

Poverty Alleviation Through Participation in Fair Trade Coffee Networks:
Existing Research and Critical Issues

Laura T. Raynolds
Associate Professor
Sociology Department
Colorado State University
Fort Collins, CO 80523
Laura.Raynolds@Colostate.edu

March 2002

Background Paper Prepared for Project Funded by the
Community and Resource Development Program, The Ford Foundation, New York.

I. Introduction

Fair Trade represents an important new approach to alleviating poverty in the global South based on a strategy of “trade not aid.” The growing Fair Trade movement seeks to challenge historically unequal international market relations, transforming North - South trade into an avenue of producer empowerment and poverty alleviation. Markets for Fair Trade labelled coffee and other items link ethically minded Northern consumers with democratically organized groups of poor Southern producers, offering the disadvantaged producers a chance to “increase their control over their own future, have a fair and just return for their work, continuity of income and decent working and living conditions through sustainable development” (Fairtrade Foundation 2000a).

Though the international market for Fair Trade products represents only a minor share of global trade, it is growing rapidly. The world market for Fair Trade products is currently valued at US\$ 400 million, with sales growing at close to 30 percent per year (Fair Trade Federation 2000). Coffee, the first labelled commodity, remains the backbone of the Fair Trade system. Recently established initiatives in North America are making Fair Trade commodities available outside the movement’s European home, fueling the market’s rapid growth. The United States has in just a few years become one of the largest importers of Fair Trade labelled coffee and may over time double the world market. The Fair Trade market is poised to expand dramatically over the next decade as labelled commodities become more widely available and better known.

As Fair Trade markets in the North grow, it is critical to develop a more systematic understanding of the Southern experience of this rapid expansion. The growth in Fair Trade will

pose both new opportunities and new problems for Southern coffee producers. Identifying the lessons producers have learned could help ensure that the benefits of Fair Trade in the South are maximized and extended as effectively as possible. This overview of existing research suggests that the potential capacity of Fair Trade in helping to alleviate poverty is shaped by (1) prevailing political and economic conditions at global, national and sub-national levels, (2) the internal organization of producer groups and their external links to state, corporate, and NGO groups, and (3) the individual characteristics of producers such as ideological commitment, educational levels, market sophistication, capital and labor resources, and environmental assets.

A set of key project questions have been identified which will be explored in this background paper. What problems and opportunities does the rapid growth in Fair Trade pose for Southern producers? What are the implications for poverty alleviation? Who at the individual, household, producer organization, and community levels benefits from Fair Trade coffee and how? What organizational innovations and solutions have been developed by participants in various contexts? What problems do these diverse organizational schemes face and what responses do they develop as they strive both to operate effectively and provide benefits to participants? Where and how might outside support be appropriate?

II. Fair Trade Coffee Networks¹

¹This section draws on Raynolds (2002) “Consumer/Producer Links in Fair Trade Coffee Networks.” *Sociologia Ruralis* 42 (4): 404-424. See also Raynolds (2000; 2001; 2003) and Murray and Raynolds (2000).

The Fair Trade movement has grown out of a variety of European initiatives seeking to alleviate poverty in the global South through a strategy of “trade not aid.” In the words of one of the founding Fair Trade groups, their goal is to “change international commercial relations in such a way that disadvantaged producers can increase their control over their own future, have a fair and just return for their work, continuity of income and decent working and living conditions through sustainable development” (Fairtrade Foundation 2000a). In the 1960s, church and development organizations opened alternative shops around Europe as a way of supporting Southern producer groups. While these outlets initially focused on handicrafts, solidarity sales of Nicaraguan coffee and bananas that countered the US blockade expanded European alternative trade activities into food products. Handicraft based alternative trade organizations also appeared in the United States in the 1960s and 1970s but they failed to acquire the market strength of their European counterparts. Equal Exchange, the first US alternative trading organization focusing on coffee was founded in 1985 with shipments of solidarity coffee from Nicaragua.

From its alternative trade organization roots, Fair Trade has grown rapidly over the past 15 years as a result of new labelling initiatives that have made Fair Trade labelled products available in conventional retail outlets. In 1989, three Fair Trade labels—Max Havelaar, Fairtrade Mark, and TransFair—were introduced in different parts of Europe focusing initially on coffee. Extending the spread of market coverage, TransFair affiliates have recently been established in the United States, Canada, and Japan. In North American like Europe, Fair Trade labelling campaigns have been launched around coffee. The three Fair Trade logos still appear in different regions, but these groups have harmonized their standards and activities under the

umbrella group, the Fairtrade Labelling Organizations International (FLO), which now represents members in 17 countries.

Sales of Fair Trade labelled products are currently valued at 400 million dollars per year and are growing at 30 percent a year (Fair Trade Federation 2000). Europe remains the hub of the Fair Trade market with sales of 2,400 million dollars in 2000 (EFTA, 2001:14). Fair Trade products are sold in 2,700 specialty outlets and 43,000 supermarkets in 18 European countries. Food items such as coffee, bananas, and cocoa account for 81 percent of Fair Trade sales in Europe (EFTA, 2001:14). Though the US Fair Trade market is less well developed than the European market, it is expanding much more rapidly. TransFair labelled products were introduced in the United States in 1999 and there are currently only two certified food products available: coffee and tea (TransFair USA, 2002).

TransFair and other Fair Trade labelling organizations are not directly involved in commodity production or trade. Instead they seek to promote the market for Fair Trade products by working with coffee importers, roasters/wholesalers, and retailers. Coffee distributors may buy a license to display the TransFair, MaxHavelaar, or FairTrade Mark logo on specific packages of coffee if they purchase from groups which are on the FLO coffee register and uphold FLO standards and procedures. Unlike other certification schemes, like the eco-labelling of organic food and sustainable forest products, which focus strictly on conditions at the point of production, Fair Trade's certification criteria is unique in that it covers both trade and production conditions (Raynolds, 2000).

