HELSINGIN YLIOPISTO

Co-operatives, coffee and crisis

The impact of Fair Trade coffee during the coffee crisis of 1999-2004

Andreas Hemming Lång
University of Helsinki
Faculty of Social Sciences
Development studies

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Tiivistelmä – Referat – Abstract

This thesis studies the impact of Fair Trade coffee during the coffee crisis of 1999-2004, focusing on Fair Trade producing cooperatives in Latin America and especially the economic impacts of belonging to the Fair Trade coffee network at a time when conventional coffee prices had plummeted to levels not seen in a hundred years.
The rationale behind the research topic is to explore the possibilities of an alternative trading structure, as conventional production and the concomitant trade of primary products has historically been fraught with numerous problems, including declining terms of trade.

A global value chain approach is used as a theoretical framework for the analysis of both the conventional and Fair Trade coffee markets, and is used to scrutinize the concentrations of power among the different actors involved in the path of coffee from producer to consumer.

As four fifths of Fair Trade coffee was produced in Latin America at the time of the coffee crisis, four case studies were chosen, concerning cooperatives in Mexico and Nicaragua. These case studies are studied in depth to gain a deeper understanding of the involvement in the Fair Trade coffee network. The studies indicate that at the microlevel, belonging to the Fair Trade network did indeed lead to significantly higher coffee prices received by producers. While the Fair Trade price that farmers received was up to more than double the price of selling to conventional middlemen, some producing cooperatives only managed to sell parts of their harvest as Fair Trade coffee, thus limiting the impact of belonging to the Fair Trade network. At a macro level Fair Trade was a marginal actor, with some half a million growers being a part of the Fair Trade network at the time of the crisis, while approximately 25 million growers were involved in conventional coffee production, thus limiting the possible impact of Fair Trade coffee.
Other results were less robust. One explicit goal of Fair Trade, promoting gender equality, was mostly dependent on the previous local gender relations, and no clear improvement was found in Fair Trade producing communities. Stemming migration was another explicit Fair Trade goal, and here there results indicate that in some cases Fair Trade actually enabled migration, as higher incomes can enable people to migrate.

As Fair Trade has been in the vanguard for ethical trading and ethical sourcing, one of the largest potential impacts of Fair Trade is that of change in mainstream corporate culture through example and discussion. This is however a topic that warrants further research.

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List of Abbreviations

ATO - Alternative Trading Organisation

EFTA - European Fair Trade Association

FINE - informal network involving EFTA, FLO, IFAT, and NEWS!

FLO - Fairtrade Labelling Organizations International

FOB - Free On Board

FT - Fair Trade

HIPC - Heavily Indebted Poor Countries

ICA - International Coffee Agreement

ICO - International Coffee Organisation

IFAT - International Fair Trade Association

IIED - The International Institute for Environment and Development

ISEAL - International Social and Environmental Accreditation and Labelling Alliance

MNC/TNC - Multinational Corporation/Transnational Corporation

NEWS! - Network of European Shops

NYBOT - New York Board of Trade

NRET - Natural Resources and Ethical Trade Programme

1. Introduction

Fair Trade /.../ is, fundamentally, a response to the failure of conventional trade to deliver sustainable livelihoods and development opportunities to people in the poorest countries of the world. **(**FLO: 2009**)**

In 1999, ten years after the dismantling of the International Coffee Agreement (ICA) the price of the coffee 'C' contract[1] started to plummet. It hit rock-bottom levels in October 2001, reaching 0.42$/lb., having lost almost 2/3 of its value in less than one year. Prices stayed low for three more years, only regaining more normal, pre-agreement price levels, in early 2005. (ICO: 2020a)

The gravity of the situation did not escape the Executive Director of the International Coffee organization (ICO), who made the following statement at the UNCTAD XI conference in June 2004:

It now seems likely that, if ways are not found to improve trading conditions in producer countries, this precious commodity [coffee], and what is worse, the human beings who grow it, will progressively decline to the point that, in a not too distant future, there may be insufficient coffee and certainly an insufficient quality range of coffee, to trade and to drink. (Osorio: 2004, 1)

Osorio continued by citing the then acting Deputy Secretary-General of the United Nations, Louise Fréchette:

The decline in prices for commodities such as coffee, which now receives roughly a third of the prices that prevailed in the mid-1990s, contributes to increased poverty and makes it more difficult to reach the millennium development goals. Lower revenue from coffee exports has also endangered the HIPC[2] initiative. (Osorio: 2004, 1-2)

Thus, the recognition that coffee producers were engulfed in a crisis had dawned upon the International Coffee Organization as well as the United Nations.

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[1]The Coffee C contract is the world benchmark for Arabica coffee, the most consumed and most traded coffee variety. (ICO: 2020a)

[2] HIPC (heavily indebted poor countries): countries with high levels of poverty and debt, eligible for assistance from the World Bank and the International Monetary Fund.

This thesis answers the following question.

What was the impact of Fair Trade coffee during the coffee crisis?

To answer this question properly, the following questions will be answered to provide the proper context for the first question.

What is Fair Trade?

What factors led to the coffee crisis?

What was the coffee market like in 1999-2004?

The linkage between coffee and the Fair Trade[3] (FT) movement has been a strong one ever since a Dutch Alternative Trade Organisation (ATO) imported the first Fair Trade coffee from cooperatives of small farmers in Guatemala in 1973. Since then, coffee has been the single most important Fair Trade good in the Fair Trade system. (WFTO: 2004)
This thesis analyses how participation in the Fair Trade coffee network affected the small scale coffee farmers involved in FT during a time when producers of conventional coffee were increasingly cornered by falling coffee prices.

This section continues by looking at the importance of trade in relation to developing countries, followed by a history of the FT movement, and is concluded by a definition and brief history of the coffee crisis.
In section 2 the method used in this thesis will be discussed, namely the approach of a global value chain analysis (GVC), followed by notes on existing research on the topic of Fair Trade.
Section 3 answers the question of what Fair Trade is, with Fairtrade Labelling Organizations International (FLO) as its main focus – being the largest actor in the global FT system.
In section 4 the international coffee market is analysed, with the coffee value chain taking centre stage, while section 5 presents the production and sales of FT coffee.
In section 6 the mandatory organisation to which FT coffee producers have to belong – the cooperative – is presented and analysed.
In section 7 four different case studies relating to Fair Trade coffee are presented. The first case study being a value chain analysis with a comparison between FT and conventional coffee during the coffee crisis. The three following case studies present the impact of FT

[3] In the reviewed material Fair Trade is also written in the forms: fairtrade, fair trade and the usually derogatory "Fair Trade".

coffee production in the cooperatives and families of Latin American coffee small farmers during the coffee crisis.
Section 8 leans on the information set forth in section 7, and corroborated with evidence from other sources, analyses the economic and non-economic impact of Fair Trade coffee production in producing communities, with a focus on the time of the coffee crisis.
Section 9 analyses the problems and limitations of Fair Trade.
Section 10 discusses the findings of the thesis, and is followed by the conclusion in section 11.

This thesis was written mainly in the spring of 2006. Due to various personal reasons it was not submitted at the time, and was later been finalised in the fall of 2020. Thus, some sources can be outdated, but a valiant attempt has been made to update the core parts of the thesis.

1.1. Why focus on trade?

Many developing countries are economically dependent on a restricted number of commodity exports (in many cases agricultural exports). Thus, the impact of globalised and deregulated international trade on developing societies is hard to overemphasise. If one wants to reach a clearer understanding of the fundamental conditions in which people in developing countries live, the need to analyse the multifaceted phenomenon of international trade is urgent.
Most development problems are complex, to some extent unquantifiable, and usually difficult to solve. The prevalent structures of global trade on the other hand, are mostly quantifiable and perhaps require less opaque solutions than problems concerning conflict management, ethnicity, culture or gender. The hope to find a potential vehicle for development, containing as much clarity and simplicity as possible, is one driving force behind this thesis.

1.2. A brief history of the Fair Trade movement

The Fair Trade movement grew out of the notion that trade practices have the potential to be unequal or even harmful to participating producers.
As commodity export schemes collapsed during the 1980s, budding alternative trade organisations tried to ameliorate the problems caused by rapidly fluctuating prices affecting commodity producers.

Fair Trade is one attempt to alleviate the imbalances and deficiencies – informational, economical and power-related – faced by many commodity producers in the developing world. (Lyon and Moberg ed.: 2010)

Even though the majority of the literature concerning Fair Trade includes a brief history of the movement, there is no unanimity concerning the history of Fair Trade, with some observers seeing the roots back in the 19th century and some in the genesis of alternative trading organisations of the mid-20th century.
Moore (2004) traces the origins of the Fair Trade movement to the development of the co-operative movement in the late nineteenth century. In his view the roots of the Fair Trade movement as it exists today, were the steps taken by the Mennonite Central Committee to initiate trade with poor communities in the South in the 1940s. The goal was to provide relief to refugees and other poverty stricken communities by selling their handicrafts to Northern markets. (Moore: 2004) In the 1960s, church and development organisations opened alternative shops in Europe with the aim of supporting Southern producer groups. In many cases this support was politically motivated, with the alternative shops being outlets for countries and producers marginalised by conventional trading channels, such as Sandinist Nicaragua. While these shops initially focused on handicrafts, soon alternative trade expanded into food products. Alternative trade organisations also appeared in the United States in the 1960s and 1970s but they failed to acquire a similar market share as their European counterparts. (Raynolds, 2002; Moore: 2004; Mellor and Moore, 2005; Tallontire, 2001b; Renard, 2001)

In 1988, world coffee prices began a sharp descent, triggering the birth of the first Fair Trade *certification initiative*. It was branded *Max Havelaar* after a fictional Dutch character who opposed the exploitation of coffee pickers in Dutch colonies. The Max Havelaar label was created after a petition by a Mexican coffee cooperative who requested help in marketing its product in Europe. (Renard, 2003; Renard, 2001; Rice, 2001)
The Max Havelaar label offered conventional coffee industry players the opportunity to adopt a standardized system of Fair Trade criteria, and in 1997, after almost a decade of strong growth, the existing 17 national Fair Trade organisations – European, North American and Japanese – formed a coordinating body, the Fairtrade Labelling Organizations International (FLO) based in Bonn, thus joining the Max Havelaar label together with its counterparts in other countries. (Lyon and Moberg ed., 2010; Raynolds, 2002; Young, 2003; Rice, 2001)

During the last 20 years global FT sales have maintained a strong pace of growth, easily reaching double digits annually, totaling an estimated €9.8 billion in 2018. (FLO:2019)

1.3. A brief history and a definition of the coffee crisis

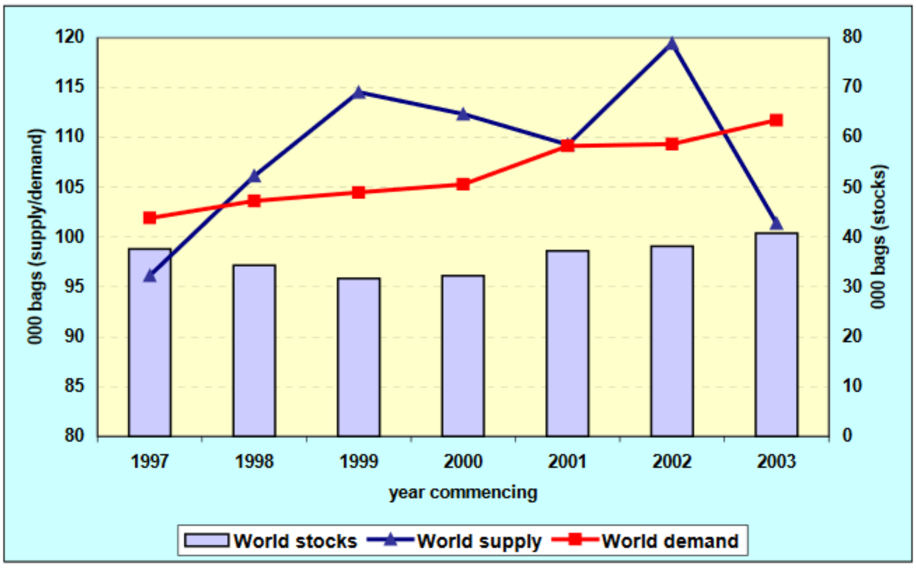
After a price spike in 1997, coffee prices began an increasingly rapid descent, and during late 2001, coffee prices had sunk to levels not seen in a hundred years. As coffee exports made up more than one-fifth of total exports in many coffee producing developing countries, and an estimated 100 million people were affected by the coffee trade, the abysmal prices caused many problems, from the displacement of wage workers and increasing poverty levels among small farmers, to bank failures and public protests. (Lewin et al.: 2004)

Price volatility has always been a part of the coffee trade, especially since the fall of the International Coffee Agreement in 1989. Before the collapse of the ICA, price fluctuation usually depended on weather conditions (especially in Brazil, the biggest coffee producer). After the collapse of the ICA, Vietnam underwent a period of huge expansion in coffee production. This increased supply led to constant oversupply in the late 1990s and the early 2000s (see figure 1), pressing down prices heavily. Another cause of the coffee crisis was the lack of information among small farmers, about coffee stocks, supply and demand, and consequently about future prices.

As coffee prices were quite high during the years leading up to the crisis (1994-1998), it incentivized growers to increase supply. However, as it takes 3-4 for a new coffee tree to produce cherries, this increased supply took effect after a long delay, when the market had turned and supply instead should have been *decreased* to clear the market.
(Lewin et al., 2004; Osorio, 2004)

Figure 1. World supply and demand for coffee.

WORLD SUPPLY AND DEMAND FOR COFFEE

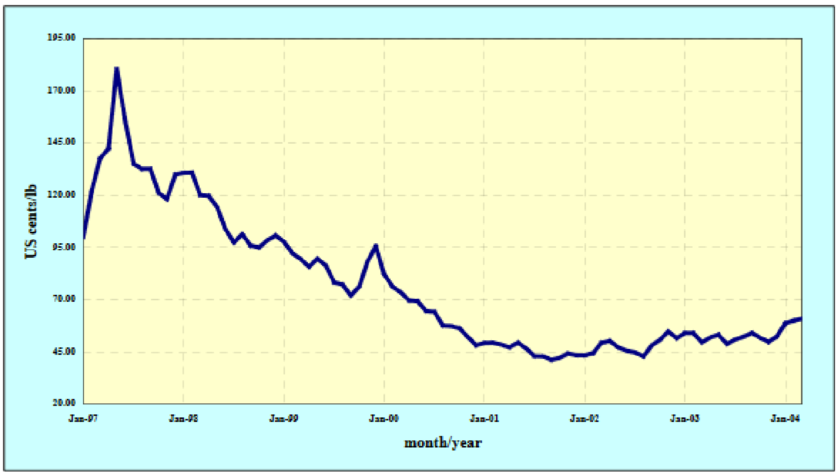


(from Osorio: 2004)

Even though there is no clear starting or end point to the coffee crisis, the choice has been made to demarcate the coffee crisis from the beginning of the year 1999 to the end of the year 2004, as coffee prices plummeted from "normal" levels of 1-1.5$/lb. seen at the time of the ICA, to levels *not even covering the cost of production in 2001* (see figure 2), *even when assigning no monetary price to unpaid family work.* (Ruben ed.: 2008)

Figure 2. World coffee prices

WORLD COFFEE PRICES



(from Osorio: 2004)

2. Method and notes on existing research

The main body of source material presented in this thesis was laboriously dug up from the depths of the internet in the spring of 2006. At the time I used the library services of the University of Helsinki, both through in person discussions with librarians as well as using the search functions of the Helka library system. Furthermore, as Fair Trade was such a niche research topic at the time, I also resorted to the use of both google and google scholar to find articles and other internet resources (web pages) relating to Fair Trade. After finding a (small) number of adequate articles, I followed the "reference trail", and in turn searched for the references that seemed relevant in the articles that I had found.

At this time, research on the topic could be described as scarce, and to some extent as echoing the claims of Fair Trade organisations, rather than presenting well grounded, in depth analysis of the various facets of Fair Trade. Thus, the demarcation of the relevant source material was rather determined by necessity than by choice, with the accompanying problems that this entailed.

Later on, during the fall of 2020 an expansion and an update of the original source material was made. New references were found through the use of the JSTOR and EconLit databases, focusing on the coffee (Fair Trade and conventional) value chain in Latin America in 1999-2004. The reason why Latin America was chosen as a special focus, was that more than 80% of FT coffee was produced in this region at the time of the coffee crisis, with Mexico as the single largest producing nation. (Murray et al. 2003). Especially case studies with rigorous quantitative data were sought for, and some were found, such as Jaffee (2008 in Ruben ed. 2008).

The original working title of this thesis in 2006 was *The Development impact of Fair Trade Coffee: How does Fair Trade Coffee Affect Producing Communities?*

As Fair Trade has changed after the time of the coffee crisis, and almost all of my existing reference material was focused on this period of time, it made sense to introduce a historical element, and thus to focus on the specific period of 1999-2004. The reason why this demarcation seems meaningful is that Fair Trade is and was viewed by its main governing body as a response to the failure of conventional trade (FLO: 2009). At the time of the crisis, conventional trade in coffee had hit rock bottom, and in many cases had failed to deliver sustainable livelihoods to producers (Osorio: 2004). Thus, the coffee crisis can be viewed as a litmus test for Fair Trade. If it failed to deliver on promises made, at a time when the difference in price between conventional coffee and Fair Trade was at the highest level ever, how could it *ever* deliver on these promises? Indeed, it seems plausible that some of the findings of the historical study of Fair Trade during the coffee crisis could be generalisable to contemporary Fair Trade coffee as well.

The conducted research in this thesis is of a historical nature, with the demarcation lines being both temporal (1999-2004) as well as topical, being the impact of Fair Trade coffee - especially on producing communities - during the coffee crisis. The analysis is mostly qualitative, but some of the data, especially in the case studies, provide a quantitative basis for the findings.

No *one* individual theoretical framework has been chosen to interpret all the data at hand, due to the fact that Fair Trade is such a multi-faceted phenomenon, and thus rallying around a certain theoretical focal point has seemed to be more of a hindrance than an advantage when trying to discern the complex interlinkages between the various phenomena extant in the Fair Trade network.
Nevertheless, the theoretical framework of the global value chain (GVC) pioneered by e.g. Gereffi (Gereffi: 1994) has functioned as a starting point for analysis, as it functions as a tool for understanding how the various actors involved in Fair Trade coffee production and sales benefit (or don't!) from the Fair Trade system.

2.1 Global value chains

A global value chain (GVC) is a holistic view of the path of a product from the primary producers of natural resources all the way to the finished physical product in the marketplace (and even the disposal after use). Thus, value chain analysis includes all transformative stages in the process of creating a product, from design, transport, intermediate production stages, final production stages, packaging, to marketing and the final delivery of the product. (Kaplinsky: 2000)
GVC analysis is mainly concerned with the *vertical* relationships between buyers and suppliers, i.e. the movement of a good or service from producer to consumer. The focus of GVC analysis lies on "flows of material resources, finance, knowledge and information between buyers and suppliers." (Ponte and Gibbon: 2005, 5)

The usefulness of the value chain framework when trying to analyse the difference between Fair Trade and conventional trade stems from the focus in value chain analyses on power relations. (Valkila et al.: 2010) Thus the various actors are not seen as operating in abstract, perfect, neutral markets, but market power and a certain 'drivenness' of a value chain is recognised, i.e. who has the upper hand in the relationships between buyers and suppliers, and how does this translate into the economical side of the transaction?
Kaplinsky speaks of dynamic repositories of rent, in which rent - a kind of 'super profits' originating in various barriers to entry are captured by different parts of the value chain, depending on the entity that wields power (*governs* in Gereffi's terminology) in the value chain. (Kaplinsky, 2000; Suenaga, 2016)

2.1.1 Governance

Gereffi (Gereffi: 1994) identifies two main types of governance structures in global value chains.[4], the producer-driven and the buyer-driven.
Producer-driven value chains are in general characterized by capital- and technology-intensive industries, such as the automobile, aircraft or computer industries.
Buyer-driven industries are characterised by being labor-intensive consumer goods, such as the garment, furniture or food industries. (Gereffi: 1994) Gereffi identifies the leaders or governing entities of buyer-driven industries as:

> ...large retailers, brand-named merchandisers, and trading companies /.../ that frequently /.../ do not own any production facilities /.../ [and] that design and/or market, but do not make, the branded products they sell. (Gereffi: 1994, 97-99)

Gereffi maintains that the reason why profits accumulate to the buyer in these value chains is the fact that they function as coordinating actors for a multitude of producers of low barriers to entry goods (foods, clothes, etc.) whose products are designed and marketed, by the buyer, for the international market. (Gereffi: 1994)

[4] Even though Gereffi (1994) uses the term Global Commodity Chain (GCC) in his analysis, this term has been replaced by the term Global Value Chain, to indicate that all value chains are not indeed centred around commodities with low barriers to entry. (Kaplinsky: 2000)

Various forms of buyers (retailers, branded marketers, industrial processors and international traders) function as the lead actors in different buyer-driven value chains. According to Ponte and Gibbon (2005) the level of control is usually higher in chains led by retailers, branded marketers and industrial processors (e.g. the coffee value chain) than in those led by international traders (e.g. the cotton value chain).

Ponte and Gibbon (2005) build on the distinctions by Gereffi and present a new way of conceptualising value chains. Instead of a buyer- or producer-driven chain, their approach tries to identify a 'lead firm' that functions as the *primus motor* in a certain value chain, without it necessarily having to be a buyer or producer in the traditional sense. Thus, the possibility of a certain firm becoming lead firm depends on the informational, financial and technological characteristics of the value chain.
In the case of Fair Trade, the 'lead firm' can be said to be the certification system itself. Thus the distinction between buyer-driven and producer-driven value chains loses some of its explanatory power as a new entity, the certification organization, takes on the driving role of the 'leading firm' in the FT value chain. (Valkila et al., 2010; Ponte and Gibbon, 2005)

2.1.2 Governance in the coffee value chain

International trading companies are the coordinators and the driving force in the coffee trade. According to Gibbon (2001), this is common among primary commodities that exhibit the characteristics of low value-to-weight ratios, globally dispersed production with seasonal discontinuities and a demand side segmented due to commodity variety (e.g. variations in types of coffee beans). International traders coordinate these GVCs through their consistency of supply, as they are able to give processors exactly the demanded volumes and quality mixes. Entry barriers to commodity trading are high levels of capital (due to large volumes), market knowledge, and intangibles such as reputation. As margins are low, volume needs to be high to procure profitability. Thus traders try to secure more than one source of production or and trade in more than one commodity if possible. The abovementioned characteristics of international commodity trading are the prime reason for the high level of power concentration in e.g. the coffee value chain, and for the resulting oligopoly/oligopsony. (Gibbon: 2001)

2.2. Research on Fair Trade

Fair Trade has many facets. It is a phenomenon that has both staunch supporters (e.g. Rice: 2001) and vociferous critics (e.g. Zehner: 2002). In my opinion the early study of the subject of Fair Trade suffered to some extent from a "goodwill" effect, i.e. as the phenomenon was perceived by many observers to induce positive change, thorough criticism (including adequate academic research) was lacking during the early days of the movement, i.e. the 1990s and early 2000s. However, this seems to have changed during recent years and an increasing amount of critical research is being conducted on the subject.
The increasing amount of research that Fair Trade has experienced can be explained to a large extent by its increasing importance. The general structure of the older articles was a brief definition of what Fair Trade is, followed by a historical overview of Fair Trade, concluded by a number of arguments for the beneficiality of Fair Trade - usually reflecting the stances of the Fair Trade organisations, without strong roots in empiry. Somewhat newer studies (Ruben ed., 2008; Lyon and Moberg ed., 2010; Valkila et al., 2010) are supported by more extensive quantitative empirical research, and in the case of the studies in Ruben ed. (2008) and Valkila et al. (2010) control groups[5] were chosen in the case studies of producer cooperatives to provide a counterfactual to the measured impacts of Fair Trade.

