

The Impacts of Fair-Trade Coffee  
in Producer Countries

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## Introduction

Coffee is a tremendously relevant global commodity. It stands only behind petroleum, ranking as the second most valuable internationally traded commodity, with over 2.28 billion cups consumed daily (Bacon, 2005, p. 497). With more than 25 million coffee-producing families worldwide, it represents an integral but tenuous livelihood for many people.

Coffee represents the most recognized fair trade commodity for consumers in developed countries, and has constituted more than 70% of the volume of fair trade sales in Canada throughout the past five years (Transfair, 2008). Coffee's enormous world value coupled with its substantial slice of the fair trade pie makes the study of fair trade coffee pertinent and applicable.

Fair trade is an innovation that attempts to integrate social values into economic exchanges. The principle goal of fair trade is to aid in the sustainable development of excluded and disadvantaged producers (FLO, 2007). The purpose of this paper is to analyse the impacts of fair trade on coffee-producing farmers and their communities, drawing from case studies conducted in Nicaragua, Costa Rica, Mexico, and El Salvador, and from other reports and investigations. The analysis helps to explain the on-the-ground effects of fair trade and also explores whether the principle goal of sustainable development is being achieved through fair trade.

On top of investigating the expected outcomes of fair trade, it is likewise important to uncover unexpected consequences from the introduction of this relatively new innovation. Applying an economic perspective to fair trade reveals a host of spin-off effects that are either subsumed in the loosely defined goal of sustainable development, or go beyond it.

This paper is divided into five main sections. The first section explains what fair trade is and why it is needed at all; that is, why conventional trading in some situations is considered to

be “unfair”. A brief history of alternative trading organizations is described, and the growth of a fair trade network and the formalization of fair trade labelling rules are explained. This section outlines the framework of fair trade as a social innovation.

Part two features the international coffee market. Both the International Coffee Agreement (ICA) and its administering body, the International Coffee Organization (ICO) helped to standardize, track and control coffee exports, as well as actively boost demand. The devastating ramifications of the collapse of the ICA in 1989 are discussed, along with the connection of this event to fair trade. Understanding the global coffee market helps put changes in fair trade production into context and provides insight into the formation, growth, and current state of the fair trade coffee market.

The third section analyses the impacts of fair trade in coffee-producing countries by applying the findings from sections one and two. Fair trade’s effects are first detailed using small-scale farmers as the unit of analysis. This is presented by investigating: changes in income; the availability of credit; access to education; individual empowerment; participation in decision making; a shift in livelihoods; and stability, predictability and reduced vulnerability in the production of their staple crop.

Section three also examines the effects and economic reasoning behind the use of co-operatives as fair trade instruments. Co-operative formation is one of several preconditions for fair trade certification, and this rule has both positive and negative consequences in terms of efficiency and equity. Changes in community development are investigated, as well as the effects of fair trade on gender equity and environmental protection. Moreover, many substantial and diverse spillover effects are analysed. For example, some indirect or unintended consequences of fair trade include cultivating experience with democracy, the creation of

common goods, and changed incomes and livelihoods of those who are not directly involved with fair trade. Finally, the usefulness of fair trade as a development tool is evaluated.

Section four delves into some of the drawbacks, limitations, economic flaws, and potential hazards of this social innovation. The last section of this paper summarizes the impacts of fair trade on coffee-producing farmers and their communities. Recommendations are made, such as how co-operatives could be modernized and how the demand market could be expanded. A final summary and conclusion is then presented.



## Chapter 1: What is Fair Trade?

It is important to understand both the current state of the fair trade market and its history in order to appreciate the nature and relevance of today's fair trade movement. Contextualizing the fair trade coffee market within the conventional coffee market helps to distinguish the advantages and disadvantages of both systems of exchange. Definitions and relevant actors will be discussed first, followed by a brief history of the fair trade movement. Concerns regarding the equity of the conventional market will then be explored, followed by an explanation of how fair trade relationships address those concerns.

### *1.1 Definition and relevant actors*

Fair trade is most holistically described by the definition agreed upon by FINE<sup>1</sup>, an association of the four largest international fair trade networks. The definition is as follows: “Fair trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers - especially in the South. Fair trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.” (FLO, 2008)

Fair trade differs from Fairtrade in that the former term conceptually outlines what a fair trading relationship represents, while the latter term describes compliance with a standards certification system developed by Fairtrade Labelling Organizations International (FLO). The FLO aims for five goals, including: the improved livelihoods of small coffee producers and their

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<sup>1</sup> FINE is the umbrella group which includes Fairtrade Labelling Organizations International, International Fair Trade Association, Network of European Worldshops, and European Fair Trade Association.

families; stronger producer organizations; rural community development; gender equity; and environmental protection (Utting-Chamorro, 2005, p. 586). Fairtrade standards are implemented and audited by FLO-CERT, the certification branch of FLO International, which itself is accredited with the International Organization for Standardisation's ISO 65 accreditation for certification bodies (FLO, 2008). While FLO-CERT monitors the adherence to its certification criteria, it does not monitor or evaluate impacts of fair trade (Ronchi, 2002, p. 2).

FLO International is the fair trade body that is most relevant to producer organizations. It is a publicly recognized, non-profit, multi-stakeholder association involving labelling initiatives, producer organizations, traders and external experts. In 2007, FLO International's board of directors grew to include representatives of producer networks from Latin America and the Caribbean, Asia, and Africa, effectively giving a stronger voice to producers in the creation and modification of standards and practices. FLO expects producers, through progress requirements, to continuously improve working conditions, increase the environmental sustainability of production and invest in the organizational development of workers and small farmers (FLO, 2008). Specifically, coffee producers must satisfy the following conditions in order to become Fairtrade certified. They:

- Must cultivate a field smaller than 10 hectares and must not be structurally dependent on hired labour (targeting small land holders);
- Must join or form co-operatives (co-ops) that are democratic, transparent, have a participative, non-discriminatory structure, and contribute to the social and economic development of their members and communities;
- May not use forced child labour (though children can work as long as it does not interfere with their education and they are not involved in hazardous activities);

- Must allow collective bargaining and free association, minimum health and safety standards, and fair and equal remuneration for work that meets or exceeds national minimum standards; and
- Must ensure that progress is made toward environmental development (including crop rotation, cultivation techniques, crop selection, careful use of inputs such as fertilizers and pesticides, no GMO crops, avoidance of water contamination, use of fire management practices, and, as relevant, shade production)

*Source: FLO, 2007, Generic Fairtrade Standards*

Fairtrade certification aims to help coffee farmers largely by guaranteeing a minimum purchase price for their coffee. On top of the minimum price is an additional Fairtrade Premium that is to be invested in community projects. However, higher incomes only represent a fraction of the benefits for farmers belonging to cooperatives with Fairtrade certification. Other non-income related advantages include access to technical, managerial and organizational capacity building, environmental protection, enhanced gender equality, and spillover effects in communities with Fairtrade cooperatives. These and other benefits will be outlined in chapter 2.

### ***1.2 Establishment of Fair Trade***

The spirit of fair trade has a long history. Alternative approaches to the economic and social relations involved in production and consumption were explored through Marxism, social democracy, and other moral philosophies and thoughts on the political economy (Low & Davenport, 2005, p. 144).

The roots of alternative trading organisations go back at least 50 years when churches, disaster relief organizations and solidarity groups formed direct relationships with producers who were often refugees or other marginalized groups. The importing group would pay higher prices and offer market access and technical assistance (Bacon, 2005, p. 500). Oxfam became the first fair trade organization in the UK, selling handicrafts made by Chinese refugees using its network

of shops in the 1950s. Handicrafts were the main product sold through fair trade channels, often distributed through small local retailers who specialized in second-hand clothing (Low & Davenport, 2005, p. 145). Fair trade partnerships first expanded into coffee in Costa Rica with a pioneering Dutch fair trade company, SOS Wereldhandel, founded in 1959 (Ronchi, 2002, p. 4).

The movement used the emerging political backdrop of “Trade not Aid,” first championed at the United Nations Conference on Trade and Development in 1968 (Low & Davenport, 2005, p. 144). Grassroots organizations acknowledged that trade was the path to increased standards of living, but that it had to be accompanied by fair rules. Importantly, fair trade channels offered producers in the Third World access to First World markets<sup>2</sup> for the purpose of expanding trade.

Nicaragua and other Latin American countries had a set of special circumstances that later served as useful preconditions for joining the FLO. National land reform programs in the 1980s organized farmers into co-ops, which coincidentally facilitated their entry into the fair trade system (Utting-Chamorro, 2005, p.587). Nicaraguan farmers also had an early entry opportunity into the fair trade market because of a network of people that had fled the country and resettled in the United States and Europe. Expatriates that were involved in the Nicaraguan revolution maintained their contacts in the solidarity movement and became key players in the establishment and expansion of the fair trade network (Utting-Chamorro, 2005, p. 593).

In the 1980s the ‘alternative trade’ label fell out of vogue. It has been said that the movement from ‘alternative trade’ to ‘fair trade’ was deliberate and arguably for the purpose of

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<sup>2</sup> Historically, the ‘three worlds’ distinction reflected a country’s adherence to a certain political ideology rather than a level of development. The First World included countries with capitalist ideologies, the Second World included countries with communist ideologies, and the Third World included the countries that fit into neither category, namely those in Latin and South America, Africa, and South Asia.

moving from niche to mainstream markets. Some contend that this is partly because most consumers would more readily identify themselves as ‘fair’ than ‘alternative’ (Low & Davenport, 2005, p. 148).

Some critical factors that lead to the rise in fair trade have been identified as the imperative for fair trade organizations to assist ailing coffee growers because of the coffee crisis, the need for producers to diversify away from falling handicraft sales, and the rise of ‘ethical consumers’ (Low & Davenport, 2005, p. 144). In the light of growing interest in ethical consumerism, more and more retailers have aimed to include some criterion for corporate social responsibility in their products. But with a growing corporate interest in fair labelling, there was a risk in corporate tokenism and a subsequent devaluation of any fair trade label.

To avert the risk of devaluation, tokenism, and public confusion, FLO International was established in 1997, bringing 14 independently operating national labelling initiatives together with a common mission: to set Fairtrade standards; to support, inspect and certify producers; and to harmonize the Fairtrade message (FLO, 2007). In the following year FINE was created to unite other large international fair trade actors to collectively promote advocacy, campaigning and monitoring. FLO International is now recognised as the global standard for fair trade. Other large fair trade retailers continue to modify their policies to adopt the Fairtrade label. For example, the independent fair trade retail giant Max Havelaar of the Netherlands adopted Fairtrade standards on March 1, 2008, and will henceforth carry FLO International’s label.

### ***1.3 Why conventional trading is considered “unfair”***

There are many barriers that prevent people in developing countries from leveraging international trade to their advantage. Often, some neoclassical economic assumptions like perfect information, perfect competition, or utility maximization and rational decision-making do

not hold. While some neoclassical enthusiasts acknowledge the existence of information asymmetries, imperfect competition, and vulnerability, they often view regulatory institutions as fettering the benefits of free trade (Ponte, 2002:2, p. 1101).

There is a lack of transparency in international commodity chains like the coffee chain that results in imperfect information for consumers. By definition, commodities are undifferentiated goods that are traded without reference to exactly where the particular product comes from or under what conditions it was produced. Commodities are sold with the appearance of being independent of people and the environment, which distorts consumer behaviour in a 'least-cost and socially unaware' fashion.

Agricultural commodities are usually characterised as buyer-driven chains<sup>3</sup>. Buyer-driven chains arise in labour intensive industries with minimal technical know-how, low capital requirements, large geographic area of production, and entry barriers consisting of marketing, information costs and complex supply management systems (Farnworth & Goodman, 2008, p. 1101). As such, the bargaining power of individual sellers is drastically smaller than that of corporate buyers and roasting operators (Ponte, 2002:1, p.270). Additionally, the rural buying market in Latin America usually involves a small number of travelling purchasers called 'coyotes'. Their small number creates an oligopsonistic market, which leads to collusion between coyotes who tend to offer producers a fraction of the market price of their product (Murray, Reynolds & Taylor, 2003).

There are other inequities between small sellers and large buyers that result in price swings and an inability to hedge risks. Due to a lack of experience, poorly developed financial

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<sup>3</sup> Clothing and footwear are other goods characterized as buyer-driven chains

institutions and insufficient communication technology in developing countries, farmers are unable to enjoy the same risk-hedging mechanisms such as futures markets that international traders have access to. The futures market for coffee grew dramatically throughout the 1980s. While in 1980 the amount of coffee traded in international futures markets was four times that of the physical market, that ratio has increased to eleven times that of the physical market in the early 1990s (Ponte, 2002:2, p. 1106). Growers, however, have not benefited from this increase.

Price volatility in futures markets occurs because of certain trigger signals that may or may not have to do with expected supply and demand of coffee. For example, uncertainty in the US economy encourages investors to flee from US currency and invest in the commodity market to hedge against inflation, which forces commodity prices up. This highlights the disconnectedness between prices and real supply and demand fundamentals. Since investment funds have increasingly traded in commodity markets and perform on the basis of trend-following, price swings in commodities have been magnified, having the greatest affect on those who do not have access to hedging instruments – the rural farmer (Farnworth & Goodman, 2006, p. 1). Generally, the price of coffee is determined by more than just the current supply and demand of coffee. This leaves the fortunes of the producers in the hands of something arbitrary and disconnected from their realistic scope.

To the extent that current supply and demand does reflect current prices, larger roasters are swallowing market signals. For example, decreased green coffee prices are not translated into decreased final sale prices. While green coffee prices halved between Dec. 1999 and Jan 2001, retail prices in the US decreased only 4% (Ponte, 2002:2, p. 1107).

Additionally, markets for high-value non-commodified products like gourmet coffee are highly regulated with strict health standards and internationally binding phytosanitary

conditions<sup>4</sup>. These conditions are challenging barriers to entry for new exporters who require substantial knowledge and technical and processing capacity with high associated fixed costs at the outset, while those who entered the market early have had the chance to incrementally adapt to increasingly strict terms of trade. In light of this, many producers opt to sell to lower-value, less regulated markets in the hopes of eventually being able to invest in higher-value markets. However, this solution is unlikely to bear fruit in the medium term, since the trend for high-value markets is for regulations to become ever stricter. While it is recognized that that longer-term benefits of compliance or capacity enhancement outweigh the costs and may even reduce production costs, the upfront investment may be a prohibitive barrier for poor producers, relegating them to produce low-value products perpetually (Hensen, 2006).

Conventional trade is considered unfair for marginalized, vulnerable producers in developing countries who have little opportunity and choice. The buyer-driven coffee chain is non-transparent and is disconnected from the social and environmental conditions of production. Small buyers use their oligopsonistic position to take advantage of vulnerable producers. Prices do not accurately reflect supply and demand, price signals are swallowed by large roasters, and strict standards prevent farmers from accessing higher-value markets.

It seems ill-advised for efficiency to trump human decency, and heady free-market advocates often fail to fully appreciate the face behind each transaction. Markets are designed by people to serve people, and the unfair trading relationships outlined above are considered by some to be market failures. However, as Brink Lindsey (2004), a staunch free-market advocate

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<sup>4</sup> Globally recognised phytosanitary conditions guarantee that traded foods are free from quarantine pests and other injurious pests as described under the International Plant Protection Convention, [www.ipcc.int](http://www.ipcc.int) (accessed January 18, 2008).



of the Adam Smith Institute writes, “Admittedly, it is never pleasant for market incumbents to be displaced...and such displacement can be especially painful when those incumbents live in poor countries that offer few alternative livelihoods. But creative destruction lies at the very heart of the market process; it is not a market failure.”

#### ***1.4 How Fair Trade addresses those concerns***

The fair trade system decommodifies Fairtrade certified coffee because it is different than non-certified coffee (World Bank, 2008, p. 132). Indeed, studies on purchasing habits have shown that Fairtrade coffee could be considered an entirely distinct product category rather than merely a different brand of coffee (Arnot, Boxall, & Cash, 2006, p. 562). It has a different value because of its production method, and evidence shows that consumers believe that knowing that producers have been paid a fair price for their commodity adds value to the product (FLO, 2007, p. 17). Fairtrade clarifies the link between consumers and producers so that informed decisions can be made, ameliorating a limitation of the conventional commodity market, which hides the locations and conditions of production.

Producer organizations like co-ops have long been recognised as instruments available to counteract unbalanced market power (Ronchi, 2002, p. 2). The Fairtrade requirement of co-op formation encourages individual farmers to organize themselves and helps give a stronger voice to producers in a typically buyer-driven chain. Fairtrade relationships also work to cut out the middlemen like coyotes. So while the co-op must internalize the costs of the coyote’s functional roles, which are mainly transportation and access to an exporter, the exploitative ability of coyotes evaporates in a Fairtrade system.

The ability for farmers to hedge risks through financial instruments like futures markets has also been shown to improve through long-time Fairtrade certification. The co-op Coocafe in

Costa Rica is considering extending their operations into futures markets, adding a level of complexity but diversification to their operations because of the capacity building received from their fair trade partners (Ronchi, 2002, p. 2). New capabilities emerge from education and informational access, and farmers' groups are anxious to utilize every possible means for risk diversification.

Attempting to change international trade practices is often beyond the realistic scope of individual coffee farmers or their co-ops. However, the FLO actively campaigns for changes to trade rules like protectionist policies and farm subsidies in industrialised countries that harm farmers in developing countries. Indeed, this consumer-supported goal is explicitly outlined in the mission statement of FINE, the fair trade consortium.