FLO (2002a) has established detailed standards for its seven certified commodities based on a set of common principles. Coffee importers using Fair Trade labels must uphold the

following standards: (1) Purchases must be made directly from grower organizations using purchasing agreements that extend beyond one harvest cycle. (2) Importers must guarantee the FLO minimum price (US\$ 1.21 per pound for Arabic coffee) and pay a social premium (US\$.05 per pound) above that minimum or above the world market price (whichever is higher). Certified organic coffee must get a further premium (US\$.15 per pound). (3) Importers must offer pre-financing equal to 60 percent of the contract value upon request. To be included on FLO's approved registry of growers permitted to supply Fair Trade coffee, producers must also uphold a set of standards: (1) Producers must be small family based growers. (2) Producers must be organized into politically independent democratic associations. (3) Producers must pursue ecological goals conserving natural resources and limiting chemical input use. FLO monitors both traders and producer associations to insure that these conditions are upheld. Setting it apart from other certification initiatives (e.g. organics, eco-labelling, etc.), the costs of Fair Trade annual monitoring and certification are paid by Northern importers, not by producers (Raynolds, 2000).

Coffee has formed the core of Fair Trade initiatives in Europe and North America and remains the most widely available labelled commodity. In most countries, Fair Trade and organic consumption have grown in tandem and 40 percent of the world's Fair Trade coffee is also certified organic (FLO, 2002b). In 2000 European countries imported 27 million pounds of Fair Trade coffee valued at over 300 million dollars (MaxHavelaar Belgium, 2002; TransFair USA, 2002). Fair Trade coffee is sold in over 35,000 supermarkets and is served in many corporate headquarters and universities as well as municipal, national, and European Union government offices. Fair Trade coffee holds an average of 1.2 percent of European national

markets and has captured roughly three percent of the market in Luxemburg, Switzerland, and the Netherlands (EFTA, 2001). As noted in Table 1, in 2000 the Netherlands and Germany were the world's largest Fair Trade coffee importers, with imports over 6.8 million pounds apiece (3,000 metric tons). Fair Trade coffee sales have leveled off in much of Europe where long running campaigns have successfully acquired a sizable market presence; but markets continue to grow rapidly in countries like Norway and France where it has only recently been introduced.

Table 1

Recently established Fair Trade coffee initiatives in North America are causing the largest growth in the world market. The introduction of Fair Trade labelled coffee in the United States—the world's largest coffee market—has had a major impact on world trade in just a few years. Just two years after the TransFair label was introduced, the United States had become a major importer (see Table 1). Fair Trade coffee consumption grew 79 percent between 2000 and 2001 and is continuing to rise, causing proponents to predict that the United States will become the world's largest Fair Trade (as well as conventional) coffee market (Rice quoted in McMahon, 2001). Fair Trade coffee currently holds only a small share of the US market, but this share is likely to rise as labelled coffee becomes more readily available. Rising demand for Fair Trade coffee in the United States is linked to the increased consumption of organic, shade grown, and other specialty coffees. Fully 80 percent of the Fair Trade coffee sold in the US is also certified organic and the vast majority would be considered gourmet coffee (TransFair USA, 2002). In the US market context it is thus virtually impossible to analytically separate Fair Trade coffee networks from pre-existing organic and gourmet coffee networks. Currently 97 US roasters and importers have some or all of their coffee certified by TransFair, including Fair Trade pioneers

like Equal Exchange and specialty coffee companies like Starbucks, Peet's, and Green Mountain Coffee. Fair Trade coffee is sold in 7,000 retail outlets: in natural food chains like Wild Oats, in conventional supermarket chains like ShopRite, in coffee house chains like Starbucks, and even in some ExxonMobile convenience stores (Conroy, 2001; TransFair USA, 2002). Though currently relatively small, the number of restaurants, universities, businesses, and government offices in the United States serving Fair Trade coffee is growing rapidly.

According to FLO, Fair Trade certified coffee is currently exported by 17 countries in Latin America, Africa, and Asia. There are 300 coffee grower associations on the FLO register, representing 550,000 small-scale growers. According to one estimate this represents 30 percent of the world's small-scale coffee producers (Conroy, 2001:10). Fair Trade coffee production is highly concentrated in Latin America and the Caribbean. The region's 181 FLO registered producer associations are located in 14 countries and together exported over 84 percent of the world's Fair Trade coffee in 2000 as can be seen in Table 2. Mexico is by far the largest supplier with annual exports of 3,680 metric tons, followed by Peru with 2,170 metric tons, and Colombia with 1,601 metric tons. Even more significant in terms of their national impact are Fair Trade coffee exports from smaller Central American countries such as Guatemala (1,330 metric tons) and Nicaragua (1,430 metric tons).

Table 2

Coffee associations on the FLO register sell only a portion of their harvests via Fair Trade channels, with typically over half of their coffee going to conventional markets (Rice and McLean, 1999:58). If we compare Table 3 which looks at Fair Trade coffee export capacity and the actual Fair Trade sales in Table 2 we can see this excess capacity. According to these

figures, Mexican groups on the FLO register exported 11,900 metric tons of coffee approved for Fair Trade labelling in 2000, but only 3,700 metric tons appears to have been sold via Fair Trade channels. Similarly only half of Guatemalan coffee exported by FLO registered groups appears to have been marketed under Fair Trade labels in 2000. Though a number of sources confirm that FLO registered groups produce more coffee than they can sell to Fair Trade markets, FLO's data appear to not fully incorporate US Fair Trade sales thereby inflating the apparent excess capacity. For example Table 2 suggests that FLO registered groups in El Salvador had no Fair Trade sales in 2000, yet these cooperatives appear to in fact have been selling TransFair USA labelled coffee through Equal Exchange (Mendez, 2002).

