



PART 2

Read the text below and answer questions 14–26.

THE ECONOMICS OF FAIR TRADE

A

Fair Trade is commonly described as a trading partnership built on dialogue, transparency, and respect, but its economic ambition is more specific: it is a structured attempt to reduce the power imbalance that characterises many global commodity chains. In conventional trade, small producers—often in the Global South—sell into markets where they have limited leverage over prices, little information about downstream mark-ups, and few alternatives when a buyer offers unfavourable terms. Fair Trade schemes therefore position themselves as corrective institutions. Rather than treating low producer prices as an unfortunate but “natural” outcome of global competition, they frame them as a development problem linked to unequal bargaining positions, price volatility, and the concentration of purchasing power among exporters, traders, and brands.

B

The system’s main tools are designed to stabilise income and strengthen collective capacity. A minimum price operates as a floor when world prices fall, aiming to stop farmers from selling below sustainable production costs. In addition, buyers pay a Fairtrade Premium on top of the sale price; this is typically managed at group level and allocated through democratic decision-making to projects such as training, equipment, or community services. Certification often requires producers to join a cooperative or similar organisation, which can improve negotiation and reduce transaction costs by coordinating quality standards and logistics. Many schemes also include pre-financing—sometimes up to 60% of an order’s value—to address a predictable cash-flow bottleneck before harvest, when farmers must still pay for labour, transport, and inputs.

C

Empirical research reports a mixed but often positive picture of community-level outcomes. Where cooperatives function effectively, producer households may experience higher or more stable incomes, improved food security, and reduced exposure to sudden shocks. Premium funds can support services that individual farmers would struggle to finance alone, such as clinics, clean-water systems, storage facilities, or school materials. The wider benefit is sometimes described in terms of risk management: if income becomes more predictable, producers can plan across seasons rather than making short-term sacrifices when prices dip. In that environment, farmers may be more willing to invest in productivity, diversify crops, or adopt practices that protect long-term yields.



D

Critics, however, argue that these interventions can generate new economic problems. A guaranteed floor price may weaken market signals and, in some contexts, encourage overproduction—an externality that can depress global prices for producers who are not in the scheme. Economists also note that certification compliance carries administrative burdens: audits, documentation, and training can be costly for smallholders with limited time and literacy. Distributional questions add further tension. On large estates, critics ask whether the Premium meaningfully reaches individual workers or becomes absorbed by management-controlled spending. Even where benefits exist, sceptics question scale: if only a minority of producers can access the scheme, does it produce broad poverty reduction or mainly incremental gains for certified participants?

E

Partly because of these debates, ethical trade is evolving in ways that do not always rely on the same model. Large corporations increasingly adopt mainstream ethical sourcing commitments, but this can raise concerns about diluted standards, weak enforcement, or “ethics-washing” used primarily for reputation management. Another pathway is direct trade, in which buyers build long-term relationships with producers and pay more for quality, sometimes bypassing formal labels. Supporters claim direct trade can increase transparency through tighter relationships; critics respond that it may reduce accountability if the claims are not independently verified. In practice, these approaches sit on a spectrum: some producers prefer the predictable rules of certification, while others seek flexibility and higher returns through relationship-based contracts.

F

Beyond price floors and labels, Fair Trade debates also reflect the economics of commodity dependence. Many producers face input costs—fertiliser, transport, hired labour, loan repayments—that do not fall simply because world prices drop. When a price shock hits, the adjustment is often pushed onto households, leading to reduced nutrition, deferred medical care, or children leaving school to work. Supporters argue that treating stability as a development tool is not an inefficient distortion but a way to prevent socially costly coping strategies. Critics reply that stability mechanisms must be judged not only by intentions but by opportunity costs: resources spent on certification might, in some settings, deliver greater returns if invested directly in infrastructure, extension services, or diversified rural employment.

G

Certification credibility depends on monitoring, yet auditing remains controversial because it is expensive and imperfect. External checks may involve tracing product flow,



interviewing members, and reviewing records—procedures intended to deter fraud and protect consumer trust, but which also create bureaucracy. Environmental and labour standards add further layers: schemes may encourage reduced agrochemical use, soil conservation, and workplace protections, but compliance can require labour, training, and investment that some groups struggle to sustain. For consumers, the label often functions as a shortcut in ethical decision-making: it converts complex information about supply chains into a simple signal at the point of purchase. Whether that shortcut reliably maps onto real welfare gains is precisely what keeps the economics—and the politics—of Fair Trade under continuing scrutiny.

Questions 14–18

Choose the correct heading for each paragraph.

List of Headings

- i** Arguments that the scheme can create new economic problems
- ii** The environmental rules that are central to certification
- iii** A definition of the scheme and what it is intended to achieve
- iv** Competing approaches and possible future directions
- v** Why auditing is unnecessary in modern supply chains
- vi** The practical mechanisms used to support producers
- vii** How consumer behaviour can influence ethical trading systems
- viii** Examples of how producers and communities may benefit

14 Paragraph **A**

15 Paragraph **B**

16 Paragraph **C**

17 Paragraph **D**

18 Paragraph **E**

Questions 19–22

Match each Fair Trade mechanism with the correct impact, **A–F**, below.

List of Impacts



- A** Provides money that can be allocated collectively according to local decisions
- B** Helps producers avoid the administrative costs associated with certification
- C** Improves producers' negotiating strength by acting together
- D** Guarantees that producers receive higher wages as individuals
- E** Reduces the risk of producers accepting unfair terms when prices fall
- F** Helps producers obtain funds before income from sales is available

19 Minimum price

20 Fairtrade Premium

21 Membership of a cooperative or similar organisation

22 Pre-financing

Questions 23–26

Complete the sentences below. Choose **NO MORE THAN TWO WORDS AND/OR A NUMBER** from the text for each answer.

23 Fair Trade aims to correct producers' unequal

24 Buyers may provide pre-financing of up to of an order's value.

25 Some critics argue that a guaranteed minimum price could encourage

26 Certified labels can act as a for consumers making ethical choices.

Answer Key

14. iii

15. vi

16. viii

17. i

18. iv

19. E

20. A

21. C



22. F

23. bargaining positions

24. 60%

25. overproduction

26. shortcut