

One Cup at a Time

Poverty Alleviation and Fair Trade in Latin America



CENTRO DE
INVESTIGACIONES Y
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Desarrollo Alternativo, A.C.

ONE CUP AT A TIME:

POVERTY ALLEVIATION AND FAIR TRADE COFFEE IN LATIN AMERICA

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* Note: All case studies and background documents prepared for this report can be accessed at:
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I. PREFACE

Fair Trade has emerged as a potentially important movement for social change in Europe, North America, and regions of the developing world. Fair Trade challenges historically unequal international market relations, seeking to transform North-South trade into an avenue for producer empowerment and poverty alleviation. Markets for Fair Trade coffee and other items link ethically minded Northern consumers with democratically organized groups of poor Southern producers. The goal of this alliance is to provide 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, 2002).

Both celebratory and less sanguine accounts of Fair Trade abound in popular and scholarly literature. Yet the questions underpinning the assessments of Fair Trade are often more complex, and the answers more ambiguous, than many of these accounts recognize.

Most observers agree that Fair Trade cannot solve all the problems of poverty in the South. At the same time, many acknowledge Fair Trade has had a significant impact on the well-being of those producers who joined in on the emerging alternative trade movement. But difficult questions remain:

- What are the real benefits of the Fair Trade movement?
- Can the benefits of Fair Trade be sustained over time?
- Can Fair Trade grow to encompass a greater number of farmers and communities throughout the developing world?
- Can Fair Trade be expanded to encompass not only poor farmers, but also other sectors connecting Southern producers and Northern consumers?

Answering these questions is an ambitious and long-term venture. Yet there is an urgency to this venture as well. The answers to these questions are crucial not only to the future of millions of impoverished rural producers in the South; they also represent an opportunity for understanding the future prospects for sustainable and equitable development on a global scale.

To address these questions, the Fair Trade Research Group (FTRG) was established at Colorado State University in 1999. With funding from the John D. and Catherine T. MacArthur Foundation (Collaborative Research Planning Grant, Program on Global Security and Sustainability), an exploratory workshop was held at the Keystone Center in Colorado in May of 2000. Over a three-day period, 20 leading Fair Trade activists, practitioners and proponents from Latin America, Europe, Canada and the U.S., in a dialogue with a team of U.S.– based scholars, explored the potential of the Fair Trade movement. Fair Trade proponents and doubters challenged each other’s assumptions and strategies. This workshop produced a North/South Fair Trade research network, organized to pursue some of the more perplexing and provocative questions about Fair Trade.

In the fall of 2001, the FTRG began work on one important dimension of this broader research agenda: assessing the impact of Fair Trade on coffee producers in Latin America. A second Fair Trade workshop, funded by the Ford Foundation’s Community and Resource Development Program, was organized in Mexico City in March, 2002, in collaboration with the

Mexican Non-Governmental Organization Desarrollo Alternativo (DESAL), under the leadership of Maria Elena Martinez Torres, and Centro de Investigaciones y Estudios Superiores en Antropología Social (CIESAS), led by Ronald Nigh. Following this workshop, the participants decided to generate preliminary information on how Fair Trade was developing in the region, based on case studies carried out in Mexico and Central America. The results are the basis for this report.¹

From its inception, this project has been a collective endeavor. The research was informed by the debates and conclusions of the Keystone Workshop. The research protocol was subsequently developed through a participatory process in the Mexico City workshop.² The case studies were carried out by Ernesto Méndez, Sarah Lyon, Franz VanderHoff Boersma, Josefina Aranda, Carmen Morales, Victor Pérezgrovas Garza, Edith Cervantes Trejos, Alma Amalia Gonzalez Cabanas, and Maria Elena Martinez Torres, with the support of Ronald Nigh and the FTRG.³ A background paper on Fair Trade Coffee was written by Laura Reynolds (Reynolds, 2002b), and a synthesis of the Research Question Findings was prepared by Peter Leigh Taylor (Taylor, 2002).⁴ The final report was written by Douglas Murray, Laura Reynolds and Peter Leigh Taylor, after a preliminary draft was circulated among the project participants. Responsibility for the case studies lies with the individual authors of these reports, while responsibility for the final report lies with the FTRG.

1 The study was designed as a relatively short-term exploration of current conditions in the production of Fair Trade coffee in Mexico and Central America. This report focuses on issues raised and addressed by the investigators and their informants at the level of production. While a number of significant findings are presented, they should not be considered to be comprehensive or conclusive. Many pressing issues and questions related to Fair Trade cannot be addressed in depth through this initial inquiry, including whether and how the Fair Trade market can be expanded in the North to provide greater opportunities for producers in the South, or how Fair Trade can be made more “fair” in the North with expectations analogous to those placed upon producers in the South. These and other questions will be the subject of further investigations, including those proposed in Section VII of this report.

2 We are indebted to Marie Christine Renard for her assistance in both workshops and her extensive knowledge of the Fair Trade movement.

3 The authors of the case studies were selected for their existing knowledge of and rapport with Fair Trade registered coffee cooperatives. Several of the investigators work directly within the case study organizations. The proximity of these researchers to the organizations and processes they are reporting on could pose a potential for bias. At the same time, their deep commitment to and years of experience with Fair Trade have also made possible a high level of in-depth knowledge about the movement and the coffee cooperatives. During field research and writing, the diverse backgrounds and perspectives of all the study’s contributors, including those of the three co-authors of this report, were kept in mind in an effort to control for individual and collective biases, both overly favorable and overly skeptical. Each case study underwent several rounds of review and revision by the FTRG, which included field visits to most of the study sites. Findings were subsequently triangulated through comparative analysis across the cases and with existing literature.

4 Case studies and background documents can be accessed online at:
<http://www.colostate.edu/Depts/Sociology/FairTradeResearchGroup>

II. INTRODUCTION

The global coffee market has fallen into a profound crisis. Prices paid to coffee producers, in real dollar terms, have fallen to a hundred year low (Oxfam 2002: 9). According to the *Wall Street Journal*, “the collapse of world coffee prices is contributing to societal meltdowns affecting an estimated 125 million people...from Central America to Africa” (Fritsch, 2002). Coffee is one of the five most important commodities, in value terms, traded in the international economy. It is predominantly produced by poor, small-scale farmers in Latin America, Africa and Asia. Seventy percent of the world’s coffee is grown on farms of less than 25 acres, with the vast majority of these ranging between 2.5 and 12.5 acres (Oxfam 2002:7). As one Mexican observer put it, “the coffee producing zones coincide exactly with a map of extreme poverty...” (Aranda and Morales, 2002:18).

Already living on marginal incomes, a few producers will escape the crisis by finding arduous and low-paid employment in surrounding areas—but for the majority, the prospects of eking out a living are grim. In Central America, the World Bank estimates the crisis has caused a 54 percent decline in permanent employment and a 21 percent decline in seasonal employment in the coffee sector (IADB et al, 2002). When combined with data from Mexico, the Bank estimates over 600,000 jobs were lost in the region in the past two years alone (Fritsch, 2002). One plantation owner in Guatemala, looking back over 70 years, observed, “I have never seen hunger in this region like we are seeing now” (Personal interview, DM).

Many families have been forced to abandon traditional farming. Five hundred families a week have been migrating out of Chiapas in Southern Mexico (Oxfam, 2001). In the Southern-most Costa Rican Canton of Brunca, much of the adult male population in the coffee zone has left in search of work in urban areas or in “El Norte” (the United States), leaving behind disintegrating families and communities (Personal observation, DM). In their migration northward, many are forced to brave hardships and dangers to escape the crisis. The potentially tragic consequences that await some were demonstrated in May, 2001 when U.S. Border Patrol agents found the bodies of 14 men and women who died of dehydration while trying to cross the Sonora desert in a desperate search for work in the U.S. (Bacon, 2001). All were poor peasants from Vera Cruz, one of the coffee growing regions hard hit by the current crisis. The full impact of the crisis on human lives, families and communities will probably not be known for years to come.

Meanwhile, a small but growing percentage of small-scale coffee farmers have found a solution to the crisis. In the past decade, more than 500,000 farmers from 23 countries in Latin America, the Caribbean, Africa and elsewhere have become Fair Trade certified coffee producers. Agreeing to produce their coffee under an externally monitored set of social and environmental standards, Fair Trade coffee producers in turn have received a guaranteed price for their coffee. That guaranteed price has been double or more the recent price paid for conventionally produced coffee, and along with the social and environmental conditions fostered by participation in Fair Trade has enabled these farmers to survive the crisis and invest in the future.

Evidence of Fair Trade’s benefits can be found throughout Mexico and Central America. In Oaxaca, the Fair Trade-registered cooperative UCIRI used the Fair Trade social premium (see Section III, below) to create a training center for women’s literacy and other projects. In Chiapas,

the cooperative Majomut used the same premium to hire a community organic farming promoter, which has allowed farmers to convert their coffee and other crops to higher-income generating and more ecologically sound organic production.

The vast majority of Fair Trade coffee is produced in indigenous communities in Latin America. Consequently, Fair Trade is contributing to indigenous cultural survival. For example, Fair Trade is revitalizing traditional Mayan farming techniques in the La Voz cooperative of the Guatemalan highlands. One cooperative member observed that through Fair Trade-supported organic farming, “we are rescuing the culture and rescuing the system of production that was used before, but with more technical knowledge”(Lyon, 2002:32).

Clearly, Fair Trade is having a positive impact on the farmers, families, communities and organizations in this alternative trade system. Yet there remain important questions as to how significant, widespread and sustainable this impact has been or might be. This report attempts to answer these concerns by identifying the major strengths and weaknesses of Fair Trade production.

The research for this report focused on seven questions:

- What is the history of small-scale coffee producer participation in Fair Trade?
- What are the characteristics of the Fair Trade networks in which these producers have participated?
- How do the producers’ cooperative organizations function?
- What are the characteristics of the systems of Fair Trade certification and quality control in which producers have participated?
- How have producers, their families, their organizations and communities benefited from Fair Trade participation?
- What have been the problems of participation in Fair Trade networks, and what might be the solutions?

To answer these questions, seven case studies were carried out in Mexico and Central America over the spring and summer of 2002. As Table 1 below demonstrates, the cases studied

Table 1: Case Study Organizations

Name	Location	Year Founded	Number of members
CEPCO	Oaxaca, Mexico	1989	41 organizations 16,000
UCIRI	Oaxaca, Mexico	1981	2, 076
Majomut	Chiapas, Mexico	1983	1,500
La Selva	Chiapas, Mexico	1976	943
Tzotzilotic	Chiapas, Mexico	1992	840
La Voz	Guatemala	Late 70s	116
APECAFE		1997	11 cooperatives
Las Colinas		1980	99
El Sincuyo	El Salvador	2000	28

range in size from very small (28 members) to very large cooperative organizations (16,000 members). Some cases involve cooperatives with many years of experience in Fair Trade, such as UCIRI, while others, such as El Sincuyo, have only recently begun to participate. Still others, La Selva and Tzotzilotic, have lost Fair Trade certification and are in the process of re-establishing their formal relationships with Fair Trade. Thus the cases studied represent a variety of experiences and examples of the impact of Fair Trade in the South.