3. What is Fair Trade?

In this section Fair Trade is defined, and the Fair Trade system is scrutinized.

3.1. Ethical trade and Fair Trade

Fair Trade can be positioned within the larger field of Ethical Trade. Ethical trade can be defined as:

> ...the adoption of societally and environmental[ly] responsible strategies within the value chain, the monitoring and verification of these strategies, and the reporting of societal and environmental performance to key stakeholders. (Blowfield and Jones: 1999, 2)

[5] Cooperatives in the studied area, who were not Fair Trade producers.

Another definition is given by Heeks and Duncombe:

> Ethical trade can be defined as initiatives that seek to improve the social and environmental impacts of global supply chains. By definition, then, ethical trade can be seen as an attempted solution to a perceived problem of market failure. (Heeks and Duncombe: 2003, 2):

The societal and environmental aspects that Blowfield and Jones (1999) mention, include such issues as human rights, worker welfare, producer livelihoods, sustainable production methods, animal welfare and biodiversity. A varying number of issues are addressed in the different approaches towards ethical trading. Fair Trade is one approach; others are the in-house codes of practice used by corporations, organic agriculture, environmental codes, forest and fisheries certification and the ethical trading initiative (ETI) of large western retailers and brand-owners. (Ponte, 2002; Blowfield and Jones, 1999; Tallontire, 2001a; Renard, 2001)
Some observers argue that Ethical trading initiatives, including Fair Trade, try to supplement inadequate regulation by national governments, and instead rely on non-governmental regulation to rectify perceived deficiencies in the international trade regime. (Heeks and Duncombe, 2003; Lyon and Moberg ed., 2010)
This move away from the state as a hub or locus for structural change and instead gearing towards private initiatives - e.g. Fair Trade - was a general structural trend in many countries during the late 1990s and the 2000s. (Lyon and Moberg ed.: 2010)

3.1.1. Challenging trading relations or producing ethically?

In some of the early literature concerning Fair Trade (e.g. Tallontire: 2001a)
ethical trade was divided into initiatives that seek to challenge trading relations (e.g. Fair Trade) and those that try to manage production in an ethical manner (sustainable fisheries, ethical sourcing initiatives). The view was that most ethical labels concentrate solely on the production process, e.g. the use of pesticides or workers' rights - such as freedom of association - concerning the production of the product in question. However, Fair Trade organisations were viewed to be interested in the power relations that emerge in trading relationships, and that they tried to enforce ethical behaviour along the entire value chain, rather than focusing exclusively on the producer. (Tallontire: 2001a)

This split between focusing on the production process or the whole value chain, has been a source of tension within the Fair Trade movement, and a case where the focus has oscillated depending on the scale and success of the FT products. (Valkila et al.: 2010)
One of the benefits of ethical trading initiatives is that they tend to bring together a multitude of stakeholders, who had not previously taken part in the discussion on ethical practices in the various steps of the value chain. The argument that proponents of Fair Trade present, is that Fair Trade raises awareness among consumers and brings discussions about the structure of trading networks to the fore. Through media attention and the activities of many NGOs, the ethical questions surrounding trade are more strongly integrated into conventional business and trading procedures. These changes are a core part of measuring the "soft" non-economic impact that Fair Trade potentially has had, as a vehicle for societal - especially corporate - change towards more ethical and sustainable practices that in the end also can have a strong, however causally less linear, impact on communities of primary producers. (Blowfield, 1999; Heeks and Duncombe, 2003)

3.2. Ethical standards and ethical labelling

The certification of FT products follows a general model. The key concept is the standard - a set of principles, criteria and indicators representing good conduct. Moreover, a custodian of the standard is needed, auditors or monitors that verify that the standard is not compromised at any stage and finally an award for the producers (or a label to inform consumers) proving that they have achieved the criteria set by the custodian.
Most ethical standards[6] separate the role of custodian and certifier, and whereas FLO previously functioned as both the custodian and the monitor, this changed in 2004 as FLO separated its certifying arm from the main organisation and the former FLO Certification Unit became an independent private company (FLO-Cert Ltd). (Tallontire, 2001a; Calo and Wise, 2005)

[6]As is the case with the standards of the Forest Stewardship Council (FSC) or Social Accountability International’s ethical sourcing code, SA 8000

3.2.1. Fair Trade criteria and goals

According to the European Fair Trade Association (EFTA), the goals of Fair Trade are as follows:

1. To improve the livelihoods and well being of producers by improving market access, strengthening producer organisations, paying a better price and providing continuity in the trading relationship.
2. To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3. To raise awareness among consumers of the negative effects on producers of international trade so that they can exercise their purchasing power positively.
4. To set an example of partnership in trade through dialogue, transparency and respect.
5. To campaign for changes in the rules and practice of conventional international trade.
6. To protect human rights by promoting social justice, sound environmental practice and economic security.

(EFTA, 2001; Tallontire, 2001b)

It is clear that these goals and criteria overlap to a certain extent, and as the Fair Trade movement matured, the stringency and rigour of the Fair Trade criteria increased. Further definitions and elaborations of the Fair Trade concept are given in the following section. Historically, the concept of Fair Trade has been used in at least two distinctive ways.
On the one hand, "Fair Trade" was used in the debate concerning the merits of free trade and protectionism. In this discourse, the Fair Trade position equaled a call for protectionist measures by developed countries against cheap imports - perceived to harm domestic industries - produced in developing countries. (Moore, 2004; Maseland and de Vaal, 2002; Anderson and Riedl, 2004)
On the one other, Fair Trade has been seen as "...a trading partnership, based on dialogue transparency and respect, that seeks greater equity in international trade."(Moore: 2004, 74)
Nevertheless, due to the ascendancy of the Fair Trade movement, represented by e.g. FLO, the use of the words Fair Trade has become more and more synonymous with the latter use. This thesis deals exclusively with the second definition of Fair Trade.
Even though Fair Trade usually is equated with the activities of the FLO, especially in northern Europe, other FT organisations exist, including another umbrella organisation, The World Fair Trade Organization (WFTO) of which e.g, UK-based Traidcraft is a member.

(Traidcraft: 2020). Nevertheless, as FLO is the biggest player in the world FT market[7], this thesis will focus on FLO certified products.

3.3. FLO

The international governing body of Fair Trade, *Fairtrade International* or *Fairtrade Labelling Organizations International e.V.* (FLO) has a strong, albeit not a monopolous market position within the ethical market. Many retail chains and other multinational companies have launched competing “Fair Trade” or ethical brands. (Lyon and Moberg ed.: 2010) FLO controls Fair Trade certification and is thus responsible for labelling the various types of Fair Trade products.

FLO guarantees that any product sold with a Fair Trade label conforms to Fair Trade standards. Another task of FLO is business facilitation, i.e. communicating with producer organisations and traders to ensure the match of supply and demand. Furthermore, according to the FLO it actively tries to strengthen producer organisations and improve their production methods. (FLO: 2005a) Nevertheless, during the time of the coffee crisis FLO was repeatedly accused of being dominated by Northern members, and after a long period of criticism in FLO started including members from producer organisations and traders into the board of directors, previously dominated by representatives of National Labelling Initiatives, such as *Reilun Kaupan edistämisyhdistys* from Finland. (Reed et al.: 2012)

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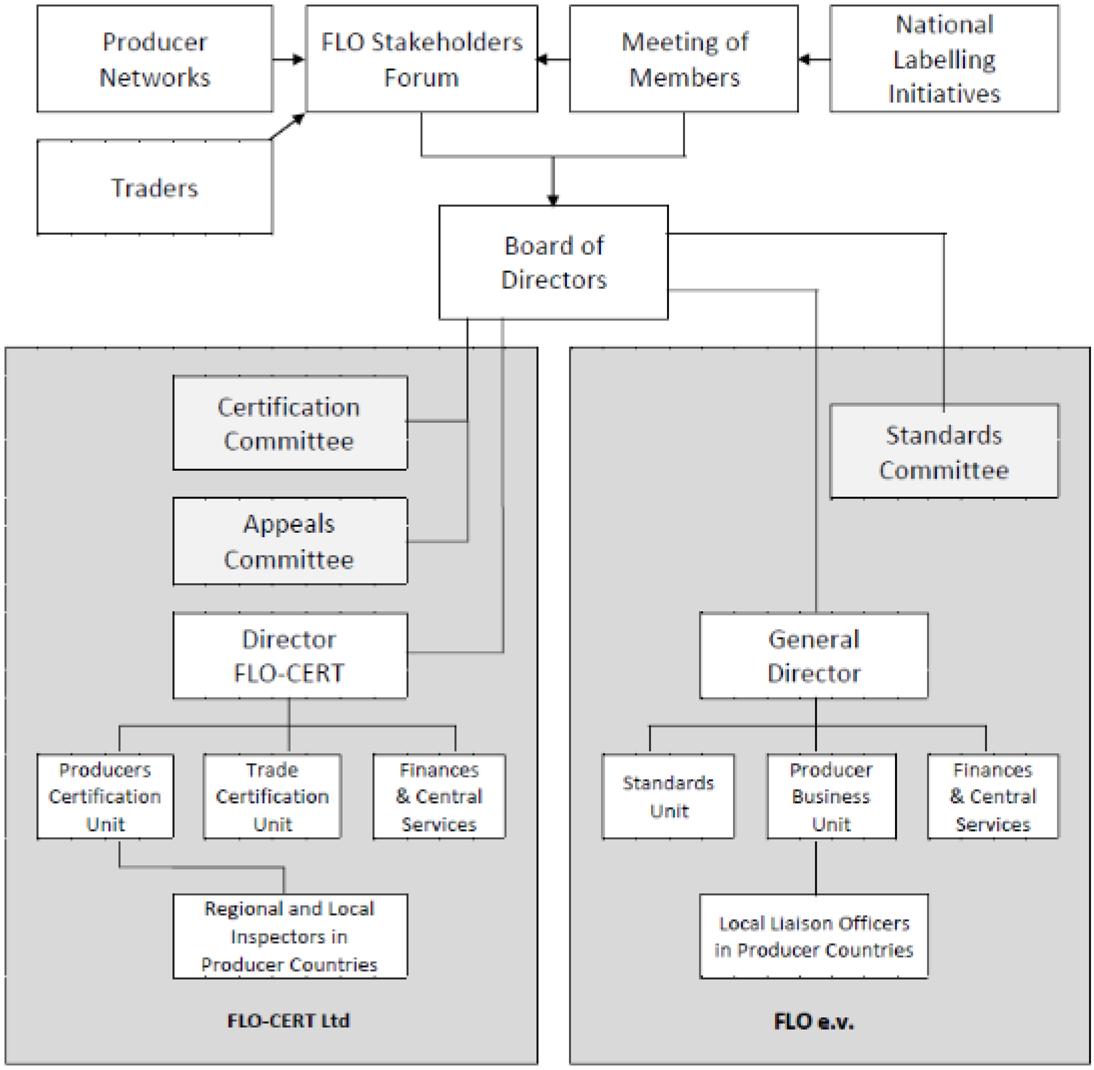
[7] The WFTO does not release any economic statements, thus one can only surmise - without complete certainty - that FLO is the biggest FT player as WFTO only presents the number of "livelihoods supported" (965,700 in 2018) and no monetary values of FT products sold. (WFTO: 2020)

Figure 3. The structure of the FLO in 2004.



(from Reed et al.; 2012)

In 2004, four representatives from producer organizations and two trader representatives were given seats at the Board of Directors, in addition to the six representatives from national labelling initiatives, the latter retaining the right to choose the Chair of the Board (see Figure 3). Nevertheless, producers still argued that the new arrangements did not enable them to engage in decision-making and that the national labelling initiatives were still able to exercise control as a voting bloc, and did not even engage in real discussions according to producer groups. (Reed et al.: 2012)

3.3.1. Fair Trade criteria within the FLO

At the time of the coffee crisis there were two types of requirements that Fair Trade producers had to fulfil. Minimum requirements, which all producer organisations had to meet must when they joined the Fair Trade network and progress requirements, that were ongoing requirements to improve. (FLO 2003a) For a detailed description of minimum and progress requirements for small farmers and hired labour, see Appendix 1: Generic Standards for Small Farmers' Organisations (FLO 2003a) and Appendix 2: Generic Fairtrade Standards for hired labour. (FLO: 2004)
Fair Trade criteria have the same base but vary according to the diverging nature of the products and the markets that they are sold in, as well as according to the date when the criteria were written. For example, the criteria pertaining to Fair Trade coffee at the time of the coffee crisis only mentioned environmental sustainability briefly, whereas the banana criteria integrated crop management techniques as minimum entry criteria (Tallontire: 2001a). In 2001 draft standards for smallholders and waged labourers respectively were put forth for discussion. (Tallontire: 2001a) These standards were implemented during the coffee crisis and can be seen in the appendices.

3.4. Fair Trade principles

There are general principles that apply to both Fair Trade labelled goods and most goods under Alternative Trading Organisation (ATO) brand names.
Perhaps the most important is the price premium, where the price of a Fair Trade product prices is guaranteed at a certain level. This level is either mutually agreed (ATO) or set in relation to world market prices (labelled goods). There is a Fair Trade premium for social and environmental investment and a bonus if the product is organically produced. In the case of coffee, credit advances of 60% of the value of the coffee harvest value are given upon request. (Raynolds: 2000) (Tallontire: 2001b)
Fair Trade producer organisations are either democratically organised associations of small growers or plantations where workers are fully represented by independent democratic groups. Certification takes approximately 6 months, and is followed up by yearly audits by independent monitors overseen by FLO. (Raynolds: 2000)
During the time of the coffee crisis the agro-ecological requirements of Fair Trade were less demanding than those concerning organic agriculture. Requirements included the attempts to

protect forests and wildlife habitat, prevention of erosion and water pollution, the reduction of chemical fertilisers and synthetic pesticide, and the composting of waste. The use of herbicides was forbidden in e.g. banana cultivation, but not in coffee production. (Raynolds: 2000)

Regarding labour rights, Fair Trade criteria follow ILO conventions, with the emphasis on rights to association and collective bargaining, freedom from discrimination and unequal pay, prohibition of forced or child labour, minimum social and labour conditions and the right to safe and healthy working conditions. (Raynolds: 2000)

As an addendum one could highlight the fact, that after the crisis, almost all Fair Trade labeled coffee also became organic, thus creating the perception among many farmers that Fair Trade was mostly about their product being "organic" as the Fair Trade aspect for many remained quite obscure. (Lyon and Moberg ed.: 2010)

In the next section I turn to the workings of the international coffee market, as it is the benchmark against which one can compare the impact and success of Fair Trade coffee.

4. The international coffee market

This section begins by contextualizing international trade of which the coffee trade is part of. Then the focus will shift to coffee production, followed by an attempt to situate coffee in the wider context of the terms of trade for primary products and international commodity markets. The rise and fall of the of International Coffee Agreement will be discussed subsequently and finally attention will be given to the coffee value chain.

4.1. Trade and globalisation

The importance and pace of international trade has fluctuated during the last century, with periods of openness alternating with stints of protectionism.

In the current phase of economic globalisation – beginning in the early 1980s and maintaining its rapid pace for more than three decades, with slight lulls during periods of economic downturn – global trade flows have consistently increased faster than economic output. During the second half of the 20^{th} century, merchandise trade increased by a factor of twenty, whereas merchandise production only increased by a factor of six. (Dicken: 2011)

On average, low income countries have become economically more globalised than high income countries.[8] This increasing exposure to the global market has changed the economic fabric of many developing countries. (Dicken: 2011)

4.1.1. Is trade beneficial?

The debate on the benefits of trade has been continuous ever since classical economists such as Adam Smith and David Ricardo argued against mercantilist tendencies in the 18th century. The debate on the benefits of trade has had its ebb and flows. On the one hand some analysts have seen international trade as a cause of inequality and injustice, where the de-linking of a nation from the arena of international trade was viewed as the best solution for limiting the under-development and dependency caused by the first world. On the other hand, advocating increased trade and liberalisation of the economy has been the dominant mode of thinking in major development actors such as the World Bank and the IMF during large parts of the 1980s and 1990s and perhaps to some extent into the present day.

A part of the liberalization of the coffee trade was the collapse of the International Coffee Agreement in 1989, as a number of countries (including the USA) withdrew from it. The ICA tried to maintain coffee prices within a pre-agreed price band, mainly through production quotas allocated to producing countries, and did so quite successfully for most of the time, except for times of severe frosts in Brazil (being the biggest coffee producer), when coffee shortages led to drastic price hikes. (Lewin et al.: 2004)

The debate on the results of international trade have persisted into the twenty-first century, with the Fair Trade movement as one of the critical voices that question how international trade is conducted *de facto*.

Even though free trade is viewed in neoclassical economic theory as something beneficial to all participating parties, other analysts have some caveats to this conclusion. According to Stiglitz and Charlton (2005), “even when trade liberalization leads to increased efficiency, it is a one-off effect.” In their view, the empirical evidence for increased trade liberalisation as something beneficial remains inconclusive and dependent on interpretation and the definition of economic openness. Moreover, they point out that even though countries could gain at an aggregate level, some populations within these countries could be worse off. As developing countries rarely are in possession of a comprehensive social safety net, the adjustment costs

[8] If one for instance uses exports + imports as % of GDP as a metric of measurement. (Dicken: 2011)

derived from increasing unemployment in previously protected industries can offset – or even exceed – potential trade gains. Many developing countries are socially unstable and have weak educational sectors, thus these newly unemployed people can become a drain on scarce societal resources, that would preferably be used elsewhere, and in the case of the liberalisation of agricultural markets, some of the most vulnerable groups have been affected, as small farmers have been undercut by international agribusiness. (Stiglitz and Charlton, 2005; Lyon and Moberg ed., 2010)

4.1.2. Terms of Trade for primary products

The potential decline of the terms of trade for countries that produce primary products has been a debated issue ever since the Prebisch-Singer hypothesis was presented in the late 1940s. (Preston, 1996; Rist, 1997)

Brown (1993) and Mshomba (2000) present a number of reasons for the unequal terms of trade between primary production and manufactured goods.

Firstly, primary products are usually perishable and cannot be stored in the same way that manufactures can, thus increasing the potential for demand shocks. Secondly, many small European colonies were allocated the production of one or two primary products, like bananas and tobacco in Jamaica or iron and oil in Venezuela, leaving their economies vulnerable to price shocks due to the lack of diversification. Thirdly, bargaining power is distributed unevenly, as the multinational corporations that specialise in the trade and manufacture of primary products are relatively few, counted in the thousands or even the hundreds, while there are virtually countless individuals participating in primary production - there being tens or even hundreds of millions of peasant households partaking in primary production. (Brown, 1993; Mshomba, 2000)

The unwieldiness of many forms of primary production compounds this problem, as it takes more time to grow a coffee tree or open a new mine than it takes to adjust the output of an assembly line. Inadequate supply for a certain crop leads to rising prices and triggers a similar response from all farmers, i.e. a production increase, leading to a subsequent excess in supply that perpetuates the swings in commodity prices. Here the access to reliable market information is the key to a more stable price development. However, as many primary products are produced by small peasant households, the access to relevant information can be limited.

The fact that small producers are vulnerable to supply and demand shocks and subsequent price fluctuations is exacerbated by their lack of bargaining power as is evident through the following example. In 1989 coffee prices had to fall by over *twenty per cent* before Nestlé reduced its soluble coffee price by *ten per cent*. However, when the coffee price plummeted, the *buying price* that Nestlé offered its coffee producers was lowered immediately. (Brown, 1993; Anderson and Riedl, 2004)

According to OXFAM, the increased production volumes of coffee prior to the crisis can be seen to some extent as the result of an intentional strategy presented to developing countries by the World Bank and other organisations. World Bank loans were vital in facilitating the Vietnamese coffee boom and in Colombia and Bolivia farmers were encouraged to switch from coca cultivation to coffee by UN-sponsored programmes. (OXFAM: 2001 quoted in Nigh: 2002, 2)

4.2. Coffee production and sales.

Table 1. Coffee producing countries in 2004

Coffee Producing Countries (in thousands of 60-kg bags, 2004)	**Production Share (globally)**	**% growth since 1989**
Brazil 38,264	34%	+56%
Vietnam 14,000	12%	+1292% (!)
Colombia 10,500	9%	-19%
Indonesia 5,750	5%	-16%
Ethiopia 5,000	4%	+45%
India 4,850	4%	+172%
Mexico 4,500	4%	-11%
Guatemala 3,450	3%	-1%
Peru 3,067	3%	+98%
Honduras 2,750	2%	+56%
Other 20,542	18%	-35%
Total 112,673	**100%**	**+20%**

(from Calo and Wise: 2005)

At the end of the 1990s coffee was produced in more than 50 countries, and some 25 million small farmers were dependent on coffee for their livelihood.[9] During this time, of all commodities, the value of coffee traded worldwide was second only to petroleum. (Mutua: 2000)

In the early 1990s export earnings by coffee producing countries were some US$10-12 billion and the value of global retail sales of coffee about US$30 billion. Towards the end of the coffee crisis the value of retail sales exceeded US$70 billion but coffee producing countries only received some US$5.5 billion (Osorio: 2004), thus clearly indicating that rents from the value chain were captured downstream (near the selling point) rather than upstream.

The coffee market is characterised by periods of shortages and gluts, causing the market to be volatile, as small farmers, who seldom have deep insights into the future of the coffee market, react to rising prices by planting trees. Thus, the changes in supply only come into effect a couple of years later, which leads to market volatility. (Lindsey: 2004) A downward movement of supply is neither very likely as the fixed costs of coffee farming (planting and maintaining the trees) are high in relation to total costs.

