



GOING BEYOND FAIR TRADE: FREE DIRECT TRADE IN AGRICULTURAL INDUSTRIES

GLOBAL VOICES WTO AUSTRALIAN YOUTH DELEGATION

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WORLD TRADE ORGANIZATION MINISTERIAL CONFERENCE

The World Trade Organization (WTO) is the sole global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The WTO Ministerial Conference, usually held every two years, is the topmost decision making body of the WTO. Ministers from all member countries of the WTO attend the Ministerial Conference and use it as a platform for negotiations on matters under any of the multilateral trade agreements.

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The views expressed here are solely those of the author in her private capacity and do not represent the views of Global Voices.

Abstract

This paper examines the need for ethical agricultural trade between the global North (developed countries) and South (developing countries) in an increasingly globalised world, and the multitude of problems the poster child for the ethical movement, the Fairtrade Corporation, brings to the debate. Whilst possessing its benefits as a starting point for agricultural trade conditions, Fairtrade's strict producer regulations, inflexible price floor and unrepresentative labeling mechanisms have begun to hinder the process for sustainable agricultural expansion in least developing countries (LDCs). Instead, this paper advocates the development and liberalization of an emerging ethical trading practice known as 'direct trade', which allows a mutually beneficial trading relationship to emerge whilst supporting quality control, improved livelihood, and the minimization of intermediaries in the commodity chain.

Recommendations

1. Countries of the global North should be incentivized by the prospect of a long-term and secure economic relationship to create individual free preferential trade agreements in the agricultural sector with LDCs, in the interests of fostering ethical direct trade partnerships;
2. Ethical individual free preferential trade agreements should aim to bring agricultural standards in LDCs to of a quality to be globally competitive; and
3. Ethical trade considerations should take priority in negotiations between the global North and LDCs, as deemed by the World Trade Organisation.

Introduction

Writing on the eve of the formation of the World Trade Organisation, politician Neil Kinnock spoke of the critical elements of focus for the newest international organisational body:

"If human security is to enjoy the desirable conditions of liberty, prosperity, security and stability, there has to be an ethical basis for economic endeavour. ... For the last few years, understandably perhaps, much of the thinking about trade policy has

been at the level of technical detail.... But this concentration on the detailed issues has rather obscured the question of what trade means to ordinary people's lives." ¹

Where trade has traditionally been dynamic and complex,² the World Trade Organisation (WTO) was founded on the principles that LDCs – making up more than three quarters of its members – would be given special privileges and flexibility so entry onto a global trading platform would help, not hinder, their development.³

Prior to the formation of the WTO in 1995, the Uruguay Round approach to tariff negotiations in agriculture, between 1986 -199, had produced an agreement for countries in the Global North to cut tariffs on agricultural products by 36% over six years.⁴ The rationale behind this approach attracted a number of complaints. Amongst these, the uneven playing field upon which developing countries arrived at the Uruguay Round was even more unlevel when they left it.⁵ Through basic laws of capitalism, it is well documented that when trade barriers are brought down in symmetry on a mass scale, not everyone is able to access the benefits of liberalization equally.⁶ For a poor country such as Argentina, the expectation to pay the same tariffs as rich France for access to the US market effectively locked it out of a major portion of the global market.⁷ This also locked most LDCs – some of which are high-level producers of quality agricultural products– out of trade with almost the entire global North.⁸

In the Doha Round Agenda under the WTO banner in 2001, agriculture fast became the most critical issue under debate.⁹ It remains that the most successful developing countries of the world have largely become that way through a huge export economy, a large proportion of which deals in raw agricultural products.¹⁰ Conversely, trade restrictions in developed countries are estimated to cost LDCs more than \$100 billion annually, more than twice what

¹ N Kinnock, 'Beyond Free Trade To Fair Trade,' speech at the 49th Barabara Weinstock Memorial Lecture on the Morals of Trade, University of California at Berkeley, <http://grad.berkeley.edu/lectures/event.php?id=665&lecturer=398>, paragraph 2, 1994.

² Information and Media Relations Division of the WTO Secretariat, *Ten Things the WTO Can Do*, Geneva, 2013

³ Ibid.