The following discussion begins with a brief description of Fair Trade as it relates to coffee (Section III), followed by a discussion of the benefits of Fair Trade in the coffee sector of Mexico and Central America (Section IV). A discussion of the unresolved issues, obstacles and problems of Fair Trade coffee production follows (Section V), along with brief concluding observations on the implications of findings of this study (Section VI). The report closes with a series of recommendations for building upon this initial investigation (Section VII).

III. A BRIEF DESCRIPTION OF FAIR TRADE COFFEE⁵

Fair Trade began several decades ago through the efforts of alternative trade organizations (ATOs). These organizations purchased products directly from poor producers in the South for sale to socially conscious consumers in the North through networks of Third World shops and other specialty outlets. In the late 1980s, ATO's began labeling Fair Trade products to broaden their availability, moving "Fairtrade into the supermarkets where most people do their shopping" (FLO 2002b). The introduction of the TransFair, Max Havelaar, and Fairtrade Mark labels greatly increased sales of Fair Trade food commodities. But this strategy was not without problems, as the entry of conventional distributors and retailers into Fair Trade networks brought additional pressures on producers to conform to traditional industrial and commercial expectations (Raynolds 2002a).

Fair Trade has grown rapidly over the past 15 years. In North America, like Europe, Fair Trade labeling campaigns have been most successful in coffee. The various Fair Trade initiatives have harmonized their standards and coordinated their activities through an umbrella organization, the Fairtrade Labeling Organizations International (FLO), which now represents members in 17 countries.

FLO established detailed standards for its seven certified commodities based on a common set of principles. FLO monitors producer and trader groups and de-certifies those that fail to uphold accepted standards.

To be included on FLO's approved registry of growers permitted to supply Fair Trade coffee, producers must 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 by conserving natural resources and limiting chemical input use.

⁵ For further detail on the development of the Fair Trade movement beyond this brief description, see Raynolds (2000; 2002a; 2002b), Murray and Raynolds (2000), Oxfam (2001), and Rice (2001).

Coffee importers using Fair Trade labels must comply with another set of FLO 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 Arabica coffee) and pay a social premium (US \$.05 per pound) above this minimum, or pay the world market price, whichever is higher; certified organic coffee receives a further premium (US \$.15 per pound).
- 3) Importers must offer pre-financing equal to 60 percent of the contract value upon request.

FLO has registered over 300 coffee grower associations representing 500,000 small-scale growers in Latin America, Africa and Asia. According to one estimate, this represents 30 percent of the world's small-scale coffee growers (Conroy, 2001:10).⁶ Most of the Fair Trade coffee, approximately 84 percent, comes from Latin America; Mexico is by far the single largest national supplier.

IV. THE BENEFITS OF FAIR TRADE COFFEE PRODUCTION

Fair Trade has made considerable contributions to the lives of the rural poor in the global South. All seven case studies demonstrate that Fair Trade brings a variety of concrete, positive benefits to participants. These studies also point to a number of limitations and challenges to Fair Trade, discussed in Section V. But the fact that almost all the coffee producer groups emphasized the need to increase the size of the Fair Trade market demonstrates the importance that poor farmers place on Fair Trade as a vehicle for positive change.

When producers are paid double the conventional market price, as is currently the case with Fair Trade coffee, one would logically expect demonstrable benefits to be captured by individual farmers and perhaps their immediate families. Yet in the societies where coffee is produced, the survival of extended families, communities and producer organizations is often considered to be of greater importance. Fair Trade's contributions to the overall viability of these social systems have been largely overlooked. The following discussion begins with the obvious benefits of the higher price captured by Fair Trade producers, then moves on to explore the more subtle, and in some cases more significant, benefits that accrue at the individual, family, community and organizational levels. These additional benefits include increases in lower cost credit, family and community stability, training, new business opportunities, self-esteem, formal education, employment, cultural revival and environmental conservation.

A. Benefits to Individual Producers

The *higher price* paid for Fair Trade coffee is the most direct benefit to the small-scale farmer. Fair Trade coffee receives a minimum US \$1.26 per pound (including the five cent social premium) and an additional US \$0.15 if it is certified organic. The precise amount of direct

⁶ While the number of producers certified through FLO's registry seems quite large, a much smaller number have been able to consistently sell their coffee on the Fair Trade market, and most of these have succeeded in selling only a portion of their coffee harvests. As noted in Sections IV and V below, this problem is primarily due to the still small market and limited demand for Fair Trade certified coffee in the North.

additional income a farmer receives through Fair Trade is difficult to calculate, primarily because payments vary according to the cooperatives' handling of debt servicing, cooperative expenses, distribution of Fair Trade social premiums, etc. Secondly, most cooperatives cannot sell all their members' coffee through Fair Trade channels, and so sell the remainder at regular prices. But payments to farmers for sales of Fair Trade and non-Fair Trade coffee are often pooled into a single payment.

Field observations in several case studies found the revenues for Fair Trade coffee to be twice the street price for conventional coffee, even after deductions were made for cooperative management and other expenses.⁷ For example, Majomut cooperative members harvest an average of 1,500 pounds, for which farmers earned US \$1,700 for organic Fair Trade certified coffee, compared to the local "street" price⁸ of US \$550 (Perezgrovas and Cervantes, 2002:16; 19). With coffee production representing roughly 80 percent of Majomut family incomes, Fair Trade certification represents a dramatic increase in their livelihoods.

The range of less visible benefits is even more impressive. For example, participation in Fair Trade provides individual producers with *greater access to credit* to cover harvest expenses and other costs than their conventional farmer counterparts. This is largely due to the requirement within Fair Trade standards that importers offer producer cooperatives pre-financing at world market rates. In El Salvador, the Las Colinas cooperative receives up to 60% pre-financing for its Fair Trade coffee at half the interest rates of national banks (Mendez, 2002:16).

Fair Trade certified farmers also report greater access to traditional credit sources through their cooperatives' improved image. Fair Trade certification lends producer organizations "a certain prestige since it is assumed that the organization is subject to external monitoring and also demonstrates initiative and a capacity to enter new market niches" (Aranda and Morales, 2002:17). In Guatemala, the longer term commitments of buyers are seen as an assurance of a "perceived market future" for the farmer and cooperative (Lyon, 2002:30), thus making lenders more willing to extend credit under more favorable terms to the cooperative.

The combination of the Fair Trade price guarantee and increased access to credit has contributed to *greater economic and social stability* for coffee farmers. Because farmers participating in Fair Trade registered cooperatives can count on receiving a set price for their crop, they report being able to better plan for their coffee production, as well as for personal, family and community needs. "If the producer is not a member of an organization selling in the Fair Trade system, he will have to wait until selling his coffee to know how much money he can count on" (Perezgrovas and Cervantes, 2002: 19).

7 These results are roughly consistent with one Fair Trade representative's report that in Latin America, Fair Trade coffee producers were earning an average of about US \$2,000 a year where small-scale conventional producers were earning little more than US \$500 (McMahon, 2001).

8 Small-scale farmers not organized into the cooperative arrangements required by Fair Trade usually sell their coffee to local intermediaries, or "coyotes." These intermediaries pay much lower "street" prices but offer immediate cash. Thus Fair Trade's pre-financing and guaranteed prices lead to not only better income but also more stable lifestyles for Fair Trade farmers.

Producers from many of the cooperatives noted another important, non-monetary benefit from participating in Fair Trade: ***access to training and enhanced ability to improve the quality of their coffee***. Most small-scale coffee farmers have limited access to training, and an even more limited understanding of what the Northern consumer, and the international coffee market more generally, expect of coffee producers.

The majority of growers in Guatemala (excluding large plantation owners) have rarely tasted their own export-quality coffee. They do not know what a ‘specialty’ coffee should taste like and rarely can explain the production and mill factors that contribute to quality in a cup (Lyon, 2002:22).

Observers described Fair Trade participation as an “apprenticeship” through which farmers learn about organic farming and other quality-related techniques. Fair Trade earnings provide crucial financial support to the cooperatives’ technical assistance teams. Majomut’s technical advisors, for example, provide members with a minimum of six training courses yearly in coffee tree management, soil fertility and conservation, pest management, harvesting techniques and other quality-related procedures (Perezgrovas and Cervantes, 2002:17).

Moreover, the long-term relationships between cooperatives and buyers encouraged by Fair Trade improve quality by providing feedback to farmers. In Guatemala, the La Voz cooperative reported that their primary buyer has provided various incentives to help farmers improve coffee quality, which has in turn strengthened their ability to compete in a coffee market that increasingly favors higher quality coffees (Lyon, 2002:22). Inspections and other interaction with the Fair Trade organization have also contributed to better understanding by farmers of what coffee consumers expect. In El Salvador, for example, the secondary level Fair Trade organization APECAFE has facilitated training on production and processing issues affecting quality, promoting “more systematic and careful harvesting, processing, drying and selection of the coffee beans” (Mendez, 2002:16).

Another benefit of Fair Trade is the ***development of new networks of contacts among participants***. In El Salvador, Fair Trade has facilitated “the building of social networks and collective action that are essential for local actors to build and move forward their own development processes” (Mendez, 2002:22). The majority of the case studies found that Fair Trade makes possible exchanges of information between producers and buyers that create new commercial opportunities for producers. La Voz members in Guatemala, for example, spoke of participating in exchanges of visits with other producer groups that bring new information and provide incentives to undertake similar efforts (Lyon, 2002:31).

Finally, a less visible but commonly reported benefit to individuals from Fair Trade was an ***increase in self-esteem***. Farmers’ sense of their importance within their communities is often undermined by the increasing degradation of traditional lifestyles and the growth of rural poverty in Latin America. But in case after case, farmers reported that the increased attention to their farming—including the visits of Fair Trade and organic inspectors, buyers and even visiting Northern consumers (see, for example, Mendez, 2002; Lyon, 2002)—promoted renewed pride in coffee farming.

Producers who work with organic coffee, who have inspections and follow-up to their work, have improved their coffee production, and are proud to show their fields to visitors.

At the same time their confidence and participation in meetings is increased (Aranda and Morales, 2002:17).

In Chiapas, increased self-esteem manifested among Majomut members as an “increased desire and interest in continuing as farmers who provide food for their families and also produce coffee commercially” (Perezgrovas and Cervantes, 2002:18). Cooperative members observe that while their neighbors are forced to emigrate in search of work, Majomut members “have access to services and sufficient incomes through the cooperative to be able to remain on their farms and not leave their communities looking for work.”

The benefits to individual producers participating in Fair Trade are significant, with many benefits occurring in forms far more complex than simply increasing income. Benefits occurring at other levels are similarly subtle but significant.

