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BACKGROUND PAPER

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Growing Ethical Networks: the Fair Trade Market for Raw and Processed Agricultural Products

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Growing Ethical Networks: the Fair Trade Market for Raw and Processed Agricultural Products (in Five Parts)

With Associated Case Studies on Africa and Latin America[1]

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Executive Summary

In the last decade, the 'fair trade' of agricultural products and food has emerged as an important tool to create markets for poor and small-scale farmers and simultaneously promote pro-poor development. At its most basic, FT supports two processes: (1) explicit on-the-ground development for some of the most marginalized and poor actors in international agricultural commodity chains—smallholder farmers and plantation workers; and (2) clearly presenting and making visible the relations sustaining international commodity to consumers. In short, FT works to connect Southern producers with Northern consumers through international trade networks dedicated to community development.

Created by 'alternative trade organizations' in recognition of the deteriorating livelihoods of small-scale and primary commodity producers in the South, today fair trade has launched itself into the mainstream of many Northern economies. This market growth, has allowed the FT model to spread to many communities in the South and out beyond the trade in coffee, the first and arguably most important fairly traded food commodity. In 2005 alone, $100 million was provided to fair trade producers and their communities above and beyond the conventional price for fair trade goods. This money remains with fair trade producers to build community, grower, and worker livelihood capacities, through, for example, everything from providing access to clean water and the purchase of household implements, to the support of transportation and community infrastructure, to the education of producers' children. And yet, fair trade is not for every producer nor community. For example, its quality requirements, niche market, growing costs and new ISO 65 compliant standards and operating procedures mean that fair trade requires much initiative and basic capacities/capabilities for many small-farmer communities to participate.

After a brief introduction, the following details the world-wide production and consumption markets for fair trade, the main actors and networks involved in these markets and 'movements', the details and implications of the mainstreaming of fair trade and finally, the prospects for fair trade to promote current and future pro-poor development.

Growing Ethical Networks: the Fair Trade Market for Raw and Processed Agricultural Products

PART 1: Introduction

Fair trade does two things: it makes the relations sustaining international commodity chains visible to consumers, and it has an explicit development agenda targeted at the actors considered the most marginalized in international commodity chains supplying raw and processed agricultural products - the smallholder farmer and plantation worker. It seems to be successful: over the past forty years, and particularly in the last ten, fair trade in raw and processed agricultural products has emerged as an increasingly popular tool to create markets for the products of poor and marginalized Southern farmers in the rich North. Consumer demand for fairly traded produce is soaring. More and more products are being traded as 'fair'. Before we examine the figures in detail, and before we consider the efficacy of fair trade in meeting its objectives, it is useful to consider why conventional trade is argued to be 'unfair'.

One argument centers on the lack of transparency in international commodity chains. According to this, the consumer is making consumption choices based on imperfect information. Commodities sold in the marketplace are made to appear independent of the people and the environments that produced them. This leads to a confusion, and a concealing, of the relations between stakeholders in commodity chains. This invisibility permits socially unjust practices to persist, such as the use of slave and child labor in the harvesting of cacao, documented in West Africa and in the Ivory Coast in particular (Tiffen, 2002; Tiger, 2003).

Second, critics argue that the way international trading relations are structured are inherently 'unfair' for many smallholders and poor farmers (Lang and Heasman, 2004; Nicholls and Opal, 2005; Oxfam, 2002b;). A 'global commodity chain' approach (Gereffi, 1999) allows analytical purchase on the complex interplay between structure and agency in conventional agro-food chains. Four dimensions of buyer-driven chains, of which agricultural product chains are exemplary, can be identified: (1) the value-added sequencing in the production and consumption of a product, (2) the geographical concentration, or dispersion of, production and marketing; (3) the governance structures which determine how material, human, and financial resources are distributed within the chain, and (4) an institutional framework that identifies how local, national and international contexts influence activities within chains (Gereffi, 1999; Raynolds 2002, Barrientos *et al*, 2003; Rammohan and Sundaresan, 2003).

With respect to the first dimension, critics argue that significant elements of value-added sequencing, in which substantial profits may accrue, tend to occur outside the immediate production area. The producer - and/ or their community economic networks – cannot capture the added value of the product (Paris, 2000 in Kaaria and Ashby; Goodman, forthcoming; Oxfam, 2002a). For example, current estimates suggest that coffee producing countries capture a mere 10 percent—falling from a third 10 years ago—of the value of the global coffee market which is worth upwards of $80 billion a year (Oxfam, 2002a). Specifically, as a recent documentary about the coffee industry in Ethiopia shows (*Black Gold*, 2006), of the £14 paid for a pound of specialty coffee at the supermarket, 59 pence is the maximum that would go to the Ethiopian farmers that grew the coffee (Castle, 2006).

Regarding the second dimension, critics argue that the particular attributes of international commodity chains are shaped by, but very often do not challenge, the disparate elements of the societies they traverse. The stakeholders heading buyer-driven chains benefit from cheap producer labor. However, labor is not 'born cheap' in the periphery. Rather, social and cultural factors enable the labor of certain groups, typically women and particular castes, to be low priced *a priori* (Rammohan and Sundaresan, 2003: 905). Social structures and institutional relations demonstrate gendered biases because markets reward the *owners* of land, labor and capital, which tend to be men in most societies.

Exploring the third dimension, governance structures, enables the argument to be made that 'upstream' actors in buyer-driven chains – the supermarkets - exert economic and quality control over the entire chain to the detriment of downstream stakeholders. For example, in the banana sector, vertically integrated corporations such as Chiquita Brands and Dole Food Corporation cultivate, transport, ripen and wholesale their own produce (Murray and Reynolds, 2000: 66). These corporations operate huge Latin American plantations, mono-cropping banana over thousands of acres using heavy applications of fungicides, herbicides, and other chemicals. These activities, it is argued, cause environmental and health problems in the areas where small-scale farmers and

plantation workers live and work, such as deforestation, soil erosion, water pollution and pesticide poisoning (Raynolds and Murray, 1998). Due to their power, supermarkets are able to pass the costs of demand instability on to producers. In so doing they shift environmental and economic risk down the commodity chain to small-scale farmers and plantation workers. Labor costs are driven down and many of the non-wage costs of employment are avoided (Barrientos *et al.* 2003).

With respect to the fourth dimension, the institutional framework, critics argue that national subsidies paid to European and American farmers directly disadvantage small-scale farmers in the South (Nicholls and Opal, 2005; Oxfam, 2002b). Subsidies cause overproduction and a lowering of the absolute commodity price. For some commodities such as sugar and cotton in this situation it is difficult, if not impossible, for small-scale farmers to set the terms of trade.

The changing nature of consumption patterns has increased the importance of product differentiation through branding and labeling (Barrientos *et al.* 2003). This is where fair trade can make the nature of its challenge to conventional buyer-led agricultural chains known to the consumer. The Fairtrade Foundation, the UK's fair trade standards agency and advocate, explains that fair trade offers a chance for farmers and workers to *'increase their control over their own future, have a fair and just return for work, [have] continuity of income and decent working and living conditions through sustainable development'* (Raynolds *et al*., 2004). Other claims for fair trade include:

- Fair trade is an approach to trade that has a strong development rationale, based on introducing previously excluded producers to potentially lucrative niche markets by building up the capacity of producers to trade effectively in the market and paying them a premium price (Tallontire, 2001: 1).
- Fair trade campaigns for reforms in corporate practices, and in national and international laws, in favor of small-scale farmers (Murray and Reynolds, 2000: 67).
- Fair trade is a movement promoting trading partnerships based on dialogue, transparency and respect. It aims to create the most direct links possible between consumers and producers - from tropical forest floor to coffee cup, for example, in the coffee commodity chain (Goodman, 2007).
- Fair trade is part of a movement about supporting *food citizenship* as expressed through social arrangements based on solidarity and coordinated action. Fair trade networks do not seek to abolish international commodity exchange (as do many ecological models of food citizenship) but rather to reform it by establishing new forms of exchange between resource-poor Southern producers and Northern consumers (Lockie, 2006).

Growing Ethical Networks: the Fair Trade Market for Raw and Processed Agricultural Products
Part 2: The consumption market for fair trade

Introduction

Over the last decade, the fair trade market has grown rapidly. Even though fairly traded agricultural products represent only a very tiny percentage of world agricultural trade (approximately 0.1 percent) fair trade sales have been growing more than 20 percent every year since 2000 (Krier, 2005: 5). In 2005, 1.1 billion Euros worth of Fairtrade-labelled products were sold worldwide, an increase of 37 percent over the previous year (FLO, 2006a: 2).[3] Fair trade is moving out of niche markets and into mainstream distribution channels. Fair trade coffee and tea is served in the European parliament Many local authorities include fair trade requirements in their public procurement procedures; for example the large-scale sourcing of fair trade goods at universities is a rapidly expanding movement in both the US and UK (Fridell, 2004). Fair trade products can be bought in about 55,000 supermarkets across Europe (Krier, 2005: 7). As such, it is increasingly being recognized by consumers, public authorities and private companies as a tool for social sustainability (Krier, 2005:5).

Much of the rapid real growth in retail sales over the last two years is attributable to strong growth in fair trade markets in the US, UK, France and Canada (table 2.1). Canada and Australia/New Zealand have registered the greatest percentage growth with 99 percent and 178 percent growth respectively over the previous year. Overall, Europe has an estimated 60-70 percent of the global market for fair trade goods (Krier, 2005: 5).

Country	Estimated Retail Value (in 000 Euros)		
	2004	2005	percent change
Austria	15,781	25,628	+62
Belgium	13,605	15,000	+10
Canada	17,536	34,847	+99
Denmark	13,000	14,000	+8
Finland	7,553	13,031	+73
France	69,670	109,061	+57
Germany	57,500	70,855	+23
Ireland	5,051	6,551	+30
Italy	25,000	28,000	+12
Japan	2,500	3,364	+35
Luxembourg	2,000	2,250	+13
Netherlands	35,000	36,500	+4
Norway	4,785	6,733	+41
Sweden	5,494	9,271	+69
Switzerland	136,000	143,117	+5
United Kingdom	205,556	276,765	+35
United States	214,603	344,126	+60
Australia + New Zealand	884	2,462	+178
Total	831,523,066	1,141,570,191	+37

Table 2.1: The Estimated Retail Sales of Fairtrade Certified Goods by Country and Percentage Change (FLO, 2006a)

A recent report on the receptiveness of European countries to fairly traded produce suggests that markets are set to launch, or experience significant expansion in the Czech Republic, Spain, Portugal, Latvia, Hungary, Greece, Malta, Poland, Slovakia, and Slovenia (Krier, 2005). In Central America Mexico has just started its own national certification initiative known as *Comercio Justo*. This should assist in the development of its domestic fair trade market.

There are no consumer markets for certified fair trade goods on the African continent, though critics argue that mastery of the local market would provide a first step to true fair trade in Africa. In Africa, local fair trade markets could build on the tradition of large women's cooperatives, like the Gouro

[3] Sales in 2004 are estimated to be 831,523,066 (in Euros). These sales figures include retail sales of footballs (64,000 balls sold) and FLO's category of 'other' (833 in metric tons).

women's market in Abidjan, Ivory Coast, or try to implant itself into significant sub-regional markets, such as the Diaobé at the border of Senegal, Mali, Guinea, Guinea Bissau and Gambia (see African Fair Trade Symposium, 2006). Other possibilities in Africa include supplying eco-tourist hotels and restaurants across the continent.

Another way to look at the growth of the fair trade market for food and agricultural products is by sales of certified fair trade goods by commodity. Table 2.2 shows sales in selected raw and processed agricultural product lines from 2002 to 2005. Product lines have been grouped into *beverages, foods* and *non-foods*.

Product	Production Amounts (real and estimated) in Metric Tons, Liters, and Stems					
	2002	2003	2004	percent change	2005 (estimated)	percent change
Coffee	15,779	19,293	24,222	+26	33,992	+ 40
Tea	1,266	1,522	1,965	+29	2,614	+ 33
Cocoa	1,656	2,698	4,201	+56	5,657	+ 35
Beer (Liters)	--	3,635	62,934	+1631	123,758	+ 97
Wine (Liters)	--	--	617,744	--	1,399,129	+ 126
Juices	1,387	2,193	4,543	+107	4,856	+ 7
Bananas	36,641	51,151	80,640	+58	103,877	+ 29
Fresh fruit	--	1,291	5,156	+299	8,289	+ 61
Dried fruit	--	23	238	+934	306	+ 29
Sugar	650	718	1,960	+173	3,613	+ 84
Rice	392	544	1,384	+154	1,706	+ 23
Honey	1,038	1,164	1,240	+6	1,331	+ 7
Flowers (Stems)	--	--	101,610,350	--	113,535,910	+ 12
Cotton	--	--	0	--	1,402	+100

Table 2.2: Production of Fairtrade Certified Goods By Commodity from 2002 to 2005 with Percentage Change (FLO, 2004, 2005, 2006a)

Beverages

The beverage sector saw rapid expansion over 2004 in 2005. Sales of wine (+ 126 percent) and beer (+ 97 percent) grew strongly. Some countries registered particularly strong sales of particular items, for example sales of fair trade coffee grew by 70.9 percent in the US, and in the UK coffee sales increased by 34 percent (FLO, 2006a: 2). Marks and Spencer has converted all its UK High Street coffee shops to fair trade (Tallontire and Vorley, 2005: 11), thus this is will contribute to future growth of the fair trade coffee market in the UK.

Nonetheless, some observers doubt the prospects for growth in fairly traded coffee in some European countries. It is possible that a plateau has been reached (Lewin et al., 2004 in Tallontire and Vorley, 2005: 7). For some, the US holds out the greatest prospects for expansion in fair trade coffee retailing (Renard, 2006).

Fresh Fruit and Sugar

Overall, the strongest increases in sales in 2005 over 2004 were in fresh fruit and sugar. Particular countries registered strong increases in the sales of specific items, with sugar sales in France showing an increase of 125 percent over the previous year.

Box 1: Fair Trade Bananas

Fair trade bananas were introduced into Europe in 1996 by the Max Havelaar group, in conjunction with a new importing/distribution company (Murray and Reynolds, 2000: 68). In Switzerland, the success of Max Havelaar fair trade bananas can be ascribed to the activities of leading retailers Migros and Coop, who are engaged in a

race to the top. All bananas sold by the Coop are sold under the Max Havelaar label (Tallontire and Vorley, 2005: 11). Table 1.2 above shows that fair trade banana sales are taking off in Austria, too, with 2005 sales registering a 46 percent increase over 2004 (FLO, 2006a: 2).

The fair trade banana market attempts to break out of the deep concentration and market hold by a large few corporations on the conventional market (figure 1.1) and provide new and better markets for smallholders at the same time providing livelihood support for those workers that labor on fair trade certified plantations.

