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DEVELOPMENT REPORT N° 17

FAIR TO THE LAST DROP
The Corporate Challenges to Fair Trade Coffee

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November 2007

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ACKNOWLEDGEMENTS

The authors wish to thank the following for their invaluable contributions to this report: Miguel Altieri, Christopher Bacon, Jonathan Fox, Steve Gliessman, Robbie Jaffee, Maria Elena Martinez-Torres, and Jonathan Rosenthal.

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Coffee, Poverty and Crises

Coffee has long stood for both privilege and poverty. Since the time of the colonial coffee booms of the mid 1800s, coffee has been one of the world's most valuable export commodities, and today is among the top five in gross value of world trade. Worldwide, 25 million people earn their livelihoods from coffee farming, supplying an estimated 500 billion cups of coffee to consumers each year (Public Broadcasting System 2003). However, wealth generated from the coffee trade is not equitably distributed: the price paid for a cup of coffee in the U.S. exceeds half the daily income of many small-scale coffee farmers. Workers on large coffee plantations often earn less than $2.00/day. Typical of the "resource curse" common to oil and gold-producing countries in the Global South, many coffee-producing countries are among the poorest. Ethiopia, the birthplace of coffee, is one of the world's oldest civilizations. Its quality Sidamo beans can fetch up to $25/lb. at Starbucks. Yet, Ethiopia's 1.2 million smallholder coffee farmers earn less than $2/day and the country's per-capita GDP is $130—one-fifth the Sub-Saharan Africa average (World Bank, 2007).

In an attempt to control fluctuating prices, producing countries signed the first International Coffee Agreement (ICA) in 1962, setting up an export-quota system to control the international coffee supply. A series of ICA agreements and extensions helped producing countries stabilize coffee prices for over two and a half decades. However, after a string of failed agreements and under pressure to deregulate, in 1989 the ICA system fell apart. Without the supply management of the ICA, the price of coffee began to fluctuate at the whim of global markets. The price dropped in the early nineties, recovered briefly, then plunged to a thirty year low in 2001 and 2002, and has only marginally recovered since.

The collapse of coffee prices devastated the local economies of the world's 25 million coffee farmers. With prices that were far below the cost of production, the living conditions of peasant coffee farmers in Latin America, Africa, and Southeast Asia worsened. Many could not meet their basic nutritional needs. This sudden plunge into extreme poverty became known as the "coffee crisis" (Gresser and Tickell, 2002).

Box 1: Fairtrade: A Brief Historical Sketch

Fair Trade is a trading partnership, based on dialogue, transparency and respect, that aims at greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing their rights of, disadvantaged producers and workers—especially in the South. Fair Trade organizations (backed by consumers) are actively engaged in supporting producers in awareness raising and in campaigning for changes in the rules and practices of conventional international trade (FLO website, http://www.fairtrade.net/about_fairtrade.html).

Alternative Trade Organizations (ATOs) were first formed in the 1940s. Ten Thousand Villages and SERRV International were two of the original American ATOs marketing handicrafts in the 1940s with Oxfam UK opening shops in England in the 1950s. Equal Exchange was one of the first ATO coffee traders in 1986, but the first Fairtrade certification system was not initiated until 1988 in the Netherlands under the name Max Havelaar. In 1997, the Fairtrade Labeling Organization (FLO) was established as an umbrella organization for 20 Fairtrade certification initiatives in Europe, the U.S., Canada, Mexico, Japan, Australia, and New Zealand. There are currently 586 Fairtrade certified producer organizations and 469 certified traders in FLO's network including TransFair, Max Havelaar, Fairtrade Foundation and over one million farmers and farm workers from 50 producing countries.

In addition to FLO, the International Fair Trade Association (IFAT) is a separate global network of Fair Trade Organizations. In 2004, IFAT launched its Fair Trade Organization Mark (FTO) through which organizations that meet IFAT's standards for working conditions, wages, child labor, and environment can be certified, as opposed to FLO's certification of individual products. According to IFAT, "The FTO mark is a means of identification. It sets organizations apart from other commercial businesses, making recognizable mission-driven organizations whose core activity is Fair Trade." Two other prominent Fair Trade networks are the Network of European Worldshops (NEWS) and the European Fair Trade Association (EFTA).

Advocacy groups, such as United Students for Fair Trade, Oxfam America, Global Exchange, Co-op America, and many more, round out the Fair Trade community. The commercial success of Fairtrade can partly be attributed to the promotional work of these groups. TransFair USA has played a leading role in the mainstream direction of Fairtrade.

FLO International develops and reviews standards while FLO-CERT (the second branch of FLO) monitors compliance with these standards. FLO is a non-profit organization made up of producer and labeling organizations. FLO re-wrote their constitution in November 2006 to include representatives of farmer organizations on their board of directors. The board of directors now consists of five representatives from the labeling initiatives, four representatives from Fairtrade Certified Producer Organizations, two representatives from Fairtrade Certified Traders, and two external board members. The representatives are from CLAC (Coordinadora Latinoamericana y del Caribe de Comercio Justo), AFN (African Fairtrade Network) and NAP (Network of Asian Producers). The change took affect May 25, 2007. (FLO, 2007b) It is important to note that while this constitutes a concrete step toward giving producers more ownership of the labeling system, producers still hold a minority (four seats) of the nine-seat board.