World coffee production was usually surpassing consumption during the late 1990s and the beginning of the early 2000s, creating large stocks of unsold coffee (see table 2). The sharp rise in coffee production was mainly due to two factors, the ascendancy of the low-cost producers Brazil and Vietnam, with Vietnam's production rising from 1.4 million bags in 1990 to 12.3 million in 2001 (see table 1). In the 1990s Brazil's coffee production ranged from 25 to 35 million bags, but in 2002 production rose to almost 50 million. In the wake of these production increases, there was a steady increase of coffee-related jobs in Vietnam - from 300,000 in the early 1990s ago to 4-5 million some ten years later. At the same time, there was a concurrent decrease in the Central American coffee sector of an estimated 200,000 permanent and 400,000 seasonal jobs. (Lindsey: 2004)

[9] Milford presents another figure, including not only the farmers but also their dependants. Thus, according to her, around 125 million people worldwide depended on coffee for their livelihood towards the end of the coffee crisis. (Milford: 2004)

However due to poor weather in Brazil, the 2003/04 crop was smaller than in many years, leading to a sharp decline in world coffee production and concomitant rising coffee prices, thus marking the beginning of end of the coffee crisis.[10,]

· Table 2. World Coffee Production and Consumption 2001-2004.

World Coffee Production and Consumption (million bags green coffee)			
	2001/02	2002/03	2003/04
World coffee production	111.6	124.3	108.5
World coffee consumption	114.2	118.0	115.5
Stocks of coffee	22.9	20.3	27.6
Difference	-2.6	+6.3	-7.0

One bag = 60 kg or 132 pounds (from Lindsey: 2004)

4.3. Commodity Control Schemes

To stabilize markets and maintain price levels, commodity control schemes were in place between the two World Wars. The central measures were: a restriction of output combined with a stockpiling of surplus goods. During the 1920s, schemes supported by national governments were introduced for copper, tin, rubber, coffee, wheat, sugar and cotton. Governments had experience in market regulation because of the First World War and the planned production that it required. Nevertheless, all the schemes of the 1920s failed, as high prices attracted new producers to the market or encouraged the development of substitutes. Notwithstanding the failures of the control schemes of the 1920s, new schemes were introduced following the even bigger price collapse of the 1930s. In the USA, the Agricultural Adjustment Act of 1933 was a precursor to the subsidy systems prevalent in the OECD of today, paying growers to plough in their crops and guaranteeing their prices.
The commodity agreements of the 1930s relied on a central body with enough power to maintain credible limits of production for a certain commodity, such as the British government with its vast imperial territories. It is plausible to maintain that many of the agreements would have failed, if not for the oncoming World War and the resources needed to wage it. (Brown: 1993)
After the war, the Bretton Woods institutions were set up, with J.M. Keynes as one main architect in the role of chief British delegate. According to Keynes, commodity agreements should not be based on restricted production, but rather on the use of buffer stocks that would

[10] The coffee crop in Brazil shrank from 48 to 28 million bags from 2002 to 2003. (Lindsey: 2004)

grow during overproduction and diminish during shortages. Keynes' assumption was that short-term fluctuations of supply and demand were the main causes behind price fluctuations, something that would be remedied by buffer stocks. In cases of persistent disequilibria, other measures were to be taken, such as aiding development and diversification of production. During the post-war period, up until 1951, commodity prices grew due to US economic growth and stockpiling for the Korean War. In 1952 after the Korean War had ended, many commodities, such as jute, rubber and sisal fell to half of their peak price levels. In the 1950s and early 1960s a number of commodity agreements were made, including agreements for wheat, sugar, tin, coffee, etc. (Brown: 1993)

4.3.1. Decommodifying coffee

A commodity is a product or factor prone to low barriers to entry, subject to intense competition and thus to declining terms of trade. Commodities are of uniform quality and value, and are interchangeable. Most agricultural products are commodities, such as wheat, whereas some agricultural products have been "decommodified" - e.g. wine, specialty coffees, etc. - due to branding and differentiation through taste, place of origin, etc. (Fitter and Kaplinsky: 2001)

Since the demise of the economic provisions of the International Coffee Agreement, the share of the producers of the final retail price fell sharply in the mid and late 1990s (Talbot: 1997). One way of escaping the commoditization that pesters the coffee market is to create entry barriers, by setting up producer or buyer cartels or by upgrading. Upgrading in the context of the coffee market, would consist of the branding and differentiation process described above. This process led to the birth of a rapidly expanding specialty coffee industry, with a retail value of $7.8 billion in 2001. In the early 2000s the specialty coffee market represented almost 20% of US coffee imports by volume and 40% of the retail market by value. (Bacon, 2005; Lindsey, 2004)

Upgrading into specialty coffee, as a remedy for low producer prices, has been on the agenda for many analysts of the coffee market (Zehner, 2002; Ponte, 2003; Lindsey, 2004); the question remains though, what value is added to the consumer when he gets to drink

Jamaican Blue Mountain[11] coffee rather than a bulk pack of generic coffee? And is this specialisation possible or even desirable for all food products, or would it remain as a privilege for an exclusive minority like coffee and wine? Another topic of interest is the consumption behaviour of people purchasing specialty food products, i.e. would it be a zero-sum game where some products - and their producers - would gain, whereas others would lose a similar amount?

4.4. The International Coffee Agreement

The International Coffee Agreement (ICA) was pre-dated by a 1958 Producers' Agreement among Latin American countries on export quotas, following a collapse of coffee prices. The reason for falling coffee prices was a huge increase in the planting of coffee trees in Brazil, Central America and East Africa, stimulated by the high prices of the 1950s. (Brown, 1993; Mshomba, 2000)

In 1962 an international agreement was signed with the participation of all the major producers and consumers. The aim was to maintain the 1962 price level by regulating exports through quotas. Frost and drought initially raised prices over the 1962 level, and even though prices subsequently evened out after increased supply, they did not drop below the 1962 target levels. In 1968 a diversification fund was set up to help with structural changes aiming to prevent the over-planting of coffee. (Brown. 1993)

In 1973 there was a crisis in the negotiations, as it seemed that importing countries would withdraw from the agreement, due to the producers demanding higher prices and reduced quotas. (Mshomba: 2000)

Prices remained high in the coffee market, due to frosts (1975) and droughts (1986) in Brazil. However, when the negotiations for a new coffee agreement began in 1988 there were significant disagreements among members. The main points of disagreement were the allocation of export quotas, the inflexibility of the quota system that hindered importing countries from obtaining the desired amount of the types of coffee that they wanted

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[11] Jamaican Blue Mountain coffee is one of the most expensive and sought-after coffees in the world, commanding a hefty premium of hundreds or even thousands of percents over "bulk coffee". (https://en.wikipedia.org/wiki/Jamaican_Blue_Mountain_Coffee) (https://www.bluemountaincoffee.com/)

(especially high quality mild arabicas), and the two-tier market system in which exports to non-member countries were sold at lower prices than exports to members, inviting malpractice and even smuggling of coffee. In July 1989 the economic provisions of the ICA were suspended, and within a few days the price of coffee had fallen by more than 25 % due to heavy selling by exporters. The last ICA was reached in 1994, without the participation of the United States and without any economic provisions. (Mshomba: 2000) (Calo and Wise: 2005)

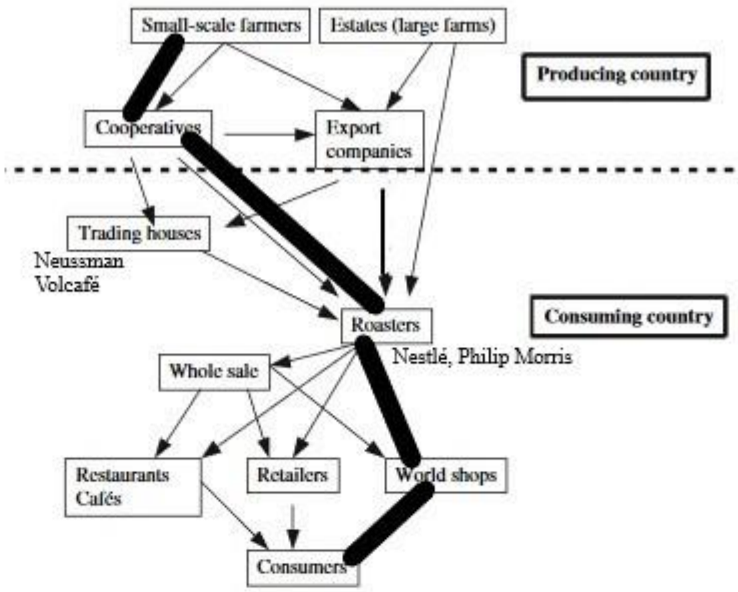
4.5. The coffee value chain

The coffee commodity chain is a complex entity containing many links. A coffee bean can change hands up to 150 times before it reaches the consumer. Primary producers sell unprocessed coffee to private intermediaries, who transport the coffee to a processing plant. After the coffee is processed, it is sold by a local exporter to an international trader. Roasting companies purchase coffee from the traders, and sell it on to retailers. The retailers, i.e. supermarkets, cafés, etc. are the final stop for the coffee until it is bought by consumers. (Milford: 2004)

In the conventional coffee market, roasters have maintained a dominant position through the effective use of asymmetry of information on quality. Essentially, roasters buy coffee from international traders with complete information on quality. Once coffee is blended and roasted, it is sold to consumers under a brand name. The important point here is that roasters have complete information on quality when they buy coffee, and they release next to no information to their clients (retailers, wholesalers). For example, in the conventional coffee value chain, 'relational' contracting between roasters and importers, and between importers and exporters, usually takes place in an environment of fairly accurate information on coffee quality (industrial convention). In producing countries, on the contrary, most transactions take place with only limited information on quality communicated. (Ponte and Gibbon: 2005)

4.5.1. The value chain of Fair Trade coffee

Figure 4. The value chain of Fair Trade coffee.



(from Valkila et al.: 2010, modified by the author)

Valkila et al. present a view of the Fair Trade Coffee value chain as having metamorphosed from its origins, when the value chain was short, and middlemen were cut, to being more or less on par with the conventional coffee chain (see figure 4).
Thus figure 4 presents the original idea of Fair Trade coffee (the broad dark line), in which small producers sold their FT coffee to cooperatives, who in turn sold their coffee to Fair Trade roasters, with specialized World Shops being the last stop before reaching consumers. Figure 4 also includes the routes of conventional and Fair Trade coffee (the arrows) after the ascent of Fair Trade labelling practices (through e.g. the FLO), that were in place during the coffee crisis (and also today). The routes of both FT and conventional coffee are more or less identical, with the exception of the primary producer, i.e. that only small farmers are eligible to join the FT system. (Valkila et al.: 2010)

4.5.2. The role of middlemen in the (Fair Trade) value chain

At the local level, the coffee chain has been dominated by local middlemen, or as they are called in many parts of Latin America: c*oyotes*. (Ruben ed.: 2008)
One view on the role of middlemen is presented by Zehner (2002) who argues that growers are facing a situation of too *few* and not too *many* middlemen.

Zehner argues that when the markets for intermediaries fail, a few or perhaps even one middleman can capture large segments of the market, leading to a situation of monopsony. Zehner concludes that the coffee market exhibits characteristics such as high search costs (for buyers to find sellers, and vice versa), difficulty in assessing product quality, high costs for sellers to obtain information about market prices and limited reputational spillovers for producers of poor-quality output (leading to moral hazard). According to the literature on intermediaries that Zehner refers to, all the abovementioned characteristics are instances in which the existence of a middleman increases welfare. (Zehner: 2002)

Aside from theory, what is the empirical foundation for these claims? According to Mendoza (2000) middlemen do indeed reduce search costs for buyers, thus increasing efficiency. However, when assessing product quality, middlemen often cheat growers by claiming that their beans are more humid (a negative quality) than they actually are. This behaviour is not limited to the middlemen, as growers retaliate by lying about the geographical origin of the crop or by adding dirt or stones into the coffee bag. Furthermore, middlemen often lie to growers about prices in downstream markets, thus creating a situation of suboptimal performance arising from mutual distrust. (Zehner: 2002)

Valkila[12] (2006, personal communication) has a contrary view to Zehner, at least regarding the Nicaraguan situation. He maintains that in the coffee transactions he observed, both buyers and sellers were very knowledgeable regarding the quality of the coffee that was sold. Moreover, the quality of the coffee was always checked and was easily agreed on by both parties.

Returning to Zehner's (2002) argument; what are the desired results of Fair Trade in the context of middlemen and search costs? In the case of search costs, the hoped for effect of Fair Trade is quite evident. In the ideal case, Fair Trade buyers develop long-term relationships with supplier cooperatives, thus eliminating search costs. However, Zehner claims that the costs of intermediation are higher than in normal supply chains and that Fair Trade buyers are not as knowledgeable about the market as the traditional middlemen are. When one looks at the difficulties associated with assessing product quality, the idea is that the integrity of Fair Trade buyers will ensure a “virtuous circle” in which buyers will pay a higher price and growers will supply coffee of higher quality. According to Zehner (2002),

[12] At the time of the communication, in 2006, Joni Valkila was a researcher at the Helsinki University Department of Biological and Environmental Sciences and was writing his doctoral thesis on the subject of Fair Trade coffee in Nicaragua.

growers *actually* sell poor-quality coffee to Fair Trade buyers, who are less able to distinguish quality coffee and are perceived as less demanding regarding quality.

There is some controversy regarding this issue, which became apparent in a comment on Zehner's paper made by Paul Rice, President and CEO of TransFair USA. (Rice: 2002)

In his paper, Rice maintained that Fair Trade coffee is sold by "the most discerning specialty coffee companies in the U.S. market /.../ [that] have built their competitive success vis-à-vis Folgers and Maxwell House by never compromising on quality and accepting only the highest quality beans from any source, including Fair Trade farmers." (Rice: 2002, 3)

Moreover, Fair Trade coffees have won top honours in many quality competitions such as the Cup of Excellence award. According to Rice, farmers are presented with a strong incentive to sell their best coffee beans to the Fair Trade market, knowing that if they want to sell more coffee at Fair Trade prices, they must adhere to the industry's demand for consistently high quality. (Rice: 2002)

Valkila (2006, personal communication) supports the viewpoint of Rice, claiming that: "In Nicaragua Fair Trade cooperatives are more demanding on quality than any other coffee buyers."

According to Zehner (2002), there is a clear gap between the access to market prices in the conventional coffee trade and the Fair Trade system. As the Fair Trade movement commits to a publicly known floor price, the opportunity for individual buyers to cheat or mislead is reduced drastically. Zehner claims, however, that new middlemen arise - claiming to represent producer groups or cooperatives - and that monopsony and mutual distrust are still part and parcel of the Fair Trade system. (Zehner: 2002)

According to Zehner, theory predicts that competitive markets among intermediaries and growers should prevent cheating by either party. Nevertheless, as mentioned above, mutual deceit can exist. Zehner identifies the reason as being the existence of concentrated, non-competitive intermediary markets at several points in the supply chain. In the case of the coffee chain, these types of markets can be identified at least among roasters and international trading companies as well as among exporters. (Zehner: 2002)

According to Zehner, Fair Trade does not correct the power imbalances in the traditional supply chain. He quotes Mendoza, who presents a new actor on the trading stage, namely the "new middleman", who represents cooperatives or groups of cooperatives in negotiations with Fair Trade buyers. The description by Mendoza (2000) of these new middlemen, is soaked with criticism:

They have more access to various resources, exercise their role in a despotic, authoritarian manner (For example they constantly change the rules of the game; they use credit to get hold of the coffee; they expel members who deal with other enterprises), they hide information, deceive the cooperatives with false promises, and legitimize themselves through their contacts with international organizations (buyers, banks, unions, the government and NGOs). All this allows directors to act without any accountability to the formal owners of the enterprise: the first-level cooperatives and producers. (Mendoza: 2000)

Again Rice's rebuttal is clear. He attacks Zehner's argument on the grounds of inadequate empirical evidence, referring to Zehner's use of only a single source (Mendoza: 2000). Rice claims that Mendoza's article is fundamentally flawed, as it makes generalizations about "the internal functioning of cooperatives without providing any supporting data or evidence whatsoever." (Rice, 2002, 2)

The criticism that Rice directs against Zehner is in my opinion an expression of a prevalent tendency in the literature concerning Fair Trade at the time of the coffee crisis. As the literature was dispersed and usually overlapping, often repeating the findings of the same scholars in new wrappings, rigorous empirical evidence regarding Fair Trade was not abundant at the time, and even less theoretical reflection on the different aspects of the subject was available. This led to a situation where the debate on the subject seemed to be based more on one's pre-judgements and prejudices than rigorous theoretical analysis or empirical findings. However, this situation has mostly been remedied, as more insightful studies have been published on the subject such as Lyon and Moberg ed. (2010) Ruben ed., (2008) and Valkila et al. (2010)

4.5.2. Governance and control along the value chain

In 1998, at the doorstep of the coffee crisis, the two largest international traders Neusmann and Volcafé (see figure 4, page 33) controlled 29 % of the international coffee trade whereas the six largest companies controlled more than 50 %, thus creating a oligopsony and oligopoly situation at the trader level (with accompanying market power). (Milford, 2004; Ponte, 2002a)
The market for roasting was even more concentrated than that of the traders, as Nestlé and Philip Morris controlled 49 % of the world market for roasted and instant coffee. (Mendoza and Bastiansen, 2003; Milford, 2004; Ponte, 2002a)

Thus, the downstream concentration in the coffee chain during the coffee crisis allowed a few large international players to control the market, making coffee "a buyers' market at each linkage". (Milford: 2004, 6)

After the demise of the economic provisions included in the International Coffee Agreement in 1989, the price of coffee in international commodity markets was very volatile. As the market was liberalised, there was little control over production volumes, something that caused strong growth of production and consequent periodic oversupply.

Furthermore, the nature of the coffee market was changing at the turn of the century, as a result of the "latte revolution". Due to the rapid increase of coffee shops, the coffee product became more intangible, and increasingly such factors as the ambience and lifestyle, became a main attraction for coffee drinkers. (Ponte: 2002a)

In the wake of these changes, both producing countries and the producers themselves experienced plummeting shares of total revenues. In the 1970s producers earned more than 20% of total revenues, while the figure rose as high as 27.6 per cent during the coffee boom of the late 1970s. In the 1990s the share had fallen to approximately 15 to 20 per cent, whereas it declined during the coffee crisis at the turn of the century to below 10 per cent, even though the retail market more than doubled during the 1992-2002 period. (Mendoza and Bastiansen, 2003; Milford, 2004; Calo and Wise, 2005)

This decline in revenue reflected on employment as well. A 2002 World Bank report (cited in Murray et al. 2003) estimated that the slump in coffee prices caused a 54 percent decline in permanent employment and a 21 percent decline in seasonal employment in the Central American coffee sector.

One vivid example of the circumstances affecting coffee growers at the turn of the century, is given by Renard who claims that the growers of Arabica coffee in Mexico and Central America *received* a price around *50* cents a pound, while *production costs* in Mexico were around *90* cents a pound. (Renard: 2003, 92)

4.5.3. Coffee processing and exporting

Coffee processing is a complicated and expensive process that is beyond the scope of most small farmers. The processor needs expertise in transport, storage, safekeeping, marketing as well as the requisite finance to insure the coffee. The processing of coffee means that the thin shell of the bean is removed as well as any remaining debris (mostly sticks and stones), turning the coffee bean into green coffee. Usually processing involves the division of the coffee beans with regards to quality and size. In addition, the separated coffee is fermented in tanks to enrich the flavour. The green coffee is then packed into bags and moved to ports for export or transferred to a coffee roaster. It is difficult for an unknown exporter to gain entry to the international market. International traders and roasters have strict quality standards and they are unwilling to risk a potential default on a coffee shipment by the exporter. (Milford: 2004).

4.5.4. Fluctuations in the coffee price

It takes three to four years from the planting of a coffee tree until one can start harvesting berries from it. A coffee tree reaches its peak capacity around its fifth or sixth year. The production of high quality beans can be maintained after that for around twenty years, followed by another twenty years of declining yields. Because of these underlying factors, the supply of coffee is relatively unresponsive to rapid changes in price, i.e. coffee has a low supply elasticity. (Milford: 2004)
The price elasticity of demand is also low, as coffee demand drops only when coffee prices rise significantly (most people are used to their morning cup of coffee!). (Arnot et al.: 2006)
As both supply and demand are relatively unresponsive to price changes, prices on the world market fluctuate significantly. A common scenario that leads to rapid swings in the price of coffee is the occurrence of unexpected frosts or diseases that leads to a supply shortage. These supply shortages lead to increasing coffee prices without a dent in the demand for coffee. Producers then react to the high prices by increasing supply, i.e. planting new trees that mature after three to four years, when the market possibly has a very different outlook than it had when the planting took place. The interaction of these factors creates a highly volatile market for coffee. (Milford: 2004)

4.5.5. Rent-capturing and informational disparities along the value chain

One existing problem within the coffee value chain is the lack of a clear relation between export price and the remuneration that growers receive for their products. This state of affairs sends faulty signals to growers, thus leading to perverse incentives.
One such perverse incentive is the lack of incentive to improve quality. If quality and price are not strongly linked, growers are not induced to partake in quality improvement measures.

The tenuous link between export prices and grower prices are exemplified by the Venezuelan situation during the coffee crisis.

In September 1999, the average export price for Venezuelan coffee was $1.35 per pound. Of this sum total around nine tenths was captured by processing, transports and taxes, whereas growers received only around one tenth. In Guatemala the average export price was $ 0.83 per pound, still Guatemalan growers received approximately four times more per pound than their Venezuelan counterparts (two thirds of the export price) (Zehner: 2002)

4.5.6. Improving the coffee value chain

Zehner (2002) identifies two possible interventions that could alter the inefficient functioning of the coffee supply chain. According to Zehner, the flaws in the coffee chain that prevent the achievement of an optimum level are mainly informational. Thus, he suggests that an improvement in the ability of middlemen to discern coffee quality is vital, something that can be achieved either through training or the introduction of equipment.