B. Benefits to Families

All of the case studies demonstrate that Fair Trade improves the well-being of coffee farmer families and individuals. As noted in the UCIRI report, although poverty persists among coffee grower families, the standard of living among Fair Trade producer households has improved despite the dramatic decline in the global coffee market (VanderHoff Boersma, 2002:19). Many of the individual benefits of Fair Trade described above also represent direct and indirect benefits to families.

Though systematic economic data on increased family incomes was not available for most case studies, a recent study of the Majomut cooperative found a 100-200 percent increase in overall income (cited in Perezgrovas and Cervantes, 2002). And once again, there are benefits in addition to higher incomes. Fair Trade participation provides families with *access to a diverse range of projects* sponsored by their cooperatives. For example, Majomut member families improved their access to food through participation in organic gardening and subsistence supply projects, in part supported by Fair Trade returns (Perezgrovas and Cervantes, 2002:18, 19). Timely Fair Trade payments in La Selva have helped cover immediate family expenses for medicines and ceremonies (Gonzalez, 2002:27). Similarly, in Oaxaca, Fair Trade has funded a small credit program that helps pay for a variety of family emergencies (personal communication, LR).

Training provided by the Fair Trade cooperatives has also allowed families to diversify their incomes. In Oaxaca, Chiapas and El Salvador, Fair Trade cooperatives have provided *training and marketing assistance to families* to develop alternative income sources. Expanded economic activities include the production and marketing of artisanry, the establishment of community stores, the development of bakeries, improved production of basic grains, and other enterprises (Aranda and Morales, 2002:19; Perezgrovas and Cervantes, 2002:16; Mendez, 2002:18).

One of the most interesting examples of family level benefits was the contribution Fair Trade made to *improving children's education* among La Voz members in Guatemala. In San Juan, where La Voz is located, “cooperative members are able to send their children in higher numbers and a number of associates have children studying at the University level...” (Lyon, 2002:30). There is evidence of similar educational benefits in other Fair Trade communities.

Enhanced family stability through additional employment represents another important benefit of Fair Trade participation. Throughout conventional coffee growing regions families are being broken apart as heads-of-households migrate out of impoverished communities to seek employment. In communities where Fair Trade cooperatives exist, families more frequently remain intact. Fair Trade-sponsored organic production helps generate sufficient additional income and labor opportunities that allow more family members to remain in coffee production. Though Fair Trade organic production alone cannot reverse migration trends, in some areas, emigration is lower among families involved in organic production. In Oaxaca,

participation in the fair-trade market has allowed [CEPCO member families] to continue growing coffee while many other farmers have abandoned coffee production, moving to the cities or transforming their land to other uses...with dire consequences in social and ecological terms (Aranda and Morales, 2002:18).⁹

C. Benefits to Communities

In Latin America, rural public services are frequently limited. Community social networks in many ways take the place of formal governmental structures, providing support, protection and representation of individual needs and concerns. Participation in Fair Trade has promoted the maintenance of viable community structures.

One of the most visible community benefits has come through *the social premium* (US\$.05 per pound) paid by Fair Trade buyers to the cooperatives. As discussed in Section V below, the use of this premium is evolving, and consequently so is its impact. In some cases, the Fair Trade social premium has financed the cooperatives' technical and other organizational support of coffee producers' activities. In the past, the premium was often distributed among members after administrative costs were discounted as part of individual income. More recently, FLO has encouraged organizations participating in Fair Trade to direct the premium toward social projects. While it is still evolving, the social premium attached to the Fair Trade coffee price has potential to deepen and strengthen community ties.

In Oaxaca, UCIRI cooperative delegates have dedicated the funds generated by the Fair Trade social premium to the construction of latrines and the purchase of fuel-efficient household stoves (Lorena Stoves) to help reduce disease as well as smoke-related respiratory problems and deforestation. UCIRI has also invested Fair Trade earnings in an educational center that trains young people from the region as community development workers and extends learning in appropriate composting technologies, intercropping of coffee and legumes, animal husbandry, and alternative food and cash cropping (VanderHoff Boersma, 2002). Also in Oaxaca, a variety of CEPCO's communities have benefited through community pharmacies, bakeries, storage facilities and transportation financed from the social premium (Aranda and Morales, 2002:19). The cooperatives' technical assistance teams, partially supported with Fair Trade funds, have supported community members who are developing diversified farming opportunities.

⁹ A related benefit which we did not have the opportunity to investigate in this study, was the response of Fair Trade coffee producers in Nicaragua to a survey related to farmer and family stability (Bacon, 2002). Producers surveyed were 4 times less likely to fear losing their lands during the current crisis than those not participating in Fair Trade.

The example noted earlier of the Majomut cooperative in Chiapas that used the social premium to hire a community organic farming promoter is indicative. Fair Trade funds also helped Majomut build a community center where women’s literacy programs are taught, and were also used for improving cooperative infrastructure. Further, a credit fund was financed with the premium, and in collaboration with Habitat for Humanity, 148 families built new houses (benefiting roughly 10 percent of the cooperative’s member families), and an additional 660 families refurbished existing houses (Perezgrovas and Cervantes, 2002:19). This example demonstrates how communities participating in Fair Trade can benefit through the building of linkages with development projects and other organizations (see the discussion in Section V.F, below).

Fair Trade has *helped families find work* in their communities rather than migrating. Organic coffee production promoted by Fair Trade (which requires nearly twice the work days in relation to conventional production) has significantly increased opportunities for family labor in a number of the cooperatives. In 2001, Majomut members had nearly 2,000 hectares under organic production, representing approximately 180,000 additional work-days each year (Perezgrovas and Cervantes, 2002:19).

According to several case studies, Fair Trade has *contributed to cultural revival* among indigenous communities. La Voz members in Guatemala spoke of the recuperation of ancestral farming practices (Lyon, 2002). Other cooperatives, such as CEPCO, have supported artisanal and other income generating activities with the assistance of Fair Trade-financed training and technical assistance (Aranda and Morales, 2002). Also in Oaxaca, UCIRI reported that Fair Trade promotes a “recuperation of pride in being indigenous, not in a romantic way but as ancient residents of their land and country” (VanderHoff Boersma, 2002:19).

Finally, Fair Trade has *improved the natural environment* in participating communities. Fair Trade’s organic emphasis has promoted “improved soil conservation and water management practices as well as the increased consciousness about the importance of conservation in general” (Aranda and Morales, 2002:19). Majomut’s technical team reports that the soil conservation measures of its organic coffee production program, supported in part by Fair Trade returns, has helped reduce soil loss from erosion by 3,800 tons per year (Perezgrovas and Cervantes, 2002: 19).

D. Organizational Benefits

One of the most far-reaching effects of Fair Trade is its *support for the organizational capacity of participating farmers*. Participation in Fair Trade provides farmers’ organizations with benefits that have significant multiplier effects among the individuals, families and communities they serve. Moreover, Fair Trade certification requires the democratic organization of participants. While there remain significant problems in some cooperatives with the degree

10 It is important to note that the difficulties associated with democratic management, transparency, participation, etc. in the farmers’ organizations largely reflect problems common to cooperatives around the world. They are not to any significant degree attributable to Fair Trade. On the contrary, as the case studies demonstrated, Fair Trade has had a powerful positive influence on addressing weaknesses in participating cooperatives’ democratic processes.

of democracy, transparency, participation, etc. (see Section V, below), Fair Trade has fostered democratic institutions and organizational empowerment throughout the coffee growing region.¹⁰

Ironically, organizational strengthening may be most apparent in cooperatives that have been decertified by FLO for failures to comply with Fair Trade standards. FLO recently decertified La Selva and Tzotzilotic for failure to comply with one or more FLO standards. In both cases, it is clear that the cooperatives are engaged in on-going efforts to overcome administrative or other weaknesses. This process has improved the participation of cooperative members and the transparency of cooperative management and decision-making.

Similarly, participation in Fair Trade has *strengthened the overall ability of the organizations to serve their members*. The process of applying for certification and undergoing periodic compliance audits pushes organizations to improve their administrative capacity. Moreover, Fair Trade encourages a shift toward organic production, where rigorous technical and administrative certification requirements further strengthen organizational capacity and promote producer participation. The Las Colinas cooperative in El Salvador reports that Fair Trade certification has left them better prepared to pursue organic certification.

The economic margin provided by Fair Trade significantly strengthens coffee producer associations, even though in some cases not all the cooperative's coffee is sold via Fair Trade networks. In CEPCO,

the ability to insure a significant percentage of fair-trade sales allows the cooperative to guarantee a higher price to producers for delivery of unprocessed coffee. Not only does this help maintain the credibility of the cooperative among its memberships—who in times of low prices 'become discouraged and want to throw in the towel'—but also the credibility of CEPCO/CAEO as a viable producer-run social business (Aranda and Morales, 2002:16).

Fair Trade's price system allows Majomut "to operate stably over a long period of time, which in turn builds confidence in the cooperative among the members" (Perezgrovas and Cervantes, 2002:15). In addition, all of the participating cooperatives studied have been able to use a portion of Fair Trade's additional price margin to capitalize their organizations. Majomut dedicated a part of Fair Trade returns to purchase an electronic selector machine, the construction of an organic coffee warehouse and (with additional external funding) a training center (Perezgrovas and Cervantes, 2002:15). In similar fashion, La Voz in Guatemala used Fair Trade returns to pay for improvements to its processing plant and office space.

La Selva's leadership views Fair Trade's "subsidy of an apprenticeship in commercialization" as its most important benefit. As one of its founding leaders stated, "The atmosphere of trust that exists within the fair-trade relationships allowed us to learn in a low-pressure situation. We got to know the buyers and talk with them directly, and they came to trust us as well" (Gonzalez, 2002:27). In similar fashion, UCIRI observes that Fair Trade has encouraged cooperatives to create their own marketing channels by providing constant access to information on the market, including lists of buyers, importers and producers (VanderHoff Boersma, 2002:10). Fair Trade encourages cooperatives to be more demanding of quality from their members and, as the UCIRI, CEPCO and Majomut studies point out, supports the creation and maintenance of technical teams to monitor quality and assist with production improvements.

Another intriguing organizational benefit is the *support for entry of other groups into Fair Trade networks and other specialty markets* provided by existing Fair Trade registered cooperatives. In Mexico, Fair Trade coffee production has expanded largely through the collaborative efforts of producer groups. Many groups learn about Fair Trade from other producer organizations and, in some cases, receive assistance from these other groups. For example, the Fair Trade pioneer UCIRI helped draw La Selva into the Fair Trade coffee market in 1990. La Selva in turn facilitated Majomut's entry into Fair Trade in 1993-1994. Majomut then assisted Tzotzilotic in selling Fair Trade coffee for the first time in 2001.

The collaborative arrangements among Mexican Fair Trade cooperatives were encouraged by the fact that buyers have often sought more Fair Trade coffee than a single cooperative can produce. Yet a number of the case studies go on to report that Fair Trade practices reflect a commitment to solidarity and a moral obligation of mutual support. At a pragmatic level, the solidarity between producer groups strengthens the organizational capacity of each cooperative and fosters inter-group ties. These broader networks provide the basis for pursuing collaborative interests in national and international markets.

