

5 Fair Trade – a concept valuing the producer’s work

By now, the historical development of the silversmith industry in Taxco has been analyzed. Due to the structural change the industry experienced in the past, several problems arose. As will be demonstrated in the empirical analysis of part six, many of the problems such as isolated effort by the silver smiths, high price competition and buyer’s power remain today. This section introduces a trade concept that could help resolve some of the problems faced by the artisans. Furthermore, the startup pakilia that works on the basis of Fair Trade principles with silversmiths in Taxco, will be presented. How well the concept of Fair Trade addresses the problems of the artisans and if the concept can help to improve their living circumstances will be discussed in section 6.2.

5.1 Fair Trade concept

Fair Trade is a concept of trade based on fairness for all the involved parties. Conventional trade often includes several intermediaries. This creates a lack of transparency in the supply chain and high pressure on prices, through a rough competition for profit margins amongst the intermediaries. The clients often are uninformed about production conditions and feel a high distance to producers. On the contrary, the Fair Trade movement searches for ensuring fair wages along the whole supply chain and dignity for workers and communities involved. In addition, it encourages environmentally friendly working practices (Green America, 2014). “The Fair Trade economy is based on justice, dignity, empowerment, transparency and respect for people and the planet” (Green America, 2014, p. 3).

“Poverty and hardship limit people's choices while market forces tend to further marginalize and exclude them. This makes them vulnerable to exploitation, whether as farmers and artisans in family-based production units [...] or as hired workers [...] within larger businesses” (World Fair Trade Organization, 2009, p. 5).

Thus, the Fair Trade philosophy believes that trade is important and can contribute to more fairness, equity and sustainability in the world. By Fair Trade practices, “[...] the marginalized and disadvantaged can develop the capacity to take more control over their work and their lives if they are better organized, resourced and supported, and can secure access to mainstream markets under fair trading conditions” (World Fair Trade Organization, 2009).

The World Fair Trade Organization (WFTO) recognizes that no identical fair trade strategy can be applied for all kind of products, places and communities. Thus, the execution of a fair trade strategy is adaptable to specific circumstances. However, the fair trade principles published by the WFTO in the Charter of Fair Trade Principles are the basis of fair trade and must be respected.

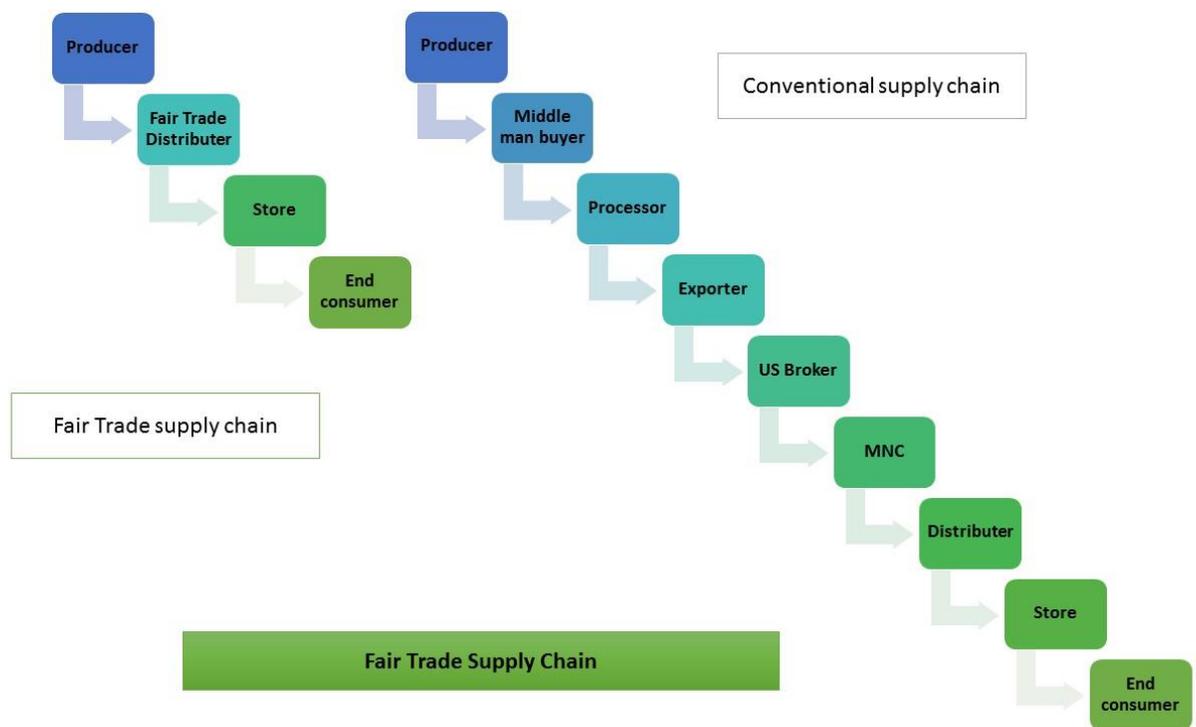
Core Principles of the Charter of Fair Trade Principles:

- **Market access for marginalized producers:**
Often producers do not have access to mainstream and added-value markets or can only reach them through inefficient, long trading chains. Fair Trade makes producers that use traditional methods of production aware of their benefits. Through promoting such values that are often neglected in traditional trade, Fair Trade includes such producers in markets they otherwise could not enter. In addition, the producers obtain more from the final selling price of their production than in traditional trade by reducing intermediaries and paying fair prices.
- **Sustainable and equitable trading relationships:**
Trading terms offered by Fair Trade buyers take into account all the costs of production. This means the terms also focus on the preservation of natural resources and future investments. Fair Trade wants producers to have a sustainable livelihood, which means that instead of only covering the day-to-day needs, it wants to offer a real improvement of their future living conditions. Prices and payment are determined on a fair basis, whereby both sides cooperate through planning and information sharing. Producers can include all the influencing factors and require prepayment when necessary.
- **Capacity building and empowerment:**
Cooperation with Fair Trade partners helps producers to understand more about trends and market conditions. In addition, the producers are promoted in terms of education, knowledge, resources and skills in order to have more control over their lives.
- **Consumer awareness raising and advocacy:**
Fair Trade works as a bridge between the end consumer and the producer: It aims at teaching consumers in the need for social justice and the positive impact of Fair

Trade. Furthermore, by raising awareness the movement gets a greater reach and can have a higher impact on international politics to reach the final goal of an equitable global trading system.

- Fair Trade as a “social contract”: Fair Trade aims at a transparent and respectful long-term trading partnership based on dialogue. The implicit “social contract” requires that buyers decide to give more than within conventional market conditions. This refers to offering support for capacity building, fair prices and pre-finance, when necessary. In return, producers utilize the benefits of the partnership for a long-term improvement of their social and economic situation. By that, Fair Trade represents a partnership that creates change and development (World Fair Trade Organization, 2009).

Figure 5-1: Fair Trade supply chain



Source: own elaboration, adapted from Green America, 2014

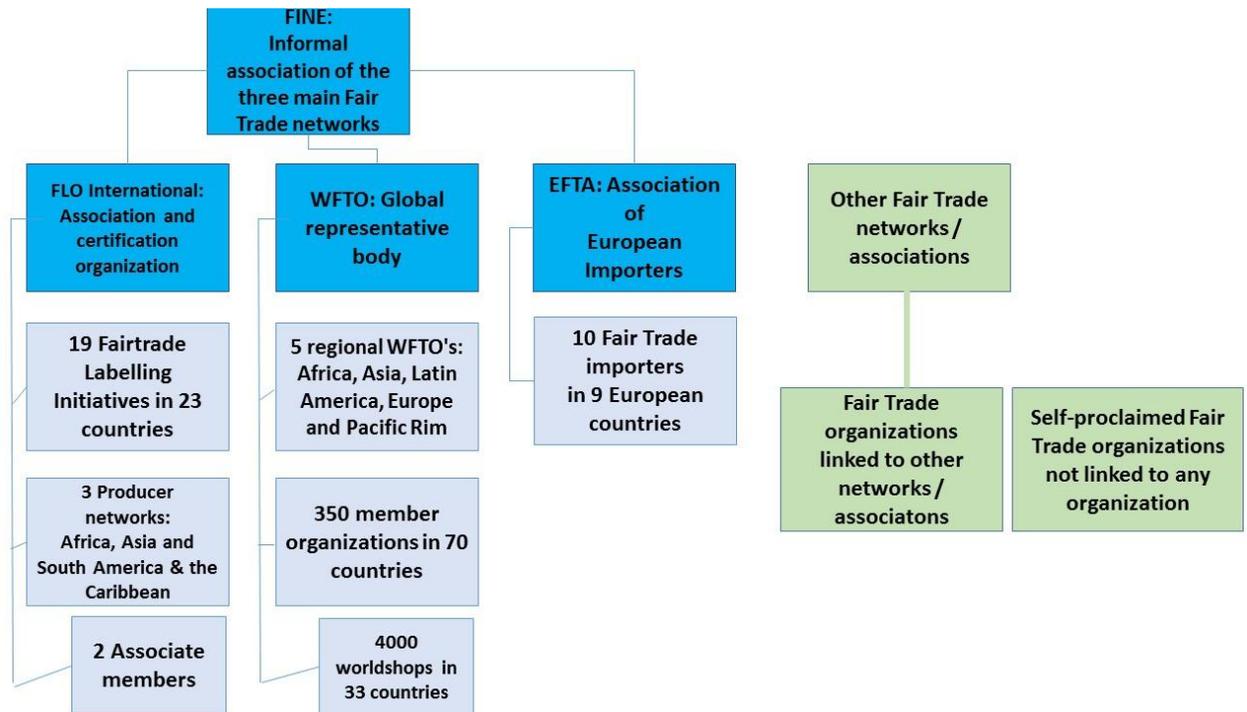
The graph shows how Fair Trade shortens the supply chain, which means that a higher margin of the end consumer price can be shared with the producer. Fair trade intends to “build [...]

