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Fair Trade and Development Goals in the Coffee Sector

Presented in

Partial Fulfillment of the

Requirements for the Degree of

Master of International Studies

June, 2011

BY

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## FAIR TRADE AND DEVELOPMENT GOALS IN THE COFFEE SECTOR

Brooke Amy Lautz

DePaul University, 2011

Although fair trade is a step in the right direction, this thesis argues that some of its claims and approaches may be problematic with respect to development goals. As one of the world's most highly traded commodities and an income source for tens of millions of people worldwide, coffee has become one of the star products championed by fair trade efforts aimed at sustainable development. The discourse surrounding both fair trade and development has been affected by various theories and criticisms, which is considered in the literature review, influencing the overall trajectory of the discussion. This paper looks at some of the claims made by fair trade organizations, as well as claims made in response by direct trade organizations, identifying where claims overlap or there are gaps in the discourse. By identifying overlaps and gaps, this thesis seeks to reconcile the large discussion surrounding development and the claims made by fair trade companies. In doing so, these issues may provide a starting point for future researchers to delve further into the significance and impact of these approaches for the family farmer as well as provide suggestions for best practices for new or developing social justice and trade-oriented organizations.

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## CHAPTER I

### INTRODUCTION

In a globalized world where economic systems reflect a continuing and deepening disparity between the North and the South, the fair trade model has become a popular means for which to advance development goals (Stiglitz 2003). At the same time, fair trade has also become a place of overlap between markets and development efforts: nowhere can this be seen more easily than in the coffee sector. More than 25 million people around the world rely on income from coffee to pay for school, medicine, transport and fuel (Fairtrade Labelling Organizations 2009). Within the coffee sector, organizations involved in development efforts have emphasized participation in formal economies as a way for families and producers to “enjoy secure and sustainable livelihoods, fulfill their potential and decide on their future” (Ibid.). Echoing the vision of the Fairtrade Labelling Organisations (FLO), the largest fair trade certifier in the world, these organizations believe that through trade poverty-stricken people “can overcome disadvantage and marginalization if they are empowered to take more control over their work and their lives, if they are better organized, resourced and supported, and can secure access to mainstream markets under fair trading conditions” (Ibid.). It can certainly be argued that FLO has successfully impacted the lives of many small producers, and its sales continue to grow: in 2008, “Fairtrade certified sales amounted to approximately 3.4

billions [Euros] worldwide...[and between 2008-2009] the sales of Fairtrade certified products grew 15%” (FLO 2011). These figures indicate continued consumer support and are crucial for addressing larger global disparities.

However, a brief review of the literature confirms that these poverty-stricken people often have limited access to, among other things, information, programs, and markets, all arguably essential elements of market participation and, ultimately, empowerment. It is these economically marginalized groups that are most in need of the benefits of fair trade but are least able to access them. In addition, of all the coffee in the world that is produced (and it is the second-largest commodity behind oil), more than half is produced by family farmers (James 2000). Alternatives for coffee farmers today consist of selling on the local market through traditional commodity supply chains or organizing into a cooperative in order to reach markets higher on the value chain, in what might be called the fair trade sector. As such, some farmers who are organized into co-ops can choose to certify their coffee and obtain an internationally recognized minimum price for their efforts. However, community impact assessments reveal a lag between the promise of third party certifications and farmer benefit, leading to criticisms within segments of the specialty coffee market (Richardson 2010, Consumers International 2005). Recent responses within this discourse included a trend towards transparency, traceability, and direct relations trade (Slob 2006, 9). Here, discourse refers to the larger discussion, or conversation, and the paradigmatic assumptions held by those both within popular culture or academia as to the meaning of the concept of ‘development’ or ‘fair trade’ (see Chouliaraki and Fairclough 1999, 6). These assumptions both form the foundation for and direct the exchange of ideas on these issues. The issues have proven

important to both farmers in developing countries as well as consumers in developed countries, in the form of a general movement towards social justice for producers and discontented customers of conventionally certified coffees.

This thesis critically assesses the discourse surrounding the fair trade and direct trade movement in coffee and the respective stated development goals of each movement. My inquiry focuses on how the fair trade movement and direct trade movements have built off of one another, thus expanding the discourse in order to achieve their stated goals. As such, the literature review in chapters 2 and 3 considers the ways in which development theory has evolved and its influence on the current development discourse, particularly within the coffee sector. In addition, I examine the ways in which the global capitalist economic systems have affected the relationship between consumers and producers, with an emphasis on the literature considering global supply chain analysis. This background will explain the historical bases for the current economic and social conditions for small coffee producers in developing countries.

Chapter 3 explores how the fair trade coffee movement has evolved as a response to shortcomings and problems inherent in the traditional coffee commodity supply chain, while including in my discussion a case study of FLO as a representative of the fair trade movement and a case study of a direct trade company, Crop to Cup (C2C). It is useful to include the direct trade movement in this discussion as it is a response to the perceived gaps of the fair trade movement, and a possible discursive trajectory within this sector. It should be emphasized that while both movements share the same development objectives of empowerment and increased standard of living, the direct-relations model represents a different approach to these goals

Chapter 4 explains the methodology and research design for the analysis. In comparing practices and processes of both FLO and C2C, I consider the overlaps and gaps between the two organizations and the ways in which those practices or processes affect the ultimate goals of development and producer empowerment. The findings are detailed in Chapter 5.

In Chapter 6 I discuss my findings and their implications with respect to the theories laid out in the first two chapters. Ultimately, I evaluate the discourse surrounding the fair trade movement in coffee against the more general discussion surrounding development; from there, I consider the direct trade movement as a response to issues inherent in the commodity market for coffee, the evolution of the fair trade movement, and the response of the direct trade movement as means of comparison. By illuminating potential gaps, I hope to provide a starting place for future research on which methods or practices of fair trade organizations should be continued, which methods or practices may need tweaking, and other methods or practices that may be revealed as antiquated or misguided. I conclude that this analysis will contribute to an advancement of fair trade principles within the overall discourse and greater empowerment for economically marginalized groups.

## CHAPTER II

### LITERATURE REVIEW

#### 2.1: In the Beginning

In order to illustrate the development theories and fair trade goals considered later in this analysis, it is helpful to first understand the history of coffee as a commodity in order to ground key concepts and establish a contextual framework. This chapter explores the ways in which the historical background of the coffee industry has contributed to the obscurity of the producer in developing countries, particularly with respect to the consumer's perspective. In addition, this chapter considers a Marxist analysis of the evolution of coffee as a commodity in order to bring clarity to disparities of the modern day coffee supply chain.

Coffee has a history deeply rooted in control and uneven power relations. Although the legendary discovery of coffee by Kaldi, an Ethiopian goatherd, dates back to roughly 800 A.D., it was not until several hundred years later that coffee was brewed and drunk by Muslim peoples living in Arabia (Pendergrast 1999, 4-6). In fact, the Arabs were the first to both cultivate coffee and begin its trade, and by the end of the fifteenth century, coffee had been introduced in Persia, North Africa, and Turkey (Ibid.). Coffee was introduced to Europe through Venice, and despite Arabs' efforts to control coffee cultivation exclusively by prohibiting the export of unroasted coffee beans and coffee tree seedlings, rendering beans sold outside of the country infertile, and banning foreigners from visiting coffee-growing sites—thus creating “a lucrative trade and the first

international commodity cartel—a cash cow that remains the holy grail for coffee growers around the world” (Dicum 2003, 71). Despite these efforts, due to various security leaks and smuggling operations, by “the early eighteenth century the Dutch started its cultivation in their Asian and South American colonies, as [did] the French in the Caribbean” (Vieira 2008, 3-4).

Coffee’s establishment in the colonies became an arena for the exercise of colonial power. The most common type of coffee is the Arabica bean, followed by the robusta, for which the growth of both “is best between the two tropics” (Spiller 1998, 81). Coffee trees do not mature until three to five years after planting, and each tree yields about one pound of roasted coffee; the coffee growing process is quite labor-intensive, with a harvest period stretching over several months (Coffee Territory 2010). Unable to grow the frost-weary coffee tree in the home climates of most colonial powers, coffee became a lucrative cash crop grown by local peoples under colonial control in the tropical colonies. As Luttinger and Dicum point out in *The Coffee Book: Anatomy of an Industry from Crop to the Last Drop*:

[For] most European colonial powers, coffee was a dream crop: a habit-forming, high-value tropical product that traveled well, with a ready market back home...[However,] accompanying its expansion was a litany of cruelly inhumane and rapacious practices used for cultivating the bean, practices that indelibly scarred the landscapes and peoples unfortunate enough to be associated with the crop. Massive forest clearing and slavery were the seeming requisites behind growing coffee in virgin colonial lands, and the forces unleashed in this process have not yet played themselves out (2006, 25).

Thus as colonial powers imposed their work practices on local people in the colonies, so began the separation of the worker and his value in labor from the value of the commodity: native people worked the plantations, cultivating the crops, harvesting, and performing the necessary production tasks for export, and the colonial powers reaped the profits. Further, as the demand for coffee grew worldwide, the European powers increasingly “brought coffee cultivation to their colonies, [and] the intensive labor required to grow, harvest, and process coffee came from imported slaves” (Pendergrast 1999, 18). Indeed, by the late eighteenth century, the French colony of Haiti had become the world leader in coffee exports, “supplying half the world’s coffee, cultivated with the labor of nearly half a million slaves” (Luttinger and Dicum 2006, 28). In other countries, like Mexico, wealthy plantation owners “used the labor of indigenous people and peasants, often on the very lands that had been expropriated from them” with the blessing of the government (Jaffee 2007, 39).

