

5.30: Fair Trade



Source: Lisette Cheresson, (CC-BY, 2013) Figure 8.1 Coffee is the world's second-most traded commodity, behind petroleum. Because coffee grows best on hillsides, harvesting can be labor-intensive – it takes a lot of work to get ripe coffee beans from the bush to your cup. Fair Trade's goal is to make life better for those involved in that process.

Fair Trade: Conscious Consumerism Comes to Coffee

The concept of *fair trade* arose in the mid-twentieth century as a means of providing farmers and farm workers around the world with employment benefits similar to those found in developed nations. At its broadest level, fair trade can be seen as an initiative of the developed world to reward principled production in the developing world. More specifically, fair trade operates primarily as a certification system under which qualified producers (who follow certain environmental and labor standards) are guaranteed a minimum price for their production. This price guarantee is intended to augment and stabilize the revenues of producers in developing countries, so that they can invest in social welfare infrastructure and environmentally friendly farming methods. It is worth noting at the outset that there are some slight variations in the way this concept is spelled or presented. The generic term for this entire field is “fair trade,” but we also commonly it spelled as “Fairtrade” or presented with capital letters as “Fair Trade.” These latter two versions are actually trademarks that are owned by fair trade organizations, which certify that a participating company has met certain standards.

When people discuss fair trade, the conversation usually begins with coffee, which remains by far the most economically significant product category covered by fair trade. Although fair trade has expanded to include other agricultural and manufactured products, such as bananas, tea, honey, sugar, rice, cacao, organic cotton, textiles, and handicrafts, any attempt to evaluate the success or failure of the fair trade movement must begin with an examination of its role in the coffee industry. With corporate coffee giants like Starbucks vaunting their sales of fair trade coffee, most consumers have become aware of the movement, although few are able to precisely define the mandatory standards that must be satisfied in order for a product to be called fair trade. Now, fair trade coffee is as ubiquitous on supermarket shelves as food deemed certifiably organic—but compared to the organic label, the fair trade certification process is more complex and subject to different interpretations from different certifying bodies.

In this chapter, you will be asked to consider whether a New York-based specialty coffee chain should make the transition to selling exclusively fair trade coffee and tea products. The chain's CEO is aware that fair trade is generally well viewed by consumers, but she has also read some disturbing articles in the press about inconsistencies and even corruption in the fair trade sector. Should she ignore what she has read? Making the switch will increase costs to her consumers, whose cup of coffee will have to go up in price by twenty-five to fifty cents—but on the positive side she will be able to claim that her business is socially responsible and sustainable. Does a coffee shop chain that aspires to the highest level of social responsibility have an obligation to engage in fair trade, even if the existing fair trade system is not perfect? In order to discuss this issue, we need to arrive at a deeper understanding of what fair trade means.

The Origins of Fair Trade

As with many other progressive social programs, the fair trade concept can be traced back to the personal initiatives of a few dedicated reformers with a social conscience. In 1946, Edna Ruth Byler, an American businesswoman, had the idea of importing needlecrafts from impoverished Puerto Rican communities and paying their creators a fair wage for their work. Byler's efforts became the foundation for Ten Thousand Villages, the first North American nonprofit organization devoted to connecting handicraft manufacturers in developing countries with developed-world commodity buyers. Today, Ten Thousand Villages maintains long-term relationships with artisans in 38 countries that provide stable opportunities for income.¹

Byler's efforts constituted a precursor of fair trade, but the first organizations to utilize the fair trade designation in its modern sense were European. The first fair trade organization in Europe was in the United Kingdom, an offshoot of Oxfam UK, which during the 1950s had sold crafts made by Chinese refugees. By 1964, this had developed into the fair trade Organization, and in 1967, the Netherlands initiated its own cooperative, fair trade Original. Following a concept similar to that of the Ten Thousand Villages storefronts in the United States, the Dutch opened a fair trade World Shop in 1969. World Shops became the first retail distribution network of fair trade products and the first European World Shops conference was held in 1984.²

Guatemalan-grown fair trade coffee was introduced in the Netherlands in 1973. In 1988, the first fair trade coffee brand, Max Havelaar, hit the market. Within a year, Max Havelaar commanded a 3-percent share of all coffee sales in the Netherlands. By the late 1980s, there were several national fair trade cooperatives operating in Europe under different umbrella organizations, some of which spanned the jurisdiction of several countries. One of these was the Network of European World Shops (NEWS!), which was formed in 1994 and soon represented roughly 3,000 different shops across the continent.