Farmers and cooperative leaders report that their organizations found it easier to gain *access to other opportunities* once they had become organized through the Fair Trade process. In El Salvador, Las Colinas cooperative members were able to gain quick access to earthquake relief funds in 2001 through the Fair Trade organization APECAFE, while less well-organized communities and individuals were left with more limited resources and opportunities (Mendez, 2002:17). The La Selva cooperative reported that

We are convinced that Fair Trade caused many other groups to find out about our existence as a cooperative. Others began to find out that La Selva exported coffee, and we were able to get help with projects that weren't just related to coffee production: housing, potable water and road improvements (Gonzalez, 2002: 27).

Organizational through Fair Trade has also *created capacities to negotiate with new clients*. For example, CEPCO, UCIRI, Majomut and other producer organizations are promoting a new Fair Trade coffee market within Mexico and have created a new entity, Agromercados, to coordinate the commercialization of a range of Fair Trade commodities. These opportunities were beyond the reach prior to the Fair Trade certification process.

A number of cooperatives also report that participation in Fair Trade can *increase an organization's credibility* among government and other external institutions, such as banks and development agencies. In the La Voz case,

cooperatives that participate in Fair Trade networks have a demonstrated increased ability to secure loans from lending institutions on the basis of their perceived secure market future (Lyon, 2002:30).

Similarly, CEPCO's participation in Fair Trade lends it prestige,

because the government knows that it has submitted to outside monitoring and has demonstrated the initiative of finding new niches in the market" (Aranda and Morales, 2002:16).

La Selva found that its Fair Trade participation gave it enhanced credibility with government agencies, which subsequently funded improvements in its processing plant, drying patios and depulpers.

Before joining the Fair Trade market nobody trusted us enough to give us credit or finance our projects. But once they saw that we were exporting our own coffee, the Mexican banks began to offer us credit, when they saw that we knew what we were doing (Gonzalez, 2002: 14, 27).

La Selva's manager summed up the importance of strengthening producers' coffee organizations.

We know that if today La Selva decided not to continue with coffee commercialization, the organization would continue. This is clear to us because in the community-level [cooperative] assemblies, coffee sales and organization production activities get discussed but they also discuss more general problems in their relations with the institutional world (Gonzalez, 2002:29).

Each case study prepared for this report presents extensive evidence of the benefits of participation in Fair Trade. The specific nature or degree of these positive influences varies with the priorities and capacities of the cooperatives and their insertion in Fair Trade markets. But the overall assessment by individual farmers and their representatives is that Fair Trade has provided financial gains, new opportunities, and improved well-being for thousands of coffee farmers, their families and communities in Central America and Mexico.

V. ISSUES, OBSTACLES AND PROBLEMS

These case studies provide rich evidence of Fair Trade benefits. But the cases also raise a number of questions about the ability of Fair Trade to broaden, deepen and sustain its impact. Many of the problems are largely inherent to the combination of Third World export agriculture and small-scale farmer cooperative organizations, and are not the result of Fair Trade participation *per se*. The ultimate impact and sustainability of Fair Trade, however, will depend on addressing these broader concerns. In the following section, we explore a series of issues, obstacles and problems confronting Fair Trade production. As the evidence suggests, the problems within Fair Trade are significant, but not to the point of negating the benefits described above.

We finished our previous discussion at the organizational level among Fair Trade coffee producers, arguing that the benefits at this level are critical to the viability and sustainability of Fair Trade. The following discussion will continue this emphasis, weaving producers, their families, communities and organizations together to argue that the issues most important to Fair Trade operate on multiple levels and involve a range of problems, including those of market expansion, producer knowledge, Fair Trade membership, multiple labeling and certification, direct marketing, state support, diversification and gender issues.

A. Slow Growth in the Fair Trade Market¹¹

The Northern Fair Trade market was not the subject of this investigation, but market dynamics fundamentally shape the current and future prospects of Fair Trade production in the South. All of the case studies raised concerns about the size and trajectory of Northern markets. In world market terms, the market for Fair Trade coffee is relatively small. In Europe, the Fair Trade marketing campaigns have been underway for nearly a decade in many countries, Fair Trade coffee sales represent on average 1.2 percent of total coffee sales at the national level (EFTA, 2001). While the market for Fair Trade coffee continues to expand in some countries (for example, Norway and France), Fair Trade coffee sales in Europe are largely stagnant.

The majority of the growth in Fair Trade coffee markets is centered in North America, where vigorous national Fair Trade campaigns have only recently been pursued. Given its prominence in the world coffee market, proponents expect the U.S. Fair Trade coffee market to soon surpass the European market (Rice quoted in McMahan, 2001). Yet unless the dynamics of the Fair Trade movement change significantly, *it is likely that currently expanding U.S. and Canadian markets will reach a market ceiling similar to that in Europe.*

Table 2: Major Importers and Exporters of Fair Trade Coffee in 2000*

Major Importers (metric tons)	Major Exporters (metric tons)
Netherlands (3,104 tons)	Mexico (3,680 tons)
Germany (3,073 tons)	Peru (2,172 tons)
Switzerland (1,382 tons)	Colombia (1,601 tons)
United Kingdom (1,332 tons)	Guatemala (1,332 tons)
Denmark (742 tons)	Nicaragua (1,428 tons)
United States (707 tons)	Tanzania (1,001 tons)
World Total (14,400 tons)	World Total (14,400 tons)

* These data are for roasted coffee labeled by FLO affiliates.
Source: FLO 2002.

The limits on Fair Trade sales in the North have serious ramifications for coffee producers in the South. First, and perhaps most importantly, it is clear that while many coffee producer groups around the world might be able to meet Fair Trade standards, they are not on the FLO registry and do not reap the benefits of Fair Trade. Second, even coffee producer groups on the FLO registry are not guaranteed a Fair Trade purchaser for their coffee. FLO estimates that Fair Trade coffee export capacity in Latin America, Africa, and Asia is roughly seven times greater (99,231 metric tons) than what is currently exported via Fair Trade channels.

The effects of Fair Trade market ceilings are evident in the cases studied in this investigation. All seven cases emphasize the challenges posed by limited Fair Trade markets. Among the

¹¹ For further details on the Fair Trade coffee market, see Raynolds (2002b).

cooperatives, only UCIRI and Majomut in Mexico and La Voz in Guatemala are currently selling all of their coffee under Fair Trade labels. Most of the other cooperatives studied here are able to sell only part of their coffee via Fair Trade channels. As noted earlier, some of the advantages gained via participation in Fair Trade markets, such as market contacts and greater understanding of international markets, extend beyond Fair Trade sales and are important in strengthening producer cooperative participation in organic, specialty coffee and other markets. Yet the benefits accrued in direct proportion to Fair Trade sales—including guaranteed prices, social premiums, long-term contracts, and low-interest credit—are clearly reduced as less coffee is sold in Fair Trade markets. In addition, the UCIRI and La Selva reports suggest that slow Fair Trade market growth is fueling competition over buyer contracts and undermining the historical solidarity among Mexican producer organizations.

Clearly, many of the issues and problems discussed below are conditioned by market constraints. Multiple studies also noted the importance of maintaining Fair Trade conditions in existing markets. But the growth of the market for coffee produced and traded under Fair Trade conditions remains central to the future of Fair Trade in both the North and South.

B. Producer Knowledge About Fair Trade Networks

Knowledge is a key ingredient to developing the more democratic institutions envisioned by the Fair Trade movement. Yet a universal observation of the case studies was that *producers lack a clear understanding of Fair Trade*. Fair Trade was an abstract concept, distant from the daily lives of many producers. While producers are intimately aware of processes such as organic production, because it involves their daily farming practices, it appears that many of the activities surrounding Fair Trade certification, marketing, etc., are handled by cooperative leadership at the organizational level, contributing to a lack of understanding by producers.

The clearest example of this problem can be seen in the case study of Majomut. According to the authors, *producers lack clear understanding of Fair Trade because of the structure and operation of the cooperatives* (Perezgrovas and Cervantes, 2002:14).¹² At the management level, the elected leaders of the cooperatives and the technical advisors deal directly with the Fair Trade certifiers, buyers and others. These leaders have a detailed understanding of Fair Trade. At the next level are the community delegates to the cooperatives who, while not having close contact with Fair Trade officials, nevertheless gain some understanding through their participation in trainings and other activities. At the producer level, however, little or no understanding exists because producers have not received regular and detailed training or other information on Fair Trade, and have no contact with Fair Trade representatives. “For the majority of producers, Fair Trade is strongly identified with the cooperative. To be a member of the cooperative is to participate in Fair Trade” (Perezgrovas and Cervantes, 2002:14).

Part of this lack of understanding of Fair Trade stems from the fact that most cooperatives are able to sell only a portion of their coffee harvest via Fair Trade channels. Income generated by Fair Trade sales is often lumped into the income from various markets and returned to the producer in one overall payment. In addition, cooperative management contributes to the lack of producer awareness of Fair Trade. In some cases, cooperatives do not tout the benefits the

¹² For a more extensive discussion of the structures of these cooperatives, see Taylor (2002)

producers are gaining as Fair Trade certification benefits, seeking instead to build producer loyalty to the cooperative. In other cooperatives, leaders have decided that economic efficiency may increase when democratic participation is limited. From their perspective, investing more time in producer awareness may be accompanied by more time spent responding to producer concerns.

Producers contribute to this lack of understanding through passive rather than active membership in their cooperatives, at best attending annual cooperative assemblies and related events. Beyond these occasional meetings, they leave all responsibilities for and knowledge of Fair Trade and other issues in the hands of the cooperative leadership.

This dynamic is best exemplified by the handling of the social premium that accompanies the sale of Fair Trade coffee. Some cooperatives have lumped the US\$.05 per pound social premium into the price paid to the individual producer, or used it to capitalize the cooperative credit system or other infrastructure investments. FLO has been pressuring cooperatives, apparently successfully, to break the social premium out from the price paid to producers and require that the cooperative membership as a whole decide how to spend that premium on social needs. Such a process requires considerably more information sharing and debate among members and management, but it has the potential to increase producers' understanding of Fair Trade while strengthening cooperatives through more active membership.

Similarly, pre-financing obtained through participating in Fair Trade is often not identified as a Fair Trade benefit. As with the market destination of cooperatives' coffee, pre-financing usually comes from multiple sources and is largely handled by cooperative management. For example, Las Colinas in El Salvador and La Voz in Guatemala receive most of their pre-financing credit from Fair Trade sources. On the other hand, CEPCO uses its own credit union, UCEPCO, and other sources. UCIRI, Majomut and Tzotzilotic draw on government and private credit in addition to Fair Trade sources. While this allows for more flexible decision-making at harvest time, producers are often unaware of the role Fair Trade has played in strengthening the viability of the cooperative.