This separation of value from the worker critique found in Marxism, based on Marx’ theory of the production of value and commodity fetishism, has important implications for contemporary social movements in trade, particularly from the perspective of the consumer (see Marx 1976). Specifically, Marx argues that this separation results in an alteration of the producer “individual’s social relation to what they produce and to the natural world” (Morrison 2006, 122). For Marx, commodity fetishism allowed for products or commodities to take on a life of their own, thus hiding the worker and the value he added from the market and consumer; as will be explored further, the expanding and deepening complexities of the current supply chain only encourage this process. Marx argued that capitalism is driven by the need to create



surplus value, otherwise known as the capitalist's profit, and that the production of this value rests on the capitalist's exploitation of the worker. For Marx, the element of control over the labor-power of others is essential to the development of capitalism: in order to create more surplus value, the production process develops into a coercive relationship between the producer and the capitalist where the capitalist owns the means of production and the worker owns his labor power. The lack of control over the means of production is the crux of the relationship because it is precisely that which causes the worker to sell his labor.

For coffee, the foundation of coercive relations between workers and capitalists was thus established early on and evolved throughout the colonial and post-colonial periods. Although the actors and their roles have changed from plantation owner to roaster or exporter and slave to wage-employee, these power relations are still reflected today in political and economic disparities between producing countries in the Global South and consuming countries in the Global North.

Here, the implications of Marx' theory on commodity fetishism are especially important for the producer: once the social relations of labor become hidden behind commodities as their own magical and independent beings, social responsibility and the power of individual producers are removed from the web of social relations in general. Further, Marx argues that the capitalist uses surplus value—or profit--to hide the social relations within the labor process and thus increase his own profit. This obfuscation of the social relations is achieved through the fetishism of the commodity, where the commodity takes on an internal life of its own, and thus come to represent social relations between people, and people become the material relations between things. The

significance of this process is well illustrated in the early history of coffee, general policies aimed at increasing production through exploitation of the worker and the coercion and conditions associated with their labor continued in part because of the increasing demand for coffee. Marx' argument suggests that the demand rose in spite of these conditions precisely because the coffee was its own magical being, disconnected from the reality of its production.

During this period in the late 17<sup>th</sup> and early 18<sup>th</sup> centuries, as countries raced to secure a top position in the blossoming coffee market, demand continued to grow. Brazil emerged as a leading producer, and plantations remained the dominant organizational structure for production. The plantation model relied on division of labor, the gang system, and various measures of force and control over the workers—and, “until the middle of the nineteenth century, in most cases, the planter owned the product until its point of sale in a European country” (Daviron and Ponte 2005, 4). In his article *Colony in a Cup*, Gregory Dicum shows how throughout the colonial period, both the social relations and the “economic relationship between coffee producers and consumers [were] grossly unequal....The actual production of coffee represented but a small part of the price paid by the coffee consumer. Transportation, distribution, and roasting all accounted for greater shares of the value” (2003, 73). A similar structural supply chain and distribution of surplus value continues to dominate the coffee culture today; for now, it is important to note that the producers in these early historical cases were in many ways outside of the value chain, rather than being an active participant.

It was thus in this context in the mid-1800's that coffee acquired its character as an international commodity, as the “modern era had commenced. Henceforth coffee's

price would swing wildly due to speculation, politics, weather, and the hazards of war” (Pendergrast 1999, 20). In part, this was due to increased production, but consumption also continued to rise, including low-income workers and rural people (Topik 2004, 24). In 1870, the “information about prices and demand and supply [of coffee] became internationally homogeneous,” and particularly with the creation of the New York Coffee Exchange in 1882, began an era of “institutionalized access to information” (Ibid., 27). This fluctuation in coffee’s price continued throughout the twentieth century: for example, an unprecedented rise in coffee prices in 1953 led to a “rise to a substantial increase in planting throughout the world and over-production followed. Stocks increased, and in the second half of the 1950s and early 1960s, prices fell drastically” (International Coffee Organization 2007). This dramatic fluctuation can also be seen in comparing the price of coffee more recently: in 1994, the price of coffee reached a historic high price of \$1.82 per pound, while in 2001 the price of coffee had dropped to a low of \$0.2376 (Loans & Credit 2010). The inconsistency and sharp increases and decreases of coffee prices has a profound impact on the small producer, which is explored further on in this analysis.

While it is true that historical statistics for the early coffee trade are “at most vague guesses,” this lack of data “particularly on domestic consumption but also on international trade, resulted from the neglect of infrastructure for internal trade, the weakness of new states, and the underdeveloped nature of commodity markets” (Ibid. 4). However, despite this lack of data, the international commodity character of coffee was established in several ways: first, the sheer size of the market and its global features. In this sense, colonialism “served as the primary reason for and vehicle of coffee’s spread

through the globe; colonial powers dictated where coffee went and where it did not and established trading relationships that continue to this day” (Luttinger and Dicum 2006, x). In this colonial era, various countries competed against each other in the coffee market by increasing production, reducing labor costs via slavery or peasant workers, and international exportation for consumption—it was thus colonialism which encouraged the strengthening of coffee’s character, and colonialism’s system of disparate power and economic relations remains the base of the market today. The historical trends outlined above continued, with labor and the producer being hidden from the subsequent market transactions and an ongoing and deepening disparity from the value received by the landowner versus what was received by the producer.

## 2.2: From Colonized to Capitalized

With the worldwide disintegration of colonization, beginning with Latin America in the mid-1800’s and spreading across the globe to end in Africa, many newly independent coffee-producing countries often found themselves facing obstacles that were not so removed from their colonial past. Generally, the economic inequalities of colonialism:

were maintained, and often further institutionalized...Upon attaining independence, former colonies were left with no option but to continue producing the products of colonial hegemony if they were to participate in the global economy. The hope [of this concept of] “national development” was that the economic legacy of colonization could be used to initiate a diversification of the economy (Dicum 2003, 73).

Thus, the colonial legacy can be seen in the failure of most post-colonial countries to actually accomplish this economic diversification. Generally, states and governments themselves played a relatively small role in the production and trade process; however, despite the fact that for most coffee-producing countries “state institutions were slow to come about, public power was exercised by oligarchs just as it had been by colonials” (Topik 2004, 30). For many workers this meant sharecropping or indentured servitude—and, again, a limited role and restricted market as an actor in the supply chain.

Further, while the “terms of trade appear to have favored coffee exporters [particularly under the plantation model, at the end of] the nineteenth century...in the twentieth century...state capitalist cartels, price supports, and marketing boards, and cooperatives arose in cultivating countries” (Ibid., 31). While in earlier times the coffee market was centered on production and exportation, the twentieth century saw the rise of more complex trade networks, corporations, and government controls. The infrastructure necessary to maintain these entities and processes were based in the Global North countries, while newly independent countries—with the exception of Brazil—often lacked the resources to institute similar features into their own economies. The United States, in particular, was instrumental in aiding the development of a coffee trade infrastructure; this “infrastructure included the centralization of the coffee roasting industry, technological innovations facilitating higher yields, increasingly efficient transport mechanisms, and geopolitical developments favoring the growth of symbiotic relations between the United States and key producing countries” (Luttinger and Dicum 2006, 34). The impetus of these changes arose from a variety of global changes, including advancements in industrialization, communication, and technology.

### 2.3: The Smallholder and the State

At the same time that this centralized model arose in the Global North, the economies of in the Global South were in a precarious position: with the end of forced labor, the plantation model of the colonial era became less workable, although “the management of international commodities was considered a private problem” until the 1920s (Daviron and Ponte 2005, 11). Cash crop farming had the potential to increase national wealth and growth. Domestically, governments sought to achieve this through various systems of land reform and farmer subsidies, while internationally negotiating agreements to regulate exports through quotas and tariffs. These agreements often allowed for preferential trade terms between a former colony and colonial power; however, “colonialism and...informal imperialism continued to influence...the terms of trade in ways that favored Europe and North America” (O’Brien 1997, 86). Thus these agreements served to increase economic dependency in the former colonial coffee-producing countries, rather than decrease it—ultimately placing those countries in a worse position when faced with later neoliberal reforms.

However, because post-colonial countries had inherited cash-crop economies, the twentieth century saw a shift in global agriculture for small farmers “away from traditional subsistence farming and toward mega mono crop farming” (The Shift of Land Program 2010). This shift, however, was unique to each country and its circumstances, producing different regimes and results, and thus making it difficult to generalize conditions and actions of the state or smallholder populations. For example, in several Central American countries, the twentieth century merely saw the exchange of power from colonial actors to the dynastic coffee elite—large landowners, processors, and

exporters—who influenced and often controlled political institutions (see Paige 1997). In other countries, the intergovernmental obligations negotiated through agreements encouraged the participation of the smallholder by offering leases and long-term contracts. The early 1900's also saw the establishment and growth of organizations representing coffee producers: for example, the Columbia Coffee Federation, founded in 1928, was “a quasi labor union that represented coffee producers...and quickly became the political voice for rural farmers who had little clout and minimal access to policy makers” (Frank 2004). In Mexico “postrevolutionary agrarian reforms began to redistribute coffee land and local people stole coffee seedlings from nearby plantations,” creating a new class of smallholder producers (Jaffee 2007, 39).