Fair trade quickly outgrew its European origins. In 1989, the first global fair trade network was initiated, the International Fair Trade Association (IFAT). Five years later, the first network of fair trade organizations was founded in North America, called the Fair Trade Federation. In 1997, Fair Trade Labeling Organizations International (FLO) was founded with the intention of creating a unified worldwide certification scheme. There are currently 23 members of FLO around the world. Founded in 1998, TransFair USA (which changed its name to Fairtrade USA in 2010) was an early FLO member and became the leading third-party certifier of fair trade goods sold in the United States. TransFair got its start in California, importing the production of Nicaraguan coffee farmers.

In 1998, four European Fair Trade organizations banded together to form an international coalition to promote and more clearly define fair trade practices around the world. Calling their coalition FINE, these organizations set forth one of the most commonly used definitions of fair trade:

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, disadvantaged producers and workers—especially in the South.³

Fair trade, in the view of its supporters, is quite different from free trade, the defining international economic strategy of the twentieth century. The primary goal of free trade is to increase the economic growth of both developed and developing nations. The massive and continuing expansion of global free trade has been driven by consumers and manufacturers in developed nations. Fair trade, on the other hand, is intended to serve the interests of workers in developing nations. Fair trade is meant to empower manufacturers and farmers in developing nations by providing them with privileged access to socially conscious consumers in the developed world.⁴

Fair Trade in Action: The Key Players

Most socially conscious consumers who are aware of fair trade simply assume that it signals that an item is somehow a “good product,” either for environmental reasons or because workers involved in production are well paid. However, as we shall see, the system is more complicated than one might expect, and a well-informed consumer or business needs to go deeper to have a sufficient basis for evaluating fair trade and deciding whether or not to participate in it.

One of the reasons for the complexity of the fair trade system is that there is no universal fair trade authority. There are several important international organizations that serve a coordinating function, but none of these has the power to impose standards on all players in the field. In fact, there are many different kinds of fair trade organizations: international nonprofit organizations, regional nonprofit organizations, local nonprofit organizations that certify fair trade brands, local nonprofit organizations that certify fair trade farming and exporting cooperatives, and finally, both nonprofit and for-profit inspection organizations that visit the farming

cooperatives to determine whether they meet the criteria to be certified as fair trade. Let us describe a few of the most important organizations.

Most fair trade certifiers and umbrella organizations are now members of the *World Fair Trade Organization* (WFTO; formerly IFAT). The WFTO serves as a global network and clearinghouse, serving the interests of over 370 independent organizations in more than 70 countries.⁵ *Fairtrade International* (FLO) is an international organization, based in Bonn, Germany, that promotes the most widely used certification system for products designated as fair trade or “Fairtrade.” Note that FLO deliberately distinguishes itself by using a special way of spelling the term with no space between the words. One reason for this approach is that FLO has registered “Fairtrade” as a trademark, which it then licenses only to those organizations that meet its standards. The Fairtrade trademark has become the world’s leading way of designating that a product qualifies as fair trade. Note, however, that other organizations may still prefer to certify a product as fair trade.

FLO-CERT is a private, for-profit company that carries out certification audits for national organizations that wish to authorize local brands and vendors to use the Fairtrade label.⁶ *Fair Trade USA* is America’s largest fair trade organization; notably, it does not use the Fairtrade trademark, as it resigned from FLO in 2011 out of disagreement with several aspects of the FLO system. In particular, Fair Trade USA objected to the fact that FLO certification is inconsistent with regard to who can be considered a certified producer: With coffee products, certification is limited to cooperatives made up of independent farms, while with other products, like bananas and tea, workers on large farms can also receive certification. Consequently, Fair Trade USA has developed its own certification system that does not use the Fairtrade label, but rather designates products and producers with its own trademark: “Fair Trade Certified.”

The above-described organizations are just a few of the literally hundreds of nonprofit and for-profit organizations operating in the fair trade sector. Next, let us describe how the process works in bringing fair trade products to your kitchen.

How It Works: From Farm to Supermarket

There are two different types of fair trade certification: *organizational recognition* and *producer certification*.

Organizational Recognition

To become a fair trade vendor or brand and obtain the right to use one of the authorized trademarks or labels, importers and vendors are certified by national fair trade organizations. Such brands are recognized as trading only products from authorized suppliers who, in turn, buy from farms that pay their workers a fair wage and follow sustainable practices. When you see a product in a supermarket or store that is labeled fair trade, it indicates that the brand has sought and obtained certification from a national Fair Trade organization.

