



## The FAIRTRADE Mark

### Core standards and practice behind the Five Guarantees

1. *The FAIRTRADE Mark guarantees farmers a fair and stable price for their products*
2. *The FAIRTRADE Mark guarantees extra income for farmers and estate workers to improve their lives.*
3. *The FAIRTRADE Mark guarantees a greater respect for the environment*
4. *The FAIRTRADE Mark guarantees small farmers a stronger position in world markets*
5. *The FAIRTRADE Mark guarantees a closer link between consumers and producers*

This paper sets out the context for Fairtrade, why the guarantees behind the FAIRTRADE Mark are so important, and illustrates how these guarantees work in practice.

### Why we need an alternative model of trade

#### Development through Trade

Almost everyone agrees that trade is the engine of economic development and that better management of international trade offers one of the best opportunities for people in developing countries to escape from poverty and build sustainable livelihoods. It is also widely accepted that the present international trade system unfairly limits the potential for poorer countries to achieve these objectives, especially in agricultural markets. Many factors contribute to this situation, some of the most important being:

- The dependency of many countries on a narrow range of primary export commodities. These are mostly processed and marketed by companies in the developed world which retain most of the value added through these activities. Even where developing countries can invest in these processes, they are prevented from accessing developed markets by tariff systems that penalise products processed in the country of origin. At the same time, producers of the main agricultural export commodities such as coffee, tea and bananas have seen a continual fall in prices over many years, with drastic reductions during the 1990's.
- Protectionist policies by richer countries that not only prevent producers in developing countries from accessing markets in richer countries through tariff barriers, but also undermine their domestic markets through export subsidies, such as the EU sugar regime.
- The power of a few dominant commodity traders in most agricultural commodities is in stark contrast to the position of the many producers operating individually across many countries. For example, several million small-scale coffee farmers sell into a market where just four companies buy 40% of global output, and similar structures apply in cocoa, bananas, soya and many other products. In most developed markets, retailing has also become extremely consolidated – in Britain the “Big Four” supermarket chains account for over 70% of all food sales. Globalisation offers buying companies operating at this scale huge benefits as they can seek the best deals from anywhere in the world, whereas producers, especially smallholders, are extremely limited in their ability to find new customers.

Taken together, these and other factors mean that markets in agricultural commodities are not operating as envisaged in the classic liberal market economic model. While prices of products like coffee, tea and bananas have fallen to a level that is often below the cost of production for many producers, this has failed to rebalance supply and demand. This is firstly because in staple food products lower prices do not generally encourage higher consumption so equilibrium in the market can only be restored by reducing production. At the same time, growers are heavily dependent on these crops and often have no alternative that they can both produce competitively and sell easily to export markets. Faced with a choice between severe hardship or total destitution, producers continue to operate in markets even when prices fall below their cost of production – in fact, instead of reducing production, the sustained period of low prices in coffee has actually promoted an increase among many farmers as they try to sustain their incomes by squeezing more output from their land, often at the expense of reducing quality. For workers employed on larger plantations, these factors limit their

opportunities to secure improved working and living conditions that would enable them to invest in a better future for their families.

## **The Fair Trade Movement**

Given the failure of the international trading system to deliver decent livelihoods to millions of producers in the developing world, the fair trade movement believes that an alternative model that puts sustainable development and social justice at the heart of international trade is needed. It is this fundamental objective that distinguishes fair trade from other programmes aimed at ensuring businesses trade in an “ethical” or “socially responsible” manner – while these are important initiatives to promote respect for human rights and the environment, they do not specifically address the underlying causes of poverty and marginalisation that create the conditions in which people or the environment are exploited.

Fair trade is a strategy for poverty alleviation and sustainable development. Its purpose is to create opportunities for producers who have been economically disadvantaged or marginalised by the conventional trading system and it promotes trading partnerships based on dialogue, transparency and respect that contribute to sustainable development by offering better trading conditions to producers and workers.

In Britain, fair trade is promoted and supported by a wide range of development agencies, campaigning organisations, faith groups, social enterprises and consumer organisations through:

- Trading partnerships that offer direct benefits to producers and enable consumers to buy fairly traded products.
- Capacity building of producer organisations to improve the impact of fair trade among producers.
- Advocacy and education work to increase awareness of fair trade among consumers, and to press for government action to reform international trade systems.