Table 3

Much of the coffee produced by groups on the FLO registry is also certified organic. According to the data in Table 4, roughly half of Fair Trade labelled coffee exported from Latin America in 2000 was organic. In Mexico and Bolivia, 70 percent of the Fair Trade coffee exports were dual certified; in Guatemala and Nicaragua closer to 40 percent of coffee exports were dual certified. Yet in a number of countries, like Costa Rica, Honduras, and the Dominican Republic, organic and Fair Trade certification does not generally overlap.

Table 4

III. Factors Shaping Successful Participation in Fair Trade

My review of the existing literature suggests that the potential capacity of Fair Trade in helping to alleviate poverty is shaped by (1) prevailing political and economic conditions at global, national and sub-national levels, (2) the internal organization of producer groups and

their external links to state, corporate, and NGO groups, and (3) the individual characteristics of producers such as ideological commitment, educational levels, market sophistication, capital and labor resources, and environmental assets. I will discuss each in turn.

(1) Coffee market conditions:

The successful entry of producer groups into Fair Trade coffee networks and their continued success thereafter clearly depends on prevailing political economic conditions in the world economy, in major importing countries, and in producing countries and sub-national regions. The widespread adoption of neo-liberal policies throughout Latin America over the past two decades has simultaneously caused a cutback in state support for coffee producers and a search for strategies to maximize export earnings through non-traditional and niche markets. The Mexican experience is instructive. When the Mexican Coffee Institute fell apart in 1989 along with the International Coffee Agreement, producers were left with little state support and plummeting prices. As Porter (2000:126) notes, “Most smallholders suffered as ICA collapsed and the state withdrew from the coffee sector. Nevertheless, some coffee growers managed to take advantage of shifting international and national conditions, forming independent coffee producer unions and scaling up the coffee commodity chain.” The demise of the existing coffee economy forced producers to reconsider their conventional production patterns—often by necessity reducing chemical inputs and going organic—and their conventional market channels. Producers’ search for new markets in the early 1990's coincided with the rapid rise in demand for gourmet/specialty coffee in the United States, organic coffee in Europe and the United States, and solidarity coffee in Europe (Renard, 1999b). In some cases solidarity groups and gourmet and organic coffee traders sought out producer groups; in other cases astute cosmopolitan

producer advocates established initial contacts with alternative market networks. Why some groups were better able to take advantage of this political economic conjuncture than others will be discussed below.

While a number of coffee producer groups from Mexico, Peru, Guatemala, Costa Rica, and Nicaragua successfully entered alternative coffee networks in the early 1990s price slump, it may not be easy for others to follow their path today. World coffee prices are at an all time low due to excess supplies. Coffee producers are desperately searching for alternative markets, given these low prices and the continued evaporation of state supports under neo-liberal policies. Cash shortfalls are forcing many producers to forgo the use of expensive chemical inputs. But though specialty, organic, or Fair Trade coffee markets are still growing (at the expense of conventional coffee segments) there already appears to be excess production capacity among existing suppliers. Though percentages vary, on average producer groups on the FLO register are currently selling only 20 percent of their eligible coffee with Fair Trade labels (see Tables 2 and 3). The excess capacity among registered groups raises serious questions about whether new producer groups are going to be able to enter Fair Trade markets and share in the benefits from this participation. Growing Fair Trade markets in the United States, Canada, and Japan offer additional opportunities for existing producers and new entrants, but we can expect market growth to slow once Fair Trade labelled coffee has captured 1-3 percent of these new markets as it has in Europe (EFTA, 2001:15).

(2) Producer organization and external links:

The successful entry of producer groups into Fair Trade coffee networks and their continued success is clearly enhanced by the historical strength of these groups—both the

commitment of their members and effectiveness of their organizational structure—and their external linkages with the state, corporations, church, and development NGOs. The strength of regional coffee unions and their external organizational relations appears to explain why coffee producers in Oaxaca have been more successful than those in Chiapas and Vera Cruz in entering alternative coffee markets (Porter, 2000). Current Oaxacan coffee producer groups have build on an earlier generation of regional coffee unions and have effectively garnered support from regional and national government. CEPCO represents the biggest (with 50 % of small producers in the state) and perhaps the strongest coffee producer organization (Porter, 2000; Renard, 1999). UCIRI, also in Oaxaca, was the first group to sell Fair Trade labelled coffee and a lead player in the organic coffee market due partly to the efforts of its Dutch priest founder who initiating links to European ATOs (Renard, 1999b; Mace, 1998; Waridel, 2002). Speaking more generally about successful Fair Trade groups, Hopkins (2000:42) reports:

Several common factors seem to characterise the successful cases: a well-defined sense of identity, a long process of establishment and development, and a capacity to innovate individually and as an organization. It is also noteworthy, in several of these cases, that there has been a strong leadership, full of vision and energy, able to pull together the individual contributions of producer group members.

