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Business Ethics Group

Project

Fair Trade

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Do labels matter?

Yes, they matter because of the principle they represent. Fair trade is based on the idea of working with the market system (which is one of two systems we have). There is the market and charity) to create better outcomes for farmers. This, in turn, is based on the idea that handouts don't work.

Allowing people to trade their way out of poverty allows them dignity, and therefore an incentive to be productive, that accepting hand-outs strips away. ✓

Unscrupulous people can use labels to sell product that is not created in the spirit implied by the label.

As a consumer, would a "Fair Trade" label influence your purchases?

Over time the "Fair Trade" concept has been diluted. There are people who do not adhere to the spirit of "Fair Trade" but instead comply with the minimum requirements to acquire "Fair Trade" certification to achieve higher prices. As consumers, we are influenced by the concept behind "Fair Trade", however, a "Fair Trade" label alone is not enough to sway a purchase decision. The authenticity of the practice that underpins the brand also influences our purchasing decisions.

evidence?

Products labeled "organic" have undergone a similar dilution process to "Free Trade" products whereby the value of the label has been diminished as a result of broad application. Consumers use factors like price and packaging as indications of "organic" or "Free Trade" credentials, as well as the label. For example, the supermarket chain Coles has a range of organic products labeled "Coles Organic". In order to be labeled organic consumers know that the producers of these products must meet certain minimum "organic" standards, such as not using pesticides. These products are sold in supermarkets at a fraction of the cost of other organic products. As a result, consumers conclude one of two things. Either organic farming is much easier and cheaper than we have been lead to believe or that these products are not "as organic" as some other products.

Complying with the minimum standards to meet "Free Trade" or organic certification without engaging in the ideology behind these ideas is insufficient to convince us to pay a premium for these goods. Free-range eggs provide a good example. Imagine if a farmer were to keep chickens in horrible conditions where their lives were barely worth living, perhaps by treating them cruelly. If he allows them access to a yard, he may still meet the minimum requirements to allow him to sell his eggs under the "free-range" label. In this example I would not want to pay this farmer a premium for his "free-range" eggs. I cannot, however, differentiate this farmer's eggs from all the other eggs labeled free-range. If I were to find out about this farmer's practices and because I can't tell which eggs are his eggs, this information may lead me to conclude that it is not worth paying a premium for any free-range eggs because? If I suspect that lots of eggs under the free-range label are produced this way, I might reason that I might as well buy cage eggs. They are cheaper and the free-range birds (in this example) are also treated with cruelty and therefore I am not helping the birds by paying more, which was my intention when paying extra for free-range eggs. I am just making farmers richer. We buy free-range eggs because we believe that the birds that have produced these eggs have a better life than cage birds. This example illustrates that it is the principle behind the idea that is important to consumers. *perhaps - you need evidence/surveys/etc.*

Labels indicate that the producer has met the minimum standards required to be able to sell their product under that label. As consumers, we rely on other signals to determine how "Free Trade" or how "organic" these items are. For example, a hand-made package that has obviously been produced without the aid of sophisticated machinery might add to the product's "Free Trade" credentials. News items and other media may also affect our purchasing decisions. For example, the Sydney Morning Herald reported, "ONE in six free-range eggs is not what it seems...it is doubtful enough free-range layer hens in the country exist to produce the number of eggs labeled free-range" (Burke, 2009).

To us, like many consumers, principles matter. It is not enough that

something is labeled "Free Trade". The practices behind the label need to support the principles that the label represents.

If a wholesale firm could source, say, only 40% of its coffee from TransFair, should it bother to separate its sales into two brands (one "fair trade" and the other not)?

A wholesaler that is able to buy 40% of their coffee from TransFair should separate its sales into two brands. There are some consumers who are willing to pay a premium for "Fair Trade" products and some who are not. By creating two brands, the Wholesaler can achieve a higher return by selling the TransFair coffee at a premium and selling more of the other coffee at a lower price. The wholesaler will also be serving his customers better by providing products that accurately reflect their preferences. In this way the wholesaler will be able to more accurately interpret information from the market.