Producer Certification

Producers, in fair trade terms, usually refer to cooperatives of independent farms; however, in the case of particular products, the farms and farm workers themselves may be certified. Producers gain Fair Trade or Fairtrade certification from independent certification organizations. FLO-CERT, which provides Fairtrade certification for farmers in more than 70 countries, is the largest certifying organization in the world.⁷

Now let us look more closely at the different operators in the fair trade supply chain, working backward from your local retailer all the way to the farm workers at the other end.

Retailers

Any local retailer, whether it is a supermarket, boutique, or coffee shop, can sell Fair Trade or Fairtrade products. As noted above, the brands and products themselves must be authorized to use one of the recognized labels or trademarks, but any store or shop that buys legitimate products at wholesale is free to resell them to consumers any way it pleases. Note, in particular, that the local retailer is under no obligation to sell the products at any given price or to return any of its revenues or profits directly to producers in the exporting country. What this means in practice is that, some retailers, aware that a small percentage of affluent consumers is desirous of socially responsible products, will simply charge a very high premium for the fair trade products. The profits generated by such high prices are purely for the retailer alone. Thus, a consumer who pays a high price for a fair trade product, under the impression that this premium will go directly to the producers or farm workers, is somewhat misguided. Indeed, as we will see, some portion of these high prices is *indirectly* returned to the farmers, but in most cases, the amount is less than consumers would expect.

Vendors, Brands, and Importers

Companies that wish to market their products as fair trade and feature a certification label or trademark (such as “Fairtrade” or “Fair Trade Certified”) on their packaging must conform to the standards of one of the national certification authorities. Essentially, this means they must buy their product from a certified importer or directly from one of the certified exporting cooperatives. Fair trade importers must pay a minimum price of \$1.20/pound for Arabica beans or \$1.05 for Robusta beans. This minimum price guarantee is one of the essential features of the fair trade concept.

Exporting Cooperatives

In the coffee sector, there are more than 300 exporting cooperatives in over 20 coffee-exporting nations. Cooperatives are certified by an international certification authority, which in most cases means FLO-CERT. Cooperatives buy their coffee from small, independent farms that adhere to fair trade principles, meaning that workers are paid fairly and that environmental standards are followed. Fair trade coffee is not required to be fully organic, though growers may use organic farming methods if they wish; however, limits are placed on the use of pesticides and herbicides.

The cooperative has the responsibility of visiting the individual farms to make sure that they are complying with standards. The trouble is, according to some farmers, that cooperatives do not always enforce international fair trade standards. Allegedly, the crops from farmers who bribe fair trade cooperatives to be lax with their inspections are mixed in with those from farmers that are truly committed to fair trade practices.

The cooperative consolidates its purchases and sells the bulk coffee to certified importers in developing nations. It is the cooperative that is guaranteed the minimum price maintained by the fair trade system. Note that most cooperatives are unable to sell all of their coffee as fair trade due to insufficient demand, so roughly half to two-thirds of their coffee is sold without a special label. Cooperatives are required to use their profits to engage in social projects, such as building schools or athletic fields for farm workers.

Farmers

In order to sell their coffee to fair trade exporting cooperatives, farmers must agree to limit their use of child labor, GMOs, herbicides, and pesticides. Farmers are not guaranteed a minimum price for their coffee.

Fair Trade Social Projects

Most fair trade organizations, including Fair Trade USA and FLO, promote social and economic development projects in the farmers’ communities. One of the principal elements of the fair trade concept is the requirement that a portion of each cooperative’s earnings must be invested locally in projects to benefit the farmers, e.g., building schools, hiring teachers, funding for women’s empowerment groups, and/or investment in healthcare. Farmers are taught how to lobby large international organizations and demand fair prices for their labor, and children are encouraged—sometimes required—to go to school rather than to work. Fair Trade USA requires that all its farmers have access to doctors and affordable medical treatment in case of illness or injury. Projects are also funded to help protect the environment, for example, through clean water initiatives, training on ways to reduce pesticides and herbicides, education about crop cycling, and funding for reforestation.