A number of organisations that support fair trade established the Fairtrade Foundation in 1992 to help mainstream the concept by offering an independent consumer guarantee (the FAIRTRADE Mark) on products that could be sold by commercial businesses as well as dedicated fair trade organisations. The specific use of “Fairtrade” as a single word was adopted to denote products that are certified by the Foundation against the internationally-agreed standards that apply to a number of specific product categories.

## **Fairtrade Labelling – how it works**

### **International Structure**

Fairtrade Labelling operates through a network of independent, non-profit national organisations in 20 countries around the world, who are all members of Fairtrade Labelling Organisations International (FLO). The Fairtrade Foundation is the member for Britain where the Fairtrade Label is known as the FAIRTRADE Mark.

FLO is responsible for setting and maintaining the standards that apply to producers and trading relationships. Through its certification company (FLO-Cert) it inspects and certifies producers against the standards, and audits the flow of goods between producers and importers in the markets where Fairtrade labels operate.

The national members of FLO are responsible for licensing the Fairtrade label for use on products that meet FLO’s standards, for monitoring the final stages of the supply chain and for promoting the label to businesses and consumers in their own countries.

The common international system behind Fairtrade Labelling means that:

- Producers can access the Fairtrade markets in 20 countries through a single inspection and certification process.
- The certification system avoids duplication of effort by individual countries and can be operated more cost-effectively.
- All the members of FLO operate to common standards so that products can be more easily sold across national boundaries.

### **Fairtrade Standards**

Standards are crucial to the work of Fairtrade Labelling. They provide a set of specific criteria that can be independently audited to ensure compliance with minimum standards and to monitor improvements. They also enable the system to operate consistently in many different countries and markets and with different types of

producer organisations. These processes differentiate Fairtrade from the Codes of Conduct that many companies now work to as part of their purchasing policies, but which are not subject to external certification. The Fairtrade system is also unique in not simply verifying compliance with minimum standards but in establishing a process of continual improvement, linked to the benefits that producers receive from Fairtrade market sales in higher prices and the Fairtrade investment premium.

The audit and monitoring of Fairtrade standards aims to ensure that all the relevant ingredients of products carrying the FAIRTRADE Mark have been purchased from organisations that meet the producer standards, and that those ingredients have been traded in accordance with the trading standards. Thus, for example, a pack of Fairtrade coffee must contain 100% certified coffee beans that have been purchased from certified co-operatives for at least 124<sup>1</sup> US cents per lb. Where a product is a mix of ingredients covered by Fairtrade standards and those outside the system (these are referred to as “composite” products) the standards ensure firstly that all ingredients covered by the standards are properly certified, and then that the Fairtrade content is at least 20% of the total ingredients by weight. Therefore a snack bar might qualify for the FAIRTRADE Mark on the basis of its honey and sugar content, even though it contains ingredients that are produced domestically.

Producer standards cover developmental, employment and environmental factors; and for each of these there are minimum requirements that the producer organisation must meet in order to be certified, and process requirements that establish a framework for continuous improvement as the organisation starts to receive additional income from sales to the Fairtrade market. Trading standards define the minimum price that must be paid for products to qualify for Fairtrade certification, and also provide for transparent trading and payment terms that ensure the benefits to the producer are maximised.

In order to achieve the developmental objectives of Fairtrade, the standards apply to producer organisations rather than to individual farms, and require that such organisations are:

- democratically run and accountable to their members
- capable of ensuring compliance with the minimum social and environmental criteria and to manage the process of ongoing improvement.
- Able to manage the Fairtrade Investment Premium for the benefit of their members.