⁴ Information and Media Relations Division of the WTO Secretariat, *Background Fact Sheet: Tariff Neogtiations in Agriculture: Reduction Methods*, Geneva, 2003

⁵ J Stiglitz, *Making Globalisation Work*, Penguin Books, Australia, 2006 pp. 78

⁶ Stiglitz, pp 83

⁷ Ibid.

⁸ Kinnock, paragraph 4

⁹ Stiglitz, pp 83

¹⁰ J Steinkopf Rice, 'Free Trade, Fair Trade and Gender Inequality in Less Developed Countries,' *Sustainable Development*, vol. 18, 2010, pp 41

they receive in aid.¹¹ The refusal of countries in the global North to recognise the needs of the global South in regards to the reduction of agricultural subsidies and selective tariffs has stalled the debate, with the United States – a large export economy itself - voting to almost double its subsidies in the agricultural industry in 2002.¹² It is clear from this evidence that protectionist measures are neither assisting, nor being designed to assist, LDCs to become more globally competitive.

In light of this, the WTO has continually encouraged and praised the concept of a fair and ethical trading system. Former Director-General of the WTO Pascal Lamy addressed the National Committee for International Cooperation and Sustainable Development in 2012, commending the Netherlands for 'recognising the role of open and fair trade as a fundamental pillar of global stability and a shared responsibility.'¹³ Indeed, need for an alternative trade arrangement to rectify some of the inequalities arising from international trade disputes and power imbalances was well recognised by WTO member states, but has remained unable to be agreed upon.¹⁴

The concept of the Fairtrade system is more than forty years old, with the term 'fair trade' coined in the 1960s to describe the Netherlands' trade agreement with Nicaragua. The Netherlands artificially raised coffee prices to ensure farmers were turning a profit for their work and from this implemented a Fairtrade certification standard from which consumers could easily recognise their ethical purchasing power.¹⁵ Today, Fairtrade artificially sets price floors and premiums for various products from the global South under the Fairtrade 'brand', to ensure producers are turning a profit on the global North market, which under the conditions of this Fairtrade price must use the profit to fund social initiatives and production development.¹⁶

The formation of the Fairtrade brand on an international level stems from the four big organisations representing the Fairtrade movement: The Fairtrade Labelling Organizations International, The International Fairtrade Association, The Network of European World Shops and The European Fairtrade Association. Together, they represent more than \$500

¹¹ L T Wright, S Heaton, 'Fair Trade Marketing: an exploration through qualitative research.' *Journal of Strategic Marketing*, vol. 14, 2006 pp 412

¹² Stiglitz, pp 84

¹³ P Lamy, 'Keeping Markets Open is Good Global Citizenship,' speech at the Jubilee Conference of the National Committee for International Co-operation and Sustainable Development of the Netherlands, http://www.wto.org/english/news_e/sppl_e/sppl215_e.htm paragraph 1, 2012

¹⁴ *Background Fact Sheet: Tariff Negotiations in Agriculture: Reduction Method*

¹⁵ J Ballet, A Carimentrand, 'Fair Trade and the Depersonalization of Ethics', *Journal of Business Ethics*, vol. 92, 2012, pp 320

¹⁶ Fair Trade Australia and New Zealand, 'What is Fairtrade?' *Fairtrade Australia and New Zealand* [website] 2013, accessed 8th November, 2013, <http://fairtrade.com.au/page/what-fairtrade>

million in sales each year from 'the Fairtrade trading partnership',¹⁷ represented thusly in their collective mission statement:

"Fair trade is a trading partnership, based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade." ¹⁸

Agricultural Fairtrade products include coffee, chocolate and its components, sugar, tea, rice, wheat, cotton, grains, fruit and vegetables.¹⁹

In the absence of fairer rules on trade due to the stalling of the Doha Round, the Fairtrade Four and its international arms have the dominant share of the ethical international trade market.²⁰ Fairtrade is subject to international trade protectionism.

Criticisms of Fairtrade

The ethics of Fairtrade and its practicable ability to assist the global South is questionable in the era of increasingly globalised trade.²¹ Most small-scale family farm producers live in poverty and manage agroecosystems in some of the world's most volatile regions.²² Over 70% of the world's coffee – Fairtrade's biggest commodity – is grown in these conditions.²³ Whilst the Fairtrade model is able to stabilize this poverty through its higher prices, and provide social services due its restrictions on how profit must be spent, it remains insufficient to lift the poorest of these countries out of poverty and into prosperity.²⁴ Nor is

¹⁷ Ibid.