One problem with fair trade social projects is that their effects are extremely difficult to quantify. As of 2013, no universal metric had yet been developed to measure the impact that fair trade projects actually have on the developing world. Moreover, it has been alleged that many cooperatives devote all of their profits (if they make any) to social projects, leaving them unable to pay higher cash prices to their farmers. The farmers are thus left with social projects of arguable utility rather than the higher cash prices for their crops that many of them might have preferred. Thus fair trade organizations have come under fire for allegedly making promises they cannot keep.

Fair Trade and the Global Coffee Market

The rise of the fair trade coffee market provides an interesting case study on the interplay between international politics and the global economy. Although coffee is the world’s second-most traded commodity, after petroleum, the global coffee market has been subject to periodic boom and bust periods; when prices are low, living conditions become abject for the world’s millions of coffee farm workers.⁸ In response to this problem, the first International Coffee Agreement was signed in 1962 to impose export quotas and set international prices for coffee as a means of protecting the world’s coffee farmers from rollercoaster market swings in coffee prices.⁹ By 1989, however, the arrival of new coffee-producing nations on the market, compounded with a change in consumer tastes favoring Arabica coffees, led to the demise of the quota system; this in turn led to a global collapse in prices as

farmers were faced with a worldwide coffee glut. The devastating impact on the livelihood of farmers across the developing world was one of the driving motivations behind the creation of the first fair trade cooperatives and marketing organizations, such as Holland's Max Havelaar, which were intended to provide stable prices so that farmers would be less vulnerable to volatile world markets.

By 2002, however, the *Wall Street Journal* reported that an oversupply of coffee beans had once again driven coffee prices to an all-time low, pushing many farmers out of business.¹⁰ This second collapse of world coffee prices was estimated to affect 125 million people internationally, and most farmers were again at the mercy of a volatile market, without recourse. In areas where coffee is grown, few other legal crops are as profitable. The collapse of the global coffee market was relatively painless for consumers: The price of coffee declined disproportionately in developed-world supermarkets. And yet, in the midst of this market turbulence, there is some evidence that farmers that had signed on with fair trade cooperatives enjoyed a relatively stable price for their goods throughout the market collapse.¹¹

Fair trade had grown from humble origins to the point where it could be claimed that it was having a major impact on global coffee production. By 2009, fair trade coffee had become a \$1.8 billion market.¹²

Coffee Social Responsibility: The Starbucks Example

As America's largest coffee importer, Starbucks was lobbied early on to sell fair trade coffee. In 1999, Starbucks began working with FLO and TransFair USA to buy and sell Fairtrade certified products and launched the first official sales of certified coffee in 2000.¹³ Thereafter, Starbucks established the Coffee and Farmer Equity (CAFE) Practices buying guidelines to delineate a specific set of rules and regulations pertaining to ethically sourced coffee, with the goal of eventually ensuring that all of Starbucks's imported coffee would qualify as ethically sourced (though relatively little of that would be Fair Trade certified). The four main areas on which the CAFE guidelines focused were economic accountability, social responsibility, product quality, and economic leadership. An independent body, Scientific Certifications Systems, oversees the evaluation of CAFE products.

In 2009, Starbucks announced that, with cooperation from FLO and TransFair USA, it would promote a \$20 million loan program to support small-scale farmers in the developing world.¹⁴ Labeled the Small Farmer Sustainability Initiative (SFSI), the program was designed to promote responsible trading practices throughout the coffee industry. Also in 2009, Starbucks became the largest purchaser of Fair Trade certified coffee in the world, purchasing 40 million pounds of Fair Trade certified crops from vendors on three continents. By 2012, ninety-three percent of the coffee that Starbucks sold worldwide was ethically sourced (according to Starbucks)—ninety percent of which was certified through CAFE practices. The company has announced that its goal is to ensure that one hundred percent of its coffee products are ethically sourced by 2015.

One goal of the SFSI program was to streamline the process of small-scale farmers applying to become a part of the fair trade program. Starbucks and FLO-CERT developed a single-audit system so that farmers applying for Fairtrade certification and Farmer Equity Practices verification could become Starbucks vendors in one step. The streamlined process was intended to eliminate fifteen to thirty percent of the cost of auditing expenses for coffee farmers in the developing world.

Although Starbucks has acquired a reputation for a strong commitment to CSR, having appeared on the list of *Ethisphere Magazine's* most ethical international companies for four consecutive years, critics have pointed out that Starbucks's promotion of their CAFE program has misled American consumers. Many Starbucks customers have come to believe that all of Starbucks's coffee is fair trade, while it actually only accounts for about 6% of Starbucks's coffee sales.