There are currently two generic models recognised for producer organisations. Fairtrade is best known for working with co-operatives or associations of small farmers and as these producers are typically the most disadvantaged in world markets they remain a priority for our work. However, in order not to exclude landless labourers, who are some of the poorest people in the developing world, Fairtrade also works with larger plantations or estates to help improve the position of their workers. In the model that applies to “producers dependant on hired labour” the benefits of Fairtrade are targeted specifically at the workers, rather than the owners of the business, and the Fairtrade premium is managed by a committee elected by the workers that work with representatives of the management. These models provide a framework for the empowerment of farmers and workers, which can be adapted to the specific needs of each organisation. For example, the standards for premium committees requires effective representation for women workers which may be the first time for many women that they can make their voices heard, while in South Africa, Fairtrade has certified farms working with Black Economic Empowerment projects where equity in farms is transferred wholly or partly to the workers.

## **Empowering Consumers**

Although Fairtrade is primarily about improving the position of producers in the developing world, it only does this by mobilising the purchasing power of consumers who are interested in supporting this vision. Critics of Fairtrade fail to acknowledge that it operates through market mechanisms. It offers consumers the chance to make a difference to global poverty and sustainable development through the choices they make while shopping. Consumers who respond to this idea have the right to be assured that such products do genuinely provide a “better deal for producers” and this is what the independent guarantee of the FAIRTRADE Mark, backed by the FLO standards and certification system, does. If companies want to engage with the consumer demand for Fairtrade products then they buy the products they need from certified producers under Fairtrade conditions. So the amount that producers can sell to the Fairtrade market is tied precisely to market demand and does not lead to further over-production of commodities. Free market economists who suggest that Fairtrade requires companies to buy everything that producers can grow at a minimum guaranteed price are either failing to understand this, or are deliberately misrepresenting it.

---

<sup>1</sup> Minimum price for washed arabica coffee from Central America, Mexico, Africa, Asia. 126 cents for South America and Caribbean region.

## The 'Five Guarantees'

### 1. **The FAIRTRADE Mark guarantees farmers a fair and stable price for their products**

A main objective of Fairtrade is to increase producer incomes. This is achieved by payment of a guaranteed fair price and by reducing the number of intermediaries in the supply chain so that the growers get a larger share of the export price.

The Fairtrade **minimum price** is calculated to cover the costs of sustainable production and a sustainable livelihood. All stakeholders, including producers and traders, are consulted in the price-setting process. There is an additional **premium** for investment in social, commercial or environmental development projects.

To take coffee as an example: the Fairtrade price for arabica coffee is 126 cents/lb. This comprises the Fairtrade minimum price of 121 cents/lb plus the premium of 5 cents/lb. If the international price exceeds the Fairtrade price, then the Fairtrade price comprises the international price plus Fairtrade premium. By contrast, the international coffee price fell to 45 cents in 2001, the lowest-ever level in real terms. It slowly recovered to average around 75 cents in 2004.

FLO audits each transaction to ensure the Fairtrade price and premium are paid to the producer organisation. A quick reference guide to Fairtrade producer prices and premiums is available on our web site<sup>2</sup>.

The producer organisation and trader should sign contracts that allow for long-term planning and sustainable production practices. Producers can request pre-financing of up to 60% of the contract. This is hugely important - without access to this capital, co-ops may have to take out costly loans to purchase members' coffee. But loans are frequently unavailable from local banks as many do not consider farmers' organisations to be creditworthy.

Co-ops provide services such as collecting, transporting, processing, marketing and exporting members' coffee. They may also provide agricultural support through cheap inputs and tools, agricultural and environmental training as well as social and welfare programmes. These services are mainly financed by a percentage taken from the selling price. If a co-op doesn't have sufficient capital to pay for coffee on delivery, farmers who desperately need cash may take the option of selling to a local trader who can pay immediately. This can compromise a co-op's ability to fulfil existing coffee contracts, lose the confidence of buyers and badly damage their reputation as a reliable business partner.

