid low prices. Typically, traders and cooperatives will have different headline prices even if the price package is identical. Anecdotes frequently compare prices at different levels of the chain.[2] It is formally impossible to calculate the 'real' price by regression, etc.

Cooperatives typically average prices over a season, so they pay less than traders at some times of the year, more at others. Their members are always tempted to sell to traders at some periods, so not much can be read into frequent reports that this happens. A further complication is that cooperatives may average prices over a season, and have returns based on long-term contracts with buyers, sales on the futures markets, or the actual prices when the product is shipped to Britain and sold there some time months later. They commonly pay part of the price on delivery, with added payments as they get export returns, so the payment at any time may refer to deliveries made in previous crop years. Traders are more likely to base prices on spot markets, and may even pay a spot price with the proviso that there will be a further payment if world prices rise later. Again, the date at which prices are compared is critical.

Many academic researchers refer to traders and middlemen as 'coyotes'[3] a pejorative term. The same researchers admit, without apparently noticing the contradiction, that private traders play an essential role in the market: they buy a range of products that the cooperatives do not handle; they buy qualities of coffee, say, that cooperatives refuse to handle (and, again, farmers have to sell all they produce to survive); they provide credit, sometimes at lower interest rates than the cooperative; they pay higher prices at times; they pay promptly, not at the end of the season; they provide an alternative outlet when cooperatives become too corrupt, so that farmers are not at the mercy of a single monopsonistic buyer. And the farmers often choose to sell to them rather than to the cooperative. These are all part of the price package, so the 'coyotes' are providing an important market and range of services even to those farmers who sell mainly to Fairtrade cooperatives.

A higher price does not necessarily mean a higher income to farmers. When most production of organic coffee is by members of Fairtrade cooperatives and the price of organic coffee is higher, then Fairtrade cooperatives pay a higher headline price. However, organic coffee has higher costs of production and lower yields, so, in some countries, organic farmers got substantially lower net cash incomes in spite of the higher headline price (Kilian et al. 2006, p. 327; Valkila 2009; Wilson 2009).

Bassett (2009) found that Fairtrade and non-Fairtrade cotton growers had to sell to the same ginnery, as it had a locational monopsony, and that the ginneries were in a national cartel, so neither group got a fair price.

The conclusion is that there is no evidence that Fairtrade farmers get a higher price than non-Fairtrade. There is no evidence that Fairtrade farmers get a fair price.

Ethical Implications

Again, the implication is that there is an increase in Death and Destitution, both because of money intended for farmers not reaching them, and because donors give money to Fairtrade rather than to charities that deliver higher proportions of the donations. Again there is Unfair Trading, both in the unsupported claims that Fairtrade farmers get higher prices and that they get a fair price, as well as in the suppression of evidence.

What Happens to the Rest of the Money

Any extra money not spent on achieving certification and business expenses may be spent on social projects. Some of the social projects are building local schools, clinics or baseball fields. Some of the projects are community (44% of expenditure on social projects), education (14%), environment (1%), health (10%), women's programmes (5%) and others (25%) (Fairtrade Labelling Organizations International 2010). It is acceptable within the Fairtrade

[2] One web page says that farmers 'are often forced to sell to middlemen who pay them half the market price, generally between 30-50c per pound. Fairtrade coffee sells for a minimum of $1.26 per pound.' (Organic Consumers Association 2007) This comparison is flagrantly dishonest. The Fairtrade price quoted here is the New York price. The other price is the price paid in a village in the middle of Africa. Both the independent middlemen and the Fairtrade middlemen have to pay the costs of assembly, processing, marketing and transport, as well as the export tax, so both pay the farmer much less than the New York price.

[3] e.g. Lyon (2009, p. 230), Garza and Cervantes (2002, p. 15), Cabañas (2002, pp. 3, 19, 22, 24, 29), Aranda and Morales (2002, p. 15), Boersma (2002, pp. 6, 8, 20), Lyon (2002, pp. 4, 21, 23, 31), Escalante (2001), Mendez (2002, p. 20), Taylor (2002, p. 2), Milford (2004, pp. 49, 52, 55, 58), Ruben et al. (2009), Murray et al. (2003, p. 7), Johannesen (2008, pp. 108, 110, 115).

ethos that all the extra money is spent in this way and that none is passed on to farmers.

Fairtrade does not control what the cooperatives do with the money or measure its impact. There is almost no published information by researchers on what extra money individual cooperatives get, and how much money they spend on each activity. There have been very few attempts at measuring the impact but, even if one ignores the methodological problems with these (which are discussed in a later section), it is not possible to take a tiny number of case studies of selected successful cooperatives, nearly all producing coffee, and to generalise the results to 3,000 producers supplying thousands of products.

