Fairtrade in coffee:
A study of opportunities and limitations for newcomers

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Executive summary

As a consequence of increased globalization, the rise of ethical consumerism has focused in on the plight of this world's destitute cash crop farmers, who are struggling with the boom-bust cycles of international commodity prices. Fairtrade is an outcome of the ethical consumption movement. It seeks to lessen the burden for poor farmers by securing them a stable income and a more friendly business environment. It does this by guaranteeing a fixed minimum price and a range of other benefits. In exchange for that and for compliance with a set of rules and standards, companies can use the Fairtrade label on their products.

Fairtrade has now been operating for several decades and has had some positive impact on the participants' lives. Does this mean that it is able to repeat this in the future and on a larger scale?

In this thesis, I ask the question of what opportunities and limitations Fairtrade certification brings about for poor coffee growers. The focus of the thesis is on what can be achieved by those farmers who are presently not involved in Fairtrade.

In order to answer this question I explore it on three levels of abstraction: theory, literature and case studies. I discuss the working of Fairtrade in relation to a wide variety of theories on economic development. I then proceed to distilling opportunities and limitations from the relevant literature and from two distinct case studies. Finally, my findings are discussed against each other to see which of the perceived opportunities and limitations can truly hold water.

My findings can be grouped into seven categories that hold within them both opportunities as well as limitations. These are: The Fairtrade minimum price, access to credit, the social premium, cutting out the middlemen, economic and social stability, benefits of organizing, and finally environmental sustainability and gender equality.

As a result of a synthesis of these findings, my conclusions are that Fairtrade by design has some embedded shortcomings that inhibit it from enlisting large numbers of newcomers into the program. While it is benefiting farmers who are already inside, it has simultaneously raised entry barriers around

the Fairtrade market to levels that make it difficult and less appealing for prospective entrants.

The overarching problem regarding Faritrade's ability to absorb new members, is that demand cannot keep pace with supply – even with the current number of producers enlisted.

Introduction

All over the developing world, small-scale farmers are struggling with finding ways to sustainably produce for global commodity markets (Sick 2008:193). As small-scale producers, they are frequently disadvantaged with regards to hedging against price volatility and the occasional wrath of nature (Sick 2008:194). While producing for global commodity markets presents great economic opportunities, it also subject farmers to high levels of risk (Sick 2008:193). When prices fall below production costs, farmers are forced to leave their fields behind in search of other sources of income (Sick 2008:194). These boom-bust cycles of commodity prices make it very hard for small-scale farmers to improve their standards of living (Sick 2008:193-194).

Coffee production is one of the industries dominated by small scale producers, scattered throughout the developing world. In the years between 1961 and 2000, coffee export more than doubled in volume to 5.5 million metric tonnes and revenues raised from it increased more than 350% reaching $8.4 billion. Millions of small-scale farmers rely on coffee production for their survival, but unfortunately it is now an industry characterized by a prolonged price crisis brought about by overproduction (Rice 2003:221-222), and by the disintegration of the International Coffee Agreement in 1989 (Lyon 2006:453).

This is where Fairtrade enters the stage: The Fairtrade concept is influenced by an idea that the current trading practices among nations are a cause of underdevelopment and unequal distribution of wealth, and if poor producers are given a *fair* price for their products, they can lift themselves out of poverty (Levi 2003:415). Fairtrade is part of the ethical consumption movement (Levi 2003:407) it aims at tackling poverty through trade (FLO web page:I), and it attempts to do so by paying a guaranteed minimum price and by administering a range of rules and standards governing the production and sale of Fairtrade labeled commodities (Renard 2005:424). From a producer perspective, Fairtrade offers: 1] support against price fluctuations; 2] direct trade with foreign buyers; 3] provision of credit; 4] payment of a social premium for development projects; 5] provision of market information to producers (Moore 2004:77). Fairtrade is a market-based third party certification scheme that rely on consumers in rich countries being willing to pay more for a product because it is produced in a way that reflect the end-consumer's own values (Getz 2006:491). Fairtrade offers consumers an unrivaled degree of transparency into how commodities are produced in order to strengthen consumer-producer relationships (Lyon 2006:457) and make the plight of poor farmers visible in the consuming markets. This unmasking of otherwise hidden production circumstances give consumers a more informed basis for making their consumption choices (Renard 2005:423).

On the flip side, Fairtrade can be targeted for promoting production practices that has been rendered obsolete by market forces as it basically rewards inefficient farmers who can no longer compete. With its guaranteed minimum price Fairtrade tries to fight against an inevitable structural adjustment and it implicitly assumes that farmers must remain farmers (Sidewell 2008:13). The minimum price will also lead to a greater supply of Fairtrade coffee than buyers are willing to buy and this excess coffee will be dumped on the regular market where it will suppress prices further (Henderson 2008:63).

In its current form, Fairtrade has been on the market since 1988 (Levi 2003:415) and it has more than 800,000 associated producers in 40 countries (Moore 2004:75), presumably they all benefit or else they would leave. These producers, however, are already inside - what about new entrants?

This lead me to pose my research question for this thesis:

What are the opportunities and limitations of Faritrade certification for poor coffee growers?

The structure of this thesis is as follows: In ***chapter I*** I describe the methodological approach of this study. In ***chapter II*** I introduce the inner workings of Fairtrade and place it in a historical context. In ***chapter III*** I introduce my choice of theory and discuss Fairtrade in relation to these. In ***chapter IV*** I review the literature. In ***chapter V*** I describe two case studies. In ***chapter VI*** I synthesize my findings from ***chapter III, IV and V***. In ***chapter VI*** I answer my research question on the basis of my findings.

Chapter I: Method

In this chapter I will disclose how I define my most frequently used terms: Fairtrade, poor, opportunity, limitation and coffee growers. I will then move on to discuss the structure and logical progression of this thesis and I will let the reader in on the methodological considerations that I have had, and which form the basis for the choices I have made. Finally, I will lift the curtain on who is my intended audience.

1.1 Definitions and delimitations

Fair trade, means different things to different people. In order not to get bogged down by this, I use and spell the term as the **Fairtrade** Labeling Organization International does: "***Tackling poverty and empowering producers through trade***" (FLO web page:I).

Even though the name, Fairtrade, was only introduced in the late 1990s and even though it is not correct English, I use this name and spelling throughout the thesis. I write it this way to distinguish Fairtrade from other fair trade ideas, such as those used by labor unions and environmental groups in their struggles. There exists other ethical trading schemes, some of which also use fair trade in their name. In this thesis I am delimiting myself to FLO's Fairtrade scheme.

When I use the term **poor** and derivatives about farmers, I am referring to those farmers that are Fairtrade's target group. The FLO narrows these down to small-scale farmers from the poorest countries in the world (FLO web page:J).

When I call something an **opportunity** or a **limitation**, I am referring to financial opportunities or non-opportunities i.e. limitations for individual coffee growers.

By **coffee growers** I mean more than one individual coffee grower, not e.g. a cooperative of coffee growers. I write it in plural in my research question because these opportunities and limitations can apply to more than one, and because I do not have any particular farmer in mind.

1.2 Reader's guide

In this sub-chapter I will introduce the structure I have chosen in my quest to answering my research question. I will argue for the soundness of these choices and hopefully it will leave the reader with a better understanding of the logical progression of the various chapters.

My original idea was to deduct opportunities and limitations from Fairtrade participation on three levels of abstraction: theoretical, literature wise and case based. More on this, later.

1.2.1 What is Fairtrade?

The purpose of this chapter is to introduce Fairtrade as a concept on both a historically and a practical level.

I have delimited my research to coffee production, hence, I will only consider how Fairtrade works in coffee, though to a large degree, it works similar when trading in most other commodities.

This initial chapter helps me to answer my research question by placing Fairtrade into its proper context and by uncovering the inner workings of this alternative way of trading. It should also help the reader with a necessary background knowledge to understand the rest of my thesis.

1.2.2 What are the theoretical antecedents of Fairtrade?

The reasoning behind this chapter is to bring some well acknowledged theories into the thesis and compare or juxtapose Fairtrade with these.

Fairtrade is not a comprehensive development theory, it would therefore be somewhat unfair to make a comparison or juxtaposition if the intend was to see which one is the most comprehensive. That is not my intention. When holding Fairtrade up against and beside well known and more inclusive theories of economic development, it is to explore where Fairtrade differs from conventional thinking and were there may be convergence. Since Fairtrade is in the business of tackling poverty, I believe it is fair to discuss its way of achieving this end, using the norms of some well renowned theories on economic development.

Structure wise, I will first outline the basic idea of a theory and then proceed to discuss Fairtrade as I interpret that it will appear using the mindset of this particular theory. I then repeat the process with the other theories and sum up in the end.

1.2.3 What does the literature say about the impact of Fairtrade?

The intention with this chapter is to conduct a review of the literature on the impact of Fairtrade, and from this deduct some of the opportunities and some of the possible limitations that has been the focus of research. Apart from academic articles I will also use research articles from institutions such as think tanks and NGOs, some of which have vested interests in Fairtrade.

I will summarize my finding in a list of key opportunities and limitations I have found in the literature review.

1.2.4 Case studies: the impact of Fairtrade

In this chapter I will present two different case studies. The first case study is about two different associations of cooperatives in Northern Nicaragua, and the other case study is about an association of cooperatives in Southern Mexico. The case studies are in my thesis to illustrate the impact of Fairtrade in practice. From this chapter I will extract the opportunities and possible limitations that have arisen during their experience with Fairtrade.

I will summarize the key findings in a list towards the end of each case study description.

1.2.5 Synthesis

In this chapter, I will initially combine the findings from the literature review and the case studies into seven categories each addressing a fundamental aspect of Fairtrade that has been raised. I will discuss these categories of findings in relation each other, to my research question and the findings from the theory and theory discussions.

What opportunities have been identified concerning Faitrade and to what degree can they be described as opportunities for prospective Fairtrade coffee growers? Likewise with the limitations that have been identified: are these are of a kind that are likely to choke the desire to become Fairtrade certified coffee producer in its infancy?

In this final chapter I will also evaluate my choice of theory to see if it helped me produce my desired result or rather skewed my thesis in an unwanted direction.

1.3 Methodological considerations

In this sub-chapter I intend to bring to light the methodological considerations that lies behind what I have done in order to answer my research question, how I have done it, and why.

