

**Poverty Alleviation through Participation in Fair Trade Coffee
Networks: The Case of UCIRI, Oaxaca, Mexico
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1) Fair Trade Participation: A Historical Context

1.a) How did each organization join the Fair Trade networks? Which networks?

Introductions first:

Name of the Organization: Union of Indigenous Communities of the Isthmus Region (UCIRI). Agrarian registration number 130-8415/83.

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Name of the Representative: Romeo Bustamente Guzmán, President of the Administrative Council of UCIRI (2001-2004)

1. A Brief History of the Organization. (As told by a group of peasants who are delegates of the Assembly, presented at the Peasant Festival, October 2001).

Background: In March 1981 a group of indigenous peasant coffee farmers met with a mission team from the Diocese of Tehuantepec, Oaxaca, to discuss their problems. They decided to launch an organized effort to improve the way in which they sold their coffee, for which they were receiving unfair prices. A group of farmers from the communities of Guevea de Humboldt and Santa María Guienagati decided to sell more than 35 tons of coffee that year with the Asociación Rural de Interés Colectivo (ARIC, the Association of Rural Collective Interest) in Misantla, Veracruz. The good prices that they received encouraged them, and for the 1982-1983 harvest the farmers of Santiago Lachiguiri, San José el Paraíso, Santo Domingo Petapa, Guadalupe Guevea and San Pablo Topiltepec were organized under the name of UCIRI.

Geographical Area: UCIRI works in the following municipalities and communities of the Sierra region and the northern zone of the Tehuantepec isthmus:

Municipalities with Active UCIRI members

Municipality	Level of Marginality
Santa María Guienagati	Very High
Santo Domingo Petapa	High
Guevea De Humboldt	High
Santiago Lachiguiri	High
Santiago Ixcuintepec	High
Santiago Atitlán	Very High

San Lucas Camotlán	Very High
San Juan Lachao	Very High
San Juan Mazatlán	Very High
San Juan Guichicovi	Very High
San Juan Cotzocón	High
Santa Catarina Juquila	High
San Juan Juquila Mixes	Very High
San Carlos Yautepec	High
Nejapa De Madero	High
San Miguel Quetzaltepec	Very High
San Pedro Huilotepec	High
Santa María Alotepec	High
Santiago Camotlán	Very High
Santo Domingo Tehuantepec	Medium

Location: See map in the appendix.

Structure: Each community group that is part of UCIRI names a board of directors, a monitoring committee, representatives, and committees for the different local work areas. All of the members of these bodies serve for one or two years. The representatives and one member of the board meet as the Ordinary Assembly on the 29th and 30th of each month in Lachivizá, Guienagati, to study the problems of the organization and make plans. A written report of the issues discussed in the assembly is then taken to each community so that they can be discussed in the local community meetings. It is the responsibility of all cooperative members, delegates and committees to participate in the meetings and assemblies. Unexcused absences lead to a fine, decided upon by the group. At the central level, UCIRI has an Administrative Council (4 members) and a Monitoring Council (4 members), each with its respective auxiliary members. The members of the Administrative and Monitoring councils as well as the community delegates are elected for three year terms. In the Delegates Assembly the Central Committees are also elected, which represent the different areas of work that the cooperative does. These committees, along with the Administrative Council, determine the general direction which the cooperative takes and have the responsibility of keeping the members up to date on advances and problems at the assembly meetings.

Activities of the Cooperative: Health, education, T.C.O (Trabajo Común Organizado, Organized Group Work), the organic production project, CEC (Centro de Educación Campesina, Farmer Education Center), transportation (UPZMI SCL), hardware store (Lachinavani, SA de CV), jam and jelly production, women's projects, technical assistance project, credit and savings fund (FAC), manufacturing of clothing (Xhiiña Guidxi SCL) and the national and international marketing of our products, most importantly coffee. (Cafeterias missing?).

A Short History of UCIRI:

- UCIRI gained legal status in 1983.

- The cooperative began by collecting the coffee of its members in a central location.
- In 1983-84 the first coffee warehouse was constructed in Lachiviza.
- In 1984 the dry processing plant was installed.
- In 1984-85 marketing was begun with the help of an organization in the neighboring state of Veracruz.
- In 1986 UCIRI got its export license and began to export directly.
- Also in 1986 the organic coffee production program was initiated with the first inspection and certification through the German certifying agency NATURLAND (accredited by IFOAM, the European Union and the United States).¹
- In 1988 UCIRI and a Dutch organization, SOLIDARIDAD (Solidarity), together created the first Fair Trade seal, Max Havelaar.
- In 1988-89 the first ecological certification for a group of small producers was achieved. Before this time, European law had only recognized certifications for individual farmers.
- The hardware store, radio-communication capabilities and the credit and savings fund were established.
- In 1989 UCIRI and other organizations formed the CNOC (Coordinadora Nacional de Organizaciones Cafetaleras, National Directorate of Coffee Organizations), which is a group of independent organizations that represent more than 80,000 small coffee farmers.
- A national coffee marketing company was formed to assist small organizations in their exportation of coffee. Unfortunately this initiative failed a few years later due to mismanagement.
- In 1995 the education of women began in the Farmer Education Center, which had formerly been for men only.
- In 1996 projects designed specifically for the benefit of women were initiated after their needs were evaluated. The most successful projects have been those aimed at the improved well being of the family. These include small animal projects (chickens, pigs, sheep, fish and others) to improve diets, and housing improvement projects (improved latrines and wood-burning stoves).
- In 1994 UCIRI and other organizations created ECOMEX, with the goal of examining the situation of ecological certification in Mexico.
- In 1996 the “Farmer Festival”, dedicated to women, was celebrated.
- In 1997 CERTIMEX, the Mexican ecological product certifying agency was created.
- In 1997 attention was given to the situation of the youth in the communities for the first time. Many young people from the farming communities are abandoning their communities to seek employment in the cities or to travel illegally to the United States.

¹ For organic coffee to be recognized in the international market it is necessary to undergo external inspections by a certifying agency with international recognition. These agencies confer certification based on the inspections. The first certifier that UCIRI worked with was NATURLAND, based in Germany.

- Projects were developed to respond directly to the expressed needs of the women and youth.
- Two new projects were initiated: the introduction of alternative crops to be used in the production of organic fruit preserves and the manufacture of clothing.
- In 1999 Comercio Justo México A.C. (Fair Trade Mexico) was created as the official organization responsible for the promotion and regulation of Fair Trade in Mexico.
- In 2000 Agromercados S.A. de C.V.² was formed as an integrated marketing company to commercialize coffee, amaranth, maguey, corn, beans and other products.

What the cooperative members are defending and what they desire.

The land. Chemical fertilizers are not used because the land, well cared for, does not need them. For the improvement of both soil and plants, techniques such as organic fertilizers, compost, tree pruning, terraces, cover crops, and shade management are used.

Work, and the benefits that it provides. Coffee is not sold to local buyers but to cooperatives in the region or is exported directly. The members do not want to depend just on one crop, so instead of planting more coffee try to diversify their farms by planting more corn, beans, vegetables and fruit.

Health. The cooperative members want to eat better, with more fruits and vegetables, use herbal remedies and keep their houses clean so that they can work better, be happy and not have so many worries.

To live in a dignified and humane house, with a Lorena stove (improved wood stove) in the kitchen, a good bathroom with a sanitary latrine, four rooms and a coffee-drying patio. The farmers want to keep working to get electricity, potable water and communication services in their communities.

To preserve the local culture and knowledge. The farmers of UCIRI want to value the good things that they have learned from their ancestors, and to encourage each other to keep their indigenous languages alive. They also want political leaders who serve and help them, not trick and cheat them.

To always be more and better organized, understanding better the struggles that lie ahead so they can know what they are able to and must do. The members of UCIRI do not consider themselves to be miserable, but they are poor. They are human beings who defend their dignity and have hope and faith in themselves because they believe in the God of Jesus Christ who gives them strength, the light, the heat, the water, the fruit and everything from the earth which they need. The solidarity and care for each other that they are planting in the mountains is the same solidarity and care that Father God has for them.

Successes and Achievements.

² A Mexican company formed by organizations made up of small and indigenous coffee farmers. This company seeks to market processed agricultural products that are produced in the fair-trade and organic systems. It is based in the city of Queretaro.