There is no reason to assume that projects organised by cooperatives will have a greater impact than ones delivered by those aid organisations or governments which have a strong professional skill base, backup, resources and experience. Most aid projects also have economies of scale as they aim to help all farmers in a district, province, or country, not just the few hundred Fairtrade farmers. Agricultural economics and marketing interventions at sector level, industry level or crop level, for instance, typically help millions of people, and can be low-cost:high-impact. The Fairtrade projects are not low-cost:high-impact. There is a worry that the benefits of social projects may accrue mainly to the families of committee members and managers of the exporting cooperative, less to the families of committee members and managers of primary cooperatives, and least to the farmers.

Ethical Implications

This section has shown Unfair Trading. The label should have another sentence, ‘We have no evidence that any of the extra money you pay will produce any benefit to farmers’. It shows that the Fairtrade Foundation’s basic guarantee ‘A fair and stable price to farmers for their products’ (Fairtrade Foundation 2011) is not, and cannot be, supported by the evidence.

Fairtrade Harms Non-Fairtrade Farmers

Fairtrade claims to help Third World farmers. If it harms any farmers while it is helping others, it certainly achieves less than it claims, and it may have the net overall effect of harming Third World farmers. The harm is aggravated if the farmers harmed are poorer than the farmers helped. Under the first set of criteria, this would be unethical, increasing Death and Destitution. Under the Unfair Trade criteria, Fairtrade is unethical if it does not tell consumers just who it is helping and who it is harming, and if it does not say whether the net impact is positive or negative.

Any impact study is meaningless if it does not take into account the possibility that the Fairtrade farmers studied in a case study are better off solely because Fairtrade chose to work with farmers who were already better off, or because Fairtrade harmed the other farmers.

Fairtrade Helps the Richer Farmers

Fairtrade concentrates its efforts on relatively rich farmers. Importers buy from the cooperatives that are efficient and can provide the qualities required at the time required and handle the paperwork. Inevitably, the most healthy, skilful and educated farmers are most likely to do this, and they are the richest. The cooperatives with these farmers find it easier to meet the criteria of Fairtrade, to do the paperwork required and to make the investments involved. Farmers who do not wish to market through the local cooperative are excluded, as are older farmers, unskilled farmers, farmers who do not have access to research, marginal farmers, those in geographically remote or ecologically marginal areas, those who have less ability to pay for their labour or those who do not have suitable cooperatives in their neighbourhood etc.

Two thirds of the Fairtrade premium goes to middle income countries in South America and the Caribbean (Fairtrade Labelling Organizations International 2010). But Mexico, one of the main Fairtrade supplying countries, has 70 times the GNP per head of Sierra Leone. The minimum wage of agricultural workers in Peru is $3 per day—unimaginable riches for many African and Asian farmers.

Few people would be upset that a charity gives money to the rather better off rather than the very poor, as long as the donors are told to whom the money is going—this distribution of charity may not be ‘optimal’, but it is a step in the right direction. Few would be upset that a charity helps the poor in Britain, say, even though they are rich by international standards, as long as it is very clear about the intended beneficiaries. Not telling the donors would be Unfair Trading.

Some charities specialise in a single issue or a single technique, like Water Aid. If these allocate resources to get the maximum impact, they will complement the other sources of aid and charity.

Once an organisation sets itself up as an expert in the Third World, helping Third World producers, as Fairtrade has, donors have a right to believe that it will allocate scarce resources rationally to get the maximum impact for the stated intended beneficiaries, or that it will tell them if it has other objectives. These ethical decisions on where to allocate funds are made routinely and constantly by governments, the major aid agencies and aid workers. In my book (Griffiths 2003), I show that, as an economist working on agricultural and food marketing in the Third World, I am constantly faced with such problems. I often know that people will die whatever course of action I recommend—there are not sufficient resources available to prevent deaths—and someone has to decide who will die, and how many of them.

The Honeypot Effect

Fairtrade enthusiasts claim the 'Honeypot Effect' as a major benefit, that other organisations give money to cooperatives, just because they are Fairtrade. It is very tempting for an NGO, government, agency or donor government to deliver aid or charity through a cooperative that is already well managed, that already gets aid from other agencies, that has skilled and educated members, and that has a comfortable rest house for visitors. It is easier and faster to deliver health and education to a cooperative that has already spent a little money on building a clinic and a classroom, with the donor providing staff, equipment, books and medicines. It means that demonstrable results are easier to achieve in the short run. Fairtrade cooperatives expect to get funding from six to twelve other organisations.[4] This means that money is diverted away from the neediest, causing Death and Destitution. The same ethical problems arise if the effect is reversed, if Fairtrade chooses to work with those cooperatives that have rich and skilled farmers precisely because they already get aid from six to twelve other donors—a much more likely scenario.

Reduced Mobility

If, indeed, Fairtrade farmers are paid more for their coffee, these rich, skilled, farmers are less likely to switch into other crops which make better use of their skills and resources. This reduces the opportunities for very poor marginal farmers to take their place.