1.3.1 Scientific approach

I use primarily a deductive method in this thesis. My reasons for this is rooted in my research question. My overall aim with this thesis is to distil opportunities and limitations for prospective newcomers to an existing concept, Fairtrade. In doing so, I use theory, literature and case studies that have already proven their usefulness in other circumstances. Unlike inductive methods, a deductive approach gives me the opportunity to conduct a top-down study of sorts, where I use reason to reach conclusions, which I in turn claim can be applied in real-world situations.

I have opted not to do a traditional deductive study in which I start with bold hypotheses that I subsequently test according to the standards of a chosen theory (Saunders et.al.2009:127). This choice falls back on my research question. Following which, I am in the business of distilling opportunities and limitations, not of testing them. This is not a clear cut issue, as I do actually test the opportunities and limitations I find. I test them by first re-grouping them into seven categories and then let them cancel each other out with a little assistance from my theory and research question. I do not, however, subject them to the norms of one overarching theory, as I believe this would be, well, unfair to a relatively new concept such as Fairtrade. My reasoning here is that by distilling opportunities and limitations, re-grouping them into meaningful catagories and then let them cancel out each other primarily, rather than against an already established theory. By going about it in this way, I test Fairtrade more on its merits than on its compliance with a specific theory.

My work on this thesis has progressed as follows: After I phrased my research question, I decided that I would deduct opportunities and limitations of Fairtrade on three levels of abstraction: theoretically, literature wise, and from case studies. By doing it this way I believe that my findings will be more solid. This method, however, has one serious shortcoming: there does not exist any theory, within the field of development economics, that can be sensibly applied to Fairtrade in a 1:1 relationship – not to my knowledge at least. Most major theories on economic development is concerned with how to industrialize and modernize a defunct economy. Fairtrade does not provide any answers to these concerns. I tackle this obstacle by not trying to derive opportunities and limitations on a theoretical level. Instead, I juxtapose Fairtrade and a selection of mainstream theories on economic development. The idea of this juxtaposition is to see how Fairtrade as a concept compares to, more or less, the combined body of development thinking. This apparent detour towards answering my research question is relevant because of the very purpose of theories: to predict the future. Even though the theory part cannot contribute directly to identifying opportunities and limitations for poor coffee growers, it can help give an overall assessment of, amongst other things, the incentive structure that Fairtrade creates and the likely long term outcome of this. This knowledge will be used in the synthesis chapter.

As a result of these choices, my thesis has two distinct parts which get combined again in the synthesis chapter and in my final conclusion: First there is a theoretical part, where the Fairtrade concept is juxtaposed with a variety of theories on economic development. Secondly, an empirical part, where opportunities and limitations are derived from literature and from case studies. The findings from this latter part is subsequently regrouped into seven catagories and placed up against each other, my research question and excerpts from the theory chapter, where applicable. The idea is to see if one cancels out another i.e. how opportunities and limitations compare when seen in the light of my research question and theory.

1.3.2 Data collection

I have almost exclusively relied on qualitative data. A large part of my data consists of case based impact and value chain studies. I have not encountered any studies that resemble my own i.e. studies that focuses on the opportunities for prospective newcomer's into Fairtrade. Where I have used quantitative data in this thesis, it has been to verify and/or to qualify my other data.

I use both primary, secondary and tertiary qualitative data. The primary qualitative data that I have collected is primarily used in the chapter describing the inner workings of Fairtrade and its history, while the secondary sources are used in my literature review and case study chapters. My theory chapter is based on secondary and tertiary sources.

One advantage of case based qualitative data when writing about Fairtrade is that it is readily available and easy to understand and use. While it can be of great value, it can also be manipulative and difficult to compare. Something I have found to be the case in much research concerning Fairtrade. One issue that I have been confronted repeatedly with while collecting data, is questionable methodology e.g. studies that compare things that are essentially not comparable or studies that draw conclusions that cannot be drawn from the data presented. Much of the debate and writing on Fairtrade is highly politicized and it seems that some authors do their studies backwards i.e. they set out to prove their conclusions instead of the other way around. Much of my data collection effort has consequently been to check up on data and sources and to uncover a few decent studies.

I would have preferred to apply more quantitative data in this thesis. Quantitative data has its own shortcomings, not least because they typically come without instructions for further use, why it is easy to manipulate or e.g. mistake statistical correlation with causality. With regards to my study, I would have liked to have access to data that could help me quantify the opportunities and limitations of Fairtrade. This would definitely make my conclusions even more sound and less speculative. Comparable quantitative data on Fairtrade, however, is in short supply and I have opted not to produce any myself.

1.3.3 Reliability and validity of data

As mentioned above, the debate on Fairtrade is highly politicized. It is therefore entirely possible that another person would reach completely different conclusions from the same data material that I present.

Some of the data I present is not liberated from bias. I use data both from libertarian leaning think tanks, from NGOs with vested interests in Fairtrade and from peer reviewed academic journals. The thesis is guided by my research question, which to some extend is biased against Fairtrade – because it place emphasis on individual farmers' interests, while some Fairtrade enthusiasts seems to be favoring collectivist solutions to combating poverty.

As I only use a limited number of case studies (two) and articles in my literature review (five) it is not feasible to make any statistical generalizations on that basis. What *is* possible, is to view my research question as containing two dependent variables, opportunities and limitations for poor coffee growers and one independent variable, Fairtrade. The way Fairtrade is perceived decides what opportunities and limitations can be imagined. On the basis of this rationale, it is possible to make some analytical generalizations from my thesis i.e. how the theories can be expanded from my empirical findings.

I use a fairly limited amount of data sources. Nonetheless, the conclusions I reach, given my research question and based on the applied theory and empirics, are well in line with what I believe most contemporary mainstream economist or similar thinking academics would reach.

I set out to find the opportunities and the limitations that Fairtrade offers poor coffee farmers through my three levels of abstraction: theory, literature and cases. The theory part looks at Fairtrade through different lenses, the literature review is focused on extracting opportunities and limitations and the purpose of the case studies are to demonstrate how Fairtrade works on the ground and to extract what can be learned from the actual lived experience of Fairtrade farmers. In conjunction with a sensible data collection process, I trust that my method produces valid results.

1.3.4 Theory selection

I have struggled to find appropriate theory to apply on this study of Fairtrade. If I was to examine Fairtrade as a business case, I would have had no shortage of theories on the value of differentiation, the notion of climbing up the value chain, or Fairtrade as a response to changing consumer preferences. I could also have seen Fairtrade as a way to unveil capitalism and make rich country consumers aware of the plight of Third World producers, so the latter can get rid of their 'commodity fetishism' and come to see exchanges of goods as social processes. None of these angles, however, fitted my preferences.

I opted for using a broad selection of theories on economic development and then juxtapose Fairtrade with these. Using theories on economic development also fits with my definition of Fairtrade. as the majority of these theories would look favorably at the goal of Fairtrade: to tackle poverty and empower producers through trade.

As I apply my three levels of abstraction to derive opportunities and limitations from Fairtrade, I will not need an all inclusive theoretical framework to guide my analysis. In this thesis, I primarily use the theory to discuss Fairtrade, within that same chapter – though I do later mix it into the synthesis and conclusion. One benefit of this approach is that I can use a wide variety of theories, and I can judge Fairtrade more on its merits than on the orthodoxy of its compliance with particular theories.

In Todaro and Smith's book 'Economic Development' (Todaro 2003) I found an overview of the most prominent economic development theories since this particular field of research was first instigated. This fitted my preferences hence my selection of theories are: Linear-stages-of-growth theory, structural change theories, dependency theories, and neoclassical theories. These theories have also been taught on the MSc.BLC graduate program.

1.4 Intended audience

I write this thesis as if it was intended as background material for a poor coffee farmer trying to decide whether or not to seek engagement in Fairtrade. This angle stems from my research question, but is also motivated by a desire to make this thesis more oriented towards the real world i.e. what lies outside of academia. I strive to continually keep focus on the interest of this entirely fictitious poor farmer throughout my thesis.

Chapter II: What is Fairtrade?

In this chapter I will first introduce Fairtrade; its history, how it works in general and finally how it works specifically in the coffee industry.

2.1 History of Fairtrade

Fairtrade is a product of the ethical consumption movement. It is based on the idea that the global trading system does not do justice to the world's poor. Paying more than strictly necessary for poor producers' goods, are seen as a better way to promote development than making strict financial donations (Levi 2003). It can trace its roots back to the 1940s, when a Mennonite church group began importing lace from Puerto Rico to the United States and returning the profits from its sale directly to the women who made it (Fair Trade Federation web page A). Ever since then, various alternative trade organizations have been importing different products, but mainly handicrafts, directly from producer groups in Third World countries to sell in their own shops (GlobalExchange web page A).

The first Fairtrade label was launched in 1988, inspired by a sharp fall in coffee prices. It was established by Dutch NGO Soledad, and was named after the fictional character, Max Havelaar, who fought against exploitation of coffee pickers in former Dutch colonies (TransFair USA web page A). The first Fairtrade certified and labeled product was coffee from Mexico sold in Dutch supermarkets (FLO web page A).

The introduction of a Fairtrade label was a major shift in strategy, as it allowed large companies to use the Fair trade label on those of their products that adhered to Fairtrade standards, without certifying the rest. This paved Fairtrade products' way onto supermarket shelfs, and on to wider commercial success (GlobalExchange 2010 A).

The Dutch pioneers were quickly copied, and national Fairtrade certification organizations were set up across Western Europe, North America and Japan. Several used the Max Havelaar name, while others chose different names, Transfair, Fair Trade Mark, Rättvisemärkt etc (FLO web page A).

In 1997 the various national certification organizations united and formed the Fairtrade Labeling

Organization, FLO. The purpose of this new umbrella organization was to harmonize standards and certification procedure. And five years after its creation, FLO launched a global Fair trade label, to replace the various national labels and to improve Fairtrade's visibility and facilitate inter-country trade (FLO web page A). FLO has established an independent company, FLO-cert to conduct the actual certification work (FLO web page H).

2.2 How Fairtrade works

The basic idea behind Fairtrade is to promote sustainable development through trade. But since conventional trading practices are considered to be skewed against this world's poor, Fairtrade seek to circumvent this perceived flaw by paying producers a *fair* price for their products (Levi 2003). FLO themselves see Fairtrade as "*[...] a strategy for poverty alleviation and sustainable development.*" (FLO 2009 A:3).