Porter (1997) suggests that COOPCAFE and ISMAM in Chiapas have faced a less supportive institutional environment, including greater divisions between and among groups and more limited government support. Though Nigh (1997) and Hernandez Castillo and Nigh (1998) argue that ISMAM, and its 1,000 small-scale coffee growers, have actually being quite successful in entering alternative trade networks, they agree with Porter's assessment of the

importance of internal and external organizational factors in fuelling this success. These authors argue that external “brokering complexes” (including ties to the Mexican government, Catholic Church, Max Havelaar, Inter-American Foundation, etc...) have been instrumental in ISMAM’s success in acquiring organic certification and materially and ideologically consolidating its organization, but that ISMAM’s indigenously based organization has allowed the group to enter alternative trade networks on it’s own terms. Nigh (1997:428) explains, “The organizational structure adopted to achieve this success is a hybrid form of organization that combines aspects of traditional Mayan Indian community democracy with the characteristics of a modern corporation.” Whatmore and Thorne (1998) present a complementary analysis of how Fair Trade networks “nourish” coffee producer groups in Peru through multi-directional exchanges of discursive and material resources. According to these authors consumers and producers of Fair Trade labelled coffee are linked via a “mode of ordering” focused on “connectivity” rather than competition.

Renard (1999a; 1999b) presents a more contested view of ISMAM’s integration into European Fair Trade networks: she agrees that labelling organizations like Max Havelaar see their activities in light of a new “mode of ordering,” but finds that coffee producer groups and their members see these networks as being similar in many ways to conventional market channels. As she notes “Most producers do not have an awareness of the role they play within the network, nor do they understand the demands they must fulfil, in terms of quality and fidelity in delivering their product” (1999:498). Tallontire (2000) reports that coffee producer groups in Africa and European ATOs also have fundamentally different views of their “partnership”: while the ATO sees this as a vehicle for development, the grower organization is largely

concerned with the market opportunities provided by this relationship. Particularly in the case of large diversified producer organizations, we should not be surprised if the Fair Trade message gets lost in the daily activities of making a living in capitalist society where competitiveness and markets are in fact paramount.

Mutersbaugh (2002) provides the most critical analysis of Oaxacan coffee producers' insertion in alternative trade networks. He argues that what producers find most salient about these networks are the technically demanding and expensive aspects of organic certification. While Mutersbaugh fails to analytically distinguish Fair Trade and Organic networks (and appears unaware that Fair Trade certification is not charged to producers) he probably correctly reflects the views of many growers. Organic certification is onerous and in regions where coffee is dual certified, many producers and producer groups probably see themselves as selling organic coffee (rather than fair trade coffee) under "eco-colonial" conditions (Gomez et al, 1999). This critical view of overlapping Fair Trade and organic coffee networks might be compatible with Renard's (1999a, 1999b) and Tallontire's (2000) findings, but challenges the more positive views of Nigh (1997), Hernandez Castillo and Nigh (1998), Whatmore and Thorne (1998), and Rice (2000). These opposing views suggest the real tensions that exist within Fair Trade coffee networks and between Fair Trade, organic, shade and other alternative coffee networks.

(3) Producer characteristics:

A range of coffee producer characteristics, including socio-cultural factors (such as shared ideological commitment), socio-economic factors (such as educational levels, market sophistication, and capital and labor resources), and ecological factors (such as soil fertility and elevation) shape the successful entry and continued success of producer groups in Fair Trade

coffee networks. These individual level characteristics affect Fair Trade success directly and indirectly via their influence on the strength of coffee organizations and their ability to take advantage of external links, two factors which as we have seen shape Fair Trade success.

Nigh (1997) and Hernandez Castillo and Nigh (1998) emphasize the importance of socio-cultural factors in fuelling the entry and continued success of ISMAM in organic and Fair Trade coffee networks. Nigh (1997:428) claims that ISMAM has been able to use “their cultural identity as capital to gain competitiveness.” While initial socio-cultural conditions affect the ease with which coffee growers can enter alternative markets, these authors recognize that these alternative networks in turn shape socio-cultural conditions. Hernandez Castillo and Nigh (1998) suggest that coffee growers have appropriated the agroecological principles of organic agriculture and the social justice principles of Fair Trade in the reconstitution of their ethnic identity. I hypothesize that coffee growers who share a strong ideological commitment to ecological or social justice values (rooted in ethnicity, religion, or politics) are likely to have stronger organizations and are likely to have greater success working with alternative coffee networks than those who are more firmly rooted in western capitalist values of individualism, competition, and environmental exploitation.

Socio-economic factors such as educational levels, market sophistication, and capital and labor resources also clearly influence the success of coffee producers in establishing connections to Fair Trade and other alternative coffee networks and maintaining the procedures and standards required of those networks. Though Fair Trade strives to work with marginal populations, this marginality may mediate against successful participation. Even where initial contacts with alternative coffee networks are made by cosmopolitan coffee grower advocates (priests,

government officials, foreign NGO staff, or international buyers) these connections can be more easily maintained by producers who have the requisite language, literacy, and educational skills. Mutersbaugh (2002) rightly argues that coffee growers can be easily overwhelmed by the technical and documentation demands of organic certification. He finds that existing democratic organizations are weakened by the need to (1) rely on the few growers with the requisite skills (exploiting their time) or (2) hire outsiders (exploiting scarce financial resources) to maintain organic certification procedures.

As in the coffee market more generally, the entry and success of producer groups within Fair Trade coffee networks is shaped by the natural resource base available to producers since this affects coffee quality and production costs. The capacity to engage in coffee production depends on land access and, since it is a perennial crop, producers must have long term land tenure. The natural fertility and elevation of coffee land has a direct impact on coffee quality and on the ease of entry into other alternative certification systems such as organic or shade production.

