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## The Impacts of Fair Trade

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### Abstract

The decline of commodity prices has had a dramatic impact on the lives of millions of small-scale producers in developing countries. The paradox is that while the food chain as a whole is profitable, the gap between the price producers receive and retail prices has grown. Fair Trade (FT) seeks to address this problem by directly linking producers with consumers. While the FT movement has grown substantially, limited work has been done to study the effectiveness of the scheme. This literature review found the impacts of FT on different stakeholders to be varied. While impacts are tangible and generally favourable at the producer and producer organisation level, they are more difficult to discern for other stakeholders (i.e. business, governments, EU, WTO).

The livelihoods approach was applied to analyse the impact of FT on small-scale producers and their families, as well as the spill over effects of FT on the community. Producers have experienced decreased financial vulnerability and gained a sense of empowerment. Producer organisations, while possibly becoming dependent on FT, have benefited from institutional capacity building, increased inflow of funds and gained access to global markets. Businesses themselves have realised greater financial opportunities, altered their marketing approaches, and shifted their focus to being more responsible corporate citizens. However, as mainstream businesses adopt this approach, the FT movement's focus on improving producer livelihoods is at a risk of being diluted. The impact of FT is further evaluated on three different political entities: national governments, the European Union, and the World Trade Organisation. At the government and international organisational level, FT advocacy achieved greater recognition and financial support. However, changes in trade policies have not been witnessed. A major challenge to the movement is the difficulty in assessing impact. While this report discussed various methodologies for the assessment of impacts of FT, no approach specific to FT was identified, despite attempts to modify existing methodologies. Thus, impact assessment remains limited, and focuses mainly on the impacts on producers. The predominance of positive benefits highlights the potential of FT as a tool for significant poverty reduction, if applied on a wider scale.

**Keywords:** Business, capacity building, fair trade, impact assessment, producer organisations, small-scale producers, value chain