Knowledge of and a commitment to Fair Trade are crucial to the long-term survival of Fair Trade. At present, Fair Trade provides a higher than normal price to producers and the cooperatives for their coffee. But the coffee market is cyclical. The price of conventional coffee, or opportunities for sales in other markets, may grow in the future and weaken the commitment to Fair Trade channels. Past experience in some of the case studies has shown that some producers will defect not only from Fair Trade but from their cooperatives when the gap between the cooperative's Fair Trade price and conventional market prices narrow (see for example Lyon, 2002:10). If members market their coffee elsewhere, it can lead to cooperatives' failing to meet their contractual obligations, which can result in de-certification from Fair Trade.

If producer defections occurred on a mass scale, the current over-supply of Fair Trade coffee could conceivably reverse to a failure by the system to provide adequate supplies of Fair Trade coffee, thus undermining Fair Trade more globally. Fair Trade brokers would not be able to provide enough certified coffee to maintain buyer markets in the North. In a subsequent downturn in coffee prices, producers might no longer be able to find Fair Trade buyers or even a Fair Trade market. Over the long run, Fair Trade will require a degree of loyalty from both

producers and buyers to assure a stable system that fosters the benefits described above. Thus, producer understanding of and loyalty to Fair Trade may well represent an essential requirement for the long-term survival of the Fair Trade movement.

C. How or Whether to Expand Fair Trade Membership

Since its inception, Fair Trade has faced challenges related to who should participate in its networks. Recent critiques of Fair Trade have focused on its inability to integrate larger numbers and different kinds of producers into the Fair Trade market.¹³ This critique argues that many small producers capable of meeting the Fair Trade standards and thereby selling their coffee for higher prices are not allowed to participate. A second critique contends that larger scale farmers who might already be complying with the social and environmental standards cannot participate in Fair Trade due to an exclusive emphasis on small-scale, poor farmers.¹⁴ A final, related critique of the Fair Trade coffee movement was recently posed by a coffee broker from Antwerp. When asked what he thought of the Fair Trade coffee initiative, he responded, “I don’t like it. It implies that the rest of us are unfair” (Personal communication, DM).

These critiques are best addressed in reverse order. Criticism from outside the Fair Trade system about its implications for the image of others may perhaps be best understood as testimony to the growing impact of the movement. It remains undeniable that the global coffee industry is predominantly characterized by highly exploitative relations that fuel poverty and environmental degradation (See Oxfam, 2001, 2002).

In the case of larger scale progressive farmers who have established improved working conditions and pursued better environmental practices, there may indeed be grounds for complaint. There remains a need for deeper discussions and reflection within the Fair Trade movement about how best to extend the benefits of Fair Trade to include the large numbers of farm workers on large coffee plantations. This is a complex undertaking that has been explored in Fair Trade bananas, tea and elsewhere. It is not easily resolved, in part because it has the potential to confuse and dilute the essential distinctions of Fair Trade certification. But the issue of Fair Trade’s relationship to and impact upon other sectors of the world’s rural economies is worthy of further analysis.

This leaves the first, and perhaps most pressing, critique. It is necessary to recognize that any proposed changes in the scale or criteria for participation in Fair Trade are inextricably linked to the scale of the Fair Trade market. As discussed above, expansion of the market is the most fundamental obstacle, not only to increased participation, but also to the overall viability and sustainability of Fair Trade. The issue of whether Fair Trade coffee cooperatives are open to new membership was addressed in all of the case studies. Under the current crisis, there are many farmers seeking access to the Fair Trade certified cooperatives (see, for example, Martinez 2002:22). But in some cases their commitment is suspect. Established cooperative members question whether the newcomers’ commitment is essentially an opportunistic attempt to capture higher prices, one that will disappear once the current crisis has passed. Most cooperatives have strategies and policies for accepting new members, governed by both organizational and

13 See, for example, Meacham (2002).

14 See, for example, Editorial, Guatemalan Post, April 12, 2002.

production preconditions. Some cooperatives, such as UCIRI, Majomut and Tzotzilotic, require a range of demonstrated actions such as participation in cooperative governance and volunteer activities as a pre-condition to selling coffee to the Fair Trade market. In the case of UCIRI, new members are required to demonstrate they are authentic peasant farmers who are honest in their dealings with the cooperative, do not act as coyotes, and who will “not be opportunistic but desire to stick with the cooperative through good and bad” (VanderHoff Boersma, 2002:15). UCIRI, Majomut and CEPCO require new members to demonstrate a commitment to converting to organic farming. In Guatemala, the La Voz cooperative is open to new members, but its criteria for entering remains relatively undefined, with new members apparently recruited through more traditional social networks. Nevertheless, with the notable exception of El Sincuyo in El Salvador (Mendez, 2002), in most cases cooperative expansion appears quite limited.

There remains considerable pressure on Fair Trade cooperatives and on the Fair Trade movement to expand producer participation. Individual producers and producer groups that are not currently able to gain entry to Fair Trade markets are understandably critical of it. Some Fair Trade participants have proposed that the minimum price paid to producers be lowered on the assumption this will increase sales and thereby provide opportunities for expanded participation in Fair Trade. As La Selva’s manager suggested, “The high prices continue to restrict the number of potential customers.” The La Selva report further proposed the need to “establish rules that limit the amount of time that any particular organization can participate in Fair Trade in a way that will benefit less organized groups” (Gonzalez, 2002: 32). A number of other reports echo the concern that participation in Fair Trade remains dominated by older and better-organized cooperatives.

While these concerns are understandable, the proposed solutions are problematic. It is not clear, for example, that lowering the guaranteed Fair Trade price will automatically increase the size of the market. Further, the groups that pioneered Fair Trade production in the region continue to reap important benefits with on-going impacts on poverty alleviation. Removing these groups from the Fair Trade registry to allow space for new participants might have a serious impact—while not necessarily assuring newer participants, or the Fair Trade movement more generally, comparable additional benefits.

From a global vantage point, there are deserving groups in other regions that are currently underrepresented in Fair Trade networks. While they likely have a similar perspective on the issue of participation, it is equally unclear that altering the current profile of producer, organization and regional participation will significantly improve the relationship between Fair Trade and poverty alleviation. The trade-offs involved in such measures are far-reaching and quite problematic.

Several of the other case study cooperatives, such as Majomut and Tzotzilotic, expressed opposition to lowering the minimum price. More generally, the proposals for reducing the minimum price appear similar to the one to increase the size requirement (from exclusively small-scale producers, to include medium sized producers, or to all producers agreeing to meet certain criteria). It might expand the rolls of Fair Trade membership, but it could also dilute either the standards or one or more of the benefits of Fair Trade, leaving the Fair Trade cooperatives more vulnerable when the coffee market improves.

Expansion of membership in Fair Trade remains a serious issue for consideration, and will undoubtedly affect future efforts to expand the Fair Trade coffee market.

D. Governance Issues Within the FLO System

Most of the cooperatives in this study began their relationship with Fair Trade through contact with Max Havelaar of the Netherlands, Equal Exchange in the U.S. and other alternative trade organizations that are directly involved in buying and selling coffee. In each case, key individuals within the cooperatives served as interlocutors or intermediaries in gaining and maintaining access to Fair Trade. In the case of UCIRI, the cooperative's chief advisor was himself a key participant in the conceptualization and organization of the international Fair Trade movement. But these actors, along with many of the producers themselves, report a changing relationship with the Fair Trade movement as the alternative trade organization model has given way to the labeling model under the auspices of FLO and national labeling initiatives such as TransFair USA. Interviewees often characterized the new system as a depersonalized and institutionalized relationship involving less frequent contact and at times, insensitive and non-transparent communication. Some producers and their representatives have concluded that *labeling and an emphasis on marketing is leading Fair Trade away from its movement origins.*

Some of the problems between cooperatives and FLO grew out of the FLO inspection process. Several cooperatives complained they have had little or no contact with inspectors, which has led to confusion about cooperative compliance activities. In Guatemala, La Voz representatives reported no contact with inspectors in all the years that the cooperative has sold Fair Trade coffee until this past summer. La Voz' members complained that FLO has subsequently refused to provide copies of their evaluations to the organization (Lyon, 2002: 38). While some Fair Trade registered cooperatives report that FLO inspections have included helpful feedback, others complained about little feedback.

Complaints about the inspection process have focused on the knowledge of and sensitivity to local conditions demonstrated by FLO inspectors. Majomut reported that one inspector did not understand the crucial differences engendered by Mexico's unique land tenure system of *ejidos* and agrarian communities (Perezgrovas and Cervantes, 2002:20). Tzotzilotic members reported that their FLO inspector was widely known to be insensitive and misinformed. They remarked that while other cooperatives complained and received a new monitor, Tzotzilotic did not complain, and was ironically subsequently de-certified (Martinez, 2002). In El Salvador, producers complained that inspectors raised unrealized expectations.

While the fact that groups can be de-certified is essential to the legitimacy of Fair Trade standards and the FLO monitoring system, de-certification has not surprisingly received strong criticism. Two of the seven cooperatives studied, La Selva and Tzotzilotic, have lost Fair Trade certification. FLO removed La Selva from its registry after administrative problems resulted in its default on a major coffee contract. In the case of Tzotzilotic, de-certification occurred after the cooperative failed to sell Fair Trade coffee for ten years, culminating in 2000 when the cooperative failed to even collect members' coffee after heavy rains damaged the crop.

De-certification has increased tensions between the cooperatives and FLO. Yet in the cases described above, *de-certification has had a positive impact as well.* As part of the process of pursuing re-certification, both cooperatives report increased attention to management, participation, coffee quality and other issues. The demands and complications of the certification and monitoring process, while potentially a source of tension, should also be recognized as a crucial element in strengthening both the Fair Trade process and the cooperative organizations.

Some interviewees criticized the FLO's apparent interpretations of Mexican political conflicts. Majomut was reportedly the target of an anonymous and unfounded email circulating in FLO that charged the cooperative with involvement in paramilitary or related government-sponsored activities in the Chiapas region (Perezgrovas and Cervantes, 2002: 21). This anecdote highlights complaints that FLO inspectors or the FLO Council have sometimes become involved in internal conflicts in ways that jeopardize cooperatives' certification, particularly in situations where the cases and evidence may be quite complicated. As Nigh argued,

these cases indicate that we are not dealing with an isolated phenomena due to natural human error. Rather, there seems to be a definite tendency of Fair Trade involvement to exercise undue influence on the internal politics and functioning of local organizations, with dire consequences for smallholder coffee growers (Nigh, 2002:11).

Such complaints may be inextricably linked to the normal tensions of an inspection process, and therefore subject to considerable interpretation. Nevertheless, these tensions underscore Fair Trade's evolution from an alternative trade organization model to the more institutionalized FLO certification system:

There is a lack of clarity within the structure of FLO that causes uncertainty as to how decisions are made, who participates in the different levels of the organization, and who should be consulted to help solve different problems. This leads to a lack of communication between FLO and the producing organizations and the presence of doubts and unanswered questions because it is not known who to address the questions to (Perezgrovas and Cervantes, 2002:22).