Pushing Down the World Price

This subsection assumes that Fairtrade farmers are in fact getting the higher prices claimed, and examines the impact on other farmers.

If Fairtrade farmers are paid a higher price and if they have a guaranteed minimum price to reduce risk and increase expected price still further, they will increase production. Fairtrade and its enthusiasts claim that the proportion of the premium spent on agronomic advice substantially increases yields and reduces unit costs, providing an incentive to increase production in addition to the strong price response normally expected with coffee. The world market price for coffee is famously inelastic, so a 1% increase in supply could lead to a 5% fall in the New York price. A coffee programme in Vietnam in the 1980s and early 1990s paid farmers above the world price, so its coffee production increased a hundredfold in the 16 years, from 1980/81 to 1996/97.[5] A subsidised price for a few farmers halved the prices the other 24 million farmers received.

But this was the New York price, not the farm gate price. When the New York prices fall, the percentage fall at farm gate is much higher, because costs like road transport, shipping, processing and packaging are a fixed sum of money per pound. A 10c fall in the New York price means a 10c fall in the farm gate price, which means that the net cash income of marginal farmers falls to zero—and these are the poorest farmers anyway, those who get the lowest prices in good times.

Similarly, the minimum price for Fairtrade farmers means that when there is a glut on the world market it is never the Fairtrade farmers who have to cut down their trees, always the poorest farmers.

Knocking Competition

There is a constant stream of marketing, advertising and propaganda attacking other marketing systems directly or indirectly. This must convince many consumers that these systems are evil, and it is a small jump to thinking that the products marketed are evil. And consumer demand for coffee has certainly fallen over the last 20 years. This has also damaged the development of niche markets for specialty coffee which can pay farmers as much as three or four times the Fairtrade price. Traders claim that their markets for high-priced specialty coffee have been seriously damaged because consumers think it is more ethical to buy cheap Fairtrade coffee.

Fairtrade claims to be the only true ethical trading organisation.[6] It is at least possible that other multi-issue

[4] Murray et al. (2003), Valkila (2009, p. 3024), Utting (2009, p. 141), Ronchi (2002), Luetchford (2006).

[5] International Coffee Organization statistics. There is an urban myth that this overproduction was caused by funding from the Asian Development Bank, and, in particular, the World Bank. In fact, the US veto on multinational loans to Vietnam meant that Vietnam was excluded from World Bank and ADB lending until 1993 (ADB 2010) (US Department of State 2010). The World Bank only began lending again in the rural sector in Vietnam after 1996 (World Bank 2010). It would normally take 4 years from planting of coffee to harvest, 6 years to full harvest.

[6] Fairtrade is at pains to distance itself from other 'ethical trading' organisations which may not have the same problems and which could be far more effective: 'The most high-profile examples included the Rain Forest Alliance, Utz Kapeh (at Ahold supermarkets), and the Common Code for Coffee. However, it is important that consumers realize that these labels are not analogous with Fairtrade and that the latter is the only market-driven mechanism that offers real positive impacts for disenfranchised producers' (Nicholls 2008).

ethical traders are more effective, and that a range of single issue groups are more effective than an organisation with no clearly defined objectives. The possibility that the Rain Forest Alliance, for instance, might be more successful in raising environmental standards and that it might be a more cost-effective way of achieving objectives is ignored.

There are also worries that Fairtrade is conflated with Trade Justice, a very different movement, and that this confusion is encouraged in Fairtrade's publicity.

Diversion of Aid and Charity

The Fairtrade industry diverts aid and charity from higher impact projects. It gets gifts from governments, local governments, firms and individuals. It makes use of volunteers. It makes use of teachers who might otherwise be teaching the truth about the Third World. Some people regard Fairtrade as their one charitable donation.

Ethical Implications

The Fairtrade industry certainly harms other farmers, especially the very poor. It is not a zero-sum game, with the benefits to one group exactly matching the costs to the other, partly because one group is nearer death, but also because the elasticity of demand for coffee means that paying Fairtrade farmers a bit more can devastate 24 million others.

Impact Studies

Farmers incur costs in time and money in order to get Fairtrade certification, but it has been shown that little of the premium is passed on to them in cash, and there is no evidence that they get higher prices. This section examines claims that, in spite of this, impact studies show that they received benefits in some way.

The formal monitoring and evaluation process for aid projects carried out by the aid agencies has two strands. First, there is strict monitoring of where the money goes and how it is spent, down to the level of each constituent project, which is not the case with Fairtrade. Second, there is evaluation to identify and quantify any impacts, positive or negative. Any evaluation should be rigorous, where failures can cause Death and Destitution. A meaningful impact study of Fairtrade must address the issues identified in previous sections. (Valuable and rigorous research has been done which does not purport to be an impact study, and which may not, therefore, address all these issues.)