Another possibility in rectifying the imbalances along the supply chain would be to re-establish the link between grower prices and export prices that was severed by liberalization. If information regarding the export prices of coffee would be more readily available to growers, they would presumably be able to demand better prices for high-quality coffee, thus creating an incentive to improve coffee quality. Nevertheless, Zehner presents a caveat to the aforementioned argument that an improvement of quality would be a solution for the imperfect coffee supply chain, namely that because many agricultural supply chains are characterised by low barriers to entry and mature technologies, there is a strong price pressure even for high-quality producers. The solution to this dilemma could be the adoption of a marketing system similar to that prevalent in the wine industry, branding coffee by region or even by estate. This kind of product differentiation has the creation of barriers to entry as its goal, something that presumably would strengthen the position of growers and help them to receive premium prices for their products. (Zehner: 2002)

Brand development might seem like an attractive solution, as according to Zehner, “it focuses on addressing power imbalances between producing countries and consuming countries rather than just those imbalances within the producing countries.”(Zehner: 2002, 21)

The introduction of highly branded, high premium commanding coffees in a supply chain characterised by distrust, inefficiency and information gaps is a difficult task. Zehner concludes his analysis by pointing out that “no matter how efficient the supply chain, there is clearly a price for each grower at which coffee production becomes uneconomical." (Zehner: 2002, 21)

As the production decisions of growers are usually based on interactions in a very narrow social network, there are strong limitations on the economic efficiency of the decisions. Thus one effective way of aiding growers according to Zehner, given an oversupply in world markets, is to assist them in switching to other more competitive crops or other forms of income. (Zehner: 2002)

5. Production and sales of Fair Trade coffee during the coffee crisis

5.1. Fair Trade production

Fair Trade labelling organisations are not directly involved in commodity production or trade. Instead, during the coffee crisis, they tried to promote the market for Fair Trade products by working with coffee importers, roasters/wholesalers, and retailers. Coffee distributors could buy a licence to display the logo of a Fair Trade labelling organisation such as Trans Fair, MaxHavelaar or Fair Trade Mark. They could use these different types of Fair Trade logos if they bought their coffee from grower organisations registered and approved by FLO (Raynolds: 2002)

Coffee importers using Fair Trade standards had to uphold the following standards:

(1) Purchases must be made directly from grower organizations using purchasing agreements that extend beyond one harvest cycle. (2) Importers must guarantee the FLO minimum price (US$ 1.21 per pound for Arabica coffee) and pay a social premium (US$ .05 per pound) above that minimum or above the world market price (whichever is higher). Certified organic coffee must get a further premium (US$ .15 per pound). (3) Importers must offer pre-financing equal to 60 percent of the contract value upon request. (Raynolds: 2002, 6)

The following regulations applied to Fair Trade coffee producers:

(1) Producers must be small family based growers. (2) Producers must be organized into politically independent democratic associations. (3) Producers must pursue ecological goals conserving natural resources and limiting chemical input use. (Raynolds: 2002, 6)

Coffee formed the core of Fair Trade initiatives in Europe and North America. In most countries Fair Trade and organic consumption grew in tandem and in the early 2000s approximately 40 percent of the world’s Fair Trade coffee was also certified organic. (Raynolds: 2002)
At the time of the coffee crisis, FLO had registered more than 300 coffee grower associations representing approximately 500,000 small-scale growers in Latin America, Africa and Asia or approximately 30 percent of the world's small-scale coffee growers, many of who belonged to indigenous communities. (Murray et al., 2003; Rice, 2001)
The co-operatives producing Fair Trade coffee ranged from the large and strictly organised - some East African coffee co-operatives had more than 50,000 members - to the small and informal. (Rice: 2001)
While Fair Trade certification agencies suggested a total production capacity of 165 million pounds of Fair Trade coffee across the globe, actual import volume of Fair Trade certified green coffee for 2003 was only 61.3 million pounds. Thus, there was a clear discrepancy between supply and demand, leading to a situation where many cooperatives producing FT coffee had to sell most of their produce on the conventional market. (Calo and Wise: 2005)
It can be argued, that the process of choosing the producers for Fair Trade during the coffee crisis did not follow the spirit of the programme to the fullest. The producers of Fair Trade goods were rarely the poorest and most vulnerable in the societies where they lived, and in many cases the participation of a group of producers in the Fair Trade system was more the sum of many fortunate incidents than a part of a master plan. (Tallontire: 2001a)

During the coffee crisis Fair Trade presented an alternative approach to the production of coffee, as a common trend in the late 1990s and early 2000s in conventional commercial coffee production was the modernization and technification of production. The interests in control of conventional coffee production viewed the increase of yields and profits as central, whereas issues like equity and environmental sustainability were put in the background. (Rice: 2001) This focus on increasing yields can be seen as an exacerbating factor in the increasing severity of the coffee crisis, as one main issue was supply outstripping demand.

5.2. Fair Trade sales at the time of the crisis

At the turn of the millenium a number of different labelling initiatives brought the Fair Trade label to the conventional retail market, including Max Havelaar - at the time active in 7 European countries - TransFair (4 countries), Fairtrade Mark (United Kingdom and Ireland), Reilun kaupan edistämisyhdistys (Finland) and Rättvisemärkt (Sweden). The retail value of these labelled (food) products sold in Europe, was approximately 210 million € in 2001. (EFTA: 2001)

In 2003, Fair Trade products were sold in 19 European countries, in the US, Canada Mexico, Japan, Australia and New Zealand and in 2004 FLO estimated a total retail value of its products being 830 million € with sales growing by 49%, when compared to 2003. (FLO: 2005a)

To put these numbers into perspective, in 2018 total Fair Trade sales were almost 10 billion USD annually (FLO: 2019), and at the time of the crisis, global retail coffee sales amounted to some 70 billion USD. (Osorio: 2004)

The main problem with trying to find suitable quantitative data on Fair Trade sales is the fact that FLO does not publish the (disaggregated) monetary value of the various products sold. Instead it reports the physical volume. Data from FLO (cited in Raynolds: 2002) shows that Fair Trade coffee sales grew from 11,370 tons in 1997 to 19,830 tons in 2003. To put these numbers into context, one can look at bananas, being the product with the largest sales by volume towards the end of the coffee crisis, amounting to some 80,000 tonnes with coffee as the second, with 24,000 tonnes sold in 2004. (FLO, 2005a; NRET, 1999)

At the turn of the century, the average penetration of Fair Trade coffee - in the countries where it was sold - was approximately 1.4%. Fair Trade coffee held an average of 1.2 percent of European national markets and had captured roughly three percent of the market in Luxemburg, Switzerland, and the Netherlands. (Rice, 2001; Raynolds, 2002)

6. Fair Trade Organisations

Even though the structure of the Fair Trade system has been alluded to in section 3, when defining Fair Trade, a further look at the various FT organisations will be made, so as to get a clearer understanding of the Fair Trade edifice. The focus in this section will be on the most relevant organisation for producers, namely the cooperative.

There is a plethora of different types of Fair Trade organisations assuming different roles along the value chain, starting from the producers in the South to the consumers in the North. The central actors in Fair Trade are on the one hand local producers, producer organisations and local marketing organisations; on the other, overseas labelling organisations and buyers. (NRET: 1999)

6.1. Producer Organisations

Producer organisations are, as the name implies, the producers and exporters of Fair Trade products. The producer organisations vary in size and structure, from loose family organisations to large co-operatives. For many Fair Trade products (e.g. coffee) at the time of the coffee crisis, the co-operative was the only allowed form of organisation. (EFTA: 2001) (Mellor and Moore: 2005)

Some observers had a very positive view on FT producer organisations at the time of the coffee crisis (Raynolds: 2002), seeing them as vehicles for political change or some form of social movement, whereas others saw them as functioning in similar manners to actors in conventional market channels. (Renard: 2000) (Renard: 2001)

This first "idyllic" view, is exemplified by Whatmore and Thorne (quoted in Raynolds: 2002, 13) who maintain that Fair Trade networks of producers and consumers are characterised by connectivity rather than competition, through multi-directional exchanges of discursive and material resources.

Moreover, Raynolds (2002) presents the hypothesis that coffee growers that share a strong ideological commitment to ecological or social justice values, are more likely to succeed in alternative coffee production and trade than those organisations whose values are more individualistic, competitive and geared towards environmental exploitation.

Renard (quoted in Raynolds: 2002, 13) presents a different view of the nature of Fair Trade networks. In her view labelling organisations see their activities as a new form of relation between producers and consumers, however, producer groups and their members see these networks as being similar in many ways to conventional market channels.

Tallontire (quoted in Raynolds: 2002, 13) maintains that Alternative Trade Organisations and many producer groups have fundamentally different views of their partnership. The ATOs view this partnership as a vehicle for development, whereas the producer groups are mostly concerned with the market opportunities that the relationship provides.
This second view, of FT producer groups as functioning more or less like conventional producers, without further political or social agendas is corroborated by other observers, such as Lyon and Moberg (2010) and Ruben (2008).

Further support for this second view, is the finding by Murray et al. (2003) that during the coffee crisis, there were many complaints by producer organisations about FLO inspections and inspectors, of instances when insufficient feedback was given, and where inspectors were insensitive or had deficient knowledge about local conditions.

6.2. Co-operatives

Co-operatives are key actors in the system of Fair Trade coffee. They are umbrella organisations for thousands of small-scale farmers participating in the production of Fair Trade coffee. Even though co-operatives are the only form of organisation allowed for Fair Trade producer groups working with coffee, the links that exist between Fair Trade labelling organisations and especially the rank and file of the co-operatives, are often tenuous. (Rice, 2001; Lyon and Moberg ed., 2010; Ruben ed., 2008)
This tenuous link is exemplified by interviews of co-operative members made by Milford (2004), through which she concludes that many members had troubles even understanding the Fair Trade system. Also, the knowledge about Fair Trade criteria was lacking, with most respondents referring to technical issues such as avoiding chemical pesticides or not burning the vegetation instead of the social and economic provisions that are at the heart of Fair Trade. (Milford, 2004; Nigh, 2002; Lyon and Moberg ed., 2010; Ruben ed., 2008) In the case studies conducted by Ruben (2008), many FT producers were not even aware that they were producing for the FT system, rather connotating various production criteria, certification and auditing with "organic" farming.

6.2.1. Co-operatives in theory and practice

Coffee purchasing co-operatives are democratic organisations owned and run by members. The members are individually in charge of their coffee production, leaving the role of the co-operative to the fields of marketing and processing. The surplus gained by the co-operative is retained by its members.

There is some dissent regarding the effectiveness of co-operatives in providing for the needs of small farmers. One the one hand, the researchers from NRET (NRET: 1999) were unhappy about the use of co-operatives for marketing and channelling of inputs, which they compare with actions of the parastatals of the past. Furthermore, Mendoza and Bastiansen (2003) highlight the expensive and top-heavy administrative structure that characterise co-operatives. Thus, they maintain that a decentralised system of local brokers and traders is a more efficient way of trading. Lack of transparency and accountability, in addition to excessive representation costs, are further critiques against the co-operative structure which is mandatory in Fair Trade coffee production. On the other hand, Milford as well as Rice have a more positive view on the co-operative, maintaining that co-operatives in general have a positive price effect in local markets. Other possible advantages include economies of scale in purchases and sales, as well as a possibility for increased social cohesion (Milford, 2004; Rice, 2001)

6.2.2. Benefits in agricultural markets

This section leans heavily on the analysis of Milford (2004).

Agricultural markets are often oligopsonies because of high transport costs that limit farmers' access to buyers and due to farmers' investment in sunk assets that creates exit barriers.

If only a few purchasing firms are active at the local level, there is a possibility of collusive behaviour. When purchasing firms interact repeatedly, they may take not only their current profit but their future profit into account, possibly creating a cartel that sustains a low farm price level. According to Milford this outcome seems to obtain in many instances in third world agricultural markets. (Milford: 2004)

When growers own their own processing facility and run it as a co-operative, they can retain the margin otherwise captured by private processors. This should have the effect of both raising the income of co-operative members and inducing private processors to raise their prices to more competitive levels, as they would otherwise lose market shares to the co-operative. (Milford: 2004) The existence of a co-operative and the higher prices it can present to members is also a signal to non-members that there is an alternative to the price levels of private firms, thus enabling the co-operative to act as a "pacemaker" (Levay quoted in Milford: 2004, 27) or "barometer of exploitation" (Helmberger quoted in Milford: 2004, 27)

According to Milford (2004), even if co-operatives would be less efficient than private firms, there are still reasons for supporting the existence of co-operatives. A subsidy to a co-operative that is less efficient than a private firm can prevent the private firm(s) from gaining monopsony status, thus increasing competition and subsequently the price level for the farmers. However, a subsidy can also create a market distortion if it increases the co-operative price level beyond the competitive price. The Fair Trade premium can have a positive effect on the price level received by all farmers in a production area, through the mechanism of increased competition vis-a-vis private firms, as the latter have to increase prices to remain a competitive choice for farmers' sales decisions.

According to Milford (2004), the potential economic benefits of co-operatives include increased competitiveness, economies of scale, credit opportunities, innovation and member education. In fields such as transport, processing and the acquisition of market information a joint venture should perform better than if all farmers would act individually.

The economies of scale of the co-operative extend to the market for credit and to the attainment of collective goods such as roads, vehicles, local stores, etc. A co-operative can furthermore be an efficient medium for the transfer of information, both internally among farmers and externally towards the rest of society. In conclusion, Milford argues that the benefits of co-operatives are not solely economical; they have a social side as well, being grassroots organisations that bring people together, creating social capital, and nurturing a process of empowerment and democratisation. (Milford: 2004).

Another view on the cooperative is presented by Ruben (Ruben ed.: 2008)

According to Ruben many farmers view co-operatives as a necessary evil that is required to enter the Fair Trade market, to some extent because co-operatives can be prone to mismanagement, or even outright fraud and embezzlement, just like any other public or private organisation.

What the actual results are on the ground, is a question that is attempted to be answered by analysing the case studies in section 7.

6.2.3. Possible disadvantages

There are some possible disadvantages to co-operatives when comparing them with private companies. Free riding by less active members, higher costs of control due to less efficient control mechanisms, lack of investments due to risk aversion, and shorter horizon and conflicting objectives due to the dual social and economic character of the co-operative are factors that potentially lead to suboptimal efficiency levels. Moreover, co-operatives in many developing countries are usually characterised by delayed payment, something which allows local purchasers that are usually linked to highly liquid international traders to offer lower prices. (Milford: 2004).
The importance of delayed payment can be exemplified by the situation in Chiapas, Mexico, where most coffee farmers have to take on loans just before the coming harvest to cover for operational costs, because last year's payment has already been spent. The only loans available to farmers are usually those of local *coyotes*, as banks are unwilling to lend to small scale farmers. Therefore interest rates can be exorbitant, between ten and twenty per cent per month. In addition, coffee farmers are usually obliged to sell their coffee to the moneylender at prices lower than the market price. Failing to fulfil this obligation means that growers are denied future credit - from any intermediary - as coyotes work collusively, dividing market areas amongst themselves, both in the credit and the coffee market. (Milford: 2004).
The unfavorable observations made by Milford in Chiapas can be contrasted with the results obtained by Valkila (personal communication, 2006) in Nicaragua, where coffee farmers could transform part (or all) of their harvest into credit with coffee exporting companies, at an interest rate of 10% per annum.

6.2.4. Co-operatives as exogenous institutions

Fair Trade has a heavy commitment towards the co-operative as the prime choice of organisation for Fair Trade production. Indigenous forms of organisations are rarely supported or analysed. Thus, one could argue that the introduction of trade unions or co-operatives in communities where these organisations are alien might cause various kinds of problems. According to NRET, (NRET: 1999) the choice of co-operative as the form of organisation for Fair Trade "seems to in some cases to be as much ideologically as efficiency motivated." (NRET: 1999, 35) NRET also criticises the vilification of local trading middlemen, arguing that removing the middlemen has not lowered marketing costs.

6.2.5. Management and outside constraints

Rice (2001) highlights certain aspects that determine the functioning of a Fair Trade producer group. Managerial skill at the executive level is very important for the producer group to function properly. Also, knowledge of economic practice and theory are emphasized, as producer groups are not development or charitable organisations *per se*, but business ventures that are subject to the same conditions as all economic activity. Moreover, Rice points out the potential lack of support from established government and/or business agencies that feel threatened by the different approach to production and consumption that Fair Trade offers. For instance, Rice cites examples from El Salvador and Mexico that banks (El Salvador) and state technicians (Mexico) were tying credit approval to the use of synthetic agrochemical output, thus sidestepping the commitment of FT to ecological values and the ban on many pesticides. Moreover, there were instances of exclusion of Fair Trade producer groups from important informational channels concerning markets, price changes, commodity chain adjustments, etc. This exclusion was done by, as Rice puts it, “specific social circles”. (Rice: 2001, 57-8)

Another problem is the tension that might emerge between business necessities and the democratic process within a Fair Trade cooperative. This is a part of a larger managerial question that concerns the right form of organisation for different endeavours, i.e. the ideal level of management at all levels of a productive venture. (Rice: 2001)
In cooperatives growers have usually been in charge of financial matters, thus there might be reluctance on the part of the growers to relinquish the control over the financial decisions in a FT cooperative to the managerial staff, especially if the complexities surrounding commodity pricing and Fair Trade regulations, etc. are not widely known. (Rice: 2001)
The competition and the less than encouraging environment that FT producer organisations faced during the coffee crisis were not exclusively linked to forces outside the FT system. Even ‘allies’ within the system pressured FT cooperatives. As managers could request up to 60% of their final payment as pre-payment, the producing cooperatives often requested some pre-payment so as to ease cash flow problems occurring during the year. However, as this kind of lending on the part of FT importers was a strain on their financial position, they were sometimes unwilling to adhere to the set regulations, instead trying to sidestep their duties by e.g. offering to buy a larger share of the producers’ product on the condition that the

producing cooperative not demand all its rightful prepayment. As the lack of funds that afflicts Fair Trade producers before the sale of next year's harvest is the one of the problems that the FT system has tried to remedy, one can ask what progress is made when FT actors themselves tried to sidestep this issue. (Rice: 2001)

7. Case studies

This section is divided into the following parts. At first a case study on the FT value chain will be presented and analysed. Afterwards, three case studies of cooperatives producing FT coffee will be presented and analysed.

7.1. Case study 1 - A Value Chain analysis: Nestlé-Sainsbury vs. Prodecoop-Cafédirect

Mendoza and Bastiansen (Mendoza and Bastiansen: 2003) compare the value chain of instant coffee in the conventional Nestlé-Sainsbury chain with that of the Prodecoop-Cafédirect. [13] Their data originates from informants at different stages of the value chain as well as publications by Nestlé and the Fairtrade Foundation. The findings are summarised in table 3.

[13] PRODECOOP, Promotora de Desarollo Cooperativo de Las Segovias, is based in the Segovia region of northern Nicaragua, consisting of 40 co-operatives and 2,318 families in the early 2000s. The co-operative was established in 1993 to provide assistance to its member families in sustainable production and the marketing of their coffee. Cafédirect is a U.K. based Fair Trade company. (Mendoza and Bastiansen:2003)

Table 3. Estimated price composition of instant coffee 1996-2001. US$/kilogram of coffee beans (in 2003 USD)

	Conventional value chain Nestlé-Sainsbury			**Fair Trade value chain** Prodecoop-Cafédirect		
	1996	2001	% change	1996	2001	% change
Final consumer price:	10.6	9.4	-11%	14.2	16.0	+13%
Wholesale and retail margin:	2.6	3.1*	+19%	3.9	4.8	+21%
Marketing licence:	0	0	0	0.26	0.31	+19%
Advertising:	0.66	0.62	-6%	1.9	2.2	+21%
Roasting, storage, transport finance:	4.8	4.3*	-11%	5.1	5.9	+15%
FOB price Nicaragua:	2.64	1.41	-46%	2.91	2.64	-9%
Export taxes and fees:	0.15	0.11	-31%	0.20	0.15	-13%
Processing, transport, finance:	0.53	0.62	+15%	0.57	0.66	+13%
Producer price:	1.96	0.68	-0.64%	2.03	1.87	-10%

(from Mendoza and Bastiansen: 2003, modified by the author) *These data are informed estimates by Mendoza and Bastiansen.

What conclusions can be drawn from table 3? The first conclusion one should make, is that the study of Mendoza and Bastiansen (2003) is analysing only one Fair Trade and one conventional coffee product, thus limiting the possibility to draw any generalised conclusions from this study. Nevertheless, one straightforward observation is that Prodecoop-Cafédirect (Fair Trade) coffee was more expensive than its "conventional" counterpart for the consumer. In 2001 the Fair Trade product was 70 per cent more expensive than Nestlé's product. This mark-up in price is can be traced along the value chain with consistently higher prices (and implicitly perhaps less efficiency) for the Fair Trade product from the cost of processing all the way to advertising and retailing. This is perhaps due to the small scale of Fair Trade products. Even though Fair Trade and conventional producers in 1996 received a similar price for their produce, in 2001 - at the low point of the coffee crisis - the difference between producer prices was dramatic, with Fair Trade producers receiving almost three times as

much income from their coffee than conventional Nicaraguan coffee farmers. Even though Mendoza's and Bastiansen's table uses kilograms as its measuring unit, I will convert the data using the Imperial system, i.e. into pounds, as it follows international pricing patterns.
It is interesting to note that the Fair Trade price paid to producers was 0.92$/lb. in 1996 and 0.85$/lb. in 2001 even though the minimum Fair Trade price of coffee paid to producer organisations was 1.26$/lb. Thus the farmers received a lower price in 2001 than in 1996 even though Fair Trade coffee explicitly guaranteed a minimum price higher than the price received. The gap between 1.26$/lb. and the amount paid to the producers [14] is perhaps due to administrative and other costs of the producer co-operative, such as education of the farmers, storage of coffee, dry processing of coffee, or costs linked to exporting coffee and transportation. Another possibility is the inclusion of all coffee sold in this price (not just Fair Trade coffee) as Prodecoop managed to sell only approximately half of its coffee at fair tade prices. (Mendoza and Bastiansen: 2003)
According to Valkila (personal communication, 2006), the expenditures for Nicaraguan coffee cooperatives are in the range of 30 US cents per pound of coffee, so this estimate fits the abovementioned analysis quite well.