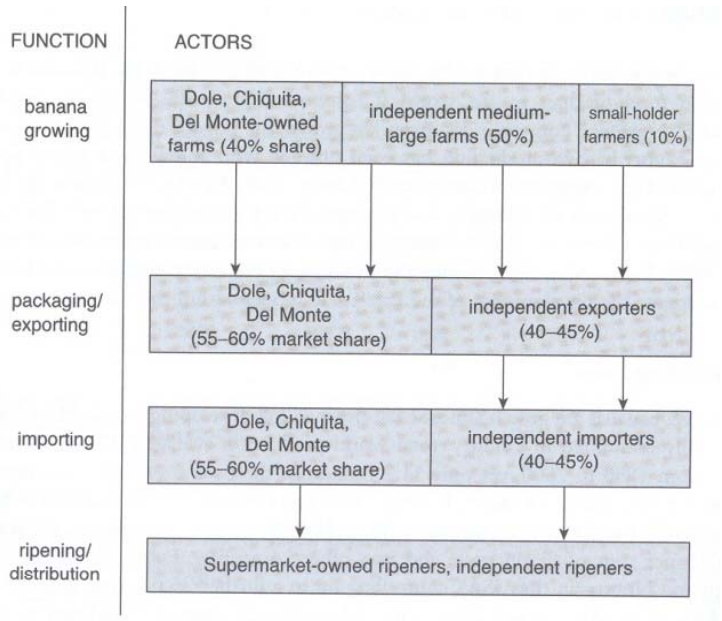

figure 2.1: Market Ownership and Concentration of the Global Banana Commodity Chain (Nicholls and Opal, 2005: 88)

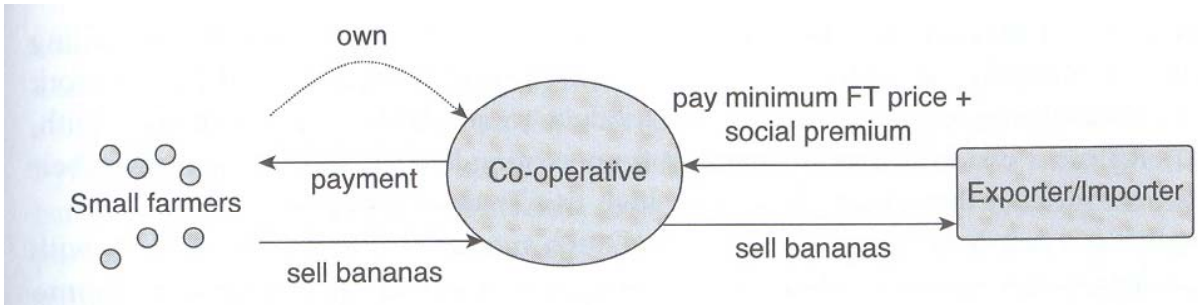

figure 2.2: The Cooperative Model of the Fairtrade Supply Chain (Nicholls and Opal, 2005: 93).

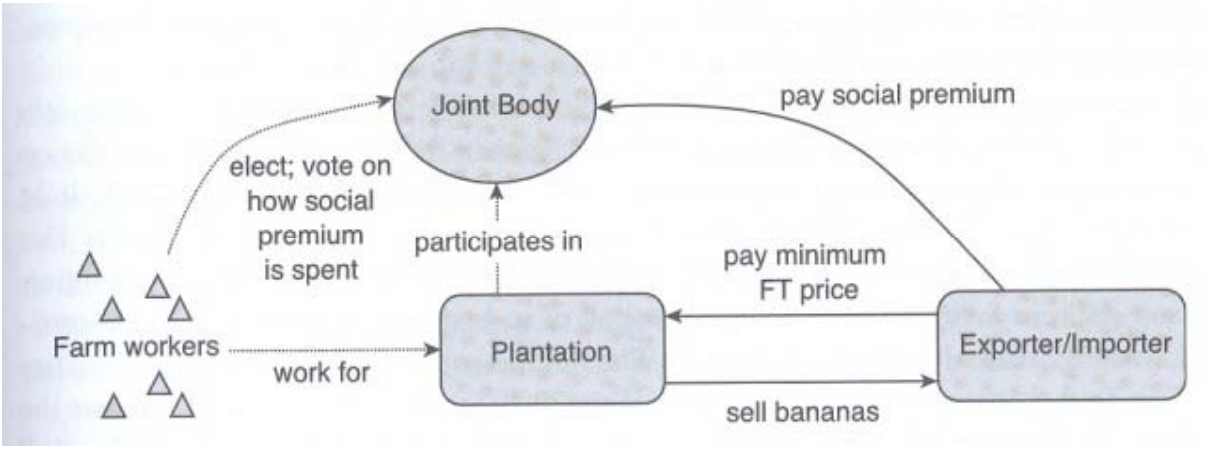

figure 2.3: The Plantation Model of the Fairtrade Supply Chain (Nicholls and Opal, 2005: 93).

Figures 2.2 and 2.3 above show the management and supply-chain structure for the two models of the fair trade banana commodity chain. Unlike the fair trade coffee commodity chain which is set up to cut out the middle-men in addition to paying a premium and the minimum price, smallholders and workers benefit most greatly in the fair trade banana chain through the minimum set price and the social premium (Nicholls and Opal, 2005; see also Shreck, 2002, 2005).

Non-Food Products

Consumer demand for fair trade flowers is currently high. In 2005, 113 million stems of fair trade flowers were sold, with strong sales in Switzerland and the UK, plus new sales in Canada, Germany and Belgium (FLO, 2006: 2). The demand for textiles and other products made from fair-trade certified cotton—a new product line—has exceeded supply (FLO, 2006a: 2).

Box 2: Fair Trade Cotton

Fairly traded cotton has evolved out of the certified organic cotton sector, which began in the early 1990s (Haynes, 2005). Growth in organic cotton and eco-textiles has been bumpy, with stagnant growth during the late 1990s. Only Turkey has increased production exponentially, but the US is now second. India, Senegal and Tanzania are registering increases (PAN UK, 2002). The consumer market for textiles differs from the food market, with markedly lower willingness to pay more for ethically produced fabrics. Private actors are creating markets for such fabrics, but since they are small players they lack sufficient funds to trigger market demand on a large scale. Consumer demand needs to be stimulated by a coalition of Northern NGOs, traders, retailers, textile and clothing organizations, and national and international governments (PAN UK, 2002).

Growing Ethical Networks: the Fair Trade Market for Raw and Processed Agricultural Products
Part 3: Fair trade actors, networks and regulatory mechanisms

A Historical Overview

Over the past decade or so, understandings of what 'fair trade' is have coalesced into shared definitions, at least in the North. Umbrella bodies like FINE (Acronym of FLO, IFAT, NEWS! and EFTA) house otherwise independent actors who share a common vision. An examination of the historical evolution of fair trade, however, shows that multiple networks and actors, holding different ideologies and with different aims, were involved in the development of fair trade. A fair trade 'network' of sorts, though not one bound by shared definitions or partnerships, emerged in the 1950s and 1960s. At this time alternative trading organizations (ATOs) emerged in Europe and the US (Barrett-Brown, 1993). The European fair trade movement has its roots in churches and development organizations, with the fair trade in raw and processed agricultural products developed from the early model of marketing handicrafts and 'cultural products' (see Littrell and Dickson, 1999). They opened shops selling handicrafts at prices promising a decent return to producers. Oxfam (UK), Tearcraft – now Traidcraft (UK), Christian Aid (UK), Solidaridad (Netherlands), and GEPA (Germany), among others, pioneered the European ATO model.

In the US, the fair trade movement emerged slowly. ATOs such as the Mennonite-run Ten Thousand Villages began selling handicrafts during the 1960s and 1970s. In 1985, the import company Equal Exchange was founded, shipping 'solidarity' coffee from Nicaragua in response to trade sanctions imposed by the Reagan administration (Raynolds *et al.,* 2004: 1111). Around this time, then, in both Europe and the US, re-jigged - 'fairer' - international commerce came to be widely accepted in the US as a legitimate and viable vehicle for promoting pro-poor and local development in the South and social justice more generally.

Box 1: Case Study of Solidaridad

Solidaridad, a Dutch organization, has been a pioneer in innovating fair trade. From the mid-eighties onwards, it followed a two-pronged approach to develop commodity chains that internalized the social and environmental costs of production. This meant working on producer development to ensure supply, and creating consumer demand. The underlying concept is that an enduring, significant change throughout the chain and, therefore, in the livelihoods of producers can only be achieved if fair trade is mainstreamed among consumers. Solidaridad launched the Max Havelaar Coffee trade mark in 1986, creating a mechanism that made it possible for coffee retailers to work on corporate social responsibility, and giving consumers the opportunity of buying fair trade coffee in the supermarket. In 1996, Solidaridad initiated the Eko-Oké label for Fair Trade bananas, later expanding this into a 'fruit basket' concept that included other tropical fruits. Solidaridad began developing organic and fair textile chains in 2000.

The fair trade movement gathered commercial momentum in the 1980s with the import of bananas and coffee from Central America to the US and Europe. Today, it has entered the mainstream of many national markets in the North. The success of fair trade is magnified by its ideological contribution to the tenets of corporate social responsibility. Some of the biggest agro-industries in the world are now scrambling either to ensure fair trade certification for particular product lines, or to develop rival models such as *Utz Kapeh* as described below.

How Fair Trade Works: The Fair Trade Differential And The Fair Trade Premium

The actors involved in fair trade networks have agreed a single mechanism to ensure 'fairness in practice'. This is the application of the 'fair trade differential' and the 'fair trade premium'. The fair trade differential is obtained by deducting the conventional market price for a commodity from the fair trade minimum price. The actual fair trade differential is hard to calculate because the volatility of the market means there will be many different market prices in one year. Over or under-estimation of the differential is likely. The fair trade premium refers to the small differential applied to fairly traded goods within the fair trade minimum price. It is added to the world market price when this is higher than the fair trade minimum price for some goods (e.g. coffee) and through other mechanisms for goods without a world price (e.g. bananas).

Box 2: Case Study of the partnership between Kuapa Kokoo, Ghana and the Day Chocolate Company, UK

Across an eight year period the Ghanaian cocoa farmers participating in fair trade markets selling to the Day Chocolate Company earned total premiums of $1,639,039. This money was spent on organizational development, first by building infrastructure for the trading company KKL (Kuapa Kokoo Limited) and then on

the development of the Union. The remaining monies were spent on providing income bonuses for the farmers and on community projects. During this period the number of participating farmers grew from 900 members in 22 villages to 35,000 members in 650 villages Ronchi (2002a: 24).

Year	Volume Sold to Fair Trade (MT)	Fair Trade Premium* per MT	Total Premium (USD)
1993-1994	50	470.89	23545
1994-1995	284	294.78	83718
1995-1996	550	272.34	149787
1996-1997	792	109.54	86756
1997-1998	598	77.56	46381
1998-1999	350	612.38	214333
1999-2000	851	864.06	735315
2000-2001	451	663.42	299202
Total	**3926 MT**		**USD 1 639 039**

Source: Ronchi (2002a: 24)

* Calculated by taking the FLO premium of $150/MT + difference between average annual world price for cocoa, and the fair trade minimum price of USD1500/MT (1993-1997) and USD1600/MT (1998-2001). It does not include any Ghanaian quality differential.

Fair Trade Actors and Networks[4]

In general, the fair trade commodity chain is a dedicated supply chain running largely parallel to conventional agro-chains as Figures 2.2 and 2.3 on fair trade bananas in the previous section highlight. These include different actors though, in the primary producers, local buyers, exporters, importers, certifying and accrediting agencies, retailers, and consumers who make up the fair trade commodity chain.

Fair Trade Organizations (1): Producer Cooperatives and Workers' Groups

According to the FLO model, all fair trade commodities must be produced by a democratically-run producer cooperative. Products from plantations must be produced by workers organized in democratically-run workers' groups/unions.

It is impossible to calculate the exact number of farmers involved in fair trade. FLO estimates that it works with one million farmers and workers, organized into 508 fair trade certified producer organizations in 50 countries (FLO, 2006b). Millions more, if one includes family members, stand to be counted as beneficiaries. Although fair trade operates in Asia, Latin America and Africa, Africa benefits the least in terms of producer involvement, at around 15 percent of all producers (African Fair Trade Symposium, 2006)

In 2005, FLO-Cert received over 400 applications from producer organizations for initial fair trade certification. In 2005, the total number of certified organizations (organizations of small-scale producers, plantations and workers in which workers and managers have formed Joint Bodies that receive Fair Trade premium payments[5]) increased by over 18 percent from 432 at the end of 2004 to 508 at the end of 2005 (FLO, 2006: 2). Numbers varied unevenly across the 50 countries; some countries such as South Africa have up to 51 certified groups while others, such as Belize, have just one (FLO, 2006b).

Fair Trade Organizations (2): Importing Organizations

Importing organizations act as wholesalers or retailers, or both. They advise their producer partners on product development, offer training, or offer additional support in difficult economic and social conditions (Krier, 2005: 23).

In their home markets they sell through Worldshops, local groups, supermarkets, internet-based online shops, catering market, and mail order. They have a strong advocacy role, lobbying for change at the political level in trading practices. Examples of fair trade importing organizations include TWIN, Equal Exchange, and Traidcraft (Krier, 2005: 23).

[4] This section draws heavily on Krier (2005) for its categorization of fair trade organizations and the data presented.

[5] The Joint Bodies manage the investment of the Premium in social, economic and environmental projects (FLO, June 2006: 2)

Traidcraft Exchange (TX), based in the UK, grew out of Tearcraft in 1980. Coffee and tea were introduced into its otherwise handicraft product lines in 1980. Other food products were introduced in 1982. Traidcraft Exchange helped to found IFAT, a coalition of producing and importing organizations in 1989. It was also behind the launch of Shared Interest, an ethical investment society. In 1992 it was part of a consortium launching Cafédirect (and later, Teadirect). In the same year Traidcraft was one of six organizations behind the founding of the FairTrade Foundation. Traidcraft then helped to set up partnerships with organizations in South Africa, Tanzania, the Philippines, Malawi and elsewhere. In association with War on Want, TX set up 'Just Pensions' in 2002. TX now sells wines, chocolates, jams, chocolate spreads and Geobars. Its annual turnover is over £10 million.

Fair Trade Organizations (3): Fair Trade Labeling Initiatives
FLO e.V. (Fairtrade Labeling Organizations International) brings together national labeling initiatives around the world (currently there are 20 such initiatives) who are responsible for licensing and promoting the fair trade label in their home markets. Transfair, Max Havelaar and the Fairtrade Mark are examples of such labels.

Fair Trade Related Organizations
A number of NGOs (such as the Clean Clothes Campaign), consultancy organizations, and specialist labeling organizations such as RugMark collaborate closely with fair trade. Some are members of IFAT.

Fair trade financiers such as Triodos Bank, Oikocredit and Shared Interest have helped to finance the growth of the fair trade sector (Krier, 2005: 24). Shared Interest for example has a total share value of over 30 million (Euros). In 2004 it lent money to 79 fair trade businesses and made payments totaling over 28.5 million (Euros) on behalf of buyers to 365 producer organizations.