The ability of coffee growers to maintain or improve the quality of their coffee depends on their knowledge of coffee cultivation and post-harvest processing, and on their ability to dedicate sufficient labor (whether it is individual, familial unpaid labor, or hired labor) and capital to coffee production. Most smallholder coffee is sold after it is wet processed. But producers can (1) better guarantee coffee quality and (2) reap the rewards from bypassing local agro-industries and selling their coffee directly to importers/roasters, if they can go on to take control of dry-processing. Dry processing requires expensive machinery which removes the final coffee skin and then sorts and classifies the coffee. If producer organizations control dry

processing they can monitor the quality of their coffee and use this information to reward growers supplying high quality beans and to assist those producing lower quality beans. Bacon (2002) describes how producer organizations in Nicaragua have built “cupping labs” to gain even greater knowledge and control over coffee quality. Using these labs, producer groups can carefully monitor their coffee quality and identify, promote, and brand regional flavors able to claim market premiums.

In discussing the individual level characteristics influencing successful participation in Fair Trade, we must not forget the important role of gender. Though Fair Trade organizations state a commitment to gender equity this is likely to contrast sharply with local realities in coffee producing regions of Latin America. Women are much less likely to own land, have access to unpaid household labor, or have capital for investing in coffee production. In most coffee cooperatives it is the men who are granted membership under the assumption that they fairly represent the interests of their spouses and children. This may or may not be the case.

IV. The Benefits of Fair Trade Participation

While we might assume that participation in Fair Trade is beneficial there is surprisingly little research that documents how individual producers, producer organizations, grower households, and communities benefit. A recent report commissioned by Oxfam GB (Hopkins, 2000) examines the “claim that FT has an impact on poverty and the well being of producers and their families.” Yet this report focuses on handicrafts and its conclusions do not necessarily apply to Fair Trade food sectors. No recent study addresses the impacts of Fair Trade coffee on poverty alleviation. Measuring the benefits of Fair Trade is complicated by two issues: (1) it is

hard to measure the potentially wide ranging material and non-material benefits deriving from Fair Trade to the potentially broad base of beneficiaries and (2) even if benefits are documented it is difficult to causally attribute these to Fair Trade networks, particularly in the many cases where only a small portion of production is oriented toward Fair Trade networks and these networks overlap with other alternative markets (for organic, shade, or other specialty coffee).

The most obvious potential benefit of Fair Trade comes from its pricing structure which (1) guarantees a minimum floor price of \$1.21 per pound and (2) pays a social premium of \$.05 above that minimum or above the world price (whichever is higher). Currently the guaranteed Fair Trade coffee price is more than double the world market price; in fact world coffee prices have been below the FLO guaranteed price floor for most of the past decade (Lake and Howe, 1999; Contreras and Underhill, 2001). In periods of low prices, the Fair Trade price guarantee can mean the difference between survival and bankruptcy for many small-scale coffee growers. Many Latin American growers without access to Fair Trade markets are currently abandoning their coffee crops, since it costs more than the US\$.38 per pound being paid by local middlemen to harvest the coffee (TransFair USA, 2001). Regional newspapers are full of stories of migrants leaving coffee producing regions to try to eke out a living for themselves and their families in cities already wracked by high unemployment and poverty. Bacon (2002:16) finds that Nicaraguan coffee producers who belong to cooperatives linked to alternative markets—including Fair Trade, organic, and direct sales relations—are four times less likely to report that they are at risk of losing their land than other coffee producers. According to a recent estimate, Fair Trade prices are providing Latin American coffee growers an annual income of US\$ 2,000, as compared to the US\$ 500 they would receive selling in mainstream markets (Rice quoted in

MacMahon, 2001). While most analysts see the Fair Trade price floor as a key benefit, a few critics suggest that it may be unsustainable in prolonged periods of low prices and limits the reach of Fair Trade networks by compromising the profitability of Fair Trade importers (IIED, 2000).

Fair Trade prices move up with the market and include a price premium. Most studies find that this premium is largely retained by producer organizations to be invested in crop quality and infrastructure improvements or community projects such as schools and health services (IIED, 2000; Bacon, 2002; Hopkins, 2000). In Latin America some of the Fair Trade price premium appears to flow directly to individual producers. As a Peruvian coffee producer reports:

The higher price we get when we sell coffee to Cafedirect means that now our cooperative can afford to pay a doctor who will give treatment to our members. For myself, the price difference has meant I can afford more food for my family and send my children to school properly equipped with pens and notebooks for the first time.

(Fairtrade Foundation, 2001)

Where Fair Trade price benefits are retained at the association level, producers are unlikely to be aware that Fair Trade networks offer either premiums or price floors. In large associations, the Fair Trade premium may be so small as to be meaningless if it were actually divided among all producers (IIED, 2000). Yet the retention of Fair Trade price advantages at the association level is likely to fuel the producer ambivalence toward Fair Trade found by Renard (1999a, 1999b) in Chiapas. Where cooperatives sell all their coffee to Fair Trade networks, as for example with a small cooperative in Haiti, producers are likely to both know

about the favorable price structure and potentially have greater say over the distribution of these benefits. Large associations which channel their coffee to multiple markets appear to pool the payments received from Fair Trade, direct sales, and conventional markets, paying producers their share of the pooled price. Many associations do not track and reward producers who provide high quality coffee (Bacon, 2002). Producers are more likely to see the price benefits of their organic coffee, due to the traceability requirements of organic certification (perhaps explaining why producers often identify their coffee as organic yet fail to mention that it is Fair Trade certified). The pooling of prices from multiple markets may be an equitable form of distribution, since the coffee sold with a Fair Trade label is not necessarily any different than coffee sold without this label. Yet some question the efficiency of this system: “When the premium is pooled, there will be no impact on price variability and on production incentives at the farmer level. Instead, the price premium is best seen as equivalent to a charitable transfer to fund particular projects whose value should be assessed on a case by case basis” (IIED, 2000:24). Hopkins’ (2000:38) review of Fair Trade handicrafts finds that there may often be such a “trade-off between efficiency in the management of fair trade operations and poverty alleviation.”