First, the impact study must identify what extra money was received by the exporting cooperative. Then, it must identify what the cooperative spent its money on, according to the accounts, which is simple, and what it actually spent it on, which is more difficult, and may be dangerous. This prevents the researcher from claiming benefits from a school, say, which was not built, or which was built or operated by another organisation. The actual number of days input from the Fairtrade Labelling Organisations' advice should be set down.

The Honeypot Effect makes it impossible to say which of the organisations produced any impact that might be noted in an impact study. A meaningful study would have to identify and measure the inputs of other organisations, NGOs, donor countries, aid agencies and government, etc. For example, claims that the introduction of organic coffee to Nicaragua was an impact of Fairtrade cannot be sustained, given that four specialist organic organisations can be shown to have had a significant effect (Valkila 2009, p. 3019), and some support would have come from government and the aid agencies. These other inputs do not appear in the accounts of the cooperatives, so identifying and quantifying them is a substantial task. And, of course, the conclusions that are drawn depend on whether or not these interventions also impact on the control group.

The costs of achieving certification are an unavoidable negative impact. The costs to the different levels of cooperatives, including certification and inspection fees paid to the Fairtrade Labelling Organizations International, can, in principle, be obtained from the accounts. The costs to farmers, in higher wage bills and extra time spent weeding instead of using herbicides, for instance, may be guessed at if there have been substantial farm management studies for the crop, studies including the measurement of labour inputs. Such studies are rare. Even here expert advice on interpretation is needed (e.g. what is the 'value' of family farm labour?).

It has been shown above that it will generally be difficult to compare prices, and that significant conceptual problems arise which may make it impossible. The alternative of trying to identify economic impacts through changes in income is expensive. Farm management studies are required, rather than statements of 'income' if income changes are to be related to specific interventions. This is the approach used by aid agencies. Interpretation is difficult: as has been shown above, Fairtrade buyers typically go to cooperatives with skilled, educated, healthy and relatively rich farmers who get high prices because they can deliver consistent supplies of the qualities demanded, and these farmers will still be skilled, educated, healthy, relatively rich and achieving high prices even if Fairtrade has no economic impact.

In the case of coffee, world prices have been rising since 2002, so any farmers asked will report an increase in prices over a period which may coincide with the time they were Fairtrade members. The relative prices of Robusta and Arabica, say, on the world market are constantly changing, which could give the false impression that one group of farmers was doing relatively well because they were, or were not, members of a Fairtrade cooperative.

It follows that any meaningful study must (a) cover the situation before and after the cooperative joins Fairtrade and (b) have a control group of non-Fairtrade farmers. The problems are well recognised, and baseline studies with control groups are standard for international aid. However, the design of the Fairtrade system means that this raises horrendous sampling problems, expensive to tackle in all cases, and impossible to tackle in many situations. For example, should the controls be matched for income, education, family size and farm size, etc.? Should they be matched for location, especially rainfall, soils and transport to market etc.? Should they be matched for cooperative membership? Griffiths (2010) shows how these problems invalidate one attempt at an impact study.

If it is found that Fairtrade farmers are relatively better off than others after 5 years, it may mean that Fairtrade has harmed the others in some of the ways mentioned or it may mean that other factors have come into play, a change in the relative prices for some qualities, perhaps, or a drought in areas with no Fairtrade cooperatives perhaps.

This means that it is impossible to do a meaningful impact study in most situations, especially when the opportunity to do a baseline study has been missed. In nearly all other situations the cost of doing a meaningful impact study is prohibitive, more than the average Fairtrade premium received by a cooperative.

Fairtrade money is spent on social projects which may not produce any economic benefit. This means that studies which have attempted to find an impact have selected indicators like 'organizational strength of producer cooperatives, individual self-confidence' (Nelson and Pound 2009, p. 6), 'wellbeing' (p. 8), members who 'recycle organic wastes' (p. 9), 'development of a new entrepreneurial spirit' (p. 14), 'improvements in school attendance' (p. 14), 'increased confidence and self-esteem' (p. 14). Even if these indicators had been selected before doing a baseline study, one would ask, 'Why these? Would other indicators be less favourable to Fairtrade?' If they were not, one must wonder if they were part of an attempt to find some indicator that put Fairtrade in a good light. Using such indicators raises new methodological problems, in addition to those mentioned above.

The fact that these problems exist is not an excuse for the failure to do impact studies, rather it is the serious failing of setting up a charity/aid system for which no monitoring or evaluation is possible, which is contrary to the ethical criteria of reducing Death and Destitution and Unfair Trade.