real and lasting relationships between producers in developing countries and businesses and consumers in more developed areas all around the world” (Green America, 2014, p. 3).

In recent years, the movement has achieved a high market growth, especially in the USA, the UK and other European countries. In 2011, the US accounted for about 1.03 billion euros and the UK for about 1.5 billion euros in retail sales of Fairtrade International, the largest Fair Trade organization worldwide. Total retail sales in the world almost reached 5 billion euros. However, the USA suspended its membership at Fair Trade International in December 2011 and is no longer part of it, which is why data is not available for 2012. Other important markets such as the UK, Germany, France, Switzerland, Canada, Australia and New Zealand, the Netherlands, Sweden, Ireland, Finland and Austria reached high growth rates up to 48% of growth from 2011 to 2012. Only Canada experienced a decline of -1% in retail sales (Fair Trade International, 2013). The market has experienced a constant growth between 2004 and 2011. With a slight drop of -4% in 2012 due to the withdrawal of the US membership (Boonman, Huisman, Sarrucco-Fedorovtsej, & Sarruco, 2011; Fair Trade International, 2013). However, the strong growth in other important markets softened the negative impact on the growth rate (Fair Trade International, 2013).

The players in the Fair Trade market are demonstrated in the following graph:

Figure 5-2: Schematic overview of the biggest organizations in the Fair Trade movement



Source: Own elaboration, adapted from Boonman, Huisman, Sarrucco-Fedorovtsejv, & Sarruco, 2011

It can be recognized that there are many different forms of organization, which means there are different possibilities of fair trade partners for the producers. The large organizations often have a higher reach in the world, due to higher capacities. However, it can be more expensive to work with fair trade labels of big organizations such as Fair Trade international. Separated efforts of self-proclaimed Fair Trade organizations might have a lower reach, but could be even more transparent by cutting out even more intermediaries of the supply chain. Whichever option, in order to assure the best impact for the producer, it is most important that the organization is motivated by the goal of improving the producers' living circumstances (World Fair Trade Organization, 2009).

5.2 Pakilia - a small startup with good intentions for the silversmiths

Pakilia is a small startup that was initiated in 2012 by students of the dual degree Bachelor program in International Management that is offered in cooperation by the ESB Reutlingen, Germany, and the UDLA Puebla, Mexico. The small enterprise dedicates itself to exporting hand-made silver jewelry from Taxco to Germany on a fair trade basis. It consists of the two

CEO's Julia Maier and Miriam Müller who manage the business predominantly from Germany by the time (Müller, 2013). In Germany, they get support from intern Melanie Baumann. In addition, they receive help from current students of the dual degree program (myself, Anne Conradi, Ann-Sophie Kramer and Julia Wieland) in order to handle the processes that occur in Mexico (pakilia, 2014). Pakilia is a self-proclaimed Fair Trade organization that acts according to Fair Trade principles. By that, the enterprise searches for a long-term relationship with the artisans that produce the silver jewelry by hand. This is why they currently work with eleven specific families. In alignment with fair trade principles pakilia pays fair prices to the producers and does not aim to reduce their margin. In addition, the part of capacitation is taken seriously and gradually the startup tries to teach the small producers in quality issues and administrative tasks in order to strengthen their market position. Furthermore, the enterprise covers all of the costs that come along with exportation and even the additional burden of paying taxes in Mexico for costs that cannot be deducted from tax until the small producers become more professional in administrative tasks in order to provide check-bills to their customers. Pakilia works as a bridge between the Mexican marginalized producers and high potential markets, such as Germany in Europe. Due to the profile of their studies in International Management and the familiarity with both cultures, the students of that program fulfill the technical and intercultural requirements to establish successful business relationships between both cultures. The enterprise focuses on transparency by regular visits to the families, communicating their living and working situation to the end-consumers in Germany. By pakilia's actions, the enterprise commits to more than conventional market conditions would require and they can have a positive impact on the living situation of the artisans. However, it is a start at small scale and there is potential to widen the scope in the future in order to include more artisans in the benefits of Fair Trade (Maier, 2014).