¹⁸ Ballet and Carimentrand, pp 317

¹⁹ Fairtrade Australia and New Zealand

²⁰ Ballet and Carimentrand, pp 317

²¹ Ibid.

²² C Bacon, 'Confronting the Coffee Crisis: Can Fair Trade, Organic, and Specialty Coffees Reduce Small-Scale Farmer Vulnerability in Northern Nicaragua?', *World Development*, vol. 33, no. 3, pp 497

²³ Ibid.

²⁴ P Collier, *The Bottom Billion : Why the Poorest Countries are Failing and What Can Be Done About It*. Oxford: Oxford University Press, USA, 2007, pp 163

it a guarantor or encourager of quality, hindering the ability of product growth on the international market.²⁵

Fairtrade's main function involves artificially setting a 'price floor' against the global market price for various products.²⁶ Two major problems arise from this price floor. The first is that the global Fairtrade organisation sets a global, rather than country specific, price for a particular product. Whilst this could be a small fortune in one country, it may be a pittance in another, and is inflexible to change depending on country context.²⁷ Secondly, this price floor also has the capacity to act as a price ceiling in years of poor crop production. The Fairtrade minimum price is set annually, which is not reflective of the unpredictability of agricultural markets.²⁸ It stands to reason that a month of poor crop production will guarantee Fairtrade minimum prices, but will be unable to expand beyond that, even though the product is likely to be in higher demand due to its relative scarcity.²⁹ In this way, the Fairtrade brand has been known to lock people into a singular price, without opportunity to ask for more in tandem with a higher quality or in-demand product.³⁰

Additionally, one of the original pledges of the Fairtrade movement was to minimize the number of hands into which money for a single product was placed, as the product moved from the global South to North.³¹ Today, as the Fairtrade brand has experienced rapid expansion due to consumer popularity and thus a perceived greater need for monitoring standards,³² producers must be part of a producer organisation or cooperative it has formed or joined, for the purposes of redistributing the extra income from Fairtrade's price floor amongst cooperative social causes. Cooperatives have been shown to be limited in their ability expand, both in agricultural development and livelihood strategies, in LDCs due to a widespread internal view that these are factors determined only by external agents.³³ Such a producer organisation must heavily rely on a centralized exporter, and a subsequent

²⁵ G Balineau, 'Disentangling the Effects of Fair Trade on the Quality of Malian Cotton,' *World Development*, vol. 44, pp 241

²⁶ LT Reynolds. 'Mainstreaming Fairtrade Coffee: From Partnership to Traceability,' *World Development*, vol. 39, no.6, 2006, pp 1083

²⁷ S Macatonia, 'Going beyond fair trade: the benefits and challenges of direct trade,' *The Guardian*, 2013, accessed September 23rd 2013 at <http://www.theguardian.com/sustainable-business/direct-trading-coffee-farmers>

²⁸ W Moon, 'Is Agriculture Compatible With Free Trade?' *Ecological Economics*, vol. 71, 2011, pp 13

²⁹ Collier, pp 163

³⁰ Ibid.

³¹ Ballet and Carimentrand, pp 320

³² S Mann, 'Analysing fair trade in economic terms,' *The Journal of Socio-Economics*, vol. 37, 2008 p2034

³³ M Vasquez-Leon, 'Free Markets and Fair Trade, Collective Livelihood Struggles, and the Cooperative Model: Two Case Studies from Paraguay', *Latin-American Perspectives*, vol. 37, 2012 pp 55

purchaser to import the products for distribution in the global North.³⁴ All of these intermediaries incur their own costs, even before the associated costs of the protectionist trade barriers, which are often the global norm.³⁵