Fair Trade's Commercial Partners
The fair trade labeling scheme has provided the guarantees that commercial exporters, importers, processors and distributors require. FLO national initiatives have licensed around 500 commercial partners, and FLO-Cert a further 500. These include big European chains such as Monoprix and Leclerc in France, and Rewe, Edeka, and Spar in Germany.

Companies have moved to bridge the gap between fair trade producers and consumers. These include AlterEco in France, AgroFair in the Netherlands, and the Day Chocolate Company in the UK. Some commercial partners are switching entire product lines to meet fair trade standards. These include the Co-op in Switzerland, which is selling all its bananas under the Max Havelaar label. In the UK the Co-op Group has switched their chocolate entirely to fair trade.

Regulatory Mechanisms Governing Fair Trade

Fair trade labeling organizations are not involved directly in commodity production or trade, rather, they promote the market for fair trade products. FLO stipulates certain minimum criteria that the trading process must fulfill in order for a product to be labeled and sold as 'fair trade'. Fair trade labels are issued to a limited range of commodities for which an international fair trade standard has been developed. These commodities include those in table 2.2. The fair trade label can be used by buyers registered with one of the FLO National Initiatives to show that the product has been produced and traded according to pre-defined social, contractual, and – sometimes - environmental standards (Tallontire, 2001: 4). For example, in the case of fair trade coffee they work with coffee importers, roasters/wholesalers, and retailers. Coffee distributors may buy a license to display a fair trade label on specific packages of coffee if they purchase from groups on the FLO coffee register and uphold FLO standards and procedures (Raynolds, 2002:5).

Table 3.1 explains the terminology. The examples provided highlight the role of FLO e.V., the custodian of fair trade standards, and FLO-CERT, the certification body of fair trade labeling.

Regulations	Regulations are laws. They regulate the production, sales and trade in goods in order to protect consumers from dishonest marketing, and to ensure fair competition among producers.
Code of Conduct	This is a voluntary agreement regulating core rights and responsibilities by particular stakeholders at different points in a commodity chain. Codes of conduct can be operationalized through developing indicators for each standard. Monitoring can be done in different ways: self-assessment, self-monitoring with reporting structures in place, or third-party verification.
Standards	Standards are quality systems that offer guidance to the operator and can be applied more flexibly than laws. They do not have legal status. FLO International e. V. develops and reviews standards, and assists producers in gaining and maintaining certification.
Certification	Certification involves audits at each stage of the commodity chain and is carried out by a third party. FLO-CERT GmbH is a limited company. It applies the standards developed by FLO e.V. and co-ordinates all tasks and processes all information related to the inspection of producers and of trade. FLO-CERT follows the requirements of the international ISO certification standard IS065, though it has yet to receive accreditation.
Accreditation	Accreditation refers to quality control of certification bodies.

Table 3.1: Fair Trade Terminology and Examples

The rise of voluntary standards, such as fair trade standards, as a complement to government laws and regulations represents an important evolution of the regulatory framework. Governments and civil society are still in the process of defining how standards, laws and regulations relate to one another. The most likely source of conflict between voluntary standards and trade rules is the Technical Barriers to Trade (TBT) Agreement of the WTO, a process being closely monitored and pro-actively influenced by the ISEAL Alliance.

The Impact of Regulations and Standards on Primary Producers

Questions like 'Who are standards for?' How, and by whom, are they created?' 'How are they maintained?' are important. There is much tension involved in the development of standards, and the indicators used to measure them. The intended beneficiaries—smallholders and workers—sometimes see them as exclusionary, unrealistic and imposed by stronger stakeholders (Farnworth, 2004). The arrival of EUREPGAP was responsible for the abandonment of a Ghanaian attempt to define its own, ethically-based, code of conduct, the *Code of Practice for the Export Horticulture Industry Ghana* (2002). Producers in developing countries are concerned that the development of new labels may form yet another barrier to entry into the European market, along with technical and health protection barriers (African Fair Trade Symposium, 2006)

Corporate Social Responsibility versus Fair Trade

Another set of internationally recognized standards is rooted in Corporate Social Responsibility (CSR). In the UK the Ethical Trading Initiative's Base Code was developed by a consortium of companies, trades unions and NGOs anxious to improve working conditions and human rights in the workplace. Although codes like the ETI Base Code focus chiefly on organized labor—and hence on workplace practices rather than trading standards—some actors, including several supermarkets, are embracing codes of conduct (Tallontire and Vorley, 2005: 10).

In the coffee sector, some companies have begun to reward producers for supplying quality coffee through offering them above-market prices and longer term contracts. Unlike fair trade, the Starbuck Preferred Supplier Program, and *Utz Kapeh* do not offer a floor price, but they do offer stability to preferred suppliers. The Starbuck Preferred Supplier Program, which began in 2001, offers producers a premium over the market price based on a points system for environmental (50 percent), social (30 percent) and economic (20 percent) criteria (Tallontire and Vorley, 2005: 12). The premium is discretionary on the part of Starbucks, and it is not clear if it covers the costs of production (Tallontire and Vorley, 2005: 12). *Utz Kapeh* code for 'Certified Responsible Coffee' was developed by a Foundation with its headquarters in the Netherlands and Guatemala, and is supported by the global

retailer Ahold. *Utz Kapeh* aims to move beyond the fair trade niche by mainstreaming certified responsible coffee and does not sell itself as a certified brand. Although *Utz Kapeh* does not specify a floor price or a living wage, it does commit itself to long-term commercial relationships between buyers and producers. Unlike fair trade, *Utz Kapeh* does not require that a producer cooperative act as medium—it is open to producers and producer groups, cooperatives and estates (Tallontire and Vorley, 2005).

Critics of CSR approaches to ethical trade is that the space so slowly won by fair trade practitioners for transforming the international commodity chain may be captured by agro-food corporations able to transform this progressive initiative into a niche marketing scheme for products re-packaged under 'green' and/ or 'ethical' symbols (Murray and Reynolds, 2000: 67). In some cases, such as with Nestle's *Partner's Blend* of fair trade coffee, conventional companies have adopted a fair trade label for only one product line. This leads to the situation where consumers may believe a company to be a fair trade practitioner (labeling used to brand), whereas in reality a small percentage of its product lines are actually bought under the terms of fair trade labeling. The challenge for the fair trade is to maintain stringent fair trade standards whilst competing against the entry of transnational companies using weaker fair trade standards (Murray and Reynolds, 2000: 71).

Growing Ethical Networks: the Fair Trade Market for Raw and Processed Agricultural Products
PART 4: Mainstreaming fair trade and growing demand and supply

New, potentially contradictory developments in fair trade include the movement of fair trade products into large supermarkets, at least in the US and Europe. This should be set against the growing ability of fair trade development organizations to build smallholder capacity to cope with conventional commodity chains, thus leaving the niche of fair trade behind. The rise of CSR with alternative models of 'fair' and ethical trading poses a substantial challenge to long-standing players in the fair trade sector.

In the face of all this, what are the challenges that smallholder farmers seeking access to fair trade markets need to meet? The current and future challenges include (1) meeting the supermarket challenge, (2) managing the growing competition in fair trade markets, (3) overcoming geographic and ethnic marginality, (4) meeting quality requirements, (5) capitalizing on value-added processing, (6) building an effective producer organization, (7) developing the requisite communication and negotiation skills, and (8) dealing with competition from other fair trade producers.

The Supermarket Challenge

The exponential growth in supermarkets, and their increasing prominence at the head of buyer-driven chains, warrants careful scrutiny. Supermarkets may yet undo the promising entry of smallholders into global commodity chains under fair trade terms. At the same time, under certain conditions smallholder producers may hold their own and even thrive (Reardon and Timmer, 2005; Raynolds 2002).

Supermarket consolidation and power has reached a peak in much of the North, particularly in the UK and parts of Europe. One of every seven pounds in the UK economy as a whole passes through Tesco's supermarkets (Lang and Heasman, 2004). Similarly, these trends of expansion and growing market power are accelerating in much of the developing world in Asia, Africa, and Latin America (Coe, 2004; Tallontire and Vorley, 2005). In Latin America for example supermarkets are rapidly taking over food retailing. Currently they hold approximately 60 percent of the national retail sectors in South America and Mexico. Supermarkets have shifted decisively out of their early niches (upper income cities in the richest countries) in less than a decade. Today they are present in middle and working class areas, and in poorer countries, thus directly affecting rural zones on both the supply and demand-side. Supermarkets and large processors are, or fast becoming, the main retail buyers in the supply chains of processed foods (Reardon and Timmer, 2005; Reardon and Berdegué, 2002).

All of this means that smallholders in general, and fair trade producers more specifically, are being, and will be forced to engage directly and indirectly with a retail sector in the North and increasingly in the South that holds substantial power over all aspects of agricultural commodity chains. At the same time, fair trade producers and importing organizations must be prepared to work to the requirements of supermarkets as they continue to expand existing fair trade lines and bring on new fair trade products, and, importantly, expand their own-label brands of good such as coffee and chocolate.

Are smallholders able to meet the supermarket challenge? The evidence is mixed. On the negative side, it would seem that it can be dauntingly difficult for smallholders to cope with the procurement practices of supermarkets and large processors. These include quality and safety standards, packing and packaging, cost, volumes, consistency, and payment practices (Reardon and Berdegué, 2002: 384; Boselie *et al.* 2003: 1).

Why is this? Smallholders tend to have a weak understanding of supermarket standards and consumers, in contrast to their knowledge of local markets, and in contrast to the knowledge base of large commercial farmers. This has implications for their bargaining position, and their ability to fully understand supermarket requirements (Bosalie et al. 2003). Furthermore, it can be difficult for smallholders to deliver desired quantities at short notice, or to manage the labor instability involved (Bosalie *et al.* 2003). As a consequence, evidence is mounting that supermarket buyers in both industrialized and developing countries are increasingly sourcing from large commercial growers (Boselie et al. 2003 : 1). For example, TOPS Thailand, a domestic supermarket chain, has reduced the number of fresh produce suppliers from 250 to 60. Their remaining suppliers deliver direct to a distribution center in Bangkok. The fair trade commitment to producers can be substantially more onerous and costly. A Latin American study of seven fair trade co-operatives, five in Mexico and one each in El Salvador and Guatemala, showed that most producers have less than five acres of coffee.

The cooperatives must amass coffee from large numbers of often-distant growers to fulfill export contracts (Raynolds *et al*., 2004: 1115).

On the other hand, dairy products and fresh fruit and vegetables tend not to have important economies of scale in production and so the growth of the supermarkets could represent, if carefully handled, an important avenue of poverty alleviation (Reardon and Berdegué, 2002: 384). For example, Hortico, a vegetable packer and exporter to European supermarkets, sources from over 4,000 small producers organized into 20 collection centers that supply to a central packing facility (Bosalie et al. 2003: 3). It may be possible for fair trade organizations to mimic such practices more widely.

Similarly, whilst it is sometimes argued that marginal smallholders may not be able to cope with the high levels of standardization of both product specification and modes of transportation (Bosalie *et al.* 2003), or with the high degree of precision behind product flows that supermarkets demand, it would appear that information costs and risks to smallholders may be low, since supermarkets generally communicate clear quality grades and standards with which suppliers must comply (Bosalie *et al.* 2003).

Above all, it is notable that smallholders may excel in supplying *particular* crops that require labor-intensive production techniques. Many techniques, for example pruning and trellising, cannot be mechanized, so there are limited economies of scale in their production. Smallholders dominate the production of beverage crops such as coffee, tea and cacao in some regions (Tallontire and Vorley, 2005: 11). Women are often heavily involved in labor-intensive techniques, enabling supermarkets to benefit from their frequently-low priced work (for a critique see Rammohan and Sundaresan, 2003). Dealing with a geographically dispersed base of small producers permits risk to be spread, since there is less risk of major crop failure due to poor weather or pests. Finally, traditional production systems may actually assist small producers to meet some certification requirements, for example for organic production, since practices such as crop rotation and selection of resistant varieties are long-established (Bosalie *et al.* 2003). Joint fair and organic certification, designed to capture a broader slide of the ethical market, may be less onerous than it initially appears.

Managing the Competition: A Saturated Fair Trade Market?

It is possible that market saturation is close to being achieved for some fair trade products, for example coffee in some countries. Furthermore, there is a continuing discrepancy between supply and demand because the fair trade market has not grown fast enough to accommodate production (Renard, 2003, 2006). Since entry barriers are low and price premiums are high, the gap between fair trade registered production is likely to worsen according to some analysts (Tallontire and Vorley, 2005: 8).

Box 1: Case Study of the Challenges for Prospective Fair Trade Entrants to the Coffee Market

Evidence suggests that new entrants to fair trade market for coffee are having difficulties capturing a slice of the fair trade niche market. Fair trade coffee pioneers took advantage of, and helped to shape, rising international interest in specialty coffee (Raynolds et al., 2004: 1114). Most coffee pioneers entered Fair Trade soon after the 1989 collapse of world coffee prices. The price collapse was exacerbated by neo-liberal state cutbacks, forcing a reduction in chemical inputs and leading to an innovative drive to forge favorable export links. A study of pioneer producers in Latin America reveals that they had the ability to self-organize, build fluid networks and were prepared to abandon familiar marketing channels (Raynolds et al., 2004: 1114). Although today the economic and national conditions facing coffee producers are similar to those prevailing over a decade ago, current prospective entrants face substantially more competitive markets. This is because established fair trade cooperatives have captured the bulk of the expanding fair trade market, fair trade quality expectations have risen dramatically, particularly in the US market which requires gourmet quality organic certified coffee, and because the number of new competitors is high (Raynolds et al., 2004: 1114). Nestlé argues that the fair trade approach encourages farmers to increase coffee production, further distorting the imbalance between supply and demand, and depressing further the price for green coffee (Tallontire and Vorley, 2005: 9). Critics of Nestlé analysis argue that the laws of supply and demand are not as elastic as Nestlé claims, due to the strong dependence of farmers on coffee. Indeed, falling coffee prices have been shown to increase production as farmers seek to maintain income levels (Tallontire and Vorley, 2005: 9).

Overcoming Geographic and Ethnic Marginality

Geographic and ethnic marginality may work against successful participation in fair trade initiatives. The combination of a single commodity focus, and the scaling-up ability of any one NGO means that

the poorest and most marginalized producers may not be targeted. For example, Maquita Cuschunchic in Ecuador focuses on areas of high cocoa production and on the specific ethnic groups that grow cocoa (Nelson and Galvez, 2000: 2; Raynolds, 2002).

Furthermore, critics argue that the fair trade movement has failed to explore complementary circuits: national fair trade, regional fair trade, and South-South fair trade (African Fair Trade Symposium, 2006). Beyond this, it would seem necessary to think more holistically to consider how fair trade can link to other motors for sustainable development. Such motors include networks of farmer organizations, regional integration processes, and ensuring that stakeholders in the South play a role in influencing multi-lateral trade negotiations (African Fair Trade Symposium, 2006).