Compliance with strict phytosanitary conditions as well as other necessary international certifications is facilitated by technical and informational support from FLO International's Producer Business Unit (PBU). The PBU coordinates information and training for co-ops on topics such as how to meet necessary export requirements, access the market, and strengthen business positions and governance (FLO, 2008). Also, the extra money generated from the guaranteed minimum price plus the Fairtrade premium can be invested in developing the capacity to meet standards and pay certification costs. Co-ops in Nicaragua, for example, have taken advantage of new, high-value opportunities like accessing the gourmet coffee market once standards and certification conditions have been met (Farnworth & Goodman, 2006, p. 14).

For free trade enthusiasts, it is important to note that fair trade celebrates many free trade principles like the abolition of protectionist policies and trade barriers, gives consumers the ability to make choices that they value, and helps people act based on full and relevant information. Fair trade operates within a free market framework. It represents a creative and

measurable economic innovation for placing value on social outcomes and fairly remunerating people for their work. It is a tool for internalizing social, economic, and environmental costs, and recognises that poverty and wellbeing is about more than just income levels. Choice, opportunity, and reduced vulnerability are all enriched through fair trade.

## **Chapter 2: The Coffee Market**

Coffee is an extremely relevant international crop because of its enormous market value and the dependence of millions of families on its sale. The different types of coffee and their geography of production will first be described. An historical account about the formation, duration, disintegration and after effects of the International Coffee Agreement will then provide some context for the emergence and growing popularity of Fairtrade coffee. Recent changes and a current snapshot of the conventional coffee market will then be discussed, followed by an analysis of growth trends in the Fairtrade coffee market.

### ***2.1 Types of Coffee***

Coffee is a tropical crop that grows best between the Tropic of Cancer and the Tropic of Capricorn. Map 1 on the following page shows which coffee-producing countries lie in this region. The two main types of coffee that are grown and consumed are Arabica and Robusta. Arabica is a less caffeinated variety that grows at high altitudes and requires more labour-intensive cultivation (through trellising, pruning, harvesting, etc). It is primarily grown in Latin America and North-East Africa. It has more aroma and a smoother flavour than Robusta.

Robusta is stronger, more bitter, and higher in caffeine. It is grown in humid areas of low altitude, generally in Asia and southern Sub-Saharan Africa. Arabica is typically more expensive per pound than Robusta largely because of labour-intensive methods of production and their related diseconomies of scale. Arabicas are typically grown by small farmers while Robustas are increasingly grown on plantations. Analysis of the variability of the prices of the two varieties has historically been shown to exhibit extremely low co-movement, as if the two crops were altogether unrelated commodities (Baffes, 2003, p. 35).

Map 1. Coffee producing countries and the tropical band.



Source: National Geographic. <http://www.nationalgeographic.com/coffee/> Accessed April 19, 2008.

Note: Yellow countries are major producers and brown countries are smaller producers.

## 2.2 The International Coffee Agreement

### 2.2.1 *Reasons for its creation*

By its nature, the coffee market is volatile. It is prone to recurrent shortages and gluts, with long lags between adjustment cycles on the supply side (Lindsey, 2004, p. 3) and it has low price elasticities of both supply and demand (Ponte, 2002:1, p. 1104). The immense value of the coffee market, its core importance to 25 million coffee producing families, and the fact that several countries rely on coffee as a high proportion of their export earnings makes stability in the coffee market particularly desirable. For all of these reasons, world governments decided to create and maintain a stabilizing coffee agreement in the 1960s.

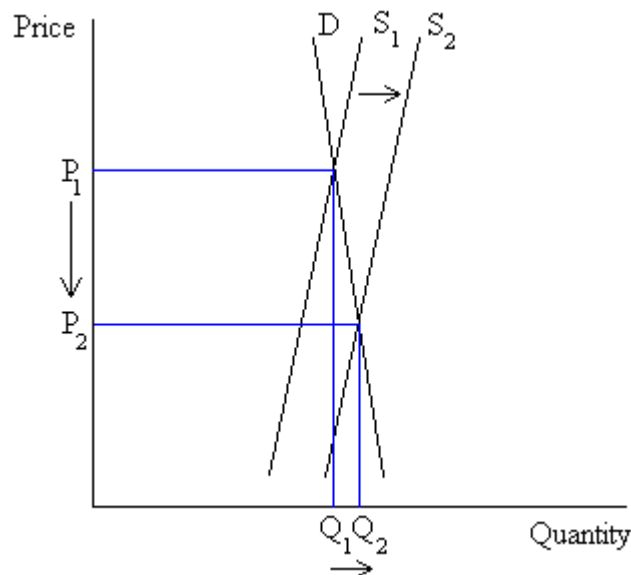
The coffee market is prone to shortages largely because of the geographical concentration of production. Brazil and Columbia's very large share of production means that drought or frost sends world coffee stocks tumbling and price soaring. Conversely, prices plummet when these countries enjoy a bumper crop. At times of high prices, farmers expand production moderately by planting more trees. It takes at least two years for freshly planted trees to start producing and another five or six years until they are fully productive. This extra volume leads to an eventual, often prolonged price bust (Ponte, 2002:1, p. 1104). This could be a vicious, self re-enforcing cycle since experienced farmers would know that a boom is closely followed by a bust, and might feel compelled to plant more to cushion their losses during the impending bust in prices. Indeed, it has been shown that falling coffee prices have *increased* production as farmers seek to maintain income levels, reacting oppositely from what neoclassical economists would predict (Farnworth & Goodwin, 2006, p. 13).

Paradoxically, it seems that both high and low prices encourage greater coffee production. However, low prices do eventually force the least efficient producers out of the

market. But since fixed costs make up a large share of total costs for coffee production, it is economically rational for producers to continue producing in the medium term as long as prices cover the variable costs of production, even if prices are well below average total cost (Lindsey, 2004, p. 4). This, plus the reduced ability for extremely poor people to transition into other income-generating activities, adds to the longevity and depth of busts. These are the reasons for the fairly inelastic supply curve of coffee.

Coffee has a fairly inelastic demand curve as well because there are few substitutes for coffee. While tea and soft drinks both substitute for a dose of caffeine, consumers are fairly unresponsive to price changes in coffee (Ponte, 2002:1, p. 1104). Low elasticities of supply and demand mean that a small changes in the quantity lead to drastic changes in the price. This is illustrated in Figure 1, using a small rightward shift of the supply curve as an example.

**Figure 1. Small supply increase in an inelastic market**



To combat radical changes in coffee prices, the International Coffee Agreement (ICA) was signed in 1962 by both producing and consuming countries. It set a price band for coffee, using quotas that were assigned and administered by the International Coffee Organization

(ICO). Countries were considered 'market units' with governments controlling quotas. When prices fell toward the bottom of the price band, quotas were tightened. When prices were higher, quotas were relaxed. When prices were very high, quotas were eliminated altogether (Ponte, 2002:1, p. 1104).

Setting up the ICA was possible because of the concentration of the market. With relatively few major producers in the world, these countries seized the opportunity to capitalize on their oligopolistic market position. Just two years prior to the formation of the ICA, OPEC was created under very similar circumstances of market concentration. The coffee market had a Herfindahl Index of 0.11 in 1970 which has risen continuously since then<sup>5</sup>. The Herfindahl index is a measure of market concentration, with a value of 1 meaning that one country accounts for the entire production and a value approaching 0 indicating that production is equally spread among many producers (Baffes, 2003, p. 35). What is important is that the large Herfindahl index helps explain why the ICA was able to operate at all: cartels are possible in oligopolistic markets, and the highly concentrated coffee market fit the bill.

Most analysts agree that the ICA was successful in raising and stabilising coffee prices. Reasons for its success include the participation of consuming countries in the ICA, that countries were considered 'market units' which took control of export decisions and facilitated volume controls, and Brazil's acceptance of a declining market share (Ponte, 2002:2, p. 253). The ICA was considered to be equitable because the establishment of quotas was politically negotiated and exports were regulated, so prices were stable, rules were clear, and revenues were fairly distributed between producing and consuming countries. The coffee market was not

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<sup>5</sup> To offer a relative comparator, the Herfindahl Index for oil was around 0.10 in 1970. Today, the index has risen to about 0.14 for coffee, while it has fallen to about 0.07 for oil.



considered to be driven by any one actor; that is, it was neither a buyer-driven or seller-driven market.

Though it might seem peculiar that consuming countries agreed to participate in the ICA and pay higher prices, they did so for a variety of reasons. The USA, a major consumer, accepted higher prices in order to transfer income to Central and Latin American coffee producers in the hopes of preventing the spread of communism. European countries accepted higher prices as a form of aid to their former colonies (Baffes, 2003, p. 37). With consuming countries supporting the ICA, it was able to function with minimal leakage since actors operating outside the jurisdiction of the ICA had a very limited buyer market. The extent of this leakage, however, is fraught with uncertainty. High coffee prices gave producers plenty of incentive to fabricate fraudulent Certificates of Origin, and governments had the incentive to ignore such practices because coffee exported above their quota could still be taxed.

The effectiveness of the ICA in actually helping the rural farmer is debatable. Empirical analysis of producer prices shows that when the ICA was in effect, producers received depressed prices while governments and exporters reaped most of the rents through heavy taxation and quota allocation rights. Although the goal of the ICA was to raise prices by limiting production, the coffee market continued to overproduce because the artificially higher coffee prices subsidized greater supply from countries outside of the ICA and reduced demand across the board.

In order for an ICA-member country to meet, but not exceed, its quota, producer prices had to be restricted. By depressing prices paid to producers, the supply curve would shift to the left and bring the market into equilibrium at the higher price. The lower effective producer price was achieved through taxation. Additionally, governments bought and destroyed extra coffee

stocks using tax revenues to satisfy their quota obligations and prevent stocks from leaking onto the market. Governments would want to minimize this cost by providing appropriate price signals that would limit production, namely heavy taxes (Bohman & Jarvis, 1999, p. 28).

The primary beneficiaries of high quota prices were governments, bureaucrats, and exporters, rather than farmers. Heavy export taxes subsidized government treasuries, bureaucrats entitled to auction off quota rights were often bribed, and exporters gained from higher export prices because of their monopsony position relative to small-scale producers, while farmers saw little benefit (Lindsey, 2004, p. 8). While the ICA was effective in raising the retail price of coffee, those extra rents did not accrue to the rural farmer.

### *2.2.2 Why it was dismantled*

A changing geopolitical backdrop harkened poorly for the ICA. The disintegration of the USSR in 1989 drastically reduced the threat of communism blossoming in Central and South America. The changing political landscape vis-à-vis the United States and Latin American countries meant that with rigid quotas, the United States could not exert influence on Latin American governments through coffee trade policies (Ponte, 2002:2 p. 253). Consequently, the United States was less anxious to pay higher-than-necessary coffee prices. The strong trend of trade liberalization using capitalist ideology and free markets was simultaneously being championed by British Prime Minister Margaret Thatcher and US President Ronald Reagan (Ponte, 2002:1, p. 1105). Their market reform strategies failed to indulge price-fixing cartel agreements like the ICA. Additionally, fairly large consuming countries that were uninvolved with the ICA, like the USSR, created demand markets for non-certified coffee.

There were problems in producer countries, too. Fairly rigid quotas were maintained because they were costly to negotiate. In the 1980s, rigid quotas led to inflexibility within ICA

countries, making it difficult to adapt to changing market preferences. This allowed countries that were not ICA members to gain market share. There was chronic funnelling of ICA-country surpluses through non-member countries as well, depressing the world price and forcing member countries to tighten their quotas continuously (Ponte, 2002:1, p. 1105).

The ICA was further destabilized by free-riding and disputes over quota shares. Changing production capabilities made countries squabble over the rights to sell, and countries frequently sold more than their quota allowed (Ponte, 2002:2 p. 253). In 1989, a new agreement could not be negotiated, and the ICA collapsed.

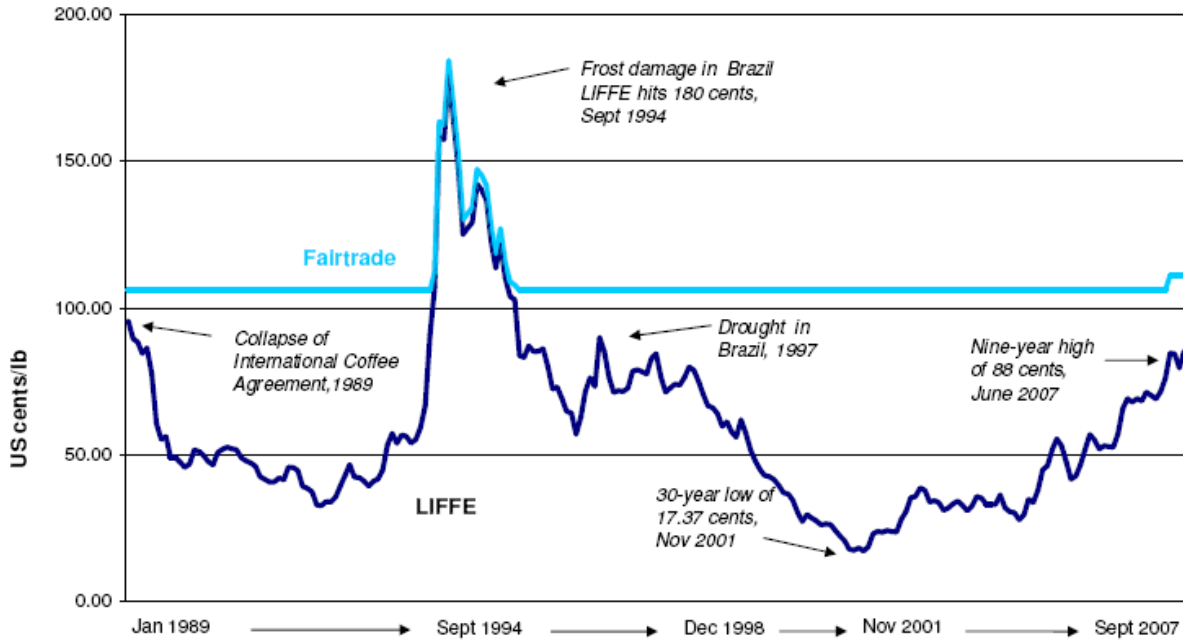
### *2.2.3 Effects of dismantling the ICA*

The collapse of the ICA in 1989 led to a global coffee crisis. Market liberalization in producer countries led to lower taxes and fewer trade barriers on coffee, so producers who had been penalized by heavy taxes during the time of ICA ramped up production (Bacon, 2005, p. 498). Artificial scarcity that was created during the time of the ICA left the door open for non-member countries to enter the market because of the quasi subsidy that above-equilibrium prices provided. They used the subsidy as a springboard to overcome the substantial fixed-cost barriers to entry, and grew the world supply potential far beyond world demand. Coffee stocks that ICA member governments had bought and withheld from the market were also released after its collapse. All of these factors led to massive oversupply and a precipitous crash in prices.

Real coffee prices in 1990-1993 plummeted to 42% of average prices from 1985-1988 (Ponte, 2002:2, p. 1105). A comparison of Fairtrade and world prices for Robusta and Arabica can be seen in Figures 2 and 3. The World Bank estimates the coffee crisis resulted in a 54% decline in permanent employment and a 21% decline in seasonal employment in the coffee sector in Central America (Murray, Reynolds & Taylor, 2003, p. 3).