Good Coffee, Bad Coffee? Evaluating Criticisms of Fair Trade

Fair trade coffee is often held up as one of the great success stories of responsible consumerism. Supporters of the fair trade movement argue that it promotes a more direct trade system, fosters long-term economic improvement in developing nations, provides living wages, strengthens labor protection for artisans and farmers in impoverished communities, and provides access to otherwise unreachable global markets.

Critics of fair trade argue that it constrains the beneficial flexibility of the free market and that most of the social projects promoted by fair trade are such small-scale endeavors that they are not sufficiently influential. Rather than supporting and protecting the interest of small-scale farmers, critics contend that fair trade does little more than play on "developed-world guilt." Critics argue that staying in the fair trade system raises costs for farmers who sometimes experience a decrease in profits due to a decrease in yield, and who also must adhere to labor rules that require them to hire workers rather than employing their own children or offering "work for trade" within their community. Some researchers have found that fair trade labeling cooperatives are able to turn

a profit while farmers, originally enticed by the promise of a higher per-pound price, fail to see any significant benefits. In any event, there is no evidence that farmers on average are receiving higher income due to selling to fair trade cooperatives.

There are a number of reports and investigations that indicate that fair trade inspections are unreliable. Some of these criticisms have come from former insiders, such as Christian Jacqui and Paola Ghillani, formerly associated with Fairtrade Labelling Organizations.¹⁵ In 2006, a *Financial Times* investigation of fair trade in Peru revealed that out of ten mills that claimed to sell fair trade coffee, all ten had sold uncertified coffee as certified. It also found that workers on fair trade farms were often paid beneath the minimum wage, in violation of fair trade standards.

Ironically, many of these criticisms began surfacing just as fair trade was starting to achieve widespread acceptance from consumers and retailers. In many cases, it appears that retailers believe they can increase profits if they jump on the fair trade bandwagon. Arguably, though, such retailers have a tendency to exaggerate the benefits of fair trade. Whole Foods, for example, has boasted that five percent of the money from coffee sales goes to growers. Investigation revealed, however, that the five percent figure merely reflected the price that Whole Foods paid its coffee unit. In Europe, supermarket giant Tesco was reportedly charging upwards of an additional \$3.46 for its fair trade coffee, while the farmers of that coffee only received 44 cents of that premium.

Regardless of its real impact on producers and farmers in developing countries, the fair trade movement is already beginning to change the ways that consumers in rich countries think about shopping and consuming. In 2006, Media, Pennsylvania, became the first US town to become fair trade certified by successfully converting a critical percentage of all goods it purchases to those certified by third-party certification schemes.¹⁶ By 2013, approximately thirty-two other US towns had followed suit. In Europe, this process is much further advanced, with hundreds of towns and municipalities having received certification. The success of fair trade certification has spawned a number of similar certifications, of which the best known is the Rainforest Alliance, which certifies food products as grown in a sustainable fashion.

Regardless of the ongoing controversy about its legitimacy, it appears that fair trade certification is here to stay.

Topic for Debate: Should a Specialty Coffee Chain Sell Only Fair Trade Coffee?

In the fictional case that is the topic for this chapter's debate, a small specialty coffee chain, known as World Coffee, Inc., is considering switching over to a 100% fair trade brew for its coffee and tea products.

World Coffee is a chain of eleven stores in the greater New York metropolitan area, with five in Manhattan, three in Brooklyn, two in Long Island, and one in Hoboken, New Jersey. The founder, Wendy Mueller, opened her first store in the trendy Tribeca neighborhood of Manhattan in 2004 and quickly attracted a devoted following due to its use of extremely high-quality coffee, which was complemented with a 100% organic product line—organic milk and cream for the coffee and tea, organic sugar and honey as sweeteners, and pastries and baked goods made from 100% organic ingredients. Building on its initial success, the chain quickly expanded to its current size and each of its store operations is highly profitable. Wendy has a full-time executive staff of four people and the stores employ an additional ten store managers and fifty to sixty part-time employees.

A potential franchise partner from San Francisco, Blake Morton, has approached Wendy and is proposing opening an additional twenty to thirty stores in the western United States, especially in California, Oregon, and Washington.

However, her potential partner has proposed a significant change to World Coffee's operations: They would switch over to 100% fair trade coffee and tea.

