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What is a fair price? What is fair trade?

People often ask us how much money “goes back to the producer”. It would be nice to say 90%, but that is not possible. Trade does not work like that and even fair trade organisations have to operate in the real world and attempt to make a sustainable profit!

International trade involves many steps - all of which have to be paid for in the final price - whether a product is a fair trade one or not. To get a product to the customer means paying for raw materials, transport and all the other costs associated with export, on top of the wage to the producer. And that only gets it to the port. Then there is the cost of international shipping, and transport etc within the importing country. Once a product is in a warehouse it has to be marketed and got out to customers, all of which involves considerable costs. Fair trade has to work within this system. And it does not often have the benefits of the savings that can come when large volumes of a single product are involved.

Producer country			⇒	UK				
Raw materials	Wages	Other in-country costs		Freight & warehousing	Marketing	Discounts	VAT	Profit

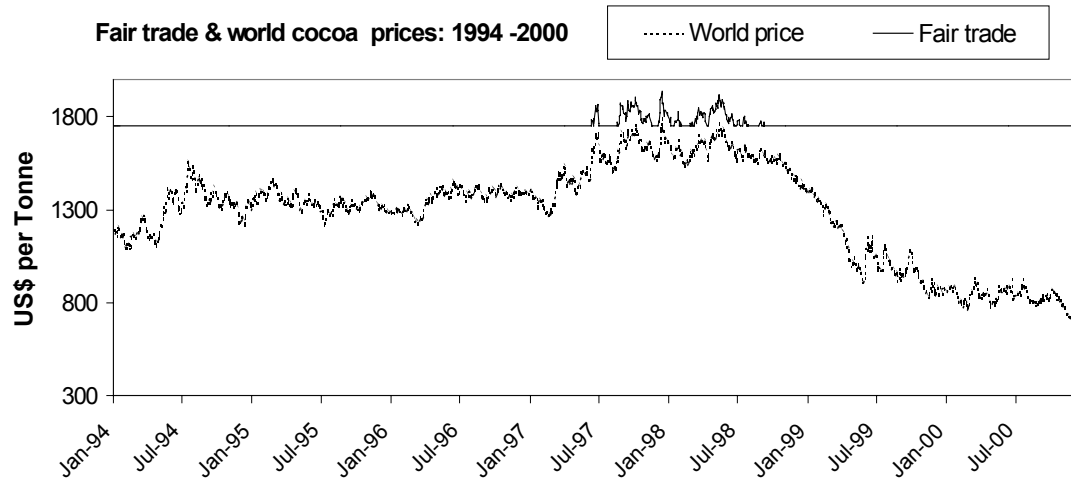
So how, within the constraints of trade, does fair trade ensure a better deal for the producer? Well part of it is about ensuring a better price/wage for the producer. Even if this is not large in terms of the percentage of the final price, it can make a real difference. However, a lot of it is about how we conduct the trade relationship. Other benefits include advance payments, design advice, market information, building the capacity of producers to understand the export market, a long-term commitment to a trading relationship and helping producers to increase their export markets. These may all in the end be more important to the producers than the price.

So what is a fair price?

This will depend on the circumstances, but broadly it is one which ensures that the producer not only covers the cost of production, but also makes a profit in order to have a reasonable life. Sometimes it might simply be a better wage. For example, Sheraj Gagi is a weaver in Bangladesh whose wages increased by over 40% when he moved from a purely commercial employer to Aarong, a Traidcraft supplier. In other situations a fair trade premium may fund developments for the producers or their community (see over). Always it is critical that **Traidcraft buys from organisations which ensure that benefits reach the original producers**. These can be co-ops, women’s organisations, development projects or simply businesses, of various sizes – as long as there is a clear benefit to the producer.

For crafts and some food products there is no world market price system. So setting a fair price is a matter for the producing organisation, in discussion with Traidcraft. The details of the fair trade relationship are looked at on a case-by-case basis.

For some of the bigger commodities (eg coffee, cocoa) there is a world market, with prices governed largely by the activities of big traders and speculators. In these cases the international fair trade movement has developed a fair price system for each commodity. Broadly this involves guaranteeing a minimum price, however low world prices fall, and paying a % more if prices rise. E.g. for cocoa:



The extra money earned from fair trade under this system is paid into a separate account, held by the producer organisation. The organisations have all been screened to ensure they channel benefits to the growers. Farmers' representatives are involved in the decisions about spending this "premium" money. Sometimes it may be shared amongst all the farmers as an annual payment. But often this would result in a comparatively small sum per head, since fair trade sales are normally only a small percentage of the total sales of the organisation. By keeping the fair trade premium as a lump sum the farmers can achieve something significant. This might be to build up the capacity of their organisation (eg the transformation which can come from installing email/getting access to world market information for themselves). Or it might be some social project, like the repair of a bridge or the building of a basic clinic, which brings benefits to the whole community.

So what else is fair trade about?

It can include:

- **Advance payments.** Producers may need money "up front" eg to buy raw materials. Money-lenders may charge extortionate levels of interest. Fair trade offers advances at low/no interest.
- **Design advice/market information.** Being far from the market means producers may not know how products will sell. Appropriate advice can help them to make products that will sell well.
- **Capacity building.** Producers with little experience of exporting may need help to understand how international trade works.
- **Trade facilitation.** There are limits to how much Traidcraft can sell. One way to help producers is to introduce them to other suitable buyers, in the fair trade movement or mainstream.

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