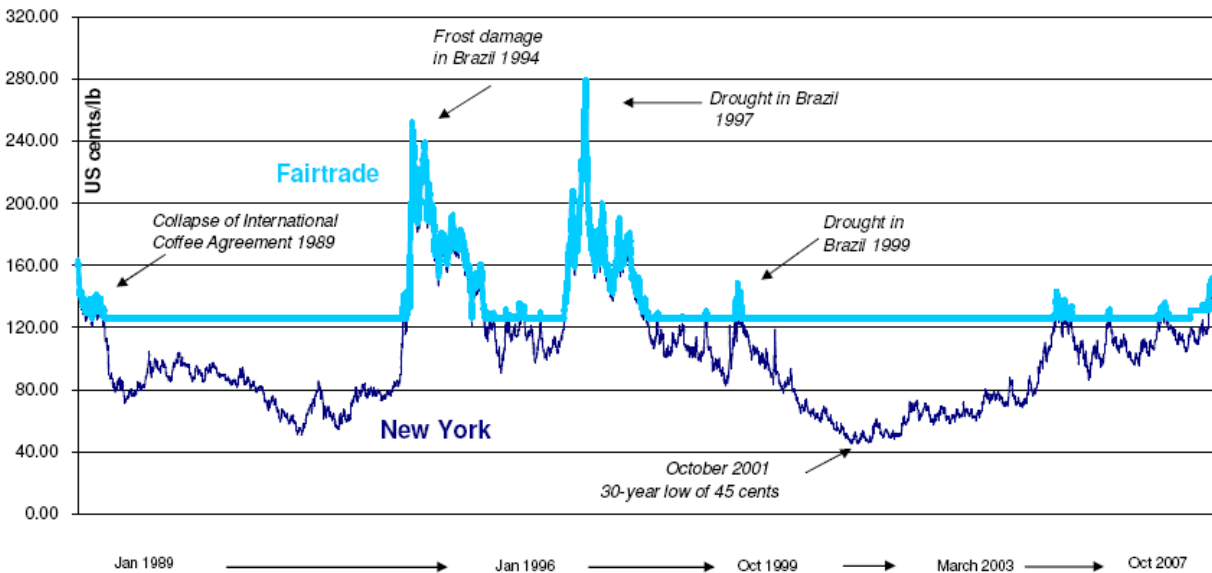
Figure 2: Robusta Coffee Market 1989 - 2007. Comparison of Fairtrade price and London LIFFE price



**NB The Fairtrade price = Fairtrade minimum price of 101 cents/lb + 10 cents/lb Fairtrade premium\***  
 When the LIFFE price is 101 cents or above, then the Fairtrade price = LIFFE price + 10 cents  
 LIFFE price is the monthly average of the daily closing price, converted from \$/tonne  
 \*Premium was increased from 5 cents/lb on 1 June 2007  
 © Fairtrade Foundation



Figure 3: Arabica Coffee Market 1989 - 2007. Comparison of Fairtrade price and New York price

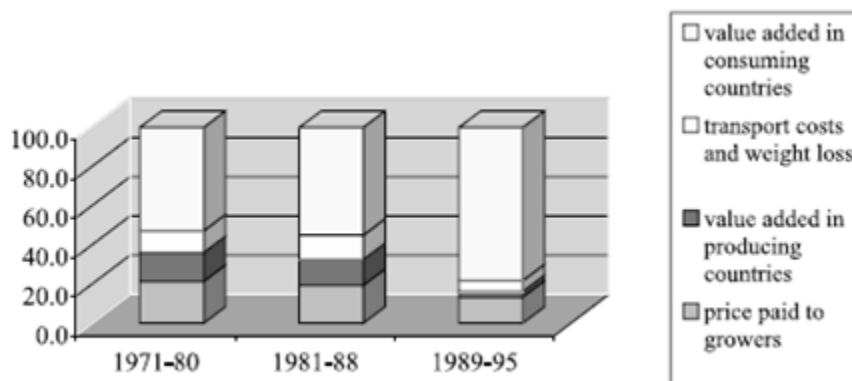


**NB Fairtrade price = Fairtrade minimum price of 121 cents/lb + 10 cents/lb premium\***  
 When the New York price is 121 cents or above, the Fairtrade price = New York price + 10 cents  
 \*Premium was increased from 5 cents/lb on 1 June 2007  
 The NY price is the daily closing price of the second position Coffee 'C' futures contract at the NY Board of Trade  
 © Fairtrade Foundation

In countries that were highly reliant on coffee for employment like Costa Rica, tumbling prices accelerated changes in the population's distribution. Costa Rica's urban to rural ratio of 1:1.71 in 1990 was reversed by the end of the decade, in part because of abandoned small and medium coffee plantations. Costa Rica's coffee-generated export revenue fell from 24% to 11% of total export revenue between 1989 and 1995, and the area under cultivation fell from 115,000 ha in 1990 to 93,000 ha by 1996 (Ronchi, 2002, p. 4).

There was a power shift as well. During the ICA, there was a fairly even producer-consumer power balance that was politically negotiated. After the ICA, the coffee market was dominated by consumer-country enterprises guided by the market (Ponte, 2002:2, p. 1105). Governments lost all negotiating power while transnational companies gained direct market access and could concentrate their buying power (Bacon, 2005, p. 498). The increasing disadvantage of coffee growers is not one exclusively of oversupply leading to low prices, but also of a weak institutional framework and a shift in the global coffee chain towards a buyer-driven one, with a transference of total income from farmers to consuming country roasters (Ponte, 2002:2 p. 1116). Figure 4 details the shift in value added activities from producer to consumer countries post-ICA, and the diminishing percentage of the price paid to growers.

**Figure 4. Distribution of coffee income along the coffee chain (1971-80 to 1989-95), in percentage**



Source: Ponte, 2002:2, p. 1106.

The post-ICA coffee market is characterized as a 'buyer-driven' or 'roaster-driven' chain, whereas during the ICA the market was not particularly driven by any actor. Producer countries have virtually disappeared as participants in these interactions and the market has moved away from a situation where producers have an established voice to a total domination by buyers. The exception to this trend lies in countries with enormous, well-established cooperatives like Columbia's Fedecafe, which has managed to carve out a recognized national brand using Juan Valdez and his trusty donkey. Generally, roasters effectively set entry barriers on producer countries by adding their coffee into a major blend only if they can guarantee certain quantities. Before, countries established entry barriers based on political negotiation through ICA, not through market forces (Ponte, 2002:1, p. 254).

An attempt was made to recreate an international regulatory coffee agreement following the collapse of the ICA. The Association of Coffee Production Countries (ACPC) was formed in 1993 in response to the abandonment of the ICA's quota system, burgeoning supply, and tumbling prices. While the association accounted for about 60-70% of world supply, it did not include consuming countries like the ICA had. This encouraged non-member producing countries like Vietnam to undercut higher ACPC prices, expand production, and gain market share. The ACPC dissolved in 2002 due to the fact that an effective mechanism to control prices could not be worked out (Baffes, 2003, p. 37).

Coffee producers have led an uncertain and largely poverty-stricken life since the collapse of the ICA. Though the prices farmers received during the ICA were poor, they were more stable and the excised rents that governments accrued through taxes could be invested in rural infrastructure and public services. Post-ICA, prices are more volatile, high coffee rents are

being captured by large corporate roasters instead of cash-strapped governments, and a larger portion of the value chain is relocated to developed countries.

### ***2.3 Recent changes and current snapshot of coffee market***

The coffee market has changed substantially, led by considerable shifts in high-producing countries. Brazil is by far the world's largest coffee producer, growing fully 28.8% of the world's coffee in 2007. Since the mid-1990s, Brazil's production of the Arabica variety has doubled and it now accounts for over half of the world supply (Bacon, 2005, p. 498). Brazilian producers have also shifted coffee cultivation further north to avoid frost-prone areas and reduce the chances of weather-related crop failure (Baffes, 2003, p. 38). Additionally, Brazil has invested heavily in new technologies and intensified farming on large plantations, giving them a huge productivity advantage compared to other, less advanced South American producers. According to a Brazilian coffee trader, in Guatemala it could take 1000 person days of labour to harvest one container of coffee, while in Brazil, it takes about 10 person days and a mechanical harvester to fill one container<sup>6</sup> (Gresser & Tickell, 2002, p. 18). Although mechanical harvesting yields lower-quality coffee, roasters have developed technologies to make such grades acceptable for average blends. These unprecedented capital advantages greatly reduce costs and push small-scale producers out of the competitive market.

Since 1990, Vietnam has burst onto the international coffee stage as a major. Vietnamese climate and altitude are most appropriate for growing the Robusta variety. Vietnam sold only 1.4 million bags of green coffee in 1990, increased its production to an astonishing 14.8 million in 2000, and went on to produce a high of 18.4 million bags in 2005, ranking it as the number two

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<sup>6</sup> One container is equivalent to 275 bags of coffee, or 18,975kg (Gresser & Tickell, 2002, p. 18)

producer in the world (ICO, 2007). In the early 1990s, the government provided subsidies which encouraged farmers to grow coffee, and the ruling Communist Party began to liberalize their agricultural markets (Gresser & Tickell, 2002, p. 18). These two events fuelled a production boom.

Vietnamese production costs lie well below global average, which has led to global employment shifts. It has been estimated that while 200,000 permanent workers and 400,000 seasonal workers have lost their jobs in coffee production in South America, coffee-related jobs in Vietnam have soared from 300,000 in 1990 to upwards of 1 million today (Lindsey, 2004, p. 4; Vietnam Business Finance, 2008).

The quantities produced in the top 15 countries in the world can be seen in Table 1. Brazil's increased Arabica production is displacing other South and Central American producers, and Vietnam's rapidly growing Robusta production is displacing African producers. Africa's production has stayed quite level at about 20 million bags per year between 1970 and 2000, with their market share falling from about 33% to 18% in that time (Baffes, 2003, p. 36). Despite China's elephantine status in the world agricultural market, its geography makes it less suitable for large-scale coffee cultivation because it lies just north of the Tropic of Cancer.



**Table 1. Total production of the top 15 world producers (ranked by 2007 production levels).  
Crop years 2002 – 2007. Volumes are shown in thousands of 60kg bags.**

*Source:* International Coffee Organization (2007).

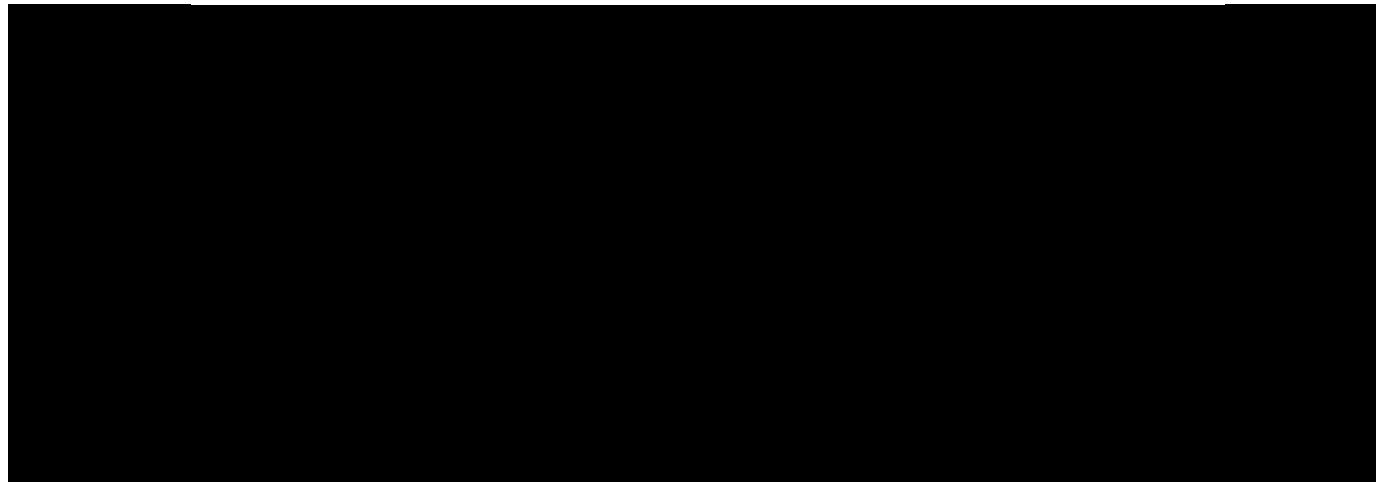
Coffee is a particularly important commodity for generating foreign exchange earnings and export revenue in several countries. For example, in 2000, coffee made up 24% of the export revenue in Honduras, 43% in Uganda, and 54% in Ethiopia (Lindsey, 2004, p. 16). Since then, the quantity of coffee produced in Honduras and Ethiopia has steadily risen, suggesting that they are making their economies more vulnerable to external shocks. Efficiency gains<sup>7</sup> during the 1990s averaged 2.6% in Asia, 1.7% in Latin America, and 1.1% in Africa, which was largely driven by coffee growers gaining experience in Vietnam, mechanization and plantation farming in Brazil, and the introduction of new plant varieties (Baffes, 2003, p. 36).

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<sup>7</sup> Efficiency gains represent yield growth per unit of area under cultivation

Changes in the coffee market have also come from consuming countries. World coffee consumption in the developed world has suffered from a steady decline since the Second World War. In the United States, the world's largest importer, coffee consumption peaked in the late 1940s at 8 kg or 123 litres per person per year and has declined steadily, falling to 4.2 kg or 64 litres per person per year today, equivalent to the 1910 – 1920 average. In just a 6 year span, between 1993 and 1999, per capita coffee consumption in Western Europe fell from 5.8 kg to 5.5 kg. Consequently, the global rate of growth of demand has also diminished. Growth in coffee market was 2% in the 1970s, 1.6% in the 1980s, virtually stagnant in the 1990s, and has averaged about 1% growth since the millennium. Table 2 shows the quantities imported by the top 8 importing countries between 2000 and 2006. The differences between total world production and total world imports can be explained by domestic consumption in producer countries. For example, Brazilians consume about 30% of the coffee that they grow, Indonesians about 23%, Mexicans 19%, and Columbians 11% (Baffes, 2003, p. 35).

**Table 2. Total imports of the top 8 importing countries (ranked by 2006 import levels).  
Import years 2000 – 2006. Volumes are shown in thousands of 60kg bags.**



*Source:* International Coffee Organization (2007).

More significant in the short term are the changes that are taking place with large roasters. Better roasting technologies allow for the substitution of cheaper Robustas in place of more expensive Arabicas, and facilitates the use of lower quality beans of both varieties to obtain a similar quality average blend end product. Coupling this with a growing consumer preference for top quality gourmet coffees, it implies a split in demand on the coffee quality continuum. Technological roasting improvements allow for the substitution of lower grade inexpensive beans for medium quality Arabicas and Robustas in average blends, and the demand for high-end beans is rising to fill the gourmet market (Baffes, 2003, p. 39). This translates to a market for large scale industrial production of inexpensive lower grade quality like Brazil and Vietnam offer, and a market for those producers who have the technical capacity and required geography to cultivate high quality gourmet beans.

It is interesting to note the breakdown of the costs of a cup of coffee in a typical developed-country coffee bar. Labour accounts for 19-20% of the cost; rent, 16-18%; cup and lid, 7-8, dairy costs, 6-8%; and other packaging and sugar, 5-7%. The actual coffee content has been estimated to account for 5% – 7% of the cost of a typical cup in Canada (Lindsey, 2004, p. 6), and less than 4% of the price of a cappuccino in a UK coffee bar (Ponte, 2002:2, p. 1117), making large fluctuations in the coffee market barely register for consumers.

#### ***2.4 Growth trends in Fairtrade production and consumption***

The number of coffee producing organizations that are being Fairtrade certified is growing steadily. As of 2007, there were 241 Fairtrade certified coffee co-ops with more applications to be processed (FLO, 2008). In 2001 there was a huge glut in the number of applicants requesting certification. Two hundred eighty applications were awaiting approval from the FLO in 2001, which was unsurprising since there were extremely low coffee prices at

that time. The FLO had to close the registry temporarily in 2002 because of the huge disparity between supply and demand in the fair trade market (Weber, 2007, p. 113).

The size of the consumption market has been a limiting factor for Fairtrade certified coffee. There is a global oversupply of Fairtrade coffee. On average, only about 20% of Fairtrade certified coffee is sold at the higher Fairtrade price; the rest is sold by co-ops into the conventional coffee market at world prices (Brown, 2008, personal communication).

Fairtrade coffee sales and the number of co-operatives with Fairtrade certification have skyrocketed over the last several years. Map 2 shows the location and number of Fairtrade Certified producer organizations. The worldwide Fairtrade coffee market grew by 53% from 2005 – 2006, increasing from 33,994 to 52,077 metric tonnes of coffee. Table 3 displays worldwide consumption patterns of Fairtrade coffee. It shows a trend of substantial overall growth, which is largely fuelled by the entrance of the United States into the market.

**Table 3. Consumption patterns in the top 14 consuming countries (based on 2006 consumption levels). Volumes are shown in number of 60kg bags.**

| Year                          | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Country</b>                |        |        |        |        |        |        |        |        |
| USA                           | 917    | 11783  | 21050  | 30900  | 59567  | 109617 | 187333 | 392800 |
| UK                            | 20617  | 22200  | 25900  | 32567  | 38467  | 55650  | 74683  | 103967 |
| France                        | 4500   | 8250   | 15833  | 23100  | 39283  | 46400  | 89033  | 102917 |
| Germany                       | 55533  | 51633  | 52150  | 49033  | 47233  | 49683  | 54633  | 65133  |
| Netherlands                   | 53100  | 51700  | 51750  | 52333  | 51600  | 49700  | 47667  | 47417  |
| Canada                        | 1300   | 2567   | 4617   | 7083   | 11067  | 13767  | 23350  | 37800  |
| Switzerland                   | 23817  | 23033  | 21767  | 20767  | 25233  | 24367  | 24783  | 25583  |
| Belgium                       | 7950   | 9133   | 9700   | 10533  | 13417  | 14417  | 15200  | 17450  |
| Sweden                        | 3633   | 3617   | 4233   | 4817   | 4900   | 6250   | 8667   | 15883  |
| Austria                       | 4733   | 5000   | 5550   | 6817   | 7717   | 8650   | 9517   | 12450  |
| Denmark                       | 11583  | 12367  | 11867  | 10917  | 9050   | 9167   | 10000  | 12217  |
| Norway                        | 917    | 2083   | 2983   | 3867   | 5150   | 6100   | 7100   | 8067   |
| Ireland                       | 683    | 917    | 1033   | 1000   | 1667   | 2100   | 2750   | 5067   |
| Australia/NZ                  | 0      | 0      | 0      | 0      | 0      | 0      | 1650   | 4983   |
| Other                         | 6583   | 8283   | 9283   | 6033   | 6083   | 6667   | 8717   | 14733  |
| <b>TOTAL</b>                  | 197017 | 213633 | 239000 | 260900 | 321567 | 403700 | 566567 | 867950 |
| % increase from previous year |        | 8.4%   | 11.9%  | 9.2%   | 23.3%  | 25.5%  | 40.3%  | 53.2%  |

Source: Adapted from [www.transfair.net](http://www.transfair.net), accessed March 17, 2008.

Map 2. Location and number of Fairtrade Certified producer organizations.