Even up to and following the Second World War, countries across the world engaged in policies of what David Harvey calls ‘embedded liberalism.’ This form of ‘political-economic organization’ was defined by the ways in which “market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a regulatory environment that sometimes restrained by in other instances led the way in economic and industrial strategy” (Harvey 2005, 11). In the social realm, these constraints took the form of labor unions, solidarity movements, and general suspicion of big businesses; political constraints were both positive and negative, but often included both creating an environment conducive to business and economic growth and protecting the rights of the worker.

In spite of the varying histories, economies, and governments of coffee-producing countries, what was common in this era, was the conglomeration of roasters in the Global North into multinational corporations and the increase of “the ongoing struggle

for monopolistic control and regulation of a sector capable of generating tremendous revenues and power...Increasingly powerful, the roasting corporations eventually became nearly indistinguishable from government in matters of coffee as they worked closely together to ensure that trade agreements and policies aligned with their own agendas” (Luttinger and Dicum 2006, 34). The concentration of the value gained from coffee in the Global North resulted in deepening economic disparities that especially effected producers in developing countries.

In considering these disparities between the Global North and the Global South, global value-chain (GVC) analysis can provide a helpful framework. GVC analysis focuses “on the dynamics of inter-linkages within the productive sector, especially the way in which firms and countries are globally integrated,” and thus “allows for an easy uncovering of the dynamic flow of economic, organizational and coercive activities between producers within different sectors even on a global scale” (Kaplinsky and Morris 2001). Here, GVC analysis maybe most helpful when considering the factors of governance structure and institutional framework. Agricultural commodities, including coffee, “tend to fall in the category of buyer-driven chains, in which large retailers in industrialized countries, brand-name merchandisers, and international trading companies are the key actors in setting up decentralized networks of trade in developing countries” (Ponte 2002, 1101). This process almost universally excludes the smallholder from participation, and “strategic choices” made by the actors in the Global North “have shaped entry barriers” to the market throughout the value chain (Ibid., 1112). Although these barriers had previously been relatively low because of government intervention via price stabilization, input and credit supply, trade agreements and national protective



measures, the rise of the role of roasters and controlling the governance structure of the coffee supply chain created new barriers (Ibid., 1113). For example, these barriers included requiring minimum quantities from producers or costly or impractical technological innovations which could only be undertaken by large firms or capitalist actors.

GVC analysis can also be illuminating when considering the institutional framework of the coffee chain. While regulated markets of the first half the twentieth century “created a relatively stable environment where rules were relatively clear, change politically negotiated, and proportions of income fairly distributed between consuming and producing countries,” in the second half of the twentieth century the coffee chain changed dramatically, with market relations replacing political negotiations and producing countries disappearing as actors (Ibid.). The terms of market relations were increasingly dictated by roasters in the Global North as they geared towards vertical integration, controlling larger and larger segments of the coffee chain, a process only made easier by the looming neoliberal reforms.

#### 2.4: Neoliberal Reforms

Following the rapid increase in globalization and trade of the early twentieth century, the era of the 1930’s after the First World War saw the spread of a global economic depression, high rates of unemployment, and a decrease in trade activity. The price of most commodities declined sharply, including coffee, which “fell by 60 percent between 1929 and 1931, and continued at low levels for the rest of the decade” (Fishlow 1980, 104). Smallholder producers in developing countries were often especially hard-hit

as they scrambled to increase their output in response to lower prices, which resulted in a surplus of coffee, thus decreasing prices further.

The predecessor for the neoliberal reforms of the 1980's was the Bretton Woods Conference of 1948. The global Depression and a devastating world war provided the backdrop for the meeting of global leaders of the Western world in 1948, and the whole world was eager to encourage trade and stimulate economic growth. In order to support, monitor, and control that trade and growth, the Bretton Woods conference created three international institutions. It is important to note at the outset that a key concept of these institutions rested on the explanation and prescriptions of economist John Maynard Keynes, who said that the role of governments should be to “help stimulate aggregate demand. In cases where monetary policy is ineffective, governments could rely on fiscal policies, either by increasing expenditures or cutting taxes” (Stiglitz 2003, 11). This was the ideological foundation for the creation of the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT) (now reconstituted as the World Trade Organization): in order to prevent global economic crises, international institutional intervention was sometimes necessary.

The IMF was originally charged with extending short-term loans to countries unable to stimulate aggregate demand on their own; the World Bank generally extended long-term loans for projects like dams and roads; and the GATT regulated a system of quotas and tariffs on imports and exports between member countries (Stiglitz 2003, 3-22). Overall, the “international trade and development regime of the early period was characterized by national and international capital controls, a degree of international market regulation for commodities, and calls in international forums for a new

international economic order premised, among other things, on major changes in the international trade system to benefit Southern producers” (Fridell 2006, 10). This thinking reflected the interventionist strategies put forth by Keynes as well as the embedded liberalism discussed above.

However, in the 1980’s these institutions underwent a dramatic change under the rhetoric of free-market neoliberal policies espoused by leaders in the Global North like Margaret Thatcher and Ronald Regan. This ideology “saw government as the problem. Free markets were the solution to the problems of developing countries,” and thus the protectionist measures that had been in place to protect the fragile economies of developing countries were summarily dismantled (Stiglitz 2003,15). Following the global economic crisis at the end of the 1970’s, developing countries, without well-established economies and with few resources to protect their populations, appealed to the international community for assistance. The World Bank began providing financial support via structural adjustment loans, permitted only upon IMF approval and the agreement by the developing country to imposed conditionalities meant to encourage economic growth, at least in theory (Ibid.). However, in reality these harsh conditionalities were more of a benefit to the Global North, imposing strict regimes of use and steep penalties for default in order to protect the North’s financial investment.

The main tenets of these conditionalities were premised on privatization, trade liberalization, and governmental fiscal austerity to reduce national deficits. Privatization is accomplished by “converting state-run agencies into private ones; trade liberalization is the lowering of trade barriers in order to allow for greater competition and market access; and governmental fiscal austerity can be accomplished through cutting expenditures

(Ibid., 53). Inherent in these policies are assumptions based in the history and infrastructure of the Global North—assumptions which often had disastrous consequences for developing countries. For example, without a stable economy or a developed national market that could be found in the Global North, producers and workers in developing countries were unable to produce as much as cheaply as their technologically advanced foreign competition, and these places became dumping grounds for Northern corporate commodities. With respect to agriculture, particularly, the logic was that developing countries “would prosper through a comparative advantage in agricultural commodities due to cheap labor” (Watson and Archinelli 2008, 225).

Small producers were especially affected, and as the “race to the bottom” in production continued and the price of commodities (including coffee) continued to drop, smallholders were often the biggest losers. In addition, neoliberal reforms often required that “all forms of social solidarity were to be dissolved” in favor of its pro-individual and pro-market policies, dismantling trade unions and other organizations and arenas that lent workers a political voice (Harvey 2005, 23). In other places, where state-run industries were converted to private ownership, the lack of accountability led to corruption of industries, downsizing, and reduction of employee benefits. Ultimately, these policies and reforms led to a “momentous shift towards greater social inequality and the restoration of economic power to the upper [classes,]” both in the Global North and the Global South (Ibid., 26).

## CHAPTER III

### FAIR TRADE BEGINNINGS AND DEVELOPMENT DISCOURSE

In describing the history of the fair trade movement, it seems important to begin by pointing out that within the current discourse there exists no one agreed-upon definition of what, exactly, constitutes fair trade; as Douglas L. Murray and Laura T. Reynolds point out in their essay “Globalization and its Antinomies: Negotiating a Fair Trade Movement,” fair trade “is perhaps the most dynamic of a range of movements, campaigns, and initiatives that have emerged in recent decades in response to the negative effects of globalization” (2006, 4). However, it is possible to derive some general characteristics of fair trade organizations, most who aim:

1. to improve the standard of living of producers in developing countries by paying a higher price and improving market access;
2. to promote development opportunities;
3. to encourage policies of transparency throughout the supply chain
4. to raise awareness among consumers of the negative effects on producers of international trade and to influence those consumers’ choices in a socially conscious manner
5. to promote social justice, safe and sustainable environmental practices, and protect economic security (Ibid., 5).

For the purposes of this discussion, the historical route and relevant factors focus on the first three characteristics, although the role of the consumer and social justice are certainly necessary elements of the greater fair trade discourse. The emphasis here is on the individual producer and the greater development goals of an improved standard of living and empowerment, and as such will consider the ways in which the history of the fair trade movement has affected the shape and course of these goals.

Further, there exists a tension between the concepts of fair trade as a movement versus fair trade as a market. The market refers to more practical aspects of the brand and niche that fair trade occupies with respect to tradable commodities; the movement, on the other hand, encompasses the general discourse, claims, and paradigmatic assumptions within those places. While these concepts are not entirely distinct, for example because the claims and assumptions of involved organizations impact the implementation and evolution of practices, and while both concepts are considered here, the emphasis is on the latter framework that considers fair trade as a movement.