Today, Fairtrade is big business, and with an estimated €2.9 billion spent by consumers worldwide on certified products in 2008, it was up 22% year-on-year. The reach of Fairtrade has also increased quite dramatically since its humble beginnings. By the end of 2008 there were 746 certified producer organizations, representing more than one million individual workers and farmers who are participating in the scheme (Fair Trade Association aus and nz web page A).

Fairtrade works according to a range of Fairtrade principles. Among these are the following: 1) Payment of a *fair* price i.e. a minimum floor price and an additional premium if the product is also certified organic. On top of this, producer organizations are eligible to advance credit. 2) Fair labor conditions; a principle meaning that workers are free to join labor unions, their working environment must be safe, they receive a living wage and forced child labor is forbidden. 3) Direct trade; Fairtrade tries to minimize the number of middlemen and empower producers to develop necessary business skills. 4) Democratic and transparent organizations; Fairtrade associated producers decide democratically how their revenues shall be invested. 5) Community development; producers invest their Fairtrade premiums in various projects that benefit their community. 6) Environmental sustainability; Fairtrade prohibits some dangerous chemicals and genetically modified crops (TransFair USA web page B).

Fairtrade also has an aim of developing long-term business relationships between producers and buyers. To further this end, buyers of Fairtrade goods are required to provide producers with a sourcing plan i.e. a piece of paper where the buyer make promises of possible future purchases, its quantity, quality, price and dates of delivery. This way the producer can better plan for the future (FLO 2009 B:8).

When a business wishes to start producing Fairtrade labelled goods, it first has to send an application to FLO-cert to gain a license. After receiving the application, FLO-cert will inspect the business to ensure that it works in compliance with the Fairtrade rules. Upon a successful audit and payment of license fees, the business can start selling Fairtrade labeled products, if it can find a buyer that is. Fairtrade certification does not come with any guarantees of actually selling the products in the Fairtrade market (FLO web page B). In fact, certified producers are often only able to sell a part of their harvest on the Fairtrade market, the rest is sold to regular buyers at market prices (Levi 2003).

Any product can essentially be Fairtrade, however, FLO has so far only developed standards for a selected few. These include; coffee, bananas, tea, herbs and spices, rice, cocoa, flowers, honey, fresh fruit, juices (FLO web page C) and some composite products (FLO web page D).

There are two different sets of generic standards governing Fairtrade certification. One is for individual smallholders working together in cooperatives and the other is for farm or plantation workers whose employer pays and treat them according to Fairtrade criterions in order to use the Fairtrade label on the products (FLO web page E). A side from these generic standards, there are a set of standards governing every different product (FLO web page F).

2.2.1 Fairtrade in coffee

Coffee is by far the most important tropical product. Coffee alone accounts for almost half of tropical exports (FAO 2009) and after petroleum, it is the single largest export commodity (Levi 2003). It was also the first Fairtrade product (Fair Trade Federation web page A) and it is still the biggest Fairtrade seller with 66,000 tonnes sold in 2008, a 14% increase on the previous year (Fair Trade Association aus and nz web page A). To put this figure in perspective, however, worldwide coffee imports reached 6,1 million tonnes that same year (FAO 2009).

Coffee growers cannot be Fairtrade certified individually but only via membership of a producer cooperatives. The cooperative is the one getting certified and the one receiving the perks and obligations. Among these perks are a guaranteed minimum price of US$ 1.25 for each pound of washed green arabica coffee (FLO web page G) F.O.B. (FLO 2009 C:5), or the market price, if higher. Additionally, they receive a social premium of US$ 0.10 per pound to be used by the cooperative. Cooperatives also have the opportunity to receive up to 60% of the purchase price in pre-finance from buyers[1]. In exchange for this, cooperatives are obliged to follow the Fairtrade rules, of which there are both some specifically for coffee and some that are generic for small producer's organizations. The rules are based on the Fairtrade principles mentioned above. As examples can be mentioned that there are restrictions on what agrochemicals can be used (FLO web page G) and rules that define a smallholder as farmers who, among other things, do not structurally depend on hired labor (FLO 2009 A).

1 An exception from this rule exist where a particular producer is associated with high risk of non-repayment or non-delivery. In this case a third party lender must verify the poor credit worthiness (FLO 2009 B:9-10).

Chapter III: Theoretical antecedents of Fairtrade

According to Todaro (2003), the field of development economics has conceived four main strands of theory which again have dominated the way of thinking about economic development since the end of the Second World War. These major strands of theory are: 1) the linear-stages-of-growth model, 2) theories of structural change, 3) dependency theories, and 4) neoclassical theories (Todaro 2003:111).

These are all theories that adheres to explain why some countries' development is lacking behind and what can be done about it. In this thesis I will apply them to set Fairtrade into a broader perspective of development thinking. How is Fairtrade compatible with the predominant thinking in the area?

3.1 The Linear-stages-of-growth model

In the Linear-stages-of-growth model, development is seen as an end that can be achieved by passing through a series of progressive stages of economic development. The model is based on the history of the developed world, where countries have evolved from poor agrarian societies into advanced industrial economies. This evolution is seen as having happened through a gradual process of saving and investing, leading to a still higher level of economic output. (Todaro 2003:111)

According to the prominent linear-stages-of-growth theorist W. W. Rostow, a society is always in one of five categories of economic development: 1) the traditional society, 2) the pre-conditions for take off to self sustaining growth, 3) the take off, 4) the drive to maturity, and 5) the age of high mass consumption (Rostow 1959:1).

If an economy is able to make savings that permits investments large enough to make net additions to the capital goods i.e. investments beyond mere replacement and maintenance, its economy will grow with a function of the capital-output ratio. It follows from this, that if the national savings rate can increase through e.g. an inflow of foreign aid or higher taxation, its economic growth rate will pick up pace.(Todaro 2003:112-113)

After the 'take-off phase', an economy will only grow in a limited number of economic sectors, where modern technology is used (Rostow 1959:7). It is not until the 'drive to maturity stage' before the modern economy broaden its reach to include all sectors of the economy (Rostow 1959:8). In Rostow's view, a key element, and one of the preconditions for sustainable economic growth to take off is a radical technological upgrading of agricultural practices to improve productivity dramatically (Rostow 1959:5).

3.1.2 Discussion of Linear-stages-of-growth and Fairtrade

The whole concept of Fairtrade can be argued to work contrary to what is recommended by the linear-stages-of-growth model. If accepting the terms of this development theory, Fairtrade deliberately freezes society on Rostow's first stage of development; the traditional society. While Fairtrade puts a premium on being small and not too efficient, the stages model sees this as something that ought to change, sooner rather than later. Fairtrade seeks to create a market for agricultural exports from small producers who could not otherwise compete. In the logic of the stages model, this means keeping people in poverty as only migration to higher productivity and modernity will alleviate poverty.

Hypothetically, if Fairtrade farmers used their premiums to save up for investments in other, more productive sectors, or to finance a radical upgrading of their own productions, Fairtrade could help with the development process by infusing extra capital into the economy and thus improving the savings rate. Unfortunately, if Fairtrade farmers did use their extra premiums for a radical upgrading, they could risk ceasing to fulfill the Fairtrade criteria[2], and they would face possible excommunication as a consequence. And, if they did invest in other sectors of the economy, they would possibly not be poor enough to become Fairtrade certified in the first place.

Since FLO insists that farmers must be smallholders, it places a limit on growth and hence also on development. If farmers save and subsequently invest in their own production beyond mere replacement of worn-out equipment and maintenance, their production will grow with a function of the capital-output ratio. But in the Fairtrade system, farmers can grow too much. If they do so anyway, they will no longer fulfill criterions as they will no longer be smallholders.

2 FLO defines a smallholder as: “[...] those that are not structurally dependent on permanent hired labour and that are managing their farm mainly with their own and their family’s labour.“ (FLO A 2009:4)

3.2 The Structural-Change-Models

This theoretical strand has two major currents, 1] the 'two-sector surplus labor' model, constructed by W. A. Lewis, and 2] 'patterns of development', empirical analyses, of which the one by H. B. Chenery et.al. is the most famous (Todaro 2003:116).

3.2.1 The Lewis two-sector surplus labor model of structural change

This model is based on the notion that underdeveloped economies have basically two economic realities: There is a traditional rural sector where the majority works and which is characterized by zero marginal labor productivity i.e. if a worker leave the sector, there will be no change in output, hence the term 'surplus labor'. Opposite of this is a modern urban sector with high levels of productivity. This latter sector will gradually absorb the surplus labor from the former sector and by a continued accumulation of profits and their reinvestment, this modern sector will eventually spread all over, and the country is then developed. In this process of economic transformation, even the remaining rural workers eventually cease to be surplus labor as the modern sector will consume so many of their peers that their individual contribution will start to influence production levels. Economic activity will shift its balance from agriculture to modern industry and most people will gain in the process. (Todaro 2003:116-121).

3.2.2 The patterns of development analysis

This is an analytical approach based on the notion of “*letting the facts speak for themselves*” (Todaro 2003:122). It is basically statistical analyses of economic data to find some common denominators of economic development. Patterns of development proponents believe that the process of development consists of economic growth and change, and that these processes can be uncovered by statistical analysis. Among the characteristics of the development process found in Chenery's analysis is a transformation of the economy from agriculture to industry, a continued accumulation of capital (physical and human), a shift in consumer demand from food to industrial goods and services, and finally, a decline in population growth rates. While savings and investments are important for development, it is not sufficient. There are both domestic restraints on development such as resource endowment, geography and demographics as well as external constraints such as limits in the access to foreign technology, capital and markets. But the international environment can also play a positive role for developing countries as they give access to manufactured imports, technology, capital and export markets. Something developed countries did not have access to when they first started out. The developing countries of today therefore have better possibilities of fast development than did the already developed countries in their time (Todaro 2003:121-122).

3.2.3 Discussion of Structural Change and Fairtrade

When looking at the working of Fairtrade through the lenses of Structural-Change theory, Fairtrade would not qualify as a development tool with neither the two-sector surplus labor model nor the patterns of development. Fundamentally, both models place emphasis on the importance of industrialization and a shift of economic focus from agriculture to industry and service. Fairtrade does not.

If fewer people migrate from a rural area, this could be deemed a success by the logic of Fairtrade. Such a development could mean that rural life is now possible and that country dwellers can start to see a future there. Using the lenses of Lewis' two sector model it can be argued that, this is just a postponement of the pain. If the small scale rural economy is characterized by zero marginal labor productivity, all Fairtrade does is paying a premium so that country dwellers can remain largely idle. If underemployed rural workers do not migrate into town, the modern sector cannot pick them up and they will remain poor and underemployed, as will their children. The country as such would suffer from the lost opportunities of economic growth in the modern urban sector, stemming from a decreased inflow of work-eager migrants into big cities. Given the limited size of the Fairtrade market, however, this latter scenario is somewhat speculative.