A number of studies appear to suggest that the major benefit of participation in Fair Trade comes in the form of organizational capacity building. Hopkins (2000) finds that in Fair Trade handicrafts, the impact of capacity building is greater than that of preferential prices. In food sectors, part of the Fair Trade premium is typically devoted to building institutional capacity. Fair Trade resources may be devoted to enhancing producer group knowledge or skills or developing new marketing capabilities. Determining the use of the Fair Trade premium may

itself strengthen democratic decision-making processes.

Yet, the beneficial use of the price premium can perhaps not be assumed. Hopkins (2000) finds that integration into Fair Trade markets has a positive impact on income, but warns that these financial benefits are not guaranteed given that economic returns are shaped by the level of Fair Trade sales. One study presents a more critical view:

Key issues here (particularly in large organizations) will be the effectiveness of producer control over the use of the premium (ie. the strength of the governance structures) and the extent to which the interests of relatively poor and marginalised producers are reflected in decisions about social investment...The extent to which individual farmers have benefited from FT therefore depends on the effectiveness of the cooperative, the way in which they use their relationship with FT organizations, and the extent to which they pass back benefits to their members. (IIED, 2000:24-25; 29)

Fair Trade certification requires that coffee importers establish long-term purchasing agreements directly with producer groups, helping to assure a secure market for their product. In the context of current world market oversupplies, the security of a market outlet is important, even though Fair Trade networks are typically only able to absorb a portion of overall production. Similarly the requirement that Fair Trade importers pay certification fees and provide producer financing at Northern market interest rates appears important, encouraging the participation of disadvantaged producers. Low interest loans are critical for poor coffee farmers who traditionally have gone deep into debt to local merchants as they await the annual harvest. The payment of certification fees by buyers also appears critical, since marginal coffee producers are likely to be excluded from other alternative markets—like those for organic or shade-grown

coffee—that require that producers shoulder high certification expenses. According to a Nicaraguan coffee producer, Fair Trade brings both material and non-material benefits:

Before, life was very hard for us, mainly because we could never get a decent price for our coffee. Now we have our own export co-op, and we sell to the Fair Trade market. Fair Trade gives us a fair price and access to credit. It also gives us dignity. We are treated as equals. (TransFair USA, 2001)

A number of studies find that the technical expertise and market information provided by Fair Trade networks is actually more important than the price premiums. One recent study concludes, “The most significant impact of FT market participation appeared to be to assist in improving information and market transparency” (IIED, 2000:29). As the European Fair Trade Association (1995:16) explains:

The producer-fair trader relationships usually go beyond just selling and buying, and can include the joint development of new products or product lines, the adaptation of products to European fashions, gaining access to new marketing channels, raising investment or working capital and strengthening or expanding the producer organization. With the elimination of middlemen who profit from withholding information, Fair Trade coffee producer groups may learn a great deal about market trends, quality specifications, and international prices from Northern importers. A Nicaraguan coffee grower acknowledges this benefit of Fair Trade, reporting: “We have gained a much better knowledge of the international market and of course the price is better” (Fairtrade Foundation, 2001). For coffee growers who sell the majority of their coffee through conventional channels, access to market information can be very important in negotiating better prices from coffee brokers. Many coffee producer groups

appear to use the information and resources they gain in working with Fair Trade networks and Alternative Trade Organizations to enter other high return markets like that for organic produce.

Fair Trade labelling organizations appear to fuel poverty alleviation and the empowerment of coffee producers through the provision of preferential prices, more stable markets, and information and other non-market exchanges. But participation in Fair Trade networks can not guarantee the efficient or necessarily equitable distribution of benefits. Benefits may not be distributed equally among cooperative members or among members of producer households. And benefits may not extend to community members outside the coffee cooperatives. While FLO provides some support for producer organizations to deal with these issues, collaboration with Alternative Trade Organizations and development oriented non-governmental organizations may be important in maximizing the potential benefits of Fair Trade.

V. Summary

To lay the ground for further research on poverty alleviation through participation in Fair Trade coffee networks, this paper explores the existing research and identifies critical issues in need of further exploration. Section II provided an overview of Fair Trade coffee networks, outlining (1) certification standards and procedures, (2) the characteristics of major import markets and the growing importance of the US market, (3) the characteristics of major exporters and the centrality of Latin American producers, (4) and the extensive overlap between Fair Trade and organic coffee networks, particularly in the Americas. Though there are gaps and inconsistencies in the data the general parameters of international Fair Trade coffee networks are fairly clear.

In Section III, I analyze the factors shaping successful participation in Fair Trade. My analysis of existing research suggests that the potential capacity of Fair Trade in helping to alleviate poverty is shaped by (1) prevailing political and economic conditions at global, national and sub-national levels, (2) the internal organization of producer groups and their external links to state, corporate, and NGO groups, and (3) the individual characteristics of producers such as ideological commitment, educational levels, market sophistication, capital and labor resources, and environmental assets. Though there are a number of helpful studies in this area there is substantial disagreement between reports and little systematic comparative analysis of the lessons learned by producers and producer groups involved in Fair Trade coffee networks.

Section IV analyzes the existing literature on the benefits of Fair Trade for individual producers, producer organizations, grower household and communities. It is in this area that the existing research is the most sparse and the conclusions the most divergent. Work in this area is complicated by the difficulty in assessing the distribution of multiple material and non-material benefits to a potentially wide population and the difficulty in causally attributing these benefits to Fair Trade. The beneficial financial impacts of Fair Trade on producers and producer groups appear the most obvious. Yet a number of studies suggest that these income effects may be less significant than the more subtle benefits via producer empowerment and organizational capacity building. Existing research also points to the potential trade-off between economic efficiency and equity in the distribution of Fair Trade benefits. The efficiency/equity balance will have implications for poverty alleviation within producer groups, within producer households, and within producer communities.