Third-party Fairtrade certifiers ensure that farmers' cooperatives receive a minimum price of $1.26 per pound of green coffee (or $1.51 if Certified Organic) and verify that the cooperatives are run democratically and according to environmental standards (Generic Fairtrade Standards December, 2005).

Retailers carrying Fairtrade coffee agree to advance 60% in production credit to coffee cooperatives. Certifiers—largely not-for profit—receive a small percentage of all Fairtrade sales for their operating costs. The trademarked Fair Trade Certified packaging label informs consumers that farmers received a $1.26 price floor and a $.10 (floating) price premium above the market price. Fairtrade roasters pay a licensing fee to TransFair USA (around 10 cents per pound, but varies depending on volume and level of commitment).

In March of 2007, FLO raised the floating Fairtrade premium from 5 cents to 10 cents, and the Organic differential—the additional premium for coffee that is certified Organic—from 15 to 20 cents (FLO, 2007a). This move came in response to a cost study by a farmers union that showed that Fairtrade prices were below the cost of production for many farmers.

When international coffee prices bottomed out at $.41 per pound in 2002, the Fairtrade minimum price insulated participating farmers from the bankruptcy and devastation experienced by farmers whose coffee had no price floor (Taylor et al., 2005). Although prices are currently on the upswing, without structural changes in the international coffee market, they could easily crash again.

Enter Fairtrade

In response to the coffee crisis, Fairtrade[1]—a movement that grew out of a loose collection of Alternative Trade Organizations (ATOs)—developed a market for coffee. Fairtrade is a certification system where cooperatives that meet fair production and processing standards receive a price premium above the market price. The fastest growing segment of the specialty coffee market, Fairtrade coffee leads a worldwide movement for ethical consumption of commodities that include cocoa, tea, bananas, and sugar. The movement aims to raise awareness, reduce poverty, and support sustainable development.

Fairtrade experienced rapid market expansion when Starbucks, ceding to the demands of a nationwide campaign launched by Global Exchange in 2000, began carrying Fairtrade in its U.S. stores (James, 2000). Fairtrade advocates and certifiers later persuaded large corporations and brands like Costco, Sam’s Club, Seattle’s Best, Dunkin’ Donuts, McDonald’s, and even Nestlé to offer Fairtrade Certified coffee. The strategy to “mainstream” Fairtrade coffee paid off. In 2000 the US Fairtrade market saw $50 million in sales: by 2005 it had ballooned to $500 million. Over the last eight years, TransFair, a non-profit Fairtrade certifier, estimates that cooperatives from 25 countries in Latin America, Asia, and Africa have earned an additional $75 million from the Fairtrade premium. Additionally, 85% of Fairtrade is certified Organic, which prohibits synthetic agrochemicals and genetically modified organisms.

The proponents of Fairtrade coffee claim that it has yielded social, environmental, as well as economic benefits. Many farmer cooperatives have organized to take advantage of the higher Fairtrade premium. In turn, they have used their increased economic leverage to pursue political and organizational objectives. The agroecological management required to produce the organic coffee often associated with Fairtrade frequently includes mulching, shade trees and intercropping, thus helping to conserve soil, forest cover, and bird species. When world coffee prices were extremely low, Fairtrade was a life preserver that helped many small coffee producers weather the storm. Their cooperative organizations built schools and health centers, and embarked on other social projects. Alternative Trade Organizations (ATOs), trading 100% in Fairtrade goods, have expanded throughout the industrial north, as has the market of socially-conscious consumers. In this paper, we examine the benefits and limitations of Fairtrade and suggest an expansion of its mission and practice to transform coffee's unfair market structures to the advantage of coffee farmers and their communities.

The Conventional Coffee Market

Five multinational corporations – Kraft, Nestlé, Procter & Gamble, Sara Lee, and Tchibo—dominate the global coffee market. The two most influential corporations, Kraft and Nestlé, control 49% of the roasting industry; while the top five corporations control 69% (Daviron and Ponte, 2005). The value-added to coffee is concentrated at the consumption end of the producer-consumer commodity chain. This allows a handful of importers and roasters to control over 78% of coffee revenues, compared to the 25 million coffee farming families on the production end of the chain, who receive an ever-diminishing share of profits (Daviron and Ponte, 2005; Fitter and Kaplinsky, 2001). On the consumption end of the chain, these corporations are the main sellers of roasted coffee. On the production side, they are the main purchasers of green coffee. The coffee market is shaped like an hourglass in which five corporations regulate coffee transactions between millions of coffee farmers and millions of consumers. When farmers were earning record low prices for their coffee in the 1990s, these five corporations were making huge profits. In an $80 billion industry, producing countries receive only 20% of net revenues—farmers earn less than 10%. Fueled by speculation, the prices paid to farmers rise and fall on the commodities exchange in London and New York, reaching as low as 41 cents per pound in 2001 (Talbot, 2004; Bacon, 2005). With minimal social protection, farmers, communities, and entire regions are exposed to the vagaries of the market, resulting in precarious livelihoods for small-scale coffee growers. The International Coffee Agreement—though designed primarily to protect the interests of large coffee plantation owners—once buffered these price swings. With its dismantling, Fairtrade, combined with organic certification, has provided a price floor and a stable alternative market, offering the possibility of decent livelihoods for some hard-strapped farmers.