One of the original actors in the Fair Trade movement, UCIRI advisor Franz VanderHoff Boersma, observed that producer representation in FLO governance has declined over the years. While FLO has recently been substantially reorganized in response to such concerns, and appears poised to take producer concerns much more seriously,

For some time there was no democratic participation in the system, which has only recently been partially resolved. There is a pyramid decision-making structure, where the top often does not communicate with the base (VanderHoff Boersma, 2002: 20).¹⁵

A closely related issue raised in several of the case studies revolves around a possible convergence or even unification of certification processes and labels. Many of the cooperatives studied pursue multiple certifications, including Fair Trade, organic, shade-grown, Bird Friendly, ECO-OK, etc. In the growing US market the vast majority of Fair Trade coffee is organic certified. Though Fair Trade is unique in that certification costs are paid by importers instead of producers, these multiple certification processes involve considerable time and expense. Since some features of these certifications overlap, a simplified process appeals to producers.

15 It is important to note that FLO is going through considerable restructuring as this report is being drafted. It is likely this restructuring will have some impact on the concerns raised in this study. Under the recent reorganization, one-third of the seats on FLO's board are reserved for producer group representatives and there is a new producer support network that focuses on addressing the organizational and production needs of small farmers and workers participating in Fair Trade.

Cooperative representatives frequently proposed means for improving certification practices. CEPSCO, for example, suggested that organic inspectors be trained by FLO to combine Fair Trade certification into their organic certification activities. The case study investigator in El Salvador observed that the OCIA inspector has made presentations to producers that significantly improved their understanding of not only organics, but the Fair Trade system as well. Organic certification organizations like CERTIMEX in Mexico seem to be well prepared to carry out dual certifications. This might reduce overall costs, though the question of who should pay these costs remains open.

While there may be some efficiency gained via the integration of labels, *integration may weaken Fair Trade*. Fair Trade has more rigorous social conditions than any other coffee label, and this a fundamental strength of the movement should not be minimized. Fair Trade is also the only social or ecological certification system that goes beyond the realm of production to improve trade relations via the specification of minimum prices and other conditions (Raynolds, 2000). Examples abound of certification initiatives in other commodities, particularly those with transnational corporate sponsorship, that according to critics have subordinated social and/or environmental concerns to public relations and profitability criteria.¹⁶ Any efforts to merge labels must be explored with great care so as not to undermine the benefits that currently accrue to Fair Trade participants.

Many of the case studies call for reestablishing the direct ties between producers and consumers consistent with their earlier experiences in Fair Trade. Cooperatives such as CEPSCO, Majomut and La Selva in Mexico, La Voz in Guatemala and Las Colinas in El Salvador regularly received visits from consumer groups from the North. All cooperatives perceived these visits as an important part of strengthening the Fair Trade movement. Such contacts have declined as the Fair Trade labeling system has replaced the previous relationship. This de-emphasis on direct contact is widely viewed among producer organizations as part of Fair Trade's shift away from social movement strategies toward a de-personalized niche market plan. One La Selva leader observed, "in those days we could talk with people from Max Havelaar and things could be discussed, there was the chance to convince through arguments" (Gonzalez, 2002:25). Now FLO, according to the cooperative's manager, represents an institutionalization of Fair Trade that lacks personal interaction.

These actors' perceptions reflect, in part, the position they occupy in a complex and global Fair Trade system. But the ways in which the FLO and representative national labeling initiatives interact with producers and their organizations merit examination. The South frequently advocates increased participation in FLO governance, and it is to be hoped that FLO's recent reorganization will address some of their concerns. Producers also desire increased contact and exchange between producers and consumers. More generally, the perceived shift by FLO toward a de-personalized business model pursuing a niche market has caused some in the South to question the future shape of Fair Trade. Relations between FLO and national labeling initiatives, on the one hand, and producers and their organizations, on the other, clearly deserve attention.

16 See Gereffi, et al. (2001); also Raynolds (2000, 2002a).

E. Opportunities and Problems in the New Marketing Strategies

An increasing tendency among some of the cooperatives, primarily the older and more established ones in Mexico, is to pursue new, direct marketing relationships with supermarkets, specialty roasters, and others in the North. Producer organizations in Mexico have established direct market arrangements with North American and European firms such as Starbucks, Neumann, Carrefour and others. These strategies are a logical development in the evolution of the cooperatives. Aranda and Morales argue that these new options for producers are in large part an achievement of the Fair Trade system itself (Aranda and Morales, 2002: 20). The need for and logic of such steps by grower organizations seems undeniable. Grower organizations have been producing far more coffee under Fair Trade conditions than the Fair Trade coffee market can absorb. New market outlets may allow more established cooperatives to move out of Fair Trade networks, making space for newer entrants. As La Selva's management observes, it is "impossible to maintain oneself with a single option. It is necessary to innovate and explore new markets" (Gonzalez, 2002: 30).

If these developments have the potential to improve the well-being of poor coffee producers, they also have the potential to undermine it. The opportunities and dangers posed by this trend require more investigation. Several case studies called for an in-depth consideration of the implications of these new commercial relations for Fair Trade. In an appendix to the UCIRI case study, VanderHoff Boersma presented an excerpt from his co-authored book. He noted that Fair Trade is going through a series of evolutionary stages, the third of which involves direct marketing strategies:

The third phase is forming with large enterprises, especially with the supermarkets. It is a negotiation being carried out with great care by the grower organizations. The contenders are quite varied: Starbucks, Sara Lee, Phillip Morris, Neumann Group, Carrefour, etc. There is not complete confidence in all of them (VanderHoff Boersma, 2002:11).

He notes that some agreements involve paying prices equal to those paid by Fair Trade, while others set a different "social minimum price." Though VanderHoff Boersma notes the potential importance of these new market outlets for producers, he points out that the criteria and prices being set through these *direct agreements have the potential to undermine the viability of Fair Trade certification and sales*. More generally, they are likely to confuse and dilute Fair Trade standards.

There are other examples of direct marketing within the case studies. La Selva has developed a series of eighteen coffee shops in Mexico, the U.S., Spain and France in recent years (Gonzalez, 2002).¹⁷ CEPCO and UCIRI also have their own coffee shops in Mexico. Given its problems maintaining Fair Trade certification, La Selva has developed alternative strategies to market export quality organic coffee outside of Fair Trade labeling channels. But La Selva representatives are quick to point out that these new arrangements are not as reliable or progressive as Fair Trade, noting that the large international corporations they are dealing with "are buying only production with the highest quality and they do not respect pre-financing

¹⁷ These coffee shops use the La Selva logo but are operated under an autonomous franchise system. La Selva cooperative members are the exclusive suppliers of coffee to the coffee shops.

conditions” (Gonzalez, 2002:31). In response to these risks, La Selva is pursuing links with smaller-scale roasters in Europe and the U.S., arguing that

there is the question of apprenticeship... You’re going to learn from them and them from you. By contrast, with the big firm you’re not important... well, perhaps you’re important, but it’s actually important that you don’t learn (Gonzalez, 2002:30).

CEPCO has pursued a number of direct marketing arrangements with firms such as Van Weely, Hamburg Coffee Co, Excelco and Royal Coffee. Some of its direct marketing arrangements occur outside the FLO framework, but at prices higher than the conventional market. CEPCO’s leaders express considerable concern about the impact of this trend on Fair Trade:

the new initiatives to include some large companies – Carrefour, Neumann and Starbucks—which some producer organizations and FLO have proposed [should] be considered very thoughtfully and carefully.... The benefit would be the growth of the market, but the arrival of these giants also brings risks that both the producers and the already registered Fair Trade buyers should consider. At risk is that Fair Trade will simply become a market with higher prices and not include the respect for all the policies and ideals that go with it (Aranda and Morales, 2002: 20).

Majomut reported similar views about the risks of the current trend toward direct marketing:

It is not clear what the objectives of these large companies are, if they are truly interested in helping the small farmers in the long term or only want to improve their public image by buying small quantities of Fair Trade coffee and publicizing their participation as if it were standard commercial policy (Perezgrovas and Cervantes, 2002: 22).

Corporate commitment to Fair Trade may well be a temporary strategy. Once corporations have captured the mantle of Fair Trade certification, they may move on to establish their own criteria, labels and certification processes. Several of the case studies call for discussion of these new arrangements and link this issue to the broader need for a strategic vision of Fair Trade’s future.

It should be apparent that these new marketing trends warrants close monitoring. While they could improve the well-being of Fair Trade producers through increased opportunities, they also indicate potential for undermining that well-being through the erosion of Fair Trade.

F. State Involvement in Fair Trade

Fair Trade has considerable, although often indirect, links with State institutions and policies. There remains a need, however, for Fair Trade to develop a more coherent and proactive strategy toward these institutions and policies.

State institutions did not directly finance Fair Trade in any of the case studies. However, indirect support through strengthening collective actions, improving infrastructure, financing equipment purchases, and technical and other support for negotiating export arrangements were all reported. In Mexico, a wide range of State institutions have provided soft financing and grants to cooperatives engaged in Fair Trade (see for example, Taylor, 2002:5).

In El Salvador, institutional links between the State and the cooperatives are blurred because many cooperatives trace their origins to the State-organized agrarian reforms of the early 1980s. The Salvadoran cooperatives coordinate many of their activities through State institutions such as the Ministry of Agriculture. State-created institutions both market Fair Trade coffee for the cooperatives and hold the export licenses for Fair Trade and organic coffee.

Supra-state institutions, such as the U.S. and Canadian government development agencies USAID and CIDA, have significantly influenced Fair Trade. La Voz in Guatemala reports receiving assistance from both agencies. In the case of USAID, this has included credit and technical assistance. Multi-lateral lending institutions have indicated interest in Fair Trade coffee as well (personal communication, DM) in the form of grants to foster Fair Trade development. These grants, however, are intended to develop initiatives that will lead national governments to pursue additional development loans through these banks.

In many cases, *the goals of State institutions are not entirely compatible with those of Fair Trade*. Assuming that Fair Trade can be pursued with support from these institutions without affecting Fair Trade goals is risky at best. At least two related risks exist. First, large-scale financial assistance from this sector can actually undermine Fair Trade. The infusion of funds from State institutions is not always favorable to the continued viability of the cooperatives. For example, the La Voz cooperative has serious problems with debt among some of its members. As La Voz's president stated, "if they give us more credit it is not going to benefit us. It will only put us in more debt" (Lyon, 2002: 8). In some cases these debts were accumulated through uncoordinated and even competing small-scale farmers credit programs. Financing provided by USAID at relatively high interest rates has led some producers to assume debts they cannot repay, consequently undermining their relationships with the cooperative:

High rates of debt in a cooperative can...result in a cooperative's difficulty in fulfilling coffee contracts because members do not turn their coffee into the wet mill. High rates of debt can also be debilitating to the morale and sense of unity among cooperative members as solvent members begin to feel that they are being taken advantage of and indebted members begin to feel that the cooperative's management is not responsive their needs. Finally, cooperative members that are deeply in debt to a cooperative may actually begin to have a vested interest in the cooperative's failure because it would potentially erase their debts (Lyon, 2002: 10).