VI. Bibliography

- Bacon, C. 2002. Knowing What You Grow: The Story of Nicaragua's Coffee Quality Improvement Project. Unpublished manuscript prepared for Thanksgiving Coffee.
- Conroy, M. E. 2001. "Can Advocacy-Led Certification Systems Transform Global Corporate Practices?" University of Massachusetts, Political Economy Research Institute, Amherst.
- Contreras, J. and W. Underhill. 2001. "It's a Step Forward says the Anti-Globalization Crowd. But the Market for Kinder, Gentler Capitalism is Limited." in *NewsWeek*. Nov. 5.
- EFTA (European Fair Trade Association). 1998. *Fair Trade Yearbook: Towards 2000*. Druk in de weer, Gent, Belgium: EFTA.
- 2001. *Fair Trade in Europe*. Maastricht: EFTA.
- Fair Trade Federation. 2000. "Fair Trade Facts." http://www.fairtradefoundation.com/ab_facts.html .
- Fairtrade Foundation. 2000. "Coffee: Producers' Stories." <http://www.fairtrade.org.uk> .
- 2002. "The Fairtrade Foundation." <http://www.fairtrade.org.uk>
- FLO (FairTrade Labelling Organizations International). 2002a. "Fair Trade: Criteria." <http://www.fairtrade.net/>
- 2002b. "Coffee Statistics." Unpublished data.
- Global Exchange. 2002. "Fair Trade Coffee Campaign." <http://www.globalexchange.org/economy/coffee>.
- Gomez Tovar, L., M. Gomez Cruz, et al. 1999. *Desafios de la Agricultura Organica*. Mexico DF, Mundi-Prensa.
- Hernandez Castillo, R. and R. Nigh 1998. "Global Processes and Local Identity among Mayan Coffee Growers in Chiapas, Mexico." *American Anthropologist* 100(1): 136-47.
- Hopkins, R. 2000. Impact Assessment Study of Oxfam Fair Trade. Unpublished paper prepared for Oxfam/GB.
- IIED (International Institute for Environment & Development) 2000). Fair Trade: Overview, Impact, Challenges. Unpublished paper prepared for DFID.
- Lake, R., and C. Howe. 1999. "The Development Impact of Fair Trade: Evidence from the Work of Traidcraft and Challenges for the Future." <http://www.traidcraft.co.uk/impact.htm> .
- Max Havelaar Belgium. 2002. "Cafe." <http://www2.maxhavelaar.com/fr/koffie/resultaten.html>.
- McMahon, P. 2001. "Cause Coffees' Produce a Cup with an Agenda." Pp. A1-2 in *USA Today*.
- Murray, D. L. and L. T. Raynolds. 2000) "Alternative Trade in Bananas: Obstacles and Opportunities for Progressive Social Change in the Global Economy." *Agriculture and Human Values* 17: 65-74.
- Mutersbaugh, T. 2002. "The Number is the Beast: A Political Economy of Organic Coffee Certification and Producer Unionism." *Environment and Planning A*.
- Nigh, R. 1997. "Organic Agriculture and Globalization: A Maya Associative Corporation in Chiapas, Mexico." *Human Organization* 56:427-436.
- O'Rourke, F. and C. Bergin 1998. Impact of Fair Trade as a Strategy for Sustainable Development. Unpublished paper prepared for IFAT.
- Oxfam/GB 2001. Bitter Coffee: How the Poor are Paying for the Slump in Coffee Prices. London, Oxfam GB.
- Porter, R. 2000. "Politico-Economic Restructuring and Mexico's Small Coffee Farmers." *Poverty*

- or Development: Global Restructuring and Regional Transformations in the U.S. South and the Mexican South.* R. Tardanico and M. B. Rosenberg. New York, Routledge: 111-137.
- Raynolds, L. T. 2000. "Re-Embedding Global Agriculture: The International Organic and Fair Trade Movements." *Journal of Agriculture and Human Values* 17:297-309.
- Raynolds, L. T. 2001. "Creating Alternative Commodity Systems: The Case of Bananas." *Plantation Society in the Americas* .
- Raynolds, L. T. 2002. "Consumer / Producer Links in Fair Trade Coffee Networks." *Sociologia Ruralis*. 42(4):404-424.
- Raynolds, L. T. 2003. "Forging New Local/Global Links Through Fair Trade Agro-Food Networks." In R. Almas and G. Lawrence (eds.) *Globalisation, Localisation and Sustainable Livelihoods*.
- Raynolds, L., and D. Murray. 1998. "Yes, We Have No Bananas: Re-Regulating Global and Regional Trade." *International Journal of Sociology of Agriculture and Food* 7:7-43.
- Renard, M.C. 1999a. "The Interstices of Globalization: The Example of Fair Coffee." *Sociologia Ruralis* 39(4): 484-500.
- Renard, M.C. 1999b. *Los Intersticios de la Globalizacion: Un label (Max Havelaar) para los Pequeños Productores de Cafe*. Mexico City: Miscelaneas..
- Rice, P. and P. McLean. 1999. "Sustainable Coffee at the Crossroads." Paper prepared for the Consumer's Choice Council, Washington, DC.
- Rice, R. 2001. "Noble Goals and Challenging Terrain: Organic and Fair Trade Coffee Movements in the Global Marketplace." *Journal of Agricultural and Environmental Ethics* 14:39-66.
- Talbot, J. M. 1997. "Where Does Your Coffee Dollar Go?: The Division of Income and Surplus along the Coffee Commodity Chain." *Studies in Comparative International Development* 32:56-91.
- Tallontire, A. 2000. "Partnerships in Fair Trade: Reflections from a Case Study of Cafedirect." *Development in Practice* 10(2): 166-177.
- TransFair USA. 2000. "TransFair USA." <http://www.transfairusa.org> .
- TransFair Canada. 2001. "Fair Trade Certified Coffee at a Glance." <http://www.transfair.ca/tfc/glance.html>.
- Waridel, L. 2002. *Coffee with Pleasure*. New York: Black Rose Books.
- Whatmore, S. and L. Thorne. 1997. "Nourishing Networks: Alternative Geographies of Food." Pp. 287-304 in *Globalising Food: Agrarian Questions and Global Restructuring*, edited by M. Watts and D. Goodman. New York: Routledge.