The Mainstreaming Fairtrade Debate

In the wake of the recent extraordinary market expansion of Fairtrade—and in the midst of a mild rebound in the coffee market—the Fairtrade movement is being criticized. Last year, in an ideological broadside against ethical, organic and local markets, *The Economist* (2006a) questioned the quality of Fairtrade coffee, alleged violations of Fairtrade practices, and claimed that price premiums paid to farmers were actually hurting producers by exacerbating oversupply. *The Financial Times* interviewed coffee pickers in Peru who were paid below the national minimum wage to harvest Fairtrade certified coffee—a violation of Fairtrade standards—and used that evidence to smear the entire movement (Weitzman, 2006a and b). Attacks from the neoliberal marketeers of *The Economist* and *Financial Times* are probably to be expected, but student groups, social justice groups, and some Fairtrade roasters, are also questioning the development claims, the "fairness," and the future of the Fairtrade coffee industry, but for very different reasons. Farmer organizations, such as Via Campesina and the Brazilian Landless People's Movement (MST), have called Fairtrade's market approach to development itself "neoliberal," and challenge the Fairtrade movement to work politically for structural change (Montagut and Vivas, 2006; O'Nions, 2006).[2] At this year's United Students for Fair Trade (USFT) convergence in Boston, Massachusetts, students asked, "How will the involvement of large corporations change fair trade standards?" and "How do you get the scale and keep the values?" The activists who have been pushing Fairtrade products into their campus dining halls and cafés are now asking: how fair is Fairtrade?

Many ethical consumers and Fairtrade activists are also uncomfortable selling Fairtrade products through multinational corporations with unfair labor practices and monopolistic market power. Is Fairtrade providing a public relations cover for globalization's race to the bottom?

These questions reflect the growing disagreement among Fairtrade advocates over whether it is advisable to "mainstream" Fairtrade through the very corporations and market structures that provoked the coffee crisis in the first place. Is the goal to help as many peasant farmers as possible by selling as much Fairtrade coffee as possible? Or is the goal to transform coffee's historically unfair market structures? Are markets the engine for social change or are social movements the force to change markets?[3]

The Fairtrade Federation claims that Fairtrade "brings the benefits of trade into the hands of communities" and is a "vehicle for sustainable development" (FLO 2000). Similarly, Transfair states that with Fairtrade prices "farmers can feed their families" and "their children can go to school instead of working in the fields" (TransFair 2000). Fairtrade's development claims suggest that ethical buying can offset the tendency for coffee to impoverish rural communities and that, given a price floor, coffee production can be an engine for rural development. The challenge, in this view, is to increase the consumption of Fairtrade coffee, thus bringing more benefits to more farmers.

However, many question the ability of Fairtrade to make good on these claims. In a *New York Times* article, Jennifer Alsever (2006) reported that middlemen are still capturing most of the profits in Fairtrade and that the actual amount being returned to farmers is only marginally above market price, often far below the reported Fairtrade price. In the August 2005 issue of *Cultural Survival Quarterly*, Jenn Goodman and Mark Camp criticized Fairtrade for not challenging the culturally destructive free-market paradigm, pointing out that the system is not truly "fair" because Fairtrade certification places the burden of fairness, sustainability, and transparency on the farmer, not the importer-roaster. Farmers—not retailers—must assume the costs of converting their farms to sustainable and organic practices, maintaining their cooperative organization, and obtaining expensive certification.

The bulk of criticism revolves around the "mainstreaming" strategy pushed by the Fairtrade Labeling Organization (FLO) and Fairtrade certifiers. Of the more than 400 certified roasters, only about 20 purchase 100% of their coffee at the Fairtrade price. For the largest coffee buyers, Fairtrade makes up only a tiny portion of their coffee purchases—less than two percent for Procter and Gamble, Kraft, and Seattle's Best (owned by Starbucks). Having been pressured with boycotts and other coordinated campaigns, Starbucks actually leads the way with six percent (Starbucks, 2006). For these companies Fairtrade is not a social movement or a business ethic, but rather a public relations opportunity and a profitable niche. They take advantage of the "halo effect"—the tendency for the good feelings around one product to reflect well on the entire brand (Nestle, 2002). One Fairtrade product can make the whole brand seem socially responsible, even though the corporation continues to buy the vast majority of its coffee on the conventional market. This phenomenon has many actors in Fairtrade questioning the meaning of fair trade.

> "Can Nestlé, the most boycotted multinational in the world, bring forth a fair trade product? The *Nescafé Partner's Blend* has become a star product for the multinational, but behind it they sell 8,500 products that violate the most basic rights of campesinos, the environment, and workers" (Di Sisto y Carmosino 2005).

Most farmers in Fairtrade certified cooperatives can only sell a portion of their crop at the Fairtrade price—usually their highest quality coffee—and must sell the rest on the open market. This is why most certifiers argue that the best way to help farmers is to grow the Fairtrade market by "mainstreaming" Fairtrade coffee through large, high-volume corporations—so that more farmers can sell a higher percentage of their crop at the Fairtrade price. In this view, drinking more Fairtrade coffee "spreads more benefits to more farmers."

