

What Price Virtue? At Some Retailers, 'Fair Trade' Carries A Very High Cost

Stores Charge Big Markups On Goods Intended to Help Farmers in Poor Countries

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At a Whole Foods Market in suburban Boston, the coffee aisle recently was lined with leaflets promising to donate 5% of sales to growers. Labels proclaimed that beans were "purchased in accordance with international fair trade standards." Pamphlets asked: "Is your coffee fair to farmers?"

The materials reflect a growing international campaign to pay struggling farmers in poor countries more than market rate for commodities like coffee, bananas and chocolate. The extra cash has helped thousands of farmers fund education, health-care and training projects, among other things.

But as "fair trade" catches on in the U.S., Europe's experience shows that the biggest winners aren't always the farmers -- but can be retailers that sometimes charge huge markups on fair-trade goods while promoting themselves as good corporate citizens. They can get away with it because consumers usually are given little or no information about how much of a product's price goes to farmers. In the case of Whole Foods, the 5% promise doesn't refer to the retail price, as shoppers might assume, but a different amount the company pays its coffee unit. (See related article.)

Paying More

Sainsbury's, a British supermarket chain owned by J Sainsbury PLC, has sold fair-trade bananas at more than quadruple the price of conventional bananas -- and more than 16 times what growers receive. Tesco PLC, another chain, recently tacked on \$3.46 per pound for fair-trade coffee while the grower gets about 44 cents above the world market price.

"Supermarkets are taking advantage of the label to make more profit because they know that consumers are willing to pay a bit more because it's fair trade," says Emily Dardaine, fruit-product manager at Fairtrade Labelling Organizations International, or FLO, a Germany-based federation of fair-trade groups.

Both British chains say they aren't exploiting fair-trade products to their own advantage. In some cases, after being asked about their margins, retailers cut their prices.

Last year, global sales of fair-trade goods -- everything from nuts to wine -- surpassed \$700 million. Strong sales in Europe have caught the attention of

U.S. companies, including Starbucks Corp., Procter & Gamble Co. and Dunkin' Donuts, which have all begun offering fair-trade coffee.

The history of fair-trade products goes back to about 50 years ago, when missionaries arranged to have Western churches sell African handicrafts and return the profits to the villages. In the late '60s and '70s, "world shops" sprang up in Europe and the U.S., to give sellers in developing countries access to Western markets. The shops purchased craftwork, textiles and commodities such as coffee, tea and honey directly from cooperatives and small farmers, so there were no middlemen to take a cut of the sales.

Max and Minimums

In 1988, a Dutch foundation introduced a new label for retail coffee that carried the name Max Havelaar, a fictional 19th-century folk hero who campaigned for better treatment of Indonesian workers on Dutch coffee plantations. To carry the label, companies had to pay a minimum price for coffee that guaranteed growers a profit -- along with small premiums to fund development projects at their production facilities. That gave growers access to Western consumers without exposing them to swings in commodity prices, which sometimes fall below production costs.

For example, raw Arabica coffee beans currently sell for about 82 cents a pound on the world market. The fair-trade minimum price, which hasn't changed since 1988, is \$1.26. Dean Cycon, chief executive of Dean's Beans, a wholesale coffee roaster in Orange, Mass., says it generally costs farmers about 60 cents a pound to produce coffee.

Nonprofits sprang up to launch fair-trade products in other European countries, sometimes under different labels. To improve the certification of fair-trade products, FLO, the German federation, was established in 1997. Working with the various country groups, it certifies producers of fair-trade products, sets minimum prices for goods, verifies that products labeled fair trade really benefit farmers, and works toward introducing a universal fair-trade label. Meanwhile, FLO's 18 affiliates in North America, Europe and Japan license companies to put fair-trade labels on products.

These organizations don't suggest what retailers should charge consumers for fair-trade products, which they say would be illegal. Some critics suggest the groups worry that if they criticize retailers over pricing, the companies will stop selling fair-trade goods -- a charge the groups deny. The groups, as well as retailers, also generally don't emphasize how much of the retail price actually benefits farmers. Such information is available, but is buried in complex documents on FLO's Web site.

In some countries and among some retailers, the price difference between fair-trade products and equivalent conventional products is small. At Migros, a Swiss supermarket chain, fair-trade bananas cost about 3.6 cents more per pound than Chiquita bananas. A Migros spokeswoman says there's not a big price difference because "the Chiquita workers are fairly paid, and the costs

of production are similar."