The second problem is that these institutions are not usually committed to Fair Trade standards. Financial and other assistance from these institutions may be based on different visions and bring with it different goals. In some cases, the very scale of financial assistance can undermine cooperatives, fueling graft in addition to excessive debt.

Some cooperatives called for a more coherent and proactive strategy on the part of FLO to address these issues. A La Selva representative suggested that FLO become more involved in trying to influence the Mexican government toward structural policies favorable to rural producers (Gonzalez, 2002:32). Méndez concluded that the Fair Trade movement needed a clearer strategy for working with rural development actors and initiatives, many of which are linked to the State sector. He observed that the benefits of Fair Trade come not only from direct economic returns, but also from "using [Fair Trade] as a network for other rural development goals"(Mendez, 2002:23).

FLO is currently placing greater emphasis on having cooperatives dedicate the social premium to social projects. But the broader strategy for how rural development might be influenced by the needs and wishes of the Fair Trade cooperatives and producers remains undeveloped. This is an issue worthy of considerably greater attention.

G. The Need for Production Diversification

A central goal of the Fair Trade movement is to reduce the historical dependence of Southern producers on individual agro-exports. As noted by Nigh (2002) (we draw heavily from this piece in the following discussion), production diversification in Fair Trade certified cooperatives has been a primary goal. As the current crisis demonstrates, exclusive dependence on coffee has disastrous effects on the rural economies of southern Mexico and Central America. Many of the Fair Trade coffee cooperatives have used coffee profits to encourage diversification into alternative commercial crops, improving production of basic grains, improving processing and related agro-industrial activities, and developing non-agricultural activities such as handicrafts (see for example, Aranda and Morales, 2002; Perezgrovas and Cervantes, 2002).

The potential for greater diversification within the Fair Trade cooperatives needs to be further explored, since continued and increased diversification into other commodities would clearly benefit cooperatives.

A second and related need is to expand the Fair Trade diversification to include engagement in broader rural development initiatives. This was implicit in the recommendations of several case studies, and explicit in the El Salvador case. There are many rural development initiatives underway, and some already are interacting with Fair Trade cooperatives (see, for example, Lyon, 2002). But *there remains a lack of complementary strategies for Fair Trade to engage rural development.*

H. Gender Issues

Though gender issues are one of the areas that have been prioritized by Fair Trade, such projects remain under-developed. Many of the cooperatives have instituted specific projects and activities intended to strengthen the role of women. But in most cases, the gender dimensions of Fair Trade and in cooperatives more generally are focused on support for activities outside the coffee sector. Women are actual coffee producers in only a few cooperatives, although many women are employed as laborers in the harvest. Their sporadic participation within the cooperative at times appears to re-create, rather than overcome, the traditional gender biases within economic activities.

This condition, like others in this report, cannot be attributed directly to Fair Trade. On the contrary, Fair Trade has been one of the dynamic forces in overcoming the isolation of women in cooperatives. However, *there needs to be greater clarification of what gender issues Fair Trade hopes to address.* Traditional cultures in this part of the world have relegated women to a limited range of income generating activities that typically do not include commercial farming. This profile is changing, particularly as families and communities in the region disintegrate, but it remains a challenge for Fair Trade to foster new opportunities for women.

The ability to improve the opportunities of women in these cooperatives is conditioned by cultural traditions. In Guatemala, well-established cooperatives that arose out of older

generations may not adequately answer the needs of female members. Newer cooperatives, by contrast, often provide opportunities for disenfranchised members of communities to participate in Fair Trade networks, including opportunities for women to participate not only as producers, but also as cooperative leaders (Lyon, 2002:39).

It may be that further improvements to the gender distribution of Fair Trade benefits will depend not so much on the transformation of well-established cooperatives as on the fostering of future cooperatives.

VI. CONCLUSION

The Fair Trade movement has in a short time greatly improved the well-being of small-scale coffee farmers and their families. Even the doubters involved in this study acknowledge that once the evidence from all the case studies is combined, *the range of benefits is wider and more significant than previously imagined.*

That said, proponents of Fair Trade must acknowledge that *considerable issues, obstacles and problems confront Fair Trade as it moves forward.* The issues range from greater to lesser significance for the future of Fair Trade, but these issues cannot be ignored if Fair Trade is to realize its considerable potential.

Given this study's emphasis on the point of production, it is important to reflect on the "views from the South" which emerged from the case studies. The most fundamental concern expressed by producers is the limits of the market in the North. But the producers' concern for market expansion veils a deeper and somewhat more abstract problem: how to mobilize the modern consumer to support the reconstruction of the global economy in favor of the global majority. It is a struggle that is most obviously located in the North, but one that is increasingly applicable to the South, as well.

In a world where consumption is separated from production over increasingly greater space and time, modern consumers experience the processes shaping their lives with growing detachment. While most consumers express concern over a range of social, economic, environmental and other issues, many remain resigned to powerlessness in the face of the seemingly unbending and "natural" progression of global economic forces. This detachment manifests itself frequently in cynical or fatalistic responses to calls for change.

In this context, *Fair Trade is one small avenue toward reclaiming a sense of engagement and empowerment in the modern world.* It is a part of a wide range of efforts, too numerous to identify here, that represent a broad attempt to recapture the hearts and minds of a global citizenry.

Fair Trade seeks to challenge existing relations in the global economy by example, using consumer/producer alliances: to create an alternative pricing system based as much on social justice concerns as on economic factors; to eliminate unnecessary intermediaries who capture excessive portions of the price attached to commodities; and to transform transnational corporate practices, at times in spite of corporate efforts to the contrary, to address social and environmental concerns at both ends of the production/consumption continuum. It is an alliance with the capacity to transform participants throughout the Fair Trade continuum.

In this light, the second major concern raised by the Southern participants in this study, over the perceived shift of Fair Trade from a movement to a business enterprise, veils an equally deep and related concern. We have argued above that the pressure for greater participation in Fair Trade governance by the South is fundamental to the future viability and impact of Fair Trade. Such an emphasis on participation may in some ways complicate economic rationality, but that is a dilemma the Fair Trade movement must embrace.

The broader potential of Fair Trade as a movement must be recognized by Fair Trade proponents. It is something greater than the immediate (yet undeniably important) needs of impoverished coffee, banana, tea, cocoa, etc. producers for increased income. It is part of a larger effort to counter the seemingly unalterable march of globalization toward ever greater inequality and injustice. ***Making Fair Trade more democratic is crucial to this process.*** As John Stuart Mill argued long ago, the power of democracy is not in its efficiency, but in the qualities and character it builds in the people it engages. Similarly, Fair Trade will realize its potential not in the rate of return it provides to impoverished farmers, but in its contribution to a more just and sustainable global system.

The real potential of Fair Trade is not in its economic success, but its consciousness-raising through example. As Appadurai (1996) has persuasively argued, we live in a world characterized by rapid transcontinental travel and the instantaneous transmission of images and information via television and the Internet. This new reality has created the basis for a collective consciousness in which images and ideas can, for the first time, take on both an immediate and global character. Fair Trade, along with a wide range of other global and local movements that have emerged in recent years, has the potential to stimulate this global collective imagination. Therein lies the hope for a truly fair and sustainable global economy.

VII. ISSUES FOR FURTHER INVESTIGATION AND RECOMMENDATIONS

This inquiry has raised many more questions than answers, but such is the nature of exploratory ventures. Most of the recommendations growing out of this study point to the need for additional analysis. At the same time, many of the issues raised in this report call for timely and even urgent responses. These recommendations for further investigation are thus intended to lead to or accompany actions by the Fair Trade movement and others.

The recommendations are built upon the successful experiences of the Keystone and Mexico City Workshops described in the Preface. Issues in need of further investigation are identified below, but specific research protocols and action plans are not included in the recommendations. Instead, a series of workshops and exchanges are proposed. These would involve key practitioners and organizations, combined with the FTRG and other investigators from within and beyond the North/South network. The workshops will develop detailed plans of investigation and action in a participatory manner. This structure will provide not only better research and action, but will also foster the engagement and commitment crucial to success. Participants may include coffee roasters, certifiers, producer organizations, NGOs, development agencies and investigators from geographical regions and commodity or research areas currently outside of the North/South Fair Trade research network.

In some instances, further investigation and/or actions should be led by entities other than the FTRG. Issues A through D and accompanying recommendations draw largely, although not

exclusively, on the capacities of the FTRG and the North/South research network. Issue E and the accompanying recommendations are more appropriately led by entities other than the FTRG both in and outside the North/South research network, although they may draw on assistance from these groups.

Issue A - Dynamics of the Northern Fair Trade Market

Most of the global Fair Trade coffee market expansion is currently concentrated in North America. Yet we know little about the dynamics and trajectory of U.S. and Canadian markets. How do these markets vary from the traditional European Fair Trade market, and what are the implications for future Fair Trade strategies? Though the rapid rise of Fair Trade labeled coffee sales in North America signals success, this brings challenges not experienced in Europe. Do the dynamics of the North American markets pose risks for the future viability of Fair Trade standards and the Fair Trade movement more generally?

Coffee producers are understandably interested in expanding the size of Fair Trade markets. Though Fair Trade markets are projected to grow, critical market ceilings appear to exist. In Europe important collaborative efforts are underway between NGOs, national labeling initiatives, and FLO to increase consumer awareness of Fair Trade commodities, increase Fair Trade sales, and foster producer understanding of Fair Trade markets and organizations. Similar activities are needed in North America to sustain the momentum of Fair Trade markets.

Recommendation A (1): Collaborative research should be initiated on market opportunities and obstacles.

Collaborative research should focus on profiling US, Canadian, and other new national markets to improve the understanding of these diverse participants. A series of periodic workshops should be organized in conjunction with this research, to present results and propose follow-up measures. Participants would include national labeling organizations (TransFair USA, Canada, etc.), FLO, key development and educational NGOs (Oxfam USA, Global Exchange, etc.), donor agencies, investigators from the North and South, and representatives of producer groups.

Issue B – New Trade Initiatives in Coffee Markets Related to Fair Trade

A number of new, although as yet poorly understood, initiatives and opportunities have emerged in international and domestic Fair Trade markets. While Fair Trade coffee producer groups have had direct marketing relations with small roasters for a number of years, they are increasingly asked to enter into similar arrangements with large corporations. These direct marketing arrangements are often based on criteria similar to Fair Trade but occur outside the Fair Trade system. Though these relations may open up new markets for producers, corporate initiatives may undermine the integrity of the Fair Trade system.

Recent years have also seen a proliferation of social and ecological labeling initiatives outside the Fair Trade system. Producers are currently most immediately affected by the demand, particularly in North American markets, that Fair Trade coffee be certified organic. Organic and other labeling initiatives may offer important opportunities for some producer groups. Yet the potential for diverse labels to either complement or compete with Fair Trade's higher social and trade standards, as well as its explicit development focus, must be carefully analyzed.