However, equating an overall improvement in farmers' livelihoods with the aggregate growth in Fairtrade obscures the way the new wealth is actually distributed. More farmers selling at the same Fairtrade price means greater revenues for the coffee industry: not "more fairness" for individual farmers, but rather more farmers accessing the same modest price premium. Fairtrade roaster Dean Cycon of Dean's Beans questions whether "[P]egging the Fairtrade price to the [commodities] market will ever make a significant difference in the lives of farmers." He claims that, "Fairtrade, as currently structured and administered, will never be more than a band-aid, for it supports rather than challenges the dynamics of colonial trade that underlie the world coffee market (Cycon, 2005)." As one veteran of a Fairtrade coffee company, who preferred not to be named, stated, “We should really call it slightly less unfair trade—but that would be very hard to market.”

Social Change and Value Chains

How effective is Fairtrade in promoting social change? In 2004, researchers from the Community Agroecology Network (CAN), a nonprofit ATO based in Santa Cruz, California, interviewed coffee farmers and cooperative leaders in Mexico, Guatemala, El Salvador and Nicaragua about the effect certification has on coffee-producing families and communities (CAN, 2007a). They found that Fairtrade Certification did raise the price families receive for their coffee. Farmers were paid an average of $.90 per pound (after co-op operating costs) for Fairtrade Certified coffee—a $.12 premium over the conventional market price, but less than the premium for Organic certification ($.41 over market price) or coffee certified both organic and Fairtrade ($.45 over market price). However, because farmers produced more coffee than they could sell on the certified market, on average they were able to sell only 60% of their coffee at the premium Fairtrade price (Mendez et al., unpublished), and it seems that those farmers were doing well. TransFair USA estimates that farmers who belong to Fairtrade certified cooperatives sell on average only 20% of their export-quality harvest as Fairtrade (TransFair USA, 2005). Hypothetically, if a family produced 10 one-hundred pound bags of coffee (a typical annual production for a family farm), they would sell between two and six bags at the premium price, receiving a real premium of $24 to $72—an important sum, but hardly enough to lift a family out of poverty.

The CAN researchers also asked farm families about meaningful indicators of their quality of life. Farmers who sold at the Fairtrade price were more likely to save money and have access to credit, a benefit the researchers also attributed to connections through their cooperatives with national and international support networks. Food security was not higher for Fairtrade producing households, nor was the ability to send their children to school. More people from households producing Fairtrade certified coffee left their communities to find work than from households producing non-certified coffee. The study also found that more savings, better heath care and schooling were due to farmers participating in their cooperative's local support networks such as savings, micro-credit programs and women's groups—not solely the result of Fairtrade price premiums.

The CAN study did not find evidence that Fairtrade certification alone empowered farmers to lift themselves out of poverty. The researchers noted that the cooperative that seemed to benefit most from Fairtrade had a direct relationship with a U.S. buyer that bought all of their coffee at a price above the Fairtrade minimum every year (Mendez et al., ibid).

Contrary to claims that Fairtrade reduces migration, a study in Oaxaca, Mexico showed that members of successful Fairtrade cooperatives actually migrated more than other people in the community. Ironically, migration was possible because relatively higher incomes allowed them to pay the expensive *coyote* fees to get across the U.S. border. Just as ironic, migration was driven by the need for cash remittances to pay for the extra labor that their Fairtrade organic coffee required, and because migration left fewer laborers in the community, making labor more expensive. Migration and certified coffee comprised a dual livelihood strategy (Lewis and Runsten, 2005).[4] Another researcher in a different village in Oaxaca concluded that migration was providing operating capital that certified coffee production could not generate on its own, while "simultaneously undermining coffee production by raising its costs," and that the results of her study "raise doubts about the sustainability of the fair trade model in the face of migration" (Lewis,2005).

Strong local institutions and the development of national and transnational social networks appear to be important components for ensuring the benefits of Fairtrade. In her study of Mayan coffee farmers in Chiapas, Mexico, Maria Elena Martinez-Torres argues that the accumulation of social capital is the most important factor for spreading the benefits of sustainable development.

> "The relationships, organizations, and networks that make up social capital have been essential to the ability of small producers to survive and navigate the changing terrain of the reconfigured coffee economy… the level of social capital they have built—is the key element that allows them to tap in to market

> opportunities and to intensify their production in a sustainable manner" (Martinez-Torres 2006).

In a forthcoming book on Fairtrade coffee, Bacon et al. contrast cooperatives in Chiapas and Nicaragua that have similar histories of struggle that predate Fairtrade and organic marketing, with smaller and weaker Fairtrade cooperatives in El Salvador that are less able to empower farmers. They conclude that the difference between successful and unsuccessful cooperatives is in "the importance of historical struggles, effective local organizations and the networks they create to take advantage of these alternative markets." A revolution, armed struggle, and broad-based land reform preceded the Nicaraguan cooperatives. Chiapas has had a successful level of community development very different from that of El Salvador.