This rationalization process affects the commodity chain in several ways. Firstly, the consequent depersonalization of the ethics surrounding the product once it enters its final market is contradictory to the Fairtrade mission statement.³⁶ For example, the shops that stock Fairtrade products are often highly unaware of Fairtrade principles or methods, other than identifying the label, and have had no contact with the producer at any stage of the process.³⁷ This in turn leads to consumer misinformation about what the Fairtrade label represents, meaning that the label itself is devalued.^{38 39} Secondly, this lengthening of the distribution network affects the decision of specialty or ethical buyers to purchase the product. For example, a buyer unable to gather information about the source, quality or ethics surrounding a product due to the layers of transactions before the product reaches their hands, will be a disincentive to support Fairtrade.⁴⁰ Additionally, if the same buyer manages to identify a Fairtrade producer they wish to purchase cacao from exclusively, this will be hindered by the producer's involvement in a producer organisation and the producer's obligation to the cooperative's decisions rather than the buyer's.⁴¹ The lack of transparency surrounding Fairtrade-labelled products on the shelves is rendering the ability of the consumer to make ethical choices far more difficult.⁴²

The misinformation here goes both ways. In a study conducted by Valkila and Nygren in 2009 in Nicaragua, the majority of Fairtrade producers studied 'demonstrated a relatively poor understanding of what Fairtrade is, not to mention the civic conventions included.'⁴³ Almost 60% of Fairtrade farmers within the study were also selling their products in traditional markets, and in most instances, gathering a higher price, as the market supply for Fairtrade certified products far outstrips demand.⁴⁴ This is hardly indicative of an

³⁴ Ballet and Carimentrand, pp 320

³⁵ M Aksoy, 'Global Agricultural Trade Policies' in M Aksoy and J Beghin (eds.) *Global Agricultural Trade and Developing Countries*, World Bank, Washington DC, 2005, pp.37

³⁶ Ballet and Carimentrand, pp 320

³⁷ Ibid.

³⁸ Ibid

³⁹ Wright and Heaton, pp 415

⁴⁰ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded October 31st, 2013

⁴¹ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded October 3rd, 2013

⁴² Wright and Heaton, pp 415

⁴³ J Valkila, A Nygren, 'Impacts of Fair Trade Certification on Coffee Farmers, Cooperatives and Laborers in Nicaragua', *Agriculture and Human Values*, vol. 27, 2010, pp 333

⁴⁴ Ibid

organisation able to meet the financial and social requirements of an LDC's path to prosperity.

As one non-Fairtrade coffee roaster quipped, 'I think we could buy cheaper coffee with Fairtrade, but we wouldn't sell as much.'⁴⁵

Direct trade and the Melbourne specialty coffee economic model

If the World Trade Organisation is truly aiming to supervise and liberalize international trade down the lines of the Doha Round of Agreements still on the table, then it must be cognizant of the potential for a more equitable free trade system to emerge.⁴⁶ The WTO recognizes the need for increasing the flow of international trade whilst leveling benefits for countries on either side of the trade relationship.⁴⁷ The encouragement of a new ethical trading scenario as an adoptive practice of the WTO would be a sustainable and solvent outcome where the popularity of the Fairtrade model at both a producer and consumer level has failed to accomplish its principle outcomes.⁴⁸

Such an alternative to the current Fairtrade model is already in existence. With several minor differentiations, the umbrella term for the model is 'direct trade', based heavily on the original principles of the Fairtrade model in its earlier years,⁴⁹ with a greater emphasis on 'commitment both ways.'⁵⁰ The overall objective of a direct trade approach is to 'eliminate power imbalances that exist in traditional supply chains.'⁵¹ Rather than Fairtrade's model of a 'price floor', direct trade practices are based on the quality of the agricultural product.⁵² The higher the quality of the agricultural product is deemed, the

⁴⁵ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded October 3rd, 2013

⁴⁶ World Trade Organisation, 'Developmental Aspects of the Doha Round of Negotiations', World Trade Organisation [website], 2005. Article 2, accessed 23rd of September 2013
https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-Html.aspx?Id=57970&BoxNumber=3&DocumentPartNumber=1&Language=E&Window=L&PreviewContext=DP&FullTextSearch=#KV_GENERATED_FILE_000049.htm

⁴⁷ Information and Media Relations Division of the WTO Secretariat, *Ten Things the WTO Can Do*, Geneva, 2013