On the more positive side, it can be argued that Fairtrade does help with the development effort by facilitating exports. As mentioned above, access to export markets do show up as a facilitator of development in a pattern of development analysis. All other things held equal, exports must be positive in a development perspective as it provides the country with valuable foreign currency and educate inhabitants in the value and practicalities of foreign trade. Unfortunately, the sort of export that Fairtrade facilitate is the kind that work against development in a structural-change manner. It can be argued that Fairtrade encourages people to stay put in their backward sectors where zero marginal labor productivity is the norm. Conclusively, with the mindset of structural Change theory, Fairtrade seems to do more harm than good. It does so by postponing the inevitable structural adjustment that must happen in order for development to take off.

3.3 Dependency theories

Dependency theories took the world by storm from the 1970s and onwards. These theories have been especially popular among developing country academics, and though they have lost some clout, they are still around in various guises. Dependency theories originally come in three dominant streams: the neocolonial dependence model, the false paradigm model, and the dualistic development thesis (Todaro 2003:123). Common to them all are a focus on injustices, imbalances in power relations, and an underlying idea that developing countries would do better if they interacted as little as possible with others, especially they should minimize interaction with developed countries. (Todaro 2003:127)

3.3.1 The neocolonial dependence model

The neocolonial dependence model is a marxist take on the causal relationship between poor and rich countries. The world is seen as divided in center and periphery. Where the countries in the center and small elites in the periphery countries lives of the the misery of the rest (Todaro 2003: 124). Whether intentional or not, the unequal relationship between center and periphery makes it impossible for poor countries to gain real independence and develop their own economies. The interests of the center countries are aligned with those of the small elites in poor countries, and they are profiting from status quo. The only way this can change is through revolution, if not by a radical change in the global capitalist system (Todaro 2003: 124).

3.3.2 The false paradigm model

The false paradigm model of international dependency is less pessimistic about the possibilities for change. It sees backwardness or lack of development as a result of poor advice from, often well-meaning, Western or Western educated experts. Since these experts are all from rich countries or at least are educated and thus fed with economic models suitable for describing rich country economies, they fail miserably when they try to use their fancy models on societies that are fundamentally different (Todaro 2003:125-126). Development models can be beautifully logical and have proven great explanatory power in rich countries. They are therefore expected to be equally successful in developing countries, but they fail (Todaro 2003:125-126). They prescribe the wrong medicine and they take away focus from the issues that could have a positive impact on development, such as institutional and structural reforms that could remove some of the hindrances to development. Instead of working on these vital reforms, policymakers are diverted into focusing on secondary issues such as how to increase national savings and investments rates and how to best measure capital-output ratios. (Todaro 2003:125-126)

3.3.3 The dualistic development thesis

The dualistic development thesis places emphasis on the duality of societies. Inside poor countries there are pockets of wealth and inside rich countries there are pockets of poverty. These separated societies coexist and will continue to do so, as history shows no sign of trickle-down effect or of upwards mobility. In fact, the only development that seems to be happening is a tendency to still greater inequality e.g. because productivity levels grow faster in already rich countries. (Todaro 2003:126)

3.3.4 Discussion of Dependency and Fairtrade

The very notion of *fair* trade necessitates that other trade is *un*fair. This idea that *free* trade is not necessarily *fair,* may very well be inspired by Dependency theory. While Fairtrade may be inspired by Dependency theory, it prescribes a different remedy to cure the ailment of underdevelopment.

According to dependency theory, development cannot occur as long as global power relations remain unchanged. Poor countries are inhibited from developing their economies independently because local elites and rich countries profit from status quo. Should they overcome the resistance to change, they will be inhibited from development by misguided advice from Western experts and locals trained in Western thinking. It can be argued that history show, there are only limited possibilities for upward mobility and hardly no trickle-down of wealth. Rich and poor coexists, and the only certainty is that the gab between these two groups will continue to grow because of differences in productivity growth rates.

With this worldview, the net effect of Fairtrade on these structures should be quite limited since a Fairtrade farmer is in no less of a dependent position than a non-Fairtrade farmer. And, as Fairtrade is a Western concept, it can be argued that it may very well have attributes that are not applicable in a Third World country contexts.

Some dependency theorists have favored a return to subsistence farming and local craft production in order to break out of the dependent relationship with rich countries. How this can bring about a development process remain to be explained (Saul et.al. 2006:114). Although smallholder farming and local craft production is exactly what Fairtrade promotes, it does so with the intend of exporting the produce from these smallholders. And by doing so, it can be further argued that nothing is gained with regard to reducing dependence which again means that nothing can truly be gained from Fairtrade unless something is done about dependence.

More frequently, the response to dependency is to limit economic interactions with rich countries and try to develop import competing industries, in what has been known as industrialization by import-substitution. This approach is also more in line with evidence suggesting that the terms of trade for commodity exporters tend to worsen over time (Chang 2006:634). Looking at the world with a mindset of dependency theory, the net effect of Fairtrade in this thinking would be rather negative as Fairtrade is all about exports of primary products – something that is believed to result in still poorer terms of trade vis-à-vis manufactured goods (Chang 2006:634). The higher Fairtrade price would be of little consolation here as it can be argued that it would only show as a tiny bump on a graph showing the ever declining terms of trade. And with no plan for industrialization, Fairtrade does not seem in line with this particular brand of dependency theory either.

Another quite negative take on Fairtrade in a dependency mindset could be that Fairtrade can be seen as just another rich country fabrication, aimed at diverting attention away from the injustices of the global capitalist system. It can be argued that while farmers are paid a little more under Fairtrade, they still live at the mercy of people in faraway countries.

3.4 Neoclassical counter revolution

From the late 1970s, free marketeers found new momentum as developing countries were still struggling with how to develop. The central argument is that underdevelopment is a result of overly active governments leading to misallocation of resources (Todaro 2003:128-129). By letting market forces allocate resources, fundamental economic incentives would be straightened, efficiency would be heightened and it would limit the reach of corrupt bureaucrats. Neoclassical development theory can be subdivided into three main categories: Free-market analysis, Public-choice theory, and the market friendly approach. (Todaro 2003:128-129)

3.4.1 Free-market analysis

In the free-market analysis it is assumed that markets in developing countries work with near perfect competition, with both information and technology readily available and at low costs. Markets alone are efficient. It is the most efficient way to find new industries to invest in, and producers know best how to produce, what to produce and when to produce in what quantities(Todaro 2003:129). Prices reflect scarcity and any intervention in the economy is thus an unwelcome distortion. Interventions will only lead to skewed incentives and subsequent misallocation of scarce resources. This in turn, will lead to lower than necessary economic growth rates. (Todaro 2003:129)

3.4.2 The Public Choice theory

The Public Choice theory is also known as the new political economy approach. It is, if possible, even more hostile towards government intervention. In this view, people are seen as acting solely in their own self-interest. And as governments also consists of people, this means that politicians, bureaucrats and other officials will use their powers to promote their own private agendas. They will set up rules that allow them to sell permissions and extract bribes. And citizens will have incentives to use political connections to gain special privileges. All this will lead to both misallocation of resources and limitations on individual freedom (Todaro 2003:129).

3.4.3 The market friendly approach

The market friendly approach can be categorized as more friendly towards government interventions in the economy. Even though it also strongly favors a market driven approach to economic development, it recognizes that there are a few selected areas in which it can be useful with a little government intervention. These areas include basic healthcare, education and physical infrastructure. (Todaro 2003:129) The only reason for making these public investments is to facilitate the unobstructed working of the market forces, nothing else. Unlike the other neoclassical approaches, this one recognizes that there are a number of serious imperfections in developing countries' markets, and that they will not go away by themselves. (Todaro 2003:129)

3.4.4 Neoclassical theories and Fairtrade

When following a neoclassical mindset, it is rather difficult to identify one, positive or negative attitude towards Fairtrade. On the one hand it can be said that Fairtrade is a classic example of a misguided market distortion that will necessarily leave everybody worse off in the long run. At the same time, it can just as well be argued that it is a clever way to differentiate an otherwise identical product in a saturated market.

One example of a free-market analysis of Fairtrade could focus on Fairtrade's built-in distortion of price signals: When coffee prices fall, it should be taken as a signal to producers that they currently supply more coffee than the market can absorb. The correlation between supply and demand is easy to grasp, and given strict adherence to that, it is not necessary for individual farmers to base decisions of future production volume on anything other than the price signal. As prominent economist and Nobel laureate Friedrich Hayek once noted, "*[...] in a system in which the knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different people [...]*" (Hayek 1945:525). So what is likely to happen when Fairtrade start paying a fixed minimum price to a selected group of coffee farmers? Among the first things the farmers can be espected to do, is to cease basing decisions of future production volume on the expected price they think they can receive in the market, since this is no longer a concern. Instead they will most likely base the decision on estimates of the volume that they think they can sell to the Fairtrade cooperative. The problem in regard to the price mechanism, and thus to neoclassical theory in general, is that production is not necessarily cut back as it should when prices fall, it might even increase. When price signals are ignored, it follows that the market logically will continue to be swamped and prices of non-Fairtrade coffee will fall even further.

It can be argued that if Fairtrade help the poorest and least competitive coffee producers, it will be the second poorest, second least competitive producers that will bear the brunt of the harm caused by the subsequent price reductions in the regular market. The more efficient producers can most likely better use their higher margins to temporarily offset the effects of price reductions and easier adjust to the new circumstances by upgrading production processes and capacity to match new prices.

With regards to distortion of price signals, this all means that in a neoclassical view, Fairtrade help one small group on behalf of anothers.

However appalled by the functioning of the Fairtrade system, free marketeers would have a hard time denying consumers their free choice. And if consumers demand products such as Fairtrade, it is only natural and entirely reasonable that someone will supply them. It can be argued that farmers in the Fairtrade system are only doing what is in their own best interest as they turn their primary disadvantages into their main selling point. It can further be argued that while in the conventional market, being small, marginalized and poor logically leads to small yields and meagre profits followed by bankruptcy, loss of land and migration. Not so in the Fairtrade system. While they may never become rich, Fairtrade can certainly be argued to be a highly suited fit since it basically place value on poor farmers' deficiencies while filling a vacant spot on supermarkets' shelves.