These studies suggest that the development successes claimed by Fairtrade are as much due to the efforts farmers put into local organizing as they are to certification. At the very least, there appears to be a mutually beneficial relation between higher premiums and the extensive social and political work carried out by farmers' movements. Under these circumstances, it is difficult to imagine Fairtrade even taking root without building upon the historical agrarian struggles for land reform, cooperative organizations, and peasant and indigenous rights.

These hard-fought achievements reveal the importance of overcoming injustice to end poverty and bring about development. However, none of this is reflected in corporate marketing of Fairtrade, where development claims are politically sanitized for mass consumption. At best, cooperation—not struggle—is emphasized.

Minimum Wage or Living Wage?

The price premium farmers receive in the Fairtrade system versus the conventional system is smaller than it may first appear. Fairtrade coffee actually competes in the high-end, specialty coffee market, and the difference in price to the farmer between Fairtrade and other gourmet coffees can be negligible. While Fairtrade has enabled many small producers to break in to the lucrative specialty coffee market, this coffee is more expensive for the farmer to produce. Comparing Fairtrade coffee to conventional coffee—both in terms of price and cost—is comparing cheap apples to expensive oranges.

When coffee prices rise, the Fairtrade premium becomes relatively small. (see Box 1) The Fairtrade minimum price is guaranteed to farmer cooperatives, which in turn buy coffee from their member farmers at a lower price, because they keep a portion for the cost of processing and marketing the coffee. When coffee prices on the volatile open market approach the Fairtrade minimum, as they have in recent years, farmers may be able to sell their coffee to independent brokers for as much or more money than they can get from their cooperatives. This provides an incentive to abandon cooperatives, leaving farmers more vulnerable next time coffee prices crash.

In December 2006, the Association of Cooperatives of Small Coffee Producers of Nicaragua (CAFENICA) and the Coordinating body of Producers in Latin America and the Caribbean, the Coordinadora Latinoamericana y del Caribe de Pequenos Productores de Comercio Justo (CLAC). submitted a report to the Fairtrade Labeling Organization (FLO) requesting a 15 cents per pound Fairtrade price increase. Citing a lack of information, FLO initially denied the request and postponed talks. After pressure from farmer organizations and consumer groups, FLO agreed to a five cent per pound increase.

The CLAC report, along with other impact studies (Calo and Wise, 2005; Jaffee, 2007; Lewis, 2005; Martinez-Torres, 2006; Mendez et al., 2007), expose some of the drawbacks within the Fairtrade certification process and its market mechanisms. While Fairtrade's "price floor" was a lifesaver during the coffee crisis, because it was never pegged to farmers' cost of production or cost of living, it is now increasingly less effective at ensuring social benefits. Some studies indicate farmers now lose money under Fairtrade—they just lose less than conventional growers (Calo and Wise, 2005). In the mainstream US coffee markets, the tendency is to concentrate the bulk of coffee's value with the corporate retailer. This keeps the price to farmers low. By pursuing a mainstream approach, Fairtrade ensures more of a "minimum wage" rather than a "living wage" (Bartra, Cobo and Paredes 2005). Now, farmers represented in CLAC seeking a "living wage" for their coffee are at odds with Fairtrade certifiers, who must keep the price low if they are to mainstream Fairtrade through large corporate retailers.

Box 2: Fairtrade Limitations

Fairtrade certification in and of itself clearly does not change the dominant trade paradigm. So far, Fairtrade has not been able to advance any industry standards (or even targets) to rectify the imbalance of market power in the coffee market. For example, there is no campaign to convert a fixed percentage of any of the major firms' sales to fair or organic trade, no formula or expectation that they will direct these profits to sustainable development, and no hard proposal for using Fairtrade as a pathway to transform the coffee industry's value chain into something more equitable. In the "one size fits all" approach to Fairtrade, the bigger players capture the aggregated benefits of volume, while the smaller players cling precariously to smaller individual premiums.

Alternatives to Corporate Fairtrade

Trading arrangements as practiced by many of the Alternative Trade Organizations (ATOs) do improve the conditions and opportunities for the coffee cooperatives with whom they trade directly because certification is seen as a floor and not a ceiling. Roasters like Equal Exchange in the U.S. and Cafédirect in the UK are committed to selling 100% Fairtrade Certified coffee, and using certification as a point of departure for forming meaningful, long-term partnerships with producer cooperatives. Thanksgiving Coffee pays quality premiums up to $.40 over the Fairtrade price. Owner Paul Katzeff searches out Certified Organic cooperatives and helps them obtain Fairtrade certification. He then works diligently with the producing communities to help improve the quality of the coffee. Similarly, Dean's Beans shares profits through equity premiums, people-centered development projects and community activism. A successful partnership in Nicaragua is described in Box 3.