⁴⁸ Collier, pp163

⁴⁹ Reynolds, pp 1084

⁵⁰ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded October 3rd, 2013

⁵¹ Macatonia

⁵² Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded September 24th, 2013

higher the premium the product will attract, and the achievement of this quality is dependent on long-term sustainable, ethical and mutually beneficial trading relationships. A buyer will, instead of using the intermediary exporters, importers, purchasers, and other personnel in a traditional or Fairtrade relationship, go directly to the producer to procure their product. The formation of a relationship between the buyer and the producer means that a long-term sustainable business partnership will evolve out of a mutual recognition of the other's needs.⁵³

For the Australian context, the best example of a direct trade boom lies in the specialty coffee industry in Melbourne, which has more or less 'cult status' amongst its citizens.⁵⁴ The introduction of the 'third wave' of coffee – specialty coffee – to the industry at the start of 2008 has brought with it a significant change to the way coffee is procured, processed and consumed, and for the consumer awareness of ethics.⁵⁵ The quality of coffee now expected unilaterally across every cafe in Melbourne is almost unparalleled, and the interest in how this has been achieved is acute.⁵⁶ The industry would credit the quality to a much higher level of involvement from the buyer.⁵⁷ With a buyer going directly to the source of the product – as one buyer noted, 'we know the producers, we shake hands with the producers, and they know we're after quality'⁵⁸ – the ability for the product to improve, expand, and with it attract a higher premium is increased. This sustainable growth allows for producers to attract a higher price when their coffee is deemed to be of a higher quality, and for the buyer to charge a premium for the cup at a consumer level to reinvest back into a crop that will provide return, every year.⁵⁹

One prominent and much-awarded Melbourne-based coffee roaster explained his company's involvement thusly:

"We did insist that one of our producers separate all his coffee varieties on his farm. We were able to find out the unique characteristics of each of the coffees... and ask for some different processing methods to be introduced... We're encouraging him...

⁵³ Ibid.

⁵⁴ Age Editorial. 'The Coffee Army' *Melbourne Magazine*. Aug 26 2011, p10.

⁵⁵ T Williams, 'The Coffee Iconoclast', *Broadsheet*, 2013, retrieved 10th November 2013
<http://www.broadsheet.com.au/melbourne/food-and-drink/article/coffee-iconoclast>

⁵⁶ Age Editorial

⁵⁷ Williams

⁵⁸ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded September 24th, 2013

⁵⁹ L Becchetti, M Costantino, 'The Effects of Fairtrade on Affiliated Producers: An Impact Analysis on Kenyan Farmers', *World Development*, vol. 36, no. 5, 2008, pp 830

to improve his coffee quality, which means he can get a higher premium for his coffee, across the board.”⁶⁰

The directness of the involvement at this level means that prices can be personally agreed to in order to cover the cost of production, high quality premiums, and neither trade partner is paying for label certification. Whereas, under current market conditions where coffee prices are relatively high, Fairtrade’s bargaining power and price floor of AUD\$3.50 per kilo is anything but strong.⁶¹

The roaster, who has occasionally procured Fairtrade coffee when the quality has met his control standards, continued:

“The other important point... is that the producers (in LDCs) have never before had access to the final user of their coffee, they’ve always sold it to a green (raw) exporter. They don’t know what price their coffee achieves, what people use it for, what countries it goes to, and that’s disempowering. We’re able to provide (the producer) feedback about his lots. They were just flying blind before... they have no idea what they should keep doing, what they need to stop, to make their prices better.”⁶²

Here, the benefits of the direct trade model outweigh both the conventional and Fairtrade models in several regards, not least because of the misinformation that occurs at both ends of the supply chain.⁶³ Though the primary direct trade industry in Australia involves the import of coffee, the chocolate, sugar and grain industries have also been shown to benefit from a direct trade model.