In 1983 the organized communities were legally registered with the Secretary of Agrarian Reform as UCIRI. In 1985 UCIRI got an export and import license, the first independent organization to do so; at this time only the large coffee plantations had export licenses. In the 1986/87 harvest season the first direct exports were made to Simón Levelt in Holland and GEPA in Germany. Next the cooperative developed an alternative market with consumers of solidarity, including Max Havelaar and Transfair. Little by little the cooperative has been building a market presence in Germany, Holland, Switzerland, Sweden, Italy, France, Austria, Japan, Canada and the United States. The company Agromercados was formed with other organizations to increase coffee sales and support the Fair Trade movement in Mexico.

This is how we came in contact with the ATOs (Alternative Trade Organizations), the first Fair Trade market. One of the first Fair Trade initiatives was that of SOS Wereldhandel (later renamed FairTrade Holland). At first they mostly bought handicrafts, but soon they entered into the coffee market on a small scale. The second important importer with which we began business in 1985 was GEPA from Germany, during a surprise visit from a representative of the firm Simon Levelt (Hans Levelt, the owner of this family business) and some members of GEPA, an ATO. During this visit we agreed to a contract to export 400 bags of coffee. Another member of this group that visited us was a Dutch agricultural engineer who was working with a German institution promoting organic agriculture. He stayed for two weeks, visiting various communities and coffee farms, and came to the conclusion that the coffee fields were already practically organic due to negligence. He encouraged us to implement new techniques in the coffee farms and he also put in touch with a German certifier, Naturland, that soon arrived to carry out primary instructions and quickly we were certified as organic. At that time there were not so many bureaucratic requirements for the certification, just fairly general guidelines; it was up to UCIRI to establish internal rules for organic production. (“UCIRI Organic Production Internal Regulations”, modified, expanded and corrected various times.)

In 1987 four members of UCIRI were invited to Holland by a Dutch NGO, Solidaridad, to promote their product, organic coffee. They quickly realized that that the alternative markets were not easily accessible to the general public at that time, and decided that it was necessary to expand this market in the stores where the public usually purchases their groceries. The hope was that by increasing accessibility and the number of stores where Fair Trade coffee was available coffee sales could be greatly increased. A small team, made up of the director of Solidaridad, Niko Roozen, and the UCIRI consultant, Francisco VanderHoff, was formed to investigate the possibilities of expanding the Fair Trade markets. This effort resulted in the formation of Max Havelaar in Holland in 1989, the first Fair Trade initiative in the movement that now works in 17 countries under the coordination of FLO in Bonn, Germany. Each national organization has a different name, according to the decisions of that country, and they have achieved Fair Trade sales shown below:

Fair Trade Coffee Sales (kilograms)

Country	1999	2000	2001
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Trans Fair Austria	283,843	299,484	332,261
Max Havelaar Belgium	477,236	547,853	582,203
Trans Fair Canada	77,600	154,224	258,124
Max Havelaar Denmark	695,361	742,437	697,070
RKE Finland	35,600	90,648	97,000
Max Havelaar France	270,300	495,425	945,000
Trans Fair Germany	3,332,237	3,098,440	3,127,650
Fair Trade Federation GB	1,237,060	1,332,240	1,47,640
IFTN Ireland	40,490	55,000	62,000
Trans Fair Italy	353,347	398,511	457,000
Trans Fair Japan	6,200	6,600	6,569
Trans Fair Luxemburg	69,316	64,129	77,320
Max Havelaar Holland	3,185,513	3,101,923	3,104,681
Max Havelaar Norway	54,700	125,313	178,851
Rättvisse Market, Sweden	218,005	216,886	253,569
Max Havelaar Switzerland	1,424,584	1,381,860	1,306,415
Tran Fair USA	54,971	707,000	1,263,000
Total	11,816,363	12,817,973	14,396,353

The first phase of the Fair Trade movement was with the Alternative markets in Europe, including export contracts with Gepa (Germany), CTM (Italy) and Sacheus (Sweden). UCIRI has purchased a 10% share in Sacheus in solidarity with that company. With the formation of Max Havelaar the second phase of the Fair Trade movement began.

UCIRI in the Fair Trade Network: Motivation and Reasons

1b) What were the motives and reasons for and what role did ideology play in the organization's entrance into Fair Trade?

A partial list of the various motives for the entrance into alternative markets and the formation of Max Havelaar would include the following:

Negative Motives

- The price that we were getting for our coffee was not enough for our families to survive.
- The banks did not want to lend us money for the coffee harvest.
- We sometimes went hungry for lack of money and the basic necessities were not available in our communities.
- When we got sick there were no health centers or doctors.
- There was no transportation system. All transportation was done carrying the coffee on our backs or with mules on the mountain paths.
- Many towns did not have access to potable water, electricity or telephones and other forms of communication.
- The education of our children was a disaster and the teachers would be absent from the schools for weeks.

- Our houses were in disrepair.

Positive Motives

- To learn how the market works and to become involved professionally in it.
- To become independent of the *coyotes*, who treated us badly, paid very little, and cheated us on coffee weights, instead dealing directly with the coffee industry.
- The price: when the farmers depended on the *coyotes* and on INMECAFE they were paid much less than the international price in the New York commodity market (which was given the nickname “the lady of the market, who never even sees that the scale is not calibrated” by the members of UCIRI). By selling directly to the coffee buyers the price was greatly improved.
- To undertake community based projects with the increased incomes: health, community stores, improved production of basic grains and vegetables, housing improvements, construction of improved latrines and stoves.
- To create a community savings and credit bank.
- To create a training school for the organic production promoters in the communities (CEC, San José el Paraíso).

All of these motives come from the Assembly of Guevea de Humboldt, in March 1982, but only little by little were we able to implement the projects that were most important to us.

Contacts within the Fair Trade System

1c) What agents or contacts contributed to the entrance into the Fair Trade market?

The contacts that UCIRI made in the alternative market were in fact very casual and made almost by coincidence. A friend of the consultant Francisco VanderHoff visited UCIRI in 1985, and this friend was the director of a German ATO, GEPA. He had come to Chiapas with a Dutch roaster, Hans Levelt, looking to buy organic coffee from a social group there. They were not able to get any organic coffee, but they came to visit our coffee farms and told us that with very little effort our farms could be converted to organic production. This possibility was discussed in a meeting where they were present, and they explained how the conversion from natural to organic coffee could be done. We were already producing organic coffee through neglect and only needed to implement a few simple management techniques to become certified organic. So for us the entry into the organic world was very simple. The delegates at the assembly decided to invite an organic inspector/certifier to visit the cooperative, and only the inspector Richard Storhas, from NATURLAND in Germany, was willing to come to Chiapas and do this. After his initial visit another inspector, Bo Elakker, came and stayed with us for a few weeks and gave us many useful recommendations. In that same year our coffee was certified as organic and we were able to offer our production to GEPA and Levelt. With the help of ARIC National we were able to export 5000 bags of organic coffee in 1986, from a total production of 10,000 bags for that year. Through the help of Francisco, who speaks Dutch, German, English, French and Italian in addition to Spanish and a little bit

of Zapotec, we were able to finalize all of the contracts. That is how some of the contacts with the Alternative market were formed. We sold the rest of our coffee that year in the normal, conventional market. But we must not forget that in 1985, 1986 and part of 1987 we were able to get very good prices. The sale that was made through ARIC National, although it is an organization that we did not entirely support because it was involved with the CNC, was with very good prices that were much higher than the *coyotes* were offering at that time. We had to put up with ARIC until we had learned to prepare and commercialize our coffee for ourselves. The *coyotes* began to cause problems in the region at this time, killing and giving us a hard time. But this only made the cooperative stronger.

The original expectations and how they have changed.

1d) What were the original expectations and how have they changed?

The initial reasons for entering into the Fair Trade market (in its first stages) were:

- To have access to the coffee markets.
- To create new markets (Fair Trade and organic).
- To independent from both the large and small *coyotes*.
- To learn how to operate in the international market.
- To achieve higher incomes for the cooperative members.

At first the prices were not a very big issue. Between 1985 and 1987 the prices were very high. Due to a drought in Brazil, we sold organic coffee in 1986 for up to 310 dollars per 100 pounds. During this period the most important thing for us was that we were gaining experience and learning how to operate in the international market independently. It wasn't very easy. One of the main obstacles was that we did not even have a telephone. Starting in 1986 we were able to sell the majority of our coffee in the Fair Trade market.