In 2001, the CAN created a Fairtrade Direct coffee market designed as a "global farmers' market" (CAN, 2007a). In this mail-order system, coffee orders are sent to the Coopepueblos Farmers Cooperative in Agua Buena, Costa Rica, where farmers grow, process, roast, package, and deliver their coffee through the Costa Rican mail service. This marketing strategy returns between $4.18 and $6.18 per pound (52-63% of the consumer price) to the farming community (cooperative, farmers, and local roaster), while the remainder pays for shipping and packaging (Méndez, 2006; Biddle, 2006). Through this Fairtrade Direct market Coopepueblos control much of the value added process and the majority of income stays in the region of production—a localization of the value chain. Working outside the New York or London Commodity Exchange, and by appropriating more steps in the value chain, the Fairtrade Direct model is designed to redistribute market power as well as market profits. A small number of NGOs practicing something similar to CAN's Fair Trade Direct can be found scattered across the U.S., Canada, Australia and Europe.[5]

"We have an opportunity to step back and think about how to deepen the Fair Trade movement," says Jonathan Rosenthal, a founder of Equal Exchange who is currently directing Oké USA, a fair trade banana company that is partially owned by the farmers' organizations that supply the fruit. Similarly, Kuapa Kokoo, a cacao farmers' cooperative in Ghana, owns shares in Divine Chocolate USA, launched on Valentine's Day of 2007. Both of these farmer-owned initiatives are new to the U.S., but have their roots in European farmer-owned companies that have been able to grow and prosper to the benefit of farmers. Farmer-ownership not only returns more of the retail value to farmers, it gives farmers more sovereignty in the process of bringing their produce to market (Kumeah et al., 2007).

The ATO "movement companies" share a number of characteristics that differentiate them from the much larger, corporate Fairtrade players:

Transparency—Fairtrade producers are required to open their books to auditors. Conversely most large corporations who retail the coffee are secretive about how much Fairtrade coffee they sell. Movement companies are largely transparent about how much they pay farmers for their coffee, and what portion of their sales is Fairtrade.

Long-term commitment—Movement companies work with producer cooperatives to invest in the quality of their coffee. This might mean training coffee tasters to be able to recognize and strive for quality coffee, or helping farm cooperatives diversify their production into other products, or supporting health and education projects.

Localizing the value of coffee—Traditionally, most of the value of coffee is exported, generating big profits at the roasting and retailing stages of the value chain. Even if farmers sell at the Fairtrade price, this unequal balance of power remains. Movement companies pursuing farmer-owned and direct trade initiatives allow more of the value of coffee to remain in the producing community.

Movement Companies and Corporate Colonizers

The ATOs in the Fairtrade movement have been instrumental in raising consumer awareness and reinforcing the local and transnational social networks working for sustainable livelihoods and social justice. By channeling benefits to coffee-producing communities, these networks are the key to actually "making Fairtrade fair." They have also forged innovative market relationships that go beyond Fairtrade's bottom line to include development, activism, and direct trade models that gives market power to the producers.

On the other hand, by opening its social claims to mainstream retailers while simultaneously pushing for large volume sales, Fairtrade has left itself open to a public relations coup by corporate free riders. "In some cases, it appears that certifications are already capitalizing on—
and often claiming credit for—many of the existing practices that farmers have maintained often for generations" (Bacon et al., 2007).

These retailers benefit from the agrarian struggles and social capital built by farmers and ATOs, allowing them to sell fairness and sustainability without actually having invested in it themselves. There are many Fairtrade "movement companies" that do help to empower farmers, but it is difficult to tell them apart from the companies that simply sell a small portion of their coffee bearing the Fairtrade label to create a halo of goodness around their entire brand. Paul Katzeff of Thanksgiving Coffee claims, "Thanksgiving is a Fairtrade company—that's how I do business—Starbucks just sells a Fairtrade product because they have to… most consumers can't tell the difference."

Box 3: Prodecoop in Nicaragua

One of the most important roles of Fairtrade has been to help build and sustain farmers' cooperatives. Farmers organize cooperatives in order to gain market access, leverage their collective political and market power, and conduct community development. In Nicaragua, when the leftist Sandanista government lost power in 1990, farmers' cooperatives found themselves without any government support. They formed "third level cooperatives"—cooperatives of many smaller cooperatives— in order to provide the marketing, credit, and other programs that had been provided by the Sandinista government. Prodecoop (Promotora de desarollo cooperativo de las Segovias / Cooperative promoter of development of the Segovia regions), was the first such organization. This history, told by Rosario Castellón, one of the founders, shows how members used Fairtrade and their relationship with a movement company to form and support this cooperative.

Fairtrade has been an important tool for forming, strengthening, and sustaining cooperatives. They only need a friendly hand to help them up.

Prodecoop, founded more than 15 years ago, was the first social entrepreneurial organization that arose in Nicaragua. It symbolizes the confidence and security of the small producers and a better future for them and their families and communities.

In 1991, the first cooperatives that today make up Prodecoop first exported to the U.S.- based Fairtrade coffee buyer, Equal Exchange.

For the first few years of the 1990s, the cooperatives had insecure land tenure. After 11 years of revolution, the right-wing Nicaraguan government was trying to reverse all the achievements of the revolution. In the agrarian sector, this meant taking away land that had been given to cooperatives, and returning it to rich landholders. The government also eliminated a series of benefits for cooperatives that had been instituted during the Sandinista revolution, including training, technical assistance, machinery, and credit.

Some of the cooperative members of Prodecoop had taken out loans during the Sandinista revolution, but the new government demanded immediate repayment. The bank held their coffee crop as collateral, and put their land into foreclosure. The representatives of the member cooperatives came to the Prodecoop offices with this difficult situation.