Table 1: Fair Trade Labelled Roasted Coffee Imports by Country (Metric tons)

	2000	1999	1998	1997	1996
Europe					
TF Austria	300	284	271	316	306
MH Belgium	548	477	497	505	508
MH Denmark	742	695	611	460	238
RKE Finland	91	36	0	0	0
MH France	495	282	112	75	64
TF Germany	3,098	3,332	3,606	4,142	4,173
FTF Great Britain	1,332	1,237	1,164	959	703
IFTN Ireland	55	41	22	0	0
TF Italy	399	353	322	331	289
TF Luxembourg	64	69	70	65	43
MH Netherlands	3,102	3,186	3,345	3,154	3,165
MH Norway	125	55	52	0	0
Rättv. Sweden	217	218	206	156	0
MH Switzerland	1,382	1,425	1,353	1,356	1,385
North America					
TF Canada	154	78	24	9	0
TF USA	707	55	0	0	0
Asia					
TF Japan	7	6	7	7	7
Total	12,818	11,816	11,662	11,535	10,883

Sources: FLO, 2002b; TransFair USA, 2002.

Table 2: Fair Trade Labelled Green Coffee Exports by Country
(Metric tons)

	2000	1999	1998	1997	1996
Africa					
Cameroon	36.12	166.33	17.76	40.44	53.11
Congo (Zaire)	626.70	507.77	781.98	518.36	814.58
Tanzania	1,001.10	834.27	596.51	888.97	628.58
Uganda	186.26	307.46	272.19	168.50	138.03
Total	1,850.18	1,815.82	1,668.44	1,616.27	1,634.30
Asia					
Indonesia	432.54	0.00	0.00	0.00	0.00
Thailand	5.00	3.30	0.00	0.00	0.00
Total	437.54	3.30	0.00	0.00	0.00
Latin America					
Bolivia	262.01	89.98	144.56	200.29	59.86
Colombia	1,601.11	1,121.79	1,112.52	1,332.74	994.70
Costa Rica	968.69	943.85	1,105.97	1,360.88	1,235.17
Dominican Rep.	101.39	188.77	50.75	253.48	192.98
El Salvador	0.00	0.00	17.39	194.37	131.10
Guatemala	1,331.59	1,291.53	1,366.10	1,758.58	1,349.14
Haiti	56.29	65.20	0.00	31.56	112.32
Honduras	475.62	578.41	301.60	650.81	143.52
Mexico	3,679.66	4,168.06	2,463.99	3,325.44	1,592.85
Nicaragua	1,428.40	1,241.77	974.39	753.75	707.15
Peru	2,171.59	1,025.87	1,031.12	1,538.49	317.12
Venezuela	36.00	35.38	36.00	96.95	35.61
Total	12,112.35	10,750.62	8,604.39	11,497.34	6,871.50
Total	14,400.07	12,569.74	10,272.83	13,113.61	8,505.79

Source: FLO, 2002b.

Table 3: Fair Trade Labelled Coffee Export Capacity by Country (Metric tons)

	2001	2000
Africa	41,848.68	25,348.68
Asia	314.00	314.00
Latin America		
Bolivia	2,719.48	2,699.88
Colombia	3,332.50	4,284.10
Costa Rica	2,492.55	2,492.55
Dominican Rep.	7,145.40	1,052.80
El Salvador	743.90	571.54
Guatemala	3,610.63	2,106.85
Haiti	437.32	465.00
Honduras	3,075.97	3,066.80
Mexico	12,101.63	11,910.00
Nicaragua	8,114.96	6,691.05
Peru	12,245.06	9,474.96
Venezuela	1,048.47	887.59
Total	57,067.88	45,703.12
TOTAL	99,230.56	71,365.80

Source: FLO, 2002b.

Table 4: Dual Certified Fair Trade and Organic Coffee Exports by Country (Metric tons)

	2000	1999	1998	1997	1996
Latin America					
Bolivia	203.49	181.23	17.19	51.75	0
Colombia	38.01	0	14.02	3.45	0
Costa Rica	13.24	17.25	0	0	0
Dominican Rep.	7.41	0	0	0	0
El Salvador	0	0	0	84.39	0
Guatemala	582.65	174.05	109.99	0	0
Haiti	0	0	0	0	0
Honduras	11.52	54.99	0	0	0
Mexico	2,550.66	2,645.94	1,661.56	1,451.52	86.25
Nicaragua	614.53	172.50	63.34	78.90	0
Peru	1,074.47	288.97	137.58	186.30	0
Venezuela	0	0	0	0	0
Total	5,096.00	3,534.95	2,003.68	1,856.31	86.25

Source: FLO, 2002b