Meeting Quality Requirements

The issue of quality is pernicious, due to its multi-faced nature. On the one hand, smallholders face demands from buyers for a consistently high quality product, on the other hand investment in a single product is a risky livelihood strategy. Small producers often have poor access to working capital and find it hard to make the investments necessary to ensure a consistent product.

Box 2: Case Study of Fair Trade Ghanaian Pineapples

Producing and marketing the MD2 pineapple 'very sweet and looks like the ideal pineapple – the Bounty Experience' would seem to be a logical choice from a business point of view. But the consequences of this choice are significant for producers. MD2 requires much higher investments in inputs and is more difficult to produce than Smooth Cayenne, the variety grown by most Ghanaian pineapple farmers. Poorer farmers with little or no access to credit facilities are finding it hard to make the shift. At the same time the market for Smooth Cayenne has collapsed, leaving the farmers trapped. As a consequence many small farmers are facing serious financial crisis. This case raises an important question - apart from how to deal with the immediate problem - regarding markets and consumer demand. Does the mainstreaming of Fair Trade mean that 'mainstream choices' have to be made regarding the varieties to be marketed (following Del Monte), or can space be created for marketing innovations, for example breaking ground with vintage varieties of pineapple? (van Walsum and Guijt, 2006).

In contrast, associates of Maquita Cuschunchic, an Ecuadorian NGO, do not want to reinvest incomes from fair trade cocoa in their cocoa trees because they are unwilling to make cocoa the central source of household income, preferring to spread risk by investing in a diverse activity and crop portfolio (Nelson and Galvez, 2000: 2).

For those producers committed to meeting the quality challenge, the learning curve can be very steep, with producers frequently facing high losses at the outset (Bosalie et al. 2003). Debts accrued from initial crop failures, the costs of seed, fertilizer and other inputs, coupled with an initial inability to meet quality standards can be considerable. It may take a number of plantings to achieve an overall net profit (Bosalie et al. 2003). An underlying problem is that producers are not properly apprised of consumer requirements. Many smallholders now being drawn into global commodity chains operated outside the formal sector, selling largely to local markets. Much of their product was surplus to domestic consumption requirements rather than a cash crop *per se*. The concept of formal 'contracts' or a commitment to supply an agreed quantity of product that meets pre-specified quality requirements is novel. This is particularly so when producers have never been inside a supermarket to see how products are presented and how consumers make choices (Bosalie et al. 2003).

To this end, Thanksgiving coffee, a fair trade coffee importer from California and one of the pioneering fair trade companies in the US, has set up 'cupping' labs for their growers to understand and 'taste' different qualities of coffee (Bacon, 2002). The idea here is that these cupping labs enable coffee producers in Nicaragua to monitor quality and identify, promote and brand regional flavors that are able to capture market premiums at the same time giving a sense of how coffee quality can be improved through different production and management techniques.

The Ability to Capitalize on Value-adding Processing

Value-added processing performed by fair trade cooperatives is another way to further support development and creation and maintenance of production value at the local level. For many cooperatives, the fair trade premium has enabled them to build and maintain processing facilities for the goods they grow.

Box 3: Case Study of Post-harvest Processing

The ability of coffee growers to maintain or improve the quality of their coffee depends on their knowledge of coffee cultivation and post-harvest processing. Most smallholder coffee is sold after it is wet-processed. But producers could guarantee better coffee quality and sell coffee direct to importers/ roasters if they could take control of dry processing. Dry processing requires expensive machinery which removes the final coffee skin and then sorts and classifies the coffee. This enables producer organizations to monitor the quality of their coffee and to reward growers supplying high quality beans and assist those producing lower quality (Bacon, 2002).

Communication and Negotiation Skills

Producer groups need to create and maintain strong ties with corporate buyers, development NGOs and other organizations (Raynolds et al., 2004: 1115). However, sharing information poses threats to independence and is difficult when trading partners lack trust. Trust-building in commodity chains is particularly problematic due to the volatile prices associated with commodity markets, the isolation of farmers from markets, and size imbalances between different actors. Smallholders may be at an additional disadvantage in their interactions with supermarket suppliers if they lack a command of particular languages like French and English. They may also lack suitable business and negotiation skills (Farnworth, 2004).

Furthermore, current communication structures tend to privilege North-South interactions. Communication may be strong, for example, between individual African producers and fair trade organizations in the North, but communication and cooperation is lacking or weak *between* African stakeholders (African Fair Trade Symposium, 2006)

Building an Effective Producer Organization

One of the strongest arguments employed to justify fair trade intervention is the claim that ATOs are building producer capacity. One 'meta-analysis' examining the effects of accessing fair trade markets in seven coffee cooperatives in Latin America (Raynolds et al 2004: 1116-1118) concluded that fair trade markets have produced a number of benefits across all the cooperatives. These include cooperative benefits as 'the security of Fair Trade prices and markets enhance a cooperatives' general financial and organizational stability and the economic viability of coffee marketing'. Community benefits included community-wide improvements in infrastructure, health services, environmental services due to the application of organic farming methods, and enhanced employment opportunities. Individual and household-level benefits included overall livelihood support, an improved ability to purchase household goods such as cookstoves and sanitation systems, as well as provide education for children.

Box 4: Case study of Costa Rican Coffee Consortium

The FLO model in use with Coocafé sets minimum standards: a floor price and premium for coffee, and the requirement that purchases are made from democratically organized small producer organizations. In practice, some members of the Costa Rican consortium, the ATOs in particular, have gone far beyond these criteria in their provision of capacity building and support for Coocafé and its nine primary level cooperatives. The primary cooperatives, due to the establishment of an export arm, and a steady and oft-superior export price, were able to continue to operate efficiently during a period of crisis in the coffee sector. The benefits of belonging to a larger organization to enable access to fair trade markets has improved their leadership and impact on producer communities. Interestingly, smallholders articulated their perception of improved conditions but had a low awareness of fair trade. They took cognizance of superior prices, but also mentioned the improved services of their cooperative as quality of life parameters (Ronchi, 2002b). On the other hand producer organizations can be weakened by the necessity of relying on the few growers with the requisite skills to understand the standards. Scarce cooperative financial resources may be expended on hiring in expertise (Mayoux, 2001). Critics complain about the lack of alternatives to the producer association model. The state itself, or other institutions, should be considered (African Fair Trade Symposium, 2006).

Coping with Certification

Producers must often comply with more than one standard. For example, the EUREPGAP standard, intended to harmonize supply chain standards for good agricultural practice (GAP), was created by the Euro-Retailer Produce Working Group (EUREP). EUREPGAP is increasingly important as retailers (including all major supermarkets and McDonalds Europe) seek evidence of compliance by primary producers. However, EUREPGAP has been shown to act as a barrier to market entry for smallholders. An annual farm audit, which is compulsory, can absorb the bulk of a smallholder farmer's profits (Tallontire and Vorley, 2005: 10).

Paralleling the rise in ethical purchasing, Europe has seen an increase in environmental consciousness that has spurred the market for organic foods and the insertion of ecological concerns into fair trade initiatives (Murray and Reynolds, 2000: 67). Given the growth in this market having organic certification for fair trade producers has become an increasingly burdensome requirement that, once certified, also provides greater returns on various commodities. For example, certified organic fair trade coffee gets and additional premium over just fair trade coffee. This although organic certification can be expensive, using the fair trade premium in order to be organically certified has become a viable move for many cooperatives.

Growing Ethical Networks: the Fair Trade Market for Raw and Processed Agricultural Products
PART 5: Implications of fair trade as a pro-poor development tool and current and future prospects

Given fair trade's origins and its operating logic, it is imperative to examine the impact fair trade is having on poor and marginalized producers in fair trade supply chains. Is fair trade as effective as it claims to be in improving producer livelihoods?

Macro-level economic data provides some insight into the general impacts of fair trade. FLO (2006a) suggests that the certified fair trade market, through the fair trade premium and price floor, has given upwards of $100 million in 2005 to fair trade producers than would otherwise have been provided to them had they been in conventional markets. However, how this macro-level impact specifically affects smallholders and fair trade cooperatives on the ground and the day-to-day engagements of growers in various fair trade markets is still largely unclear and unexplored. Reliable local ethnographic studies and data (outside of conjecture and work focused on coffee [e.g. Raynolds et al., 2004; Center for Fair and Alternative Trade Studies, 2006]) are sparse.

This section, divided into three parts, discusses some of the complexities in assessing the impacts of fair trade on producers. It then pulls together those studies that do exist in order to evaluate the impact on fair trade on producers and their economic networks.

(1) Assessing the Impact of Fair Trade as a Pro-Poor Development Tool

Proponents of fair trade argue that it is about much more than putting a few extra dollars in a farmer's pocket. Through providing support services and in particular through developing producer capacity, fair trade is argued to be an empowerment tool, enabling people to have meaningful choice (Kabeer, 2002) about the components of their livelihood strategy, and to set the conditions of their engagement with other stakeholders in a commodity. At this level fair trade can be viewed as radical. Its reformist, pro-poor agenda challenges the mores of conventional trade, because different rules and conventions apply. A significant rule is the fact that buyers and importers try to internalize particular social and economic costs to make the fair trade approach indeed fair on a bumpy playing field. On another level, proponents of fair trade argue that their capacity building work enables small producers to enter and survive in conventional markets. This dampens the fair trade challenge to the status quo in some respects, but still enables fair trade to argue that it has empowered small producers.

Fair trade has diverse, potentially contradictory, objectives, making it difficult to measure impact satisfactorily. It can also be argued that these objectives have been defined by the wider fair trade stakeholder body, and that they may not be relevant to particular producers. For this reason Coocafé and its cooperatives decided to define their own development objectives in order to ensure that an impact study actually meant something to them (Ronchi, 2002b: 25).

The softness of the benefits ascribed to fair trade, like organizational strengthening, are clearly difficult to attribute solely to a fair trade intervention. Social, political, environmental and economic factors all play a role in creating supportive or hostile environments to such interventions. Furthermore, the object of study is highly variable: a fair trade organization may be a consortium of several small producer organizations, or it may be a single cooperative of 30,000 farmers (Ronchi, 2002a: 8). The application of a single qualitative or quantitative measure is impossible. Also, fair trade often supports not only individual producers, but also producer organizations who then conduct their own sets of activities, which likewise impact on producers. Fair trade is often conducted in conjunction with the supportive activities of other NGOs (Ronchi, 2002a: 9).

Attributing impact is further complicated by the fact that farmers frequently steer only a small portion of production into fair trade networks in order to ensure a diversified livelihood strategy (Raynolds, 2002). 'Pure' fair trade products are increasingly rare as producers and their support organizations try to secure several niche markets with one product, for example for fair, organic, and shade specialty coffee.

Spillover effects are of great interest to fair trade advocates, yet it is particularly hard to attribute and quality or quantify benefits extending to non-producers in the community. Finally, there may be commercial implications involved in the sharing of sensitive data. This could be an issue in view of increasing competition between Fair Trade organizations and the private commercial sector on ethical credentials and market share (Mayoux, 2001: 3).

Part 2: Outlining the challenges ahead and how to meet them: What are the trade-offs and challenges for the various actors in fair trade networks?

Deciding Who to Work With

Authentic trading relationships mean that the producers need to be empowered to participate fully in that relationship; they should have a role in determining the objectives and structure of partnership. In a study of producer organizations, the most successful groups were found to have *'A well-defined sense of identity, a long process of establishment and development, and a capacity to innovate individually and as an organization. It is also noteworthy, in several of these cases, that there has been a strong leadership, full of vision and energy, able to pull together the individual contributions of producer group members'* (Hopkins, 2000). Does this study suggest that a certain level of capacity and development needs to have been achieved even before a group of producers joins a fair trade network? If so, does this mean that there are only certain types/developed producer coops that can partake in fair trade? It is important to note that poorer people in a community often do not belong to farmers' clubs because the expectations and requirements of membership can be too high. The explicit and hidden costs of membership can include fees, the need to provide food if members visit a farm, and the shame of poor clothing. A choice to work with organized groups may exclude on the grounds of poverty and gender, for example in areas where women working without male help are among the poorest members of society. External agents may not realize, even, that these people exist (Farnworth and Jiggins, 2006).

Furthermore, men are frequently viewed as 'progressive' farmers and are thus targeted as potential partners. However, women and men tend to have gender specific knowledge on particular crops and their associated ecosystems (Farnworth and Jiggins, 2006: Charlier *et al.* 2000).

The problem of mutedness (Ardener, 1975) also arises. A high percentage of female membership in a cooperative does not mean women are participating actively. A study of women members of Coocafé's affiliated cooperatives (average 20 percent) revealed that many women are members on paper only in order to enable the family, as a unit, to access more credit from the cooperative or to increase voting rights. Female participation in coffee cultivation is significant, but their role in decision-making is low. Sporadic attempts by the cooperatives to increase women empowerment has had limited success, due to the unfocused nature of the projects (Ronchi, 2002b: 25).

It is sometimes assumed that export crops are primarily men's responsibility, leading to the understanding is that the product is controlled by a male household head. If the men receive payment from the buyer/ exporter direct then women may lose out. Although family members may cooperate to bring income into a household, we cannot assume that this income is divided according to the contribution of each person. Women in particular often lose out (Sen, 1990).

Balancing Environmental / Ecological Behavior and Consumer Requirements

The single-commodity focus of many fair trade interventions does not necessarily encourage sustainable natural resource management practices. Since supermarkets generally demand high cosmetic quality standards, much produce is rejected by buyers, resulting in a large financial loss to the growers. This practice is environmentally wasteful and acts as a disincentive to continue production for export (NRET, 2003). A Bolivian study showed that the demands of fair trade consumers in the North for 'quality' products undermined local preferences for particular colors and shapes – and by implication the survival of landraces (Charlier *et al.* 2000: 85). The need for homogenous products, to enable mixing into larger batches, is problematic when small producers farm widely varying plots of land (89).

In response, FLO and other fair trade organizations are trying to support diverse ecological production systems for smallholders and thus a larger diversity of products coming from cooperatives. The idea is to spread the risk to ecological and economic vulnerabilities in the production of only one product for export (Bacon, 2004). However, fair trade growers of trade bananas in the Caribbean Windward islands found that the environmental standards stipulated by FLO were onerous. For many of the elderly members of the cooperative the physical labor required of them to comply with agro-ecological practices of FLO—many of which consisted of time-consuming and back-breaking manual clearing of weeds and other laborious tasks—not only altered their livelihood regimes but were physically debilitating and arduous. In this case FLO eventually reviewed the complaints of the cooperative and made concessions (Moberg 2005). This suggests the difficulty of 'one-size-fits-all' sorts of standards

and indeed, suggests the need for standards and certification procedures to be contextualized and to consider local labor, social and cultural contexts.

Building Capacity: Understanding the Market

It is often assumed that women are particularly interested in subsistence production for the household. However, in many countries women are self-evidently the main traders in informal markets and have substantial interests in processing crops for formal market sale (Farnworth and Jiggins, 2006).

