

What's the Difference Between Fair Trade and Free Trade?

We live in an era of unprecedented economic interdependence. The decisions we make here in the United States about what we eat, drink, wear and buy affect the lives of people overseas we may never meet. Under the conventional or free-trade system in place today, we often have no way to know how our consumer choices affect our brothers and sisters around the world, from the textile workers in Asia to farmers in Africa to artisans in Latin America. Fair Trade, however, seeks to change that and many other ways in which conventional trade often leaves behind the most vulnerable people.

The following table provides a brief overview of the basic differences between Fair Trade and conventional trade:

Dimension	Conventional Trade	Fair Trade
Strategy	Profit is the overriding concern.	Balances concerns for people, the planet and profit.
Financing	Payment is received at time of shipment; credit is sometimes extended by informal lenders at exorbitant rates.	Advance credit allows for income during lean seasons between harvest/production cycles.
Investment	Corporate investment in a community can be limited to people and activities that build skills for use in related commercial enterprises and/or generate good publicity.	Technical assistance and training build broader skill sets, and social premiums foster investment in social projects that benefit all residents of low-income communities.
Supply Chain	Supply chain seeks out lowest-cost labor and raw materials, often through exploitative middlemen or contractual arrangements that reflect little concern for producers and their families.	Disadvantaged groups are made partners in the Fair Trade supply chain.
Marketing	Marketing is directed at increasing profitability.	Marketing is driven by consumer education and advocacy that leads to socially responsible business innovations.

Conventional Trade

Often the most important concern in the free-market system is making a profit, especially when corporations are obligated to deliver value to their shareholders. Profit margins are maintained and shareholder dividends delivered by seeking out the most cost-effective labor and services. In practice, this sometimes means moving production overseas to countries in Asia and Latin America, where enforcement of labor protections for workers is weak. This usually means wages are meager, working conditions are substandard, rights are curtailed and opportunities for people to improve their lives through work are limited.

It is not just conventional production that is profit driven; the marketing efforts of most conventional trading firms also reflect this profit-centered focus. Their communication is primarily product driven and designed to generate sales revenues. Rarely do ads for chocolate bars or handbags tell us anything about the people whose labor went into making them.

Fair Trade

Fair Trade diverges sharply from conventional trading practices. It is important, however, to note that Fair Trade does not take place outside the free-trade system. The participation of everyone in the Fair Trade system—producers, companies and consumers—is voluntary and based on a set of mutually accepted standards that are monitored by third parties.

In addition, Fair Trade connects us directly with producers around the world. We know something about the conditions under which they work. We know that they have direct, long-term relationships with the Fair Trade organizations that buy their products and sell them to us. And we know the benefits we create for them and their communities through our purchase of their products.

Profits

Conventional trade often works to systematically pull wealth up the supply chain to the companies who sell imported items. Fair Trade, however, deliberately shifts more of the end value of products to the communities where they were created. This means working as directly as possible with producers and eliminating the intermediaries that can exploit them. It may mean processing or packaging takes place overseas rather than here in the United States. And it means Fair Traders also seek out the disadvantaged and marginalized—groups such as women, the disabled or ethnic minorities who are often targets of commercial exploitation—to engage in productive enterprises that increase family income and community stability.

Relationships

Perhaps the most significant point of departure from conventional trading practices is the commitment that Fair Trade organizations make to forge mutually beneficial, long-term relationships. In the conventional trading system, the perpetual struggle to meet profit margins has led to outsourcing, offshoring, subcontracting and other similar arrangements.

The Fair Trade model is designed to change business as usual. Fair Trade organizations trade as directly as possible with the people who create the items they sell. In most cases, Fair Trade organizations have personal contact with the producers in their supply chains. Companies that participate in the CRS Fair Trade Coffee program, for example, travel to Nicaragua every year to visit the Fair Trade farmers whom CRS supports there, even camping in tents on their farms in an effort to build these direct and personal relationships.

Credit

Conventional companies tend to push risk down the supply chain to their producers, typically paying them only after the shipment of goods and offering no advance credit to help ensure the timely production of quality items. This means that more and more of the risk in the conventional trading system falls on the shoulders of low-wage workers.

Fair Trade companies, on the other hand, extend free or low-interest credit to the producers in their supply chains to help them purchase raw materials and to provide steady income between peak production periods. The conventional system follows a payment-upon-delivery approach in which families either struggle to make ends meet during the lean seasons or borrow money at predatory rates from informal local lenders.

Marketing

Finally, Fair Trade differs from conventional trade in the way it talks to us as consumers. Like conventional firms, Fair Trade companies market their products in a way that is designed to generate sales. But unlike conventional trade, the stories of producers whose lives and communities have been changed through alternative trading relationships are featured prominently in Fair Trade marketing efforts.

Fair Trade companies don't just give consumers different stories than conventional firms; they also give us different choices. In the Fair Trade system, we aren't limited to buying a product solely on the basis of its price and quality. We can also take into consideration the social and environmental conditions under which it was produced and make choices that reflect the social values of our faith.