Percentages of annual sales in the Fair Trade market

Quantities Organic Coffee Sold (1993-2002)

Year	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02
Kg pergamino	1,020,621	821,400	747,195	908,730	671,811	880,432	930,484	897,448	948,172
Organic, export quality	734,847	616,050	552,924	672,460	497,140	660,324	697,863	673,086	694,629
Alternative Market	665,847	616,050	552,924	637,960	497,140	660,324	697,863	673,086	694,629
Conventional Organic	69,000	0	0	34,500	0	0	0	0	0

We have the data for the previous years, 1986-1992, but it is buried under kilograms of dust in our old archives. We were registered for Fair Trade certification in 1989.

2) Fair Trade Networks.

Before beginning this discussion we must define three stages in the development of the Fair Trade movement that involved three different markets.

- The first stage involved the establishment of Alternative Markets (ATO) in the late 1970s. These groups primarily imported handicrafts and products like honey, sesame, coffee, and tea that were distributed to their stores (Third World Stores) or to social and church groups. This phase did not involve large quantities, but it was an important accumulation of marketing experience and a process of education and consciousness-raising for the general public. UCIRI made its first entrance into the Fair Trade system through contacts with these ATOs.
- The second stage was the establishment of a market with a seal of guarantee, starting with Max Havelaar. The increase in demand for a larger market from the production side made the promotion of Fair Trade products to a larger sector of the consumers in developed countries essential.
- A third phase is just beginning, in which the organizations establish direct contact with the coffee industry under conditions very similar to the second phase.

2a) The most important actors that define the participation of the cooperative in the Fair Trade networks: the state, intermediaries, NGOs, FLO, ATOs, exporters and importers.

The most important actors for the coffee marketing done by UCIRI and similar organizations are:

- CTM, Comercio Terzo Mondo, Italy, an ATO, current member of the European Fair Trade Association (EFTA) and member of Transfair Italy until 2002. A client of UCIRI since 1990. This company sells our organic coffee in the Italian market under its own brand, UCIRI Organic Coffee. They buy 5000 bags annually, as well as three containers of soluble coffee, produced by UCIRI in Mexico.
- GEPA, Gesellschaft und Partnerschaft, Germany, an ATO, member of Transfair Germany and EFTA. One of the first clients of UCIRI and its largest buyer until 1990, when it was purchasing 7000 bags annually. Since 1990 UCIRI has decided to diversify its market because GEPA was buying 70% of the cooperative's production; currently GEPA purchases 1000 bags annually.
- Urtekram, member of Transfair Denmark.
- Sachus, from Sweden, is an ATO and member of Rätvissemarket (Transfair Sweden). UCIRI is a 15% shareholder in this company and it purchases 1500 bags of organic coffee annually.
- EZA, from Austria, an ATO, member of EFTA and FairTrade Austria (500 bags).
- Equal Exchange, USA, an ATO, member of TransFair USA and IFAT (International Federation of Alternative Traders). (1300 bags annually).
- Café Campesino, USA, Fair Trade (500 bags).
- Just Us, Canada, FairTrade Canada (350 bags).
- UCIRI exports coffee to the following companies, large and small roasters who are all members of FLO in different countries, through the firm Van Weely:
 - Malongo and Carrefour, France
 - Migros, Switzerland

- Treubles, Switzerland
- COIND, Italy
- Neuteboom, Holland
- Viking, Finland
- Schimmer, Germany
- Java, Ireland
- Rombouts and Fa. Fort-Beyers, Belgium
- Drie Mollen, Holland
- Alternativos, Spain
- Café Michel-Lobodis, France

Although the ATOs and FLO are two different markets, for UCIRI they do not represent a great difference. The prices that they pay are the same, and in both markets much depends on the relationship between the individual buyer and the cooperative.

Traditionally the majority of the ATOs that UCIRI has interacted with are also members of FLO, although CTM, for example, is no longer a part of FLO. Much has been learned about how to position ourselves in the organic and specialty coffee markets from GEPA, CTM and Equal Exchange. Currently the cooperative is learning a lot from the firm Van Weely, which is a coffee buyer for a number of FLO member roasters, and the firm Malongo, which has a long tradition in the gourmet coffee market. Although in the past many ATOs have not had coffee specialists on their staff, many are now beginning to employ on-staff experts.

Currently UCIRI sells all of its export quality coffee in the Fair Trade market, whether through ATOs or FLO, and this Fair Trade coffee is sold in various supermarket chains as well.

2b) What are the most important relationships (marketing, informational, training, etc.) that shape the participation of the cooperative in the Fair Trade networks?

One important relationship is the mutual apprenticeship that takes place concerning the proper way to market the coffee: the permits, paperwork, import and export licenses, and the organic certification process.

It is also important to understand how to manage the first few steps in the determination of prices in the New York market, using the mechanisms of inlay and futures.

2c) What financial organizations are used to offer credit for the production of coffee for the Fair Trade market and how does the credit process differ from that for organic and conventional coffee?

It was a very tortuous and ever-changing process to obtain financing for the harvest and marketing of our coffee until we achieved a stable system through relationships with local banks:

1. The first attempts at obtaining finance were made through loans from an alternative bank (EDCS, Oikocredit). We took out a ten year loan for 500,000 dollars with a fixed rate of 10% annually. The final payments were made in 1997.

2. After the creation of Max Havelaar Holland, the cooperative was offered up-front payments of 70% of the value of the minimum Fair Trade price paid at the beginning of the harvest with the loans repaid through crediting them to the final price of the coffee sold.
3. Credit was also received through programs from the federal government (FONAES/SEDESOL).
4. Currently we operate through a Mexican bank, Banamex, and a program called FIRA. In this arrangement we receive loans at the beginning of the harvest and repay them every year in July to avoid increased financing costs. Each year we renew these contracts.
5. UCIRI also has its own funds, which are used during the harvest as well. The cooperative members are able to open savings accounts in an internal bank, FAC (Fondo de Ahorro y Crédito, Savings and Credit Fund), which provides added capital that UCIRI has access to.

2d) How does the sale of coffee in the different markets (Fair Trade, conventional, organic and others) compare in terms of: price of coffee, marketing relations and market size?

Starting a few years ago, UCIRI has been able to sell almost all of its export quality organic coffee in the Fair Trade market (ATOs and FLO), and in the national market it has well-established clients (Royal Café of Monterrey, and later Agromercados and UCIRI's own stores and cafeterias). The prices at the international level are more or less the same for all markets (some clients pay an organic premium that is higher than that mandated by FLO). The clients that are not ATOs or members of FLO in general offer prices that are equal to the prices that FLO offers; Carrefour is a good example of this. The coffee that is produced by farms that are in the process of converting to organic is also sold in the Fair Trade market; this represents 10% of the production of the cooperative.

2e) Have there been important changes in the relationships of actors in the Fair Trade networks that the group participates in that have affected the groups participation in the networks?

Sometimes new market alternatives created or proposed by the producer organizations are not well received by the Fair Trade initiatives. It is important to retrace the history of the organization and the parallel growth of the Fair Trade market:

1. The first stage was the creation of alternative markets by such organizations as Gepa, SOS Wereldhandel (now FairTrade), Oxfam, Twin, CTM, EZA, etc. All of these organizations are still in operation.
2. The second stage begins with the formation of FLO. It was Max Havelaar Holland that was first able to expand the market beyond the scale achieved in the first stage. Some groups in the Alternative market have made special arrangements to be able to use FLO products in their own markets.
3. The third stage is in formation now, with the large companies and supermarkets. The producer organizations have entered into these negotiations with much

caution. The groups that want to enter into the Fair Trade market are very diverse: Starbucks, Sara Lee, Phillip Morris, the Neumann Group, Carrefour, etc. Complete confidence cannot be had in all of them. For now UCIRI has only made arrangements with Carrefour to sell organic coffee in their stores with Fair Trade prices (FLO). UCIRI made this contact with Carrefour during a conference on Sustainable Markets in Marseille, France. UCIRI has also opened an important new line of sales with Malongo, a roaster in southern France, close to Nice. They roast the coffee from UCIRI for sale in the supermarkets of Carrefour, with the same pricing conditions that FLO uses. This agreement between UCIRI, Malongo and Carrefour and the enlargement of the market that it represents is of great importance for UCIRI and other Mexican organizations, but it must be mentioned that this move has been questioned by many member organizations of FLO. The majority of Fair Trade producer organizations only are able to sell a small part of their production in the Fair Trade market, a market that is stagnant and not growing enough to absorb more coffee. The ATO and FLO markets are not growing very much, and in some countries are completely stagnant. The goal of capturing 5% of the national coffee market for Fair Trade coffee has not been reached in any country. The highest market share so far achieved is 3%, but in most countries it has not even reached 1%; in the United States, a very large market, the share of Fair Trade coffee is not even .03%. The largest danger is that the Fair Trade price premium be turned into a subsidy for the very low conventional market prices (New York commodity market). It is of the utmost importance that the producer organizations search for alternatives in the conventional market without negatively affecting the ATO/FLO market.