There are also new national market initiatives, including the Mexican Fair Trade label, national coffee house chains, and regional brands. These initiatives are likely to provide significant positive commercial opportunities, yet they too raise complex questions about their relationship to the Fair Trade movement and to Fair Trade producers.

Recommendation B (1): Collaborative research should be initiated on emerging direct marketing strategies and combined certification and labeling efforts.

This research would allow both Southern producers and Northern certification and marketing organizations to assess the potential for, and limits to, the various market strategies being pursued and those of new market venues.

Investigation of direct marketing and certification efforts should involve a collaboration between the FTRG and FLO, national labeling organizations, and various NGOs that ensures the involvement of key actors in expanding North American markets. An initial investigation involving certifiers has been completed by the Institute for Agriculture and Trade Policy, and work on possible programmatic links is underway by the International Social and Environmental Accreditation and Labeling Alliance (which includes FLO, IFOAM, and others). But there is a critical need for information sharing to accompany these investigations, since producer groups are largely unaware of such ongoing activities.

Further, to our knowledge no systematic research has yet been done on direct marketing links with large corporations. Research needs to include stakeholder discussions and incorporate workshops and other vehicles for information sharing and strategy building. Such collaborative research would help the Fair Trade movement to develop an adequate strategy to address changing market conditions, and help producer organizations to assess these changes and the organizational initiatives underway. This issue is of equal importance and interest to the North and South, and should draw upon the existing North/South research network.

Issue C – Beyond Coffee: Exploring Synergies Between Coffee and Other Fair Trade Commodities

While coffee produced in Latin America remains the core of the Fair Trade system, a clear need exists to strengthen Fair Trade opportunities in other commodities and other regions of the world. As outlined in Issue A above, efforts should be made to take full advantage of Northern Fair Trade coffee markets, but it must be recognized that real market ceilings exist. This means that broadening the positive gains made in alleviating poverty through Fair Trade will involve activities outside of coffee. Strengthening non-coffee Fair Trade networks will extend the benefits of Fair Trade to other areas and provide existing Fair Trade coffee cooperatives with necessary opportunities for diversification.

Though different commodities have different production, shipping/processing, and marketing requirements, there are important lessons to be learned from the coffee experience. The experience of Fair Trade coffee has much to offer producer groups, distributors, NGOs and others involved in commodity areas currently labeled by FLO, such as bananas, cocoa, and rice.

Recommendation C (1): Develop collaborative research across Fair Trade commodity areas in support of greater coordination of organizational and market strategies.

Collaborative research would identify the similarities and differences between production and marketing conditions in current and future Fair Trade labeled commodity areas, and emphasize potential variations between European and North American markets. Participants in the research and workshops would include labeling organizations (e.g. FLO and national labeling initiatives), development NGOs (e.g. Oxfam USA), commodity based NGOs (e.g. Banana Link), donor agencies, the FTRG and investigators from North and South, and representatives of producer groups. A broad range of stakeholders would thus benefit from work already done within Fair Trade coffee networks.

Issue D - Strengthening the North/South Fair Trade Research Network

All of the issues raised in this report point to the need for increased information on a range of emerging themes related to Fair Trade. The current investigation has demonstrated the viability of the FTRG and the North/South Fair Trade research network in quickly addressing the needs of the Fair Trade movement by generating new insights into the dynamics of Fair Trade coffee in Mexico and Central America. Given rapidly changing markets, critical issues are expected to arise that require investigation and collaborative exchanges of information among a variety of stakeholders. There is currently no institutional structure dedicated to dealing with these needs.

While the rising interest in Fair Trade in both the North and South speaks to the success of this movement, it is increasing the demands on FLO and national labeling initiatives. Requests that these organizations provide basic information regarding their activities will encourage transparency (see FLO's updated website for commendable work in this area). However, extensive demands threaten to draw limited resources away from these organizations' primary responsibilities for expanding Fair Trade markets and monitoring producer and importer compliance with Fair Trade standards. Labeling organizations should not be expected to engage in critical research regarding Fair Trade, develop broad information exchanges, or act as lending libraries. Yet there is a need for all these services. Over the past several years, the FTRG has fielded numerous requests from NGO representatives, Southern producer organizations, and Northern consumers and researchers for information on Fair Trade. Since information sharing is critical to the expansion of Fair Trade networks, such information requests should be met in a more systematic way.

The FTRG continues to pursue a research agenda focused on the broader questions of Fair Trade raised in the Preface of this report, as well as exploring some of the specific questions growing out of this report. In the process, the FTRG has provided an institutional basis for the North/South Fair Trade research network to begin responding to the Fair Trade movement's needs for stronger external research, broader information exchanges, and the wider dissemination of research findings. Over the past two years, this network has developed a solid basis for multi-centric investigations on a scale and depth of inquiry not possible elsewhere. The North/South research network has extensive contacts with European and North American labeling organizations, transnational and national NGOs, Southern producer groups, and Southern and Northern researchers. It can also provide an institutional framework for disseminating work on Fair Trade that is currently only available through personal contacts.

Recommendation D (1): Extend and strengthen the capacity of the North/South Fair Trade research network to facilitate additional in-depth investigations, information exchanges, and the dissemination of research on major Fair Trade issues.

To facilitate the exchange of information on a global scale, a website should be established to provide a wide range of users with the latest research and related data on Fair Trade. This website, managed by the FTRG, would enable direct access to existing Fair Trade research and provide links to websites maintained by Fair Trade labeling organizations and other key NGO websites (e.g. Global Exchange). In addition, the FTRG and the North/South Fair Trade research network should produce regular reports addressing emerging issues and problems of importance to the Fair Trade movement, and should help facilitate periodic workshops and meetings focused on pressing research and organizational needs within Fair Trade. Some of these meetings could be modeled after the Keystone Workshop; others would be more regionally or commodity based. The North/South Fair Trade research network should be strengthened, with the FTRG continuing as a facilitator, to address specific research needs outlined above and to respond to emerging priority research needs identified through these information exchanges.

Issue E – The need to Expand Producer Participation in Fair Trade Networks

Most of the case studies identify a growing need to strengthen the avenues for producer participation in expanding Fair Trade networks. Frequent concerns were raised in this project regarding the changing nature of Fair Trade governance related to the shift from ATO-led activities to the FLO-led certification process. A number of coffee producer groups are concerned that this shift has weakened producer representation and support. As described earlier, FLO has recently undergone an extensive reorganization that will hopefully address many of these concerns, particularly through the strengthening of its Producer Support Network. The fact that producer groups displayed limited awareness of FLO's reorganization, the Producer Support Network (piloted in 1999), or of the existence of a FLO liaison officer in Mexico suggests that communication between FLO and producer groups needs improvement. The rising importance of North American markets also suggests the need for stronger links between producer groups and US and Canadian labeling organizations, development NGOs, and donor organizations.

At the cooperative level, there appears to be a critical need to strengthen producer understanding of and involvement in Fair Trade. One of the most frequent observations of investigators in this project was the relatively weak understanding of, and a consequently weak commitment to, Fair Trade among producers. This problem is common to other commodities where a lack of knowledge and understanding of Fair Trade weakens the ability to deal with quality demands (see Shreck, 2002). Weak commitment to Fair Trade at the producer level may threaten the viability of producer cooperatives and the ability to guarantee commodity supplies. The long term viability of Fair Trade globally may thus be directly shaped by the level of producer understanding of Fair Trade in the South.

A related issue regarding producer participation in Fair Trade concerns how Fair Trade networks can be expanded to benefit more producers. Given the market ceilings noted above, there are critical questions about how to extend the individual, household, organizational, and community benefits accrued via Fair Trade. Should Fair Trade expand intensively via deeper involvement with stronger, well-established producer organizations? Or should it expand extensively, by increasing the number of individual and organizational participants and

possibly modifying current pricing and other policies? No coherent strategy appears to exist for incorporating greater numbers of participants without undermining the integrity of Fair Trade standards.

Recommendation E (1): Develop a series of workshops involving Southern producer organizations, FLO, TransFair USA and Canada to strengthen North-South dialogue and identify producer information needs for research support.

Meetings should be undertaken in conjunction with the FLO Producer Support Network and the Mexican producer liaison officer to identify means for communication enhancement within the existing FLO framework, as well as to identify potential producer information needs that may be handled outside of the FLO framework. Meeting agendas would focus on (a) deepening producer group knowledge of and participation in Fair Trade; (b) extending Fair Trade participation to new producer groups; and (c) identifying producer information needs that can be aided by further research. These activities would involve FLO, national Fair Trade labeling organizations, and individuals or organizations in the North/South research network. These workshops would be especially useful for newer producer organizations that are likely to be poorly integrated into North/South Fair Trade networks, and groups seeking entrance into Fair Trade. This activity would best be based in the South.

Recommendation E (2): Pursue on-going training and education activities within the existing Fair Trade cooperatives.

Training could be adapted to meet the needs of participants at the three levels of understanding and involvement described earlier in this report: elected leadership, community-based delegates, and rank-and-file members. Training and education efforts should also be aimed at enhancing the participation of women in cooperative activities. This activity will also be Southern-based. Technical support, particularly in the form of training impact assessment, could be drawn from the North/South research network, and the FTRG in particular.

Recommendation E (3): Foster exchanges between producer groups in the South and consumers, buyers and others involved in Fair Trade in the North.

The goal of exchanges between consumers, buyers and producers, as with the training and education, would be to both strengthen producer commitment to Fair Trade and improve producer participation opportunities. Many producer groups noted the importance of North/South interactions sponsored in earlier years by Equal Exchange and the ongoing importance of personal buyer visits. Increased North/South interactions, extended to include consumers, would strengthen the networks of understanding which form the foundation of Fair Trade. This activity could also be Southern-based, but should draw on experiences in the North, such as those of Equal Exchange.

Related support should be provided to coffee organization representatives to attend key North America market forums, such as the Specialty Coffee Association meetings and others. This activity could be pursued independently by a variety of Fair Trade related organizations or donor agencies, or it could be an initiative developed as an integral part of the Northern Fair Trade market research workshops.

Recommendation E (4): Continue collaborative research on emerging Southern national Fair Trade market opportunities.

Producer group collective activities in national markets, including national Fair Trade labels and new sales venues, should be supported through research and assistance to collaborative organizational capacity-building meetings. In addition to critical national level activities, there appear to be important opportunities for extending learning between countries with relatively well-developed national initiatives (e.g. Mexico), and other countries that might be able to pursue similar initiatives (e.g. Costa Rica, Peru). Possibilities also exist for building on Fair Trade coffee activities to enhance market opportunities for other Fair Trade commodities (e.g. cocoa, fresh produce). These activities should include international NGOs and governmental agencies involved in national rural development, credit, and market activities. These efforts would strengthen well-established Fair Trade coffee producer groups in Mexico and producer groups in other commodities and other countries.

A university or NGO-based organization in the South with a track record of work with cooperatives as well as market analysis and other research capacities should be the base for such an initiative. This entity should be integrated into the North/South Fair Trade research network and could draw on assistance from the FTRG.

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