Like coffee, one artisan chocolatier in Melbourne, who purchases sugar directly from Indonesia, commented:

“We know we want to stay true to the chocolate, we want the best and most ethical possible chocolate... we’re basically willing to set up programs on the farm there to improve their lives, and make it even more sustainable than it is, because we want to encourage them to do a better job. That’s something we’re actively trying to seek,

⁶⁰ Name Withheld, ‘Name Withheld, interviewed by Laura McCormack’ [sound recording], recorded September 24th, 2013

⁶¹ Valikila and Nygren, pp 325

⁶² Name Withheld, ‘Name Withheld, interviewed by Laura McCormack’ [sound recording], recorded September 24th, 2013

⁶³ Ballet and Carimentrand, pp 320

and... Melbourne is the best platform for this kind of trade, because there is this specialty movement.”⁶⁴

Likewise for quinoa, a South American ancient grain with numerous health benefits, direct trade is almost the only ethical trading platform on which it can be imported.⁶⁵ The Fairtrade certification on quinoa plantations is conditional on one-third of the Fairtrade premium to be reinvested in the prevention of soil erosion, and two-thirds to be invested in social initiatives.⁶⁶ Whilst this is a noble and, to an extent, productive effort, there is little further opportunity for the individual producer in a cooperative to address other issues surrounding his personal quinoa production, such as fungus, soil quality, water requirements and weed problems, which may affect the quality of the final product.⁶⁷ It has also been noted that the popularity of quinoa in the global North has put strains on its supply, and hence its costs, to the point where it is often too expensive to buy for even its producers.⁶⁸ Following logically, then, the added artificial Fairtrade price premium adds to this problem, rather than assisting communities in being able to purchase their own staple diet. Direct trade would, by its nature, set a mutually agreed and realistic market price based on product quality, which would significantly reduce these concerns.⁶⁹

The benefits of the direct trade model over the Fairtrade model occur in three key ways. Firstly, as previously discussed, where the Fairtrade model sets a price floor, in years of poor crop production this floor can also act as a price ceiling. Direct trade operates on far more aspirational and practicable principles.⁷⁰ If the product has quality, or potential for quality, the long-term thinking strategies of the direct trade model mean that prices should naturally be higher than the going market price. Over time, the market price will rise, and with it will the development of producer livelihood and quality coffee under the guidance and funding of the buyer.⁷¹ Secondly, direct trade is less discriminate towards producers. An isolated family farm is in with as much chance of producing a quality product under a direct trade agreement as a producer organisation or cooperative, rather than the particularities of the

⁶⁴ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded October 31st, 2013

⁶⁵ Eduoard, 'If I buy Alter Eco Quinoa, Can I Feel Good About It?', *Alter Eco* [website] 2013, accessed 1st November 2013, <http://www.alterecofoods.com/blog/alter-eco-quinoa>

⁶⁶ Ibid.

⁶⁷ C Ridout, K Price, R Fenwick, 'QUINOA', *Nutrition & Food Science*, vol. 90 no: 1, 1990 pp 6

⁶⁸ J Bythman, 'Can Vegans Stomach the Unpalatable Truth About Quinoa?' *The Guardian*, 2013, accessed 7th November 2013,

⁶⁹ Macatonia

⁷⁰ Ibid.

⁷¹ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded September 24th, 2013

Fairtrade regulations.⁷² In this sense, direct trade has the potential to be far more far reaching and therefore affect greater numbers of livelihoods.

Thirdly, the confidence amongst buyers that their money is always going into hands that possess a vested interest in the partnership is a guarantee that the partnership is more secure and unlikely to be interrupted by third party handling.⁷³ Fairtrade's insistence on costs associated with importers, exporters and purchasers, as well as label use and certification, reduces the security of the crop should the supply chain fail at any intersection of involvement.⁷⁴ This security is a fundamental aspect of the direct trade relationship, and why its earliest movements have been such a success.⁷⁵

The future of global direct trade

Free trade allows all countries to take advantage of their comparative advantage.⁷⁶ Without free trade, capital and labour will earn different returns in different countries.⁷⁷ As the North and South are able to increase their mutual trading positions as globalization realizes its full potential, trade barriers that have not previously existed are also materializing.⁷⁸ The reduction of these barriers would be beneficial for engagement in direct trade, which is an increasingly important bridge as trade partners become further interconnected.

However, there are many criticisms surrounding the illusive problem of liberalizing agricultural trade. Of these, the problems inherent with the security of agriculture need to be identified in order to mitigate their effects.