Prodecoop did not have the capital to pay off the cooperatives' debt, and this gave us a sense of impotence and frustration. The only capital that we had was the confidence and dedication of Equal Exchange, the first buyer of coffee from our cooperatives.

Jonathan Rosenthal, then Executive Director of Equal Exchange, listened to the cooperatives, and took the risk that no bank or other financial institution was willing to take. He advanced us a portion of the purchase of our coffee.

After negotiations with the bank, Prodecoop bought the coffee back from them, promising to apply all the income from the sales to pay off the cooperatives' debts.

Equal Exchange contributed to bringing Prodecoop out of anonymity. They were the first buyer of our coffee, and helped to make our coffee known in the North American market. Many other buyers started to demand coffee from Prodecoop and from Nicaragua. Jonathan Rosenthal and Equal Exchange have been dedicated to building bridges, so that those who have historically been disadvantaged can pass over to the other side, where the coffee industry is, and break the long chain of intermediaries. Thus they can access better incomes; alleviate poverty; achieve economic, environmental, and social sustainability; and most of all regain their hope for the future and for themselves.

The small farmers of Prodecoop never imagined that they would, over and over again, be sitting down to negotiate face-to-face with North American and European coffee importers and roasters. Prodecoop has been an example for the country and the world. It has motivated the resurgence of many cooperatives of small farmers in Nicaragua and in other countries.

-Rosario Catellón, Co-founder of Prodecoop, 2007

Beyond the Mainstreaming Debate: Fairtrade and Food Sovereignty

Fairtrade's mainstreaming debate reflects growing disagreements on the fairness, development claims, and the future of Fairtrade. These differences are rooted in tensions between market-based and movement-based strategies for social change. On one hand, market-based certifiers champion the benefits of the increased volume made possible by a relatively low Fairtrade floor price. On the other, many producers and ATO groups argue for prices based on production costs, and worry about the loss of control and authenticity of Fairtrade.

This puts the Fairtrade movement in a difficult position. As Low and Davenport (2005) suggest, “Isolation from the mainstream risks irrelevance, and will not deliver the extent of change that is necessary to meaningfully assist producers. Uncritical engagement with mainstream business risks absorption and dilution of the movement,” and a decreasing stream in benefits. At issue is whether it is more effective to “underpromise and overdeliver” or “overpromise and underdeliver.” By embarking on the latter strategy, mainstreaming’s emphasis on Fairtrade risks marginalizing activists and farmers—the very drivers of social change that make Fairtrade more than just a ‘slightly better market’ for poor coffee farmers.

The fairness of Fairtrade is more than a simple ethical debate. Fairness regarding transparency, risk, labor practices and profits are a reflection of market power. In the present unregulated climate of the coffee market, rules are set by those who control the most lucrative parts of the value chain: roasting and distribution. Until farmers are able to own substantial shares in roasting and distribution, they will always be subject to the levels of “fairness” acceptable to the monopolies and monopsonies that control the coffee market. Luckily, there are already encouraging experiments within the larger Fairtrade coffee community that shifts power in the value chain towards the coffee producers. Scaling up these experiences would help tip Fairtrade’s balance of power in favor of farmers rather than large corporations.

Safety Net or Development Strategy?

The neoliberal position that markets in and of themselves are sufficient to reduce poverty, end hunger, and promote sustainable development, is a notion that has been refuted by two decades of disastrous corporate-led globalization.[6] Fairtrade marketers who flagrantly claim that Fairtrade “empowers farmers” are in essence claiming certification is the small adjustment needed to make good on the neoliberal promise.

When coffee prices dropped catastrophically in 2001 and 2002, it became clear that Fairtrade price floors provide an essential safety net for farmers. One can find hundreds of testimonies from farmers who are acutely aware of this value, because they are widely published on the websites and promotional materials of certifiers and coffee companies that market Fairtrade products. As we have argued in this paper, Fairtrade's efficacy as a safety net is eroding because it is based on a premium price that no longer provides a living wage.

However, the farmers who organize cooperatives, the students and consumers who advocate for Fairtrade, and the NGO advocates like Oxfam and Global Exhange that run major Fairtade campaigns have something more than a safety net in mind: they want an end to hunger, poverty, and the extreme injustice brought about by the neoliberal "free" trade. They don't want to settle for a safety net, they want Fairtrade to be a strategy for sustainable development.

While safety nets ensure farmers security from steep price drops and extreme poverty, a comprehensive development strategy is needed to provide farming communities and organizations opportunities to strengthen local institutions and farmers' market power. It is clear that certification in and of itself—the kind of certification that is being adopted when big corporate players get into the Fairtrade business—fails to deliver on these larger issues.

Government policies and programs favoring rural development, including agricultural banks for small farm production credit, marketing boards, equitable loan rates, and reserve programs to ensure stable and fair prices for farm products, land reform, public education, and incentives to diversify production, are among the necessary measures to make rural development equitable and sustainable. To make good on its development claims, rather than mainstreaming, Fairtrade needs to intensify its work with peasant movements in the Global South to roll back corporate globalization and re-establish the social institutions and rural policies needed for productive, healthy agriculture.