If the wholesaler were to combine the two types of coffee under one brand, neither Fair Trade consumers or non-Fair-Trade consumers would be buying a product which they value at price that reflects that value. The non-Fair-Trade consumer would be paying more than they would ideally like to because of the additional price associated with the coffee from TransFair. As a result, the wholesaler would not sell as much coffee, his business would be less profitable, and he would buy less coffee overall. This would not only be unfortunate for his business but would also negatively affect the farmers TransFair supports. ✓

The Fair Trade consumer would be paying less than they are prepared to pay for coffee and receiving a product that is only 40% their preferred coffee. As a result, these customers will also buy less than they might have if their needs were being met 100%. Some Fair Trade consumers will find other wholesalers that supply the right product at the right price.

If the wholesaler were to combine the coffee that originates from different suppliers, then the wholesaler will sell less because he is only partially meeting

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the needs of either his Fair Trade customers or his non-Fair-Trade customers. In this scenario the wholesaler is worse off because he sells less and earns less because he fails to sell greater quantities to his non-fair-trade customers and also fails to achieve higher prices reflective of his higher costs from his Fair Trade customers. ✓

Peter Singer, explaining his utilitarian view of ethics, stated "I'm a preference utilitarian, not a hedonistic utilitarian, so on my view, we ought, roughly speaking, to be trying to increase the extent to which people's preferences are satisfied and reduce the extent to which they are thwarted"(Singer, 2006).

Peter Singer recognizes that the market system is the system we have. He believes that we must achieve the best possible outcome using the tools we have. Therefore increasing the information available to consumers as well as the choices available increases the potential for customers to vote, in an informed way, with their dollars. This increases the extent to which both the Fair Trade customers and Non-Fair-Trade customers preference are satisfied and reduces the extent to which the Fair Trade farmers preferences are thwarted. ✓
good

Is buying from suppliers such as TransFair – and labeling appropriately – the end of any responsibility by wholesalers or retailers?

"TransFair" and other "Fair Trade" organizations aim to "tackle poverty and empower producers in the poorest countries in the world" (FLO, 2009). They use the capitalist market system that operates in world markets to provide consumers with the option of purchasing goods that have been produced "ethically". Wholesalers and retailers are part of the capitalist free-market system. In the spirit of TransFair and Fair Trade, therefore, wholesalers' and retailers' responsibility is to provide what the market wants. The responsibility of TransFair and Fair Trade in general is to create demand for ethically produced products by establishing trustworthy "Fair Trade" credentials.

Organizations like TransFair exist for two reasons. Firstly, there are many suppliers of products like coffee, tea and cocoa. This has caused the "world-

market price for coffee ... (to fall) so low that, according to a non-profit called TransFair USA, millions of third-world farmers are being crushed by unfair competition and cannot survive" (Walker, 2004). Secondly, these organizations exist because they believe that the answer to eradicating poverty and helping these farmers lies in providing a market solution based on supply and demand (Singer, 2006).

The worldwide market for coffee is worth approximately \$60 billion annually (pbs.org, 2009). Fair traders such as TransFair guarantee farmers a minimum of \$1.26 per pound. If the traded price is higher than \$1.26 then they pay 5 cents above the global market price (Singer, 2006). In his web article "Why pay more for fairness?" Peter Singer refers to the argument posed by Brink Lindsey, director of the pro-market Cato Institute's Center for Trade Policy Studies, that the fall in coffee prices is due to increased competition as a result of more countries producing more coffee. This is a result of improved technology as well as more countries taking up coffee growing.

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From economics we know that when supply is greater than demand the price of the product will fall. Lindsey's argument seems to be that the efficient market outcome should be that farmers switch from growing coffee to growing a more profitable crop. Although this makes good economic sense, the reality is that a poor farmer that has invested heavily (relative to his means) faces switching costs that are insurmountable. Singer suggests that Fair Trade "encourag(es) coffee farmers to produce a specialty coffee that brings a higher price" (Singer, 2006). It also gives them the means to differentiate their coffee through quality improvements that are not possible when trying to achieve a product that will sell for the lowest price. ✓