As a founding member of Max Havelaar and FLO, UCIRI has been inscribed in the Producer Register since 1989. From 1989 to 1992 UCIRI was a member of the Administrative Council of Max Havelaar/Holland, as representative of the producers. With time and the restructuring of the Fair Trade system at the international level, the representation of the producers has been greatly reduced. Currently there are two representatives from registered organizations on the FLO Council.

In general the Fair Trade system has not been very democratic, and for part of the history of this movement the producers did not participate in the important decision making processes. In the IFAT (International Federation of Alternative Trade, representing the ATOs), the producers are able to participate more effectively; UCIRI is not a member of IFAT. In practical and economic terms it is not easy to participate in all of the organizations that administer the Fair Trade networks. We are urging the ATOs and FLO to work together more to simplify the situation. But it is not easy to make changes. Overcoming individual interests to form a common front is an ever ongoing task, with the goal of improving the market. Sometimes the ATOs and FLO are present in the same market, making competition ineffective.

In general terms, the formal leadership role of the organization in the Fair Trade networks is minimal and marginal. At the informal level, relationships of information exchange and critical discussion are maintained throughout the Fair Trade system.

At the national level, the producer organizations play a much more active role in the Fair Trade system in both formal ways (active and democratic representation) and informal ways through meetings, consensus building and information sharing. The creation of AGROMERCADOS has permitted the broad democratic participation of the organization in the Fair Trade system.

3) Organization of the cooperative with respect to participation in Fair Trade.

3a) What is the leadership pattern (formal and informal) of the organization? Are the patterns voluntary or is there competition?

The decisions related to Fair Trade and the distribution of pre-financing and available credit.

1. At the organizational level decisions related to Fair Trade are made by the board of directors and the delegates through the work of a marketing team. Pre-financing and credit are distributed through advances that are determined based on the quantity of coffee that is to be delivered to the cooperative. When the parchment coffee is delivered to the cooperative the producers receive an upfront payment of 60-70% of the current market value.
2. Because the credit offered by the coffee buyers is currently more expensive than that offered by local banks, UCIRI has decided to seek credit with low interest rates each year from these banks and from national government organizations like SEDESOL and FONAES.

3b) How are decisions made and who makes them? How is the distribution of credit determined?

Information about Fair Trade.

Each month the General Delegates Assembly of UCIRI meets for two days to discuss important topics that affect the cooperative. This assembly is made up of two delegates from each community. Often in this assembly there is an opportunity to discuss the recent accomplishments and concerns of the Fair Trade market, at both the national and international level. This information is put into the report that all the delegates receive at the end of the Assembly, and each delegate is responsible for sharing this report with all the cooperative members in his or her community at a local assembly meeting held after the General Assembly.

The board of directors has more responsibility with regard to Fair Trade, and is kept more up to date by the marketing team. Members of the board also participate in the state and national meetings that deal with the Fair Trade system.

3c) How is information about Fair Trade disseminated among the different levels of the organization: board, members, etc.?

Each month there is a Delegates Assembly, made up of at least two representatives elected from each community, which meets for two days. One day is for study and the other for the General Assembly, in which information about the accomplishments and problems in marketing and about the different projects of the cooperative is shared. With respect to commercialization the current prices, dynamics of the market and awareness-raising in consumers are discussed. Current strategies to place more products in the market niches of Fair Trade and other similar markets, such as Fair Trade Mexico and Agromercados, are also discussed. The community meetings that follow the General Assembly are held so that the community delegates can pass on the information they received in the assembly through the informational bulletins and the community technicians who are also present at the meetings.

The technicians who work for the organization, both those trained at the Farmer Education Center as well as others, receive special training courses about Fair Trade, so that when they are working in the communities they can reinforce the understanding among the membership about Fair Trade.

The board of directors and the cooperative's advisors discuss the Fair Trade market in their regular meetings as well, revising the strategy to be used to consolidate this market. Former board members and other leaders are often present at these meetings.

3d) How is the Fair Trade price determined? What price premium does the cooperative receive? How is the Fair Trade premium distributed among the cooperative members?

The Fair Trade Price

The basic minimum price for coffee sold in the Fair Trade market is 121 dollars per 100 pounds arabica coffee. An additional five dollar social premium is added for all coffee, and certified organic coffee receives an additional 15 dollar premium. The 121 dollars goes to the producers (minus operating costs), the 5 dollar premium goes to social projects (the nature of the projects is decided by the delegates, and usually is used locally for housing improvement projects like improved latrines and stoves), and the organic premium is divided between the organic producers and the organic production programs of the cooperative, which include the CEC (Farmer Education Center) and technical assistance programs.

See Appendix 1: "An economic principle: the calculation of costs."

3e) Have there been changes in the distribution of the price premium? What have they been and why?

In the past ten years there have been no changes in the distribution of premiums. Each year in January the Programming and Budget Assembly is held, and here it is decided what type of projects can be supported with the price premiums. The amount of the premium is never enough to cover the proposed projects, and for this reason resources are also obtained from government programs (FONAES, SEDESOL, INDESOL) for some projects, including garden, store and construction projects.

3f) Opportunities and Requirements for New Members

Between the first of April and the end of May new members may join the cooperative. This time frame is stipulated because the new members must meet organic certification requirements before the beginning of the harvest. The members in each community explain the conditions and assist with the paperwork for the new members, and let the technical team know that they are expanding. There are ten requirements, including both rights and obligations:

Basic Rules of UCIRI

“Our organization is open to all farmers that want to work to improve their quality of life and that are dedicated to making the principles and criteria of the cooperative their own.”

Membership Requirements for UCIRI

1. Must be active members
2. Must attend the monthly meetings and the training courses in the town of Lachiviza or at the CEC.
3. Must refrain from alcoholic beverages at the assembly meetings and when in Lachiviza or Ixtepec on cooperative business.
4. Must be completely honest.
5. Can not be *coyotes*, or buy and sell other farmers' coffee.
6. Can not bring coffee to the cooperative from any farm but their own, not even from the farm of a brother, uncle or friend.
7. Do not belong to other organizations where they have commitments.
8. Must be an “authentic peasant”, *auténtico campesino*.
9. Must not be opportunistic, must stick with the cooperative through the good and the bad.
10. A member that has been expelled from the cooperative for misconduct may not be readmitted.
11. May not grow marijuana or other drugs, or be involved in drug trafficking in any way.
12. Can not own a bar or tavern.
13. May not use chemical fertilizers or pesticides.
14. Must commit from the beginning of the harvest to be preparing their own organic fertilizer.
15. Must promise to put into practice any recommendations made by the technicians.
16. Must be prepared to serve others in the areas where they are assigned.

17. Must accept the objectives of UCIRI, which is not solely concerned with coffee, but with the fight for life, including health, housing, organic production, schools, families and communities.

All new members must sign an agreement with the cooperative and make a request for technical assistance and an initial visit to enter the organic production program. In accordance with the General Assembly, all new members must pay 2,800 *pesos* for the establishment of an account which forms the basis for the new members' access to credit and other types of assistance. The new members have five years to fill this requirement.

When an entire community wants to join the cooperative at the same time, the board visits the community and talks with the perspective members to evaluate why they want to join UCIRI. The board members also explain the rules of the cooperative. In the General Assembly all new membership petitions are considered, and a list of approved individual and community memberships is decided upon.

4) Certification and Quality Systems

4a) What has the organization done to acquire and maintain its Fair Trade certification? What changes have been made to fulfill the Fair Trade requirements? What problems has it had with the certification?