If changing lenses slightly to a neoclassical Public Choice view, Fairtrade looks bad on all counts. One angle of attack could be the extra intermediaries between the farmer and the market. Fairtrade forces farmers to join cooperatives, where they can be exploited by corrupt and self-interested managers or the cooperative can be hijacked by special interests groups. Further, it is possible to imagine that cooperatives may receive poor advice from NGOs with questionable knowledge of the subjects at hand and decisions on future production and investments will be based on faith in Fairtrade rather than on market realities. If following a neoclassical public-choice thinking, this would be ill advised.

One can argue for an endless amount of things that can go wrong and that individual farmers have no influence on: If Western consumers for instance ceased to value Fairtrade because of a scandal, because of competition from other labels or because of compassion fatigue, such faith would turn out to be unfounded. Since coffee farmers are also self-interested beings, following a Public Choice mindset, they ought not place such faith in a system where important aspects are beyond their sphere of influence and where vital fundamentals are build on shaky ground.

3.5 Summing up

Even though I use a wide variety of theories on economic development that together cover a variety of ideological stands, it seems that Fairtrade does not comfortably fit in anywhere. One reason could be that Fairtrade in effect accepts status quo as an end in itself, when it rewards farmers that have lost competitiveness in the regular market due to e.g. too small scale, and insist that they shall continue to produce in much the same old way. It can further be argued that Fairtrade in effect idolize production methods that have been rendered obsolete by market evolution, and this, I will argue, contrast with the very idea of development.

To illustrate Fairtrade's incompatibility with the notion of economic development in general, consider the following hypothetical example: If a farmer has the productive capacity of 100 pounds of coffee per harvest given his current landholding and his own and his family's labor. The farmer will earn $125 from each harvest, if selling all the coffee to a certified cooperative at the Fairtrade minimum price of $1.25/lb. Now, if the farmer's neighbor with similar production capacity, leave his land and migrate to a big city in search of better opportunities, and our farmer was offered to take over his land for some symbolic price, as it would otherwise stand idle, he faces a serious problem. Theoretically, our farmer can now double his production without doubling his inputs and thus he will more than double his net profits. Because of scale economies unit costs would go down. His overall input-output ratio could fall from say, 50% ($0.625/lb) to 45% ($0.562/lb) or even 40% ($0.5/lb) of gross turnover at the Fairtrade price. With a doubling of production, our farmer's net profits would go up from $62,5 with a production of 100 pounds and a selling price of $1.25/lb to $125 with unchanged unit production costs of $0.625/lb. When taking the advantages of producing on a larger scale into account, our farmer could fetch net profits of $137,6 or $150 if his input-output ratio fell to $0.562/lb or $0.5/lb respectively. This additional profit would allow for savings and thus further investments in production capacity, or it could be used for a higher level of consumption and thus a higher standard of living for him and his family.

Unfortunately, there is a limit on how many hours of sunlight there is in a day, and our farmer and his family cannot be more places than one at a time. They will soon start to depend on hired labor to manage their larger production, and thus, they will eventually breach Fairtrade rules.

If our farmer is thrown out from his Fairtrade certified cooperative, he will not only loose the opportunity to sell his coffee at the guaranteed Fairtrade price he will also loose all other perks associated with membership of the cooperative such as his share of the investment in the Fairtrade certificate. To offset this loss, the regular market price for generic coffee would have to be quite high and rather stable, something which is famously not the case in the coffee industry.

As the example above illustrates, the Fairtrade requirements actively skew farmers' incentives against investments in larger scale production. If farmers' are to have hopes of development towards a better future, their remaining option seems to be investments in getting a higher yield per area unit, but without a simultaneous increase of labor input. Something that, off the tip of my head, would necessitates a technological upgrade beyond the financial reach of most Third World farmers.

It is, however, also possible to see Fairtrade as a way of impoverished farmers to take maximum benefit from their own misery by using that as the main selling point in a drive to differentiate their coffee in a saturated marked - and command higher prices in the process. This can be seen as a natural response to changes in consumer preferences in the coffee consuming countries.

Chapter IV: Review of the literature: Impact of Fairtrade

In this chapter I will review some of the literature on Fairtrade to find out what opportunities and limitations are attributed to the concept.

4.1 Murray, Raynolds and Taylor

In their article: 'The future of Fairtrade coffee: dilemmas facing Latin America's small scale producers', Murray et.al. (2006) identifies a whole range of opportunities that arises from signing up to Fairtrade certification. Among the business opportunities for small scale farmers and cooperatives, they mention that the Fairtrade market is experiencing strong growth and has done so for quite a while (Murray et.al 2006:179-181). They also bring into focus the fact that the companies who buy Fairtrade products, must agree to make further purchases beyond the current harvest cycle, and they must buy directly from producer's organizations (Murray et.al 2006:182). This, more direct link, between producer and end consumer is what Murray et.al. identify as what eventually provide the former with greater benefits (Murray et.al 2006:180). Naturally, they also mention the Fairtrade minimum price and the accompanying social premium (Murray et.al 2006:182), as something that adds favorable to life as Fair Trade producer. And they draw attention to FLOs rule that importers must offer pre-financing of up to 60% of contract value, if requested (Murray et.al 2006:182). Of the more practical, day to day advantages for poor farmers, Murray et.al. identify technical assistance and training in farming techniques (Murray et.al 2006:183) and capacity building of management and marketing skills (Murray et.al 2006:186) as something that greatly benefit farmers and farmer's organizations (Murray et.al 2006:186). The article also identify opportunities that benefit on a community level, such as the social premium paid by purchasers (Murray et.al 2006:182), a strengthening of producer's organizations and what the authors describe as cultural revival for some indigenous people (Murray et.al 2006:83). Cutting through, Murray et.al. sees Fairtrade as a vehicle to greater social and economic stability (Murray et.al 2006:183).

4.2 Ronchi

In her article: 'The Impact of Fair Trade on producers and their organisations: a case study with coocafé in Costa Rica', Ronchi (2002) identifies a number of opportunities that Fairtrade brings about for both the producer and the producer's organization to enjoy. Chiefly among them are the higher Fair Trade price (Ronchi 2002:2) which allow farmers a sense of security that makes them less risk aversive and more prone to invest in future incomes (Ronchi 2002:18). This also include that farmers can keep their children longer in school (Ronchi 2002:11). She also highlights that membership of a cooperative has many advantages, such as an increased bargaining power and the possibility of pooling purchases to gain discounts (Ronchi 2002:2). Ronchi also notes that cooperatives receive technical assistance with quality control and all sorts of help with organizational processes and with product standardization (Ronchi 2002:14). The author also ascribe great value to the market information that cooperatives' export departments get from their Fair Trade partners (Ronchi 2002:14) and she generally recognizes that producer's organizations are strengthened by their participation in Fair Trade (Ronchi 2002:17). Although her focus is primarily with financial matters, Ronchi also notes that farmers benefit from community projects that are funded with the social premium (Ronchi 2002:7).

4.3 Slob

In the article 'A fair share for smallholders: a value chain analysis of the coffee sector', Bart Slob finds quite a few opportunities which derives from Fair Trade certification. Among these are the technical support that producers receive from importers and the advocacy role that the latter play on behalf of the former in national and international fora (Slob 2006:21). Slob identifies the elevated Fairtrade price and the social premium, that producers receive, as major benefits (Slob 2006:26), but he also emphasize the role that a good and stable relationship between producer and importer play, as his analysis demonstrates that the Fairtrade value chain works somewhat differently than others. All superfluous joints have been removed from the value chain (Slob 2006:26), giving fewer mouths to feed, leaving more to the producer. Slob finds that a Fair Trade cooperative receives a little less than 30% of the retail value of their product (Slob 2006:28), while non-Fairtrade actors receive as little as 6%[3] (Slob

3 It is unclear from Slob's text whether the 6% of the retail value is received by the actual producer or by a producer organization. In the text Slob writes that it is what the producer receives, while an accompanying figure suggest that it is the amount received by a producer organization. Since non-Fairtrade farmers are not obliged to be members of organizations, it seems reasonable to assume that he refers to individual non-Fairtrade producers.

2006:25). The long term contracts offered, and the possibilities of advance payment are likewise major benefits (Slob 2006:26) as are capacity building, training and access to market information (Slob 2006:33), all of which are included in the Fairtrade package. With regard to cooperatives, Slob see this organizational form as beneficial because it gives opportunities for economies of scale (Slob 2006:28) and in its Fairtrade variety, it also specifically aims at empowering women (Slob 2006:36). Finally, Fairtrade gives the economic and social stability that is needed in order to start diversifying, away from dependence on just one export commodity in its raw form (Slob 2006:40).

4.4 Berndt

In her article: 'Is Fair Trade In Coffee Production Fair and Useful'. Berndt (2007) finds, after having done case studies in both Guatemala and Costa Rica, that it is questionable whether Fairtrade delivers on its promises and that it might actually damage the long term interests of impoverished farmers (Berndt 2007:ii)

Among the problems with Fairtrade, she particularly stresses the fact that demand for Fairtrade coffee remain low despite years of vigorous marketing (Berndt 2007:15). Poor farmers can therefore not join Fairtrade certified cooperatives unless they bring a buyer with them, as there is already an oversupply of Fairtrade coffee (Berndt 2007:15). On top of this, the Fairtrade minimum price is so high that it is difficult for many cooperatives to sell their entire coffee harvest in the Fairtrade market, because the quality is not high enough to support the price premium. This is especially true for cooperatives situated in areas that are not ideally suited for growing high-grade coffee (Berndt 2007:15). According to the article, one of the problems with Fairtrade is that it direct itself towards marginalized coffee growers, those that cannot compete. The problem here is that the reason why they cannot compete is often because they grow coffee in areas that are not suited for this crop (Berndt 2007:17-18).

Berndt reports that the largest Guatemalan cooperative can only sell 23% of its coffee to Fairtrade buyers, while the average in Costa Rica is 20%. She does, however, find one Costa Rican cooperative that sell a whopping 40% of their harvest to Fairtrade buyers. But this cooperative also differs from the others in that they are located in a prime coffee growing zone, the other Fairtrade cooperatives are not.

As Fairtrade is sold by cooperatives FOB, it seems reasonably that Slob rather ought to have compared the F.O.B. price of Fairtrade coffee and non-Fairtrade coffee respectfully as a percentage of the retail value. Then in turn he could have compared how much of the F.O.B. price is received at the farm gate under the different regimes.