Looking Forward: Building Market Sovereignty

The future of Fairtrade hinges on the degree to which it can bring producers, consumers and roaster-distributors not just into its market, but into the growing social movements for agrarian change. It is axiomatic that movement building depends on a sense of belonging, commitment and substantive participation in decision-making. But because Fairtrade is a business as well as a movement, this participation also depends on ownership. To ensure the politically committed participation of farmers in Fairtrade, they must not only be "stakeholders" in development, but "shareholders" in the business. Giving farmers a *majority* stake on the FLO board of directors would go a long way towards this goal, for example.

It is unlikely that Wal-Mart, Starbucks, or Nestlé will advance a farmer-driven, movement agenda for social change within Fairtrade. They will attempt to sell as little Fairtrade coffee as possible at the lowest possible price, counting on their vast market power to keep Fairtrade farmers coming to them. This is not a reason to give up the Fairtrade market. On the contrary, to keep Fairtrade from becoming irrelevant to farmers' livelihood struggles, it is up to the ATOs, enlightened roaster-retailers, students, activists, and progressive certifiers to help poor coffee farmers grow not just their market, but their market power, not just their business, but their controlling share within the business.

Ultimately, the ability to hold the corporate players in Fairtrade publicly accountable to higher, more equitable, and integrated standards of fairness depends on the degree that the Fairtrade movement advances farmers' market sovereignty—the ability to determine how to produce, process, sell and distribute in ways that are fair and sustainable. Building market sovereignty from the premium floor up, will certainly not be easy, and will be staunchly resisted by the corporate players.

Luckily, the Fairtrade movement is dynamic and constantly evolves new forms of social, economic and political organization. The students of United Students for Fair Trade engage not only in activism, but in reflection and self-criticism to make their organizing a true praxis. Innovative organizations like the Community Agroecology Network demonstrate that alternative value chains are possible. *Xara de Consum Solidari*, an organization in Barcelona, Spain scraps the “fair” rhetoric altogether and calls their vision “Solidarity consumerism,” emphasizing that consumers and farmers are in this struggle together (Montagut and Vivas, 2006). Even FLO surprised skeptics by rewriting its constitution to include seats for farmers’ organizations on its board of directors, taking concrete steps towards letting farmers finally become owners of Fairtrade certification. As farmers’ power grows within Fairtrade, and as the movement links strategically with peasant and consumer movements for social change, Fairtrade will be well positioned to make good on its development claims.

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[1] In this article we use the term Fairtrade (capitalized and written as one word) to refer to coffee certified as Fairtrade by the Fairtrade Labeling Organizations (FLO) International, the body that sets Fairtrade standards and carries out certification. In the United States, TransFair USA owns and uses the term "Fair Trade Certified", which we treat as an equivalent term because TransFair USA is a member of FLO and the coffee carrying this label is certified by FLO according to their standards.

[2] "For the MST, feeding Brazilians is our priority, so certification had not even been discussed, not least because we see quality food not as a niche market, but as something we should provide as part of a wider strategy of food sovereignty. This requires policies that work to guarantee people freedom to produce their own quality food with respect to their own culture." Marcelo Joao Alvares, MST.

[3] These questions, tensions, and disagreements are reflected in the development literature on Fairtrade. In addition to the reports on the development potential of Fairtrade (Murray, Reynolds, et al. 2005, 2007), there is also a growing body of literature that questions both Fairtrade's development claims and its mainstreaming strategy (Lewis 2005, Martinez-Torres 2006, Montagut and Vivas 2006, Bacon 2006, Méndez et al., forthcoming, Bacon et al., in press, Jaffee, 2007, Fridell 2007).

[4] The Lewis and Runsten 2005 study also reveals the danger in this dual strategy: young migrants lose interest in farming and are increasingly reluctant to invest their hard-earned remittances in coffee production—Fairtrade or otherwise. Fairtrade coffee lands, with their shade trees and sustainable practices, are in danger of being converted to open pasture for less labor-intensive (and ecologically devastating) beef production.

[5] It is important to note that CAN imports a relatively small volume of coffee. They sold 5,488 pounds of roasted coffee in the first six months of this year (CAN 2007b). Although their sales are growing rapidly, they don't come close to selling all the coffee produced in Agua Buena. We include CAN's *Fair Trade Direct* here because it addresses not only the low prices, but the inequality in market power in both the conventional and Fairtrade coffee markets.

[6] Presenting the market as a solution casts poverty and the poor as the problem, and obscures the ways in which powerful corporations', (including Nestlé and Wal-Mart) use of the market to create poverty, hunger and environmental degradation. By trumpeting market-based solutions to the exclusion of other approaches, public attention is drawn away from other important social institutions—including marketing boards, national development banks, regulatory frameworks, research institutes, etc. Of course, all of these institutions can and do often function to concentrate wealth and worsen poverty, depending upon who is in control. Control over institutions—including the market—ultimately determines who wins and who loses in economic development. Behind the blinding brilliance of the marketplace, deep in the shadows of neoliberalism's triumphant discourse, large multinational corporations manipulate, coerce, co-opt, create or when necessary, destroy social institutions to retain their own market power.