Source: Fairtrade Labelling Organizations International Annual Report, 2006/2007

Consumption in countries like Germany, the Netherlands and Denmark, however, all declined between 1999 and 2005 suggesting that there might be a fairly low ceiling of market penetrability for Fairtrade coffee. Presently, Fairtrade coffee accounts for about 1-2% of total coffee consumption in high-consuming countries (ICO, 2006; FLO, 2007). For comparison, North American specialty coffee demand grows 5-10% annually, stands at 17% of imports by volume and 40% of retail market by value (Bacon, 2005, p. 499).

### Chapter 3: Impacts of Fairtrade in Producer Countries

The impacts of Fairtrade coffee in producer countries are broad and deep. Not only do Fairtrade co-ops directly affect coffee growers, but communities and systems are indirectly impacted as well. A range of impacts on producers will be discussed first, followed by Fairtrade's effects on matters such as gender equity and environmental protection. Other spillover effects are also discussed, such as the incomes of farmers who are not members of a Fairtrade co-op and the creation of common and public goods. Finally, the usefulness of Fairtrade as a development tool is evaluated using different rubrics and approaches.

#### *3.1 Impacts on producers*

##### *3.1.1 Income*

The most obvious benefit to growers selling Fairtrade coffee is the guaranteed minimum price received by producer co-ops. It is set to cover the cost of sustainable production. FLO has decided that the cost of sustainable production is \$1.21/lb<sup>8</sup> for Arabica and \$1.01/lb for Robusta. If the market price rises above this minimum, then the market price becomes the new minimum. On top of the minimum is the Fairtrade Social Premium, which was raised from \$0.05/lb to \$0.10/lb in March, 2007. This extra money is intended for the social and economic development of the community. The co-op democratically decides how the Social Premium is spent, and is accountable to FLO-CERT for the spending. There is an additional premium for organic coffee, called the Organic Differential. It was raised from \$0.15/lb to \$0.20/lb in March, 2007, and aims to cover the additional costs of organic production (Transfair USA, 2008). While Fairtrade certification of coffee clearly covers the cost of production for those certified producers, it is

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<sup>8</sup> All prices show in USD

unclear whether the cost of production is covered by other fair trade alternatives, like the Starbuck Preferred Supplier Program which gives discretionary premiums to producers (Tallontire & Vorley, 2005, p.12).

**Table 4. Breakdown of Fairtrade minimum, Social Premium, and Organic Differential**

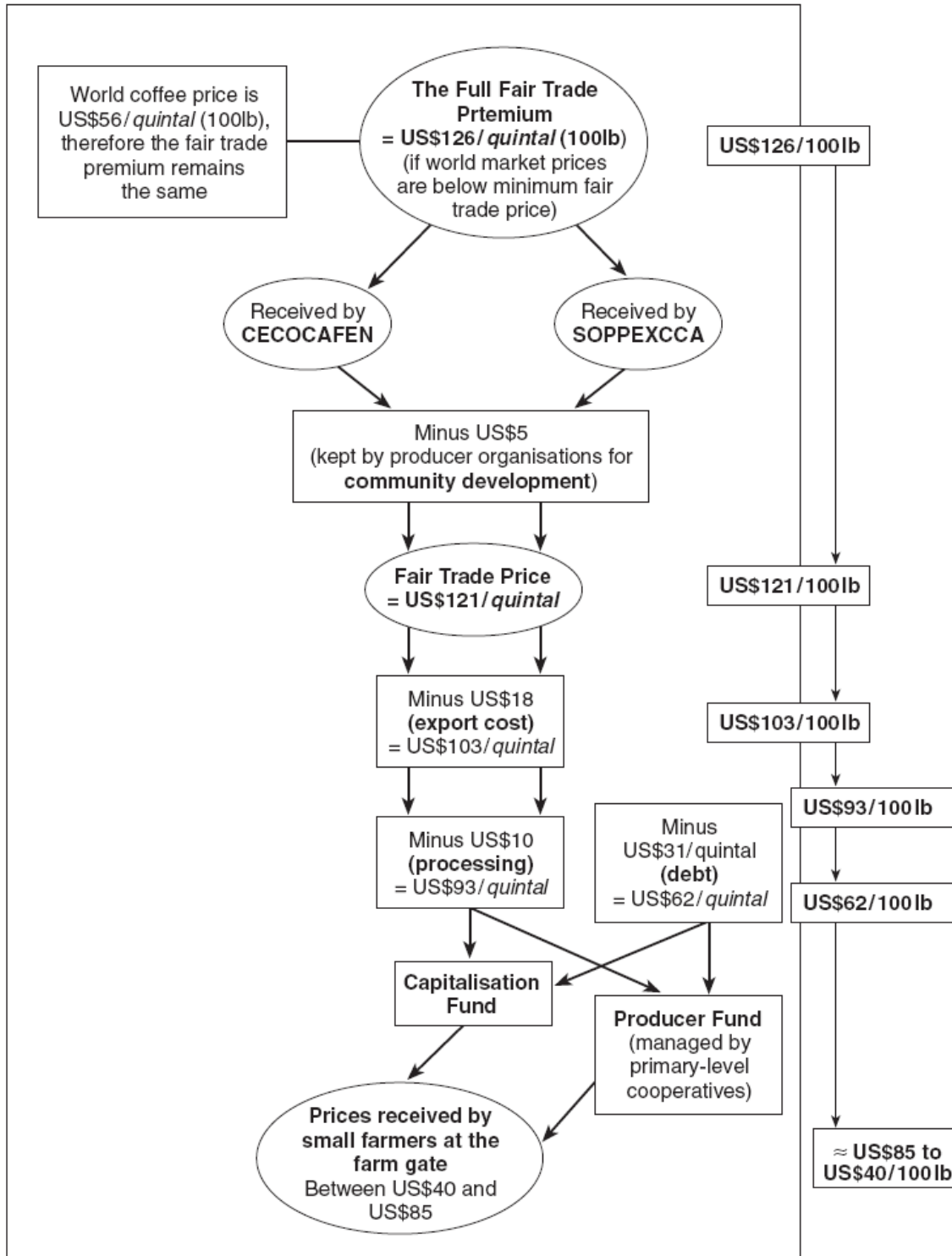
| Price per pound   | Fairtrade minimum | Social Premium | Final Fairtrade Price | Organic Differential | Final Fairtrade Organic Price |
|---|-------------------|----------------|-----------------------|----------------------|-------------------------------|
| Market price below minimum price (Robusta)                          | \$1.01            | \$0.10         | \$1.11                | \$0.20               | \$1.31                        |
| Market price below minimum price (Arabica)                          | \$1.21            | \$0.10         | \$1.31                | \$0.20               | \$1.51                        |
| Market price above minimum price (closing April 11, 2008 at \$1.46) | \$1.46            | \$0.10         | \$1.56                | \$0.20               | \$1.76                        |

*Source:* Adapted from [www.transfairusa.org](http://www.transfairusa.org), accessed Feb. 23, 2008; Bloomberg EDC Economics, [www.edc.ca](http://www.edc.ca), accessed April 19, 2008.

The minimum price is not fully captured by the growers, since their operations are mediated by co-ops, many of which carry debts and have overhead and administrative costs. In the case of debt, producers belonging to a co-op in Nicaragua democratically decided to prioritize debt repayment over higher incomes, and feel fortunate to have had the opportunity to access credit at all (Utting-Chamorro, 2005, p. 589). Though overall averages have not been calculated for the amount of the Fairtrade price that reaches the farm gate, Karla Utting-Chamorro traced an interesting price path in Nicaragua. The results are displayed in Figure 5.



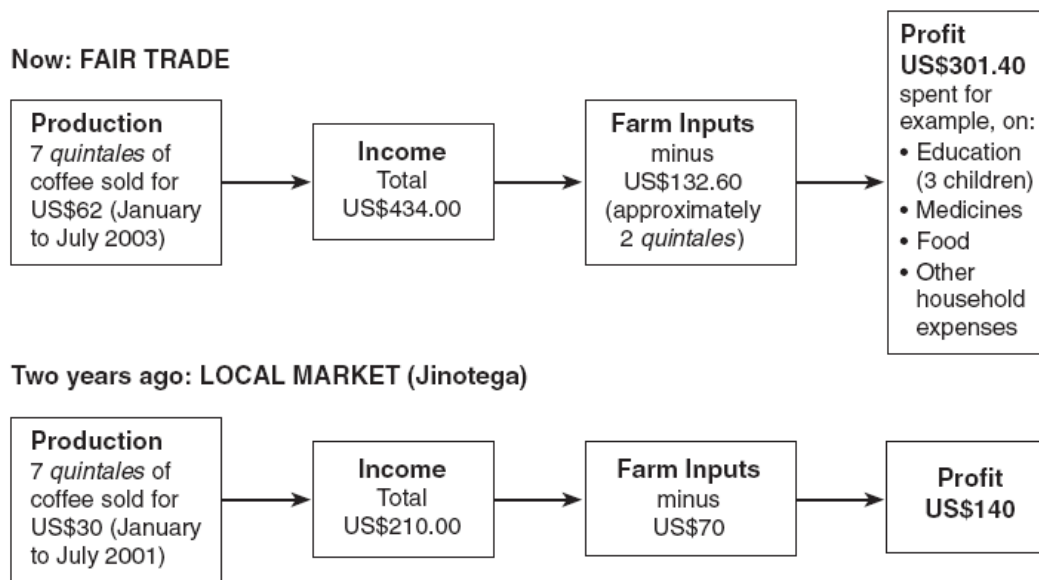
Figure 5. Tracing the price path from point of sale to the farm gate



Source: Utting-Chamorro, 2005, p. 590

Although it may seem like a pitifully small portion of the Fairtrade minimum actually reaches the farmer, Utting-Chamorro compared final incomes of farmers before and after joining their Fairtrade certified co-op. Her results are displayed in Figure 6, where she found that incomes more than doubled since the introduction of a Fairtrade market in rural Nicaragua.

**Figure 6. Change in income for a Nicaraguan producer after entrance into the Fairtrade market**



Source: Utting-Chamorro, 2005, p. 591

Note: The world market price for coffee was about 20% higher from Jan - July, 2003, compared with Jan - July 2001 (Reuters EcoWin, 2006). This price difference would account for approximately \$42 in increased total income in the absence of Fairtrade, compared with the \$224 increase realized through entrance into the Fairtrade market.

There is similar income growth reported from other studies. A separate study in Nicaragua found that farmers averaged \$0.56/lb of coffee sold through a co-op linked with the Fairtrade organic market, compared to \$0.40/lb for their conventional market counterparts (Bacon, 2005, p. 507). Fairtrade-associated co-op farmers in Costa Rica received incomes that were 39% higher on average than farmers not involved with Fairtrade (Ronchi, 2002, p. 10). Member of the co-op Majomut in Mexico earned an average of \$1700 per year for organic coffee sold through Fairtrade channels; this coffee would be worth \$550 in conventional markets

(Raynolds, Murray & Taylor, 2004, p. 1118). Incomes of co-op members also increased because of the benefits reaped from increasing economies of scale in transport, processing, accessing marketing information and distribution of final goods (Milford, 2004, p. 35). Overall, the extra amount of money coffee producers received through Fairtrade was \$60 million in 2006 (FLO, 2008).

The Social Premium has typically been invested in other funds for community projects or to enhance the capacities of the co-op and its members. The co-op Coocafe in Costa Rica invests 70% of the Fairtrade premium in a Producers Fund, which is available to farmers in the form of small loans. The remaining 30% is invested in the Social Capital Fund for capital acquisition and community investments such as secondary school scholarships, university scholarships, and an educational extension fund aimed at narrowing the educational quality gap between rural and urban students. The educational extension fund supports rural school infrastructure and materials, as well as providing for scholarships. (Ronchi, 2002, p. 7).

In Oaxaca, Mexico, some of the Premium has gone toward an education centre for young people that trains them in community development, focusing on composting technologies, intercropping of coffee and legumes, animal husbandry, and alternative food and cash cropping. It has also gone toward capitalizing the co-op by investing in machinery that improves efficiency and quality of production like an electronic selector machine (for choosing high-quality beans) and the construction of an organic coffee warehouse (Murray, Raynolds and Taylor, 2003, p. 23). The story is similar in Nicaragua, where co-ops use the higher Fairtrade price to invest in productive infrastructure, pay debts, provide credit access, provide technical assistance, cover administrative and certification costs, and fund housing and education projects in rural communities (Bacon, 2005, p. 505). Clearly, the benefits of extra income are substantial and are

revealed through capitalization and infrastructure development, access to education, a feeling of empowerment, stability, predictability and reduced vulnerability.

### *3.1.2 Credit availability*

Access to credit is an essential component of growth and productivity. Offering credit to people in developing countries who are often structurally or institutionally prevented from accessing it has proved hugely successful in a variety of domains. The Nobel Peace Prize - winning Grameen Bank is arguably the most notable microfinance program ever established, and has been used as an effective instrument to fight poverty.

Credit provision is enshrined in the Fairtrade relationship. Fairtrade rules state that co-ops can demand up to 60% pre-financing from buyers to cover harvesting and other costs (FLO Annual Report, p. 20), and credit must be offered at a rate similar to that of the world market (Murray, Raynolds, & Taylor, 2003, p. 7). Many co-ops take full advantage of the opportunity. For example, Las Colinas in El Salvador was able to secure pre-financing from their buyers in accordance with Fairtrade rules, and received credit at half the interest rate of their national bank (Raynolds, Murray & Taylor, 2004, p.1117).

Affiliation with Fairtrade gives co-ops an improved image, resulting in greater access to traditional credit sources like national banks. The affiliation provides banks with additional security through a perceived increase of stability and market future for crops due to the long term contracts that a Fairtrade relationship demands (Raynolds, Murray & Taylor, 2004, p.1117). Lenders are more willing to extend lines of credit under more favourable terms because of the reduced risk (Milford, 2004, p. 53).

Credit-worthy co-ops then act as intermediaries for growers. Credit provided through co-ops gives growers access when formal lending institutions do not exist or have large barriers to

entry (Milford, 2004, p. 35). In 10 years, Coocafe in Costa Rica has amassed over US\$1 million in capital from two sources; the Social Capital Fund, and, from taking 15% of total export revenue to extend credit to farmers and charging a 3% commission for this service (Ronchi, 2002, p. 13). Some co-ops in Mexico have taken a slice of the Fairtrade Premium and invested it in small, co-op-administered credit funds that can be accessed by members for small emergencies (Murray, Raynolds, & Taylor, 2003, p. 9).

Indeed, pre-financing also reduces the common lure of the coyotes who offer immediate upfront cash for crops. Coyotes will pay right away, but offer lower prices and prey on those who are desperate for immediate money and are willing to sell for extremely low prices. Pre-financing lessens the immediate cash incentive, allowing farmers to collect higher prices for their crops (Murray, Raynolds, & Taylor, 2003, p. 7).

Borrowing can be risky business for those who are unfamiliar with loans and interest. While association with Fairtrade facilitates loans to co-ops from local institutions and governments, it entices some producers to assume large debts they can not repay. Lines of credit can pose problems for some co-ops. They might take out unreasonable loans because of a lack of experience in borrowing or because of predatory lending practices. A Guatemalan co-op went bankrupt after receiving big loans from USAID that they could not repay (Murray, Raynolds, & Taylor, 2003, p. 25). In general, however, access to credit gives farmers increased opportunities for productivity investments and helps them avoid predatory lending at exorbitant rates.

### *3.1.3 Education*

Education has been consistently identified as an essential building block for development. Achieving universal primary education is identified as the second United Nations Millennium

Development Goal because of the enormous benefits that arises from an educated population.

Fairtrade helps support education in a variety of different ways.

Co-op members benefit from technical staff, provided through FLO International, who teach farmers how to improve coffee quality through organic production methods, cultivation methods like shade growing, and proper coffee handling. Many co-ops offer compulsory courses that teach technical skills which increase the quality of production and improve the chances of the co-op finding a buyer (Milford, 2004, p. 48, 53). Co-ops also have access to an abundance of market information from their Fairtrade contacts in consuming countries. Capacity building through alternative trade organizations of the fair trade movement has educated producers, allowing them to access international trading opportunities. Co-ops feel more confident approaching non-fair trade buyers because of their enhanced capacity and understanding of how conventional international sales work. They also focus their education efforts on the value of staying in a co-op to help prevent membership loss at times of high coffee prices in the conventional coffee market (Ronchi, 2002, p. 18, 19).

Importers play a role in financing educational facilities. For example, Thanksgiving Coffee, a Fairtrade coffee importer from the USA, has set up a cupping lab in Nicaragua to educate producers on desirable taste characteristics of different coffees, and how coffee quality can be improved through different production, management, and processing techniques (Farnworth & Goodman, 2006, p. 14). The Fairtrade Premium is often invested in educational facilities. Fundacion Café Forestal, a program supported by the capitalization fund of a Costa Rican co-op, focuses on education of solid waste management, among other things (Bacon, 2005, p. 9).

The educational benefits extend far beyond the growers themselves. Nine co-ops in Costa Rica use part of the Social Capital Fund for secondary school scholarships, university scholarships, and an educational extension fund aimed at narrowing the gap educational quality gap between rural and urban students. Scholarships provided through the educational extension fund are distributed as a half-bursary, half-interest-free loan, and a selection process that actively supports women means that more than half of scholarship winners are female (Ronchi, 2002, p. 8). Higher female education rates are highly correlated with lower fertility rates, greater labour force participation, and improved health (UNESCO, 2004).