We have not had any problems with the certification process as carried out by the FLO inspectors. We appreciate the opportunity the visits give us to explain where we are and what difficulties we are having. There have not been many great changes required of us to remain in the FLO market. We do have some problems with the certification system of FLO: there are not clear and punctual criteria that are sufficiently simple to inspect. The producer organizations also have had no voice in the formulation of the certification process, although they are the ones that have to deal with the criteria that are decided. For this reason UCIRI has developed its own set of standards for admission, organic production, and quality control. Because the standards of FLO lack transparency and credibility, the inspection often depends much on the inspector and how he or she goes about the inspection. We have never received any feedback from the inspection that would allow us make improvements or changes to facilitate the inspection process. Our experiences with the inspection process for organic certification have taught us much about how inspections can be more objective and transparent. We know that FLO and IFAT are working to improve their systems. The fact that in Mexico CERTIMEX (the organization for control and certification of organic production) includes Fair Trade standards in its inspections show that only a single inspection is needed for both certifications. But this is only an advantage for organizations that are in both markets, Fair Trade and organic.

4b) What is the relationship between Fair Trade and the other alternative markets (organic, direct sales, shade-grown, EcoOK, bird-friendly, etc.) in which the cooperative participates? In which market did the cooperative participate first? Are the certification requirements complementary?

The relationship between Fair Trade and other markets

From the beginning UCIRI has emphasized the importance of organic production and of the quality of the product, always working to improve quality over time. Our experiences in the Alternative market helped us to enter into the Fair Trade market (Max Havelaar, FLO). We are currently working to establish direct sales to the industry, in this case with the supermarket chain Carrefour. Although we do produce shade coffee, we have not entered into this specialty market which is most prominent in the United States. The certification processes for organic and Fair Trade are parallel and could easily be consolidated into one inspection. IFOAM and FLO could merge their certification standards so that inspections could be done that would complement the requirement of both systems. This unification of systems is only possible for organic producers, but it would be beneficial because the majority of Fair Trade certified coffee is also organic.

4c) What is the relationship between Fair Trade certification and the quality of the coffee? Has participation in Fair Trade facilitated improvements in quality (through funds established with the price premiums, access to market information, technical assistance, etc.)?

The relationship between Fair Trade certification and quality

Until very recently the inspection and certification for the Fair Trade market did not take into account quality considerations. But now the market is demanding quality and organizations like UCIRI have instituted technical assistance programs that improve quality from harvest through the processing of the bean. It is for this reason that UCIRI began a sustainable coffee program six years ago. Through the renewal of coffee plantations, the increased diversity of shade trees and technology advances (providing tools, solar driers, and electronic graders for the producers) the improvement of quality has been facilitated.

To give the producers an incentive to improve quality, a system has been established that grades the coffee by quality and pays higher prices for higher quality. There is a difference of 50 cents per kilogram between grades.

See Appendix for Coffee Reception and Quality Control Scheme.

5) Views of the producers about Fair Trade.

5a) What level of understanding do the producers have about what Fair Trade is?

“For us it means we can sell our coffee at a good price. It allows us to have a good income, which permits us to survive where we choose to live [the rural villages].”
“It is where we export our products, like coffee, and they pay us a more considerate price than the others do.”

“It is a close relationship between the producer and the consumer, where the producer offers a quality product and the consumer pays a just price to improve the living conditions of the small producers.”

“It is a market where the interaction is beneficial for both sides. For the producer the sale of coffee is able to pay for the labor put into it, and the consumer is able to buy a high quality coffee that has been well cared for [in its production].”

“It is the promotion of products from small farmers, that whether in regional, national or international markets, offer more just commercial conditions that allow the producer to receive a dignified income and the consumer a quality product.”

“Fair Trade is where we as producers sell our product and they market it as coffee produced by small farmers.”

5b) Do the producers see any difference between the Fair Trade market and the markets for conventional, organic, shade-grown and direct sale coffee?

1. What differences do you see between the Fair Trade and conventional markets?

“In Fair Trade family incomes are improved while at the same time a quality product is offered to consumers.”

“With Fair Trade there is a more just payment for the products, and in the conventional market products grown using chemicals are sold by the large capitalists and plantation owners.”

“In conventional production agrochemicals are used, and in Fair Trade only organic production is used.”

“The differences are in the quality of the product – in Fair Trade a higher quality product is offered and in conventional production the quality of the product is not guaranteed.”

“In Fair Trade there are higher quality products, and in the conventional market the produce is contaminated and at the same time sold at lower prices.”

“In the conventional market it is the intermediaries and industrialists that make higher profits. In Fair Trade, a balance between those who produce and those who consume is established; the marketing is more direct and there are no intermediaries.”

2. What differences do you see between Fair Trade and the organic market?

“There is no difference, because the products sold in the Fair Trade market also have to be organic, they both mean a higher price for the product.”

“There is a price difference because a Fair Trade product gets a price of 121 dollars for 100 pounds of coffee, while if it is organic coffee a premium of 15 dollars is offered for working in harmony with nature.”

“The difference is that to produce organically means more work, which is rewarded with a price premium.”

3. What differences do you see between Fair Trade and the shade-grown coffee market?

Some producers did not answer this question because they do not know about shade-grown coffee.

“In the shade-grown market there is a relationship with us as producers, that we conserve and increase the diversity of shade species.”

“Fair Trade offers stable prices and shade-grown coffee also offers incentives to the small producers who maintain diversity in their coffee shade trees, so that the coffee fields can serve as habitat for migratory birds.”

4. What differences do you see between Fair Trade and the direct sale of coffee?

“In the Fair Trade market all purchases and sales are made directly to the consumers; there are no intermediaries, there is a direct producer-consumer interaction. In this way a better price is obtained for the product.”

“The network of direct sales functions through intermediaries that buy our coffee, and they sell it to others and these to others until it arrives to the consumer and the prices are lower.”

“In Fair Trade the incomes we receive are favorable, while for direct sales the price is lower and the sale is through intermediaries.”

Benefits for the producers, their families, organizations and communities

The principal benefits are:

- More direct access to the coffee market.
- Creation of individual commercialization channels (Max Havelaar, FairTrade, Carrefour, Fair Trade Mexico, etc.)
- Improved quality, organic production, and collaboration in the creation of CERTIMEX, the Mexican certifying agency.
- Higher and more stable incomes than are achieved through traditional markets.
- Access to credit through banks and credit funds, and the ability to negotiate with local, regional and national authorities.
- The development of alternative service projects (in health, housing, transportation, etc.)
- Infrastructure improvements including local and central warehouses, processing plants (in Lachiviza and Ixtepec), as well as the production of fruit preserves and textile factories.
- Improved transportation through a public bus service.
- Distribution of basic household necessities (TCO).
- The organization is able to negotiate more effectively and forcefully with other organizations.
- The creation of organized projects for women and youth.
- The creation of a training and education center (CEC).
- The creation of organizational networks and the participation in regional, national and international forums.
- The training of cooperative members benefits the communities as well as the organization: various members have served as president of their municipality.

- The campaign against local *coyotes* has been successful and all members are able to commercialize their coffee without using intermediaries.
- The recuperation of pride in being indigenous, not in a romantic way but as long-time and permanent inhabitants of their land and country.
- The creation of technical teams that assist the coop members in production, organization and administration.

Social and economic benefit for producer families

In spite of the increased incomes achieved through the sale of Fair Trade coffee, it can not be said that these incomes are adequate to secure the survival of the families of producers. Access to education in the zone of influence of the cooperative is very poor and inadequate. The standard of living has improved, and there are not indications of extreme misery among the member families, although poverty still persists.

In the past two years the income received from coffee has decreased considerably. The income received from Fair Trade sales is not sufficient, and in part the premiums become a subsidy for the coffee that is sold in the traditional market.

To invest in activities not directly related to coffee production, the cooperative has to look for funds from federal government programs, which offer credit with very low or no interest rates.

The services provided throughout the 20 year history of UCIRI are extensive:

- Public transportation service.
- The CEC school.
- TCO, or community work groups.
- Community basic foodstuffs and necessities stores.
- House improvements for many members (improved latrines and stoves, adequate roofs, cement floors, etc.).
- Medical and dental clinics.
- Creation of employment (in the clothing and preserves factories).
- Cleaner and improved natural environment.