Furthermore, the ability of women to respond to market incentives can be constrained, despite the efforts of many governments to restructure the agricultural economy towards expanded production of tradable crops through liberalizing markets and relative price changes. Women are generally excluded from a process of feedback between price incentives, increased production, increased revenue and yield enhancing measures. A Bolivian fair trade study (Charlier *et al.* 2000: 59) noted that women farmers were less informed than men with respect to product pricing, agricultural techniques, peasant organizations, and how to access credit. It would seem that fair trade support organizations assume pass information on to their wives. However, in practice knowledge transfer is inadequate.

Nonetheless, family food security is frequently part of women's responsibilities. Production for export may threaten women's ability to farm enough land for subsistence production. A Ugandan study showed that *'for the rural poor, survival depends on food self-sufficiency, and that a monetized life-style is foreign. In this situation, if smallholders are to diversify and specialize, they must be able to trust the markets'* (Kasente *et al.* 2000: 17). In buyer-driven chains, however, the market is not always guaranteed.

Building Organizational Capacity: Who Pays?

Fair trade support organizations require sufficient capacity to handle their mandate of treating producers fairly. However, in Bolivia, some fair trade organizations lack sufficient capital to pay producers in full upon delivery of produce. The farmers have to wait until the produce is sold, causing financial difficulties to families (Charlier *et al.* 2000: 88). Furthermore, capacity building can be a very fraught, tense exercise. Whilst buyers and importing agencies are committed to assisting producer organizations, the question of who actually absorbs the cost, and at what point producers take financial responsibility for their decisions, inevitably arises.

Box 1: Case Study of Biorganika and the Valle de Chira Association in Peru

The fair trade and organic banana trading company Bioganika is jointly owned by Solidaridad and AgroFair. It is working closely with the Peruvian Valle de Chira Association (VCA), established in 2002, in order to build organizational capacity. Currently the VCA lacks the maturity and strength of internal democracy to make optimal use of the potential of fair trade. It also has insufficient expertise to handle the detailed commercial transactions currently being undertaken by Biorganika. The question that arises for Biorganika is how to fund organizational capacity building. The company says: 'We are not interested in business at whatever cost. But we can also not work with weak producer organizations.' The fair trade premium is passed almost entirely to the farmers. Yet Biorganika is absorbing all the quality claims that Agrofair returns to it. In time such claims should be passed to individual farmers so as to reward careful management and packing. Biorganika also pays for all capacity building. Whilst the internal control system, for organic production, is slowly being transferred to the producers, there is still a long way to go for effective handover of the fair trade element. Whilst Biorganika recognizes that strong producer and worker associations are essential if they are to act as effective interlocutors and partners in development, the wider issue is a generic one. FLO assumes that democratic and mature farmer organizations exist everywhere, and it is institutionally unable to consider a combined production system in which producers and workers operate side-by-side. Biorganika argues that fair trade certification needs to be based on a transitional model, with clear indicators and objectives guiding the payment of increasing levels of social premium. This is currently the case with organic certification, which recognizes a transitional pre-organic quality of production. At the moment, Biorganika is attempting to develop a transitional governance form. In this form, the commercial enterprise - with the Fair Trade minimum price - is separated from the social premium and related decision-making process.

Spillover Empowerment Effects

The evidence for spillover empowerment and general community benefit effects is mixed. In one case, the payment of a superior wage to hired labor by a Coocafé cooperative caused unrest on neighboring farms sufficient to lead to an overall wage increase in the area. Cooperative stores also offer short term credit, and the cooperative provides reforestation support and includes non-members in housing

schemes. In Ghana, the fact that Kuapa farmers themselves weigh and administer the sale of cocoa decreases anxiety about being cheated by private buyers or cocoa clerks results in a sense of greater control (Ronchi, 2002a: 26).

However, there are concerns that fair trade initiatives may become socially myopic. It is left to the democratic procedures of the organization to ensure that the needs of the producers are prioritized. Labor relations within the smallholder group may not be considered, thus not engaging with the potential for social injustice based on gender inequality or poor hiring conditions for non-family wage labor (Tallontire, 2001: 7). In some cases, benefits are restricted to the members of the producer organizations and are not spread to the wider community. 'Islands of wealth' may be produced in communities that are otherwise poor (Tallontire, 2001: 8). In short, democracy and the internal day-to-day workings of fair trade producers cooperatives are 'works in progress' such that all of these things work out in practice and differently depending on the social, cultural, political, and economic contexts within which they are operating.

(3) Recommendations to Support the Fair Trade Pro-poor Development Agenda

Recommendations for Assessing Impact

- Much more gender analysis is required if a proper understanding of the costs and benefits of fair trade for both women and men producers is to be obtained. By focusing on three main questions, (i) who does what, when and where, (ii) who has access to, and control over, resources, and (iii) who benefits, gender analysis forces implicit assumptions on the part of intervening partners about who the producer beneficiaries are, and the way they are thought to benefit, to be made explicit.
- The findings of gendered impact analyses will assist in the design of criteria and processes for the identification and selection of whom to work with; this decision is consequential for the empowerment effects of fair trade. In some cases practical constraints to women's participation may need to be removed, or women may need to be hired in specifically to work with women producers.
- Since gender is a cross-cutting variable in dynamic interaction with other variables, other tools to measure impact will need to be employed. Flexibility and pluralism in the choice of diagnostic methods is important since social situations are constantly changing, leading to change in gendered roles and responsibilities, and in user needs. The combined use of participatory methods, statistical analyses and formal surveys is recommended in order to generate a richer picture than any one method can generate (Farnworth and Jiggins, 2006).
- Case studies point tantalizingly to (positive and negative) spillover effects of fair trade interventions on the producers themselves in terms of gains in self-confidence, among other things, on the wider community (in terms of changing social dynamics), and on plant genetic resources. These spillovers need to be documented more widely and carefully interpreted.
- Impact studies on the effects of fair trade on stakeholders across the commodity chain should be conducted.

Recommendations for Policy Makers

- Future development policies and programs—those that consider both conventional and fair trade producers in the South—must understand and engage successfully with a highly concentrated international markets with the increasing concentration and power of supermarkets in both the North and South. Government agencies and private actors need to assist small farmers and entrepreneurs to make the investments in equipment, management, technology, commercial practices, and in the development of strong and efficient organizations, to meet the requirements of the changes in procurement systems (Reardon and Berdegué, 2002: 385-6; Bosalie et al. 2003).
- New policy frameworks that are bringing in new stakeholders are being formulated in the North and in many developing countries. These imply, and require, rapid transitions to new forms of agriculture that meet intensified standards of pollution control and pest and disease management throughout the agro-food chain. Fair trade could expand its interactions with stakeholders in these arenas in order to keep pace with change.

Recommendations for Fair Trade Support Networks

- Local markets with low standards are disappearing, as is the distinction between the global/ export market and the local/ domestic market. Fair trade support networks need to consider urgently how to enable small farmers and entrepreneurs to gear up quickly to compete in

these new international and domestic markets as they open up for conventional and fair trade/ethical products.

- It is important to appreciate the implications of the fact that the North-South nexus of fair trade will probably diminish in importance, while South-South trade and regional markets are likely to flourish. Ways in which fairly produced and traded agricultural commodities can be inserted in such markets should be studied.
- The upgrading of agricultural value chains implies an intensified information exchange between the partners in the chain and the need to acquire new knowledge. Providing information and fostering the learning process of all chain partners is required (Springer-Heinze, 2004:1).
- Particular efforts should be made by fair trade support networks to identify marginalized potential beneficiaries in a community. The community itself can help to develop criteria for producer group membership, ensuring that particularly poor people or specific ethnic groups are not marginalized. Bringing in gardening clubs, for example, may be a way to ensure initial women involvement.
- Transitional forms of governance in producer organizations may be required, to reflect the fact that organizational capacity building takes time. FLO and other support organizations need to acknowledge this in their procedures.
- Likewise, it is necessary to recognize that some cooperatives represent workers and smallholders, and help to develop organizational structures accordingly.

Recommendations for Certifying Bodies

- A key challenge of fair trade is to develop systems of accountability that do not add to the burden borne by producers (Tallontire, 2001: 10).

Recommendations for Supermarkets and Buyers

- Supermarkets or their suppliers must work closely with small producers to clearly communicate changes in their requirements (Bosalie et al. 2003). It is important to note that even if the information infrastructure exists, this does not guarantee information flow and the correct interpretation of information. Truly representative industry bodies capable of ensuring information flow and capacity building to smallholders are required.

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Fairtrade Case Study (Nabs Suma)
Africa

AN AFRICAN CONTEXT

While many developing countries benefited from global economic growth in the 1990s, most countries of sub-Saharan Africa have been left out of this growth. Africa produces a wide range of agricultural products, yet its share of world exports of value-added horticultural and tropical products is small.

The very large, dominant suppliers of temperate and tropical fruits are either from Latin America or from Asia. Only three African countries, hold more than a three percent world market share in any fruit product: Côte d'Ivoire and Ghana, with a 17 percent and 3.8 percent share, respectively, in the world pineapple trade; and Kenya, with a six percent share in trade in other tropical fruits. Cocoa is the one exception where the Ivory Coast is the main supplier (40%) of cocoa to the international market.

Sub-Saharan African countries have traditionally enjoyed preferential access to the market of the European Community (EC), which is by far their principal client. However, there has been an erosion of the trade preference for Sub-Saharan African countries due to the multilateral trade negotiations and the increasing number of free trade agreements that EC has signed with other countries (e.g. Mediterranean countries, Chile etc…).

In addition, international prices for agricultural commodities (e.g. coffee, bananas, and cotton) have been very low in recent years and this has put further strain on the agricultural export sectors of many African countries.

At the same time, African producers have to compete on their domestic markets with imported foods whose prices have been artificially lowered by subsidies on production and exports in developed countries. The continuous collapse of prices and the lack of marketing outlets with the disappearance of the marketing boards, not having been replaced by the private sector, have had devastating effects on farming communities and food security in general.

The social consequences of these developments are serious: many small farmers have been driven off their land due to low prices. Having lost their traditional livelihood, they have become more vulnerable to food insecurity. The loss of their farms does not only mean the loss of crops that provide the farmers' families with staple food for their subsistence, but it also implies the loss of the income from cash crops that enables farmers to purchase their food on the local market.

Many studies have shown that food insecurity is highest in rural areas and, quite paradoxically, among poor subsistence farmers. Even when farmers have been able to stay in agricultural production, falling agricultural prices have resulted in lower incomes and hardship. In some cases, farmer incomes have dropped so much that they cannot afford to buy foods from local markets to complement their meagre production.

In addition, the need to reduce costs has increased the pressure on natural resources, leading to land erosion, loss of biological diversity and the depletion of water resources. The crisis in the agricultural sector, combined with other factors, has resulted in high migration out of the rural areas toward the cities, contributing to the loss of cultural traditions and rises in urban unemployment, crime, health problems and emigration. This is the context in which a better trading system was envisaged as being beneficial to Africa.

THE INTRODUCTION OF FAIRTRADE

The Fairtrade movement can trace its history as far back as the 1960s through individual relationships developed to address the needs of the most poor in the system, acknowledging that trade not aid was the most sustainable mechanism to aid the poor.

By 1998, the leading organisations ***(FLO, IFAT, NEWS & EFTA)*** at the fore front of the Fair Trade sector began to meet to discuss the sector in a more coordinated and strategic way to try to work under a common vision.

This groups formally set themselves up as a body to look at important areas such as advocacy, campaigning, standards and monitoring on a generic level and are now known by their acronym ***FINE***.

One of the key areas of harmonisation that FINE has been able to achieve is the agreement on a common definition of Fair Trade. The FINE definition is:-

"Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the south. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practices of conventional international trade".

The two main organisations recognised as having purely "developmental fair trade standards" are The International Fairtrade Labelling Organisations (FLO) and The International Fair Trade Association (IFAT).

While the two organisations have chosen to develop and monitor standards with different specific focuses for the delivery of benefits to producers in the "south" and their partners in the "north", there are still very many more similarities than not for the certification of producers and traders to Fair Trade standards.

In the most basic terms, the main differences are that IFAT assesses and certifies an organisation's eligibility to be called Fair Trade, while FLO assesses and certifies that a particular product has been produced and traded under Fairtrade standards. They have also chosen different mechanisms for assessment of compliance.

Because the producer groups chosen are certified by FLO, this case study focuses on the standards and processes for compliance and certification under the FLO system. The product categories are coffee and cocoa coming from East Africa in the case of the coffee Coop KCU and coming from West Africa in the case of the cocoa Coop KAE.

Part I - Fairtrade certification Case Study of an applicant / new entrant

This example uses the feedback and experiences of the a farmer owned organisation "Kpeya Agricultural Enterprise", based in Sierra Leone, West Africa which is currently applying to FLO Certifcation Ltd for certification.

BACK GROUND TO KAE (SIERRA LEONE)

Sierra Leone is a small country situated on the western coast of Africa. The country has substantial reserves of natural resources, including diamonds, gold, bauxite and titanium dioxide.

The main food crops for the country include rice (although this is mainly imported now), cassava, millet, sorghum, maize and groundnuts. The main cash crops are coffee, cocoa, oil palm and ginger. Livestock is important for the northern region of the country.

KPEYA Agricultural Enterprise was founded in 1996 at Segbwema during the civil conflict in Sierra Leone by a small group of cocoa producers from villages in the Peje west chiefdom. It is located in Kenema which is found in the Eastern Province of the country with a membership of 700 farmers coming from 21 village communities.

The principal cash crops produced in the Eastern Province are cocoa, coffee and oil palm and all had been neglected during the civil war (which lasted through out the 1990s. In terms of the significance of cocoa, oil palm can still be produced even when neglected although harvesting is more difficult; the coffee produced is Robusta and prices were very low so the rehabilitation of cocoa was considered to be the most important given the historic value of cocoa to Sierra Leone during the 1970s and 1980s.

The commodity sector in Sierra Leone are completely liberalised but are controlled by a small number of trading groups. In rural areas, before the cocoa is harvested, local traders will offer food or cash on exorbitant repayment terms, a bag of rice given on credit is repaid with a bag of cocoa with a value many times greater than the rice.

It is one of the aims of KAE to break the hold that the traders have on the rural population. Eventually members in the villages will have access to savings and loan schemes but at present the farmers are

encouraged to consolidate their cocoa and even when KAE could not purchase or transport the crop, members have been able to negotiate with the traders and obtain a better price for bulk purchase.

During the 2002/03 season, members advanced a portion of their cocoa to KAE, to consolidate and sell in Kenema, where a trader from Freetown (the capital) was prepared to offer a better price. Transporting the cocoa from the rural areas to Kenema was difficult and expensive because the traders who purchase cocoa also own the lorries and charge very high rates for transport.