Families can also afford to send their children to school because of their improved standard of living since the introduction of Fairtrade. In Nicaragua, it has allowed families to pay of children's education and purchase required uniforms, shoes and books (Utting-Chamorro, 2005, p. 591). A meta-analysis of those involved with Fairtrade shows an improved ability of members to provide education for their children (Farnworth & Goodman, 2006, p. 15).

#### *3.1.4 Empowerment*

Fairtrade empowers producers. Although this is a difficult quality to measure, examples abound regarding empowerment of individuals through Fairtrade co-op membership and its associated capacity and knowledge building. There are social benefits of group membership, including support through tough times, networking, and idea sharing. Since Fairtrade co-ops are internally non-competitive, farmers have no reason to be hesitant about sharing their best practices (Milford, 2004, p. 53).

Poor people are empowered when their social capital is built up, their participation in civil society increases, and their voices are represented through a co-op (Milford, 2004, p. 36). This has been evidenced in Costa Rica where producers requested that their co-op bring 'fair

weight' payment concerns<sup>9</sup> to the FLO. The FLO lobbied on their behalf at the international industry policy level, an arena where producer representation had historically been excluded. While this lobby attempt by the FLO was unsuccessful, producers nonetheless felt that their concerns were being dutifully addressed and that their voices mattered (Ronchi, 2002, p. 14).

When producers in Nicaragua brought what they considered to be unrealistically arduous environmental expectations to the attention of the FLO, it reviewed the complaints and made concessions so that farmers could remain certified. Farmers described this interaction as something they would not have considered doing in the past, but chose to do because their confidence has been bolstered through Fairtrade (Farnworth & Goodman, 2006, p. 18). In a separate case in Nicaragua, a non-Fairtrade organization had not complied with new government legislation for environmental practices, yet was not suffering fines and was damaging natural resources that the Fairtrade co-op was protecting. The co-op manager launched a complaint he "wouldn't have dared make" in the past because he felt nobody would have listened and was successful in getting the other organization to comply (Ronchi, 2002, p. 18). Indeed, belonging to something that is co-operative in nature fosters a feeling of being part of something bigger than oneself, leads to confidence because of implicit support from the group, and proactively combats the feeling of helplessness or insignificance in the face of adversity.

Members of Fairtrade co-ops have gained an optimism and confidence from their successes in negotiating international markets and receiving fair payment. They have more confidence in approaching non-fair trade buyers because of the knowledge and experience they

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<sup>9</sup> The fair weight concern reflects the discrepancy between 100lbs of coffee and 46kg of coffee. It has been assumed that 46kgs equals 100lbs, when in fact 46kgs equals 101.41lbs. In effect, producers were losing 1.41lbs of coffee in every bag of coffee they sold.



gained through Fairtrade dealings (Ronchi, 2002, p. 18). With the stability that long term contracts and minimum prices provides, producers feel as though they are in control of their future. Those linked only to conventional coffee markets are four times more likely to believe that they are at risk of losing their farm due to low or unpredictable coffee prices than those linked into the Fairtrade market (Utting-Chamorro, 2005, p. 592).

Fair trade advances the feeling of solidarity and mutual support that alternative trade organizations and other social movements in Latin America and elsewhere have promulgated (Murray, Raynolds & Taylor, 2003, p. 13). Fair trade enables people to have meaningful choice about their livelihood strategy (Farnworth & Goodman, 2006, p. 17), which in some circles is the essence of development.

### *3.1.5 Participation locally and beyond*

Many countries that export Fairtrade products have been ruled by governments that have actively discouraged participation in the last three decades. Cultural norms are often peppered with the residue of discrimination and an institutionally tiered system. Fairtrade helps people gain essential experience with participation and inclusion.

Social capital can be defined as social organization, trust, norms and networks that improve the efficiency of society. Research shows that social capital is developed by co-ops and helps create a civil society, which is a precondition for democracy. Becoming more familiar with participating in all levels of decision-making and making participation an expectation or norm facilitates the creation and maintenance of democracy. Since co-ops are a requirement of Fairtrade certification, Fairtrade is helping to foster social capital (Milford, 2004, p. 36).

In the FLO itself, producer participation has been something sought after by rural co-ops. Indeed, producers yearned for more bi-directional communication, especially from the

grassroots to the policy-makers at the FLO, and felt that the democratic, transparent process imposed on co-ops should also be used at the international consortium level (Ronchi, 2002, p. 15). The FLO has begun to address this legitimate concern through the inclusion of three producer organizations: CLAC (Coordinadora Latinoamericana y del Caribe de Comercio Justo); AFC (African Fairtrade Network); and NAP (Network of Asian Producers). In so doing, the FLO has begun to transform itself into a truly multi-stakeholder organization that ensures producers a stake in decision-making and future development of the organization. The FLO excitedly anticipates expanding the producer voice in decision-making (FLO, 2007, p. 3).

### *3.1.6 Livelihood shift*

Participation in the Fairtrade market affects people's livelihood decisions. In some cases, Fairtrade gives families the option of continuing to farm instead of moving to a sprawling city-slum. Costa Rican seasonal and permanent urban migration in Fairtrade-associated communities was significantly less than in non-Fairtrade communities, where entire communities disappeared (Ronchi, 2002, p. 10). Reduced rural-urban migration keeps skills in the community, and allows for the preservation of rural cultures.

Encouraging organic production also changes the habits and time allocation of growers and their families. It has been argued that growing organic requires significantly more labour which carries an opportunity cost of not being able to cultivate other crops, less leisure time and therefore less welfare or utility (Milford, 2004, p. 55). Labour-intensive production for export means that women, who often produce crops for subsistence living or local sale, are instead involved in coffee production. This switches a livelihood mindset from one of food self-sufficiency to that of a monetised lifestyle (Farnworth & Goodman, 2006, p. 17).

Alternatively, others maintain that environmental standards often promote shade-grown production using food-producing trees. This has been the case for some Nicaraguan growers, who have planted fruit-bearing trees to fulfill the shade-grown requirement of some purchasers, thus diversifying their production and enhancing food sovereignty (Utting-Chamorro, 2005, p. 595). Intercropping of bananas, mangos, oranges, and trees for firewood has helped increase food security and dovetailed with a northern preference for shade grown coffee (Bacon, 2005, p. 502). Families have taken their organic farming knowledge gained through Fairtrade capacity building and applied it to organic gardening and subsistence supply projects (Murray, Raynolds & Taylor, 2003, p. 9). Environmental standards also encourage soil-enhancing intercropping techniques, which often produce food as a side-benefit, for example, with leguminous nitrogen-fixing plants. This can enhance both food self-sufficiency and local sale food production.

Families have also used the higher Fairtrade prices, training and marketing capacity building to diversity their livelihoods in other ways. Examples include opening operations such as the production and marketing of artisanry, the establishment of community stores and bakeries, and the improved production of grains and other foodstuffs (Murray, Raynolds & Taylor, 2003, p. 9). While the exact nature of a shift in livelihoods is not completely clear, what is apparent is that Fairtrade has an effect on livelihood choices and often provides people with more options for their preferred livelihood strategy.

### *3.1.7 Stability, predictability, reduced vulnerability*

Fairtrade aims to ensure stability and predictability for growers by insisting on long-term contracts between buyers and co-ops and through the Fairtrade minimum price. A vulnerable livelihood combines one's exposure to an external shock (vulnerability) with how people make a living that is meaningful to them (livelihood). People tend to reallocate their resources in times

of stress according to their perceptions and capabilities, and often sacrifice long-term interests to meet short-term demands. These sacrifices take the form of pulling children out of school, decreasing agricultural inputs, or migrating to the city (Bacon, 2005, p. 501). The conditions set out by the FLO are meant to reduce vulnerabilities and the problems they create.

One approach to reducing vulnerability is through diversification. Many approaches to diversification, like intercropping bananas, mangos, oranges, legumes, exporting yucca and plantain chips, and planting trees for firewood have already been described. In Costa Rica, a program supported by the co-op's capitalization fund focuses on diversification through local research into solar fruit-drying and solar energy (Ronchi, 2002, p. 9). Diversification into non-agricultural income streams, such as artisanry and the establishment of small shops and bakeries has also been mentioned. Credit provision through Fairtrade co-ops gives producers the opportunity to take advantage of market opportunities even in the absence of substantial personal savings. In general, a primary goal of Fairtrade has been diversification into the production of other crops, improved agro-processing, improved varieties of crops under cultivation, and diversification into non-agricultural works (Murray, Reynolds & Taylor, 2003, p. 26).

While the goal is being achieved in many communities with Fairtrade co-ops, research shows that coffee farmers in Costa Rica are still largely dependent on coffee incomes for survival. When asked about coffee prices, most farmers first commented on the stability of prices, then on their superior level. So although livelihood diversification has not yet blossomed, growers who are dependent on coffee are nonetheless benefiting from its stable price (Ronchi, 2002, p. 11). Many farmers in Nicaragua have reported greater economic stability and security offered by Fairtrade prices as reasons for their increased standard of living (Utting-Chamorro, 2005, p. 591).

Long-term investments and calculated risks that are otherwise forgone because of poverty can be made because of the sense of security offered through guaranteed minimum prices (Ronchi, 2002, p. 16). The ability to accurately plan implies having access to information and greatly increases efficiencies. Mexican producers claim that they are better able to plan their crop planting as well as for the needs of their family and community because of the relative stability and predictability in future income (Murray, Reynolds & Taylor, 2003, p. 6).

### ***3.2 Impacts on gender equity***

Although gender equity is promoted as a value of Fairtrade, the extent to which gender is actually addressed is determined by whether the co-ops themselves adopt it as an objective (Ronchi, 2002, p. 21). Co-ops must keep track of their gender mix. The participation of women in coffee production is generally high, but their participation in decision-making is sometimes low. In one Costa Rican co-op, women were only Fairtrade participants on paper so that their families could access more credit or increase their voting rights (Farnworth & Goodman, 2006, p. 18). In another Costa Rican co-op, women have repeatedly declined nominations to positions of authority within the co-op and they are less likely to attend meetings or fulfill their co-op obligations. Women who do attend meetings tend not to participate, and those who wish to participate are sometimes forbidden by their husbands to do so (Ronchi, 2002, p. 22).

Though some researchers suggest that projects run by women have failed due to a lack of interest and organization on the part of the women (Ronchi, 2002, p. 21), it is wise to look at some alternative explanations for low female involvement in Fairtrade coffee production. Poor attendance at co-op meetings is likely because of prohibitively heavy household responsibilities for women, which render them unable to devote time to the daily activities of the co-op.

Institutional barriers to female participation include co-op's rules against having families attend

the General Assembly, so women must choose between taking care of their children or voting at the co-op. Other barriers that have been cited as preventing gender equity include their limited technical support, submissiveness, and many communities' Catholic background (Ronchi, 2002, p. 22; Utting-Chamorro, 2005, p. 595).

Some producers have experienced positive outcomes regarding steps towards gender equity. Women have experienced a certain degree of empowerment in Nicaragua, with SOPPEXCCA, a second grade organization, partnering with an all-female co-op. The experience gained in women-run co-ops and involvement in mixed-gender co-ops help women to participate in decision-making, though they still lack access to the productive or financial resources of their family (Utting-Chamorro, 2005, p. 595).

The Fairtrade minimum price and long term contracts also provide women with a higher degree of independence. For example, in an unhappy marriage, Fairtrade provides women with more opportunity to assert control over their relationship. This is because women are secure with the knowledge that the price of their export commodity is guaranteed if they were to divorce their husbands and supply the co-op with coffee themselves. The higher, stable price reduces their vulnerability and affords women the opportunity to escape negative situations (Utting-Chamorro, 2005, p. 592). Of course, other barriers like land rights issues, community ostracism and religious beliefs, for example, might still obstruct this liberalization, but Fairtrade helps fill one hole in the complex puzzle of empowerment and gender equity.

Overall, there are mixed results in terms of Fairtrade's effect on gender. While the standards and expectations of the FLO are well intentioned, their implementation has been more difficult to carry through.

### ***3.3 Impacts on environmental protection***

#### ***3.3.1 Organic production***

The environment is increasingly being recognized as crucial to sustained economic development (Stern, 2006, p. 168). Humans are ultimately dependent on their natural environments for everything that they consume and value (Hayami, 2001, p. 88). As such, Fairtrade has explicitly included environmental protection in its goals. Specifically, farmers must ensure that progress is made toward environmental development through crop rotation, improved cultivation techniques, crop selection, careful use of inputs such as fertilizers and pesticides, the avoidance of GMO crops, reduced water contamination, use of fire management practices, and, as relevant, shade production (FLO, 2007, Generic Fairtrade Standards).

Although it is not a requirement for Fairtrade producers to grow organic coffee, many rich-world consumers demand the double certification standard. Consumers tend to buy organic produce for its supposed health benefits, environmental reasons, and superior taste (Milford, 2004, p. 44) and organic produce is particularly popular among Fairtrade coffee clientele.

The FLO supports growers who wish to transition into organic cultivation. For example, trainings offered through the FLO's Producer Business Unit include courses on organic production (FLO, 2007). The most tangible support comes in the form of the Organic Differential that is paid for organic, Fairtrade coffee. An extra \$0.20/lb is paid for organic coffee because the FLO recognizes that there are costs associated with organic production, such as greater labour requirements and reduced yields. Table 4 shows how the Organic Differential is applied. This extra money provides a significant incentive to produce organic coffee, and both producers and the local environment benefit.

There are tangible environmental benefits to organic production. In Mexico, organic production and technical capacity building has led to decreased soil erosion and better water management, and has raised a consciousness about environmental impacts generally. Soil conservation techniques have helped reduce soil loss by 3800 tonnes per year. Organic farming methods have spread beyond coffee production and are being used in local gardens (Murray, Raynolds, & Talyor, 2003, p. 11).

Higher Fairtrade prices have allowed farmers in Nicaragua to purchase organic fertilizer and other farm inputs (Utting-Chamorro, 2005, p. 591). A Costa Rican co-op used part of the Capitalisation Fund to invest in facilities for the production of organic fertilizer (Ronchi, 2002, p. 7). A program supported by the Social Capital Fund in Costa Rica focused on agricultural extension and capacity building for organic production methods (Bacon, 2005, p. 9). In Mexico, organic production has also contributed to the survival and revitalisation of indigenous traditional farming practices, which by their nature are organic and environmentally preservative (Murray, Raynolds, & Taylor, 2003, p. 4).

There are drawbacks to organic production, however. Growing organic requires significantly more labour. If the family is used to fill this labour requirement, it endures the opportunity costs of reduced leisure time and not being able to cultivate other crops, resulting in less welfare and utility. Alternatively, growers can hire labour, which increases the cost of production (Milford, 2004, p. 55). Additionally, many farmers are unwilling to take the risk of lower yields when transitioning from chemical-assisted growing to organic production. Measures can be taken to minimize these risks, however, like transitioning to organic production in a piecemeal fashion.



### *3.3.2 Other environmental effects*

Besides encouraging organic production, Fairtrade helps support other environmental initiatives. A program supported by the Capitalization Fund of a Costa Rican co-op focuses on education about solid waste management, environmental conservation, and the development of biological diversity. The co-op has undertaken a turtle conservation project and actively works toward local forest restoration. The same co-op has invested over \$3.5 million in environmental protection and development programs over its ten years of operation. Through partnerships, it has helped 1200 producers convert to more sustainable farming practices by reducing the use of herbicides and encouraging shade grown coffee production. The co-op has managed to stay fully compliant with all environmental legislation, and has forced non-Fairtrade producers in the area to meet legislated environmental standards (Ronchi, 2002, p. 20).

The environment has been negatively effected in the absence of Fairtrade. When coffee fields are destroyed because of low prices, they are often replaced with treeless pastures for grazing cattle (Bacon, 2005, p. 498). Sweeping pastures provide little shelter for natural wildlife and destroy biodiversity. Biodiversity is also threatened with low prices threaten traditional farming practices. Such practices often include intercropping and limited chemical use, which benefits the natural environment.

There are limitations, however, in moving from learning about environmentally friendly farming techniques to actually implementing them. While most farmers recalled having been educated about reduced use of herbicides or organic production, few actually tried it because of a fear of reduced yields (Ronchi, 2002, p. 20). Indeed, trying to modify a person's livelihood is especially difficult in highly impoverished areas because poor people are generally risk averse. Any change represents a certain risk, and when meeting basic daily necessities is an uncertainty,

the risks of innovation or change are magnified since a marginally inferior outcome could mean starvation.

In general, Fairtrade production encourages environmental protection. Organic coffee sold in the Fairtrade market fetches a premium price, which is a considerable incentive for farmers. The FLO's Producer Business Unit and other partners help educate co-op members about eco-friendly farming practices, soil conservation, biodiversity development, and waste management. Income from higher Fairtrade prices allow co-ops to comply with environmental regulations and co-ops have provided funding and expertise for locally led programs focusing on environmental protection.

### ***3.4 Spillover effects***

#### *3.4.1 Incomes of non-members*

One of the most exciting externalities about Fairtrade production is its effect on the incomes of those who are not involved in the system. After evaluating local coffee prices in numerous towns and villages with or without Fairtrade co-ops, it was found that intermediaries' and exporting companies' purchasing prices were higher in areas where Fairtrade co-ops were present than where they were absent. Generally, the co-ops' presence positively influenced the pricing of coffee (Milford, 2004, p. 50).

