



## FAIRTRADE AND THE GLOBAL FOOD CRISIS

### Food crisis affects farmers and consumers

Severe food shortages are affecting parts of India and the Horn of Africa, whilst food related riots have been reported in 22 countries, including Haiti, Cameroon, Indonesia, Egypt and Mexico. At the G8 summit in Japan in July 2008, the severity of the situation led world leaders to pledge \$10bn for investment in agricultural development and assistance to help people most affected by the current crisis. Many people in the Global South who typically spend more than 50%<sup>1</sup> of their income on food are now facing a major crisis.

The crisis is affecting consumers in industrialized countries too. Over the past year, soaring prices of food and fuel mean that families on low incomes in industrialized countries are facing hardship, particularly as a result of significant increases in the price of basic foods such as bread, pasta and eggs.

Several factors are combining to create this phenomenon. These include the rising cost of oil and transportation, the diversion of some food crops towards production of biofuels, and increased demand for meat and other foods in fast growing economies such as India and China. Other crops are also being affected by changing climatic patterns, resulting in lower yields or loss of harvests.

### Farmers need Fairtrade as much as ever

For many crops including coffee, cocoa and rice, prices have risen over the past two years on world markets.<sup>2</sup> However, we cannot assume that all the extra money reaches the farmers.

*"I now live in the town and food is expensive there, but when I go back to my village it's cheap. Farmers are not getting the higher prices – it's traders and speculators who are raising the costs for consumers."* Co-operative manager, Uganda.

This underlines the importance of farmer owned and run co-operatives where farmers receive a fair and stable price directly rather than selling through traders. When working together, farmers can negotiate from a position of strength and get access to information like the latest market prices.

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<sup>1</sup> IMF Survey Magazine online, July 1, 2008 '...In emerging economies, food's share of household spending typically exceeds 25 percent, and in developing countries it is often above 50 percent.'

<sup>2</sup> In the Fairtrade system, when market prices rise above the Fairtrade minimum, it is the market price that applies. In addition to a negotiated market price, Fairtrade producer organisations continue to receive the Fairtrade premium for collective investment in their businesses or community development.



Recent price rises must also be set in the context of decades of decline. For example, despite rising about 70% in recent months, the price of rice is still less than one third of what it was in the early 1970s<sup>3</sup>. Prices of other crops like cotton<sup>4</sup> remain very low. Meanwhile the costs of fertilizers, transportation and food in local markets have risen steeply. Given that people in poor countries spend a much higher proportion of their income on food and fuel, this is hitting them very hard.

#### Farmers face higher costs

Producers working in the Fairtrade system have told us that, even when they are getting better prices for their crops, this is outweighed by other price rises, making it difficult to make ends meet. In one case, a Fairtrade tea factory manager says local fertiliser costs have more or less doubled<sup>5</sup>, severely undermining the co-operative's ability to distribute fertilisers to its members for the current season. If farmers can no longer afford fertiliser, they are forced either to take out high interest loans, or to cut back on the amount of land they cultivate.

#### Fairtrade provides stability

For all this, periods of high prices can ease the strain on poor farmers. However, it is the stability of Fairtrade that allows farmers to plan for the long-term. The market price can soar or slump below the cost of production; whereas Fairtrade standards include a Minimum Price which covers the cost of sustainable production<sup>6</sup>. This provides a safety net during times of low prices<sup>7</sup>.

In short, in times of high prices, farmers need Fairtrade as much as ever. When the market price goes above the Fairtrade Minimum Price, Fairtrade producer groups can negotiate higher prices that reflect what is going on in the market.

Even during times of high prices an additional Fairtrade Premium<sup>8</sup> is included in the price paid to farmers' organizations. This Premium is used for social, environmental and business initiatives. Through democratic and transparent processes farmers decide how to invest the Premium. They can use it to obtain revolving loans, access seed banks, finance additional agricultural supplies, and to improve community services such as infrastructure, health and education. (More about the Premium below).

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<sup>3</sup> According to figures from the FAO/OECD

<sup>4</sup> See historical cotton prices at [www.cotlook.com](http://www.cotlook.com)

<sup>5</sup> Kenya Tea Development Authority told Harriet Lamb, Executive Director, Fairtrade Foundation, that fertiliser costs have risen by over 100% since January, going from 1,500 to 3,500 Kenyan Shillings a bag. Ravine Roses also of Kenya, says that fertiliser has risen by 30% since January, and 70%-100% in the last year

<sup>6</sup> In response to the food crisis Fairtrade Labelling Organizations International is currently revising the way it sets prices so that it can be more responsive to changing costs of production

<sup>7</sup> The market price of coffee has been below the cost of sustainable production most of the time during the last twenty years, [www.fairtrade.net/fileadmin/user\\_upload/content/Arabica\\_Price\\_Chart\\_89-07\\_01.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/Arabica_Price_Chart_89-07_01.pdf)

<sup>8</sup> The Fairtrade Premium is an additional set amount of money, included on top of the Fairtrade price, for farmers' organisations to invest in community development or business improvements



## Small farmers are a possible solution to the food crisis

In April 2008 the leader section of the Economist magazine argued that the response to the food crisis should come from small farmers<sup>9</sup>. The article claimed that supporting small-holders would:

- 1) reduce poverty for the world's poorest people
- 2) be more environmentally friendly
- 3) be more efficient, in terms of investment and boosting overall yield.

Contrary to popular belief numerous studies have shown that small-holder farmers are often more efficient than larger farmers, with higher yields per hectare<sup>10</sup>. Furthermore, small farmers are more likely to combine production of several different crops, some for export and others for their own family consumption or for sale in local or regional markets.

