



Are consumers getting a fair deal from Fairtrade products?

British shoppers have taken Fairtrade to heart and are spending more than ever on products like coffee, tea, bananas, and chocolate that are certified by the FAIRTRADE Mark to “guarantee Third World producers a better deal”. Retail sales of products carrying the Mark are estimated at over £140 million for 2004 – an increase of 51% on the previous year, and more than double the level in 2002. Consumers are buying Fairtrade products because they care about people in the world’s poorest countries who work hard to produce the goods that we enjoy, and also because they trust the FAIRTRADE Mark to ensure that producers genuinely benefit from the sale of Fairtrade products. The Fairtrade Foundation acknowledges that the integrity of the Mark, and the trust that consumers place in it, is a precious asset that must be protected at all times.

The five guarantees behind the FAIRTRADE Mark are:

- a) *A fair and stable price to farmers for their products*
- b) *The opportunity for farmers and plantation workers to improve their lives*
- c) *Greater respect for the environment*
- d) *A closer link between shoppers and producers*
- e) *A stronger position for small farmers in world markets*

Although a fair price is just one of these guarantees, it is often the most important one for consumers and they obviously want to see a connection between the additional income received by producers and the extra price they pay at the checkout. In particular, they are understandably concerned that other actors in the supply chain such as importers, manufacturers and retailers do not make excessive profits from consumers’ ethical concerns. We work with dozens of product categories that are all traded, transported and processed in different ways, which makes it impossible to generalize about how the Fairtrade price guarantee to producers affects the retail price that consumers pay in their local shop. This paper briefly explains some of the many factors that consumers need to take into account when considering the price of Fairtrade products.

1. Fairtrade does not set prices other than those paid to the certified producer organisation

- Fairtrade standards¹ set minimum prices for products at a level that covers the cost of sustainable production for producers and also provides a premium for investment in future improvements.
- In the case of coffee, this has meant producers receive \$1.26 per lb for coffee beans, compared to an average world price of 70 cents for the past few years² – so producers earn around double under Fairtrade, while British consumers pay around 10-15% more.
- The supply chains of products carrying the FAIRTRADE Mark are checked to ensure the relevant ingredients have been bought from certified producers at or above the minimum price and in accordance with other trading standards.
- It would be impractical to set prices further down the supply chain – and it would be illegal to do so at the final wholesale or retail level under British and European competition laws.

2. Fairtrade products can incur additional costs in the supply chain between farm gate and shop shelf compared to conventional products

- Mostly this is due to the scale of Fairtrade sales, compared to the leading products in the conventional market. Costs like shipping, importing and packaging will all be higher on a unit basis for products traded in relatively low volumes.
- The businesses that are most committed to Fairtrade invest more in their relationships with suppliers. Cafédirect, for example, buys from more than 30 producer groups for its coffee, tea and cocoa. It also helps develop their skills and knowledge of the market and is always seeking out new suppliers as its business grows. This is very different from conventional business models in which companies try to buy as much as possible from a small number of suppliers in order to keep costs down.

3. The price charged by retailers for Fairtrade products depends on many different factors – it isn’t possible to define a “normal” level of gross profit

- Retailers generally work on a “percentage” margin so if they pay 10% more for a product, they will aim to pass this on to their customers. However, they are also looking to get the best profit out of each unit of their shelf space and this depends on the volume of sales as well as the percentage profit – generally retailers would rather increase

¹ See Standards at www.fairtrade.net

² The period January 2000 – February 2005

volume than unit profit, say by making 10% on £1,000 of sales rather than 20% on £500; this is because more volume means more customers, and more opportunities to make additional sales.

- So the margin varies across different products and across different retailers, depending on the value of sales the product generates in relation to the shelf space it occupies, and how important it is to a particular retailer's business. So the biggest supermarkets that now sell a lot of clothing and electrical goods can afford to make less profit on other items and will use low-pricing on popular food products to attract customers. Other retailers cannot do this and often need to charge higher prices than the biggest supermarkets, but many customers shop at these smaller outlets because they prefer to buy from a specialist food retailer.
- This trend of marking down popular items can also make Fairtrade products appear much more expensive than conventional ones. The Fairtrade Foundation has highlighted the case of bananas where the mainstream retail price has fallen from £1.12 to £0.74 per kilo over the past two years³. Fairtrade bananas, based on a minimum guaranteed price that is significantly higher than international market prices cannot match this price reduction and so are proportionately more expensive now than they were in 2003.
- The margin that a retailer needs to take also depends on the scale of its business – at one extreme Tesco accounts for nearly 30% of all supermarket sales from around 1,900 stores; at the other Co-op has a market share of 5% but trades from 900 outlets. Clearly this impacts on costs and therefore prices – but price isn't everything and most people value having a choice of large superstores and smaller neighbourhood shops.
- Supermarkets have assured us that they don't take an excessive margin on Fairtrade products, but it's not possible to confirm this as they never make public the commercially sensitive information on their profit margins for individual products.

4. It's important that Fairtrade products are commercially viable for suppliers and retailers, as well as offering consumers value for money and producers a better deal

- Fairtrade isn't sustainable unless it works for everyone. It's not meant to be charity but a fairer way of trading; therefore, while some companies might be prepared to sell Fairtrade products on a seasonal or occasional basis at low or even no profit, this is no use to farmers who need regular sales, week in and week out, year after year.
- Companies invest in developing the market for Fairtrade products too. Often retailers display them more prominently than is commensurate with sales volumes in order to attract more consumers. The major supermarkets have all produced information leaflets and other materials to help promote the FAIRTRADE Mark, while the Co-op has even advertised Fairtrade products on television. This has been immensely valuable in raising the profile of Fairtrade – but it's also been a good strategy for the Co-op as it helps to attract more shoppers to their stores.

All these different factors mean that it's impossible for consumers to know precisely who gets what from the price they pay for products – and this applies equally to conventional and Fairtrade products. The difference with Fairtrade is that you can be totally confident that the producers have received a price that provides a decent income and a little extra to invest in a better future for their families and communities.

If you are choosing a Fairtrade product, you will of course be keen to get a reasonable price, but higher prices on Fairtrade products don't necessarily mean that a retailer is making excessive profits, while lower prices on Fairtrade products don't necessarily reflect a more ethical stance by a retailer as distinct from a commercial strategy. At the end of the day, as consumers we all have to make our own personal choices about who we buy from and how much we are willing to pay. The Fairtrade Foundation will continue to work with all retailers to maximize the sales of Fairtrade products as this is the best way to deliver more benefits to more people in the developing world; in doing this, it is crucial to ensure that consumers also get value for money.

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³ http://www.fairtrade.org.uk/downloads/pdf/bananas_behind_the_price_tag.pdf