It's a different story in some supermarkets in Britain. Sainsbury's, which says it sells more fair-trade bananas than any other British supermarket, sells the fruit in bagged bunches of six, not by weight. A bag of fair-trade Dominican Republic bananas, weighing about a pound, recently cost around \$2.74 in London. That's more than four times the price of a pound of unbagged regular bananas, also from the Dominican Republic. According to FLO, Dominican Republic fair-trade banana growers receive about 16 cents a pound from middlemen.

Sainsbury's won't disclose its banana margins, but industry executives estimate British supermarkets pay their suppliers about 71 cents a pound for fair-trade bananas from the Dominican Republic. If that's the case, Sainsbury's is earning almost \$2 a pound.

A spokeswoman for Sainsbury's said in a statement that the chain has generated more than \$1.8 million of funds for fair-trade projects since July 2000 that "has gone directly to growers on projects such as improving roads, schools and community projects." She also suggested that the chain had lowered its margins on conventional bananas to compete against price reductions by rivals.

Early last month, within two days of issuing its statement, the chain lowered its price by 17% to about \$2.26 for a bag of six fair-trade bananas. The spokeswoman called it "a coincidence."

Harriet Lamb, executive director of the Fairtrade Foundation in London, which licenses Sainsbury's, says of the chain's prices, "The concern of the Fairtrade Foundation is about the price paid back to the producer organizations." But Alistair Smith, international coordinator for Banana Link, a nonprofit British group that promotes the rights of banana workers and small farmers, called Sainsbury's fair-trade prices "unjustified," adding, "It would be all right if a much higher price was going to the producer."

At Waitrose, another British supermarket chain, fair-trade bananas are the most expensive variety sold, costing \$2.30 for just five. A spokeswoman says the company isn't using the fair-trade label to charge unreasonably higher prices and adds, "Our suppliers and customers are confident that we are charging a fair price for our fair-trade bananas." She didn't disclose margins.

At the online site of Tesco, Britain's biggest supermarket chain, half-pound containers of the company's fair-trade decaffeinated coffee recently cost 46% more than similarly described decaffeinated coffee. The price works out to \$3.46 per pound extra. The farmer is guaranteed about 44 cents more than the current world market price of 82 cents a pound, according to FLO. A Tesco spokeswoman says the company's profit margin on the fair-trade product is "significantly less" than the regular one because of associated costs.

In the U.S., where fair-trade items are just catching on, pricing anomalies already have arisen. Wild Oats Natural Marketplace, a 78-store national supermarket chain run by Wild Oats Markets Inc., of Boulder, Colo., introduced fair-trade organic bananas in January at 99 cents a pound -- the same price as regular organic bananas. "We've taken a margin hit, but we feel that bringing in the fair-trade bananas is the right thing to do for the farmers," says a spokeswoman. In late 2002, the chain introduced fair-trade bulk organic coffee at \$9.99 a pound, the same price as regular bulk organic coffee.

At a Cafe Borders inside a Borders book store in New York City, 10-ounce bags of fair-trade coffee sell for \$9.99 -- nearly \$16 a pound -- while 12-ounce bags of other coffees are priced at \$8.99, or about \$12 a pound. According to FLO documents, farmers receive \$1.41 a pound for organic fair-trade coffee. Borders charges the same prices for packaged coffee in all of its 437 cafes.

A spokeswoman for Borders Group Inc. wrote in an e-mail, "Based on your inquiry, we have been prompted to assess our pricing." She later wrote that, effective June 28, the company will lower the price of fair-trade coffee across its stores to \$7.99 for a 10-ounce bag.

Paul Rice, chief executive of Transfair USA -- an Oakland, Calif., FLO affiliate that licenses certified fair-trade products for U.S. companies -- says he believes his organization shouldn't interfere in what companies charge for fair-trade products, and that on average their retail cost is 10% to 15% more than comparable goods in the U.S.

"As a core philosophy, fair traders believe in as little market intervention as possible," he says. Regulating retail prices goes against the idea of "using the market as a vehicle for creating a win-win scenario for farmers and for industry" as well as consumers. The growth of fair-trade sales in the U.S., he says, suggest "millions of U.S. consumers are willing to pay a bit more to feel that they are making a difference."

But Luuk Laurens Zonneveld, FLO's managing director, says, "Of course I have a problem" with companies jacking up prices. He says that if his organization gets wind of a retailer charging "an outrageous margin," its affiliates might approach the company and point out that a lower price would give the product "a better chance for market share."

As a consumer, he says, he personally felt "scandalized" when he discovered what a German supermarket was charging for fair-trade orange juice.