### 3.1: History and Background of the Fair Trade Movement

Although the Fair Trade movement began before the majority of neoliberal reforms had taken place, the global response to the resulting deepening economic disparities between the Global North and South propelled it the center stage of the international trade arena. However, the beginnings of the movement now described as “fair trade” are traditionally attributed to various church-managed charities that, in an effort generate income and raise the standard of living for impoverished producers in

developing countries, created trade networks and markets in the West for those producers. These groups, known in the European Union as the ‘pro-third world movement’ and elsewhere called Alternative Trading Organizations (ATOs), increased in the 1960’s and, working with cooperatives or associations in developing countries, helped to establish and maintain the connections necessary for the producers to export their products. Although the total market share captured by these ATOs remained rather insignificant on a global market level, the profile of alternative trade increased , and it began to be seen as a legitimate movement rather than just isolated efforts. The strength and presence of these groups can be seen today in organizations like Ten Thousand Villages, a Mennonite nonprofit fair trade organization that “provides under- and unemployed artisans with an opportunity to earn vital income and improve their quality of life by establishing a sustainable market for their handcrafted products” in shops in developed countries (Ten Thousand Villages 2010).

At the same time as these charity-based trade groups began to gain momentum, a twin political movement was also pushing the fair trade agenda, although in a more secular realm and often covering a greater variety and volume of products. Daniel Jaffe distinguishes these two groups by categorizing the former as the “development strain” of fair trade, and the latter as the “solidarity” strain; for the solidarity groups, the slogan was “trade, not aid”—an attempted to differentiate its philosophy of local development and empowerment through trade from the paternalism of charity and the inefficiency and corruption of foreign aid by (and to) governments” (Jaffe 2007, 13). These groups especially sought to address the structural inequalities of the market, although they were often confronted by a challenge that would continue to plague the fair trade network for

years: how to effectively critique the market while at the same time working within that same market in order to achieve its goals. This becomes a particularly significant point for later arguments, and particularly global value-chain analysis, regarding the ways in which the market processes and structures can pose obstacles for traditionally marginalized economic groups.

Both movements, however, echo sentiments found throughout development discourse. With respect to producers, development might be broadly defined first, as an effort to increase a standard of living, which can be measured by benefits like income, health, and security. Second, development includes efforts to increase empowerment for marginalized peoples. Although empowerment is certainly a multifaceted concept with many interpretations and meanings depending on its context, in the development framework it may be understood as increasing the power of individuals or groups to influence the institutions which affect them and a “process of [increasing] individual autonomy and [directing] transformation of a society towards more just and equal relations” (Bigdon and Korf 2004, 352). With respect to coffee, these institutions include governments, trade regulating bodies, roasters, retailers, and consumers; clearly, the ways in which producers might engage or influence each sector range mightily, but for smallholders the ability to participate with institutions in these ways is often contingent on organization, state support, and specialty markets.

The literature on development discourse reveals, however, that the goals of contemporary trade movements with respect to smallholder producers are problematic on many levels (Slob 2006, 5; Cowen and Shenton 1996, 25). For the purposes of coffee and smallholder producers, two of the most challenging issues in development are the



concepts of universality and trusteeship. With respect to universality, development discourse generally assumes common norms and definitions. As Allan Kaplan explains:

[Although] development theory has undergone many transformations over the years...there is little change. For underlying the various theories of development which inform practice, there are certain paradigmatic assumptions which are largely unconscious, and to that extent hold practitioners captive (1999, 4).

Within this framework, these paradigmatic assumptions lead to the larger proposition that the problems of developing countries are the same, including scarcity, poverty, and the ensuing violence. In the same way, by applying these assumptions of universal concepts, the *solutions* for developing countries are also assumed to be the same, and manifest in the form of development science, practices, and institutions. The benefits of these assertions of universalism are often limited to the justification and maintenance of the position and power of the developers, while the consequences of this universalism for developing countries often takes the form of failed development projects, increased state power and control, and a decreased standard of living for development's target populations (Ferguson 1994).

In addition, it could be argued that assertions of universalism allow actors with more access to resources and knowledge to direct development. This reasoning is consistent with the concept of trusteeship, as explained by M.P. Cowen and R.W. Shenton in their work *Doctrines of Development*. Cowen and Shenton trace the early notions of development throughout history; particularly, they look to the concept of trusteeship, developed by the Saint Simonians, whereas only "those who had the 'capacity' to utilize land, labor, and capital in the interests of society as a whole should be 'entrusted' with

them” (1996, 25). This idea is clearly present in the notion of development experts and is evident in the development institutions and organizations, technology, and expertise generally contained within the Global North. However, such assumptions rest on pre-colonial attitudes and routinely neglect local knowledge and participation, which is often crucial to development program’s success. In coffee as well as other commodities, fair trade efforts were often directed out of one region and onto another.

### 3.2: Fair Trade and Coffee

The first official fair trade label for coffee was created in 1988 for a Dutch development aid organization, *Solidaridad*, that had developed a relationship with a coffee cooperative in Oaxaca, Mexico. Although the cooperative had been selling coffee through charity-based organizations like those described above for years, the Oaxacan producers approached “the European alternative trade movement [and asked that they] go beyond its largely symbolic purchases and buy coffee in volumes sufficient to make a significant difference in the incomes of [the cooperative’s] peasant farmers” (Jaffe 2007, 13). In response to the Oaxacan farmer’s request, *Solidaridad* created a label called Max Havelaar, named after a historical figure that, as a government official who worked in Dutch colonies, “struggled without success against the deplorable conditions” he found were widespread throughout the Dutch coffee plantations (Max Havelaar 2010). The new label, as opposed to being an alternative to already existing commercial coffee brands, instead “could be placed on coffee sold under any brand, certifying that the coffee farmers had received a premium price that constituted a ‘fair return.’” The Max Havelaar

foundation licensed the use of the label to existing coffee roasters and retailers who agreed to comply with its criteria of fairness in trade” (Jaffe 2007, 13).

Other fair trade groups immediately followed the lead of the Max Havelarr label, and fair trade certification labels began appearing on coffee brands across Europe. ATO’s began to unite in an effort to reach larger producer groups, as well as capture larger market shares. Perhaps most significantly, in “1997, all of the national certification entities formally united their efforts, creating a worldwide umbrella fair-trade certifier, FLOs International (FLO), based in Bonn, Germany” (Ibid., 15).

FLO’s purpose is to “set Fairtrade standards, support disadvantaged producers and coordinate the development of the global strategy on Fairtrade”. In order to accomplish these goals, FLO’s governing structure, operating under German law, is set up to reflect a cooperative and democratic process: first, each of the fair trade initiative members and producer organizations is a member of the General Assembly (FLO 2009). The General Assembly meets once a year to vote on board members, other membership issues, and to approve annual accounts, with each member having one vote (Ibid.).

The Board is mainly responsible for strategic operations and appointing the three committees of the organization which are meant to “provide expertise and oversight in key areas” (Ibid.). There are three committees: first, the Standards Committee, which considers and sets Fairtrade standards; second, the Finance Committee, which oversees FLO’s finances; and third, the Nominations Committee, which is “responsible for recommending and reviewing appointments to the Boards and Committees. It defines the roles and responsibilities of these positions, and reviews the performance of board and committee members” (Ibid.). Beyond these committees, FLO has multiple departments

and staff members who are responsible for administering FLOs plans and projects. Again, this governance structure can be seen as reflecting FLO’s commitment to democracy, transparency, and accountability; but, as will be argued further, as has been seen with many international organizations, the very same bureaucratic structure that makes FLO’s work and effects on producers possible can also result in the organization’s inflexibility, resistance to change, and limitations by its own bound procedures.

### 3.3: Standards and Certification

TABLE 1: FLO PRINCIPLES AND PROGRAMS

FLO	Process/Program:	Goal:
Principle:		
• Development	Price	Improved standard of living for farmer
	Premium	Community development
• Empowerment	Farmer input	Participation of local populations for best practices
	Ethical/informed decisions of consumer	Decreased global inequalities through trade
• Access to Programs	Certification	Accountability, consumer confidence
	Pre-export credit	Farmer economic security
	Education and training	Informed and independent farmers
• Access to Markets	Specialty coffee	Increase market, add value
• Access to Information	Transparency	Legitimacy, accountability
• Collapse of Supply Chain	Partnerships with farmer cooperatives	Reduce actors on supply chain to ensure greater value goes to farmer

As mentioned, FLO’s Standards Committee is responsible for overseeing the development of Fairtrade standards. These standards are “the collective requirements that producers and traders must meet as applicable to be certified as Fairtrade,” and, as

FLO emphasizes, they are standards within which the stakeholders (i.e. producers and traders) have had the opportunity to contribute their own input and feedback at multiple stages in the process (Kratz 2006). Although FLO has specific product standards relating to specific processes or treatment of commodities, there is also a set of generic standards that apply to all traders and producers of Fairtrade products: first, producers must be paid the Fairtrade minimum price, meant to cover the cost of sustainable production and calculated on a product-by-product basis; second, producers must receive a Fairtrade Premium, which is an additional amount that producers can reinvest in development and related projects; third, producers must be paid at least partially in advance if they ask for it, in order to cover the costs associated with the beginning of the growing season and meant to avoid issues of credit and debt; and finally, all companies dealing with Fairtrade products must sign contracts that “allow for long-term planning and sustainable production practices” (FLO 2009). In addition, in order for producer organizations (i.e. cooperatives or farmer associations) to be members, they must be both made up of smallholders, or family farmers, and the producer group must be both democratic and politically independent (Slob 2006, 20).

Originally, in order to ensure certification FLO used to oversee certification through an internal certification unit; however, in response to the criticism that “FLO was both the custodian and the certifier of the standard, while in other systems the two functions were kept separate,” the body has since become independent and is now known as FLO-CERT (Ibid., 21). The shift was an effort to encourage FLO’s foundational policy of transparency (Ibid.). For FLO, the certification is a signal to consumers that the product meets FLO’s fair trade standards, and that when consumers buy products with a

fair trade certified label “disadvantaged producers get a better deal” (FLO 2011). To further that end FLO engages FLO-CERT to ensure “independent scrutiny of a rigorous third-party certification” that has the interests of the producer at heart (Ibid.).