KAE management had again planned to export cocoa during the 2004/05 season but with only very limited resources this proved too ambitious a proposal. One explanation for this is that even if members pass on their cocoa on the basis that the organisation "does not buy produce from the members, but sells produce on their behalf", the waiting period between production and payment will be considerable and the organisation did not feel experienced enough to burrow at the high rates. Added to this, there are different costs associated with the logistics of export that would have to be covered.

This is a problem facing many small organisation that do not received pre-finance to allow export operations to proceed. For KAE this is one of the benefits that fairtrade offers.

KAE has been structured in a democratic and transparent manner to make it possible to apply for registration by FLO; a condition of purchase under Fair trade terms is the provision of pre-finance to the producer, but before FT registration is possible, the ability to export under conventional commercial contract terms, must be demonstrated.

Apart from FT registration, future plans for KAE include an increase in membership and an expansion in the areas of activity, although this will depend on transport being available for KAE staff.

As the area of activity of KAE expands, the present Manager (the only permanent employee and his payment is intermittent) will require assistance. An Accountant and Operations Manager will be needed and eventually someone with responsibility for training, community development and gender activities. These are all costs to an organisation that has not yet traded but has the ambition and through fairtrade certification could have a tool to work towards their ambition.

This is why assistance and support has been sought and gained from the Food and Agricultural Organisation of the United Nations (The FAO) to get the organisation to a stage of being able to apply to FLO Certification Ltd.

THE APPLICATION PROCESS

It should be clarified that the application process to become certified is not always a quick process. FLO advises a six month period for assessment and full certification to take place.

the FLO Cert process is as follows:-

1) When contact is made with FLO Cert, an "evaluation form" is sent back to the potential operator to fill in. This is done to assess if the operator is from an organisation who's structure is one that would or could fit into the structures that FLO Cert can certify.

For purposes of the application, FLO Cert defines a **smallholder organisation as one that is not structurally dependent on hired labour**. For Plantation the simple definition is **a company that is dependent on hired labour.**

2) If the initial assessment is successful, the potential operator is sent out a full questionnaire with much more in depth details required.

3) Small Farmer organisations applying for a FLO-Cert Certification are charged in the first year of application for the following:-

    a. Application Fee – 250 Euros
    b. Initial Certification Fee – Dependent on organisational structure
    c. Follow up Inspection Fee (if necessary) – Dependent on structure of the organisation and the scope of the follow up inspection.

Certification Decisions after application
As a new applicant organisation, the expectation is not that all standards are perfectly managed, but that the organisation has complied with the majority of the standards. For example, there are some standards, that if the organisation has not complied with, then certification will not be granted. For these the organisation will be granted a **"Pre-condition to certification"** status which means that the highlighted standards must be complied with before certification can take place.

Additionally, there are other standards that if the organisation has not fully complied with will not stop certification, but will need to be complied with (by a certain period of time after certification) to keep the organisation under a certified status. For these the organisation will be granted a certified status **"With Conditions"**.

Once certified, organisations enter into an annual cycle of inspection and certification decisions that give a continuous indication of their compliance status. Thus to remain in the system organisations must manage their internal compliance for which there is a cost associated and also pay for the costs of the annual inspection and certification.

PERCEPTION & EXPECTATION OF KPEYA AGRICULTURAL ENTERPRISE (KAE) OF ENTERING THE SECTOR.
For KAE information about the fairtrade sector has come mainly from the 100% fairtrade buyer they have been working with together with the FAO project coordinator.

The Managing Director of KAE (Mr Ibrahim Moseray) indicates that benefits such as the ability to gain access to "pre-finance" as well as receiving a price that "does not fall below a certain level" is one that will allow the group to plan better and give better benefits back to its farmer members.

Through the FAO project Mr Moseray was able to visit one of the existing farmer coops in West Africa, Kuapa Kokoo in Ghana this summer (2006) and was able to see first hand how the social benefits from fairtrade are shared among those members. He was able to see a lot of projects that encouraged community benefits and which filled the members with pride.

From this experience, Mr Moseray indicates that one of the main benefits from fairtrade is collective participating in decision making. Although KAE has modelled its self democratically, he acknowledges that the level of participation he was able to witness in Ghana makes him optimistic that the members of KAE will begin to see as much benefit from participating at the annual decision making events. This is an aim for the coming season for KAE.

In addition he expects that the level of participation from females will also increase and will help total community development in a transparent manner.

In terms of the costs, KAE see this as an investment that will be recoverable in the future. Having now applied to FLO Cert and having also researched the cost for their organic inspection and certification, KAE indicate that the cost of the fairtrade certification is cheaper.

Although KAE has not yet been certified to trade in fairtrade products, the assistance forwarded to them by their 100% fairtrade partner and by the FAO has generated some local interest, not just from the local buyers who are watching to see if KAE will succeed, but also from other groups who are considering reforming themselves after the long war to try to reclaim their agricultural means of living.

KAE has been in correspondence from other groups in a further district (KONO) who are also considering fairtrade certification for their Robusta coffee and would like to get some advice from KAE on how to approach the fairtrade sector and to find buyers.

KAE is optimistic that the future will now be brighter for many in Sierra Leone as they have "already seen some benefits without (as yet) having traded one single fairtrade container".

THE MARKET REALITY FOR A NEW EXPORTER & RELATIONSHIP WITH BUYERS.
For a new producer group entering this sector, there are many challenges that would have to be over come to make the most of trading in an export environment.

Firstly, the challenge of finding a buyer is not as easy at is might first seem. Although contacts may be made with potential buyers, the difficulty that a new entrant will have in any new export market is that buyers, will be cautious about entering into trading relationships that may end in defaults.

From a buyer's point of view, it is better to ensure that as much of the risk is related back to the supplier so that risks of non-delivery are not also compounded with any additional loss. This means that faced with a choice of a new producer or an existing proven supplier, buyers will tend to go to those who they know are reliable and who will deliver.

The same is the case on quality grounds. Buyers will have a set level of requirements for quality specification for a particular product and will ensure that these are clearly classified within the contracts. In the event of delivery of a sub-standard quality product, buyers will claim for this against the total value of the original contract. This is a risk that new producer exporters are not always clear about. In some cases the risks may be associated with legal requirements that require sophisticated technology (or access to laboratories) and testing for potential problems such as levels of afflotoxin levels.

"In-country" processing is an issue that many argue would be of immense benefit to local communities and in cocoa the processing of cocoa beans into the by-products "Butter" and "powder" at a local level in countries like Ivory Coast and Ghana is becoming a good market. This said, there is still a continued perception that the quality is lower than those pressed internationally (or at least in Europe).

These are some of the challenges that a new entrant faces when entering the international trading sector through exports. Fairtrade is seen by many to offer solutions to some of the problems faced by these entrants. With a minimum price, a social premium and better terms of trade producers are given a better chance

The question is, does the reality live up to the expectation?

PART II – A Well established Fairtrade Coop

MEETING THE STANDARDS REQUIREMENTS

Using the example of the Kagera Cooperative Union (KCU) organisation which joined the Fairtrade system in 1990 as a certified producer and exporter of coffee (under FLO) and has maintained its certified status for the last 16 years, it is possible to see how fairtrade certification has changed the outlook of one organisation and changed the lives of the community that it represents.

The Kagera Cooperative Union (KCU) was founded in the 1930s as a coffee cooperative. It currently comprises of some 90,000 small farmers that are organised in 124 primary societies (in villages) that are located in the region of Kagera in Tanzania.

Kagera is located in the north-west tip of Tanzania, isolated between the Rwandan mountains and Lake Victoria. The main cash crop of the region is coffee and the breakdown of the International Coffee Agreement in the late 1980s plunged coffee prices to record lows, reducing farmer's income (in the region) to less than a dollar a day, (well below the poverty line).

Through the Dutch Fairtrade Organisation, Fair Trade Organisatie, KCU made contact with the first Labelling initiative for fairtrade Max Havelaar Netherlands. By 1990, KCU had become a formal member of the Fairtrade movement.

In the ensuing years, KCU sold an increasing part of its member's coffee under fairtrade terms. During this period, KCU member coffee sold under fairtrade terms has increased at different rates but has managed to register a total additional income through fairtrade alone of over USD $ 7 million dollars with in this period.

ENTRY INTO THE FAIRTRADE SYSTEM

When KCU first joined the system, the main motive for the organisation (as explained by the then and current Managing Director Mr John Kanjagaile) was to have a better understanding of where their coffee was going and whom it was being sold to.

Because sales had mainly been done through the auction system, it had not been possible for KCU to really assess if they were getting a reasonable price for their coffee. They saw the introduction of fairtrade as an opportunity to build a relationship with potential long term partners. The aim was to get much closer to the consumers so that ultimately they could sell more coffee.

Although KCU had considered making the bold step to export for a number of years, they had assessed that the risk of selling to the conventional market on terms such as "Cash against Documents" when they were not aware of the partners they would be dealing with was, at that stage, too high a risk for the organisation. The auction was a safer environment as this was well understood locally and the risks were seen as managable.

The fairtrade introduction suddenly opened up the export option with much more helpful terms such as "pre-finance" and the higher price also helped KCU to take the risk. Under the pre-finance terms, having already received 60% of the consignement's value, the risk of non-payment had been shared. KCU could see that the buyers were also taking a risk as there is also a risk of non-delivery and so they came to believe that there is an alternative way of trading where buyer and seller can share the risks.

Having made the decision to get certified the process then focused on ensuring that KCU would meet the standards. At first glance one might assume that the standards for fairtrade are focused purely on the trading of products.

In fact, fairtrade also places an emphasis on the ability to trade and empowerment of producers. To this end there are firstly a set of **"producer standards"** that have to be complied with before a producer can be eligible to trade their product as fairtrade. Once certified a producer is given a unique FLO identification number and is put on the FLO register for the particular product that they are certified to trade in. This focus on producer standards has historically been with **"smallholder producers"**.

One consideration is that FLO also has (more recently) developed a set of **"standards for hired labour"** situations where the product being traded does not have availability via smallholders. Because coffee and cocoa are predominantly smallholder commodity, they are covered under the smallholder standards.

Additional to the producer standards, are a specific set of **"trade standards"** for each product for which FLO standards exist.

The trade standards place more of an emphasis of equalising the terms of trade to give a better return to producers. Both buyers and sellers have to meet these standards when trading consignments bought and sold as fairtrade.

INDICATION ON COSTS OF MEETING THE STANDARDS

Initially there was no cost for the inspection and certification of fairtrade so (for KCU) getting certified was easy. But given the growth of fairtrade and the interest from many more producers to be certified, the financing of inspection and certification costs is now being charged as a direct cost to producers. FLO Cert argues that this is key because, it is an area that needs to be delivered as a credible quality service and more and more actors are requiring third party verification of activities within fairtrade. Costs of meeting that growing service need to be covered to allow for the quality and credibility across all operators.

Additionally it is argued that now that the benefits are being seen by the producers and especially those producers who have been in the system for a long time, then a fee is justified. In the past, FLO, (before the creation of FLO Certification Ltd) was one of the few bodies whose certification activities were free.

On this KCU argues that, they can understand why there needs to be cost for inspection and certification, after all they are aquianted with organic certification for which they have always had to pay a fee. This said, they do argue that the basis on which the inspection and certification fees are charged could be more sensitive to the situation of some producers.

For example, some producers that have just entered the system have not yet received any benefit from the system, infact, they would likely have had to meet the costs of developing systems (both administrative and logistical) to ensure that they would comply to be certified as fairtrade. In these circumstances, KCU argues that new producers are not always in a position to pay the inspection and certification fee on the current basis.

Additionally, KCU argues that because the fee system for certification is not based on the actual fairtrade turnover, some producers that have already been certified but who have not been able to sell good volumes through the fairtrade channel of their business are facing increasing costs because of certification with limited revenues from fairtrade to cover those added costs.

This said for KCU, the cost of meeting the fairtrade requirements as well as the costs of certification are comfortably covered through the fairtrade volume sales they are able to trade annually. With figures from 2005, Mr John Kanjagaile estimates that the costs of meeting the fairtrade standards and the costs of inspection and certification came to approximately 2% of the **"total benefits"** gained from fairtrade.

In this regard, it should be clarified that "**total fairtrade benefits"** refers to the following:

a) The fixed premium allocated to all fairtrade purchases of coffee. (0.05cts/lb)
b) And also the difference between the minimum price and the market price when the market price is well below the fairtrade minimum price for coffee. (minimum of 1.21cts/lb)

In 2005, KCU estimates that the total benefits from fairtrade reached approximately $900,000 USD. They calculate that they have had to spend approximately 2% of these benefits on compliance with the standards and certification fees.

Organic versus Fairtrade

In comparison with the organic certification that KCU runs for four of its Primary Cooperative Societies, they see fairtrade certification as being cheaper than that of organic. To run four primary cooperative societies as organic could initially seem cheaper (because the organic certification only applies to 4 of the 124 Societies) but if one was to try to apply organic certification across all 124 (One hundred and twenty four) primary cooperative societies, this would be a huge cost not just in terms of the certification cost which would be much higher than fairtrade, but additionally in terms of the training and additional staff that would be required to implement the system.

In terms of the running costs of compliance (both for fairtrade and organic) Mr Kanjagaile sees a cost to the need to sometimes change the cultures of the members. This is seen as a long term cost.

For fairtrade, it has proved difficult for KCU to get members to understand the benefits of changing the way they have done things, because (as far as they are concerned) they have done things in one particular way for many years and now they are being told to change them, it is hard for them to understand the justification of such changes.

For organic, farmers have been farming traditionally for a number of years and they see the requirements of record keeping and in some cases the approaches by some certification bodies as an added burden to practices that they already feel meets the requirements.

For the management of KCU, the need to train members has become a large part of the compliance cost. Although clear dedicated staff members are now being used for both organic and fairtrade, KCU sees the level of extension staff for organic training as being the biggest cost.

Currently for four primary cooperative societies, KCU has appointed 10 extension staff for the training of members and if they are to expand the organic converted area (to 10 societies), they anticipate having to increase the number of extension staff to 19.

KCU see this as still being beneficial as they tend to use the extension staff for both organic and fairtrade training so in this regard, they see it as a beneficial longer term investment. In the long run and because of the growing requirements from other standards such as Eurepgap etc… KCU feel that by covering off on organic and fairtrade, they can also have access to those other standards.

BENEFITS OF MEETING THE STANDARDS
For KCU the following have been the main benefits they see from having been part of the fairtrade system.

1) A GOOD PRICE –
For KCU the quarantee of a good price was one of the key factors in attracting them to fairtrade. Having joined the system after the coffee crisis of 1989, KCU wanted to be sure that they could take the risk to trade internationally and get a fair return. This they feel has been one of the benefits of fairtrade. This said, they weight this similarly in importance with the opportunity that was given to them (through fairtrade) to export directly. The ability to export directly also opened up other markets for KCU additional to fairtrade.

The premium was vital in bringing better awareness locally to the benefits of fairtrade as it allowed KCU to invest locally in the communities from which its members came.