Production costs of raw coffee in the Segovias region of Nicaragua were estimated at between 0.25$/lb. and 0.40$/lb around the year 2000. As the conventional producer prices in 2001 (of 0.31$/lb.) hardly cover production costs the implications are clear. Conventional coffee production in 2001 in Nicaragua was barely - or not at all - profitable. Furthermore, many commercial farmers had to sell their crop in advance to cover costs. The price of coffee sold in this way was approximately half of that sold at the harvest. In contrast, the Prodecoop provided credit at a real interest rate of 18 per cent/annum. (Mendoza and Bastiansen: 2003)

The life of the Fair Trade farmer was nevertheless not as profitable as can be surmised at a cursory glance. This is mainly due to the limited scope of the Fair Trade market; farmers linked with Prodecoop were able to sell only half of their harvest at Fair Trade prices, (Mendoza and Bastiansen: 2003) while the rest was sold at conventional prices, a recurring theme among Fair Trade certified co-operatives. (Ruben ed.: 2008)
The higher price, that the finished Fair Trade product commanded at the consumer end, was mainly due to higher producer prices, but also due to inefficiencies or rent capture in the

[14] 0.92$/lb. in 1996 and 0.85$/lb. in 2001.

value chain. Even though the retail price of conventional coffee fell by -11% from 1996 to 2001 it rose by +13% for Fair Trade coffee!
All costs outside of the producing country rose as supermarkets became less willing to accept Cafédirect coffee, thus increasing the retail margin (to induce supermarkets to accept Cafédirect coffee and to make up for lower volumes) and advertising costs. Nevertheless, the brunt of the falling coffee prices were put on the producers in the conventional chain, whereas it was put on the consumers in the Fair Trade chain. [15] Another conclusion that can be drawn is that of an existing and tangible power imbalance. The power imbalances along the supply chain become evident as the retail margin for the Nestlé-Sainsbury coffee *increases* from 1996 to 2001 even though producer price decreases drastically. One further conclusion that can be drawn is that Fair Trade, in this particular case at least, has been a very inefficient transfer of funds to producers. At the retail end, the Fair Trade consumer pays 3.00$ more per lb. of coffee than the one shopping at Sainsbury. At the producer level, the Fair Trade grower received 0.85$/lb. whereas the one growing for Nestlé got 0.31$/lb. The retail difference of 3.00$/lb. has dwindled to 0.54$/lb at the producer level. Nevertheless, the Fair Trade grower earns almost twice as much as the Nestlé grower, if he is able to sell half of his coffee through Fair Trade channels.[16] Still, one is warranted to ask if a Fair Trade consumer would rather make a donation of three U.S. dollars directly to the grower (perhaps with handling fees of 10-20 %), than see her 3.00$ premium lose four-fifths of its value at the producer level.[17]

There are not many studies on the whole Fair Trade value chain from the time of the coffee crisis. The study of Valkila et al. (2010), even though outside the proper timeframe, will be referenced to briefly, as it provides the counterfactual comparison to the time of the coffee crisis.
In short, the results of the study of Valkila et al. (2010) – conducted in Nicaragua in 2005-2006 - indicate that farmers selling to the conventional market got similar prices for their coffee as their FT counterparts (as coffee prices had risen above the Fair Trade floor price). Another result is that of the retail price of FT coffee, the majority (60%) was retained in the consumer country (Finland) and only some 35% in the producer country of Nicaragua. These

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[15] Prices fell by -64% from 1996 to 2001 for conventional producers, but only by -10% for Fair Trade producers. However, as prices fell for conventional consumers by -11% they rose for Fair Trade consumers by +13%.
[16] 0.85$ * 0.5 (Half of the Prodecoop coffee is sold through Fair Trade channels) + 0.31$ * 0.5 (The other half is sold through normal channels) = 0.58 $. This is the mean price that the Fair Trade grower receives per pound of coffee sold through FT and normal channels.
[17] 0.54$ / 3.00$ = 0.18

results are good to bear in mind as we continue to analyse the case studies on Fair Trade coffee during the coffee crisis.

7.2. Case study 2 - Fair Trade coffee co-operatives in Mexico

7.2.1. ISMAM and KAFFE

The study of Milford (2004) on which I am leaning on in this segment,
focuses on two co-operatives, namely **ISMAM** (Indigenas de la Sierra Madre de Motozintla) and **KAFFE**. At the time for Milford's study there were are 36 FLO-registered coffee co-operatives in Mexico, of which many were situated in the Chiapas region. These co-operatives were all marketing co-operatives, i.e. co-operatives that purchase the coffee that members themselves produce. The co-operatives were in charge of processing and exporting the produced coffee abroad.
ISMAM is the result of a project initiated by the Catholic church of Tapachula in 1985. During the coffee crisis the organisation had around 1300 members, dispersed over a very large area. In the year 2000, 62,551 bags of coffee were produced adding up to ca. 9 million USD in revenue. Around 20 percent of the coffee received a Fair Trade premium. Only organic coffee was exported, whereas organic and conventional coffee was sold locally.
KAFFE is a second-degree co-operative, that exports the coffee of a number of independent coffee producing co-operatives. The operational costs of KAFFE were covered partly by the members of the producer co-operatives (60%) and the rest was paid by FLO and the NGO Twin Trading. (Milford: 2004)
During the time of the coffee crisis, coffee producers in Chiapas had various options when selling their product. One option was to take the coffee bags to one of the cities where processing companies and exporters maintained their offices and storage rooms. This was an option that mainly large producers used, as the road network in Chiapas was in poor condition and as most farmers lived in remote areas without access to proper vehicles. Another option was to sell to private intermediaries (coyotes), businessmen with vehicles of their own, who received a prepayment from processing companies and roamed the countryside in search for purchasable coffee. The intermediaries paid farmers when the coffee was handed over, and the price was usually lower than that of the processing companies and exporters in the cities. A third option was to join a co-operative. (Milford: 2004).

7.2.2. An analysis of the Chiapan case study

According to the case study conducted by Milford (Milford: 2004) some of the theoretical assumptions regarding co-operatives obtain in the Chiapan case. The market structure is one that is characterised by imperfect competition among private purchasers. Price levels offered by private purchasers are higher in areas with co-operative presence. As co-operatives are linked to organic and Fair Trade markets, they are able to pay a higher price than their private competitors. As co-operatives remain open[18] to new members there is pressure on private purchasers to maintain competitive price levels. Furthermore, the co-operatives functioned as educational organisations, providing members with information about prices and quality of the products, which in turn managed to lose the hold that intermediaries had over farmers. The experience from Chiapas was that coffee co-operatives were economically disadvantaged in competition with private exporting companies, especially with large ones that did not have problems of liquidity. But the co-operatives investigated by Milford still managed to succeed. They were functioning economic organisations that also ran social programmes such as education schemes. And Milford concludes that it is unlikely that the Chiapan co-operatives would have functioned just as well without the premium of Fair Trade. Fair Trade enabled co-operatives to act as viable alternatives to private purchasers, thus increasing competition and price levels. The direct access to international markets and the prepayment of Fair Trade buyers was seen as important among co-operative members, however, the yearly visits from the Fair Trade monitor and Fair Trade conditions were perceived to be of little importance. (Milford: 2004). According to Milford (2004) FLO only supported existing and strong co-operatives, not unorganised farmers or undemocratic and unsuccessful co-operatives. Many of the co-operatives that were linked to Fair Trade were originally set up by NGO or government initiatives, and showed high levels of independence and member participation. (Milford: 2004). Thus one can ask if other - newly formed - co-operatives would have fared as well as the ones that Milford researched.

[18] The openness is conditional, however, as e.g. membership fees or compulsory organic production were prerequisites for enrolment.

7.3. Case study 3 - CEPCO - 2003-2004

CEPCO *(La Coordinadora Estatal de Productores de Café del Estado de Oaxaca A.C.)* was the largest coffeemarketing cooperative in the Mexican state of Oaxaca in the early 2000s. In the 2003/4 season CEPCO had all of its coffee certified as Fair Trade and paid producers US$0.32/lb for conventional FT coffee and US$0.66/lb for organic FT coffee. While these prices might seem low compared to the price received by organisations from buyers on international markets, unorganised producers selling to local intermediaries received even less. In the same region, producers of conventional coffee received 40 percent less than Fair Trade producers. (Calo and Wise: 2005)

Even though the case study of Calo and Wise was conducted at the latter stages of the coffee crisis, one can conclude that coffee prices obtained for producers, at least in Oaxaca, had not returned to pre-crisis levels.

During the time of the case study, the cost of FT certification that previously had been the sole responsibility of FLO was transferred to some extent to producer organisations. Fair Trade certification had been relatively inexpensive for CEPCO, even though costs had risen towards the years 2003-2004. With a membership of 42 producer organisations representing 16,000 growers, CEPCO initially paid 4,400 Euros for the certification. Additionally, there were yearly expenses for certification and registration with FLO. CEPCO also supported a regional FLO office monetarily. (Calo and Wise: 2005)

CEPCO succeeded in selling a large share of its coffee through Fair Trade channels. In 2003/4 Fair Trade sales exceeded 90 percent of total sales. Regardless of the origin or the quality of the coffee, all producers benefited from Fair Trade sales, as the premium was incorporated into CEPCO's internal price structure for coffee in different markets. A part of the earnings remained at the organisational level to fund joint projects agreed upon by the membership; these costs may have exceed the FT social premium of five cents per pound. (Calo and Wise: 2005)

7.4. Case study 4 - The Michiza producer cooperative

Daniel Jaffee researched coffee producing Zapotec communities in the *Rincón de Ixtlán* region of the Mexican state of Oaxaca between October 2001 and February 2004 (Jaffee: 2008 in Ruben ed.: 2008). During the study, the cooperative bought 400-500tn of

parchment[19] coffee annually from its members, consisting of some 1,100 families, representing six different indigenous ethnic groups.
80% of the coffee was of export quality and sold through Fair Trade channels. The remaining 20% was sold domestically at lower prices. At the time of the study, Michiza had been selling Fair Trade coffee for more than 15 years, thus allowing for ample and robust results regarding the impact of FT.

7.4.1. Economic impacts

At the end of the 2002-2003 harvest, producers in the Rincón de Ixtlán region not belonging to Michiza, selling their coffee to local *coyotes* received approximately five pesos/kg[20] of coffee. Michiza members who were transitioning to organic FT coffee received approximately double the amount, and producers who sold organic FT coffee received three times as much. These differences persisted until the 2004-2005 harvest, when international coffee prices had begun their ascent.

Table 4. Michiza payments to producers and Coyote prices, 2002-2005.

	2002-03	2003-04	2004-05
Michiza FT organic coffee	USD 0.68/lb	USD 0.71/lb	USD 0.79/lb
Michiza FT	USD 0.45/lb	USD 0.56/lb	USD 0.70/lb
Coyote price	USD 0.23lb	USD 0.23/lb	USD 0.76lb

(from Jaffee: 2008 in Ruben ed.: 2008, modified by the author)

The data in table 4 strongly suggest at least two things. Firstly the minimum Fair Trade price (see appendix 2), which at the time was 1.21 USD/lb (+0.15 USD for organic + 0.05 USD social premium) did not reach producers. Secondly, Fair Trade functioned as a cushion for FT producers during the worst part of the crisis, granting them clear economic benefits over their conventional counterparts. Nevertheless, as world coffee prices started to creep up towards normal levels (reaching 1.00+ USD/lb in early 2005), these benefits evaporated and probably reversed (as FT coffee is more more labour-intensive, and thus more expensive to produce).

[19]Dried but unhulled coffee, i.e. coffee beans before the "pergamino" parchment skin is removed.

[20] 1 peso ≈ 0.10 USD during the researched period of 2001-2004.

A further finding from Jaffee's study is the fact that less than half of the total cash income for FT coffee producing families came from coffee sales. Moreover, the amount of cash income from coffee sales was very low, some 230 US$ net/annum (not counting countless hours of unpaid family labour). Non-FT producers had it even worse, reaching a net income of some 48US$/annum. Both FT and non-FT producers had a net negative household income during the time researched, i.e. "were in the red rather than the black". (Jaffee: 2008 in Ruben ed.: 2008)
As Michiza provided pre-harvest financing, fewer cooperative members reported needing to borrow money every year (29.2%) than the conventional farmers (57%). Labour time and costs for FT producers were significantly higher than for conventional farmers (310 USD vs. 98 USD), due to the additional work needed both for organic standards as well as the high quality demanded by export markets. (Jaffee: 2008 in Ruben ed.: 2008)
At the height of the coffee crisis many conventional producers faced malnutrition, even though subsistence farming is a common practice in the region. Furthermore, Fair Trade producers reported significantly higher levels of food security than their conventional counterparts. (Jaffee: 2008 in Ruben ed.: 2008)

7.4.2. Other impacts

One striking finding - one that stands in stark contrast to many FT publications - is that family members of FT producers were twice as likely to have migrated than their conventional counterparts. Jaffee offers the explanation of Arjan de Haan to this conundrum: "The extremely poor /.../ are generally excluded from migration opportunities." (De Haan cited in Jaffee: 2008, 210)
Further findings include an increase of coffee yields among organic farmers, of some 40% over their conventional counterparts, due to organic plot maintenance such as weeding and pruning. Another benefit of organic (FT) farming is the continuation of shade coffee[21] ecosystems, with their "extraordinary [levels of] biodiversity"(Jaffee: 2008, 211 in Ruben ed.: 2008). Moreover, while 80% of FT producers had a positive view of their continuation of farming only 54.5% of conventional farmers gave the same answer. And in many cases where coffee farming was abandoned, farmers razed the plots (thus the whole ecosystem) to plant maize. (Jaffee: 2008 in Ruben ed.: 2008)

[21] Shade-grown coffee is grown under a canopy of (non-coffee) trees.

One important spillover effect from FT farming seen in the Rincón de Ixtlán region is that some organic practices adopted by FT farmers were incorporated by conventional farmers as well, including composting and terrace building (even though these farmers had no chance of getting organic certification), thus giving validity to the claim that FT can function as a positive example or benchmark for local communities.
Finally, Jaffee concludes that for the families living in Rincón de Ixtlán, Fair Trade was "necessary, but not sufficient". (Jaffee: 2008, 215 in Ruben ed.: 2008)

8. Analysis - the impact of Fair Trade coffee during the coffee crisis

8.1. Economic impacts

8.1.1 Increased revenue

The most obvious benefit of Fair Trade coffee during the coffee crisis was the minimum floor price of $1.21 per pound plus the social premium of $.05 above that minimum or above the world price (something that did not obtain during the coffee crisis). (Nigh: 2002)
Thus Fair Trade producers received a significant boost of revenue, as evidenced in *all* of the case studies. Nevertheless, some coffee co-operatives managed to sell only a fraction of their produced coffee as FT coffee, thus limiting the economic impact of FT coffee.
The most positive views on revenues come from research conducted during the coffee crisis, with Murray et al. (2003) and Raynolds (2002) presenting a very positive picture of Fair Trade premiums. The reasons for this positive picture can be many, such as the composition of the producer groups, the exact time of research - as coffee prices dove sharply from 1998 to 2002 - and how much coffee the co-operatives managed to sell at Fair Trade prices.

During the 1990s and the beginning of the new century, world coffee prices rarely rose above the Fair Trade floor price. Around the turn of the millennium many Latin American coffee growers abandoned their crop, since it cost more than the less than the approximately 0.40

USD per pound of coffee that they got from local middlemen to actually harvest the coffee. Raynolds (2002) maintains that Nicaraguan coffee producers who belonged to cooperatives linked to alternative markets, were four times *less* likely to report that they were at risk of losing their land than other coffee producers. According to an estimate around the year 2000, growers that were a part of the Fair Trade system received an annual income of around $2000, whereas if they would be selling their coffee in conventional markets they would only be receiving around $500. (Raynolds: 2002)

8.1.2. Stability and finance

A higher price was not necessarily the impact most sought-after by Fair Trade producers during the coffee crisis; indeed Kocken maintains that the long-term relationship, advance payment and the certainty of price received were more important factors for producers than the price premium. (Kocken quoted in Moore: 2004)
Regarding the impact of the stable pricing, there are at least two radically different views. One view is exemplified by Zehner (2002), whereas the other can be traced in the writings of Murray et al. (2003) According to Zehner, Fair Trade does reduce price volatility in theory, as it guarantees a stable price. Moreover, in theory, reduced risk might encourage growers to make investments that would not otherwise have been made. Nevertheless, as most growers sell only part of their products via the Fair Trade channel, price volatility is still a phenomenon that affects them.
Murray et al. (2003) present another view, i.e. that producers within the Fair Trade system are experiencing a more stable economic and social situation where planning for future production and consumption is easier because of the stable minimum price for Fair Trade products and due to improved credit availability. (Murray et al. 2003)
Of the case studies analysed, only Jaffee's (2008 in Ruben ed.: 2008) was conducted over many harvest cycles, thus giving more depth to claims about the importance of price stability. Price stability was not explicitly mentioned by the Michiza cooperative members as an important positive part of belonging to the FT system, even though they were more optimistic about the future of their coffee farming than their conventional counterparts, thus corroborating the claim of Murray et al. (2003) that FT encourages growers to invest, perhaps due to the stability of the FT system, even though the causal chain is not completely clear.

The benefit of a floor price can be viewed as a mixed blessing, as some critics suggest that it may be unsustainable in prolonged periods of low prices, and that it limits the reach of Fair Trade networks by compromising the profitability of Fair Trade importers (Renard: 1999). According to Raynolds (2002), the largest part of the price premium is retained by producer co-operatives. However, there are counterexamples where growers receive the lion's share (Ruben ed.: 2008).

If the price premium from Fair Trade is retained at the association level, then producers are unlikely to be aware that Fair Trade networks offer either premiums or price floors. This lack of information at the producer level lead to ambivalence toward Fair Trade during the coffee crisis (Raynolds: 2002).

According to Raynolds (2002) Larger Fair Trade associations tended to pool the revenues gathered from the different markets (conventional, organic, Fair Trade, etc.) and divided the sum among the members, something that can be viewed as positive from an equity point of view, however possibly leading to a situation where there was little knowledge about Fair Trade practices and little incentive for growers to improve their practices. As one cornerstone of Fair Trade is price invariability, this may have presented perverse incentives to growers, or grower associations.

Fair Trade certification requires that coffee importers establish long-term purchasing agreements directly with producer groups. This secure market outlet is an important benefit for Fair Trade producers, even though few producer organisations sold all their harvest through Fair Trade networks during the coffee crisis. The variance between FT producer cooperatives is exemplified by the case studies presented above, namely that ISMAM managed to sell only 20% of its coffee as FT (Milford: 2004), while CEPCO managed to sell 90% (Calo and Wise: 2005), and Michiza sold all of its export quality coffee to the FT market. (Jaffee: 2008 in Ruben ed.: 2008)

Similarly the access to finance provided by importers at Northern market rates was an important benefit, as poor coffee farmers traditionally have been heavily indebted to local brokers as the annual harvest approaches. Local moneylenders usually charge excessive rates and banks are rarely interested in financing small farmers. Murray et al. (2003) report that The Las Colinas cooperative in El Salvador received up to 60% pre-financing for its FT coffee during the coffee crisis at half the interest rates of national banks. Cooperatives producing Fair Trade coffee enjoyed an improved image also in the eyes of local credit

institutions, due to the long term commitment of their buyers and the external monitoring carried out by Fair Trade organisations. (Murray et al.: 2003)
According to Raynolds (2002), the inherent hierarchy of many trading operations dissolved in the Fair Trade network. Furthermore, feelings of dignity, and equality with other actors along the commodity chain are representative of Fair Trade networks according to Raynolds (2002). Nevertheless, this finding should be taken with a pinch of salt as other observers do not note similar tendencies. (Ruben ed., 2008; Lyon and Moberg ed., 2010)

8.1.3. Technical expertise and market information

The technical expertise and market information provided by Fair Trade networks were as important as the price premiums, according to some studies. (Raynolds, 2002; Nigh, 2002; Murray et al., 2003) Indeed, according to Raynolds (2002) improved access to information and a more transparent market are generally the outcome of participation in Fair Trade networks. Raynolds continues to paint a rosy picture of the FT network, as according to her, the roles of importer and producer are viewed not as confrontational in a Fair Trade network as in normal trade networks. Moreover, the joint development of new products or product lines, the adaptation of products to suit Northern tastes and fashions and the access to new marketing channels are all potential benefits of the less hostile trade environment according to Raynolds (2002).
The majority of the case studies carried out by the Fair Trade Research Group of the Colorado State University[22] concluded that Fair Trade enables the exchange of information leading to new commercial opportunities for producers. (Murray et al. 2003)
However, there is, in general, limited knowledge among coffee producers about the tastes of consumers in the North as well as about the international coffee market. (Murray et al. 2003)

8.1.4. Product diversification

Dependency on a single commodity has had a disastrous effect on many countries and communities in the developing world. Fair Trade has been an attempt to alleviate this

[22] The Fair Trade Research Group at the Colorado State University carried out seven case studies (published in 2002) in Mexico, Guatemala and El Salvador whose findings were summed up in Murray et al. 2003.

dependency by providing stability to the commodity market. Within some cooperatives involved with Fair Trade coffee, growers were encouraged to diversify their production to include other commercial crops as well as handicrafts. (Murray et al.: 2003)
Nevertheless Lyon (Lyon and Moberg ed.: 2010) gives an account of the difficulty for Mayan women in accessing markets for their weaving products, while their husbands reapt the benefits of belonging to the Fair Trade coffee system. Still other observers conclude that Fair Trade "seems to enhance /.../ certain specialization in coffee, partly because other income earning options are scarce."(Sáenz-Segura and Zúñiga-Arias: 2008, 133, in Ruben ed.: 2008)

8.2. Non-economic impacts

8.2.1. Organisational impacts

Early research on Fair Trade was to some extent just echoing claims made by FLO or other Fair Trade organisations. Some early observers, such as Tallontire (2001a; 2001b) viewed the financial impact of Fair Trade as less than might be expected from Fair Trade publicity material and instead viewed the development of institutional and organisational capacity as the most important positive FT impact. According to Tallontire (2001a) the ongoing discussion with Fair Trade organisations helped co-operatives to develop their capacity to function in the market, through the improvement of technical and business skills. However, if the transfer of business and technical skills was the main advantage of Fair Trade, then one could perhaps ask if there are more efficient and cheaper ways of conveying this knowledge than through the creation of an alternative trade system.

According to Murray et al. (2003), one of the deepest impacts that Fair Trade made during the coffee crisis was at the organisational level, facilitating the growth of democratic institutions and organisational empowerment. The rigorous standards and frequent monitoring of FLO also encouraged producer organisations to improve their administrative capacity. (Murray et al., 2003; Raynolds, 2002) Fair Trade Producer organisations also became more visible in the eyes of the outside world; in El Salvador, members of the Las Colinas cooperative were able to receive earthquake relief funds through the FT organisation APECAFE much quicker than other communities. This was also the case locally, as local banks and governmental organisations were perceived to have more faith in FT organisations than in their conventional counterparts. (Mendez: 2002)

8.2.2. Gender impacts

Even though gender issues have been on the agenda within the Fair Trade movement, during the time of the coffee crisis a lot remained to be done in practice.
The culture in many regions where Fair Trade is active (e.g. Central or South America), was - and is - male-dominated, and in many cases women had no or minor roles in commercial farming. It was usually the men who were granted membership to producer organisations under the assumption that they represent their spouses and children. (Raynolds: 2002)

Lyon (2010, in Lyon and Moberg ed.: 2010) maintains that:

> ...despite FLO's publicity efforts, a number of studies indicate that to date fair trade has failed to promote gender equity adequately. /.../ [F]air trade has largely failed to alter gender relations that historically been unequal. /.../ There is no direct correlation between the formation of more equitable North-South market relationships and the status of women. (Lyon: 2010, 131, in Lyon and Moberg ed.: 2010)

Murray et al. (2003) present a differing view.
According to them "Fair Trade has been one of the dynamic forces overcoming the isolation of women in cooperatives."(Murray et al.: 2003, 26)
Lyon (2010, in Lyon and Moberg ed.: 2010) continues by maintaining that there *are* some silver linings to Fair Trade concerning gender relations, namely that regions with higher pre-existing levels of gender equality have experienced more equitable gender relations through the participation in the FT network.

8.2.3. Social and environmental impacts

According to the results of case studies carried out by the Fair Trade Research Group at Colorado State University at the time of the coffee crisis, Fair Trade did improve the well-being of families involved in coffee production.