I do not know of any attempts at impact studies that address any of these problems. The British government-aid organisation, DfID, which has given millions to Fairtrade, admitted in a Freedom of Information enquiry that the division responsible for Fairtrade and ethical trade holds no evaluations of any sort whatsoever. In Fairtrade's own *Comprehensive Review of the Literature on the Impact of Fairtrade* (Nelson and Pound 2009), the authors, who have worked on Fairtrade over a dozen years, were able to find only 23 reports containing 33 separate case studies which they would accept as impact studies. They say 'All of the reports are published academic and development agency studies, including journal articles, working papers and reports,' (p. 4) but, on examination, it is seen that they include an undergraduate dissertation; a master's dissertation and a PHD thesis whose authors do not wish them to be published or disseminated; the same paper cited under two different references; reports written by employees or members of Fairtrade cooperatives; a paper cherrypicking from other, unobtainable, studies; and repeated studies of the same, successful, cooperatives. The standard survey reports are not available, so it is not possible to answer the standard questions: 'Was the survey carried out at all?', 'Was the methodology, including the sampling, valid?', 'Do the data support the conclusions presented?', 'Do the data support alternative conclusions?' The reports do not address the issues raised here. Even if the results were meaningful, it would be improper to generalise from a tiny number of case studies of selected successful cooperatives to 3,000 Fairtrade suppliers.

Political Objectives

The failures of Fairtrade identified above arise from the fact that the headline objective advertised to customers, 'A fair and stable price to farmers for their products' (Fairtrade Foundation 2011), is not the main objective of many of its founders and managers. The main objective was political and could not be achieved using tried and tested methods of getting charity from the donor to farmers.

As shown above, the adoption of market-based delivery of charity has meant that businesses in rich countries and cooperatives in poor countries could take most of the money donated. It has also made it impossible to monitor and control what happened to the donations. Because farmers are coerced into selling through cooperatives, they are tied to possibly inefficient buyers, and cannot sell to the buyers offering the best price package.

This marketing system has also increased opportunities for corruption. Theft and corruption can make markets inefficient, so that less and less of the retail price reaches the farmer and price signals are obscured. Markets sometimes collapse as a result. For this reason, both the governments and industry organisations like the stock exchange try to set up marketing systems which minimise the opportunity and temptation to steal: they nurse them into existence and then tend them carefully. Reducing the temptation and opportunity is more important than detecting and punishing theft, which both governments and stock exchanges find difficult. The ethical aim is not just to protect individuals from theft, but to protect everyone using the market, directly or indirectly.

The Fairtrade system provides more opportunities for theft than normal marketing systems. It uses the same retailers, wholesalers, packers, importers and commodity markets as the normal system. The big increase in the possibility of corruption arises because payments are not linked to observable product quality, but are a subsidy. If there is a subsidy of, say, 10% of the total price, then market intermediaries can steal anything up to 10% and still leave the intended recipients slightly better off and afraid to complain in case they lose the rest as well. For example, subsidised credit schemes often mean that farmers have to bribe the credit officer, bringing the true cost in line with the moneylenders' interest rate.

With normal charity, it is possible to have strict financial controls.

The Ethics of Politics and Aid

The code of ethics for aid workers requires that we do not indulge in politics. Any employee of the international agencies who did would be fired instantly. There are many reasons for this. It is likely to mean that we lose sight of the goals of our project and it fails. Local politicians or intended beneficiaries who dislike our politics may sabotage our project. Donors, whether governments or individuals, will be reluctant to finance aid if any significant proportion is seen to be supporting a political agenda they do not support, or prioritise. If one aid worker has a political agenda, it taints the reputation of all aid workers in that organisation and perhaps other aid organisations as well. The use of aid as a weapon of war in Iraq and Afghanistan has meant that aid workers are now seen as legitimate targets (for the first time in my life) and that even workers for the Red Crescent and the UN, which are not involved in the war, have been killed. It is arrogant in the extreme for someone who happens to be allocating charitable funds to use the economic power that this gives to force their politics on peasants.

Some charities are set up purely to achieve political objectives, and many of the objections fall away if the donors and people in the recipient country realise this. However, getting locals to adopt your political ideas and assert what you think are their democratic rights may get them imprisoned or murdered, while you, as a foreigner, merely get deported. And experienced aid workers know that it takes them years to get some inkling of how a country's political system really works—in one case it was widely believed that a country was pro-capitalist when it was Stalinist (Griffiths 2003, p. 83). The residents of the recipient country may well consider the charity to be patronising and an abuse of economic power. Local politicians will be hostile to a charity which is a front for a political organisation which threatens them personally, or their ideals, whether the charity supports US democracy, Scandinavian social democracy, Al Qaeda or Marxism—each of which is unacceptable in many countries. A certain political content seems to be acceptable with government-to-government aid.

The Political and Marketing Revolution

The objectives of Fairtrade, as shown by what is done rather than what is said, appear to be

1. To build a new and sustainable marketing system that is fair and is better for Fairtrade farmers, which they assume to be a system based on agricultural marketing cooperatives.
2. To change the world economic system, towards cooperative marketing.

It is not suggested that these are consistent.