2) SUSTAINABLITY
Liberalisation in 1992/3 in Tanzania caused the death of most of the original unions as they could not compete with the international buyers that entered the liberalised sector. Added to having to compete on price, the Unions had to also organise AGMs and other democratic related activities that would increase their overheads but was not recoverable under such competition.
Through fairtrade, KCU was able to deliver on these and also pay the farmers a good price. If this had not been possible, KCU argue that the farmers (as in other cases) would have left KCU membership and that would have ended KCU.

3) STRONG BENEFIT FROM EXPORTING DIRECTLY TO EUROPE.
For KCU, one of the main benefits they have gained from being part of the fairtrade system is that they have been able to build an international reputation for their member's coffee.

As was stated earlier, the option to look at exporting internationally was initially viewed as too risky because, KCU was responsible for the coffee of its members and not having traded internationally before, the risks of potentially not getting paid, or getting a poor price were reviewed cautiously.

The options for pre-financing and a guaranteed minimum price allowed KCU to take the risk with some of their concerns now managed. Now having taken that risk, KCU argue that this is perhaps one of the biggest benefits from fairtrade to their organisation.

They have been able to export a high level of non-fairtrade coffee (much higher than the fairtrade volumes sold) but the ability to export has given KCU and international identity which was not so recognised before fairtrade. This means that they now have many buyers who recognise the quality and consistency of KCU's product and are willing to trade with them.

Having worked with the first few fairtrade organisations which gave KCU the confidence to approach and the credibility to be approached by international buyers; KCU's ability to deliver specific qualities to different buyer's requirements has meant that they have better market access through different segments of the same market.

This means that they can now supply different qualities to the conventional market, specific qualities to the fairtrade market and to other alternative markets such as organic. Thus the benefits from this has had a large multiplying effect.

Trade in general has allowed KCU to build up its reserves to allow for local investments. One of such investments has been the purchase of shares in the local Tanica Instant Coffee Company which was previously owned by the governments and unions jointly. This is the region's only factory set up by Tanzania's coffee marketing parastatal in the 1960s to produce instant coffee powder.

When the parastatal decided to privatize the Tanica Instant Coffee company, KCU's farmers approved that the Union should use some of the fairtrade income to buy shares (a limited number every year) as finances permitted. In 2004, after 14 years, the aim of owning 51% of the factory was achieved. This makes KCU the majority shareholder.

Controlling Tanica has filled the farmers with pride on a social level, and on a business level, it has enabled the strengthening of the Union's future as it has diversified the Union's income and has reduced the dependence on exports.

4) OTHER MARKET SEGMENTS INCLUDING ORGANIC & GOURMET.

As stated above, the ability to export has opened up KCU to a number of additional opportunities including the organic market. The additional premium attainable from the organic and gourmet markets have been a useful progression for KCU.

Having been able to export, KCU argues that it was much easier to be aware of the international market demands and for them to then respond. For organic there was some added security in that fairtrade buyers are also required to pay an additional organic premium which has helped them to justify some of the costs of converting a small number of their primary cooperative societies. KCU now has different buyers in Europe, the United States and Japan.

5) ABLE TO DEMONSTRATE KCU'S CREDIBILITY.

The ability to export as one of the topics focused on by the producer standards gives a clear indication of the value fairtrade places in giving producer organisations the tools and options to determine their own future by helping them to trade. This is not to say that the export channel is the only valued channel from fairtrade, indeed the local market is of vital importance to the ability to remain sustainable. What the challenges of the export market will bring to an organisation is the ability to make the operational logistics as robust as possible so that delivering locally can be done as efficiently as possible. It means that local options are available, but the key is that operations are not just tied to those options alone.

For KCU, the local channel of the auction was the option they were already working with. The ability to export simple opened up more options for the organisation.

6) KCU IS NO LONGER DEPENDENT ON THE FAIRTRADE INCOME.

It is clear from many other fairtrade organisations (of which KCU is one example) that the total volume of sales through the fairtrade channel does not usually cover the total or even a majority of and organisation's production capacity. The majority of the coffee sold by KCU is still sold through the conventional (non-fairtrade) sector.

There are however a number of differences that fairtrade has brought to these purchases. For example, KCU state that because they now have a good list of international buyers, they are able to assess offers better.

A better understanding of international requirements has given KCU more options for market access while the ability to diversify has also helped KCU to invest locally in potential new income sources such as tourism with which to continue helping the community in a sustainable way.

7) SOCIAL BENEFITS

Apart from the benefits to the organisation outlined above, KCU is proud to also promote the fact that through out the years, the Union has also used part of the fairtrade income to invest in the three schools it runs for the children of the coffee farmers villages. Through out these years, more teachers have been hired with more children having access to better education. KCU sees this as a valuable investment in the future as these children could become the managers of the Union in the future.

This solidarity and strength in the Union has seen them come through good and bad times with the stable hand of the same managers (such as Mr Kanjagaile) who were part of the Union in 1990, still working to the benefit of the Union today. This has been important because the new generation of managers or skilled workers will need to learn and understand the practical skills and experience that comes of trading and managing an organisation such as KCU.

THE MARKET & RELATIONSHIP WITH BUYERS

For KCU some of the invisible benefits from fairtrade come from the relationships they have been able to form with the more, well established fairtrade organisations such as Fair Trade Organisatie (FTO) from the Netherlands.

The fact that these organisations were willing to initially take some risk (in entering into the first few trades with options for pre-finance) assisted KCU to enter the market but this was just the beginning of (in this case) their 16 year relationship.

Assistance has been given to KCU by FTO and other such (100% fairtrade) organisations who have invested not just by paying a fair price or a premium. They have also invested in other forms of support to assist the partner organisation in attaining all the skills and marketing expertise to allow them to maintain their independence.

For KCU these are some of the unique benefits of being in these trading relationships. It is not just about meeting the standards, or paying the minimum price. For KCU and its partners, the trading relationship which many have chosen to call "fairtrade" is one where the partner (on either side) is empowered to take some responsibility for the sustainability of the trading relationship.

It is thus no surprise, that KCU is often accompanied across Europe with such partners to look at ways and means of finding new buyers and new opportunities with which to keep the organisation moving forward. Conferences and trade fairs have proved useful opportunities from both sides to market the KCU product. From a buyer's side it is obviously of immense use to have a representative from the producer organisation who is willing to spend time explaining how beneficial the relation ship is and what the impact has meant to the local community.

The training that is often delivered through these (100% fairtrade) organisations has meant that the overall level of understanding and skills of the KCU staff has improved but so has the understanding of these buying organisations, in terms of the realities on the ground and how certain "short-termist" buying practices can affect such organisations.

In some cases, there are joint contingency plans put in place to ensure that some risks can be jointly shared. One example, is where both KCU and the buyer are putting some funds from each transaction into a "joint-fund" as a contingency for problem situations. This is what KCU sees as a true partnership in trade.

In short, KCU argues that these (100% fairtrade) organisations have continued to push the boundaries of international trade and they have developed a sprit which encapsulates a trading relationship which some have called "fairtrade".

Strictly speaking one need only meet the standards to qualify as being certified under fairtrade, but what the last 16 years have shown KCU is that fairtrade is more than just these minimum requirements of the standards.

It is a sprit and willingness to build a partnership not just for a new market share (that some brands have entered it for) and not just for the minimum price and premium (that some producers have entered it for). It is much, much more than those basic approaches.

But what has fairtrade meant in the regional context?

THE REGIONAL CONTEXT - East / West Divide

It is possible (some would argue) from some basic indicators to consider the Eastern part of Africa as having developed more of a stable infrastructure to achieve good trade links. There are good communications through the internet and telecommunications which makes contact with existing and potentially new buyers more reliable. For Fairtrade the Coop structures found in the East (although sometimes just as politicised) have been able to maintain some autonomy from the state and can actively make decisions for the best interest of the community, rather than be led in one way by active leadership. The Eastern part of Africa in very basic terms has the perception of being more stable than the West. Added to this is the perception that the legal structures found in the Eastern part of Africa are more robust than those in the West.

In some respects this has led to some considering the East as being more advanced than the West, not just on the basis of infrastructures that effect trade but also in how the East has been able to react quicker to new international developments and new markets opportunities.

For example, the growth in fairtrade has been slower in the Westerm region of Africa than on the East. Although the quality of coffee (which was the first main fairtrade commodity) is (generally) better in the East than it is in the West (for one thing because the East has access to the higher grown Arabica as well as the lower grown Robusta) because the Robusta that is grown in the West is still generally considered a lower quality product than that sourced from the East.

So in fairtrade, producers from the East of Africa have benefited from some of these factors to get access to fairtrade which has in effect meant that those producers that have had access to fairtrade have been able to benefit at a faster rate than those that have not.

A good example of this is the fairtrade product “cocoa” which was also chosen to illustrate this point. Cocoa as a bulk product is predominantly produced in West Africa which accounts for approximately 75-80% of the world’s total production. It is mainly a smallholder commodity and given these basic facts, one would assume that the majority of cocoa producers that can be found on the FLO register of certified producers would come from this region.

In fact this is not the case. For cocoa (from 1997 – 2004) there have been two main producing countries from West Africa that have been represented on the FLO cocoa register (Cameroon and Ghana) with the remaining 17 all coming from Latin and Central America. It is only recently in 2004 that two new producer organisations joined the cocoa register from West Africa (the Ivory Coast).

The same is true in other such specialised markets. For example, developments in the organic sector have faced similar splits in progress and development. An IFOAM survey of organic and like-minded movements in Africa (Bonn 2003) reveals that “the organic sector in West Africa, in particular, lags behind other regions. While the region has often been viewed as having a potential for developing a formal certified organic sector, especially with regard to tropical fruit, few organic trading links have been established. However, there is substantial organic production of coffee in Cameroon, palm oil and fruits in Ghana, and cotton in Mali, Senegal and Benin”.

Again, using the FLO cocoa register to illustrate this, one can see that most of the cocoa producers from the register that are based in Latin and Central America already have certified cocoa and have had access to this market for a while. The original two countries from West Africa do not yet have organic certification in cocoa (although certified coffee has been available).

Communication, infrastructure and coordination problems seem, however, to weigh heavily on the development of the Western Region. Added to this seems to be a multiplier effect (for fairtrade) which has seen a growth in the support functions offered not just by the different (100%) fairtrade organisations, but as a consequence of having more operators that are certified, FLO has also invested more (with support staff) in the East than they have so far done in the West.

This said, there is some improvement. More fairtrade products that have had standards developed are now also available from the West Africa and as such there are more producer groups now applying to get certified.

The FLO Producer Business Unit is also now beginning to invest with new staff now located in Ghana to enable more access to the fairtrade market through certification.

In this context, the growth of fairtrade in Africa in general has been a successful tool in helping the marginalised and the poor to access opportunities from trade that might other wise see the continuing decline of independent forms of sustainability for small farmers.

CONCLUSIONS

From the experiences of the two organisations used in the study, it can be conclude that organisations that are aware of the benefits of fairtrade are trying to use this system as a “leg-up” into the complex export trading sector.

There are many challenges associated with becoming an exporter that new operators (such as KAE) have to negotiate:

a) Meeting the standards and becoming certified.
b) The initial and yearly cost of certification.
c) Operating in a product sector for which fairtrade standards exist and where there is demand.
d) Structuring an efficient logistical buying and export structure.
e) Finding buyers and forming relationships.
f) Meeting the quality and export requirements of buyers.

Although daunting, it does seem that these challenges are being achieved, especially given the growth in application for fairtrade certification. Having met the above and entered into trade, it can be seen from the second example, that the long term benefits from fairtrade are much more sustainable than the short-term benefits of the “minimum price” of the “social premium” that are often marketed as the main benefits from fairtrade.

In fact, it could be argued that the terms of trade under which fairtrade transactions are carried out is the defining difference that gives producers the ability to self-determine their organisation’s future and empowers them to have a voice and a role in international trade.

Obviously, different organisations will have approached fairtrade differently and will have benefited (from it) to varying degrees. The main point though, is that the experience of a long standing organisation such as KCU which has been in the fairtrade sector for over 16 years does stand as an example to other new entrants such as KAE that the long term benefits from fairtrade are indeed worth investing in.

Fairtrade Case Study (Sarah Lyon)
Latin America

This section critically evaluates fair trade in Latin America and the Caribbean, documents its positive impacts, and indicates areas for improvement. The overview is illustrated with a case study of the Guatemalan fair trade coffee cooperative La Voz and its 116 Tz'utujil Maya members.

Latin America is the world leader in the number of certified fair trade groups producing agricultural commodities historically sourced from the region, including bananas, coffee, fresh fruit, honey, juice and sugar. The current FLO register contains 231 coffee producer organizations, 191 of which are located in Latin America and the Caribbean. Similarly, 24 of the 25 certified banana producer groups and 25 of the 26 certified honey producer groups are located in Latin America. Fair trade certified wine, first introduced in South Africa, has recently spread to Chile and Argentina. In addition, the 273 member Bolivian group, Central de Cooperativas Agropecuarias "Operacion Tierra" Ltd., now produces a fair trade certified version of the indigenous grain, quinoa. [6]

Certified Fair Trade Products in Latin America

COMMODITY	COUNTRIES	CERTFIED PRODUCER GROUPS	TOTAL LATIN AMERICA	TOTAL WORLD	PERCENT LATIN AMERICA
Bananas	Colombia Costa Rica Dominican Republic Ecuador Peru St. Vincent	7 1 6 4 5 1	25	24	96%
Coffee	Bolivia Brazil Colombia Costa Rica Dominican Republic Ecuador El Salvador Guatemala Haiti Honduras Mexico Nicaragua Peru Venezuela	18 6 24 6 3 1 7 22 7 19 38 13 25 2	191	231	83%
Fresh Fruit	Argentina Brazil Costa Rica Ecuador Mexico Peru St. Vincent	3 4 2 1 2 3 1	16	25	64%
Honey	Argentina Chile Guatemala Mexico Nicaragua	1 4 5 13 2	25	26	96%
Juice	Brazil Costa Rica Cuba Ecuador	6 2 7 3	21	24	88%

[6] All numbers from www.fairtrade.net (accessed 9/21/06).

	Mexico Peru	2 1			
Nuts & Oilseeds	Brazil El Salvador Peru	1 1 1	3	12	25%
Quinoa	Bolivia	1	1	1	100%
Sugar	Costa Rica Paraguay Peru	3 6 1	10	13	77%
Tea	Peru	1	1	67	1%
Wine	Chile Argentina	5 1	6	28	21%
Source: www.fairtrade.net 9/21/06					

Fair trade's impact on producer associations and their communities

Higher prices

Due to overlapping market opportunities and development agency involvement, separating fair trade's unique impacts on producer organizations is extremely difficult (Raynolds et al 2002). Furthermore, fair trade's impact on plantation workers is less studied (Nicholls and Opal 2005). Despite these limitations, a growing body of research demonstrates several key benefits of fair trade market participation. The most direct benefit to individual producers is the guaranteed price they receive for their products, which varies by commodity. In addition to the guaranteed price, producers (or business owners) receive a social premium to be used for community development. When market prices rise above the guaranteed floor price, an additional premium is paid. Finally, for many fair trade certified commodities, such as coffee, an additional price premium is paid for organic certification. The guaranteed price helps to sustain rural communities and households and, when invested in land and education, supports effective local development.