*'Since 1988, COOCAFE has greatly enhanced its efforts to access and directly compete in the international coffee market. For the past 15 years, COOCAFE has participated in the Fairtrade market as well as in the conventional market, favouring COOCAFE's members with higher, less volatile prices.'*

*'The stable price provided by the Fairtrade market has allowed our organization to develop social and environmental initiatives, as well as projects to help our farmers diversify their sources of income. At the same time, the higher price has allowed our co-operatives to re-invest in their communities with projects like credit for housing, land reform, and the repair and construction of municipal infrastructure.'*

COOCAFE coffee co-operative, Costa Rica<sup>3</sup>

### 2. **The FAIRTRADE Mark guarantees extra income for farmers and estate workers to improve their lives.**

The Fairtrade premium is paid into the bank account of an elected committee<sup>4</sup> set up specifically to administer the premium fund. The fund is reserved for investment in projects that are decided on with the agreement of co-op members (or following consultation with the workforce in the case of plantations). The committee must produce an annual premium plan and budget which is available for scrutiny by the beneficiaries and FLO.

The premium is invested in social projects such as building schools, clinics and community centres; funding scholarships; installation of electricity; and low-interest loan funds to improve housing or pay school or medical

<sup>2</sup> See [http://www.fairtrade.org.uk/about\\_standards.htm](http://www.fairtrade.org.uk/about_standards.htm)

<sup>3</sup> Read more at [www.coo cafe.com](http://www.coo cafe.com)

<sup>4</sup> In the case of farmers' organisations, the General Assembly of members normally elects a premium committee. Plantation workers elect representatives to a Joint Body which also includes management representatives.

bills. Estate workers have used loans to start up small income-generating enterprises such as rearing animals and growing crops to sell meat, eggs, milk, vegetables, fruit and spices to local markets or traders. Co-ops have used the premium for environmental protection or to strengthen their businesses by financing organic conversion or quality improvement programmes. Others have built processing facilities or cupping laboratories which enable them improve the quality of their coffee and hold coffee tasting sessions for buyers. These measures allow growers to add value to a raw commodity product.

Workers at Stockholm Tea Estate in Sri Lanka have used the premium to install electricity in their houses, take out loans to start up small businesses and build three recreation halls where they hold wedding parties and other social or religious events.

Estate worker Mr J Devasagayam says: 'Fairtrade is raising our living standards. But just as importantly, it is changing people's attitudes. We used to ask the estate manager or the government to do things for us to improve our lives; now we're trying to do it ourselves.'

### **3. The FAIRTRADE Mark guarantees a greater respect for the environment**

Environmental protection and sustainability must be included in producer organisations' management policies. They must comply with national and international legislation on protection of the environment (natural waters, virgin forest and other ecosystems of high ecological value), erosion, waste management and the use and handling of hazardous chemicals. Banned pesticides include those in the following lists: World Health Organisation class 1 a+b; Pesticide Action Network's "dirty dozen"; FAO/UNEP's Prior Informed Consent Procedure list.

The use of agrochemicals is minimised and reduced through the implementation of an Integrated Crop Management system and gradually replaced with organic fertilisers and biological disease control. Producers are encouraged to work towards organic practices where practical.

There are additional specific standards for some products. Banana farmers, for example, must introduce buffer zones to prevent chemical contamination of rivers, forests, roads and water sources; aerial spraying cycles and dosages must be progressively reduced to specified levels; the environment impact of waste disposal must be minimised; and measures must be put in place to prevent soil erosion on slopes, e.g. replanting of banana trees on contours and interplanting with cover crops. Revised environmental standards will come into operation in July 2005.

It's important to recognise that farmers and workers are extremely motivated to improve the environmental impact of their production – after all it's about the area in which they and their families live and work. But these issues often involve investing now for benefits that will only be realised over the longer-term and it's unrealistic to expect farmers to do this when they are struggling to survive on a day-to-day basis – understandably people have to give a priority to putting food on the table, sending children to school and paying for medical care before they can think about longer-term improvements. In fact many farmers feel there is a double standard applied by consumers and businesses in developed countries who want better environmental practices but aren't prepared to pay for them. Fairtrade deals with this by setting realistic and achievable standards for entry to the Fairtrade system, with the progress criteria providing a framework for farmers to use the Fairtrade premium to fund ongoing improvements.