These objectives mean that Fairtrade has to deliver the charity through the marketing system rather than through tried and tested charity systems, and it must deliver through cooperatives rather than possibly more efficient private traders, with the intention of promoting democracy and increasing the political and economic power of poor farmers. In addition, it wants to promote standards for national governments (e.g. on trade unions and minimum wages), for cooperatives (on democracy and openness) and for farmers (on environmental cultivation, health and safety, and the role of women and children for instance).

Historically, these objectives and the design of the system appear to have been derived from a desire for a political and marketing revolution. According to Boersma (2009), who is credited with founding the Fairtrade system, and others who agree with him (e.g. Audebrand and Pauchant 2009; Gendron and Rance 2009; Reed 2009; McMurtry 2009), the belief is that this will lead to a new, non-capitalist, economic system. Indeed, it appears to imply a political and social revolution in South and Central America. This belief is not supported by political or economic analysis and there is no economic model of how such a system could work. No use is made of the vast amount of academic research and practical experience of agricultural marketing and cooperatives: evidence which is not challenged, nor assumed away, just ignored.

Similarly, the evidence does not support the belief that producer marketing cooperatives will lead to a political revolution. The colonial project of the British Empire used cooperatives as one way of making the colonies economically viable, of training the people in democracy and of enriching poor farmers, in order to create economically viable, self-governing democracies within the Empire. The cooperatives were usually successfully run, partly because of the support of colonial officers who advised on management, checked the accounts and prosecuted managers from time to time. The trade was strongly supported with Buy Empire Products campaigns and with trade policy, first Free Trade, then Imperial Preference, then the Sterling Area. In practice, the cooperatives were not successful in ensuring democratic rule after independence, let alone a socialist revolution. The communist states of Eastern Europe built on the successful, pre-revolution, Imperial cooperative movement, but their cooperatives were so hated that foreign advisers are now warned never to mention the word ‘cooperative’ in these states. In Albania, members of cooperatives celebrated the downfall of communism by pulling down the cooperative buildings and dividing the bricks between members. Again, they did not produce democracy. Those European countries with a large number of successful producer marketing cooperatives, like France and the Netherlands, are not noticeably more democratic than their neighbours.

Another ethical problem is that many of the key players do not believe that a revolution is desirable, not the customers, nor the supermarkets and manufacturers, and possibly not the farmers. Some people who do think revolution is desirable would like it to be achieved in other ways, or to have a different revolution.

The Unfair Trading criteria suggest that, at the least, everyone should be told that this is an objective, and that it hampers the achievements of other objectives.

Standards

Cooperatives have to meet political standards to get Fairtrade certification. This section shows that the standards divert money from farmers and can harm them. There are weaknesses in the design and enforcement of the standards.

Fairtrade pays the social premium as a bribe (in the welfare economics sense) to coerce farmers and cooperatives to adopt standards which would not otherwise have been adopted. The bribe may be to cooperatives and their managers to get them to force farmers to adopt standards for which they get no benefit, not even the bribe. It would not be feasible to bribe individual farmers.

The standards set by Fairtrade are not universally supported even in the rich world (though I, personally, would support some of them as political objectives in my own country) and it is arguable that they are inappropriate for very poor countries. The requirement that Fairtrade farmers pay higher wages for seasonal workers is fine as long as the crop is still profitable: if it is not, it means reduced production and income for the farmer, and reduced local employment for seasonal workers (Valkila 2009, p. 3023). There is no reason to believe that Fairtrade gives higher prices to farmers which would make it possible for them to pay the higher wages. Poor farmers have no access to contraception and so have children to feed. If these children are to survive, they must work on the family farm. Fairtrade’s prohibition of child labour is fine if they pay the farmers enough extra to feed the children. They do not. Farmers complain that Fairtrade imposes environmental standards, on the use of herbicides for example, that almost no farmers in rich countries meet. These standards, they complain, are inappropriate for the producing country—how could someone in Switzerland draw up standards equally applicable to 70 countries with different climates, ecology and crops. The banning of herbicides also forces poor farmers to do weeks of backbreaking work in hot, humid, conditions to make people in rich countries feel better about themselves (Utting-Chamorro 2005; Moberg 2005).

Design of Standards

Quality experts talk of ‘inspector quality’ when quality control inspectors draw up a tick list of factors that are easy to measure but may have little to do with the quality of the product to the consumer or anyone else. Peter Fraser, author of *CQI Body of Quality Knowledge*, is critical of the design of the Fairtrade standards:

> To me they need to set clear overall objectives and policies for the movement, decide how they will achieve the objectives and comply with the policies, then say as little as possible about how people should go about it while ensuring that the overall objectives and policies are achieved and complied with. The suppliers are the last group of folk who will want to comply with detailed regulations. (Personal communication 2009)

It is a basic result of the economics of quality that the more criteria that are introduced for a grade, such as Fairtrade, the less likely it is that the grade will actually reflect the quality of any buyer or anyone else (Bowbrick 1992). And Fairtrade has lots of criteria. (This is another reason why single issue charities may be more effective.)