UCIRI has organic production as part of its official policy. In 1985 the delegates decided to change from traditional to organic agriculture. Beginning in 1986 the majority of members were inspected and certified as organic. UCIRI is actively participating in national and international organizations that promote organic agriculture, and the cooperative is a co-founder of the Mexican Sustainable Coffee Council.

The Fair Trade Network: Problems and Solutions

We have encountered various problems with the Fair Trade system, although they are for the most part minor. Some examples:

- Late payments from clients both in the Alternative market and in FLO.
- Lack of communication with the representatives of the Fair Trade market (FLO).

- Decisions made without input from the producer organizations.
- For some time there was no democratic participation in the system, which has only recently been partially resolved. There is a pyramidal decision-making structure, where the top often does not communicate with the base.
- The Fair Trade market lacks flexibility because a true alternative market has not been promoted or consolidated. There is a danger that the Fair Trade seal will just become another brand in the market.
- Etc.

Solutions

- Through pressure we have been able to get our clients in the Fair Trade market to finally pay their debts (after five months!). Now the relationships have improved considerably because more direct communication with the importers has been created.
- Communication with FLO has improved substantially.
- The producers take part in discussions about policy in the Fair Trade market more often.
- The problems have not greatly affected the organization, but rather the producers through loss of confidence in the organization.

The Weaknesses of the Fair Trade System

Growth in the Fair Trade market is slow, and in some large countries it is still insignificant or has stagnated and is not growing at all. This is the largest weakness and it creates tension within the organizations that are starting to compete with one another. For this reason we are attempting to create a single marketing structure for the Mexican organizations to use to commercialize their Fair Trade coffee.

Through its active participation in the founding, growth and regulation of the Fair Trade market, UCIRI has gained enough valuable experience to permit it to negotiate in the traditional coffee industry. This has resulted in sales contracts in the conventional market for organic coffee under conditions very similar to the Fair Trade market.

Appendix 1: Excerpt from *Fair Trade: An Adventure in the Fair Trade Market* by Niko Roozen and Frans VanderHoff Boersma, 2002.

Market Prices: the truth about costs?

In a first attempt to determine the position in which the Fair Trade movement finds itself right now, we must confirm that the Fair Trade model has had success in the market. For some time now the Fair Trade market has been competing in the international markets for products like coffee, bananas and clothing, contributing to its particular form of globalization. Fair Trade operates in the market. To expand the definition: market actors and market mechanisms intervene in the Fair Trade system. The market actors are the businesses that are dedicated to producing and commercializing their products; for example, coffee cooperatives, banana plantations and textile factories. There is an interaction between these actors and buyers, the transportation industry, wholesalers and supermarkets. All are actors that operate in a market model dominated by private companies. And based on this it is clear that the Fair Trade movement must adapt itself to the rules of the market. Another important element is how prices are determined – through market mechanisms – a process in which factors such as efficiency, competitiveness and quality play a role.

The fact that the movement has decided on this path means that it expects positive outcomes from the functioning of the market. At the same time it is attempting to cause fundamental changes in the regular market, so that its effect in society is different. We will study in more detail the way the market works to show how Fair Trade is working towards a different social outcome.

Part of the “free” market theory is that the result of free competition is the lowest possible prices. The producer whose cost of production is the lowest will triumph in the market by offering her product or service at the most economic price. One of the factors that stimulate this search for the lowest price is competition, which allows for the introduction of efficiencies and improved technologies. If a producer is not able to keep up with these constant changes, he will inevitably be left behind by the market. This is unfortunate but inevitable. In the end it is society as a whole that benefits most from the growth created by competitive markets. If the dynamic of price formation is eliminated from a market that has free competition, the motor of economic progress will be stopped, and, in the long term, the basis for social development will also be eliminated.

One of the problems inherent in this theory is that it assumes that competition can only take place with regard to productivity, technological innovation, and marketing strategies. However, social reality does not coincide with this idea of the market.

An important element in production by private businesses is cost transfers, or the practice of externalizing costs onto an outside party. Here we are dealing with the social costs of production, which are usually considered external costs. The business with the lowest cost of production is the business that has most effectively been able to externalize its production costs. In the regular economy this process of the transfer of costs refers to two categories of costs: social costs and ecological production costs. Social costs refer to the real costs of production or the social costs of work. The price of a humane wage, or to speak more generally, the costs of providing dignified labor conditions. This category

of costs is not expressed in the price, given that in many parts of the Third World the labor factor can not be organized freely in unions that would allow it to reclaim humane working conditions. In this way cost increases that would result from a collective labor agreement are avoided. The governments are, in general, too weak to establish the pertinent regulations or are forced to remain passive, through national or international interests, if they want to prevent production from being displaced to countries where wages are even lower still. This type of regulation, including laws about child labor, the length of the work week, social investment, and workplace safety and health, are practically nonexistent.

These real or social costs are not taken into account at the moment when prices are determined. Instead they are transferred to the workers and manifest themselves in child labor, unhealthy and dangerous workplaces, inhumane work days, low wages and the prohibition of labor organization. The social costs also cause under-development, weakening public health, education and economic resiliency – all factors that in their own way hinder the economic development of society as a whole. The transfer of the real costs of labor also works to make production unsustainable because the costs of the reproduction of labor are not compensated. On the other hand, when a business takes its social responsibility seriously, these external costs are internalized. In the end these costs form part of the real cost of a product.

A number of questions can be raised about these issues, for example: What if underpaid workers did not form part of the ideology of the free market? What if a worker is not free to offer her labor services? Although these lines of reasoning sound very “neo-liberal”, they are not economic reasons. This type of freedom only makes it easier for the business owners to abuse their power. As far as the workers go, their freedom to choose would be authentic if the conditions to offer their labor in equal and fair terms existed, including the right to struggle for a just wage. There can only be a price that reflects the integral costs of production if the real labor costs – including costs of reproduction and development – are included in the price of the final production cost. If the market does not realize this general condition, a social deficiency will be generated.

A similar process of the transfer of costs takes place with respect to the environmental aspects of production. The costs related to the conservation of the environment are not considered when prices are determined. The soil, water and air are contaminated without the costs of prevention and reclamation being included in the final price. These costs are charged to future generations, that will have to deal with an environment that has lost biodiversity due to contamination and exhaustive cultivation, and this damaged environment will make it more difficult for the people of the future to provide the necessities of life for themselves. In environmental economics this process is called “scarcity without price”. Scarcity with respect to the environment has remained without price due to the absence of efficient environmental regulations. Market prices should reflect all of the various responsibilities that come with production. However, the market presently does not consider environmental costs, and this results in a deficiency with respect to the environment.

Both types of deficiencies can only be corrected by going through a process of incorporation of costs. The price should reflect the real costs of production. The social

and environmental costs of production should be expressed in the price of the cost of production. This is only possible by situating the market within a social, institutional and legal context. The scarcity of justice – the social deficiency – and the scarcity of environmental values – the environmental deficiency – should have a price. This only will be possible if the market operates within a range of efforts where the social organizations can contribute to the market process so that a desirable result from a social perspective can be achieved. In this way social organization will have become an important economic factor. A market cannot develop if it lacks the legal framework in which property rights are protected, in which the rights and responsibilities of businesses are assigned and where a legal apparatus is in place for the resolution of conflicts. Also competition should be situated in a framework of protection, where the pertinent regulatory norms are observed.

Ecological organizations, unions, consumer rights and human rights organizations also represent social forces essential for the proper functioning of the market economy. At the same time governments will have to take on a new function, still not specified, that will consist of regulating a sustainable economic development.

The ideas formulated above about the failure of the market with respect to the integration of costs can be illustrated through an example from the banana industry.

A multinational company like Chiquita produces bananas in Central America for the cost of \$5.50 per box. According to the company, the F.O.B. price of \$5.50 per 18.14 kilogram box is the market price for bananas. For this price a quality product, produced in the most efficient manner possible and therefore with the most economical price, can be purchased. However, Chiquita can not produce bananas at this price solely based on factors of the free market, such as good management with an emphasis on efficiency and high productivity: it would be impossible for Chiquita to produce bananas at this price if it were not involved in politics. Politics in this context means that the company organizes the conditions in which it functions in a determined manner. Chiquita has a long history of oppression of its workers, having systematically denied them the right to unionize. When the workers were finally able to unionize, after a long struggle with many obstacles, the company simply moved its operations to other locations where it could continue producing cheaply. In addition, the company has developed a production method that completely ignores any environmental aspects. Intensive cultivation that results in very high yields per hectare is practiced. The plant diseases that are typical of the humid tropics are controlled with chemicals, a necessity if a “clean” product is to be produced. For a long time Chiquita has been able to ignore the ecological consequences of these practices.