The high quality coffee from this one cooperative is mixed with the mediocre quality coffee from other Costa Rican Fairtrade cooperatives to improve overall taste (Berndt 2007:16).

Because cooperatives cannot sell all their coffee in the Fairtrade market, they must sell a portion to the regular market, where price is determined by quality. This gives farmers and cooperatives an incentive to sell the worst beans to the Fairtrade market in order to collect a higher price in the regular market (Berndt 2007:21).

Berndt gives an illustrative hypothetical example of how Fairtrade tweaks incentives so that farmers will gain from selling their worst coffee as Fairtrade and lowering their quality in general: A farmer has produced two bags of coffee and sorted them after quality. She knows she can sell bag A for $120 and bag B for $140 in the open market. She has a quota that allows her to sell half her harvest to the Fairtrade cooperative where she will receive $131 ($1.21/lb+$0.10/lb[4]). If she sell the poor quality bag A to the cooperative, she will earn $131 + 140 or $271 from her harvest whereas she will only earn a total of $251 if she sell the good quality coffee in bag B as Fairtrade. The following year, she could maximize her income using the same overall input by reallocating resources, e.g. her use of fertilizer, away from her worst coffee plants to focus solely on improving the quality of her best ones. This could produce a bag of quality coffee worth $150 in the open market and a rather poor quality bag that would still sell at $131 in the Fairtrade market. Thus, by lowering quality she would raise her income from $271 to $281 the following year. The incentive to produce mediocre quality for Fairtrade is strengthened by the fact that cooperatives mix individual farmers' coffee before milling, exposing the industry to free rider problems (Berndt 2007:22).

Berndt asses that production costs in Central America do not exceed $0.90/lb, thus the minimum price of $1.21/lb plus a $0.10 social premium, guarantees cooperatives a profit of $0.41/lb. When compared to the spot price of exchange grade coffee on the New York Coffee Exchange - which is highly volatile and reached a low of $0.45/lb in October 2001 - the Fairtrade premium seems to make a significant difference for farmers. However, the majority of Central American coffee is not exchange grade but rather speciality coffee and therefore, Berndt argues, Fairtrade coffee should rather be compared to this. As she continues, she shows how prices developed in the period of 1989 – 2006. In this period, exchange grade coffee was sold for an average of $1.03/lb and Fairtrade for $1.33/lb - the former with

4 The Fairtrade minimum price has since been raised to $1.25/lb + $0.10/lb in social premium.

drastic ups and downs. Speciality coffee in the same period, sold for an average of $1.30/lb and with much less volatility. So the real benefit of Fairtrade, Berndt argues, is down to $0.03/lb on average, and this is before certification costs has been deducted (Berndt 2007:19-20).

Berndt acknowledges that Fairtrade work as a hedge against price fluctuations (Berndt 2007:22), but in the same time, the democratic nature of Fairtrade cooperatives all but inhibits them from hedging against risk on the international futures or forwards contract market. Fairtrade works as a forwards contract of sorts, but since cooperative managers are elected by popular vote, they are not necessarily the most qualified, business wise. And since members must approve salaries, they are presumably not likely to insist on paying a high salary for a financial expert to advise them in these matters. The result being that they are exposed to more risk than necessary (Berndt 2007:26).

Of other indirect cost of Fairtrade, Berndt identifies an increased propensity for corruption and unnecessary layers of bureaucracy in cooperatives. This, of cause, reduces the amount of the Fairtrade premium that reaches the actual farmers (Berndt 2007:26-27).

4.6 Weber

In his article 'Fair Trade coffee enthusiasts should confront reality' for the Cato Institute's journal, Weber (2007) argues that Faritrade cannot and does not live up to the image by which it portrays itself (Weber 2007:109). While he recognizes that Fairtrade has a positive impact on producers' lives (Weber 2007:115) he is more concerned with vexing systemic issues such as supply and demand of Fairtrade coffee being out of sync, and a further marginalization of the most economically disadvantaged producers (Weber 2007:109-110). Weber does not see these problems being solved anytime soon, as Fairtrade enthusiasts are, in his view, searching for culprits rather than fixing obvious problems (Weber 2007:110). Problems are often not thoroughly analyzed, instead they are blamed on greedy companies that are only in it for the profits. These strong reservations against ideologically uncommitted companies, Weber believes, are acting as a constraint on Fairtrade's ability to grow beyond being a small niche for the selected few (Weber 2007:116). In fact, Weber argues, FLO should rather embrace the market (weber 2007:116). Weber gives as an example, Starbucks, the larges purchaser of Fairtrade coffee in North America, nonetheless, 96,3% of the coffee that Starbucks buy, is not Fairtrade (Weber

2007:115). Weber suggest that a good place to start is for FLO to stop insisting that producer cooperatives must assume complete control of the export process (Weber 2007:116). This would drive down costs as specialized export companies are generally more efficient than cooperatives, the latter having many other issues on their agendas. FLO's idea is to eliminate unnecessary intermediaries, Weber's point is that these intermediaries are not unnecessary at all. The work they previously did must now be handled by cooperatives, and cooperatives are not specialists in exporting. The result being that more of the Fairtrade premium is spend on inefficient management of the export process instead of trickling down to the actual producers (Weber 2007:111).

Another vexing issue is what Weber sees as a disconnect between the perceived benefits of Fairtrade and reality. One example of this gab between promotional material and reality is the often claimed notion that Fairtrade guarantees a living wage to coffee producers, while in fact it does no such thing. What Fairtrade guarantees is a minimum price to cooperatives, coffee growers receive no guarantees whatsoever (Weber 2007:111). Another example of the gab is the often held misconception that workers hired by Fairtrade farmers are entitled to a minimum wage, this is not the case as the minimum wage rule only extend to direct cooperative employees. In fact, a journalist from Financial Times found that on four out of five visited farms in Peru in 2006, hired help was payed below the legal minimum wage. In response to the article, the Fairtrade Foundation reiterated its standards and found that no breaching of its rules had happened (Weber 2007:111).

Weber is also concerned about the permanent state of excess supply of Fairtrade coffee. This results in higher entry barriers and increasing demands on existing producers (Weber 2007:114). Ironically, it will be the most marginalized and impoverished producers, the ones Fairtrade is supposed to help, that will be the victims of these higher entry barriers and increasing demands (Weber 2007:113). As an example of these rising demands, Weber point to the fact that still more Fairtrade coffee is now also certified organic – a step that allows for differentiation in a saturated market. By 2006, some 85% of Fairtrade coffee sold in the USA was dual certified, Fairtrade *and* organic (Weber 2007:114). Higher entry barriers are obviously a boon to those already well established in the industry while those on its fringes, the most marginalized ones, are less enthusiastic. Weber point out that a natural outcome of having a price floor is a trade-off between giving large quotas to a few privileged suppliers or dividing market shares more evenly so that everybody can only sell a small fraction of their production to the Fairtrade market (Weber 2007:115).

4.7 Summing up

As illustrated with the review of the articles above, there is a rather sharp line drawn between those who find Fairtrade beneficial and those that does not believe Fairtrade is able to deliver on its promises. While Murray, Ronchi and Slob are very positive and only find opportunities, Berndt and Weber almost entirely focuses on the drawbacks and finds only limitations.

Below is a list of key findings from the selected literature. They can be seen as reasons why farmers should or should not wish to engage with Fairtrade.

4.7.1 Main limitations of Fairtrade certification

- Supply and demand are out of sync: It is generally not possible to sell entire harvest at the elevated Fairtrade price.
- Free rider problems with regard to product quality: Farmers have incentive to lower quality.
- Proneness to corruption: Organizing into cooperatives opens new possibilities for corruption.
- Cooperative bureaucracy takes up scarce resources
- Business decisions based on popular vote are poised to churn out bad results
- Because of ideologic preferences, systemic problems are not fixed
- It is inefficient to have cooperatives handling everything
- The entry barriers keep rising
- The farmers who are in, faces still higher demands

4.7.2 Main opportunities of Fairtrade certification

- Long term business relationship with Fairtrade buyers
- Direct sale from cooperative to foreign purchaser. This limits the number of middlemen
- Social Premium, administered by cooperatives and used to fund development projects
- The Fairtrade minimum price
- Access to credit from Fairtrade buyers
- Capacity building
- Technical assistance
- Strengthening of producer organizations
- Social and economic stability
- Increased bargaining power from membership of cooperative
- Pooling of purchases to gain discounts
- Market information provided by Fairtrade buyers
- Possebilities for economies of scale through cooperative
- Empowering women

Chapter V: Case studies

In this chapter I will illustrate the impact of Fairtrade in two different settings: Northern Nicaragua and Southern Mexico. Both are examples of associations of first tier cooperatives. The first case study is about two different associations of cooperatives in Northern Nicaragua, and the other case study is about an association of cooperatives in Southern Mexico. The case studies are in my thesis to illustrate the impact of Fairtrade in practice. From this chapter I will extract the opportunities and possible limitations that have arisen during their experience with Fairtrade.

5.1 Case study I: Impact of Fairtrade in Northern Nicaragua

Coffee is by far the most valuable crop grown in Nicaragua. It is a major source of export earnings, contributing 30% of total, and it is the primary source of employment in many rural communities. There are more than 30.000 coffee producers in Nicaragua, 80% of whom are smallholders with less than 5 ha of land under cultivation. The majority of these smallholders struggle to survive in a hostile environment, marketwise. At times they are even forced to sell their coffee at prices that does not cover production costs (Utting-Chamorro 2005:586). This situation has resulted in many coffee producers being squeezed out from the market, leaving them no other options than migration. Many of those who remain in business are living on the very edge of foreclosure, burdened by debt and low prices. Even the ones that had been able to save up in earlier years has now lost everything, as three major banks with heavy involvement in the coffee sector has defaulted (Utting-Chamorro 2005:587).

This environment is close to a perfect textbook example of where Fairtrade can operate: Small scale production is the norm; most coffee is shade grown; producers use hardly any mechanical or chemical inputs; the soil and altitude is ideal for coffee production; and many farmers are already organized in cooperatives due to land reforms carried out in the 1980s (Utting-Chamorro 2005:587).

One of Nicaragua's comparative advantage in Fairtrade coffee involves its political history as some of the foreigners who supported the Sandinista revolutionary government of the 1980s are now key figures in promoting Fairtrade in Europe and North America (Utting-Chamorro 2005:593).