Enforcement of Standards

Fairtrade is a credence good. As with ‘kosher’, ‘free range’ or ‘organic’, customers cannot see whether it meets its specifications, and independent monitoring is needed to prevent Unfair Trading and, indeed, for the market to exist at all. Fairtrade Labelling Organizations International spends very little on this, less than 1 m Euros per year, (Fairtrade Labelling Organizations International 2010) and they charge the cooperatives for this.

> There are only 54 inspectors around the world, working on a part-time freelance basis to check and control a million producers. These checks do not take place on the ground but in offices, hotel rooms or even by fax, (Christian Jacquiau cited in Hamel 2006).

Paola Ghillani, who spent 4 years as president of Fairtrade Labelling Organisations is equally critical (Hamel 2006). She says that Max Havelaar (a European brand name of Fairtrade) is seriously weak when it comes to checks (Hamel 2006). There is a lack of proper controls amongst smaller producers according to Ghillani (Hamel 2006). There are many complaints of poor enforcement problems: Fairtrade does have quality problems (Lamb 2008a, b, p. 41); labourers on Fairtrade farms in Peru are paid less than the minimum wage (Weitzman 2006a, b); some non-Fairtrade coffee is sold as Fairtrade (Weitzman 2006c); 'the standards are not very strict in the case of seasonally hired labour in coffee production.' (Valkila 2009, p. 3023); 'some fair trade standards are not strictly enforced' (Reed 2009, p. 12); supermarkets avoid their responsibility (Moore et al. 2006).

The Creation of Ignorance

Proctor's (2008) work on agnotology, the study of the cultural creation of ignorance, shows how the tobacco industry replaced certainty—the clear scientific evidence that smoking causes cancer and heart disease—with doubt and ignorance on the matter amongst the general public and legislators. In the UK, ignorance about Fairtrade in the form of wildly unrealistic beliefs held by the general public and volunteers, has been created in a somewhat different way, largely by giving people the freedom to fantasise about Fairtrade, and encouraging them to do so. The beliefs may be held by employees of the Fairtrade organisations, by the manufacturers and supermarkets, and their employees, and by public relations and advertising staff selling the message as they understand it. Also important are the volunteers, activists, teachers and clerics etc. who promote it. And eventually it is the consumers who process what information they have to reach their own conclusions and tell their friends. Unquestionably, the Fairtrade advertising and public relations campaign has been very successful.

Concealment

As with tobacco, the concealment of information by the industry is the first step. Fairtrade should tell consumers, 'We do not know how much extra you are paying, but in some cases 90% to 99% is pocketed by businessmen in rich countries as extra profit. On average less than 1% of the retail price is spent on social projects in the Third World, but we do not know if farmers benefit from these. We have no reason to believe that any money reaches farmers in the form of higher prices, though farmers certainly incur extra costs to get Fairtrade certification.' The ethical position is that it is Unfair Trading when

> a trader hides or provides in an unclear, unintelligible, ambiguous or untimely manner such material information… or fails to identify the commercial intent of the commercial practice if not already apparent from the context, and where, in either case, this causes or is likely to cause the average consumer to take a transactional decision that he would not have taken otherwise. (European Commission 2005)

The Fairtrade organisations, both UK and International, give a lot of publicity to the rapidly growing total retail value of goods bearing the Fairtrade label. They have repeatedly failed to publicise the actual amount reaching the Third World, though they routinely collect the figures when collecting their fees.

Similarly, the figures I have calculated on how much is spent on business costs, women's projects and environmental projects used information not available in previous years. If it had been communicated effectively, it is difficult to believe that there would have been the widespread belief that the money goes to Fairtrade farmers in the form of higher prices, or that there were substantial environmental projects. The information presented in the Annual Report is not evidenced, sourced or explained: it could be a guess, it could come from a survey, or it could come from the actual accounts of export cooperatives, in which case Fairtrade Labelling Organizations International have vastly more information than they care to release, information which independent researchers could usefully analyse.

There is also a widespread belief that the Fairtrade organisations have a large team of expert advisers who give their suppliers a level of advice not available elsewhere on prices, marketing, processing, accounts, management, agronomy, etc.: there are mentions of this advice in their literature and supporters claim it. But Fairtrade Labelling Organizations International does not say just how many people they employ on this and what they do. To give this range of advice for a large number of suppliers in 70 countries speaking English, French, Spanish and Portuguese etc., it would necessary to employ short term experts.

If they are employed at the standard rates paid by the aid agencies—and the claim is that they are better than the standard experts—it is unlikely that the budget for 'Producer Services & Relations' (Fairtrade Labelling Organizations International 2010) could pay for as many as 20 person years, spread very thinly indeed over the large number of suppliers. And it is by no means clear from the accounts that all this money is spent on this. While Fairtrade Labelling Organizations International claims that they will provide the full accounts on request, they do not do this, so a fuller analysis is impossible.