Part of the reason for this might be because independently operated firms do not want to lose their market share, so they increase their price. On a broader scope, Fairtrade co-ops have successfully lobbied for better coffee prices on the international stage. In Mexico, purchase prices for coffee doubled after Fairtrade co-ops protested unfair prices offered by Nestle (Milford, 2004, p. 54). This outcome benefited all coffee producers, not just those involved with Fairtrade.

Many co-ops diversify their operations into short-term credit extension. Receiving credit is not always conditional on being a member of the co-op, so non-members benefit from gaining access to credit and from more reasonable interest rates. Co-ops compete with traditional local lenders, who are also often conventional coffee intermediaries, or coyotes. In order to retain both enterprises, coyotes have either offered higher coffee prices or have reduced their lending rates to remain competitive (Ronchi, 2002, p. 2; Milford, 2004, p. 56). This benefits all borrowers and coffee growers in the area.

The FLO mandates that growers pay the legal minimum wage for any hired labour, which is more than unaffiliated seasonal workers often receive (FLO, 2007). When workers in Costa Rica who were not working for Fairtrade farmers discovered that workers associated with a Fairtrade co-op were being paid higher prices, there was labour unrest until the private enterprises raised their wages accordingly (Ronchi, 2002, p. 21). Additionally, the switch to organic production, which often accompanies Fairtrade certification, means that nearly twice the labour is required (Murray, Raynolds & Taylor, 2003, p. 10). This has helped non-member families find work and earn a decent income instead of migrating to city-slums. Diversification into areas like ecotourism has also created employment opportunities for non-members. For example, fisherman in Nicaragua now lead boat tours for a tourist business that was initiated using funds from a local Fairtrade co-op (Milford, 2004, p. 54).

Growers who do not participate in Fairtrade are affected in a more abstruse way through the prolonged bust that often follows price booms in the coffee market. As was mentioned earlier, it has been shown that falling coffee prices paradoxically increase production as farmers strive to maintain income levels (Farnworth & Goodman, 2006, p. 13). Having a price floor for Fairtrade coffee guarantees income maintenance and helps prevent the production explosion

during times of low prices on the international commodity market. If Fairtrade production accounted for a more significant portion of world production, its guaranteed income maintenance would help diminish the vicious positive-feedback loop of high production and low prices yielding even higher production and lower prices.

#### *3.4.2 Democracy*

It is a requirement for Fairtrade participants to operate in a democratic manner. The creation of social capital within co-ops strengthens civil society, which is a precondition for democracy (Milford, 2004, p. 36). Exercising one's voting rights in a co-op helps normalize consultative, participatory decision-making and these expectations spill over into other domains like household decision-making or participation in local government.

Many co-ops have found that fulfilling the democratic requirement of the FLO has been a significant hurdle (Milford, 2004, p. 57). Some of the challenges of establishing and maintaining a democratic co-op will be discussed below in the *limitations and drawbacks* section.

#### *3.4.3 Common and public goods*

Goods that are rivalrous and non-excludable are considered to be common goods. Non-rival and non-excludable goods are considered to be public goods. The existence of Fairtrade co-ops in communities generally leads to the creation of common and public goods. They are shared by and beneficial for all people in a community and represent a significant spinoff benefit of Fairtrade.

Government services such as road construction, health infrastructure, and educational provision are often very limited in rural communities, partly because tax collection from such areas is difficult. Consequently, community social networks often take the place of government services (Murray, Raynolds, & Taylor, 2003, p. 10). Higher Fairtrade prices and the Social

Premium help to fund these services. The dependency of rural communities in developing countries on Fairtrade for the financing and maintenance of public services can be considered a potentially threatening situation. However, barring the uncertainty of their sustainability, the creation of such goods is doubtlessly net positive.

Rural infrastructure in many coffee-producing countries is often particularly challenging to develop and maintain, and its disrepair is a significant barrier for geographically dispersed producers who want to transport their harvest. Several co-ops have stepped in to ameliorate the transportation problem by investing in roads. Many co-ops in Costa Rica and Nicaragua have contributed money to road building and maintenance (Milford, 2004, p. 36; Murray, Raynolds, & Taylor, 2003, p. 10; Ronchi, 2002, p. 21). A co-op in Oaxaca, Mexico, has started a public bus service to connect far-flung producers and people en route with central services (Raynolds, Murray, & Taylor, 2004, p. 1117). These common goods clearly benefit all people who use the roads and buses and not just the co-op members.

A variety of different stores and shops have been established in Fairtrade communities. Agricultural input supply stores that were founded by co-ops in Mexico and Costa Rica are open for all farmers and gardeners (Ronchi, 2002, p. 19). Bakeries and other artisanal shops also owe their establishment to higher Fairtrade prices and the FLO's encouragement of livelihood diversification. All members in the community benefit from greater variety and choice and might enjoy fresh employment opportunities. Storage facilities and mechanical processors are also available for non-members to rent, giving them the chance to benefit from the capitalization that higher Fairtrade prices have allowed (Murray, Raynolds, & Taylor, 2003, p. 10).

Community health improvements have also been noted. In Oaxaca, Mexico, part of the Fairtrade premium has been directed to the construction of public latrines, which reduce water-

borne disease and vector-borne contamination. The construction of health clinics and pharmacies using Fairtrade funds in Mexico also benefit the larger community. A co-op in El Salvador was able to facilitate contact with emergency aid organizations when an earthquake struck in 2001. The entire community benefited from the co-op's connection with people in developed countries who could arrange for relief aid (Murray, Reynolds, & Taylor, 2003, p. 10).

There are some non-rival goods that Fairtrade helps create. A public good that is enjoyed by everybody is the cleaner environment that tends to accompany Fairtrade coffee production. On the whole, Fairtrade offers many common and public goods to non-members in the community. Indeed, a meta-analysis of several Fairtrade communities has shown an improvement in community-wide infrastructure, health services and environmental services (Farnworth & Goodman, 2006, p. 15).

### ***3.5 Fairtrade as a useful development tool***

#### *3.5.1 Assessment of Fairtrade using the Millennium Development Goals*

The United Nation's Millennium Development Goals (MDGs) provide a useful reference point for evaluating whether or not Fairtrade can be considered a tool for development. These eight goals were officially established by the United Nations in 2000 and have since become commonly referenced guidelines for development agencies. The eight MDGs will be listed and Fairtrade's contribution regarding each will be provided. The MDGs are to:

- 1) Eradicate extreme poverty and hunger;
  - The Fairtrade Premium directs substantially more income to producers and increases food sovereignty (Utting-Chamorro, 2005, pp. 589 & 595).
- 2) Achieve universal primary education;

- A meta-analysis of those involved with Fairtrade indicates that members have an improved ability to provide education for their children (Farnworth & Goodman, 2006, p. 15).

3) Promote gender equality and empower women;

- Gender equity is a value that is enshrined in the mandate of the FLO (FLO, 2007) and some scholars view its on-the-ground effectiveness with guarded optimism (Utting-Chamorro, 2005, p. 592).

4) Reduce child mortality, 5) Improve maternal health, and 6) Combat HIV/AIDS, malaria and other diseases;

- These are not explicit goals of Fairtrade, although higher income and education have historically lead to reduced child mortality rates, improved maternal health, and greater access to medical resources (UNDP, 2008). Also, Fairtrade premiums have been invested in clinics, pharmacies, and other health-related infrastructure (Murray, Raynolds, & Taylor, 2003, p. 10).

7) Ensure environmental sustainability;

- This is an explicit goal of Fairtrade, and is achieved by providing the incentives of an additional \$0.20/lb Organic Differential for using organic production, providing educational support (FLO 2007), and protecting water sources (Murray, Raynolds, & Taylor, 2003, p. 10).

8) Develop a global partnership for development;

- The FLO facilitates development partnerships between producers, retailers and consumers.

Using the UN's MDGs as a guideline, Fairtrade seems to fully contribute to development. It explicitly deals with five of the eight MDGs, and indirectly affects the remaining three goals.

### *3.5.2 Capacity building and infrastructural support*

Many international development organizations have approached the MDGs using capacity building as their major development instrument. Experts like Jeffrey Sachs insist that this type of development work must be accompanied by infrastructural support in order for capacity building work to be sustainable and successful (Sachs, 2005, p. 244). Many Fairtrade partnerships have adopted the popular capacity building approach to development while simultaneously allowing for infrastructural investment.

In Mexico, one of the founders of a Fairtrade co-op credited the FLO with extraordinary capacity building activities, especially at the inception of the co-op, where management, financial and technical support was given to members (Milford, 2005, p. 61). In Nicaragua, co-ops have taken advantage of substantial capacity-building activities, including income growth through diversification into eco-tourism, technical agricultural capacity-building, preliminary processing training, the operation and management of the Capitalization Fund, and access to international markets (Utting-Chamorro, 2005, p. 14). Additionally, a cupping lab that was established in Nicaragua helped educate producers on desirable taste characteristics of different coffees and how coffee quality can be improved through different production and processing techniques (Ronchi, 2002, p. 14).

With conventional distributors and retailers entering the Fairtrade market, it is forcing producers to adhere to the expectations and demands of these commercial and industrial buyers. This requirement makes producers who have enjoyed capacity building through Fairtrade networks more able to meet other standards for other potential saleable goods (Murray,



Raynolds, & Taylor, 2003, p. 5). Participation in the Fairtrade market forces co-ops to learn about integrated supply chains and national policies. Their knowledge about changing consumer requirements and the high quality and punctuality standards demanded by agroprocessors contributes to their overall market intelligence (World Development Report, 2008, p. 156).

As outlined above, co-op's substantial investment into common and public goods and agroprocessing capital inputs allow for productivity increases and help producers gain a foothold on the ladder of development. The Fairtrade premium has allowed producers to buy and maintain coffee processing machinery like driers and huskers that enable local capture of value-adding activities (Farnworth & Goodman, 2006, p. 14). These capital investments could help reverse the trend of diminishing domestic capture of value-adding processes, detailed in Figure 4, which has been a very costly change for producer countries since the collapse of the ICA. In Costa Rica, co-ops use the higher Fairtrade price to invest in productive infrastructure, pay debts, provide credit access, cover administrative and certification costs and to fund housing and education projects in rural communities (Bacon, 2005, p. 505).

Nicaraguan co-ops are convinced they have access to other development projects like housing, water and sanitation and road improvements through development agencies that know about their communities because of their link with the Fairtrade market. Development agencies have access to communities that they might not otherwise know about, or would have to spend resources to find, establish a relationship, and administer a project with (Murray, Raynolds, & Taylor, 2003, p. 13). Easier access and pre-established community groups facilitate implementation and allow development agencies use their resources more efficiently.

There are some potential hazards in using Fairtrade as a tool for development. Technical, financial and managerial support can be a double-edged sword, possibly creating a dependency

on external actors to fulfill vital roles in otherwise independently sustainable operations (World Development Report, 2008, p. 157). Although Fairtrade largely improves standards of living, a minority of farmers involved in Fairtrade still felt that their living conditions had deteriorated in the last few years, indicating that it is not a silver bullet to development (Bacon, 2005, p. 506).

While dependency is a potential hazard, field experience in Mexico shows that those who have been involved with ISMAM, a Fairtrade co-op, credit the FLO with substantial and irreplaceable capacity development and support since its inception. However, those in the same organization who have been involved for less time tended to ignore or minimize the FLO's importance in the operations of the co-op (Milford, 2004, p. 62). This suggests that as the co-op aged, the importance of the FLO in its growth and maintenance decreased, making the FLO largely superfluous in the day-to-day operations of the co-op. Strong, independent co-ops are exactly what the FLO's goal should be.

On the whole, the examples of effective capacity building and infrastructural support are numerous. They dovetail with the general thinking of many development agencies and experts by addressing both social and capital investment strategies. From the perspective of capacity building and infrastructure, Fairtrade seems to be contributing to development.

## **Chapter 4: Drawbacks and limitations of Fairtrade**

The Fairtrade system has its share of criticisms, drawbacks and limitations. There are many uncertainties that surround the system. Analysts identify barriers that could prevent Fairtrade from maximizing its potential benefits. Other critical thinkers reveal flaws that might threaten the long-term sustainability of Fairtrade as a viable development tool. It is important to recognize the limitations and drawbacks of Fairtrade so that mechanisms can be built in to the system that proactively address or avoid negative outcomes. A list of weaknesses and threats will be discussed, including drawbacks to income, labour, and quality, as well as limitations inherent to the market. Other economic and social stumbling blocks like capital constraints, the horizon problem, or the risk of neo-imperialism will also be considered.

### ***4.1 Income drawbacks***

The prices that co-ops receive for their coffee are guaranteed to be higher than the prices co-ops could fetch in the conventional commodity market because of the Fairtrade Premium. However, there are some financial drawbacks to Fairtrade participation.

One such drawback is the delay in payment that farmers often experience after delivering their crops to the co-op. Nicaraguan farmers waited an average of 73 days to receive full payment for Fairtrade, organic crops, compared to 9 days if sold to a local middleman or coyote (Bacon, 2005, p. 505). Delayed payment from co-ops to farmers has been cited as a major cost of co-op membership by members in Costa Rica (Milford, 2004, p. 55). However, the rules for Fairtrade participants ensure that co-ops have the right to up to 60% prefinancing from buyers (FLO, 2007, p. 20). This helps offset immediate cash needs, but farmers often have to wait to receive their full payment.

Certification costs can also be burdensome. Achieving Fairtrade certification initially costs between \$2,475 and \$5,475 per co-op, depending on its size, with annual renewal fees of between \$1,700 and \$4,070<sup>10</sup> (FLO-CERT, 2006). Organic certification, which often accompanies Fairtrade, is more time consuming and more costly. It takes three years of proven organic methods to become a certified organic producer, and organic certification in Peru costs between \$300 and \$1000 per producer (Weber, 2007, p. 116), though organic certification is not administered by the FLO. Many agricultural products, including coffee, require multiple certifications like GLOBALGAP<sup>11</sup>, which requires annual inspections and can absorb much of smallholder's profits (Farnworth & Goodman, 2006, p. 15).

While multiple certification costs can be pricey, the FLO has established a Producer Fund that can be leveraged by growers to offset Fairtrade certification costs (FLO-CERT, 2006). Indeed, no producer group is ever refused because they cannot pay the fees (Brown, 2008, personal communication). Although it is granted that other certification fees are expensive, it would be misdirected to blame Fairtrade for the cost of other global certifications. In fact, Fairtrade certification provides farmers with the financial means to achieve these other certifications, which have to be met whether or not Fairtrade exists.

One goal of Fairtrade is to provide workers with a 'living wage'. Not only is this poorly defined, it has been argued that Fairtrade actually guarantees nothing to producers; rather, the minimum price is paid to producer *organizations*, which serve as an intermediary between the farmer and exporter (Weber, 2007, p. 111).

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<sup>10</sup> Costs are based on an exchange rate of €1.00 to \$1.50 USD

<sup>11</sup> GLOBALGAP, the Global Partnership for Good Agricultural Practice, is a familiar standard requirement for agricultural producers

While it is true that co-ops, not farmers, are guaranteed the minimum price, the nature of the co-op's constitution means that the farmers *are* the co-ops. They democratically decide what to do with the extra money they receive. The primary reason for reduced farm-gate prices is past debts held by co-ops. In Nicaragua, farmers in the co-op agreed that debt repayment was the priority over higher wages (Utting-Chamorro, 2005, p. 589).

There are efficiency arguments against Fairtrade's approach as well. Since 'unnecessary' middlemen are eliminated in Fairtrade, the tasks middlemen carried out have to be internalised by the co-op. This results in reduced specialization, which often leads to inefficiency, and can consume the higher Fairtrade price before it reaches the producer (Weber, 2007, p. 111). Some farmers who are contractually locked in to selling through the Fairtrade co-op might receive lower prices than if they were to sell to conventional markets.

Although the above argument is a theoretical income risk, much evidence shows that farmers who participate in Fairtrade do indeed receive more money than those who sell exclusively to the conventional market (Bacon, 2005, p. 507; Milford, 2004, p. 35; Raynolds, Murray & Taylor, 2004, p. 1118; Ronchi, 2002, p. 10; Utting-Chamorro, 2005, p. 591). If co-ops decide to internalize all costs of production by fully eliminating middlemen, that is their prerogative; it is not a Fairtrade condition. They are free to subcontract to more efficient middlemen if such actions were profit maximizing.

It is also argued that Fairtrade co-ops are structurally disadvantaged when compared to independently operated firms in the coffee sector (World Development Report, 2008, p. 133). Fairtrade co-ops internalize every risk between the field and the shipping centre, suffer from diseconomies of scale stemming from the small-scale nature of Fairtrade coffee production, pay certification fees, handle administrative costs, manage community investments and credit

programs, and must satisfy the disparate desires of their membership. Independently operated firms aim to satisfy the owner or shareholders, are better positioned to hedge risks, can develop market specialties and are thus more nimble in reacting to market changes. This is a legitimate point, but the growing popularity of Fairtrade certification among coffee producers suggests that Fairtrade co-ops remain competitive with independent firms.

#### ***4.2 Labour drawbacks***

The Fairtrade coffee market is limited to small-scale producers. Besides the minimum wage requirement, seasonal coffee workers are excluded from the FLO mandate (FLO, 2008). Specific standards for hired labour do not exist, focusing the benefits of Fairtrade on those who are already ahead – the land owners – compared to the landless seasonal labourers. The one protection offered to hired help has been found to have a spotty track record. An investigation of five Fairtrade certified farms in Peru found that on four farms, seasonal workers were paid less than the required minimum wage (Weber, 2007, p. 111).