The impact of higher coffee prices in Guatemala. The guaranteed price is a critical component of fair trade certification, especially for commodities with volatile markets such as coffee. In recent years, international coffee prices have declined to a hundred year low when adjusted for inflation (Lewin et al 2004). At the height of this crisis, during the 2001-2002 coffee harvest, La Voz cooperative members were paid US$1.41 per pound ($1.26 guaranteed fair trade price with a $.15 premium). After taxes and the cooperative's operating costs were deducted, this price was double that paid to non-cooperative members by local middlemen.

The higher income enabled members to continue repaying their debts, maintain their standard of living, retain their landholdings and pay for their children's education during a period in which many of non-members were forced to sell their land and withdraw their children from school. Access to land is a critical component of total income in rural Latin America (De Janvry and Sadoulet 2000). Therefore, the security of the cooperative members' landholdings is a significant benefit of their higher fair trade incomes. The steady income also enabled cooperative members to continue their subsistence agricultural production. In addition to providing additional cash income and cultural continuity, *milpa* subsistence farming is a livelihood strategy that helps small producers cope with uncertain prospects. Finally, the higher prices earned by cooperative members enabled them to educate more of their children for longer periods of time. Nineteen percent of the 53 surveyed cooperative members never attended school and nearly half completed only three or fewer years. However, 42 percent of members have at least one child who has completed secondary school and works in an office, as opposed to pursuing traditional agricultural pursuits or caring for the home. The fair trade model is criticized as being a stopgap measure in the need for agricultural diversification among the world's millions of small coffee farmers. While the Guatemalan cooperative members are not diversifying their production, they are ensuring that at least a segment of the future generation will have a wider variety of occupational opportunities.

Direct, long-term trade relationships, stability and market information

In addition to guaranteed prices, fair trade standards require buyers to enter into long-term purchasing agreements with producers. Fair trade's close alliance with northern buyers and retailers and its focus on supporting smallholder access to new markets facilitates a wider distribution of benefits to small producers (Taylor 2004). In multiple studies, market access is identified as a key producer benefit

(Shreck 2002; Moore 2004; Paul 2005). Fair trade buyers and the development agencies that endorse the market are able to assist specific groups rather than offer blanket aid (LeClair 2002). The desire to maintain long-term relationships with buyers can provide an incentive for cooperatives to improve their product quality by investing in infrastructural and production improvements. These direct trade relationships allow fair trade producers to bypass the often exploitative local buyers and enable groups to bargain more effectively with large buyers such as Starbucks or Wal-Mart (Taylor 2002). Furthermore, the market information they obtain through fair trade contracts may make producers more confident in dealing with non-fair trade buyers as well (Ronchi 2002).

Improving product quality through direct trade in Guatemala. La Voz cooperative is visited on a monthly basis by representatives from their long-term Vermont based buyers, Green Mountain Coffee Roasters. Through this steady contact, cooperative members hone their communication skills, enhance their business practices and learn valuable information about quality and certification demands. The fair trade model offers the cooperative a competitive advantage by actively fostering ongoing close contact with their buyers and enabling them to learn international standards for price, quality, and the delivery of export products. This has been empirically demonstrated by Bacon whose research on fair trade coffee producers in Nicaragua indicates that when demands for quality are coupled with producer education buyers can effectively instill a pride in craftsmanship and a motivation towards improvement (2005).

Organizational capacity building

Fair trade certified producers must be organized into independent democratic associations or, in the case of hired labor, must be allowed to join worker unions. This requirement results in one of fair trade's most enduring benefits, organizational capacity building (Murray et al 2003, Redfern and Snedker 2002). The strength of a producer association's internal organization, their group identity, and leadership skills have been identified as critical components of fair trade success (Raynolds et al 2004). In turn, the security of fair trade prices and markets enhances a cooperative's general financial and organizational stability (Raynolds et al 2004) because buyers demand a certain degree of accountability and monitoring (Daviron and Ponte 2005). The growth of the fair trade market has contributed to the promotion of cooperative social development in regions where historically such organizations have not been prominent, such as the Caribbean (Moberg 2005).

Fair trade consumption in the North is predicated upon consumers' access to information regarding the conditions of production and increasingly the social circumstances and cultural traditions of producers themselves (Lyon 2006). Therefore, participation in international fair trade markets can lend legitimacy and protection to democratic producer associations, which in turn are able to create safe opportunities for members to work together and reproduce long-term traditions of horizontal cooperation, reciprocity and mutual aid (Fox 1996). Impact studies indicate that this organizational capacity building can be translated into enhanced external civic engagement. For example, Taylor (2002) found that many Mexican fair trade cooperatives are involved in national coffee, credit and small business associations and Ronchi (2002) demonstrated that the producer organization allows fair trade farmers to voice their opinions collectively, thereby increasing their power at the national government level (Nicholls and Opal 2005).

Building organizational capacity through fair trade in post-war Guatemala. In regions with a history of targeted rural violence, such as Guatemala, the international nature of fair trade networks buttresses the strength of cooperatives and the secure civic spaces they foster. While many Guatemalans see democratic organizations as essential to confronting poverty and precarious economic circumstances, due to the fact that any social organization not under army control during the war was criminalized, fear remains a significant obstacle to rural organization (REMHI 1999). However, the democratic and egalitarian ethos of the La Voz cooperative, founded as a mutual aid society in 1977, serves to mitigate the destabilizing forces that often accompany the introduction of potentially profitable crops such as coffee.

Of the 53 surveyed cooperative members, 77 percent have served on the cooperative's 16 member board of directors at least once over the course of their membership. The ethos of service and mutual aid remains a highly potent symbolic component of cooperative membership, one that helps to mitigate tensions among members. During observed general assemblies, disagreements were often resolved when a member emphatically stood to declare, *"Somos cooperativistas o somos nada!"* In interviews, members frequently reiterated the importance of mutual aid, explaining how, "The cooperative helps you at the same time that you have to help it." The La Voz experience is supported

by similar studies (Bebbington 1996, Nigh 1997, Hernandez Castillo and Nigh 1998) indicating that Latin American cooperatives that combine cultural norms of reciprocity and service with contemporary business activities are often more accountable to the needs of their communities and better grounded in local social processes.

Access to credit

De Janvry and Sadoulet argue that access to credit is minimal among the rural poor in Latin America and this lowers the "income generating capacity of the meager asset endowments that the poor possess" (2000:396). However, participation in fair trade markets can enhance the legitimacy of producer organizations, thereby granting them access to credit institutions and international lenders (Raynolds et al 2004), a key benefit for small producers who were often historically excluded from formal lending institutions. It is in the lending arena that development agencies and non-governmental organizations have had the largest impact on the growth of fair trade market participation in the region. For example, USAID supports the Finance Alliance for Sustainable Trade (FAST) which creates partnerships among United States based alternative lenders, socially responsible importers and roasters, and fair trade certifiers. Similarly, in recent years the non governmental organization Eco-Logic has made 250 loans totaling nearly $45 million to 100 small and medium sized enterprises, the majority fair trade certified, in 12 Latin American countries.[7]

Many fair trade producer organizations use loans from external institutions to establish micro-lending programs to help members improve their production quality and quantity, thereby strengthening the organization's market potential. However, these loans must be carefully managed by both the cooperative and the members who borrow. There have been several allegations of mismanagement and lacking transparency made against producer groups across the region. The problems associated with internal micro-lending programs established with external credit assistance may result from inefficient and poor management within groups. Mendoza and Bastiaensen (2003) argue that fair trade certification encourages a cooperative structure dependent on an expensive top-heavy entrepreneurial hierarchy with a large administrate staff and consequently higher administration costs. However, Taylor (2002) argues that problems with the cooperative structure and democratic decision-making shouldn't be viewed as weaknesses specific to fair trade and Murray et al (2003) point out that fair trade could potentially address this weakness through heightened transparency requirements.

Producer debt in Guatemala. Beginning in 1989 the La Voz cooperative received several long-term loans through the USAID Small Coffee Farmer Improvement Program. These loans enabled the cooperative to establish an internal micro-lending program, which has proven critical to the group's ongoing success. In fact, 54 percent of surveyed cooperative members named access to credit as the primary benefit of cooperative membership, compared to the 40 percent who named higher prices. Members apply for both short and long-term loans that they pay back with their annual coffee profits.

Varangis et al (2003) report problems with loan repayments among coffee producers in all Central American countries and the debts held by cooperatives and their members significantly reduce the income generating potential of fair trade markets (Utting-Chamorro 2005). Many members of La Voz find it difficult to repay their loans to the cooperative, in turn making it difficult for the group to repay its bank loans. An analysis of the cooperative's micro-lending program reveals seven principal factors contributing to high rates of insolvency among members:

- Harvest is December-March, however members must wait until June or July for full payment
- High interest rates: 85 percent of surveyed members reported the rate was exorbitant
- Allegations of loan mismanagement by administration and borrowers
- Poor harvests due to hurricanes Mitch (1998) and Stan (2005)
- Loans used for unproductive purposes (such as education or medical bills)
- Loans are larger than capacity to repay
- Members borrow from multiple lending institutions, exceeding repayment capacity

Large, unpaid loans lower a group's profits and members' income. In addition to lowering profits, large numbers of defaulted loans can weaken the group's organizational capacity and hamper its market success. This can also encumber the group's morale and sense of unity as solvent members begin to

[7] www.ecologic.org (accessed 10/20/06)

feel they are being taken advantage of and indebted members begin to feel the group's management is unresponsive to their needs. Additionally, members deeply in debt to their association may actually begin to have a vested interest in the group's failure because it would potentially erase their own debts.

Producer self-confidence
Several impact studies demonstrate that fair trade market participation enhances producer confidence, self-esteem and sense of security. For example, Ronchi (2002) demonstrates that heightened producer confidence is attributable to the impression of being part of something bigger than themselves which proactively combats the image of helplessness or insignificance the previously marginalized and isolated groups once felt. Similarly, Murray et al (2003) document a renewed pride in coffee farming among certified producers and the Ecuadorian coffee farmers studied by Nelson and Galvez (2000) believed they had developed self-esteem as a result of their market participation. Bacon's (2005) research on Nicaraguan fair trade coffee producers demonstrates that they perceived a lower risk of losing their land and Mayoux (2001) argued that fair trade market participation resulted in increased participation in public assemblies.

Indirect community benefits
Non fair trade farmers in fair trade communities benefit from the local multiplier effects of extra income as well as community projects such as roads, health clinics and schools funded with the fair trade premium (Nicholls and Opal 2005). Furthermore, because fair trade certification requires producers to meet environmental production standards, communities also benefit from a locally reduced use of pesticides and reforestation projects. Finally, impact studies demonstrate that the higher prices paid by fair trade producer associations can lead local middlemen to offer higher prices in order to compete (Nelson and Galvez 2000, Ronchi 2002).

Current limitations and areas for improvement
Gender. Fair trade has prioritized gender equality however in practice this mandate is underdeveloped. In order to comply with certification standards, most producer groups have initiated projects and activities designed to address gender issues however their effectiveness remains to be empirically documented. Furthermore, there needs to be a greater clarification of what gender issues fair trade intends to address (Murray et al 2003).

While fair trade publicity materials highlight the steps producer groups have taken in order to foster women's equality, impact studies demonstrate several shortcomings (Lyon 2002, Mayoux 2001, Murray 2006, Redfern and Snedker 2002, Ronchi 2002). A review of FLO certified producer profiles[8] reveals that women's projects are largely focused on activities outside the agricultural sector and instead on health or subsistence farming. There are notable exceptions to this tendency. For example, La Asociación Maya de Pequeños Agricultores in Santa Anita la Unión, a Guatemalan coffee cooperative formed by ex-combatants, reserves 50 percent of their elected board positions for female members.[9] Similarly, the SOPPEXCCA cooperative in Jinotega, Nicaragua, which is led by a woman, formed an internal association of 85 female producers to produce coffee for Peet's Coffees "Las Hermanas" blend which was featured in retail outlets across the United States.[10] However, there are indications that women's involvement in fair trade agricultural production can be a mixed blessing because it often increases their workload (Mayoux 2001). Furthermore, despite women's contributions, fair trade cash crops and the income generated from them are generally controlled by male household members (Redfern and Snedker 2002). Furthermore, the ability to improve the opportunities for women in producer associations may be conditioned by cultural tradition. For example, research in Guatemala indicates that well-established cooperatives emerging from older generations may not adequately answer the needs of female members. However, newer cooperatives, by contrast, appear more willing to provide opportunities for women to participate not only as producers, but also as cooperative leaders and managers (Lyon 2002). In summary, while fostering gender equality has been a priority for fair trade, women's current limited participation in producer associations may perpetuate rather than overcome the traditional gender bias in Latin America's agricultural sector (Murray et al 2006).

[8] Available at www.fairtrade.net (accessed 10/20/06)
[9] www.fairtrade.net (accessed 10/20/06)
[10] www.ecologic.org (10/20/06)

Lack of producer participation. Fair trade is predicated on the formation of equitable economic partnerships between producers and consumers. However, empirical research in diverse locales indicates that producers understand fair trade in terms of market access (Tallontire 2000) or international aid (Shreck 2002) and not as an equitable trade relationship in which they are actively participating. Other researchers maintain that fair trade producer groups are "passive suppliers of product" dependent on higher order groups (Utting-Chamorro 2005), that fair trade is an "intervention" rather than a partnership and that producers do not fully understand the market's benefits (Paul 2005). More generally, research indicates that there is a lack of producer participation in contribution to the strategy of the trading network and that producers have little control over the market itself.

In order to successfully foster equitable international trading partnerships, producers must contribute to the formation of standards, certification requirements, and agreed upon levels of just compensation as well as the establishment of future collective goals (Blowfield 2004; Daviron and Ponte 2005). In response to recent criticism, FLO has added four producer representatives to its twelve member board of directors (FLO 2003). FLO also established a producer business unit in 2005 to assist producer groups. In addition, the Latin American Coordinating Committee of fair trade producer organizations was recently created to negotiate participation and specific demands.

Conclusion: increasing market size and diversity

It is a strong indication of fair trade's success within Latin America that the most frequently voiced criticism relates to the relatively small market for fair trade products. For example, the market for fair trade coffee, currently the largest among certified commodities, remains insufficient. While nearly 30 percent of the world's small scale coffee producers now supply the fair trade market (Conroy 2001), FLO estimates that the capacity of producers worldwide who could meet certification standards is roughly seven times the current volume exported via fair trade channels (Murray 2006). However, fair trade sales are increasing steadily and the market has recently attracted the attention of larger retailers such as the Wal-Mart owned Sam's Club which now imports fair trade certified coffee directly from the Brazillian roaster Bom Dia (Mui 2006). In fact, the future challenge may be coupling fair trade's high standards and commitment to trade equity with continued market growth.

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