Wendy is concerned because she is aware that there has been a lot of criticism of fair trade as a system that promises more than it delivers. She is also concerned that the supply is more limited and that she will have to choose lower quality coffees. Additionally, she feels that it would be hard to source all her coffee from Fair Trade providers unless she raises her coffee prices by twenty-five to fifty cents per cup, and she was already worried that they were too high to begin with.

Despite this, Blake Morton is a vocal supporter of fair trade and is convinced that a 100% fair trade concept will help distinguish her from competitors and drive business to the store.

Wendy proposes that she and Blake research the topic and present their arguments to a jury composed of five people whom Wendy considers as New York's top experts in running and expanding socially responsible businesses. Blake agrees to Wendy's list and they both begin to prepare their arguments.

You will be assigned either to the team supporting Wendy's position or the team supporting Blake's position.

The debate positions may be formulated as follows:

Affirmative

World Coffee should move to 100% fair trade.

Possible Arguments

- Customers are attracted to the fair trade concept.
- Despite the increased cost to consumers and reports that fair trade is not always as transparent as it should be, every little bit helps. If we wait for a perfect system, we will never help poor farmers.
- Fair trade raises awareness that it is possible to help citizens in developing countries.
- Fair trade products are more sustainable than conventional products.
- Fair trade helps put an end to unjust and unsustainable practices in global trade.
- If the coffee shop does a good job of promoting why their prices have increased and gives consumers a reason to pay more, they will.

Negative

World Trade should not adopt a 100% fair trade policy.

Possible Arguments

- Fair trade is not all that it is cracked up to be: It is a marketing gimmick aimed at socially conscious consumers.
- It would be more ethical to buy directly from known farmers, regardless of certification.
- Fair trade coffee is not necessarily organic.
- Our employees and other stakeholders are our first concern, and if we charge too much for coffee, we will find ourselves out of business.
- We can still make fair trade coffee available to customers who want it, but we do not have to offer it exclusively.
- If fair trade improves its certification procedures, we can increase our support later.
- Because fair trade may benefit retailers more than suppliers, it actually adds to the problem by creating a false sense of philanthropy.

Readings

8.1 Benefits of Fairtrade

“Benefits of Fairtrade.” Fairtrade International, accessed Nov. 25, 2014. www.fairtrade.net/benefits-of-fairtrade.html

For producers, Fairtrade is unique in offering four important benefits:

1. **Stable prices:** For most products there is a Fairtrade Minimum Price that aims to cover the costs of sustainable production—even when world market prices fall.
2. **A Fairtrade Premium:** The Premium helps producers to improve the quality of their lives. It is paid on top of the agreed Fairtrade price, and producers decide democratically how to use it. Typically they invest it in education, healthcare, farm improvements, or processing facilities to increase income.
3. **Partnership:** Producers are involved in decisions that affect their future. Fairtrade certified producers jointly own and manage Fairtrade International. Through Fairtrade International’s Board, its Committees, and consultation processes, producers can influence prices, premiums, standards, and overall strategy.
4. **Empowerment of farmers and workers:** This is a goal of Fairtrade. Small farmer groups must have a democratic structure and transparent administration in order to be certified. Workers must be allowed to have representatives on a committee that decides on the use of the Fairtrade Premium. Both groups are supported by Fairtrade International to develop their capacity in this area.

With Fairtrade, Everyone Wins

Consumers

Shoppers can buy products in line with their values and principles. They can choose from an ever-growing range of great products. By buying into Fairtrade, consumers support producers who are struggling to improve their lives.

Traders/Companies

Since its launch in 2002, the Fairtrade mark has become the most widely recognised social and development label in the world. Fairtrade offers companies a credible way to ensure that their trade has a positive impact for the people at the end of the chain.

Environment

Fairtrade rewards and encourages farming and production practices that are environmentally sustainable. Producers are also encouraged to strive toward organic certification. Producers must:

- Protect the environment in which they work and live. This includes areas of natural water, virgin forest, and other important land areas and dealing with problems of erosion and waste management.
- Develop, implement, and monitor an operations plan on their farming and techniques. This needs to reflect a balance between protecting the environment and good business results.
- Follow national and international standards for the handling of chemicals. There is a list of chemicals that they must not use.
- Not, intentionally, use products that include genetically modified organisms (GMO).
- Work out and monitor what affect their activities are having on the environment. Then they must make a plan of how they can lessen the impacts and keep checking that this plan is carried out.