Much of what does appear, on Fairtrade websites for instance, is extremely difficult to locate, or obscurely written.

False Information

Some of the statements made by Fairtrade organisations, manufacturers and retailers and their staff are false or cannot be supported by the evidence, on how much reaches the farmers for instance.

Another concern is the use of soundbites. Fairtrade UK makes strong use of a photograph of a smiling Third World farmer with a quote such as

> With Fairtrade small farmers have been transformed from marginalised farmers into businessmen—Amos Wiltshire, Windward Islands Farmers Association (WINFA) Dominica

> As well as receiving a higher income, the money enables us to fund projects such as computer courses for young people and adults—Reginaldo Vincentim, Coagrosol Co-operative, Brazil.

> For us Fairtrade means conserving and improving our land and looking after the environment, it means improving the air that we breathe. It means education for our children and access to healthcare for our families… it means better opportunities above all for women, opportunities to organise and take decisions. Fairtrade means that producers and consumers work together for a better life. Fairtrade is much more than just a question of money—Blanca Rosa Molina, Rosa Molina, Cecocafen Coffee Co-operative, Nicaragua.

> We have taken our destiny into our own hands. Through Fairtrade and Kuapa we now have a lot of progress. We have good drinking water, toilet facilities and schools—Comfort Kwaasibeam Kuapa Kokoo Union, Ghana.

> Fairtrade means more security, a bigger say and a better life for ourselves and our families—Raymond Kimary, Kilimanjaro Native Cooperative Union (KNCU), Tanzania

These may be seen as an invitation to readers to believe first that these are a true and verifiable statement of the facts relating to that farmer's cooperative, and, second, that it is reasonable to generalise from a single statement to all farmers and all cooperatives.

Similarly there is cherrypicking of evidence: giving the correct statement that one cooperative has spent money on a clinic, another on a school, another on an environmental programme, and leaving it to readers to conclude that all cooperatives do all these.

Failure to Correct False Information

There is a failure by the Fairtrade organisations to correct false statements made by their own staff and by the manufacturers and retailers selling Fairtrade products. And there is a failure to correct the false impressions that its volunteers, supporters and customers have fantasised.

This is particularly worrying because Fairtrade responds rapidly to any criticisms in the press. And the quality of their response is even more worrying. An ethical organisation might be expected to respond, 'We have investigated the complaint. It is incorrect for the following reasons… Here is the evidence.' Or 'We have investigated the complaint. We have prosecuted the manager concerned and removed certification from one of the traders. Here is the evidence.' Instead, the response is soundbites attempting to divert attention from the problem. Sidwell quotes 'Lamb (2008a, b, p. 114), where she lays out some of the large-scale charges made by Fairtrade's critics, and then answers with an anecdote from one Fairtrade producer, "But Merling is unequivocal: Fairtrade has changed the lives of the farmers in her cooperative".' Other examples are Fairtrade's reply to Sidwell (Fairtrade Foundation 2008), Lamb's (2008a, b), reply to my (2008) article, Lamb (2006), Newman (2006), and Fairtrade responses to Christian Jacquiau's (2006, 2007) 500 page critique (Doussin 2007; Hamel 2006).

Conclusion

This paper set out several Utilitarian ethical criteria: that it is unethical to increase Death and Destitution, and that it is unethical to use Unfair Trading practices, both because it permits the increase of Death and Destitution, and because it could damage the credibility of charities.

An alternative use of the donation would be to send it to the Third World, to help the very poor, those on the verge of starvation, in which case it would cut Death and Destitution. Instead, a minimum of 50% of the donation stays in rich countries and in some cases more than 99% does. Much of the money that does reach the Third World goes on the costs of Fairtrade conformity and certification. Most of the rest goes on social projects. There is no evidence from impact studies that these benefit the Third World. There is no evidence that Fairtrade gives what they promise, 'A fair and stable price to farmers for their products'. Fairtrade concentrates on the relatively rich, and there is reason to believe that it harms other farmers.

Many of the weaknesses in the system arise from the political objectives of some of its founders. The aid workers' code of ethics would not permit this.

It can be argued that this system is only possible because the Fairtrade industry makes false claims and suppresses significant information, which constitutes Unfair Trading. This has created the very effective marketing situation where consumers, supporters and volunteers are given the freedom to fantasise about what Fairtrade achieves.

The Unfair Trading criteria suggest that Fairtrade goods should be clearly labelled 'This product costs *x* pence more than the equivalent non-Fairtrade product. Of this, *y* pence (z %) goes into social projects, but we have no evidence that these produce benefits to the farmers. We have no reason to believe that any extra money is paid to farmers, though they certainly incur extra costs to get Fairtrade certification. Non-Fairtrade farmers are harmed. We spend much of the money trying to create a non-capitalist political and economic system, which is set out on www.politicalagenda.com.'

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