The market price that Chiquita has achieved expresses the power relations that exist within the company. Thanks to the development of a political concept known as the “banana republic” – a public administration that is weak and easy to manipulate, unified in the repression of all social opposition – Chiquita has been able to continue producing without considering the social costs. The effect of this policy can be calculated in the price of production. As a minimum it comes to \$1.75 per box of bananas. The integral price of bananas coming from Central America is \$7.25 per box. “Integral” means the cost of efficient production – apparently \$5.50 per box – while also including the price of sustainable production, \$1.75 per box. In the price of \$7.25 per box the environmental

and social costs of production are included; it is the market price in a sustainable economy. The so-called market price of Chiquita is the political price of bananas that expresses the degree of social repression that is present. In Ecuador bananas are produced for as low as \$4.50 per box, because the level of injustice and the exploitation of labor are greater in the Andean nations than in Costa Rica. The daily wage of an Ecuadorian banana worker is \$4, while her Costa Rican equivalent earns \$10 per day.

Max Havelaar sells bananas for \$7.25 per box, a sustainable and integral price. When all is said and done, the price should tell the truth about the costs of production.

Appendix 2: An economic principle: the integral calculation of costs.

We have been little by little defining the concept of Fair Trade. There are three components that need to be developed further.

Fair Trade means efficient production and marketing from an economic point of view: before all else is the efficient production of a high quality product. With respect to the relation between price and quality, Fair Trade should conform itself to the market.

Behind these words lies a reality that is more difficult, given that the market is unbending and rigid. It is unyielding when confronted with a product that does not meet the quality demanded by the market or that is produced at a cost that is too high. As in the case of Fair Trade, what makes a client choose a particular product to purchase is a flavorful cup of coffee, a well ripened banana or pants that fit perfectly. A high quality product is one of the basic conditions to be able to compete in the market. Closely related to the issue of quality is the price that must be paid to receive a certain quality. The relation between the price and the quality is a determining factor. The price should be competitive with respect to other brands. This means that the producer constantly feels the pressure of the market. In the permanent process of productivity growth, technological innovation and restructuring, the market always pushes towards the lowest price. The producer must constantly be analyzing her production process, looking for ways to produce a better product at a lower price; and this is more important still if the international market demands it.

The Fair Trade movement seeks more favorable commercial conditions for the producers, and part of this is the attempt to provide improved access to financial assistance for the investment in the development of a higher quality product. Making new technologies available, along with the facilitation of the exchange of experiences between producers, are important functions that the network of Fair Trade initiatives has been constructing. International development organizations can be very useful in this respect, especially when they work towards strengthening the position of small or marginalized producers. In this case, financial and technical assistance are aimed at eliminating the deficiencies in productivity and efficiency of these small producers whose production is suffering.

The requirement for a more efficient production is also valid with respect to the marketing of products in the consumer market. The Fair Trade movement will have to offer a marketing structure that permits transaction costs to be minimized. Inefficiency in this area will result in increased costs and finally in the loss of market share.

Fair Trade is sustainable production from a social point of view: this second component in the definition of Fair Trade refers to the integration of the real costs of production. In this regard Fair Trade introduces an important correction in the market reality.

The costs of a socially responsible production are included in the price of the product in the Fair Trade market. Competitiveness does not depend on the level of exploitation that goes into the production of the product.

The market is situated in a context that allows the price of labor to be determined. This means in the first place that the right of the workers to organize themselves is recognized. The fact that the struggle for the right to organize still provokes much resistance in many parts of the world emphasizes the importance of this right. The real work conditions should be determined through negotiations with unions, even in situations of conflict if need be. The cost of a collective labor agreement forms part of the true costs of the product.

Fair Trade is sustainable production from an ecological point of view: this third component refers to the incorporation of environmental expenses of production. Here also Fair Trade introduces a fundamental correction to the current practices of the market economy.

The costs of a production that respects the environment are expressed in the final cost of the product. Competitiveness is not achieved at the expense of the environment.

There are five elements relevant to the agronomic aspect of Fair Trade production: the costs of biodiversity conservation; the prevention of erosion and water contamination; the control, reduction and eventual prevention of the use of pesticides and chemical fertilizer; and finally, the reduction, recycling or conversion of organic wastes to compost. Although some of these elements are also applicable to the industrial sector, it is important to interpret them based on the particularities of each case.

In summation: Fair Trade is a commercial practice based on economic efficiency, and social and ecological sustainability. The integrated price is the tool that is required for the realization of these standards. Based on this analysis, Fair Trade is consistent with the relevant economic laws.

It is also important to explain what Fair Trade is **not**. A list of common misunderstandings follows:

Fair Trade is not *development aid*, not even in its best possible form.

Fair Trade does not *disturb* the market by offering artificial commercial conditions.

Fair Trade does not replace the businessman with the *preacher*.

Fair Trade is not a *capitulation* to the ideology of the market.

Fair Trade does not maintain an inefficient production in the market by offering a *protected market*.

Fair Trade is not limited to *disadvantaged producers* whose marginalized position justifies *price protections*.

From a conceptual point of view, Fair Trade does not represent a *niche market*.

Fair Trade anticipates a sustainable economy. Not only an efficient economy, but also one that is sustainable from a social and ecological point of view. The social and ecological aspects of production are defined and focused in their economic dimension. Precautionary measures have become fundamental for the survival of humanity, the environment, and with them both the economy as well. The economic costs of the impoverishment and marginalization of the majority of the world's population are always increasing. The conversion to a sustainable economy is urgent, and our concern should extend to the whole global economy. There can be no more delays in the integration of social and economic costs. There are only two options: a sustainable economy or no economy.

Fair Trade makes use of consumer choice to implement the integration of the social and ecological components into world economic policy. Consumers now can choose products whose prices represent the real cost of their production. In this way a partial market is formed whose structure is more advanced than the conventional market. The Fair Trade movement should deliberately seek confrontation with the dominant market. Our objective of sustainable production is not limited to a small part of the world. We want to see Douwe Egberts, Chiquita, Levi's and Nike moving towards sustainable production as well.

Appendix 3: A Sustainable Market

If Fair Trade is conceived as a model that is going to provide the basis for the complete restructuring of the market as a whole, it must be asked if a model based on consumer power has enough potential to accomplish such a radical change. Could it be that the power of the consumer is being overestimated?

In the final analysis, the volume and economic impact of the Fair Trade market depends on the number of consumers who consciously choose to buy "clean" products. Up to this moment, this segment of the market has been quite modest, too modest to have much influence outside of its own area. With market shares ranging from 3 percent in Holland to 8 percent in Switzerland, Max Havelaar is too limited to pressure the large coffee corporations to implement Fair Trade elements in their businesses, even if it were only to prevent the future expansion of "just" coffee. Fair Trade bananas, on the other hand, have a greater chance of success. The market share that Fair Trade enjoys in this product is much greater; and it seems to be increasing as well. There is no doubt that the results would be even better if it were not for the restrictions caused by European regulation in this product. Switzerland is a promising example, with a 15 percent market share for Fair Trade and ecological bananas. It is possible that, in a reasonably short time, the market for Fair Trade bananas in Switzerland could reach a 30 percent share of the total market. If this happens it is inevitable that much attention will be given to Fair Trade by the conventional market. Neither Chiquita nor Dole will be able to continue ignoring this new competitor in the market. Dole is investing in the "biological" production of bananas and at the same time investigating the possibility of a social certification for its bananas based on the SAI program. Chiquita has developed a program to improve its bananas, introducing a series of social and ecological production improvements. As a consequence of this process, Chiquita has for the first time accepted

an increase in costs. The modest character of this increase – only \$0.10 – demonstrates the limited character of the changes made. However, the important issue is that this small change represents a radical change in the corporation's policy. As far as the introduction of the new brand Kuyichi, it is not known how much it will be able to influence change in the current status quo. Like the rest of all these changes, the influence of this change will depend largely on how much of the market the new brand can conquer.

Although the complete potential of the Fair Trade movement has not been realized yet, it is evident that the support of the conscientious consumer will not be enough to achieve a sustainable economy.