Wanki Moon, a professor of agricultural economics, identifies agricultural protectionism occurring for four key reasons.⁷⁹ Firstly, countries will always wish to maintain a certain extent of their domestic agricultural production for their own security, therefore will attempt to make its products more difficult to procure. Secondly, agricultural supply is generally considered an inelastic product, meaning that prices can drop sharply in a time of downturn, which for a LDC can be critical. Thirdly, protectionist measures are designed to offset the effects of negative externalities, such as the climate and conditions of agricultural

⁷² Macatonia

⁷³ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded October 3rd, 2013

⁷⁴ Ballet and Carimentrand, p320

⁷⁵ Age Editorial

⁷⁶ Stiglitz, p89

⁷⁷ Ibid.

⁷⁸ Ibid.

⁷⁹ W Moon, 'Is Agriculture Compatible With Free Trade?' *Ecological Economics*, vol. 71, 2011, pp 13

crop. Lastly, interest group politics can make the elimination of protectionist measures difficult, particularly when many stakeholders are invested in the financial return of an agricultural product.⁸⁰

Direct trade practices mitigate much of the need for protectionist measures. The security of a partnership conducted in a one-on-one capacity empowers the producer to ask for prices that reflect the relationship to product quality, and eliminates most intermediaries and cooperative demands with invested interest in the agricultural product that may hinder the relationship.⁸¹ In this sense, a producer will be able to determine how much of his product he wishes to sell, and be empowered to make decisions of this type without the politics of a multiple-party input.⁸² Moreover, it is generally accepted within the direct trade industry that there will be periods of downturn, that this is part of the arrangement and is accounted for in the higher prices associated with quality.⁸³

A coffee procurer for a major specialty coffee company in Melbourne said:

“The direct trade model is harder to get into, because of the barriers (to trade and to geography)... but once you get in it... as a small roaster, it is a huge investment. It involves physically visiting these farms, but they’re vetting you as much as you are them. Once you have the buying power, that allows you in to a lot more places, to form a lot more partnerships. In a way, you do have to take the good with the bad, with the understanding that that will happen in a long-term economic relationship.”⁸⁴

One artisan chocolatier in Melbourne agreed:

“Chocolate is very political, it’s not like coffee where you can just turn up at the farm and say hello, talk to them... there’s lots of secrecy around quality cacao... say, Madagascar, the highest quality cacao in the world, or known as, but it’s very hard to get a name out of anyone, it’s a very closed industry there, and a lot of it is owned by America. A lot of cacao-growing countries are still very colonial... they have big industries which for a long time was unfair trade, but they have to justify

⁸⁰ Ibid.

⁸¹ Ballet and Carimentrand, p320

⁸² Name Withheld, ‘Name Withheld, interviewed by Laura McCormack’ [sound recording], recorded September 24th, 2013

⁸³ Ibid

⁸⁴ Name Withheld, ‘Name Withheld, interviewed by Laura McCormack’ [sound recording], recorded October 3rd, 2013

that now, people don't want to buy unfair chocolate. Things like direct trade do help keep things accountable. "⁸⁵

It would be to the global North's long-term advantage to promote free direct trade practices via North-South trade agreements, especially in the agricultural sector, as it would make direct trade easier to secure and maintain over a long-term trading relationship without money disappearing into the cracks of tariffs and other protections.⁸⁶ While currently only gathering momentum within small-scale specialty industry, including but not limited to chocolate and its components, sugars and coffee, direct trade practices have great scope in the future of developing countries' agricultural presence in a globalised market.

In 2003 Australia developed a system of trade with LDCs that allowed modified tariff rates for trade between them.⁸⁷ This has been considered reasonably unsuccessful, as Australia itself is an agricultural export economy, and is highly protective of imports (to the point where up to 97% of agricultural import is banned)⁸⁸ on environmental grounds due to Australia's unique ecosystem. This is a further hurdle expense for ethical trade between Australia and LDCs. It would certainly be in Australia's interest, and its specialty coffee and chocolate industry, to engage in free trade agreements. Coffee and cacao are not products Australia has enough success in cultivating to be self sufficient; therefore, if it is to trade ethically, it follows that free trade agreements become a critical part of the associated liberalisation.