In Northern Nicaragua the two farmer owned associations of cooperatives CECOCAFEN and SOPPEXCCA were formed to sell certified quality coffee on behalf of a number of first tier producer cooperatives. They both sell their coffee in the North American market through various companies and organizations and they both have as a goal to attract costumers to buy their coffee, not only because of its Fairtrade credentials, but also because of its high quality (Utting-Chamorro 2005:587). Tough quality control measures such as cupping laboratories and new production methods has been developed in order to improve quality and keep it high (Utting-Chamorro 2005:588).

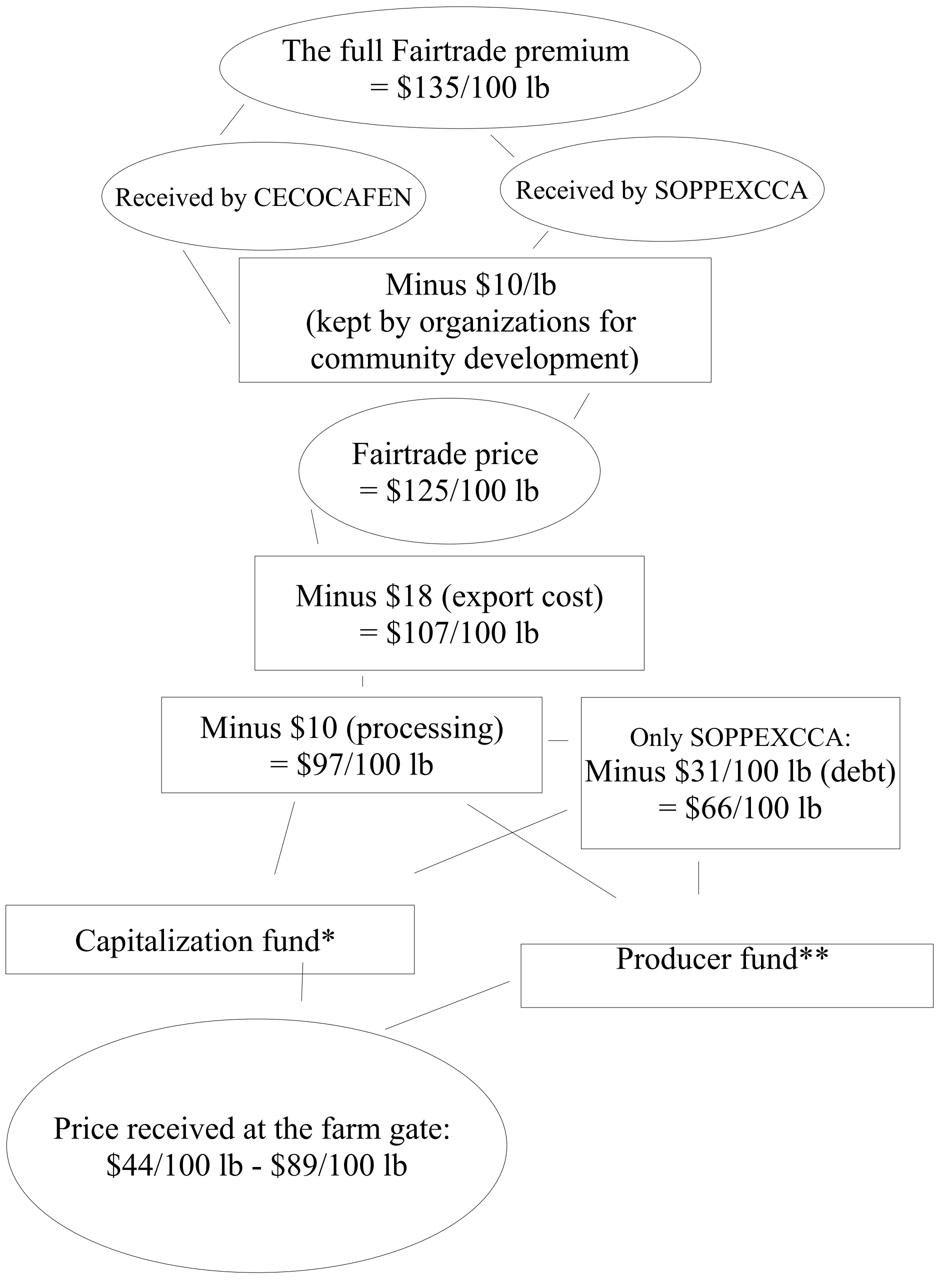
In this case review, Fairtrade will be measured against five dimensions coined by the FLO: 1) i improved livelihoods of small coffee producers and their families; 2) stronger producer organizations; 3) rural community development; 4) environmental protection; and 4) gender equity (Utting-Chamorro 2005:586).

5.1.1 Impact on producers

In general, farmers associated with CECOCAFEN and SOPPEXCCA received higher and more stable prices for the coffee they sold through their Fairtrade certified cooperatives. Many of the farmers signed-up around the year 2000 when coffee prices fell to only $0.60/lb[5] against the Fairtrade minimum price of $1.26/lb. This is quite a price difference, but it does not all trickle down to the the individual farmer. When expenses and debt repayment has been deducted, the farm gate price for the Fairtrade certified coffee lands between $0.40/lb and $0.85/lb primarily depending on how much debt the cooperative has. In the extreme end, one cooperative used around half of the Fairtrade price to pay back old debt before paying farmers, while SOPPEXCCA itself has inherited a debt from its predecessor export association of some $720,000. SOPPEXCCA is deducting $0,31/lb from all members until its debt has been repaid. On top of all this debt repayment and some fixed cost, such as export costs ($0.18/lb) and payment for a dry-processing plant ($0.10/lb), farmers, nonetheless, reported being paid a higher and more stable price (Utting-Chamorro 2005:588-589).

5 lb = pound and 1 (international avoirdupois) pound is defined as 453g or approx. 9/20th of a kilogram. In Latin America coffee is measured in quintales (qq) and 1 quintal (q) is defined as 100 lb, but it is not specified in Utting-Chamorro's article what kind of pounds. As Nicaragua otherwise use the metric system, it may as well refer to metric pounds i.e. 500g. 1 bag of coffee containing 1 quintal can thus weigh either 45,3 kg or 50 kg. To avoid confusion I will not refer to quintales or kilograms outside this note. All measures will be in pounds; avoirdupois or metric.

Figure 1: Tracing the Fairtrade premium to the farm gate



Somewhat modified illustration from original in Utting-Chamorro 2005:590

* A Capitalization fund is an account managed by producer organizations. It uses a percentage of the Fairtrade premium to pay for infrastructure improvement projects, technical assistance, housing projects, educational projects, certification costs, administrative costs, provide credit etc.

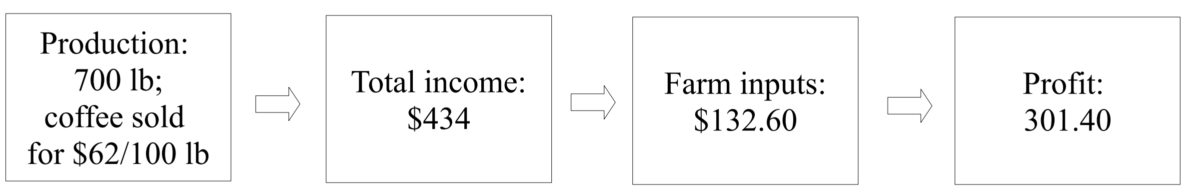
** A Producer fund is an account managed by primary level cooperatives. It is used for purposes such as repaying debt, providing credit, renovating farms etc.

When interviewed, farmers reported many improvements in their standard of living since they started working with CECOCAFEEN or SOPPEXCCA. Among these are: better nutrition; physical improvements to their homes; electricity, telephone; ability to pay for their children's education; the ability to purchase farm inputs such as fertilizer and machinery; and the ability to pay for hired help. A manager from CECOCAFEN suggested that it is possible to clearly see the difference in living conditions between those who sell to the Fairtrade market and those who do not. The latter having poorer nutrition, fewer children in school, lower level of soil fertility and lower level of farm investment. On top of this, involvement in Fairtrade brings much needed stability. Farmers who sell to the Faitrade market are four times less likely to state that they risk loosing their farm due to low coffee prices (Utting-Chamorro 2005:591-592).

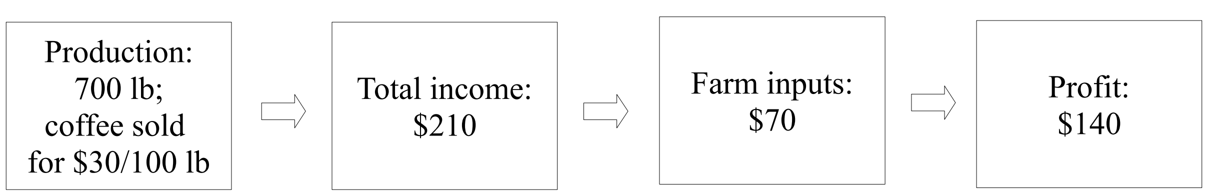
The incomes of most farmers had roughly doubled since they converted to Fairtrade. As figure 2, below illustrate with the case of a female coffee producer having sold 700 lb to the local market in the city of Jinotega in 2001, compared to when she sold 700 lb to the Fairtrade market in 2003, her profits more than doubled (Utting-Chamorro 2005:591).

Figure 2: Changes in small producer's profits after signing-up to Fairtrade

2003: Fairtrade



2001: Local market in Jinotega



Slightly modified illustration from original in Utting-Chamorro 2005:591

5.1.2 Impact on producers' organizations

While SOPPEXCCA was ultimately formed in order to pay back debt left by its predecessor organization, the motivation for establishing CECOCAFEN was to promote developmental projects. Among the key activities of SOPPEXCCA and CECOCAFEN are: workshops about Fairtrade, diversification and quality issues; technical help from agronomists; transportation of coffee from farm to dry-processing plant – a quality control issue; loans to small producers; establishment of cupping laboratories where producers can taste their own coffee; safety and quality control measures; marketing and brand name development; participation and winning (SOPPEXCCA) of coffee quality competition 'cup of excellence'. Both associations work intensively with improving quality and they try to address all issues that keeps them from perfection. The cupping laboratories have proven essential in this work (Utting-Chamorro 2005:592-593).