8.2 “Fair Trade in Bloom”

Downie, Andrew. “Fair Trade in Bloom.” *New York Times*. October 2, 2007.
<http://www.nytimes.com/2007/10/02/business/worldbusiness/02trade.html>.

8.3 “Voting with Your Trolley”: Can You Really Change the World Just by Buying Certain Foods?

“Food Politics: Voting with Your Trolley.” *The Economist: Special Report*. December 7, 2006.
<http://www.economist.com/node/8380592>.

8.4 “The Problem with Fair Trade Coffee”

Haight, Colleen. “The Problem with Fair Trade Coffee.” *Stanford Social Innovation Review*. Summer 2011.
http://www.ssireview.org/articles/entry/the_problem_with_fair_trade_coffee.

...As the name implies, Fair Trade has sought not only to protect farmers but also to correct the legacy of the colonial mercantilist system... To its credit, Fair Trade USA has played a significant role in getting American consumers to pay more attention to the economic plight of poor coffee growers. Although Fair Trade coffee still accounts for only a small fraction of overall coffee sales, the market for Fair Trade coffee has grown markedly over the last decade, and purchases of Fair Trade coffee have helped improve the lives of many small growers.

Despite these achievements, the system by which Fair Trade USA hopes to achieve its ends is seriously flawed... Among the concerns are that the premiums paid by consumers are not going directly to farmers, the quality of Fair Trade coffee is uneven, and the model is technologically outdated...

The primary way by which FLO and Fair Trade USA attempt to alleviate poverty and jump-start economic development among coffee growers is a mechanism called a price floor, a limit on how low a price can be charged for a product. As of March 2011, FLO fixed a price floor of \$1.40 per pound of green coffee beans...

It is these requirements and pricing structure that create a quality problem for Fair Trade coffee... A simple example illustrates this point. A farmer has two bags of coffee to sell and there is a Fair Trade buyer for only one bag. The farmer knows bag A would be worth \$1.70 per pound on the open market because the quality is high and bag B would be worth only \$1.20 because the quality is lower. Which should he sell as Fair Trade coffee for the guaranteed price of \$1.40? ...To maximize his income, therefore, he will choose to sell his lower quality coffee as Fair Trade coffee...

...Membership in a cooperative is a requirement of Fair Trade regulations... Premiums are retained by the cooperative and do not pass directly to farmers. Instead, the farmers vote on how the premium is to be spent for their collective use. They may decide to use it to upgrade the milling equipment of a cooperative, improve irrigation, or provide some community benefit, such as medical or educational facilities.

Fair Trade USA is a nonprofit, but an unusually sustainable one. It gets most of its revenues from service fees from retailers. For every pound of Fair Trade coffee sold in the United States, retailers must pay 10 cents to Fair Trade USA. That 10 cents helps the organization promote its brand, which has led some in the coffee business to say that Fair Trade USA is primarily a marketing organization...

Another challenge for FLO is the issue of transparency in business dealings... Records kept by cooperatives have shown that premiums paid for Fair Trade coffee are often used not for schools or organic farming but to build nicer facilities for cooperatives

or to pay for extra office staff...

FLO also provides incentives for some farmers to remain in the coffee business even though the market signals that they will not be successful. If a coffee farmer's cost of production is higher than he is able to obtain for his product, he will go out of business. By offering a higher price, Fair Trade keeps him in a business for which his land may not be suitable.

Synthesis Questions

1. After studying this chapter, are you more likely or less likely to buy fair trade coffee?
2. Is there another way of achieving the objectives of improving the lives of developing-country farmers and producers than the Fair Trade approach? Describe at least one option.
3. Why do consumers buy Fair Trade products? List a few reasons and analyze each of them.

Endnotes

1. "About Us," TenThousandVillages.com, accessed October 5, 2013, <http://www.tenthousandvillages.com/about-us>.
2. "Sixty Years of Fair Trade: A Brief History of the Fair Trade Movement. Nov. 2006, accessed October 5, 2013, www.european-fair-trade-association.org/efta/Doc/History.pdf.
3. "What Is Fair Trade," Fair Trade Resource Network, accessed October 6, 2013, <http://www.fairtraderesource.org/uploads/2007/09/What-is-Fair-Trade.pdf>, 2.
4. "What Is Fair Trade: Impact," FairTrade USA, accessed October 6, 2013, <http://fairtradeusa.org/what-is-fair-trade/impact>.
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