FLO restrictions also exclude coffee plantations and their workers from becoming certified. Forbidding coffee plantations from becoming certified prevents a substantial and growing fraction of people who work in coffee production from benefiting from Fairtrade. This restriction is hotly debated. After all, tea and banana plantations are able to become Fairtrade certified (FLO, 2008). It is argued that coffee plantations are where the most marginalized groups work and that the FLO's coffee rules structurally discriminate against those who need the most help (The Economist, 2006, p. 74).

There are several reasons for the plantation restriction. The most practical reason is that the Fairtrade coffee market could not absorb the extra production capacity that large-scale plantation certifications would bring. Limiting the standards to small coffee producers limits the

supply of certified coffee and benefits small growers who arguably need the most help, rather than plantation owners. Other reasons include the hierarchical, non-democratic nature of plantations<sup>12</sup>, which is anathema to Fairtrade coffee production, and the desire to maintain Fairtrade's 'political movement' aspect. Also, there is a fear that caving to corporations' demands for the certification of Fairtrade plantations would mean a power shift from producers to corporations and an expansion of the coffee market's buyer-driven nature that Fairtrade aims to balance (Brown, 2008, personal communication).

A final labour drawback associated with Fairtrade production is the consumer demand for coffee that is certified as Fairtrade *and* organic. Organic production requires about 40% more labour. The opportunity cost of compliance is the forgone capacity to cultivate other crops and less leisure time for growers. These costs might reduce their welfare and utility (Milford, 2004, p. 55).

#### **4.3 Quality drawbacks**

There is an economic argument that Fairtrade encourages farmers to produce poorer quality coffee. Since the FLO guarantees a minimum price that is usually higher than conventional prices, there is no incentive to improve quality because the price differential will not improve (The Economist, 2006, p. 75). What this analysis ignores is the fierce competition *within* the Fairtrade market.

Due to the price floor and oversupply of Fairtrade coffee, the market tries to equilibrate in different ways. Producers have had to differentiate their products to attract buyers, and they do

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<sup>12</sup> The FLO certifies tea and banana plantations, however, which shows that their standards are adaptive and reflective of the realities of production of different crops. Standards were first developed for coffee, which is dominated by small-scale producers, and were then expanded to include tea and bananas, which are typically grown on plantations. The standards for each crop address different concerns unique to their context.

so through higher quality production. Indeed, quality standards have increased significantly since 2000 (Weber, 2007, p. 114). Fairtrade also encourages co-ops to be more demanding of higher quality from their members and gives them the capacity to achieve it (Murray, Raynolds, & Taylor, 2003, p. 12).

However, since quality expectations of Fairtrade markets have risen dramatically, it has become more difficult for new entrants to meet consumer demands. Increasing quality expectations threaten to exclude new entrants and mimic the barriers that already exist in the gourmet coffee market. Early entrants have had a chance to incrementally adapt to changing quality expectations while new entrants lack the knowledge and technical capacity to meet high expectations. This development seriously threatens to segment the Fairtrade market, with most benefits going to established, relatively well-off co-ops while leaving poorer, freshly certified growers without buyers. Nevertheless, by getting certified, producers have access to informational and technical resources like FLO field officers. Field officers can provide the necessary technical assistance to raise the quality of growers' coffee, even if they are not selling any to the Fairtrade market.

#### ***4.4 Limitations of democracy***

As co-ops grow in size, it is increasingly difficult and costly to maintain democracy. In fact, the requirement of democracy has been criticized as a limiting factor for growth. Administrative transparency is harder to achieve in large organizations with weak infrastructure and limited capacity to disseminate information.

Ordinary members have little opportunity to know that the information with which they are presented is correct, leading to possible mismanagement condoned by the democratic majority. The act of voting itself is a tricky one. Democratic decision-making means that all



members must be either educated about all voting issues or vote inefficiently because of a lack of information. Using a “one-member-one-vote” system instead of a system that is proportional to members’ coffee production discourages participation because votes are not distributed according to how much stake members have in the co-op. This leads to apathy for small holders and frustration for large holders (Milford, 2004, p. 37).

Alternatively, members can leave decision-making up to a board, which increases the chances of mismanagement and leads to the principal-agent problem. This problem is classic in situations where the principal (i.e. co-op members) compensates the agent (i.e. the manager or board member) for doing work that benefits the principal and is costly to the agent. For example, effectively managing a co-op is beneficial to the principal but costly to the agent. These misaligned costs and benefits encourage the agent to shirk. Developing appropriate incentives that align the self-interest of the agent with the desires of the principal is difficult and often beyond the managerial experience of co-ops.

Worryingly, straight democracies can produce very undesirable outcomes. One reason that many political democracies are so celebrated is because minority rights are strongly protected. In a “one-member-one-vote” system, the ruling majority might decide to take rights away from minorities. Democratic co-ops clearly need a constitution that protects the rights of minorities, but such requirements are not explicitly outlined by the FLO.

Compared to independently operated firms, co-ops face the difficult task of prioritizing their many functions. The goals and operations of co-ops include credit provision, education, information dissemination, efficiency, and community investment while the goal of a firm is simply profit maximization (World Development Report, 2008, p. 156). Voting becomes more complex when so many varied interests must be addressed. Indeed, democracy and efficiency

can be at loggerheads when time consuming voting must be used instead of executive decision-making power by a manager (Milford, 2004, p. 57).

#### ***4.5 Limitations of participation***

Participating in co-op meetings, decisions, trainings, and educational workshops is time consuming and not always clearly beneficial. Participation could be characterised by free-riding and shirking (Milford, 2004, p. 37). While it might be Pareto-optimal for all members to participate in the activities of the co-op, there are costs to participation that encourage people to shirk and free-ride. For example, it would be optimal for all members of a co-op to participate in training that would improve the quality of their coffee and increase the chances of finding a buyer in the Fairtrade market. However, since members' coffee is mixed and sold through the co-op, there is an incentive to free-ride on others' efforts because the contribution of one farmer cannot be differentiated from the next. This example shows the importance of participation, but the incentive to shirk.

Co-ops are typically run using such local social norms as inclusion and solidarity, and the alternative history of Fairtrade embraces these norms. However, inclusion often means that members who are not meeting their obligations are allowed to participate anyway. Solidarity means that co-ops will subsidize bad performers at the expense of good performers, which reduces the rewards for efficient and innovative production (World Development Report, 2008, p. 155).

As co-ops grow and become more diverse, the producers themselves sometimes develop a shallower understanding of Fairtrade and the opportunities that FLO can provide. The understanding of world coffee markets, foreign trade and importer contacts, and organizational capacity building are largely reserved for upper management and community delegates of

localized co-ops rather than the rural farmers themselves. This disconnect prevents farmers from effectively participating in decision-making. In some co-ops, the leaders have decided that it is more economically efficient when participation is limited, because then time and resources do not have to be dedicated to dealing with suggestions, concerns and complaints (Murray, Reynolds, & Taylor, 2003, p. 17).

The FLO has been criticised for excluding the poorest of the poor from participating in the Fairtrade market. Critics argue that hidden expectations of group membership, like good clothing, bringing food to group meetings, and gender bias prevent certain producers from engaging in Fairtrade (Farnworth & Goodman, 2006, p. 18). While it is unfortunate that the poorest of the poor might suffer from larger barriers to entry, the FLO does not explicitly target this segment of the population. Rather, they target marginalized workers and producers, including, but not limited to, the poorest of the poor. At the very least, Fairtrade offers another potential avenue for empowerment and participation.

#### ***4.6 Capital constraints***

Being associated with Fairtrade provides co-ops and individuals with what could be called relational collateral, or reduced risk by association. This does not mean that loans come easily to small co-ops or growers. Co-ops find that capital acquisition is generally very limited because investors are disinterested, banks are reluctant, and the membership is poor. Co-ops have less access to international lending institutions than large independently operated firms, which leads to either expensive loans being taken out to cover co-op costs, or delayed payment to farmers (Milford, 2004, pp. 41 & 58).

It is typical in Costa Rica for local buyers, either co-ops or middlemen, to pay producers in advance and then give producers quota payments in instalments throughout the year.

However, even with pre-financing arrangements, capital constraints faced by co-ops limit their ability to make advance payments, while middlemen with higher liquidity can capture the market through higher advance payment but lower overall payment (Ronchi, 2002, p. 16).

Since co-ops often end up providing services as public goods to the community, it taxes those who are creating value in the co-op and encourages free-riding, which reduces the incentives and benefits from belonging to the co-op (World Development Report, 2008, p. 155). The range and complexity of the services that co-ops provide also present their own risks. Credit provision is one such service.

A Costa Rican co-op has amassed over \$1 million in ten years to be used to extend credit to farmers, charging a 3% commission for this service plus interest, making financial intermediation a significant part of the co-op's activities and operating income (Ronchi, 2002, p. 13). It is among the many co-ops who have engaged in financial intermediation (Milford, 2004, p. 35; Murray, Reynolds, & Taylor, 2003, p. 9).

This service could be institutionally dangerous if co-ops overexpose themselves to lending risks because of their limited experience in risk management and no regulated reserve requirement. Their inexperience could leave them facing a liquidity crunch or severe losses in the event of an unforeseen economic downturn like a natural disaster such as a hurricane or severe frost, and their overexposure could lead to their collapse. To help insure against this, second-grade co-ops often support smaller first-grade co-ops to avert their collapse in times of regional crisis (Ronchi, 2002, p. 16).

#### ***4.7 The horizon problem***

Short-term decision-making often accompanies poverty. People are likely to sacrifice long-term investments when immediate liquidity is needed, and poor people face this challenge

more often. Since co-ops operate in a democratic fashion, members might vote to satisfy their short-term desires while ignoring the long-term benefits of the co-op.

It has been found that the least investment was made in the co-op when the international coffee price was either very high or very low. When high, large payouts were made to farmers so that the co-op could remain competitive with intermediaries. When low, large payouts were made because the portion of the co-op's coffee sold to the conventional market fetched a low price, which made farmers' incomes lower and encouraged them to supplement their income instead of investing in the co-op (Milford, 2004, p. 58). These decisions were not necessarily in the best long-term interest of the co-op.

While many firms have shares and a share price, co-ops do not. Share prices provide an external evaluation of how well a manager is doing. Without shares, managers do not get feedback about their performance and remain unknowingly incompetent. Additionally, co-op members cannot sell shares on the open market since shares do not exist. Therefore, any claims on benefits are usually paid when membership terminates, leading to more short-term, sub-optimal investments (Milford, 2004, p. 38). In other words, co-op members approaching retirement undervalue investments because they themselves will not benefit from them as much. Shares, however, reflect the long-term expected performance of the company, which gives self-interested shareholders the incentive to make decisions that are also in the best interest of the firm.

#### ***4.8 Limitations of the Fairtrade market***

The biggest fear for Fairtrade enthusiasts is that the demand for Fairtrade coffee will dry up. The fear is not unfounded. Coffee sales in European countries like Denmark, Germany, Italy, the Netherlands, and Switzerland either stagnated or declined between 1999 and 2006

(Transfair, 2008). Some believe that it is likely that similar sales ceilings will be hit in fast-growing markets like Canada, the United States, the UK, France and Norway (Murray, Reynolds, & Taylor, 2003, p. 15).

As was mentioned in the *quality drawbacks* section, there is a risk in the long run that the Fairtrade market might end up being concentrated in those co-ops that got in early, have made connections, and can market their produce effectively. If that scenario does not unfold, some believe that the benefits will be distributed to so many producers that it will make a negligible difference to their bottom line (Weber, 2007, p. 116). In effect, there would be too many people running for the same exit (Bacon, 2005, p. 507).

#### ***4.9 Neo-imperialism***

There has been criticism that the FLO and Fairtrade relationships are just other instruments used by people in the developed world to impose their values in less developed countries. The FLO is top-down in nature, with very little farmer-to-FLO interaction (Ronchi, 2002, p. 9). It is difficult for the FLO to get a grassroots perspective on the impacts of Fairtrade and the appropriateness of its rules and guidelines. There is tension surrounding the development of standards, as some producers find them exclusionary, unrealistic or imposed by stronger stakeholders (Ronchi, 2002, p. 10).

It has been argued that Fairtrade exhibits disempowering, neo-imperialist tendencies similar to other standards organizations like GLOBALGAP. GLOBALGAP lead to the abandonment of Ghanaians defining their own code of practice for ethically produced agricultural products. Some argue that GLOBALGAP imposed European demands on farmers and failed to take the desires, expectations, and realities of Ghanaian producers into account. Fairtrade risks the same folly (Farnworth & Goodman, 2006, p. 12).

Environmental protection is happening only because rich-world niche markets demand it. Although there are local benefits, it is still done to fulfill requirements and not to address local concerns (Utting-Chamorro, 2004, p. 595). Gender equity is promoted as a value of Fairtrade, but many producers do not value gender equity as an objective (Ronchi, 2002, p. 21). Some might question the fairness of holding producers hostage until they submit to the social qualifications set by elite, rich-world consumers of ostensibly higher moral fitness.

Coffee drinkers in the developed world have the ability to align their tastes with their social conscience, but only need to do so when it is convenient. This approach to development might be a tokenistic, conscience-clearing activity for consumers that enable people to ignore larger injustices because they feel that they are “doing their part”. Additionally, Fairtrade could be seen as a neo-imperialist attempt to economically dominate producers and their resources. Rich-world actors do this by effectively controlling the means of production in other countries, which, in the case of coffee, is largely labour.

There is evidence, however, of producers actively amending their activities to skirt the neo-imperialist tendencies that might sprout from Fairtrade transactions. A Costa Rican co-op created its own development objectives instead of using FLO’s so that an impact assessment of Fairtrade involvement was relevant to them (Ronchi, 2002, p. 25). When producers found that environmental standards imposed by the FLO were too physically arduous, the FLO reviewed the complaints and made concessions so that farmers could remain certified. This shows the multi-directional dialogue between producers and the certifying body.

There are institutional changes that aim to ensure that producers are active participants in standard setting, too. The board of the FLO unanimously voted in favour of including three producer organizations, CLAC, AFC and NAP in the FLO, making it a truly multi-stakeholder

organization that ensures that producers have a stake in decision-making and future development of the organization (FLO, 2007).



## **Chapter 5: Recommendations and Conclusion**

Several different suggestions and recommendations will be made that might help to maximize the benefits of Fairtrade and ensure its long-term sustainability. These include both supply-side and demand-side proposals. Some supply-side recommendations include encouraging growers to diversify their production, adapt FLO conditions to suit local needs, and integrate incentives into co-op membership and management. Demand-side suggestions include strategies for boosting the size of the Fairtrade coffee market and encouraging the FLO to remain open and feedback-oriented about its policies and approaches. Finally, a brief summary will be presented, and concluding remarks will be made.

### ***5.1 Diversification and local conditions***

Co-ops should hedge against uncertainty using a variety of techniques. They might also be advised to develop more direct marketing relationships with the sellers of their produce. Older, established co-ops are already showing this tendency to diversify their sales market. Fairtrade could also be promoted as an opportunity for growers to diversify and expand into fields in which they are locally and internationally competitive (Utting-Chamorro, 2005, p. 596). The FLO should encourage income generation through diversification, using the higher Fairtrade prices and the Fairtrade Premium to ‘buy more baskets’ in which to put one’s proverbial eggs.

It is suggested that a greater emphasis on diversification strategies into higher-value markets be encouraged, using Fairtrade coffee as a stepping stone to access other markets and eventually transition out of coffee cultivation. In many cases, smallholders produce coffee in an economically inefficient manner compared to large-scale production (Murray, Raynolds, & Taylor, 2003, p. 26). Transitioning out of coffee production would help extend the benefits of

Fairtrade coffee certification to those who need it more, since transitioning out of coffee helps avoid the monopolization of markets by established groups.

Knowledge about the benefits of Fairtrade is crucial for ensuring buy-in from producers. Without accurate information, producers may abandon their co-ops when commodity market prices are high and other costs associated with co-op membership become relatively more pronounced. Misunderstandings about prices, premiums, and the role of Fairtrade might come about because, while farmers often give their entire crop to the co-op to sell, the co-op only manages to sell a portion of it to the Fairtrade market and sells the rest to the conventional market. The co-op then returns a lump sum payment to the farmer with little explanation as to how that sum was calculated. This can lead farmers to presume that the Fairtrade price is much lower than it really is because revenues they received were not disaggregated. Such practices could falsely undervalue the benefits of selling to a Fairtrade market and lead to a disinterest in the operations of the co-op. Separating Fairtrade sales income from conventional coffee market income would help clarify the benefits of co-op membership.

Producers ought to have more autonomy in outlining their own codes of practice and focusing on what is important to them, while maintaining the vision of the FLO. Co-ops in Costa Rica want to define their own development objectives so that they can move toward impact that is meaningful and appropriate to them (Ronchi, 2002, p. 25). The Fairtrade Premium must be applied to key development issues that are specific to the community for it to have a discernable impact (Utting-Chamorro, 2005, p. 597). Communities could benefit from participatory rural appraisals or another form of root-cause analysis to identify the root causes of abstruse issues. Such appraisals should be conducted by the co-op rather than by the FLO to enrich local relevance.

## *5.2 Boosting the demand market*

The FLO has recognised that growing the demand market for Fairtrade coffee is a fundamental necessity in order for the system to be successful in the long term (FLO, 2007, p. 4). The largest area for growth is in developing countries. Tea is the main caffeinated beverage consumed in low-income countries, which have the highest income growth potential and highest income elasticities for food. Coffee producers should be encouraged to focus on breaking into these markets (Baffes, 2003, p. 39). One drawback to this strategy is that increased coffee consumption would likely displace tea drinking and harm those involved with tea production, many of whom face similar struggles to coffee producers and live in the same countries.