From the producer side, in order to become certified through FLO, a producer organization first submits an application to FLO-CERT, which requires a listing of the products themselves, production processes used, and information about the applying organization. Also, and significantly for this paper’s purposes, the application must include a certification fee, which varies depending on the number of members in the organization, and whether that organization represents a cooperative or a plantation. Once that amount is paid, an auditor personally visits the production sites and check to make sure it meets the standards of the compliance criteria. The results of the audit are sent back to FLO-CERT for evaluation, and non-conformities with standards are noted; the producer can then suggest measures to correct the non-conformities, and once these issues have been solved, the producer is then issued a fair trade certification (FLO-CERT 2010). Currently, FLO certifies more than 14 individual commodities, including tea, bananas, sports balls and wine, although, as can be understood through the history of the fair trade movement described above, “coffee remains the backbone of market” (Lyon 2006, 453).

### 3.4: A Response to Fair Trade: Direct Relations Trade

TABLE 2: C2C PRINCIPLES AND PROGRAMS

C2C	Process/Program:	Goal:
Principle:		
• Development	Price	Improved standard of living for farmer
	Premium	Community development
• Empowerment	Farmer input	Participation of local populations for best practices
	Farmers get feedback	Informed farmers, product improvement
	Ethical/informed decisions of consumer	Decreased global inequalities through trade
• Access to Programs	Education and training	Informed and independent farmers
• Access to Markets	Specialty coffee	Increase market, add value
	All non-specialty coffee grades	Improved standard of living for farmer
• Access to Information	Transparency	Legitimacy, accountability
• Collapse of Supply Chain	Relationships with individual farmers	Reduce actors on supply chain to ensure greater value goes to farmer

Thus, Fair Trade remains an appealing and positive alternative for smallholders and producers in developing countries. However, as the Fair Trade movement generally has grown and streamlined its processes and standards, some critics have revealed a concern over the true impact on smallholders; some community impact assessments reveal a lag between the promise of third party certifications and actual farmer benefit (according to Richardson; Slob; Weber). The direct relations trade movement of coffee is one response to the homogenization of fair trade, with an increased emphasis on single-source origins and individual farmer relationships (Miller 2007). In understanding direct relations trade as a response to the fair trade movement, it important to note that although

both fair trade and direct relations trade use different approaches and different incentive schemes that aim to contribute to what might be called ‘development goals.’ The goals themselves are essentially the same: to increase empowerment and standard of living among poverty-stricken producers and farmers, per the development principles discussed above. In many ways the two movements incorporate similar approaches: for example, using price premiums, systems of extended credit, and community building efforts. However, many direct relations trade companies also employ various processes and methods that differ from traditional Fair Trade schemes, such as by rejecting certification, by passing cooperatives in favor of individual contracts, direct communication between consumers and producers, and capacity-building and increased ownership for producers.

One example of a response to the Fair Trade movement and the issues raised above can be seen in C2C Coffee Company, a direct trade coffee company based in the United States that works as a service provider to farmers in developing countries. C2C aims to build relationships with family farmers and farmer groups and then connect these farmers with their consumers via internet technology. As such, C2C consciously rejects traditional certification methods, inviting customers to “see for themselves” the farmer’s practices, while maintaining a policy of transparency and traceability throughout the supply chain. The company’s own supply chain is set up to work with smallholder families, as opposed to cooperatives, and set up multi-stakeholder local Coffee Committees. These Committees act as the democratic stakeholder group and point of contact for the farmer constituency. The Committees are also charged with administering reinvested revenue from coffee sales, and must publish records online, respond to inquiries, gather data and post media. C2C’s goal in its role as a service



provider for farmers, rather than as just an importer, allows the company to work towards its goals of farmer empowerment and increased market access for what it considers to be traditionally marginalized groups—smallholder and family farmers.

## CHAPTER IV

### METHODOLOGY AND RESEARCH DESIGN

In comparing the fair trade coffee movement against the direct trade coffee movement, this paper explores the ways in which the fair trade movement reflects general trends of the greater development discourse; then, because the direct trade movement represents a response to fair trade, the discussion focuses on claims of each movement against one another, considering the ways in which those goals and practices align or the ways in which they diverge. These general practices and claims, which are indicative of the evolution and direction of the fair trade discourse, are reviewed with respect to the theories mentioned above and the possible issues that arise as those practices are applied to the smallholder. In doing so, I focus first on the development discourse, and as such, the development goals of an improved standard of living and producer empowerment provide the framework for my analysis. In defining my criteria for evaluation, it is necessary to define the terms I will be using and establish the limits of this discussion: here, I consider the trajectory of the overall fair trade discussion. It should be noted, however, that the development discourse on fair trade does not exist in any one place; rather, it refers to the paradigmatic assumptions about fair trade and development. As such, the factors are not limited by time and space, but rather by language and the discussion itself.

As the discursive goals of most fair trade organizations are concerned with actual impact, I will consider effectiveness on a farmer level by comparing published data on the dollar value paid that the producer or farmer level. While fair trade encompasses more than just price, fair trade organizations themselves emphasize the higher payments and premiums. I will focus my assessment on the theoretical issues that arise out of fair trade in its practices that seek to achieve the development goals of “poverty reduction and greater sustainable development” and whether the processes and practices in place of each movement create a space where farmers and producers “are empowered to take more control over their work and lives” (FLO 2009). As case studies to represent each movement, I will use the FLO (FLO) to illustrate general practices in the Fair Trade coffee movement, and C2C Coffee Company as a representative of practices and claims of the direct trade movement. I have chosen these companies as case studies because each employs processes and practices that, in reviewing the literature and claims of similar organizations, represent those within their overall respective movement.

The criteria I have chosen are based on a review of existing companies dedicated to either the fair trade movement or the direct relations trade movement in coffee. For fair trade, I looked to several organizations, including FLO, Starbucks, Green Mountain, and Global Exchange; for direct trade, I looked to C2C, Equal Exchange, Stumptown, and Intelligentsia. Based on the mission statements, internal documents, and external literature, my review has revealed a number of consistencies in practices *within* each movement, and practices that appeared either consistent or common were included. It should be noted, however, that there are many other areas where organizations for each movement might be compared, but in considering development and empowerment of the

producer—common axioms declared by most involved organizations—I have tried to limit my analysis to those practices which affect those goals.

In considering the development discourse surrounding the fair trade movement, I am in a position to compare the claims and practices of actors within this movement to study how the discourse has evolved with the introduction of Direct Trade. This data will be derived from mission statements, internal documents, press releases, scholarly works, and popular literature. As mentioned, there are several places where direct trade has embraced practices or principles put forth by early pioneers of the fair trade movement, including price premiums, systems of credit, and community investment. For direct trade, these issues often mean a reinvention of an existing process, which might imply there are improvements to be made in that area under Fair Trade.

Next, I consider the areas where there is a gap, whereby the general discourse of one of the two movements fails to address the theoretical issues involved in commodity fetishism, global value chain analysis, or development. A gap may indicate an area for improvement or where further research is needed, or it may indicate that a given claim has fallen out of the general discourse. Further, a gap may indicate the failure of one of the two movements to address a particular principle of development, calling into question whether that movement's methodology is lacking or whether that development principle is antiquated, unworkable, or impractical. These areas may highlight specific concerns in moving forward, or it may indicate the need for possible shifts in the overall development discourse.

## CHAPTER V

### FINDINGS

To study the discourse of development within the fair trade movement and the direct trade movements in the coffee sector, I looked to mission statements, press releases, program descriptions, internal documents, conference proceedings, scholarly works, and popular literature. From this I determined patterns of claims and practices consistent with advancing development and empowerment goals common within each movement.

From there, I identified and reviewed specific claims by several organizations from each movement related to development and empowerment. Rather than do an on-the-ground analysis and evaluation of physical evidence, the focus is on how the claims bear out within the framework of development discourse. From the fair trade movement, I identified and reviewed claims made by FLO, and from direct relations trade, I reviewed claims made by C2C. Finally, I compared the claims made by these organizations to discourse surrounding fair trade to determine alignment, gaps, and discrepancies between them. Both FLO and C2C function as a micro- self-reflection of the fair trade discourse: here, an alignment of claims is likely reflective of the overall discourse; a discrepancy in these approaches, however, indicate a need for future study in

order to determine which approach is more beneficial to producers; a gap may indicate a change in the discourse and possibly future trends.