In June 2008, a global summit in Rome to address the food crisis and climate change recognised the importance of supporting small farmers in any programme to address the food crisis, calling on governments and organisations *'to help farmers, particularly small-scale producers, increase production and integrate with local, regional, and international markets.'*<sup>11</sup>

## Fairtrade supports small-scale farmers

Small farmers are extremely vulnerable as a result of oil, fertiliser and food price rises. Through their efficient farming methods they are also uniquely placed to help tackle the twin challenges of food scarcity and climate change.

Coffee, cocoa, cotton and rice are among the products that are grown mainly by independent small farmers, working their own land and marketing their produce through a local co-operative. To be Fairtrade certified these products generally come from small farmer organizations<sup>12</sup>. This gives small farmers preferential market access over bigger plantations.

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<sup>9</sup>Economist April 2008: *'Ideally, a big part of the supply response would come from the world's 450 million smallholders in developing countries, people who farm just a few acres. There are three reasons why this would be desirable. First, it would reduce poverty: three quarters of those making do on \$1 a day live in the countryside and depend on the health of smallholder farming. Next, it might help the environment: those smallholders manage a disproportionate share of the world's water and vegetation cover, so raising their productivity on existing land would be environmentally friendlier than cutting down the rainforest. And it should be efficient: in terms of returns on investment, it would be easier to boost grain yields in Africa from two tonnes per hectare to four than it would be to raise yields in Europe from eight tonnes to ten. The opportunities are greater and the law of diminishing returns has not yet set in.'*

<sup>10</sup> Giovanni Cornia, 1985. Farm Size, Land Yields and the Agricultural Production function: an analysis for fifteen Developing Countries. World Development. Vol. 13, pp. 513-34

<sup>11</sup> [http://www.fao.org/fileadmin/user\\_upload/foodclimate/HLCdocs/declaration-E.pdf](http://www.fao.org/fileadmin/user_upload/foodclimate/HLCdocs/declaration-E.pdf) - most notably paragraphs 6(a) and 7(b)

<sup>12</sup> The exception to this is contract production. It applies to rice and cotton in India and Pakistan, when the producers are not organized into democratic structures. In this case producers can join Fairtrade through a 'Promoting Body', for example an NGO, processing company or private enterprise to which they contract, that is able and willing to contribute to their social and economic development



Fairtrade, by supporting democratic organisations of small farmers, provides the stability farmers need to survive and plan for the future. This enables families to stay and work on the land – providing food and maintaining rural economies instead of migrating to urban centres and adding to the growing populations entirely dependent on purchasing food to survive.

Added to this, Fairtrade Premiums are often invested to support improvements in production methods or to increase opportunities for diversification. Examples include intercropping coffee with citrus or banana trees to provide shade and additional cash crops for local markets. In Sri Lanka, tea growers have expanded their production of spices for the international Fairtrade market by introducing new spices to their tea gardens. And, in Rwanda, coffee co-operatives have started roasting their own-label coffee for sale within the country.

Farmers sometimes also use the Fairtrade Premium to improve local food security. For example Malian cotton co-operatives have invested their Fairtrade Premium in building warehouses to store grain and seeds after the harvest, so that they can sell into the local markets later in the season, when such food is scarcer.

In the UK's Guardian newspaper, in June 2008, George Monbiot<sup>13</sup> argues that the long-despised but highly productive 'peasant farming' methods may in the end prove our best chance of addressing food security. Of Fairtrade, he says:

*'For many years, well-meaning liberals have supported the fair trade movement because of the benefits it delivers directly to the people it buys from. But the structure of the global food market is changing so rapidly that fair trade is now becoming one of the few means by which small farmers in poor nations might survive. A shift from small to large farms will cause a major decline in global production, just as food supplies become tight. Fair trade might now be necessary not only as a means of redistributing income, but also to feed the world.'*

### **Fairtrade also supports workers on bigger farms**

Landless labourers are some of the most disadvantaged producers in the world, and so Fairtrade standards also cover products like tea, bananas and flowers which are mainly grown on bigger farms that employ workers. Fairtrade, together with trade unions and other organisations, helps workers on these farms to organise so they can take more control over their lives. A Joint Body including worker representatives decides on the use of the Fairtrade Premium. For example, the Premium is used on projects that generate additional income. Workers have also used the Premium on small plots of land where they can cultivate their own food. These additional benefits are very important particularly during times when prices of local produce are high.

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<sup>13</sup> Environmental activist, author and journalist



## **Buying Fairtrade supports food security in the South**

Some people question whether Fairtrade should be encouraging the export of products from the South during a time of food scarcity. In the 1970s, when market prices were high during the oil crisis, a lot of people complained about 'the cow of the rich that would eat the grain of the poor'. It is important to emphasize that buying rice from the Global South today is not the cause of hunger. People are starving because they cannot afford to buy food. This was highlighted by Indian economist, Amartya Sen<sup>14</sup> in his book *'Poverty and Famines: An Essay on Entitlement and Deprivation'*. In the years prior to the 1974 famine in Bangladesh food availability per head was lower than in the year when the famine occurred. It was shown that ability to pay was the main factor that determined whether families could feed themselves.

The price received by farmers and the income of workers will determine their ability to buy food for their family. In this respect, choosing Fairtrade certified products is a positive choice that contributes to tackling poverty and hunger in the South.

Fairtrade Labelling Organizations International (FLO)  
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[www.fairtrade.net](http://www.fairtrade.net)

The Fairtrade Foundation is the UK member of FLO

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<sup>14</sup>Amartya Sen received the Nobel Prize for Economics in 1998