On the other hand, tea is mostly cultivated on large plantations with one owner and hired labour, while coffee is mostly grown by small-scale independent producers. Substituting coffee in place of tea might result in a more equitable net distribution of income since many small-scale coffee farmers would reap the rewards rather than few wealthy tea plantation owners and their relatively poorly paid labourers.

Breaking into the Chinese market could massively increase global demand for coffee, raising market prices and giving Fairtrade certified producers more selling opportunities. Indeed, coffee consumption in China is already increasing by about 15% per year (Lee, 2004). Although domestic production is ramping up in response to growing demand, China lies just north of coffee's ideal growing latitude (see Map 1), limiting China's ability to fully satiate expected domestic demand.

Another strategy could be to promote increased coffee consumption within producing countries themselves. The African Fairtrade Network is already exploring remunerative trading opportunities within Africa (FLO, 2006, p. 8). In Mexico, three co-ops have joined together to

create an organisation for the promotion of Fairtrade coffee (Murray, Reynolds, & Taylor, 2003, p. 596). Brazil succeeded in almost doubling domestic coffee consumption in the 1990s because of active coffee promotion. There is plenty of opportunity for growth in coffee-producing countries. Per capita, Columbians drink half as much coffee as Brazilians and Mexicans drink one-fifth as much (Lindsey, 2004, p. 9). These countries might successfully advertise Fairtrade coffee using patriotism or national solidarity as promotional tools.

The approach to boosting demand in developed countries might be different. Caffeine substitutes fiercely compete with coffee and are increasingly gaining market share in the developed world. In the United States, the biggest absolute coffee consumer in the world, the popularity of soft drinks has grown tremendously. Average per capita soft drink consumption has risen from 86 litres per year in 1970 to over 200 litres per year in 2000, while average coffee consumption has steadily declined over that time (Baffes, 2003, p. 39).

The decline in coffee consumption could be exacerbated if messaging from Fairtrade retailers is poorly executed or misunderstood. There is a risk that stigmatizing non-Fairtrade coffee as unethical or detrimental to the livelihoods of producers could decrease all types of coffee consumption. This would not only hurt non-Fairtrade producers, but also shrink the potential Fairtrade market. It might also generate an association between Fairtrade messaging and negative feelings like guilt.

A further threat to Fairtrade coffee is that it might have a low sales ceiling in developed countries. In countries with a longer history of Fairtrade participation, like Germany, the Netherlands, and Denmark, sales have stagnated or declined since 1999 (Transfair, 2008). The astonishing overall recent growth of Fairtrade coffee sales is mainly a product of the United States' entrance into the market. The aggregate growth numbers, reaching a shocking 53%

increase in 2006 over 2005 coffee sales, hide floundering sales in other countries. However, there are reasons to be optimistic about the potential for continued growth in the Fairtrade coffee market.

Fairtrade promotion is aggressively pursued by consuming-country Fairtrade offices. One mechanism for increasing consumption is the certification of Fairtrade Towns through the Fairtrade Town Campaign, where town councils must adopt a resolution to support Fairtrade and commit to buying Fairtrade certified products for the city's needs. This approach has proven successful, with over 270 Fairtrade Towns in the UK and 30 in Belgium. The trend is spreading to other countries, with Canada's first Fairtrade Town certified in April of 2007 (FLO, 2007, p. 12).

It has been suggested that another way for coffee retailers to boost the demand of Fairtrade coffee is for them to lower the price of the Fairtrade option (Murray, Reynolds, & Taylor, 2003, p. 19). This suggestion is quite valid, since many Fairtrade coffee retailers charge a premium that is much larger than is warranted by the actual price difference of Fairtrade beans. Many retailers are capitalizing on the price insensitivity of Fairtrade purchasers, while making typical price-sensitive buyers more averse to purchasing Fairtrade coffee.

Studies have shown that Fairtrade coffee has a near-zero own-price elasticity compared to the significant own-price elasticities of other brands of coffee (Arnot, Boxall, & Cash, 2006, p. 562). This finding suggests that consumers who are already buying Fairtrade coffee consider it to be a distinct product category rather than simply a different brand of coffee, but that people who buy regular coffee would quickly substitute towards Fairtrade coffee if it were cheaper. Retailers could maintain income levels simply by adjusting prices such that charging a higher price for conventional coffee offset the lower price for Fairtrade coffee. It is important to recall

that the actual cost of the beans in a typical coffee bar is only about 4-7% of the total price of a cup of coffee, so these adjustments would be quite marginal and would not be likely to significantly impact overall sales (Lindsey, 2004, p. 6; Ponte, 2002:2, p. 1117).

Another suggestion for the continued rapid sales growth of Fairtrade coffee is getting it into supermarkets and mainstream retail outlets (Raynolds, Murray, & Taylor, 2004, p. 1111). This requires the Fairtrade market to be big enough to satisfy the demands of supermarkets that prefer to source from fewer suppliers, which means commercial growers must be large or co-ops must be producing at large scale. The risks and benefits of mainstreaming Fairtrade coffee will be discussed below.

### ***5.3 Mainstreaming Fairtrade coffee***

There are mixed opinions about bringing Fairtrade coffee into the mainstream. The benefits are potentially numerous, but there are also risks. The straightforward case for mainstreaming Fairtrade coffee is that profit-driven companies can increase their sales volume, thus growing the Fairtrade market and allowing more producers to benefit from Fairtrade prices and practices (Weber, 2007, p. 116). Indeed, it is argued that isolation from the mainstream market risks the irrelevance of Fairtrade and reduces benefits accruing to producers because of a lack of consumption (Low & Davenport, 2005, p. 151). However, uncritical engagement with the mainstream market risks the absorption and dilution of the movement.

A challenge for the Fairtrade Certified label is to maintain stringent controls and clear differentiation when competing against other less stringent fair trade labels, like the “fairly traded” Starbucks Preferred Supplier Program. Another challenge is to prevent companies from white-washing their corporate image by using the Fairtrade Certified label on publications as if

the entire company is Fairtrade Certified when in fact only a small fraction of their product is Fairtrade Certified (Farnworth & Goodman, 2006, p. 11).

Others suggest that large multinationals should be encouraged to adopt Fairtrade labels, even at the risk of falsely 'white washing' their corporate image, since change happens when the mainstream adopts the fringe, and in the process, shifts its position. Those buyers who remain sceptical of a Nestlé Fairtrade coffee, for example, can buy from somebody else (The Economist, 2006).

Another reason that mainstreaming could threaten the Fairtrade movement stems from the FLOs commitment to challenging unfair trade practices. There might be a point at which mainstreaming Fairtrade coffee means that Fairtrade loses its ability to challenge unjust world trade rules for fear of resistance and negative repercussions from agents involved in Fairtrade (Low & Davenport, 2005, p. 151).

However, there are already cases of Fairtrade products being taken up by the mainstream. Sainsbury's, a major UK retailer, announced 100% transition to Fairtrade Certified bananas. Marks and Spencer, another major UK retailer, switched to 100% Fairtrade Certified tea. Dunkin' Donuts, a global retailer and franchiser, switched to 100% Fairtrade Certified espresso coffee in Northern America and Europe. Scadic and Hilton, a major Swedish hotel chain, announced 100% Fairtrade Certified coffee being served in their hotels. While their commitment to Fairtrade products could give them some leverage in standards setting, they have not attempted to influence standards.

The FLO, as an independent certifying body, must weight their goals and risks appropriately. In order for demand to increase sufficiently, the risk of corporate influence must be accepted. Indeed, mainstreaming Fairtrade coffee is the only logical route to accomplishing

the goals of the FLO. In the long term, it is only through near-ubiquitous Fairtrade coffee consumption that the demand market will be able to satisfy the growing supply market, and only by having most major retailers purchase Fairtrade coffee will the FLO succeed in transforming international trading relationships. Although risks exist, they can be countered by maintaining a strong, independent certifying board, rigorously enforcing labelling compliance, and educating the public about the uniqueness of Fairtrade Certified products compared with other fair trade alternatives.

#### ***5.4 Fostering partnerships***

Significant efficiency gains could be made by encouraging Fairtrade co-ops to subcontract parts of the production chain that they perform sub-optimally (Weber, 2007, p. 116). For example, making use of a transportation middleman, like a local person with a truck, could save the co-op from internalizing the risks and costs associated with transportation. Specialization leads to efficiency gains, so paring down the activities performed by the co-op and contracting out parts of the chain to other specialized, efficient service providers could save the co-op money, maximizing gains for the growers, and extending the benefits of Fairtrade to the greater community.

Governments have a role to provide market-enabling public goods like roads while avoiding involvement in private capacity development, but should be open to public-private partnerships for the development or maintenance of physical capital or other systems (Hensen, 2006, p. 6). For example, governments should be open to co-financing of health or educational capital investments. It is common in developed countries for hospital wings or university buildings to be funded both publically and privately. Co-ops could provide a mechanism for securing private funds to facilitate similar developments in their local communities.



In general, state actors need to get more involved in Fairtrade activities. They are presently external actors, so represent a hazard for external and uncontrollable shocks to production in the coffee market (Murray, Reynolds, & Taylor, 2003, p. 24). Unexpected trade barriers or taxes could greatly affect local co-ops, so opening a dialogue between government actors and large co-ops could help co-ops prepare for any major upcoming changes and potentially give them an opportunity to lobby for changes they wanted.

### ***5.5 Incentives and rules***

Co-ops need to develop mechanisms that incentivise the best long-term course of action. These often make the operation of a co-op more complex and require more individual educational capacity and experience, but their implementation will help the co-op remain successful and competitive in the long term. Some mechanisms might include proportional voting systems.

As was mentioned earlier, a one-member-one-vote system discourages educated participation by frustrating and disenfranchising members with a large stake in the game, while forcing less involved, uninterested members to vote on issues they might not care about. This system could be modified by allowing votes in proportion to a grower's contribution to the co-op. The 10 hectare maximum farm-size constraint imposed by the FLO acts as a built-in mechanism that prevents any one producer from gaining inordinate power within the co-op.

One drawback to this system is that it would likely result in a skewed allocation of funding for co-op development. Co-ops would likely vote to over-invest in capital like driers, roasters, or transport services, which more greatly benefit large producers with a large voting share, and would likely under-invest in yield-lifting capacity building, since unproductive producers would be structurally disadvantaged. However, large producers have the incentive to

help other producers improve their production quality, since the co-op sells an aggregated product and buyers look at the co-op's overall coffee quality when making an importing decision. These conditions could help offset any under-investment in capacity building.

Other mechanisms for optimal long-term decision-making could include pricing of co-ops through stocks or bonds. Common stock in a co-op would enable the performance of managers to be evaluated by external agents through the stock price. Presently, it is difficult for co-op managers to receive feedback about the effectiveness of their performance. Stocks would also help avoid the horizon problem that was touched upon in section 4.7 by coupling the long-term health of the co-op to self-interested incentives.

The FLO could attempt to harmonize its standards across a variety of fields. They should engage with new, intensified environmental standards that are being introduced in developing countries. By doing so, producers who are forced to comply with new national standards could perhaps tweak necessary compliance to fulfil Fairtrade environmental standards and get one step closer to certification with minimal cost (Farnworth & Goodman, 2006, p. 20). Since many of the requirements of different certifications overlap, co-ops frequently suggest that FLO certifiers also be trained in organic and/or GLOBALGAP certification systems to streamline certifications and reduce costs and inconveniences (Murray, Reynolds, & Taylor, 2003, p. 22).

The FLO needs to acknowledge transitional forms of governance since capacity-building of producer organizations takes time (Farnworth & Goodman, 2006, p. 21). Early entrants have a significant and ever-growing advantage over new potential entrants because of increasingly strict demands, expectations and regulations in high-value non-commodity markets like the Fairtrade market. Early adopters in these high-value markets continue to dominate them. The FLO must acknowledge the inherent constraint that evolving and increasingly complex and

demanding regulation places on new potential entrants, and provide mechanisms to ensure their inclusion (Hensen, 2006, p. 4). Such mechanisms might include incremental adoption targets with increasing financial incentives as fencepost targets are achieved, for example.

### ***5.6 Summary and conclusion***

Fairtrade coffee impacts producers in numerous different ways. Since the dismantling of the International Coffee Agreement, changes in the coffee market have been significant. The collapse of an international quota system has led to price volatility and considerable oversupply that continues to seriously threaten rural growers. Other outcomes include the transfer of value-added processes from developing to developed countries and the growing strength and influence of large corporate roasters. Market concentration, structural barriers, the disconnected nature of commodity markets, and imperfect information all contribute to the vulnerability of small-scale coffee producers.

Fairtrade helps mitigate the negative outcomes that coffee growers continue to experience. Fairtrade aims to provide producers with increased stability, fair remuneration, capacity enhancement, and empowered participation. Using long-term contracts and a Fairtrade minimum price reduces price uncertainty while credit availability and pre-financing helps farmers invest in their futures and avoid opportunistic agents that prey on the vulnerable.

Rules set by the FLO aim to improve gender equity and substantively enrich the local ecological environment. Soil conservation, species protection, habitat restoration, watershed preservation, and reduced chemical application have all accompanied Fairtrade certification. The price incentive to produce organic coffee, coupled with technical support from the FLO's Producer Business Unit, has led to large-scale transition from heavy agrochemical use to natural cultivation techniques.

The spillover effects of Fairtrade are numerous. Health and educational infrastructure has been supported by the Fairtrade Premium, which better the conditions of those who are not directly involved in the Fairtrade market. Common goods like roads and transportation services have been supported by funds established by Fairtrade co-ops. The incomes of non-members have risen, job opportunities have materialized, choice and variety of local goods and services has increased and credit has become accessible. Members have gained experience with participation within their co-ops and in an international setting, and social capital has been built in rural communities.

As judged by the UN's Millennium Development Goals, Fairtrade contributes directly to five of the MDGs and indirectly impacts the remaining three goals. This assessment suggests that Fairtrade fully contributes to the eight most important development objectives in the world. In terms of its approach, Fairtrade follows the advice of the NGO community that focuses on capacity building, and economic development experts who focus on infrastructural improvement. The activities of Fairtrade co-ops both build the capacity of local people and contribute to tangibles like roads, clinics and schools.

The necessity of co-op formation is perhaps the most important component of Fairtrade membership. Co-ops are plentiful in the developing world, but their organization under the FLO is systematic, influential, large-scale, and well supported. Other co-ops, like Columbia's National Federation of Coffee Growers (Fedecafe), have achieved substantial national scale and influence, but lack the international coordination, standardization, and authority that the FLO carries. Coordinated efforts, harmonized goals and vision, and combined resources all facilitate the effectiveness of Fairtrade and its activities.

While some limitations to Fairtrade exist, they are often theoretical in nature or marginal in effect. It is important, however, to recognize potential flaws in the system so that mechanisms can be constructed to mitigate weaknesses and so the system can grow sustainably while growers maximize their benefits. Timely and disaggregated payments, harmonization of certification standards and fees, and education about the risks and advantages of credit could all reduce costs to farmers and reinforce the benefits of belonging to a Fairtrade co-op.

Enforcing minimum wage standards for seasonal workers and ensuring genuine female participation and empowerment would help to further legitimize the Fairtrade label. Incorporating some kind of ‘graduated certification scheme,’ including components relating to both coffee quality and managerial sophistication would lessen the entry barriers for new potential entrants. Aligning the incentives of managers and retiring producers with the long-term interest of the co-op is also vital for the co-op’s ability to efficiently allocate funds and for its long-term survival in a competitive landscape. Exploring a share-based voting structure or floating co-op shares in an informal regional marketplace might help to properly incentivise agents and optimize the co-op’s operations.

The demand market for Fairtrade coffee must be aggressively expanded. There is room for expansion in developed countries, and advocacy, education, policy, and schemes like Fairtrade Towns are all important to maintain a continued surge in demand. The greatest areas for growth, however, lie in developing countries. Advertising campaigns in producer countries have proven successful in boosting coffee consumption, and colossal, untapped markets like the Chinese market wait to be fully penetrated.

Producers should be encouraged to use their higher income to diversify their livelihoods, and should plan on filling niches in the local and international market where they are uniquely

competitive. This might mean that producers use Fairtrade coffee as an enabling tool that allows them to eventually transition out of coffee production and into an area in which they have a more robust comparative advantage.

Finally, the nature of Fairtrade coffee should be examined at a high-level. The FLO must decide whether it wants to ensure that it maintains its integrity and remains a niche product with a marginal slice of the international coffee market, or whether it wants to risk corporate tokenism and co-opting by mainstreaming and substantially boosting its sales. The recent 100% Fairtrade announcements by major retailers like Sainsbury's, Marks and Spencer, Dunkin' Donuts, and Scadic and Hilton suggest that the FLO is growing more comfortable with mainstreaming. Fairtrade enthusiasts must realize that in order to achieve the goals of the FLO, substantial retail sales are required, so large corporations that control the majority of retail sales must be engaged.

Overall, the impacts of Fairtrade coffee in developing countries are deep and broad. The FLO's continued success rests on its ability to flexibly adapt to changing conditions and demands. Fairtrade's growing popularity, development potential, and legitimate results make it one of the most exciting and transformative social innovations available to coffee producers.

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