TABLE 3: COMPARATIVE FINDINGS

	FLO	C2C
Development:		
<ul style="list-style-type: none"> <li>• Increased Standard of Living:</li> <li>• Price</li> </ul>	<ul style="list-style-type: none"> <li>X</li> <li>• \$1.25 minimum at export</li> </ul>	<ul style="list-style-type: none"> <li>X</li> <li>• \$.30 over NYBOT, paid at farm level + additional premium for quality performance)</li> </ul>
<ul style="list-style-type: none"> <li>• Premium for community investment</li> </ul>	<ul style="list-style-type: none"> <li>X</li> <li>• \$.10</li> </ul>	<ul style="list-style-type: none"> <li>X</li> <li>• \$.20 per roasted pound sold put into community seedling project</li> </ul>
Empowerment:		
<ul style="list-style-type: none"> <li>• Farmers get feedback</li> </ul>		X
<ul style="list-style-type: none"> <li>• Farmers get input into process</li> </ul>	X	X
<ul style="list-style-type: none"> <li>• Geared towards empowering consumers to make informed ethical decisions</li> </ul>	X	X
<ul style="list-style-type: none"> <li>• Geared towards empowering farmers to make more informed decisions about their coffee business</li> </ul>		X
Access to Programs:		
<ul style="list-style-type: none"> <li>• Certification</li> </ul>	X	
<ul style="list-style-type: none"> <li>• Pre-export credit</li> </ul>	X	
<ul style="list-style-type: none"> <li>• Education and Training</li> </ul>	X	X
Access to Markets:		

• Specialty Coffee (top 10% of production)	X	X
• All Other Grades Coffee		X
Access to Information:	X	X
Transparency:	X	X
Actors Between Farmer and Roaster on Supply Chain:	2: cooperative, importer	1: importer

## 5.2: FAIR TRADE LABELLING ORGANIZATION

As mentioned, the FLO (FLO) represents the united efforts of multiple actors throughout the global fair trade supply chain for many commodities, including coffee. Based in Bonn, Germany, FLO works with producers organized into cooperatives in developing countries whose work and products meet certain standards. With respect to overall development goals, FLO’s vision describes the belief “that people can overcome disadvantage and marginalization if they are empowered to take more control over their work and their lives, if they are better organized, resourced and supported, and can secure access to mainstream markets under fair trading conditions” (FLO 2009). This statement is consistent with general development discourse and represents the goals of fair trade groups generally.

FLO’s efforts towards defining empowerment can be seen its vision describing “a world in which all producers can enjoy secure and sustainable livelihoods, fulfill their potential and decide on their future” (Ibid.). This definition of empowerment emphasizes its subjective nature and seems to indicate an individual-centered approach. Further, FLO states that it seeks to increase farmer or producer empowerment through organization, increasing resources and support, and secured access to markets (Ibid.).

These efforts can be seen in FLO's relationships with producer cooperatives, premium, pre-export credit and certification programs, and commitments through contracts.

With respect to certifications, FLO furthers its aims of employing trade as an instrument of sustainable development "through standard-setting and certification processes for use by Producer and trading organizations" (Ibid.). The certification process is done through a third-party system, and FLO maintains two systems of standards: one is for small producer organizations, such as cooperatives, and the second is for hired labor situations. Producers apply for certification by paying a 500 Euro application fee and meeting the standards of an audit (which, if approved, is generally an annual requirement with additional costs) (Ibid.).

As mentioned, FLO's certification system "is run by a separate company called FLO-CERT...[which] ensures that relevant social and environmental standards are met and that producers receive the Fairtrade Minimum Price and Premium." (Ibid.). These standards are created through a multi-stage review process, and involves "wide consultation with stakeholders," including producer organizations (Ibid.). For coffee, the minimum price paid by FLO for washed Arabica is \$1.25 per pound *at export*, while the premium is an additional \$.10 per pound. In creating FLO-CERT as a separate organization from FLO itself, the two organizations seek to further reassure consumers that they "can be confident that the international FAIRTRADE Mark is only used on products that come from Fairtrade certified producers and that traders meet their obligations under the Fairtrade standards" (Ibid.). FLO also offers pre-export lines of credit to producer organizations, and requires that "up to 60% of the purchase price should be pre-financed to the producer organizations" (Ibid.).



FLO's program of Fairtrade Premiums gives producers an additional \$.20 per pound of coffee, and "this money goes into a communal fund for workers and farmers to use to improve their social, economic, and environmental conditions. The use of this additional income is decided upon democratically by producers within the farmers' organization, or by workers on a plantation. The Premium is invested in education and healthcare, farm improvements to increase yield and quality, or processing facilities to increase income" (Ibid.). This premium is clearly aimed at development efforts, with an emphasis on community-building and wellness.

In addition, with respect to training or programs for producers, FLO maintains a Producer Services and Relations Unit that supports producers by "providing training in local languages; offering guidance on certification requirements; helping producers to gain access to new markets; [and] facilitating relationships with buyers" (Ibid.). This can be especially important as FLO cannot guarantee buyers for these products, a concern of large and small producers across markets globally. However, as mentioned, as part of their development efforts the members of FLO "aim to facilitate the access to markets for goods and services coming from...target groups [including disadvantaged Producers and workers in countries of the developing world, working as associations of small-scale Producers and worker organizations]" (Ibid.). These are groups traditionally denied market access because of insufficient scale of production, integration of technology, and lack of resources.

As such, FLO believes that "embracing transparency and stakeholder participation is an important way that [they] will be accountable for [their] work" (Ibid.). The annual

audits, required reporting, and participation in programs and training are all methods of FLO's efforts towards transparency and stakeholder participation.

Closely tied to the issue of transparency is the collapsing of the supply chain: reflecting an understanding of the economic and power disparities inherent in the classic coffee supply chain, FLO works directly with producer cooperatives, thus reducing the number of actors between the farmer and the roaster to just the cooperative and the importer.

Finally, like many fair trade groups, the "ultimate aims" of FLO "are to achieve sustained improvements of the living and working conditions and the economic situation of small-scale farmers, workers and other producers" (Ibid.). This reflects the practical and tangible aspects of development and recognizes the inherent disparities that exist geopolitically and throughout the supply chain. As mentioned, FLO seeks to directly enhance the livelihoods of producers through the fair-trade price and premium system; indirectly, this system also works to dismantle some of the effects of commodity fetishism. In appealing to the socially-conscious coffee buyer through a "fair trade" for farmers and small producers campaign, the consumers are connected to producers, and at least some of the obscurity caused by traditional coffee supply chains is lifted.

Under its pricing scheme, "most products have a Fairtrade price, which is the minimum that must be paid to the producers. In addition, producers get an additional sum, the Fairtrade Premium, to invest in their communities" (Ibid.). Thus we see elements of development efforts aimed at the individual producer and also the community.

### 5.3: CROP TO CUP COFFEE COMPANY

Based in the United States, C2C—a relatively new company—seeks to improve the lives of smallholders and producers in the coffee industry in developing countries by connecting individual farmers with their consumers; while C2C incorporates many of the same principles and processes of fair trade organizations, in other areas its approach differs markedly.

With respect to smallholder empowerment, C2C is based on the belief that farmers are their own best advocates. Thus, C2C considers its role as a service provider for farmers, rather than as just an importer, which allows the company to work towards its goals of farmer empowerment and increased market access for traditionally marginalized groups. Like fair trade groups, C2C also considers the position of traditionally economically marginalized groups, small holders, and how the bias of international trade policy towards Western development models has negatively affected them. C2C recognizes that small holders often lack social power, political voice, and any avenue for change and provides them with a possible space for political and social expression.

As a response to these issues, C2C maintains a website online where customers and producers can directly interact via e-mail, discussion forums, videos and chat. This empowers consumers to make more informed and ethical decisions regarding their coffee. The web arena has also been helpful for small producers directly, providing updated information that is vital in order to become an effective competitor; this information ranges from customer demographics to growing techniques to the price of coffee on the international market. In that most small holders in developing countries lack the knowledge, training and resources to access relevant information, C2C provides

this training and information through its use of technology, primarily the internet, and direct employee-farmer interaction. Also in the vein of the producer empowerment, C2C works with a third-party coffee consultant to provide farmers with feedback on their particular products. This enables farmers to make more informed choices about their coffee business.

Unlike most fair trade organizations, C2C has chosen not to participate in third-party certifications. Instead, using technological resources and a strict policy of transparency, C2C aims to promote its coffee through farmer and consumer interaction and the concept of “consumer certification,” rather than consumers relying on certification by unknown (and often uninterested) third parties. As such, C2C invites customers to “see for themselves” where their coffee is from, who grew it, and the benefits that consumer purchases can provide.

Also, C2C aims to maintain ownership for both the farmer and the company over the coffee throughout the value chain. Therefore, instead of working with cooperatives, C2C maintains relationships and agreements with individual farmers for purchasing; like the fair trade model, this reduces the number of actors on the supply chain between the farmer and the roaster, but goes even further in eliminating the cooperative and involving only the importer. It should also be noted here that the premiums paid on the coffee go to Farmers Associations. The Farmers Associations are democratically elected boards meant to be representative of the communities; it is these Associations that work as the point of contact for C2C.

Finally, in its efforts to improve the standard of living for smallholder and producers of coffee in developing regions, C2C has a system of payments and premiums.

For coffee, C2C pays farmers \$.30 above market value for all grades of coffee, in addition to premiums for quality performances or specialty coffee. Also, C2C returns \$.20 per roasted pound sold to the farmers associations to be reinvested the community in a manner decided by local farmer's associations: currently, the premiums are being put towards coffee seedling projects in order to increase local output. These payments reflect efforts towards both individual development and community development.

## CHAPTER VI

### DISCUSSION

While the development goals of an improved standard of living and increased empowerment for smallholders and producers underscore both the fair trade and the direct trade movements in coffee, the approaches of both movements often differ in actual practice. Using FLO as a representative of the fair trade movement and C2C as a representative of the direct trade movement, this discussion will focus on the overlaps, divergences, and gaps of approaches with respect to development goals, and, within the limits of the literature review, the theoretical implications for these approaches. The overlaps described practices consistent with development goals and focus on price and premiums as ways of improving producers' standard of living. With respect towards efforts aimed at increasing producer empowerment, the overlaps focus on practices geared towards education and transparency, the collapsing of the supply chain, and consumer participation. Again within the context of development discourse, the gaps included will focus on pre-export credit and the issues associated with certification.