*"Weed control without pesticides contributes to the environment, to your production and to your health. When harvesting my bananas it's what I like most. When we used to use the weedicide (pesticide) I felt it was something against us. We have the opportunity with Fairtrade not to use pesticides and to do things better."*  
Ronald Reynolds, banana farmer, St Lucia Fair Trade Group, Windward Islands

### **4. The FAIRTRADE Mark guarantees small farmers a stronger position in world markets**

'There is a very big information gap that exists between farmers and the market. Most producers in developing countries do not know what the market wants and even if farmers have the best quality of coffee, they are not rewarded accordingly... The future belongs to the organized. Coffee farmers' organizations are the engines of growth and sustainability in coffee production. They are vehicles and conduits for information dissemination. Working together, they will achieve the economies of scale necessary to market their own coffee in a competitive and cost effective manner, thus tapping into price incentives available for superior quality coffees.'<sup>5</sup>

---

<sup>5</sup> Jack Bigirwa, Chairman NUCAFE, Uganda and Vice Chairman Tropical Commodities Committee, International Federation of Agricultural Producers. Presentation at International Coffee Organisation Roundtable on Equitable Trading and Coffee, 18 May 04.

Fairtrade strengthens producer organisations - by dealing directly with Fairtrade partners and buyers, farmers' organisations gain crucial technical information and market knowledge that can also help them get better prices in the conventional market.

By creating a specialist sector for their products, Fairtrade also helps producers overcome the barriers to accessing mainstream markets in developed countries. While globalisation is a reality for multinational retailers and traders who can seek out the best prices from suppliers anywhere in the world, producers are often very limited in their options for export channels. For example, the Windward Islands have relied for over 50 years on the UK market and that is the only available shipping route for the export of bananas. So even though the USA coastline is only 1500 miles from the islands, there is no way farmers can export their bananas to the American market. This further adds to the burdens of small farmers who simply cannot compete on price with larger production units but need to sell their products to consumers on the basis of more natural production methods, better taste and the concept of supporting small-scale agriculture. Left to the market, consumers are denied the choice of these products as companies "rationalise" their supply bases to achieve bigger and bigger economies of scale. With Fairtrade, consumers are rediscovering the pleasures of distinctive origins of products like organic coffee from Peru, forest honey from Zambia and mangoes from Burkina Faso, while farmers are given new market opportunities for their crops.

A recent academic article concluded 'While the financial benefits of Fairtrade appear the most significant in the short run, in the long run, it is the empowerment and capacity building nature of Fairtrade that will prove the most important in fuelling sustainable development.'<sup>6</sup>

Many Fairtrade producer organisations have the capacity to process and export on behalf of their members. For example, coffee is produced by farmers who are members of village-level co-operatives which are usually affiliated to regional co-operative societies and/or national co-operative unions. These organisations buy, collect, process, market and export coffee on behalf of hundreds or even thousands of farmers. Direct contact between co-operatives and participants in the Fairtrade system is very important: an updated list of certified producer organisations is regularly circulated among all Fairtrade importers and buyers, while a list of importers is distributed among the producer organisations. This information allows co-operatives to send coffee samples to potential new clients when it has not been able to find buyers for all its coffee. Furthermore, co-operatives benefit from the constant feedback that Fairtrade importers give to producer organisations about the quality of each lot of coffee received. When a co-operative has up-to-date information about the quality of the coffee it produces and exports as well as factors such as international prices, it has a stronger negotiating position in both Fairtrade and conventional markets<sup>7</sup>.

However, some co-ops are not as well established and may rely on processors and/or export agencies to do much of the post-harvest work on their behalf. As the export agency is often also a Fairtrade certified producer organisation, skills and experience are passed on. Rural communities are often marginalised; they tend to receive little support from government and usually have limited access to information, education and financial resources. Therefore, Fairtrade encourages producer organisations to help each other. For example, many experienced and large-scale Fairtrade certified co-operatives offer access to credit not only to their own members but also to members of other co-operatives. This enables members of less well-established co-operatives to make much needed investment in improving the quality of their product, which then helps them to compete in the international market. In the longer-term, Fairtrade sales and support may help them achieve the skills, facilities and capacity to carry out processing and export functions on their own behalf.