During the coffee crisis, farmers in the Chiapas-based Majomut cooperative experienced an increase in overall income in the range of 100 to 200 percent (Pérezgrovas Garza and Cervantes Trejo: 2002). Benefits to families included various social projects funded by the increased returns from Fair Trade sales, including more training and marketing assistance to as well as an improvement in children's education. Furthermore, there was some evidence that the possibility for families to earn their living by growing Fair Trade or organic coffee limited migration from areas dependent on coffee growth. As maintained by Jaffee (2008 in Ruben ed.: 2008) in the Michiza case study (presented in section 7.4), this effect is not entirely clear, as he maintains that migration among FT producers was higher than among conventional farmers. Nevertheless, one has to bear in mind that migration in this case was an *opportunity*, not a necessity, and something that was out of reach for the poorest strata of society.
Another benefit concerns the living conditions of farmers participating in Fair Trade. According to Murray et al *(*2003) Fair Trade emphasises organic farming, increasing awareness about soil conservation and water management in many areas, thus helping to preserve the living environment of the farmers, something that is corroborated by the Michiza case study of Jaffee (2008 in Ruben ed., 2008).

8.2.4. Creating debate and changing corporate culture

According to Raynolds (2000), the true significance of alternative trade systems is not in the market value of the products traded, but lies instead "in the challenge they raise against the abstract capitalist relations that fuel exploitation in the agro-food system." (Raynolds 2000, 297) Thus I would define Raynolds as propagating an *idealist* view on Fair Trade, as mainly a vehicle to change existing trading structures, rather than as a vehicle for ameliorating the practical day-to-day problems of the most vulnerable members of the international coffee commodity chain.
One possible impact of Fair Trade, was the attitudinal change in conventional corporations during the time of the coffee crisis. According to Young (Young: 2003) the Fair Trade movement was at the vanguard of social responsibility for businesses during the turn of the century. Techniques pertaining to assessing and monitoring the social impact of business, such as social reporting techniques and labour codes of practice, were developed by the Fair Trade movement. (Young: 2003)

By bringing ethical questions to the fore, organisations working with Fair Trade contributed to a corporate climate where ethics - at least on the surface - became more important in the pursuit of a successful business strategy. How much the Fair Trade initiative has impacted a more general change in putting ethics to the fore in corporate conduct during the last twenty years is a question that is outside the scope of this thesis, even though it is a very interesting one.

Nevertheless, the years around the turn of the century witnessed the inception of many ethical initiatives along various value chains, such as a code of conduct implemented in the horticulture sector (Tallontire: 2001a), as well as the implementation of social and environmental codes of practice by many supermarkets towards their suppliers. (Collinson: 2001)

8.2.5. Personal impacts - cultural revival and creased self esteem

According to Murray et al. (2003), visits from Fair Trade officials, importers and consumers engendered a feeling of worthiness and importance among farmers that in many cases were at the margins of society, with their traditional way of life threatened by slumping commodity prices. Furthermore, in this analysis, Fair Trade contributed to a cultural revival in indigenous communities, as ancestral farming techniques were reinstated, and many indigenous farmers felt a new sense of pride in their work. (Murray et al.*:* 2003)

9. Analysis - problems and limitations within the Fair Trade system

9.1. Becoming a Fair Trade producer: serendipity or master plan?

According to NRET (1999) the definitions of poverty in Fair Trade circles during the beginning of the coffee crisis were not as well-defined and nuanced as those used by international development agencies or the ones discussed in professional journals. The monitoring of Fair Trade focused on the immediate producers, not on the societies to which these producers belonged. Thus, hidden inequalities or problems rarely surfaced or were brought to the fore. Structural inequality or imbalances were rarely rectified and to some extent it could be warranted to say that Fair Trade during the coffee crisis focused on the symptoms and not necessarily the underlying causes of the problems in the communities where it was implemented. (NRET: 1999)
During the time of the coffee crisis, many small farmers that fulfilled the Fair Trade criteria were not able to participate in the FT market due to limited sales. Furthermore, farmers that were defined as "large farmers" were not allowed to produce FT coffee, even though they would have fulfilled the relevant social and environmental criteria. (Murray et al. 2003)
In Mexico, the knowledge about Fair Trade coffee production spread mostly through the grapevine, with more and more producer organisations tagging along after seeing the success of initial Fair Trade producers. (Murray et al. 2003) In the midst of the coffee crisis, one view on the organisation of Fair Trade was presented by the manager of the Mexican La Selva cooperative, José Juárez. Juárez argued for a lowering of prices of FT goods in order to capture a larger market share. He also suggested that Fair Trade participation should be transitory, with successful organisations 'graduating' to conventional markets. Juárez voiced a - not uncommon - concern that Fair Trade participation during the crisis was dominated by well-organised cooperatives, entrenched in favourable positions. (Murray et al. 2003, 19)

9.2. Fair Trade stakeholders

Fair Trade tends to focus on one stakeholder, the primary producer. These primary producers tend to be landowning male heads of households. Thus, Fair Trade does not target the most vulnerable individuals, instead it could be appropriate to define the beneficiaries of Fair Trade as being small farmers in developing countries, rather than *the most vulnerable people* in these countries. At the time of the coffee crisis, gender issues were not at the heart of Fair Trade, as well as questions concerning labour relations within the smallholder household. Indeed, it is warranted to say that Fair Trade at the turn of the century focused more on contractual terms of trade rather than social or power relations within the sphere of production. (Tallontire, 2001a; Tallontire, 2001b)

9.3. Is Fair Trade remedying the wrong symptoms - inefficiently?

According to some observers, Fair Trade is a small and inefficiently transferred subsidy. (e.g. Zehner, 2002; Lindsey, 2004)[23]

Zehner (2002) maintains that FT growers might be better off in the short term; however, according to him this is probably not the case in the long term. Furthermore, in his opinion the critical assumption that underlies the Fair Trade concept is that the cause of poverty amongst coffee growers are the low prices that they receive. However, according to Zehner, low prices are a symptom of the power imbalances in the supply chain. (Zehner: 2002)

In my opinion Zehner hits the nail on the head when he posits low prices as a symptom of an existing power imbalance. However, the manner of rectifying this imbalance is in my opinion a more open question. One could argue that Fair Trade tries to reconfigure the power structures prevalent in conventional trading systems through the elimination of middlemen. Furthermore, it can be argued that through the introduction of more transparent and democratic practices FT opens up tightly wound images of combative or conflicting interests at all levels of the supply chain.

In the following section I will go along with one of the most critical voices against Fair Trade during the coffee crisis, namely David Zehner, in his analysis of Fair Trade.

According to Zehner (2002), Fair Trade is a poor means of transferring wealth from consumers to producers. The foundation of the argument is an estimation of the distribution

[23] To some extent I see this view as warranted, based on the limited empiric evidence presented in this paper. For instance in the Nestlé-Sainsbury vs. Prodecoop-Cafédirect value chain analysis (mentioned in section 7) the subsidy that consumers pay is transferred quite inefficiently, as a premium of 6.60USD paid by the consumer dwindles down to 1.19USD at the grower level. (Mendoza and Bastiansen: 2003)

of the Fair Trade retail price. Zehner estimates that around 70 percent of the Fair Trade premium was received by growers (the other 30 per cent goes to the producer co-operative) in June 2002. Zehner analyses Starbucks Fair Trade Blend, which includes a $1.50 price premium over its House Blend concluding that the grower recieves approximately $0.67 or 45% of the retail price premium. Hence, he concludes that Fair Trade is an inefficient method of transferring income, unless market prices are extremely low. There is a caveat to this conclusion in my opinion, as Zehner views the revenue captured by the producing co-operatives as something negative - probably seeing it as administrative costs or suchlike - whereas I would argue that the lion's share of the money that co-operatives receive can be used for communally important investments.
As he wraps up, Zehner makes a comparison with direct-transfer programs that normally have administrative expenses of 20 percent or less (an example he cites is World Vision, where 17% of the revenue is spent on administration and fund-raising). Thus, he concludes that “a socially conscious consumer would add more to growers incomes by writing a check for $1.50 than by buying a pound of Fair Trade coffee.” (Zehner: 2002) Zehner acknowledges the existing critique against this stance, mentioning the possible “psychological effects” of earning a “fair” income through one’s work, instead of receiving a (potentially larger) money transfer. In my opinion Zehner disregards a veritable truism within academic discourse con development, namely that direct transfers, or any kind of resource transfer from developed into developing countries is usually wrought with problems or at least inefficiency. Nevertheless, if Zehner viewed a 45% transfer as inefficient one, has to bear in mind the even worse results (for FT proponents) of Mendoza and Bastiansen (2003) as only 20% of the consumer premium was transferred to FT producers in their case study presented in section 7.1. A weightier critique, in my mind, against Fair Trade that Zehner (2002) presents, are the distortions of incentive that Fair Trade can create. The existing price floor can remove a grower’s incentive to upgrade production, improve product quality or switch crops. (Zehner, 2002; Bacon, 2005)

9.4. Fair Trade and the conventional market

Fair Trade has its roots in small-scale artesanal trade. In this form of trade, the key stakeholder was the producer. As food products were introduced, and as products were finding their way from specialised shops onto the shelves of conventional retailers, there arose a necessity to both distinguish and guarantee the “fairness” of Fair Trade products. Thus, Fair Trade labels and labelling organisations were introduced. An interesting approach from established retailers was the conventionalizing of the Fair Trade “brand”, through initiatives that created “own brand” Fair Trade products. These products were under the label of the retailer in question and were sourced directly from producers without involving ATOs as middlemen. One example was the Co-operative supermarket group based in the U.K. (Moore: 2004)

The conventionalizing of Fair Trade is surrounded by certain problems. One of the problems that exists is the profit margin that the retailers capture when selling Fair Trade products. For example, in 2002 coffee shop giant Starbucks paid an average of $1.20/pound excluding freight for green coffee, while it paid $ 1.26/pound for non-organic and $ 1.41 for organic green arabica that was also Fair Trade marked. Even though Starbucks paid a small premium for the Fair Trade coffee, the ratio between retail and producer prices is higher for Fair Trade coffee. While the Fair Trade coffee of Starbucks sold at a premium of 7 to 15% when compared with non-FT coffee, the payment increase to producers was only 5%. (Anderson and Riedl: 2004) One can argue that the bigger margin for Fair Trade coffee was due to smaller volumes and the need to advertise the product, etc. However, one can argue that Starbucks reaped both an economic and a PR-benefit from Fair Trade. Thus, Fair Trade was both good business, when looked at in purely economic terms as well as good business when questions of corporate image and brand strength were concerned.

The entry of big conventional actors into the FT value chain can be viewed either as potentially harmful or beneficial to FT aims, depending on whether one sees FT more as an attempt to change the structure of world trade or to ameliorate the effects of worsening terms of trade for a select number of primary producers.

If one views the aims of Fair Trade as maximising monetary benefits to producers, then increased sales - in whatever shape or form they take - is beneficial. However, if challenging existing trading practices is the aim, the fact that MNCs started to take an interest in Fair Trade during the coffee crisis can be viewed as a mixed blessing.

One the one hand, there was potential for a true change of trading practices within the multinationals, on the other, there was the risk that large corporations "captured" the initiatives that they view as dangerous and watered them down into a form that didn't endanger their hegemonical position. What the actual results were, is a topic that warrants further research.

When the declining prices of the coffee crisis tightened the noose around the necks of small farmers, some farmers frustrated with the slow growth of the Fair Trade market, managed to turn to other channels for their products. The Mexican cooperatives that were involved in the origins of Fair Trade labelling, entered a 10-year contract with retail giant Carrefour in February 2002, selling organic coffee directly at prices that exceed Fair Trade prices by far.[24] This move was criticised by some Fair Trade organisations as a risky unilateral decision to re-enter the conventional market as suppliers to a giant multinational company. (Renard, 2003; Moore, 2004)

This example of a retailer getting on the Fair Trade bandwagon is not an isolated anomaly, instead it was a strategy that was increasing in popularity during the coffee crisis among established actors in the food business.

According to Renard (2003) there were two main ways for these actors to counteract the impact of Fair Trade. They could either launch a campaign meant to confuse consumers through the introduction of parallel labels based on weaker criteria or gain control of this niche market by creating their own Fair Trade products. An example of the first strategy was the attempt of multinational coffee roaster Douwe Egberts to stop the advance of Fair Trade coffee and improve its own image during the early years of the Max Havelaar initiative. The company carried out several advertising campaigns including a campaign called "*Boerenkoffie*" (peasant coffee), in which Douwe Egberts announced the creation of a foundation that allowed direct contact with small farmers. As Max Havelaar forcefully made clear in their countercampaign, the multinational only paid conventional market prices to their producers. (Renard, 2003; Renard, 2001) In April 2000, Starbucks yielded to the pressure of ethical trade activists threatening to organize a campaign against them, and announced that they would buy a part of their coffee through Fair Trade channels. (Renard, 2003; Renard, 2001)

Renard (2003) sees both opportunities and threats in the ascension of multinationals in the Fair Trade field. The opportunity is the greater market share that can be captured if large multinational actors are involved. However, if the trust that consumers have in the Fair Trade label is eroded through abuse or dilution by multinationals then this conventionalizing process can be counterproductive to the aims of Fair Trade.

[24] The price given is 150 USD per quintal, the equivalent of ca. 3.30 \$/lb., almost three times the Fair Trade minimum of 1.26 \$/lb.

The inclusion of multinational companies with their idiosyncratic ways of operating into the FT value chain can pose problems especially when and if the commitment to Fair Trade is weak. There are examples of MNCs (e.g. Starbucks) who, during the coffee crisis, started carrying Fair Trade goods in their product range, after being under threat by ethical trade activists. The possibility of image-laundering was a real one, as the goodwill that accompanies the Fair Trade label could be substantial, even if Fair Trade practices would remain at a minimal level. (Nigh, 2002; Moore, 2004) Thus, according to some observers (Raynolds et al., 2003; Moore, 2004) there was a real danger that corporations would have tried to "hijack" parts of the alternative trade movement, and turn ethical trading into just a goodwill generating brand among other brands, while losing sight of its non-profit goals. However, there are some positive stories as well from the viewpoint of the producing organisations, as it is not only multinationals that have been able to enter the Fair Trade market, as some Fair Trade producers have been able to enter the market directly, without middlemen. For example, the Mexican cooperative La Selva opened eighteen coffee shops in Mexico, U.S.A, Spain and France at the turn of the century, and many cooperatives formed direct trading and marketing links with multinational retailers such as Carrefour and Starbucks as well as smaller-scale roasters like Van Weely and Royal Coffee. (Milford, 2004; Gonzales, 2002)

9.5. Distribution of income

The Starbucks example is a good introduction to the questions surrounding the distribution of income at various levels of the Fair Trade value chain. FLO has focused solely on the effects at the beginning of the value chain, i.e. the producers, whereas the 'fairness' at the retail end is not regulated and scrutinised in the same manner. Thus there is a possibility that the Fair Trade network legitimised those actors that were a target for criticism in the first place, such as multinational trading and retailing giants through the inclusion of these actors in the Fair Trade system, even while these giants continued to reap the lion's share of the profits in the commodity trade. (Anderson and Riedl, 2004; Nigh, 2002) However, one does not necessarily need to demonise the multinationals, because - as the NRET points out - conventional modern export trade considers such practices as stable prices, guaranteed purchase and long-relations between buyer and supplier as best practice, even though Fair Trade activists would like to demarcate Fair Trade practices from conventional trade practices. (NRET: 1999)

9.6. Limited knowledge among farmers

In contrast to organic farming where farmers are in daily contact with product standards, production for the Fair Trade market during the coffee crisis was an abstract and intangible concept for many of the participating farmers. Such aspects of Fair Trade, as certification and marketing were handled at the executive level in many cooperatives. Instead of seeing the transnational reach of Fair Trade, many farmers equated it with actions taken by their cooperative, without seeing the further links in the Fair Trade value chain. In some cases management was even found to deliberately withhold information so as to create an image that the improved revenue was connected to improvements in the cooperative in itself rather than being a premium from FT markets. (Murray et al: 2003) Another reason why the image of FT was hazy among many producers, is that during the coffee crisis most cooperatives involved in FT only sold a fraction of their harvest to Fair Trade buyers and usually lumped together the proceeds of the sales when presenting them to the farmers. Credit issues were also usually handled by management, and farmers seldom knew that they were pre-financed by Fair Trade organisations. (Murray et al., 2003; Pérezgrovas Garza and Cervantes Trejo, 2002; Lyon and Moberg ed., 2010; Ruben ed., 2008)

Sáenz-Segura and Zúñiga-Arias (2008, 133, in Ruben ed.: 2008) conclude in their Costa Rican case study (conducted in 2007) that "about half of the coffee producers in the FT region do not perceive any benefit from the certification, while a third part does not know about the premium."

9.7. Problems of participation and commitment

According to Nigh (2002) it is clear that Fair Trade had a positive impact on smallholder coffee organisations during the coffee crisis. However, it was not an easy task to become a Fair Trade producer and in some cases organisations were excluded from participation by inconsistent criteria. One problematic issue was the exclusion of producer groups due to the assessment of third party monitors. There were cases when the monitors lacked the proper local knowledge and sensitivity to be able to assess producer organisations correctly (Nigh: 2002). Moreover, there have been campaigns of defamation against Fair Trade producer organisations, having their roots in the local political situation.[25] Even though Fair Trade has an implicit political agenda, there are no explicit rules for how to act in a case of a producer having different political visions than that of the Fair Trade movement, and according to Nigh, during the time of the coffee crisis, members of Northern Fair Trade organisations had a tendency to meddle in internal political affairs of their Southern affiliates. (Nigh: 2002)

10. Discussion

Fair Trade is many things. It is a private ethical initiative in a time when governments have taken a back seat in regulating an ever-increasing amount of international trade. It is an opening to discuss the prevalent trade structures in our global capitalist world order. It is concrete products, bananas, footballs, coffee and much more, produced by less franchised individuals around the world. In this section I will begin by highlighting some economic aspects of Fair Trade, continued by looking at Fair Trade in the Global North, followed by an analysis of the future of FT, before I finally will discuss the impact of Fair Trade coffee on producer groups during the coffee crisis.

10.1. Economic aspects of Fair Trade

10.1.1. Fair Trade as a universal model for trade

An interesting and as far as I know, not discussed question, is the question of the viability of Fair Trade coffee trading on a much larger scale, i.e. *would it be possible to expand the Fair Trade market indefinitely and what would the consequences be*?

One can ask whether it would be possible to extend Fair Trade practices to all producers of a certain good, perhaps all commodities, or even all goods. If one disregards the organisational and political consequences, i.e. the 'intangibles' of Fair Trade, the following picture emerges. Extending Fair Trade practices to encompass all producers of a given good implies that the

[25] Unión Majomut based in Chiapas, Mexico was accused in an anonymous e-mail in 1999 of being involved in paramilitary activities. The letter demanded the expulsion of the organisation from the Fair Trade system. However, members of the FLO council who were acquainted with the organisation rebutted the accusation. (Nigh: 2002)

terms of trade for this good is enhanced in comparison to other goods, because of the price floor and the social premium. Thus, producers of other goods subsidy the producers of the "Fair Trade" good, as they now can buy less of the "Fair Trade" good than before. If prices of a certain good are fixed altogether, the market mechanism is circumvented and instead there is price fixing on the behalf of the "Fair Trade" producers, leading to a cartel-like system. If all producers of a certain good *do not* partake in the Fair Trade system, then there is both an open market for the good in question and a "closed" market with fixed prices. If the Fair Trade system would be extended to all commodities, then there would be a relative price increase for commodities and a relative price decrease for all other goods. Again, this implies a form of cartelization distorting the price mechanism. These artificially maintained prices would possibly lead to less demand for the commodity in question and perhaps create a black market for the commodity.[26] In the extreme case of all goods and services being part of a system with fixed prices, one could already speak of an entirely planned economy.

One could argue that potential price fixing and the accompanying cartelization of many or all commodities would not be a negative course of action, as supposedly this would increase the revenues of (usually economically vulnerable) commodity producers. Still, there are many aspects that speak against cartels; policing and monitoring the cartels is both difficult and expensive, and questions of product quotas, correct pricing, etc., are also difficult to solve, something which became evident in the maintenance and ultimate collapse of the International Coffee Agreement.

One the one hand, the attempt to stabilise the market at a certain price level proved problematic in the ICA. On the other, the existing free market system driven by international traders has not proven to be significantly better (many observers would argue that it was - and is - actually much worse) for small producers, something that was made evident by the coffee crisis. Cartelization has functioned to some extent (for the producing countries) in for example the case of the oil, leading to increased revenues and a strong bargaining position in the world economy. Nevertheless, one has to keep in mind the unique characteristics that oil possesses, and the success of OPEC can probably not be translated into similar results for less vital commodities. Agricultural products have very different entry barriers than the extraction of oil; all countries with access to the right conditions for growing a certain product can start producing (Vietnam's rapid rise in coffee production is a case in point.). Moreover, most agricultural products are not so vital for the world economy as oil has been. The possibilities

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[26] As in fact happened for coffee when the economic provisions of the ICA were in effect. (Mshomba: 2000)

to substitute agricultural products for one another are large in many cases. If this is the case for coffee as well, is a question that remains outside the scope of this thesis.

10.1.2. Macro analysis and the counterfactual

One aspect of Fair Trade that is missing from a micro analysis is the global counterfactual, i.e. what happens to small holder coffee producers (or presumptive entrants into the coffee market) in e.g. Vietnam, when Fair Trade coffee is bought. Is the transfer of Fair Trade premiums enough to offset the loss of welfare in other regions where coffee is grown (or is waiting to be grown by even poorer families - but will not be grown) because the money that they could make is captured by current FT growers? The answer to this question depends on if FT purchases function as a direct substitute for other (coffee) purchases, i.e. does fair trade coffee increase the size of the coffee market "pie", or does it just slice it into new configurations? This is another question that warrants further research, if one wants to get a clearer picture of the macrolevel repercussions of the Fair Trade network.

10.1.3. Fair Trade and neoclassical economic theory

One problem with a simplistic use of standard neoclassical economic theory is that it in its purest abstract form is both atemporal[27] and immaterial. Thus, the adjustment costs of farmers to retrain themselves and/or switch to other crops are not included in the (at least) most simplistic models used in standard economic theory. An example of the actual materiality and temporality of the real world is that it takes three to four years for a coffee tree to mature, after which it produces beans for approximately twenty to thirty years. (Milford: 2004)
It seems evident that it will be difficult for a small farmer to adjust his or her production levels according to rapidly fluctuating coffee prices (perhaps exacerbated by speculative trading). However, this material relation between product(ion) and the physical world is not something that is emphasized in standard economic theory, where the focus lies on analysing a mode of production more suited to a factory setting where capital, labor and various inputs are more readily substituted for each other.

[27] Except perhaps for the abstract *"short term"* or *"long term"*.