#### 6.1: Overlaps: Price

First, there are many areas where the approaches of FLO and C2C overlap. With respect to the development goal of increasing the smallholder or producer's standard of

living, both organizations pay a minimum amount for coffee at a price that is often well above what an independent smallholder might gain from a local middleman or broker. The current market value for coffee is \$2.31 per pound (Bloomberg 2011). For FLO, the minimum price for unwashed Arabica is set at \$1.25 per pound, or the fair market value, whichever is higher. This is the price paid at export. Because FLO works with third-party certifiers, the export price does not necessarily represent the price received by the individual farmer. C2C pays \$.30 over the market value price, and this price represents what is paid at the farmgate level: because C2C maintains relationships with individual farmers, it is able to pay them personally, as opposed to through a third-party certifier or exporter.

For the smallholder, FLO's set price may be an advantage because of its predictability and security. However, as the market for fair trade coffee and consumption increases, causing the price of coffee to rise to its current value, the amount paid by FLO represents no increase the market price a farmer might be able to get *without* a fair trade label. Further, because the minimum price paid is at the export level, the farmer may receive less money than is actually represented by the price.

On the other hand, C2C's price scheme of \$.30 over the market price is obviously advantageous to a producer in a market when the price is relatively high, as it is as of this writing. Further, because C2C's payment is made at the farmgate level, there is more certainty of the what the farmer actually receives. However, if the price of coffee were to fall—and historically coffee's price has indeed fallen very low (in 2001 the price was \$.46 per pound)--then the absence of a price floor in C2C's scheme might hurt smallholders (The Fair Trade Coffee Company 2009).

In addition, it should be noted here that fair trade coffee is special coffee, and has higher quality standards than other types of coffee. Most smallholders dealing in fair trade coffee sell only “a fraction of their coffee to the Fair Trade market and the rest to the conventional market” (Weber 2007, 112). Thus, the actual impact of the higher prices generated through selling under a fair trade or direct-relation trade label may be minimal: C2C describes smallholders as family farmers who have around 250 trees on their lot; each coffee tree produces about one pound of roasted coffee. The real impact of selling only a percentage of a harvest for a commodity whose price is relatively low translates into a minimal increase of income for most workers.

However, C2C has recently launched its “Whole Crop” campaign. Under this program C2C will purchase a farmer’s entire crop, working within various relationships to sell not just specialty coffee, but all other grades of coffee too. The payment scheme is the same: \$.30 over market price per pound and a \$.20 premium for community investment. This campaign thus not only works to increase the direct income paid to farmers but also their access to markets. Currently, fair trade and direct trade coffee is exclusively a specialty commodity. C2C’s efforts in this arena work to increase farmer’s direct access to previously unreachable markets.

## 6.2: Premiums

Also with respect to improving the standard of living of producers, both FLO and C2C pay farmers premiums. FLO pays \$.10 per pound sold and C2C pays \$.20 per pound sold. In both cases, the premium is reinvested into the local communities of the producer or producer organizations: for FLO, the outcomes of these reinvestments vary,



while for C2C all premiums are being reinvested into a community seedling project. These premiums reflect a community-focused development approach and also work to establish the legitimacy of the organizations within the region.

### 6.3: Empowerment

Empowerment to producers is also a core principle that both FLO and C2C consider crucial to achieving development goals. Echoing the sentiment of postcolonial and emancipatory literature, the involvement of populations within development efforts is often necessary for its success; in other words, local knowledge is important to the success of development projects because local people know their situation best (see Ferguson 1994). With FLO, producer organizations are involved in the standard-setting process through review and feedback. C2C invites farmers to offer feedback via the internet, allowing for a transparent discussion in an open forum. Both of these approaches are admirable in that they attempt to increase the role for the producers. However, FLO's model may be more efficient, in that the cooperatives provide the feedback, not the individual producers, conceivably lessening the burden of streamlining possible issues for FLO. On the other hand, while C2C's model for farmer feedback allows for individual voice and an open discussion, the practical problems associated with farmer participation in such a technical system might mean that this approach represents a better theory than practice.

Both FLO and C2C engage in education and training for the producers. FLO maintains a Producer Services and Relations Unit that provides training in local languages, offers guidance on certification requirements, helps producers to gain access

to new markets, and facilitates relationships with buyers (FLO 2009). C2C also provides training and education to farmers on farming practices, organizational management, and technological guidance. This focus on training and guidance of both organizations recognizes the importance of capacity-building for development, and rejects the notion of trusteeship that is so often found in development efforts. These efforts are also important for helping farmers to gain market access as both organizations help farmers to establish relationships with buyers, and thus consumers, in developed countries.

#### 6.4: Supply Chain

Both FLO and C2C employ relationships that collapse the supply chain. While the traditional coffee supply chain can include the producer, a local buyer or middleman, a processor, an exporter, an importer, a roaster, a retailer, and the consumer. Generally, with each time the coffee bean changes hands so does its legal ownership. First, this can have negative effects on quality control because the actors do not have an incentive to maintain high levels of quality for those at the end of the coffee's journey. Second, however, complex and multi-actor supply chains encourage what Marx called "commodity fetishism," hiding the true reality of the producer's condition. It seems that more actors in a supply chain make it easier to obscure the producer's reality, and by limiting the number of actors and maintaining relationships with producers that veil can be lifted.

Here, however, there again is a difference in the approach between FLO and C2C. FLO has effectively collapsed the coffee supply chain to function so there are only two actors between the farmer and the roaster on the supply chain: the cooperative and the

importer. Because C2C maintains relationships with individual farmers, the number of actors between the farmer and the roaster on the supply chain is only one, the importer.

#### 6.5: Consumers

Also with respect to commodity fetishism, it should also be noted here that both organizations and models are geared towards empowering consumers to make informed ethical decisions regarding the products they buy and the companies they support. Both movements are consumer-driven, and ultimately assume that without demand there will be no sustained change. Therefore, unlike other social justice movements in which change is led by peoples in developing countries, both the fair trade and direct relations trade movements are sustained by the consumers in developed countries who attempt to use their economic positions and choices to counter the negative effects of globalization.

#### 6.7: Gaps: Pre-Export Credit

Next this discussion will turn to the areas where there is a gap, or where one movement fails to address one issue that the other does address. One gap in the practices of FLO and C2C concerns pre-export credit. FLO provides that “up to 60% of the purchase price should be pre-financed to the producer organizations” (FLO 2009). Because coffee generally requires a seasonal harvest, most coffee farmers generate only one coffee harvest per year, and thus, often coffee farmers only get paid once a year (Painter 1984, 281). Pre-export credit allows farmers to have access to finances if needed before payment, allowing for greater financial security and, ultimately, empowerment. C2C does not offer pre-export credit on the ground that its purchase price is high enough

that pre-export credit is not necessary for the producers. Here, it seems that C2C is also guilty of failing to acknowledge the realities of most producers in developing countries and the benefits that a system of pre-export credit would create for them.

#### 6.8: Certification

One of the most striking of the gaps in the practices of FLO and C2C is with respect to certification: as mentioned, FLO's system for ensuring and signaling fairly traded products is based on third-party certification. However, C2C has consciously rejected the certification system. As mentioned, for most fair trade and FLO purposes smallholders and individual producers are organized into cooperatives. As Bart Slob points out, "the precise amount of direct additional income a farmer receives through Fair Trade is difficult to calculate. Payments to smallholder farmers vary according to the co-operatives' handling of debt servicing, co-operative expenses, distribution of Fair Trade social premiums, etc" (2006, 28). Thus, this raises issues of corruption and accountability, as well as the practical question of whether the method of channeling profits through co-operatives actually frustrates fair trades purpose of significantly contributing to individual producer welfare. In her article "Does Fair Trade Coffee Lift Growers Out of Poverty or Simply Ease Our Guilty Conscience?," Jill Richardson says that for coffee growers, "after the cooperative takes its cut, growers receive an estimated 20 to 50 cents under the price paid to the cooperatives" (2010). This can significantly undercut the amount that fair trade companies imply is paid directly to the farmer, further frustrating the fair trade movement's goals of contributing to development by increasing farmer income and quality of life.

Standard-setting and certification by independent third parties can be understood as what Mary Kay Gugerty describes as “voluntary accountability,” whereby corporations and non-profits can “signal” to consumers a particular level of quality and adherence to an often very specific set of standards (2009, 243). As mentioned, these standards often require a minimum price paid to producers, sustainability practices, fair labor practices, and environmentally friendly production processes. Of course, the requirements of the standards themselves can sometimes be a barrier for smallholders and family farmers. As Bart Slob points out, large “estate owners might be able to invest in certification or labeling processes, but most small-scale producers simply do not have the financial resources to pay for this” (2006, 51).

Also, although the *terms* of the certification process are transparent, the processes *themselves* are not. For example, FLO-CERT explains on its website that the audits (where an individual auditor physically visits the sites under consideration for certification) vary in length and intensity; this raises concerns of “rubber-stamping,” the idea that an auditor will only conduct a cursory investigation, and be shown a few choice plots or production facilities as representatives of a site’s general practices; however, as producer organizations and cooperatives can have hundreds of members—and thus thousands of acres of trees—that certification can actually serve to hide the reality of the origin and practices of that particular commodity.