Many supermarkets now demand that suppliers are accredited by schemes such as EurepGap which certifies Good Agricultural Practice (GAP) as defined in standards set by international retailers in consultation with representatives from all stages of the food chain. Banana farmers in the Windward Islands were well along the road to EurepGap compliance because of the improvements already made for Fairtrade certification. They were able to invest £18,000 of the extra money from Fairtrade sales in upgrading packing sheds, building pit toilets, installing hand-washing facilities, and employing field officers to secure EurepGap accreditation.

*'So we sell 5% of our coffee as Fairtrade, the percentage is small but it is very important. But the benefits are much, much wider - now I know how to export. If Fairtrade had not come in, we wouldn't have known how to export. We have contacts in Europe who give us information on the markets and contacts. Before we didn't know the language of futures, or markets - now that is also our language and we can impart a bit of that to the farmers. Now even the farmers ask about the price in London!'*

<sup>6</sup> Laura T Reynolds, Douglas Murray and Peter Leigh Taylor. Fair Trade Coffee: Building Producer Capacity Via Global Networks. *Journal of International Development* 16, 1109-1121(2004).

<sup>7</sup> Pérezgrovas Garza and Cervantes Trejo (2002) Poverty Alleviation through Participation in Fairtrade Coffee Networks: The case of Union Majomut, Chiapas, Mexico. Fairtrade Research Group.

John Kanjagaile, Export Manager KCU coffee co-operative, Tanzania

*'In our country there was no tradition of fermenting cocoa. With Fairtrade income we were able to implement a fermentation programme to improve the quality of our cocoa and convert our production to certified organic. This improved our position in the export market. The Fairtrade market is very important for the survival of our members.'*

Isidoro de la Rosa, Executive Director CONACADO cocoa co-operative, Dominican Republic

## **5. The FAIRTRADE Mark guarantees a closer link between consumers and producers**

More and more of us are concerned about the consequences of our purchases. We want to know where they come from, how they were produced, and that the people who produced them received a fair deal. The Fairtrade system is about trading as directly as possible with producer organisations within a clear set of standards: the result is a transparent audit trail from producer to shop shelf, so that even in blended and composite Fairtrade products we know which producer organisations supplied the ingredients.

Fairtrade is a grassroots consumer choice movement that empowers consumers to take responsibility for the role they play when they buy products from developing countries. When shoppers check out a product carrying the FAIRTRADE Mark they are the most important link in the supply chain to the producers; this act of solidarity guarantees that producers receive extra income through the guaranteed price and additional premium to improve their businesses and develop their communities. It proves that consumers are willing to buy into a fairer model of trade but also sends out a wider signal in support of trade justice on a global level.

During our annual Fairtrade Fortnight campaign, representatives of producer groups are invited to the UK by the Fairtrade Foundation and licensee companies. They travel around the UK to meet and exchange direct experiences with consumers and explain in person how Fairtrade is benefiting their communities. This is supported by product packaging and point of sale materials that highlight the producers behind the products. And producer case studies, interviews and reports on our web site discuss the problems facing producers and how Fairtrade is helping to solve some of them.

A closer link between consumers and producers has been at the heart of the Fairtrade Towns initiative. Across the country, these campaigns have engaged entire local communities in working on behalf of overseas producers, encouraging others to check out the FAIRTRADE Mark. These local initiatives have also raised public awareness of the issues facing producers, enhancing the partnership already forged through the Fairtrade supply chain.

Ruth Zuñiga Zuñiga, a quality controller at Co-opetrabatur, a banana growers' co-operative in Costa Rica has a personal message for UK shoppers: *'I would like to encourage you to buy our fruit because it is very good. We use much less chemicals than other companies, and we manage the environment better [...] I would like it if you only bought Fairtrade fruit. We are proud to send good quality bananas, to be exporting them to your country. We would like to export other fruits in the future. You demand high quality and we are happy to provide it.'*

The Fairtrade Foundation, Room 204, 16 Baldwin's Gardens, London EC1N 7RJ

T: 020 7405 5942 E: [mail@fairtrade.org.uk](mailto:mail@fairtrade.org.uk) W: [www.fairtrade.org.uk](http://www.fairtrade.org.uk)

Company Registered in England and Wales number 2733136 Registered Charity number 1043886 VAT number 672 5453 23