Fortunately we do not depend solely on this model. There are other sectors of civil society which will be able to play an important role as well. The labor unions form a central force in the struggle for more humane working conditions. The groups that can make human rights a priority are the NGOs; they must exert pressure on governments so that human rights are included in the legislation, judicial system and codes of conduct that govern labor conditions. Environmental NGOs also can exert pressure on governments, industry and commerce so that more responsible environmental policies can be put in place. In this context, Fair Trade is only one of a wide range of tools that can make social and environmental sustainability an important issue. Thanks to the contributions of all these organizations, an important theme of conversation in today's world is how to conduct business with a sense of social responsibility. It is clear that social organizations should intensify their labor so that social issues come to be one of the fundamental considerations in economics.

The following pyramid is from a recent document used for internal training by one of the most important supermarket chains in Holland:



According to this document there is no doubt that the producer-consumer chain represented with this pyramid will be realized. As far as the different development

phases shown in the figure, it is confirmed that the integration of social and environmental aspects into the market has begun.

Appendix 4: The Fair Trade Market and New Markets

After ten years of the Max Havelaar/Transfair market, new markets, some incipient and others more advanced, are emerging under conditions that are the same or similar to FLO. In general, they are not using certification seals or relying directly on the FLO system. This is a new development, but is related to the history of the current FLO participants (producers, distributors and industry).

Before moving on we must recount in part the history of the FLO market. When the representatives of UCIRI traveled to Holland in 1987 with the goal of proposing an alternative market (SOS, GEPA, EZA, etc.) with more direct connection to the consumers, there were three possibilities:

- A company owned by the producers that would import, process and distribute coffee in the European market. This project would have required considerable funds to achieve a significant position in the market, and we didn't have a cent!
- An open discussion with the coffee industry to invite them to buy a minimum of 12% of their coffee directly from small producers under conditions that would incorporate in the price not only the costs of production but also the social costs and, in the case of organic production, the environmental costs. There were long, intense and heated discussions that did not go anywhere at the time.
- The third option, parallel to the first two, was the development of a model that used a seal of guarantee; this resulted in the formation of Max Havelaar in Holland and later in other countries under different names. Max Havelaar was going to control the nature of the product through a guarantee seal, prices, quantities and above all else its origin from small organized producers. This system is functioning now with varying degrees of success in 17 countries, coordinated by FLO.

Recent developments in the coffee industry demonstrate that option number two above is resurfacing under slightly different conditions. Large corporations are attempting to buy coffee, mostly organic, with more or less the same conditions as FLO. This is not just a discussion among the members of the FAO: at this point the IFOAM is leading a serious effort to create criteria for the organic market that would incorporate social and environmental costs into the final cost of the organic product. It was a long process, and now new labor and commercial codes are being implemented. The corporations are making their own rules.

These new efforts are challenges that we cannot ignore or attack as deceptive inventions by the large corporations. It is of the utmost importance that small producer organizations keep up to date on these developments and that they begin open and healthy dialogues about these new market trends. These trends cannot be understood

independently of the work of all the participating organizations of FLO. The fruits of the Fair Trade movement are broader than the defense of the seal, although it continues being very important for the moment.

In fact a market is emerging where important elements of production and marketing are coming together in a sustainable system:

- Organic production, certified with an “organic” seal or the equivalent.
- Quality production, that is determined by the market and which the producers take very seriously to maintain or improve their position in the market.
- Shade-grown coffee and the production of coffee that is friendly to birds and other animals that share their habitat with the production of coffee.

In Fair Trade there exists the integration of production costs. Costs already mentioned, such as the social costs for the producer, the costs of improving the environment and the investments necessary for the improvement of quality and homogeneity of the coffee. The FLO system is an important segment and a point of reference (under Fair Trade conditions, with or without the certification of the system) in this chain, but a part of the industry is also interested in this system. The motivation behind this interest is not the same for all: some see it as a way to improve their image and others see it as good in and of itself.

At this time producers are faced with a long period of prices significantly below the cost of production. There is a great risk that the prices that Fair Trade offers will become a subsidy for low prices. If 25% of production is sold in the Fair Trade market and the remainder in the conventional market, the final price for 100 pounds of coffee is 67.60 dollars. With 50% of production sold in Fair Trade, the price would be 94.30 dollars per 100 pounds. But the Fair Trade market has not developed in such a way as to allow the producer organizations to sell 50% of their production in the market.

For this reason it is essential that the organizations look for new markets. One of these markets is the sustainable market, as mentioned above. The pricing conditions that the organizations are proposing and defending are the same as those in the Fair Trade system, but the labeling and marketing refers to “sustainable coffee” instead of Fair Trade coffee.

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UCIRI, Mexico, March 2002/July 2002

Appendix 5: Five conditions for sustainable production in general and for the production of coffee in particular.

All forms of economy should be required to maintain, in an ecologically sustainable manner, an acceptable standard of living for all of this earth’s inhabitants. This includes the promise of reasonable employment, security with regard to the material standards of living for all families, community viability, and environmental conservation. Economic

policies can be designed that meet these goals based on the principles of sustainability, democracy, equality and efficiency.

1. Environmental Conservation. The environment is continuously being more and more degraded. We are playing the violin while Rome is in flames. If the current conditions continue, we may find ourselves in a position where it is too late to save the earth from ecological deterioration. It does not work now nor is it going to work in the future to continue trusting in current market mechanisms, as the majority of economists prefer. If we continue contaminating and exploiting the planet today, our children and grandchildren, who have no voice in today's decisions, will have to deal with the consequences. Nor can we presume that the needed environmental regulations will be without cost. We cannot maintain the separation of the economy and the environment in our thinking. Neither life nor liberty nor happiness is possible in a sick and agonized world.

2. The democratic control of the economy. Money is the principle that dictates economic decisions. This is true for the corporations that relocate their factories in an instant while forgetting about the communities where they are operating. It is true that with its purchases and financing charges the financial sector rapidly destroys productive companies while the corrupt people who are responsible escape without punishment. And it is now common for the rich and powerful to purchase politicians so that they promote an economic policy in their favor. "Money talks" is no longer a scandalous principle for the simple reason that it is effective. The influence of the labor unions has almost completely been eliminated. In spite of all these concessions, economic performance continues to worsen. If the economy is to serve the people it must be controlled by the people.

3. Egalitarianism. The economy in general, at least in our country, is based on a structure of hierarchy and inequality. In the labor market the arbitrariness of rapidly changing models of employment has created new sources of inequality and insecurity through the reduction of salaries or work hours. The global distribution of wealth and resources greatly favors the industrialized North, which has a much higher standard of living than the South. These poor countries have been net exporters of capital for more than a decade, causing incalculable misery and degradation among the poor. This cannot be called a sustainable economy.

In the end we all lose from these inequalities. We believe that a truly sustainable economic policy should have as its highest priority the elimination of inequalities.

4. Efficiency. Another element of the sustainable economy is efficiency. The Keynesian theory of the large government that redistributes the benefits of growth is no longer credible. We need to abandon the old equivalency given to efficiency and equality for a new vision of economic activity. We should begin to restore the natural environment instead of plundering and destroying it. We need to promote a new commercial paradigm that is based on responsible, flexible and current participation in the economic and social spheres. We have to identify and articulate new forms of efficiency that will truly make

work a democratic and economic act. We need a more democratic control of government expenditures and a re-regulation of the financial sector. We need to resolve our current social problems in a cost-effective way.

5. Freedom. In these new times and circumstances there exists an urgent demand for the reconsideration of the freedoms that have been granted to the market, including the social and cultural implications these freedoms have for agrarian policies. The dominant neo-liberal model of the market speaks religiously of the concept and ideal of freedom. Liberalism is a catchphrase that takes in all measures that are supposedly favorable for the free market. The problem is that the rules of the market have been changed but the freedom of the market has not been increased. A truly free market is necessary for the creation of a sustainable coffee and agricultural economy. Freedom can only exist in a sustainable form when there is complete respect for the freedom of others. The current resistance to neo-liberalism is not only an internal criticism that asks the question “for whom is there sufficient freedom and for whom is there not?” Mutuality is essential, but it carries a price, not just a political one but one that is also economic, cultural and social.

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UCIRI 2002

Coffee Collection and Quality Control Diagram