Also, there is the question of enforcement: as described in the process above, if a auditor discovers a non-conformity within a particular applicant’s practices, the producer may suggest a remedy, and if agreed upon, that remedy is implemented; however, the auditor does not physically reassess the site to ensure compliance standards. Again, this

raises concerns about uniformity in both practices and quality for products that are fair trade certified.

Further, even the application process itself can be a barrier for small holders. As described, the FLO application for certification requires a 500 euro fee; if certified, the producer organizations then pay annual fees depending on the size of the organization. Although FLO has some programs in place to help smallholders overcome this barrier, it still presents problems. With respect to the developing world and most coffee-producing nations, these prices can be an insurmountable obstacle for a small family farmer. For example, for a small producer organization of less than fifty members is charged an annual fee of approximately US \$1544.95 (FLO-CERT 2010). However, in Uganda (a country whose main export is coffee), where the average family income is \$320, this can be a formidable barrier to entry of the fair trade market: farmers will have to reach out further in order to find members and funds for cooperative certification, thus causing even more complications when considering quality control and practice uniformity (U.S. Department of State, 2010; Restoration of Hope, 2010).

In addition, “because most fair trade ATO’s certify only co-ops, the poorest of the poor, namely landless workers on large coffee plantations” or family farmers who manage only a very small plot “are untouched by fair trade” (Hira and Ferrie 2006, 110). This means first that individual producers must organize into a cooperative, a method that can be a challenge for individuals for varying reasons, including geographic, disagreement over processes of production, and requirements of the cooperative that the individual producer is unable or unwilling to meet. As Jeremy Weber puts it, “entering the fair trade...market...presents major difficulties for young producer organizations.

Without assistance from development organizations or export companies, the very organizations and producers that Fair Trade targets have little chance of participating in the market” (Weber 2007, 109). Of course, most cooperatives require dues or fees of some sort for administrative purposes, but without oversight or transparency, and especially in situations where access to information and organizing techniques are limited, the cooperatives themselves can discourage individual producers from participating in the fair trade movement.

It is these economically marginalized groups that are most in need of the benefits of fair trade but are least able to access them. With coffee, for instance, more than 25 million people around the world rely on income from coffee to participate in formal economies (FLO 2009). Further, of all the coffee in the world that is produced (and it is the second-largest commodity behind oil), more than half is produced by family farmers (James 2000). This means that family farmers might often lack the resources necessary for fair trade market access, namely a cooperative membership or the funds for a certification application fee. The failure of the fair trade movement to directly address these issues echoes the problems associated with development discourse and universalism. Here, it seems that the practice of fair trade organizations of using certification systems--whereby large groups of the population which are intended to be the beneficiaries of development efforts are left out of those efforts—are underwritten by assumptions of producer realities. In the case of certification, these assumptions are related to the technical, financial, political, and organizational requirements that must be met in order for family farmers to be certified fair trade.

## CHAPTER VII

### CONCLUSION

The comparison of the practices between FLO and C2C highlights the commendable efforts made by organizations worldwide in addressing the disparities produced by globalization. In an effort to work within the established market system, fair trade and direct relations trade groups have brought both an increased standard of living for producers in the Global South and awareness and education for consumers in the North. As demand for fair trade continues to rise and new commodities becomes recognized within that arena, there exist more and more opportunities for these efforts to result in real change.

The overlaps between the fair trade movement and direct relations trade--as represented by the claims of FLO and C2C--emphasize some of these positive changes. Both organizations claim to seek to advance goals related to development and producer empowerment, and thus reflect overall trends of the discourse surrounding these concepts. As a response, C2C represents an evolution of fair trade strategies and discussion, offering indications of where the movement is going and how it attempts to meet those goals.

With respect to development, both organizations seek to increase the standard of living for producers through higher and fairer payment systems. Both organizations



incorporate a payment scheme that provides greater financial security for producers in addition to premiums for reinvestment in those communities. While each payment scheme has different benefits, the most important difference seems to be in where the payment is made: for FLO, it is paid at the export level, while C2C pays at the farmgate level.

This is also closely tied to the process of collapsing the supply chain. First, both FLO and C2C seek to collapse the supply chain in a way that makes the conditions of the farmer visible to the consumer. The emphasis on the consumer's ethical choice in coffee-drinking highlights the disparities in the supply chain and the labor or of the producer, addressing—at least indirectly—the effects of commodity fetishism. It is interesting to note that per the lifting of the obscurity of the producer under fair trade and direct relations trade models, the consumer can no longer claim ignorance of the reality of conditions for producers in developing countries. With time, consumers may expand these notions to markets and producers of other commodities, truly realizing the goal of fair trade.

Because C2C maintains a supply chain in which there is only one actor between the roaster and the farmer—the importer— it is thus able to pay at the farmgate level. C2C purchases a farmer's entire harvest, while FLO sells specialty coffee exclusively. On the other hand, FLO's process of third-party certifiers and relationships with cooperatives necessitates payment at the export level. While both represent an improvement over the traditional payments made to coffee farmers, C2C's approach represents a more transparent and traceable model, and the "Whole Crop" campaign seems to be an innovative effort to make an even bigger impact on farmer income.

With respect to producer empowerment, both movements have processes in place to allow producer input: for FLO, it is in the form of feedback on standard-setting and organizational issues. For C2C, producers are invited to give feedback on the internet in open forums. Both of these schemes address problems identified within the general development discourse—namely, a lack of farmer participation and feedback. However, while both schemes are noble efforts, each seems problematic. First, FLO allows producer feedback within a limited framework and the feedback is generally presented by the cooperative. This raises concerns of transparency in addition to the worry that individual producers may not have an adequate voice. For C2C, its system requires access to the internet, which is not always a readily-available technology. This might be seen as an unfortunate tendency of development organizations to universalize programs and, indeed, people: in this case, while the goal of feedback as a means of producer empowerment might be an admirable aim, the failure to account for the individual producer's reality may in fact render any benefits unsustainable. There, while both organization's efforts related to producer input seem to be encouraging steps towards producer empowerment, future researchers may want to consider different ways that farmers' voices might be best incorporated into these processes with respect to their social and economic realities.

The practice of many fair trade organizations of offering pre-export credit seems to be an excellent practice, in tune with progressive development discourse and consideration of local conditions for producers. Further, pre-export credit is consistent with notions of empowerment in that it encourages financial security by allowing producers more options and thus more control. As pre-export credit supports financial

security for producers, and future fair trade efforts and direct relations trade organizations ought to consider the benefits that pre-export credit can bring to producers.

The certification processes used by many fair trade organizations also require closer inspection. For many smallholders the certifications process has developed into a set of barriers that fail to consider real physical, financial, and social conditions of farmers in developing countries. First, there is the issue of payment to those farmers, as the fair trade minimum price is the price paid to “*organizations* of producers, but not to individual producers” (Weber 2007, 11). Thus, individual farmers may be receiving much less than what is the standard that is advertised under the fair trade label. Not only does this raise questions about the impact on the farmer’s standard of living, but ultimately the direct impact on the organization’s ability to achieve its stated development goals.

Second, the use of third-party certifiers raises questions of accountability and concerns over “rubber-stamping.” As fair trade and direct trade emphasize transparency and accountability as a means of producer empowerment, the use of third-party certifiers is presented as a method of supporting those goals; more research is needed on whether these concerns are actual threats to system’s integrity. However, certification also raises questions about enforcement and oversight of standards and regulations, especially when many of the managing groups are non-profit organizations with limited funds and resources.

Third, the application process itself, both with its standards requirements for production and its application fees, can certainly be a challenge to family farmers. Closely tied to that is the fact that most fair trade certification organizations deal only

with cooperatives can be problematic for individual producers who, for whatever reasons, are unable or unwilling to organize with closely-situated and like-minded producers.

These concerns again relate to the criticism of universality found in development discourse, and certainly administrative issues such as an application process have a defense of efficiency. On the other hand, in light of the stated goals of development and empowerment for producers, it seems that a more flexible approach that accounted for the economic realities of producers in developing countries would be more consistent with the overall trajectory of the discourse.

Finally, as the fair trade market has expanded from church groups selling handicrafts to a multi-billion dollar a year industry, different organizations are competing more directly with each other and seeking out different ways of specializing their products further—like by carrying multiple certifications. The comparison of FLO and C2C in this discussion is an example of this, and it is possible that these internal divisions within the fair trade movement may further jeopardize its sustainability. However, while this may be seen as a challenge, it may also open the proverbial “marketplace of ideas” to other models of trade, ones that may or may not work within the classic market structures, or ones that do or do not address the same disparity issues fair trade seeks to address.

In addition, this analysis may prove helpful to the emerging market and movements surrounding organic, biodynamic and other certifications. First, it may be informative on guidance for best practices or programs for maximum producer impact. Second, the sustainability of movements often requires a certain degree of cohesion and organization between all actors involved; as discussed above, the divisions and differing

approaches within the fair trade movement may open it to more risks. Finally, like fair trade, these newer certifications are consumer-driven, and organizations seeking to advance their goals should consider ways to increase the role and participation of consumers.

Ultimately, it seems that in light of these criticisms, although fair trade is an admirable step in the right direction, there are still several issues that need to be addressed if it is to meet the goals of development and producer empowerment. Future researchers might be interested in looking at some issues raised in this discussion, including market access and barriers for economically marginalized groups, in order to better refine and improve the fair trade movement as it continues to grow.

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