The idea of the efficient allocation of resources through a market system relies on some important underlying assumptions. The most relevant assumption for companies promoting Fair Trade products is that people have equal access to market information. The Fair Trade ideology is founded on the idea that if the market knows that some products are produced in a way that causes poverty and misery and that there is an ethical alternative there

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are some consumers who will value this information enough to pay more for some products. Fair Trade aims to match producers who are willing to adopt certain ethical standards with consumers who are willing to pay a premium for the assurance that their purchase is ethical. Becchetti (2005) puts it this way "Buyers of primary products are usually highly concentrated and exploit their market power to conclude transactions at prices which are far below the value of primary producers' marginal product...fair trade products can be more properly considered as a kind of contingent good, that is, a bundle of traditional characteristics and SR (socially responsible) features, and therefore cannot be compared with standard non SR products. From this point of view, the introduction of fair trade products may be seen as reducing market incompleteness and increasing welfare of consumers with social preferences (or equity aversion) which did not have the opportunity of buying such products before." OK

Non-profit organizations like TransFair have taken on the responsibility for creating demand for Fair Trade products by raising awareness among consumers about the ethical choices they make when they are shopping. They also take responsibility for certifying certain producers as meeting Fair Trade standards. Organizations such as TransFair believe that there are a growing number of consumers ^{who} that are willing to pay more for products that have been ethically produced. It is necessary for consumers to believe that producers comply with the standards set out by Fair Trade. This is because it is the adherence to these standards for which consumers pay a premium. If they do not believe that products labeled "Fair Trade" are helping support and improve the lives of farmers, then the labeling and the brand are without value. ✓

Wholesalers and retailers rely on companies like TransFair to source and certify products as meeting the Fair Trade standards. Like other consumers, Wholesalers' and retailers' responsibility is to make sure that the company that they buy Fair Trade products from is reputable. It is not the responsibility of wholesalers and retailers to inspect the entire supply chain. If wholesalers and retailers were to inspect the supply chain of every supposedly Fair Trade product, the extra work associated with this practice would increase the price

of Fair Trade products. It may push the price above the point where anyone is prepared to buy. In this case no one wins because if there is no demand for the product, then there is no profit to be made from these products. This means the farmers would be forced to sell at a lower price. This would, in turn, perpetuate the cycle of poverty for these people. ✓

Companies like TransFair are relying on the concept that markets efficiently allocate resources. (Adam Smith) believed that self-interest would power the operation of the 'invisible hand' of the market (Longstaff, 2005). They are relying on wholesalers and retailers to act in their own self-interest and respond to demand by buying products demanded by consumers. *we?* *I would* argue that in the spirit of Fair Trade the end of any responsibility by wholesalers and retailers does end with buying from suppliers such as TransFair. However, Adam Smith also believed that people are born with a moral sense, before he wrote "The Wealth of Nations" he wrote "The Theory of Moral Sentiment" and *I* believe that he hoped that the 'invisible hand' would also be guided by people behaving with regard to their moral sense. ✓ *Yes - my ungiven last lecture.*

Fair Trade is based on a utilitarian framework situated in a capitalist economy. Market forces drive ethical outcomes on the premise that this is the tool we have to work with. Fair Trade aims to improve outcomes for the poorest people, while recognizing and working within the reality of the market system. ✓

Is TransFair a cop-out for retailers?

TransFair is not a cop-out for retailers because the nature of our economy precludes them from investigating the entire supply chain of every product they sell. TransFair represents a compromise that allows retailers to deliver socially responsible products to customers that value them. ✓

The power of consumer choice to drive an efficient market outcome can only occur when there is sufficient information to allow customers to make informed choices. There are many things about the modern world that prevent this information reaching concerned shoppers. In a world of constant

advertising and access to more information in one day than anyone can possible sift through in a life-time, it is an impossible task for every person or even every retailer to be fully informed about the end-to-end supply chain of every product they consume. Companies like TransFair try to make it possible to make ethical purchase decisions in the context of an overabundance of information. Otherwise the overwhelming nature of dealing with the ethics of every purchase might lead to paralysis even in those consumers that would like to make support ethical trade practices. ✓

Word count: 2578

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