10.1.4. The floor price and unlimited expansion

Hypothetically, the floor price of Fair Trade coffee should increase supply inelasticity, as producers are guaranteed at least a certain price for their coffee beans, and thus have less incentive to root up their existing coffee plants and replace them with e.g. crops that are compatible for subsistence farming.
As coffee plants take a lot of time and quite some effort to get to a point where they yield harvests, the floor price that Fair Trade guarantees enables a more long-term approach to coffee farming. Nevertheless if one would expand the Fair Trade floor price to all coffee production, this would create perverse incentives for farmers to increase their production *ad infinitum* and *ad perpetuum*, thus creating a *de facto* situation of the rigid prices of a planned economy. Thus, the production and sales of Fair Trade coffee in its current form can not be expanded without limits without substantial accompanying problems, even if the market for such coffee existed.

10.1.5. The "fair price" concept

Moore (2004) lists a number of penetrating questions that have to answered, unless Fair Trade is to be reduced to a development fad characterised more by a "launch, lunch, and a logo" (Blowfield: 1999, 761) rather than being a serious development effort. Questions such as:

> What is a "fair" price for the exports of developing countries? Does paying a higher price make it fair? Would a straight donation, rather than paying a higher price, be more efficient? Is Fair Trade always better than Free Trade and protectionism or does it depend upon conditions? Is the reliance on the largesse of the developed world sustainable through periods of economic uncertainty? Does the higher price lead to over-supply and delay a move to the development by producer organisations of higher value added products? Does it lead to dependency on the part of the producers? Does it disadvantage those producers who do not engage in Fair Trade in comparison to those which do? (Moore: 2004, 5)

I will try to answer some of these questions in the following. Moore's felt necessity to define a "fair" price is in my opinion relevant and fruitful, as it is an elusive concept that is easy to take for granted but harder to define thoroughly.

When the GDP per capita of many developing countries is only a tenth or even a hundredth of the richest countries, the issue of fair pricing might seem quite clear at a cursory glance, namely that the North could afford higher prices on its commodities, while restrictive trade barriers have had a long history of hindering developing country exports of especially manufactured goods. (Mshomba: 2000)

However, as attempts such as commodity control schemes have shown, this imbalance is hard to rectify and it makes too many assumptions and generalisations, i.e. what about the producers of different goods or services within developing countries, or trade between developing countries? At what level does the "fair price" lie then? When one looks to conventional neoclassical economic theory, the concept of "fair price" would probably be defined as the clearing price in perfect market conditions. I, however, will argue that many commodity markets, including markets for food products are characterised by market imperfection.

The notion that Fair Trade organisations can define a “fair price” for a certain product - and thus the underlying cost of capital and innovation that forms the production process- is in my mind a case of hubris. One approach when trying to open up the concept of fair pricing, is to include those externalities that are not included in the market price. Such externalities are for example of environmental or social nature, i.e. costs that are borne by society or the environment, but that are caused by the actions of private enterprises. It seems evident that this inclusion of social and environmental externalities into the "fair price" concept is not a precise or closed process; instead it is an imperfect and approximating process, as the range and depth of productional externalities can be very varying and sometimes quite intangible.

10.1.6. Fair price and market power

As this thesis hopefully has shown, is that one of the reasons why small farmers receive so little of the retail value of their products is the power imbalances in the supply chain.

For example, in 2001, during the low point of the coffee crisis, food and beverage giant Nestlé reported a record profit of €4.5 billion. (Nestle: 2002)

If I continue with the unpacking of Moore’s (2004) questions in the previous section, then the answers for Moore's first two questions are quite clear in my opinion; a higher than current price for the small producers of most commodities are important steps towards fairer pricing. However, trade is not necessarily made fair by paying a higher price at the retail end; instead the distribution of income along the value chain should be a key question, with the focus in the case of coffee being the monopolies/monopsonies of international traders and roasters and the increase of competition in local markets of especially middlemen. Naturally, one has to keep questions of efficiency as well as equity in mind. It is not productive to artificially maintain high price levels in saturated markets, thus creating incentives for producers to increase production when supply is already too high, something which is a real problem for Fair Trade. To rectify this problem perhaps increased information is one possible solution. However, to teach the small farmers of the world the intricacies of e.g. commodity future markets can be a difficult task.

Another problem are the distributional aspects within Fair Trade, as not all producer applicants can join because of the limited market. The choices seem to fall on those producer groups who have the requisite managerial and business skills to survive in a competitive environment, and not the ones who are in most need of help. However, even though Fair Trade is imperfect so are - I would argue - other forms of development interventions.

10.2. Fair Trade in the North

The origins of Fair Trade is in the Global North. Fair Trade products are almost exclusively consumed in the North by Northern consumers. It is governed and audited by northern organisations employing many people from the North.

As Fair Trade was developed in the North, in rich developed countries, with the explicit aim to help people in poor developing countries, there remains and inherent tension that is to some extent is inevitable if development interventions from the north to the south are to be accepted or encouraged at all. Nevertheless, most FT producers in the Global South are not vested in the ethics of their process of production, but view it more as a matter of product differentiation such as organic production. (Ruben ed.: 2008) The cynical counterfactual question would indeed be, would FT producers engage in unethical production activities, if the rewards were substantially higher? To acknowledge the fact that the cultivation of plants that form the basis of illicit drugs is widespread around the world, seems like a good beginning when trying to answer this question.

A further proof of the lopsidedness of Fair Trade is that it still maintains clear-cut remains of previous imperial and core-periphery divisions of labour, with sales of Fair Trade products almost exclusively in the Global North and production in the global South. In 2015, Africa as a continent[28] counted for less than 0.3% of total Fairtrade sales, Asia for 1.1% and Latin America (= Brazil) for less than 0.01%. (Lernoud and Willer: 2017)

Another example of the lopsidedness is that during the height of the coffee crisis more than ten million euros was spent every year by FT organisations on education, public relations and marketing. (EFTA: 2001) Critical observers could contrast this with the some 80 million € that small growers received in FT premiums in 2004 (FLO: 2005a). Thus, a substantial amount that could perhaps given to growers as premium premium was spent on PR activities in the North by FT organisations, even though one has to acknowledge that perhaps it was money well spent as an investment to increase future FT sales.

10.2.1 Multinationals and public institutions

To what extent the *actual* or the *narrated* version of the coffee crisis managed to sway the NGOs to action, and big multinationals (such as Starbucks) to incorporate FT products into their assortment is an interesting question, that warrants further research. But it is probably not a coincidence that after many years of mounting pressure, many international giants in the coffee trade changed stance - at least on the surface - towards Fair Trade. Thus economically, business was almost as usual, whereas when looking at the public relations side of things, the multinationals could maintain that they had sided with "Fair Trade".

Another target of Fair Trade campaigning was public institutions. This strategy proved especially successful, as many political, religious and educational institutions across Europe started serving Fair Trade coffee as an alternative to conventional coffee during the years of the coffee crisis, including all of the European Union institutions, and various national, regional and municipal institutions in e.g. Germany, The United Kingdom, and The Netherlands. (Fridell: 2004)

Using Fair Trade as window dressing to patch up a tarnished image is a phenomenon that according to Fridell (2004) is commonplace. Fridell's analysis is that Fair Trade at the turn of the century was part of a more general transformation in the international trade and development regime, involving the decline of both state intervention and market regulation. The focus of developmental work shifted from being a virtual monopoly of state-led agents to becoming more reliant on NGOs and the private sector.

[28] 99% of African sales were made in South Africa.

The use of Fair Trade as ethical window dressing remains a potential possibility for MNCs. Such coffee giants as Procter & Gamble and Sara Lee that successfully lobbied the US government to abandon the price control measures of the International Coffee Agreement in 1989 and subsequently reapt the profits of this event, started to support Fair Trade coffee during the coffee crisis. (Fridell: 2004)
Even the World Bank started to show interest in Fair Trade towards the end of the coffee crisis, as it was a part of "private (market driven) standards that encourage employers to adopt desirable labour practices." (World Bank quoted in Fridell: 2004, 154) During the later years of the coffee crisis World Bank staff and Fair Trade advocates met many times, and the World Bank started to promote Fair Trade on its website and began serving Fair Trade coffee at its Washington DC based headquarters. (Fridell: 2004)
Thus, one of the actors that (arguably) supported the destruction of many of the state-led (however flawed) initiatives supporting the livelihoods of small coffee farmers, (such as the ICA) started to serve one response to this destruction in its air-conditioned board rooms.

The irony here is quite rich, namely that public institutions jumped aboard the Fair Trade bandwagon, as the FT movement is mainly consumer-driven and thus a non-governmental development initiative. The ascendancy of Fair Trade and the supposed need for such a movement can be said (perhaps as a slight overstatement) to be the result of inadequate efforts of the traditional state-led development field. Thus, one could perhaps argue that the public institutions have completed a full circle, by patching up their image in the support of peripheral development efforts (such as Fair Trade), while maintaining the status quo in the core field of traditional development work.

10.3. Economy or Politics? - The dual nature of the Fair Trade movement

The need for reliable deliveries of high-quality goods can be a difficult or even insurmountable task for many communities that would be ideal Fair Trade partners due to their socio-economic position. This fact highlights one of the fundamental questions of FT. Is Fair Trade trying to create a more functioning market, or trying to step outside the market system, creating something new? What are the tensions between these viewpoints, and in what direction would these different approaches lead the Fair Trade movement?

This tension is noted by a number of observers, among others Renard (2003) and Raynolds (2000). As the situation stands, Fair Trade seems to be a mixture of both approaches with some idiosyncratic add-ons that permeate the structure at different levels.
Renard (2003) sees a clear line of demarcation in the shift from specialty stores that sell alternative or Fair Trade products to the incorporation of Fair Trade products into conventional supermarkets. Indeed going to a World Shop to buy one or two specialty products was probably a bigger limitation on the Fair Trade market due to the effort to go there than the higher prices that these products commanded. Thus according to Renard (2003), in the move towards the conventional, Fair Trade shifted from appealing to political convictions to humanitarian sentiments.
This dual nature of Fair Trade, being both within and outside the market has been a reason to debate the *raison d'être* of Fair Trade. Renard (2003) identifies two different camps, a more radical camp that sees Fair Trade as a challenge to the prevalent economic system, and a more pragmatic one that is interested in selling Southern products at higher prices in the North.

The tension between the radical and the pragmatic was already visible during the time of the coffee crisis, and one can say that it has exacerbated since, with various initiatives (such as the World Fair Trade Organisation and Fair Trade USA) either not joining FLO or seceding from it.[29]
The radical group views Fair Trade as a stepping stone towards a New World Trading Order, whereas the pragmatic sees the increasing market share of Fair Trade as a desirable result in itself. There is an interesting tension in the demands of the market and the ideologically and ethically motivated starting point of Fair Trade.
The (at least supposedly) ethical nature of Fair Trade products, is an advantage in the marketplace just as design, price and quality are. Thus, profits are made out of a perceived notion of fairness, and Fair Trade can be seen - in a view that stresses the market approach - as a niche product for a specific (ethically minded) demographic group.
Tensions arise within the Fair Trade system out of the special constraints that apply to it, such as the minimum price guarantee above the market price, direct dealing with producers, prepayment of the products, etc. One also has to remember that along the value chain of Fair Trade, there are also businesspeople whose main aim is to make a profit and are interested in the ethical linkage of Fair Trade as a vehicle for reaping profit but not as an end result *per se*.

[29] In September 2011, Fair Trade USA resigned from FLO, stating that it wanted "to double" the impact of Fair Trade for producing communities. (wikipedia: 2020)

One could argue that the participants in the Fair Trade network who are mainly interested in the ethical side are the consumers of the end product and perhaps the facilitators and regulators, in the form of FLO and other Fair Trade organisations. Both the producers in the form of mainly small farmers and most retailers probably do not view ethics as a central part of their venture. Indeed, the possibility for Fair Trade producers to switch to the administratively less cumbersome conventional market might leave FLO and its partner organisations in a tight spot, if producers with longstanding ties that are well integrated into the system decide to leave it. Finding new and suitable producers is a time and resource consuming process, and if the rate of producers joining and leaving the Fair Trade system becomes too high then the whole edifice is prone to collapse. If this possible increased turnover among FT producer cooperatives actually took place after the coffee crisis, is a question that warrants further research.

The radical vision is defined by its discursive character, viewing Fair Trade as an opening in the discussion on issues concerning trade, and the potential that trade has to improve or worsen the situation for the developing countries. Included in this discursive character is the view that Fair Trade should challenge the existing status quo of the international trading system, and perhaps even challenge the whole capitalist system. (Moore, 2004; Renard, 2001; Lyon and Moberg ed., 2010)
This other approach tries to question the dominant capitalist "fetishized"[30] mode of production and trade, by creating personal, close stable connections to producer over long periods of time, and often even paying significantly higher premiums to producers than Fair Trade criteria. (Lyon and Moberg ed.: 2010)
One can already see that the FLO is firmly in the practical camp, whereas e.g. WFTO is more leaning towards the radical one. But one could also argue that idealism and radicalism is easier to maintain when sales are smaller, thus leaving open the question of scalability of the radical approach.

[30] In the Marxian sense, where production and exchange are not viewed as relationships between people but as relationships between things, thus hiding the social relations that exist in the production process.

10.4. The impact on Fair Trade coffee on producer groups

10.4.1. Distribution of benefits

In my mind, it is to some extent a double-bind without a satisfactory solution that Fair Trade initiatives are not targeting the groups most needing economic support. This is mostly due to the necessity of requisite managerial and economic knowledge among producers. As producers of export commodities are usually not the most disadvantaged groups in developing countries one can thus ask if the targeted groups are really the ones that need support the most.

Another distributional aspect is that of gender. Women are much less likely to participate and receive income from Fair Trade schemes. The gender aspect was not a central question in the Fair Trade movement at the time of the coffee crisis, and the distribution of income within households was perhaps be even worsened by Fair Trade as male heads of households received additional income, whereas their spouses were in practice excluded from the FT network and the concomitant increased earnings, especially in Latin America. (NRET, 1999; Lyon and Moberg ed., 2010)

10.4.2. Choosing producer groups

If Fair Trade is a subsidy for vulnerable producers, then one wonders what the criteria for inclusion in this exclusive club with many economic benefits should be?

The FLO has its criteria, but the implementation seems to be more haphazard than very organised or well-grounded. Furthermore, is Fair Trade a zero-sum game that is played at the level of production, where some producers gain and are able to continue their (perhaps inefficient) production while others continue to be even more marginalised and have to make cutbacks or even stop producing altogether?

As a worst case scenario, Fair Trade becomes a somewhat arbitrary subsidy to certain producer groups, while leaving others even worse off because of the unfair competition and shift of revenues towards Fair Trade away from normal markets. [31] Moreover, as stated earlier,

[31] If the sum total spent on a family of products - e.g. FT coffee and regular coffee - remains the same, and the Fair Trade product increases its market share, then Fair Trade producers gain and conventional producers lose. Nevertheless this result does not necessarily obtain in the real world, as consumers may spend more on the whole product family, due to changing preferences or other (e.g. ethical) reasons.

the encouragement of producing a product that is ridden with chronic oversupply (e.g. coffee during the late 1990s and early 2000s) seems to be a recipe for disaster.

10.4.3. Fair Trade and cultural imperialism

Fair trade emphasizes trade. To some extent it perpetuates the power imbalance it explicitly tries to rectify as it can trap producers in commodity production, when other income options could be more beneficial. Fair Trade can very well be seen as a form of cultural imperialism, in that it imposes certain standards, ideas and manners of conduct on some of the most vulnerable societies around the world. A case in point is the payment and usage of the social premium connected to Fair Trade coffee.

Prior to the coffee crisis, the social premium of .05 USD/pound of coffee was often distributed among cooperative members instead of being used jointly by the community. During the coffee crisis, FLO pressurised producer organisations to use the premium for social projects (Murray et al. 2003). However, one has to bear in mind the caveat of Valkila (personal communication: 2006), who presents a contrary picture, maintaining that in practice many cooperatives were free to do as they please with the premium.

Returning to the evidence presented by Murray et al. (2003), many projects were undertaken during the coffee crisis, supported by the social premium, e.g. the construction of latrines and fuel-efficient stoves. Thus, the existence of the social premium could perhaps be viewed as a success. Nevertheless, the existence of an income tied to certain criteria could also be viewed as a form of cultural imperialism, echoing a previous era of "white elephant" projects in the field of development, in the sense that northern organisations suggest an "allowed range" of acceptable projects or purchases not tied to local realities.

The above-mentioned comments are not to be seen as a defence of the dismantling of collective resources, instead it is a reminder of the inherent and sometimes invisible power relations in perhaps all acts of good will. To some extent the whole edifice of Fair Trade entails aspects of cultural imperialism, as it focuses on a number of issues that are less emphasised in many producer societies, such as gender issues. Even though one usually connotes cultural imperialism with something negative it is seems to be inherent in all forms of development work, and as such it is perhaps a necessary component for any "traditional", more or less unilateral, development work between stakeholders in the North and the South.

11. Conclusion

Fair Trade epitomises the evolution of the field of development in the 21st century. It is a development initiative that fuses the private with the public and the global with the local.

Even though Fair Trade was still an edifice being built at the time of the coffee crisis, in 1999-2004 it was already a large transnational endeavour involving over five hundred producer organisations, representing over one million farmers and workers in over fifty different countries. With total sales of 830[32] million € in 2004 (FLO:2005a), and subsequent rapid growth, Fair Trade had already taken its first tentative steps into the mainstream of society, with many of the trappings that accompany such a transformation. Thus, already during the coffee crisis it is probably fair to say that the Fair Trade movement had started to expand to such a scale that many interests besides the purely ethical ones wanted to maintain and increase the level of success already gained.

The dismal development of the coffee market during the coffee crisis led to a situation where the price that producers received for their Fair Trade coffee was substantially higher than they received for their conventional coffee. This made Fair Trade coffee very attractive for producers, thus increasing the number of producers interested in the scheme. The strong monetary incentives to sell coffee in the Fair Trade market capped the amount of coffee that any one producer organisation could sell through the Fair Trade system. However, as coffee prices again started to rise from their rock-bottom levels, the Fair Trade market with its somewhat cumbersome rules and regulations began to look as a less and less attractive option. How rising prices affected the interest of Fair Trade farmers to remain in the Fair Trade network is a crucial question that to some extent determines the *raison d'être* of the Fair Trade movement, i.e. is Fair Trade a stopgap measure in times of crisis, or are producers willing to go the extra mile (through more work, more bureaucracy) to ensure that Fair Trade can maintain its lofty trajectory in the marketplace. As alluded to earlier, this is a question that warrants further research.

[32] With a large (but undisclosed by the FLO) part being Fair Trade coffee.

I will now answer the four questions posed in the introduction, leaving the first and foremost question to be answered last.[33]
Fair Trade is an initiative within the sphere of ethical trade, stemming from the insight that something is wrong with conventional trading structures. Fair Trade is an alternative trading system, functioning both as an example how trade can be conducted and as a vehicle for concrete economical help to vulnerable producing communities around the world. Fair Trade has splintered into two main branches, already visible during the coffee crisis, namely that of a quickly expanding ethical (niche) market, under the aegis of the labelling organization FLO, and another branch trying to create "even fairer" trade than the Fair Trade of FLO, where the importer or retailer try to maintain close personal relationships with producers – exemplified by e.g. WFTO.

The main reason for the coffee crisis was oversupply, due to the ascendancy of new coffee producing nations after the collapse of the ICA (especially Vietnam), in tandem with record harvests in Brazil. These record harvests were, on the one hand, due to high coffee prices in the early and mid-1990s incentivizing growers to increase production, and on the other, due to the fact that no major weather shocks affected Brazil in the late 1990s and early 2000s.

During the coffee crisis, the conventional coffee market was dominated by a few traders and even fewer roasters. This market power allowed them to capture the benefits of falling coffee prices and to turn the ever-cheapening raw material for their own products into increasing profits, at least in the case of Nestlé, something that is exemplified by the Nestlé-Sainsbury vs. Prodecoop-Cafédirect value chain analysis, and the fact that Nestlé made record profits in the midst of the coffee crisis.
The coffee crisis was exactly such an event that FT was designed to avert or at least ameliorate. When looking at the case studies from the various cooperatives during the crisis, one can say that at the local level at least, Fair Trade had a lot of impact in producing communities, especially in the ones where a large part of the harvest was sold through Fair Trade channels. More than half a million coffee farmers enjoyed the (limited) security that belonging to the Fair Trade network provided, something that could mean the difference between malnutrition (or even starvation) and an adequate food intake - especially at the height of the crisis in 2001-2002.

[33] What was the impact of Fair Trade coffee during the coffee crisis? What is Fair Trade? What factors led to the coffee crisis? What was the coffee market like in 1999-2004?

To measure the impact of Fair Trade coffee during the coffee crisis is both easy and hard at the same time. Following Jaffee (2008, in Ruben ed.) one could maintain that the easy part is to say that for many producing communities, Fair Trade during the coffee crisis was a *necessary measure, but in many cases not a sufficient one*. Nevertheless, looking at the macro level, with FT consisting of less than 1% of total coffee sales in 2004 (FLO, 2005a; Osorio, 2004), it is clear by looking at scale alone that Fair Trade coffee at the time of the crisis was just a small drop in an ocean of conventional trade.
The hard part is to pinpoint exactly what impact Fair Trade had due to the many different forces affecting the producer groups. Even though some of the case studies (Ruben ed.: 2008) have used non-FT coffee growers as control groups in their studies, to ascribe causality to certain mechanisms and isolating them from other factors remains a problem.
One effect of Fair Trade coffee that is especially difficult to evaluate, is how the debate on trading structures, to some extent instigated by Fair Trade, changed the lives of small farmers in the South. The success of the debate on how to change international trade structures into more equitable ones for Southern producers, is hard to analyse due to the difficulty of ascribing causality to various factors, and following the presumptive causal link between debate, opinion and action. Nevertheless, debate created opinion that perhaps led to changes in policies and legislation, thus trickling down all the way to the grassroot level of small farmers.
The pressure that was applied by Fair Trade campaigners on large companies resulted in some changed policies during the time of the coffee crisis, such as the decision by Starbucks to start including Fair Trade goods in their product range. Some might argue that these changes were superficial PR stunts, however, in my opinion there was - and is - a potential for an incrementally changing market that better suits small farmers, if the pressure on multinationals is kept up. The impact that Fair Trade campaigning has had on the policies of large companies and on the business climate in which international trade is conducted could perhaps be viewed as the biggest - though indirect - impact that Fair Trade has had, affecting not only Fair Trade farmers, but all farmers, everywhere. One has to bear in mind however, as stated earlier, that the causal chains behind this impact is difficult to measure in any meaningful way.

The main problems that Fair Trade tried to rectify during the coffee crisis, were issues of imperfect competition and unequal power relations that small producers of mainly food products faced in the global marketplace. There are many examples of products where only a handful of leading firms controlled the crucial stages of the value chain, be it trading, processing or some other stage.