However, the multilateral free trade agreements Australia and many other countries are engaging or seeking to engage in⁸⁹ are unlikely to be an ethical solution when undertaken between the global North and South.⁹⁰ Multilateral trade agreements fail to take into account the circumstances of individual LDCs, instead attempting to bind groups of countries together in trade when it may not yet be in an LDC's interest to eradicate all protectionist measures in one go.⁹¹ It is consistently important when considering trade agreements to

⁸⁵ Name Withheld, 'Name Withheld, interviewed by Laura McCormack' [sound recording], recorded October 31st, 2013

⁸⁶ Mann, pp 2035

⁸⁷ D Lippoldt, 'The Australian Preferential Tariff Regime', *OECD*, OECD Trade Policy Working Paper No.33, 2006, accessed 2nd October 2013. <<http://www.oecd.org/australia/36727558.pdf>>

⁸⁸ A Disider, L Fontage and M Mimouni, 'The Impact of Regulations on Agricultural Trade: Evidence from the SPS and TBT Agreements', *American Journal of Agricultural Economics*, Vol. 90 No. 2 2008.

⁸⁹ Australian Government Department of Foreign Affairs and Trade, 'Trade at a glance', 2012, accessed on 3rd November 2013 <http://www.dfat.gov.au/publications/trade/trade-at-a-glance-2012.pdf>

⁹⁰ Stiglitz, pp 79

⁹¹ Ibid.

recognise that developing countries deserve to be treated differently than the developed⁹², and subsequently the recommendations of this paper advocate the development of individual free trade agreements between global North and South countries to ensure the smooth passage of agricultural goods.

Hence, individual and liberalized preferential trade agreements (PTAs) between the global North and developing agricultural trading partners in the global South would allow for a fairer import market to develop in the absence of global and WTO-managed fair trade practices.⁹³ PTAs are designed to give preferential access to particular goods between countries and none are more important to the global agenda than agriculture.⁹⁴ Economist Denis Medvedev commented 'The prospects of increased foreign direct investment are generally recognised as some of the more important reasons for entering preferential trade agreements,'⁹⁵ though "while the trade outcomes of PTAs have received extensive attention in theoretical literature, the link between PTA and FDI is less well understood."⁹⁶ Though generally untested between the global North and the global South, PTAs are associated with an increase in the foreign direct investment between trading partners, which would be positive outcome if free trade were part of the agreement.⁹⁷ Since most livelihoods in LDCs are dependent on agriculture for income, their access to the global market is critical.⁹⁸ Where protectionism has failed, individual preferential free trade agreements that are considerate of the needs of individual countries to become stable parts of the market is trade that is operating with a long-term, ethical and sustainable point of view.⁹⁹

Conclusion

The World Trade Organisation, if it is to be truly 'globally' effective, must seriously address the trade needs of developing countries. (Kinnock) If these are not conducted ethically, then the values of human security and rights are not being met. For forty years the Fairtrade brand has run as a parallel alternative to the global market, but mainstream ethical trade is

⁹² Information and Media Relations Division of the WTO Secretariat, *Ten Things the WTO Can Do*, Geneva, 2013

⁹³ N Foster, R Stehrer, 'Preferential trade agreements and the structure of international trade', *Review of World Economics*, vol. 147, 2011, pp 385-409

⁹⁴ D Medvedev, 'Beyond Trade: The Impact of Preferential Trade Agreements on FDI Inflows,' *World Development*, vol. 40, no 1, 2012, pp 56

⁹⁵ Ibid.

⁹⁶ Ibid.

⁹⁷ Ibid.

⁹⁸ Stiglitz, pp79

⁹⁹ Ibid.

now at the forefront of the WTO's agenda. If free trade in the agricultural sector is to be encouraged, then it must first be encouraged between North-South trading partners able to build long-term, stable and ethical trade relationships to the mutual benefit of both parties. Free direct trade provides the answers for quality, ethics and empowerment that the agricultural sector needs most.

Notes

The participants interviewed as part of the research were purposively sampled by the researcher as they were individuals personally known to her for their trade practices and thus, particularly good examples of the topic being studied. They were all interviewed using a semi-structured interview schedule and have all chosen to remain anonymous. The researcher recognises the bias inherent in her selection method but maintains the integrity of her findings.

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