The coffee value chain during the coffee crisis is a good example of such strong dominance (governance in Gereffi's terms) by a few actors. Thus, I think that Fair Trade at best remained a marginal fix, a band-aid on a gaping wound of unequal international trade. Fair Trade did at best bring some alleviation for a small part of the millions of farmers that remained at the bottom rung of international commodity markets. This imbalance in power and the resulting terms of trade can and must be remedied through other measures.

Turning to the micro level, it becomes clear that here the picture is slightly less opaque, and that Fair Trade coffee actually managed to provide higher incomes for producers involved in the FT network than the conventional one. Still one has to bear in mind that *one more dollar for a Fair Trade farmer was perhaps one dollar less for another farmer*, elsewhere.

Keeping this caveat in mind, the case studies included in this thesis conclude that Fair Trade coffee was mostly a positive factor at the local level, especially when viewed in economic terms. Nevertheless, issues such as linkages to the community at large, gender issues and the difficulty to disentangle the effect of just Fair Trade coffee in co-operatives that use many type of markets as outlets for their goods, are somewhat difficult to resolve.

When I started writing my thesis in the spring of 2006, it seemed to me from the scarce material available at the time, that the people studying the Fair Trade phenomenon very well could be divided into two main camps. The first camp consisted of those who were critical towards Fair Trade. In my limited sample, these criticisms generally sprung from researchers with a background in economics, who pointed out the inefficiencies and the limited scale of Fair Trade. The second camp seemed to consist of researchers with a background in the social sciences or the humanities, and generally had a more positive attitude towards Fair Trade. The majority of the studies that I included in this thesis have been written by people that I would define as belonging to the second camp, with a more positive view on Fair Trade, thus perhaps skewing my analysis towards a viewpoint more in favour of Fair Trade. The reason why a smaller amount of studies critical of Fair Trade have been included in my thesis is the reason that there were only a handful of them at the time when I started writing this thesis, such as Zehner (2002) and Lindsey (2004). Moreover, the overtly critical studies have remained a minority of all studies written up until the present day, at least in the material that I have come across. As only a minority of studies have had an explicitly critical stance, they are also a minority in my thesis. Furthermore, as the research concerning Fair Trade has matured, the most partisan views have been tempered by more rigorous and analytic, and thus more neutral research. (Lyon and Moberg ed., 2010; Ruben, 2008)

When looking at the arguments that stem from the critical camp, we see that one of the arguments they make is that the Fair Trade premium is an inefficiently transferred subsidy to small coffee farmers. After reviewing the existing data, I concur with this opinion. Nevertheless, one has to bear in mind that other ways of resource transfers from the rich North to the poor South are all linked with similar problems also facing Fair Trade.
For instance, the Nestlé-Sainsbury vs. Prodecoop-Cafédirect case study (Mendoza and Bastiansen: 2003) indicates that the premium paid by the consumer when purchasing a pound of Fair Trade coffee dwindles down to a fifth, when it reaches the level of the producer, with Valkila et al. (2010) presenting somewhat similar figures. It could be argued, that small farmers would be better off if the Fair Trade consumer would write a check for the same amount as the premium she pays in the supermarket. In my opinion this conclusion disregards many of the problematic aspects surrounding direct monetary transfers to small farmers, such as the potential for corruption and dependency. Nevertheless, if the wastage of the transfer reaches four-fifths as in the Nestlé-Sainsbury case, it seems clear that a more efficient resource transfer method could indeed be conceived.

There are many roads that one can follow when trying to pinpoint the impact of Fair Trade coffee during the coffee crisis. One can look at the economic impacts in producing communities. One can choose to focus on psychological factors such as a newfound sense of pride and self-esteem that a more equal trading regime is nurturing. One can look at how organisational changes that Fair Trade has fostered was changing the makeup of how people interacted and communicated, and how power structures and social strata changed through the introduction of new modes of practice. One can look at families or individuals to see if the awareness of Fair Trade penetrated into the household atoms or if it remained outside the door of the concrete and symbolic dwellings of man, in areas where even the smallest increase of income was a necessity rather than a luxury. It is because of the totality of the phenomenon - its many interlinked facets - that any final conclusion on the impact of Fair Trade coffee during the coffee crisis is hard to make. As one answers one question, two new ones emerge to take its place.

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Appendix 1: Generic Standards for Small Farmers' Organisations

(FLO 2003a)

Fairtrade, an Alternative for Small Farmers and Workers

Fairtrade is an initiative for small farmers and wage workers in the South, who have been restrained in their economical and / or social development by the conditions of trade (= 'disadvantaged'). If fair access to markets under better conditions of trade can help to overcome the restraints of development, they can join Fairtrade.

Small farmers can join Fairtrade if they have formed organisations (in co-operatives, associations or other organisational forms1) which are able to contribute to the social and economic development of their members and their communities and are democratically controlled by their members. Organisations can be certified by FLO if they comply with the requirements in this document.

Workers can participate in Fairtrade if they are organised, normally in unions, and if the company they work for is prepared to promote workers' development and to pass on to the workers the additional revenues generated by Fairtrade. Such companies working with hired labour (farms, plantations, etc.), can be certified if they comply with the requirements in this document.

In setting its Standards FLO follows certain **internationally recognised standards and conventions**, especially those of the ILO (International Labour Organisation), as these form the basic labour rights most widely accepted throughout the world. In this document each Standard is formulated in general terms, and, where applicable, reference is made to external standards which FLO follows.

The Standard is then followed by the **requirements** against which producers will actually be inspected. The requirements are divided into:

• **minimum requirements**, which all producer organisations must meet from the moment they join Fairtrade, or within a specified period; and

• **progress requirements,** on which producer organisations must show permanent improvement.

A report on the achievement of progress requirements should be made each year.

Minimum in this sense is meant to ensure that:

1. Fairtrade benefits reach the small farmers and/or workers.
2. The small farmers' organisation and/or the workers has/have potential for development.
3. Fairtrade instruments can take effect and lead to a development which cannot be achieved otherwise.

The degree of progress, which FLO requires from each producer organisation, depends on the level of economic benefits it receives from Fairtrade and on its specific context.
FLO also requires that producer organisations always abide by **national legislation**. Furthermore, national legislation prevails if it sets higher standards on particular issues than FLO.

1 Social Development

1.1 Fairtrade adds Development Potential

Fairtrade should make a difference in development for certified producers.

1.1.1 Minimum Requirement

1.1.1.1 The producer organisation can demonstrate that Fairtrade revenues will promote social and economical development of small farmers.

1.1.2 Progress Requirement

1.1.2.1 A monitored plan should be developed under which the benefits of Fairtrade (including the Premium) are shared based on a democratic decision taken by the beneficiaries.

1.2 Members are Small Producers

By small producers are understood those that are not structurally dependent on permanent hired labour, managing their farm mainly with their own and their family's labour-force.

1.2.1 Minimum Requirement

1.2.1.1 The majority of the members of the organisation are small producers.
1.2.1.2 Of every Fairtrade-certified product sold by the organisation, more than 50% of the volume must be produced by small producers.

1.2.2 Progress Requirement

1.2.2.1 Where a minority of small producers from within a small producer organisation is producing a particular Fairtrade-product, special attention needs to be given to ensure that they will always receive a cost-covering price for their product from the small producers' organisation.
The small producer organisation will establish an adequate system for this respectively.

1.3 Democracy, Participation and Transparency

The organisation must be an instrument for the social and economical development of the members, and in particular the benefits of Fairtrade must come to the members. The organisation must therefore have a democratic structure and transparent administration, which enables an effective control by the members and its Board over the management, including the decisions about how the benefits are shared. Furthermore, there must be no discrimination regarding membership and participation.

1.3.1 Minimum requirements

1.3.1.1 An organisational structure is in place which enables control by the members. There is a General Assembly with voting rights for all members as the supreme decision taking body and an elected Board. The staff answers through the Board to the General Assembly.

1.3.1.2 The organisation holds a General Assembly at least once a year.

1.3.1.3 The annual report and accounts are presented to and approved by the General Assembly.

1.3.1.4 Administration is in place.

1.3.2 Progress requirements

1.3.2.1 The organisation works towards transparent planning of the business. Organisations are encouraged to make annual business plans, cash flow predictions and longer term strategic plans. Such plans will be approved by the General Assembly.

1.3.2.2 The participation of members in the organisation's administration and internal control is promoted through training and education - and improves as a result.

1.3.2.3 The organisation establishes or improves internal mechanisms of members' control over the administration, such as a control committee with rights to review the administration, external audit, etc.

1.3.2.4 Increasingly, the organisation's policies are discussed in member meetings. Management actively encourages members' participation in meetings.

1.3.2.5 There is improvement of the flow of information from board to members about the business and the organisation's policies.

1.3.2.6 Measures will be taken to improve the members' commitment to the organization.

1.4 Non-Discrimination

FLO follows ILO Convention 111 on ending discrimination of workers. The Convention rejects "any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation" (art. 1). As far as applicable, FLO extends these principles to members of organisations.

1.4.1 Minimum requirements

1.4.1.1 If the organisation restricts new membership, the restriction may not contribute to the discrimination of particular social groups.

1.4.2 Progress requirements

1.4.2.1 Programs related to disadvantaged/minority groups within the organisation are in place to improve the position of those groups in the organisation, particularly with respect to recruitment, staff and committee membership.

2 Economic Development

2.1 Fairtrade Premium

The organisation has the commitment and capacity to administer the Fairtrade Premium in a way which is transparent for beneficiaries and FLO. Decisions on the use of the Premium are taken democratically by the members.

2.1.1 Minimum requirements

2.1.1.1 The organisation administrates and manages the Premium transparently and uses it in line with the requirements outlined in these Standards.

2.1.1.2 The use of the Fairtrade Premium is decided by the General Assembly and properly documented

2.1.2 Progress requirements

2.1.2.1 As soon as Premium is available, there is a yearly Premium plan and budget, preferably these are part of a general work plan and budget of the organisation.

2.2 Export Ability

The producers must have access to the logistical, administrative and technical means to bring a quality product to the market.

2.2.1 Minimum requirements

2.2.1.1 Logistics and communication equipment are in place.

2.2.1.2 The producer organisation proves that it meets current export quality standards, preferably through previously exported products which were accepted by importers.

2.2.1.3 Demand for the producers' Fairtrade product exists.

2.2.1.4 The organisation has experience in the commercialisation of a product as an organisation.

2.2.2 Progress requirements

2.2.2.1 The producer organisation increases efficiency in their exporting operations as well as in other operations and this way maximises the return to the members.

2.3 Economic Strengthening of the Organisation

2.3.1 Progress requirements

2.3.1.1 Members will gradually take on more responsibility over the whole export process.

2.3.1.2 The organisation will work towards the strengthening of its business related operations. This could for example be through the building up of working capital, implementation of quality control, training/education and risk management systems, etc.

3 Environmental Development

3.1 Environment protection

Producers are expected to protect the natural environment and to make environment protection a part of farm management.
Producers will implement a system of Integrated Crop Management (ICM), with the aim of establishing a balance between environment protection and business results, through the permanent monitoring of economic and environmental parameters, on the basis of which an integrated cultivation and protection plan is devised and permanently adapted. FLO encourages producers to work towards organic certification.
ICM minimises the use of fertilisers and pesticides, and partially and gradually replaces them with organic fertilisers and biological disease control.

3.1.1 Minimum requirements

3.1.1.1 The producers live up to national and international legislation regarding the use of pesticides, handling pesticides (storing, filling, cleaning, administration, etc.), the protection of natural waters, virgin forest and other ecosystems of high ecological value, erosion and waste management.
3.1.1.2 Pesticides in WHO class 1 a+b, pesticides in the Pesticide Action Network's "dirty dozen" list and pesticides in FAO/UNEP's Prior Informed Consent Procedure list (respecting updates) cannot be used.

3.1.2 Progress requirements

3.1.2.1 The producer organisation will encourage its members to implement **a system of Integrated Crop Management.**

4 Standards on Labour Conditions

FLO regards the ILO Conventions as the authority on working conditions, and expects all registered producers to meet the requirements as far as possible. Where a significant number of workers are employed by a small farmer organisation, there are specific standards to meet. Where a smaller number are employed and where workers are casually hired by farmers themselves, the organisations should take steps to improve working conditions and to ensure that such workers share the benefits of Fairtrade. This should be part of the development plan and be reported to FLO.
The term "workers" refers to all those employed, including casual, seasonal and permanent workers. In cases where a plantation or factory is a member of the producer organisation certified by FLO, the generic standards for hired labour apply fully and the plantation or factory will need to go through a separate inspection process.

Applicable to all producer organisations:

4.1 Forced Labour and Child Labour

FLO follows ILO Conventions 29, 105, 138 and 182 on child labour and forced labour. Forced or bonded labour must not occur. Bonded labour can be the result of forms of indebtedness of workers to the company or middlemen. Children may only work if their education is not jeopardised. If children work, they must not execute tasks, which are especially hazardous for them due to their age.

4.1.1 Minimum requirements

4.1.1.1 Forced labour, including bonded or involuntary prison labour, does not occur.

4.1.1.2 Children are not employed (contracted) below the age of 15.

4.1.1.3 Working does not jeopardise schooling or the social, moral or physical development of the young person.

4.1.1.4 The minimum age of admission to any type of work which by its nature or the circumstances under which it is carried out, is likely to jeopardise the health, safety or morals of young people, shall not be less than 18 years.

4.1.1.5 Employment is not conditioned by employment of the spouse. Spouses have the right to offfarm employment.

Applicable to Producer organisations in which a significant number of workers are employed:

4.2 Freedom of Association & Collective Bargaining

FLO follows ILO Conventions 87 and 98 on freedom of association and collective bargaining. Workers and employers shall have the right to establish and to join organisations of their own choosing, and to draw up their constitutions and rules, to elect their representatives and to formulate their programmes. Workers shall enjoy adequate protection against acts of anti-union discrimination in respect of their employment.

4.2.1 Minimum requirements

4.2.1.1 The organisation recognises in writing the right of all employees to join an independent trade union, free of interference of the employer, the right to establish and join federations, and the right to collective bargaining.

4.2.1.2 The organisation allows trade union organisers to meet all the workers, and allows workers to hold meetings and organise themselves without the interference of the management.

4.2.1.3 The organisation does not discriminate against workers on the basis of union membership or union activities.

4.2.2 Progress requirements

4.2.2.1 If one or more independent and active trade unions exist in the sector and the region, FLO expects that the workers will be represented by (a) trade union(s) and that the workers will be covered by a Collective Bargaining Agreement (CBA).

4.2.2.2 If no independent and active union exists in the region and the sector, all the worker's will democratically elect a worker's committee, which represents them, discusses with the organisation and defends their interests. This committee negotiates with the organisation an agreement on the conditions of employment, covering all aspects normally covered by a Collective Bargaining Agreement (CBA).

4.2.2.3 The representation and participation of the workers is improved through training activities. These are also aimed at improving the workers' awareness of the principles of Fairtrade.

4.2.2.4 If no union is present, the organisation and the workers' committee gets into a process of consultation with the national union federation(s) and the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) or the respective International Trade Secretariat about improvement of the workers' representation and implementing a Collective Bargaining Agreement (CBA).

4.3 Conditions of employment

FLO follows ILO Plantation Convention 110, ILO Conventions 100 on equal remuneration and 111 on discrimination. All employees must work under fair conditions of employment. The producer organisation must pay wages in line with or exceeding national laws and agreements on minimum wages or the regional average.

4.3.1 Minimum requirements

4.3.1.1 Salaries are in line with or exceeding regional average and official minimum wages for similar occupations. The employer will specify wages for all functions.

4.3.1.2 Payment must be made regularly and in legal tender and properly documented.

4.3.2 Progress requirements

4.3.2.1 Regarding other conditions of employment like maternity leave, social security provisions, non-monetary benefits, etc. at least the provisions as laid out in the Collective Bargaining Agreement or the Agreement signed between the workers' committee must be fulfilled.

4.3.2.2 All workers are employed under legally binding labour contracts.

4.3.2.3 The organisation works towards all permanent workers having the benefits of a provident fund or pension scheme.

4.3.2.4 An adequate sick leave regulation is put in place.

4.3.2.5 A working hours and overtime regulation is put in place.

4.3.2.6 Salaries are gradually increased to levels above the regional average and official minimum.

4.3.2.7 Differences in the conditions of employment for casual, seasonal and permanent workers are progressively diminished.

4.4 Occupational Health & Safety

FLO follows ILO Convention 155 which aims "to prevent accidents and injury to health arising out of, linked with or occurring in the course of work, by minimising, so far as is reasonably practicable, the causes of hazards inherent in the working environment."

4.4.1 Minimum requirements

4.4.1.1 Workplaces, machinery and equipment are safe and without risk to health. FLO may require that an inspection is carried out by a competent authority or independent inspection agency.

4.4.1.2 The following persons are not allowed to work with the application of pesticides: persons younger than 18 years, pregnant or nursing women, persons with incapacitated mental conditions; persons with chronic, hepatic or renal diseases, and persons with diseases in the respiratory ways.

4.4.2 Progress requirements

4.4.2.1 Among the workers' representatives, a person must be nominated who can be consulted and who can address health and safety issues with the organisation.

4.4.2.2 Those who are handling agrochemicals are adequately trained in storage, application and disposal of these. They are actively informed of all relevant information on the product they are handling by the producer organisation. This information is provided in the local language.

4.4.2.3 Adequate personal protective equipment of good quality is available and appropriate, especially for the use of agrochemicals. Workers handling agrochemicals must use it.

4.4.2.4 Workers' capability and awareness of the chemicals they are using, relevant health protection and first aid are improved through training.

4.4.2.5 Establishment of a occupational health and safety committee with the participation of workers.

4.4.2.6 Collective risk assessments are carried out regularly.

Appendix 2. Fair Trade Standards for Coffee

(FLO: 2005b)

1. Product description

The Fairtrade Standards cover two species of coffee.

Coffea arabica - Arabica coffee1

Coffea arabica was first described by Linnaeus in 1753. The best known varieties are 'Typica' and 'Bourbon'. The average arabica plant is a large bush with dark-green oval leaves. It is genetically different from other coffee species, having four sets of chromosomes rather than two. The fruits are oval and mature in 7 to 9 months; they usually contain two flat seeds (the coffee beans) - when only one bean develops it is called a peaberry. Arabica coffee is grown throughout Latin America, in Central and East Africa, in India and to some extent in Indonesia.

Coffea canephora - Robusta coffee

The term 'robusta' is actually the name of a widely grown variety of this species. It is a robust shrub or small tree growing up to 10 metres in height, but with a shallow root system. The fruits are rounded and take up to 11 months to mature; the seeds are oval in shape and smaller than those of C. arabica. Robusta coffee is grown in West and Central Africa, throughout South-East Asia and to some extent in Brazil, where it is known as Conillon.

2. Procure a Long Term and Stable Relationship

Buyers and sellers will procure to establish a long term and stable relationship in which the rights and interests of both are mutually respected. Buyer and seller will sign contractual agreements for the first part of the season and a letter of intent for the rest of the season, to be confirmed by purchase contracts as the harvest progresses, which stipulate basic conditions such as: volume, quality, procedures to establish differentials and fix prices, shipment schedules, etc.

3. International Customary Conditions

All other customary conditions applicable to any international transaction will apply, such as the conditions of the European Contract of Coffee, latest edition (hereinafter to be referred to as ECC conditions), unless overruled by any of the special FLO-International conditions as specified herein.

4. Pricing and Premium

4.1 Buyers shall pay producer organizations at least the Fairtrade minimum price as set by FLO (see the price table further below). The Fairtrade minimum prices vary according to the type and origin of the coffee.

4.2 In addition to the Fairtrade minimum price the buyers shall pay a Fairtrade premium as set by FLO at 5 US$-cents per pound of coffee.

4.3 For certified organic coffee an additional premium of 15 US$-cents per pound green coffee will be due, on top of the Fairtrade minimum price or the market reference price respectively as determined under point 4.4.

4.4 If the market price is higher than the Fairtrade minimum price, the market price shall apply. The Fairtrade premium is paid on top of the market price.
For Arabicas the reference market price shall be based on the New York "C" contract. The price shall be established in US$-cents per pound, plus or minus the prevailing differential for the relevant quality, basis F.O.B. origin, net shipped weight.
For Robustas the reference market price shall be based on the London "LCE" contract. The price shall be established in US-dollars per metric tonne, plus or minus the prevailing differential for the relevant quality, basis F.O.B. origin, net shipped weight.
When by legal regulation, all coffee has to be passed through the auction, importer and exporter will agree upon a reasonable margin for the exporter to cover his costs.
The following Fairtrade minimum prices, including quality differentials apply: (all prices and premium in US$-cents per pound F.O.B. port of origin)

Fairtrade minimum price and Premium information

Fairtrade minimum price					Fairtrade Premium
	conventional		**organic**		Conventional and organic
Type of coffee	**Central America, Mexico, Africa, Asia**	**South America, Carribean Area**	**Central America, Mexico, Africa, Asia**	**South America, Carribean Area**	All regions
Washed* Arabica	121	119	136	134	5
Non-washed Arabica	**115**	**115**	**130**	**130**	**5**

Washed* Robusta	**105**	**105**	**120**	**120**	**5**
Non-washed Robusta	**101**	**101**	**116**	**116**	**5**

*** Semi-washed or pulped natural coffee are regarded as washed coffee.**

Payment shall be net cash against a full set of documents on first presentation. The documents to be presented will be those stipulated in the contract and the ones customary in the coffee trade

5. Pre-financing/Credit:

• In the case of contracts with fixed prices the buyer shall make available up to 60% of the contract value, on the request of the seller.

• In the case of unfixed prices the buyer shall make available up to 60% of the estimated contract value on request of the seller, as long as buyer and seller agree upon a mechanism that guarantees the contract value(s) will cover the pre-financing, e.g. by a ‘stop/loss’ clause. In the absence of such a mechanism, seller is entitled only to request pre-financing of up to 60% of the FLO International minimum price.

• Pre-finance must allow access for producer organizations to cash in order to buy from their members. The payment instruments (cash, L/C Red Clause, etc.) will be arranged in the contract, by mutual agreement.

• In principle the pre-finance is meant for the first-level organizations, but in practice it is linked to the contracting parties (the sellers and the buyers). If the exporter is not a member of the register he will receive the pre-finance, but beforehand the exporter and the FLO-CR partner organization have to agree upon the handling of the pre-financing money and the fulfilment of the contract.

• In case of several shipments the spread of the pre-finance must be fixed in the contracts. It is not always necessary to pre-finance the whole amount before the first shipment. Pre-finance must be adapted to the real needs of the producer organization.

• If an importer requires the extension of the shipment schedule beyond the limits of sound commercial practice of the producer organization (three months after the harvest), the real costs of storage, interest and insurance must be covered (by the importer) in the terms of the contract. This rule is not applicable for those organizations in in whose respective countries exist specific export regulations which make the above unworkable.