The long term viability of both SOPPEXCCA and CECOCAFEN is difficult to establish with any certainty, since both remain dependent on external assistance and aid. Furthermore, SOPPEXCCA is heavily indebted. A part from Fairtrade, both associations are also involved in organic, shade grown, bird friendly and conventional coffee sale. So it is rather impossible to ascribe specific organizational success and/or capacity to Fairtrade. It is, however, a matter of fact that both SOPPEXCCA and CECOCAFEN are exporting still larger volumes of quality coffee to the Fairtrade market and that they manage capital and social funds on behalf of their members (Utting-Chamorro 2005:592).

The main competitive threat is perceived to come from Vietnam and a possible future introduction of Fairtrade there. Such a development could threaten the life of several Nicaraguan producer cooperatives. The vice-president of SOPPEXCCA, however, takes this threat lightly as he explains that SOPPEXCCA has already developed an image of high quality and has an established network of companies and organizations in rich countries who he believe will prefer his coffee (Utting-Chamorro 2005:592-593).

5.1.3 Impact on community development

CECOCAFEN and SOPPEXCCA are required by the Fairtrade standards to retain \$0.05/lb as a social premium to be used on community development. The Fairtrade price is defined as $1.21/lb + $0.05[6] as a social premium. In CECOCAFEN's case, this results in approximately $50,000 a year from its sale of roughly 1,000,000 pounds of Fairtrade coffee. According to CECOCAFEEN's manager, one needs good eyes to see the results, since $50,000 a year is not enough to support any big changes. But the results are there, he assures. One good indicator is, according to this same source, the level of migration away from small farms and in to the big cities. In communities where they produce for CECOCAFEN, there is less migration than elsewhere (Utting-Chamorro 2005:594).

When asked, very few farmers could recall any improvements to their communities, and the few who could, did not attribute them to Fairtrade. Only few people knew that part of the Fairtrade premium is withheld to be reinvested in community development. CECOCAFEEN's manager explained this lack of knowledge with Fairtrade's recent introduction (Utting-Chamorro 2005:594).

Some examples of community development project was found: A school had been renovated; farms had been renovated; a wet-coffee plant had been established; a health center had been built; a potable water well had been dug; a community development fund had been created; and workshops were held to prepare an eco-turism project (Utting-Chamorro 2005:594).

5.1.4 Impact on the environment

All the interviewed farmers and cooperative managers agreed that environmental protection was paramount to continued sustainable production. Farming techniques are becoming still more environmentally friendly. And not only are trees not cut down anymore, they are now actively planted in fields. This is to provide shade for the coffee bushes, improve soil fertility and to provide shelter for birds – a demand from some speciality coffee buyers. For SOPPEXCCA and CECOCAFEEN, being environmental friendly is seen as an important area from which to derive competitive advantage, especially against the perceived future threat from from Vietnamese coffee growers (Utting-Chamorro 2005:595).

It is not possible to ascribe this development specifically to Fairtrade, since environmental friendliness

6 The current Fairtrade minimum price for conventional washed arabica coffee is $1.25/lb and $1.20/lb for unwashed + a social premium of $0.10/lb

is also demanded in organic and various other speciality coffee niche markets (Utting-Chamorro 2005:595).

5.1.5 Impact on gender equity

Equality between men and women remains an unfulfilled dream for both SOPPEXCCA and CECOCAFEEN. With roughly one third of their members being women, there are still room for improvements. The same goes for the majority of their affiliated first tier producer cooperatives. In one extreme case, only 3% of cooperative members were women. In the other extreme exists a cooperative that is all female. There is, however, a trend towards greater emancipation of women in rural communities, and SOPPEXCCA now actively promotes gender equity on the cooperative level. CECOCAFEEN has no such policy, nevertheless, gender equity - in quantitative terms - is about the same for the two (Utting-Chamorro 2005:595).

The real, qualitative involvement of women in Fairtrade is not revealed by numbers alone. From interviews it is suggested that women are generally content with participating in Fairtrade activities even though there are complaints about the division of labor. Machismo remains a major problem for women who wishes to participate more actively. Men dominate household decisions and women, in general, does not have access to productive or financial assets (Utting-Chamorro 2005:595).

5.1.6 Summing up

Utting-Chamorro concludes that Fairtrade has had an overall positive impact, even though its ability to encourage major changes is limited due to an enormous amounts debt held by farmers, and due to an apparent hostile environment towards smallholders in Nicaragua. Nonetheless, the author questions Fairtrade's longevity because it ultimately depend on consumption trends in rich countries (Utting-Chamorro 2005:596).

Below is a list of the key findings that have contributed to a positive impact of Fairtrade in this particular setting. The list comprises exclusively of opportunities:

- The elevated Fairtrade price
- Sense of economic security
- Enhanced technical assistance
- Quality enhancing measures
- Access to credit
- Marketing of coffee by cooperative
- Social premium for development projects
- Decreasing levels of migration
- Workshops on various relevant topics
- More equality, gender-wise
- Better environmental protection

5.2 Case study II: Impact of Fairtrade in Chiapas, Mexico: The case of the Unión Majomut Cooperative

The approximately 1,500 members of the Unión Majomut cooperative live in five municipalities in the Altos de Chiapas (Chiapas Highlands) in the Chiapas region of southern Mexico. The cooperative was formed in 1983 but following the dramatic fall in coffee prices in 1989, it went through a near death experience. A number of buyers went bust that year and could not pay for coffee they had already received. Members subsequently left the cooperative and it had to start all over, rebuilding trust (Garza & Trejo 2002:3). The crisis was not all bad, however. The cooperative used the opportunity to greatly improve the services it provides for its members and to strengthen internal democracy. It participated in discussions with neighboring groups of small producers in order to learn from them and look for ways out of the crisis (Garza & Trejo 2002:4).

Inspired by other cooperatives, Unión Majomut realized the potential of becoming a certified Fairtrade and organic producers' organization. In 1994 it received its Fairtrade certificate[7] and was ready to start selling at the higher Fairtrade price. Unfortunately, it was not able to find buyers for more than 250 sacks of coffee that year, out of a harvest of some 700,000 pounds.[8] So the rest was sold on the conventional market (Garza & Trejo 2002:5). The following year, Unión Majomut was able to double its Fairtrade sale to 500 sacks, but since its overall harvest increased even faster, it did not change much percentage-wise. With the harvest 1996-1997, the cooperative sold 20% or 1,000 sacks of coffee at Fairtrade prices. From here it took off and by the time of the 2000-2001 harvest, Unión Majomut sold all of its coffee, 6,500 sacks to the Fairtrade market (Garza & Trejo 2002:6).

Fairtrade buyers increasingly demand that Fairtrade coffee need also be organic, and Unión Majomut has followed-up on this trend. Year-on-year, a still larger percentage of Unión Majomut's coffee is double certified, Fairtrade and organic (Garza & Trejo 2002:8).

A part from the elevated Fairtrade price, the feature about Fairtrade that did most to attract Unión Majomut was the promise of pre-financing i.e. credit. It soon realized, however, that no buyer was willing to give credit to a cooperative that they did not know intimately. Unión Majomut was therefore

7 At the time known as Max Havelaar certification
8 One sack contains 152.12 pounds. This translates into 250 sacks containing 38,030 pounds or approx. 5% of the total harvest.

forced to finance its operations through loans in a local bank, at interest rates of a whopping 30% .p.a. At this time, coffee buyers had access to 9% p.a. loans in the international market (Garza & Trejo 2002:5). Unión Majomut has never succeeded in obtaining credit from buyers for the coffee production, only for the harvesting and commercialization process (Garza & Trejo 2002:6). It has, however, found other sources of cheap credit, the Inter-American Development Bank among others. All members of the cooperative are entitled to credit, whether or not their coffee end up being sold as Fairtrade or not (Garza & Trejo 2002:7).

5.2.1 Impact on producers

The vast majority of Unión Majomut's members have no clear idea of what Fairtrade is and how it is different from organic. When asked about how Unión Majomut can pay more for the coffee than it is worth on the local market, a common reply is that it has to do with the high quality of the coffee. Something the producers has worked hard to improve. This is also the perceived reason why Unión Majomut is able to sell the coffee at higher prices on the international market (Garza & Trejo 2002:15).

Nonetheless, Unión Majomut's participation in Fairtrade has contributed several benefits with direct impact on producers. First and foremost, producers are no longer subjects to the highly volatile coffee prices. With Fairtrade, they enjoy price stability on a relatively high level. The average production capacity of one producer is 1,500 lb a year[9], if the harvest is also organic, which is often the case, it will sell for $1,700[10] against $550[11] if it had been sold as generic coffee (Garza & Trejo 2002:18).[12]

9 Total harvest has grown from 700,000 lb (649,400 lb in another paragraph) in 1993-94 to 988,780 lb in 2001-02, while the number of members have increased from 1,000 to 1,500 from 1996 – 2002. This means that average production must be around 650 lb/producer or else total harvest must have increased from 1,5 million pounds to 2,2 million pounds over the same period.

10 Since the Fairtrade minimum price is $1.21/lb + a social premium of $0.05/lb + an organic premium of $0.15/lb, a harvest of 1,500 pounds should fetch at least $2,115. The original text does not support that this could be the net price, so further interpretation is up for grabs.

11 This translates into $0.36/lb which is somewhat below the prices registered in a database maintained by the International Coffee Organization. The prices paid to Mexican growers between 1990 – 2001 was, according to this source, in the range of $0.53/lb - $1.60/lb for generic arabica coffee. A harvest of 1,500 pounds should therefore sell for between $795 and $2,400. (ico web)

12 In another paragraph it is stated that Unión Majomut in 2000/2001 paid farmers $12 per kg of non-organic parchment coffee (washed coffee beans before skin is removed in the milling process) and $18/kg for organic parchment coffee, while local buyers would only pay $6 per kg for parchment coffee. This translates into $5,43/lb, $8,15/lb and $2,71/lb (int. avoirdupois pounds) respectively. A part from introducing yet another measurement ($/kg) and yet another concept (parchment coffee), the prices are much higher than the Fairtrade minimum price and anything previously mentioned

Access to cheap credit is also a major positive change for individual producers since Unión Majomut signed-up for Fairtrade certification. Likewise, the newfound access to credit for harvesting and marketing purposes, through the buyer's international connections means that credit will still be available even though it may become prohibitively expensive on the domestic market (Garza & Trejo 2002:15).

Most farmers associated with Unión Majomut report having a desire to continue as farmers. They feel they now have sufficient incomes to stay in their communities as opposed to migrate in search of employment. Some even feel pride in being members of a cooperative that keeps improving its services in spite of recurring difficulties (Garza & Trejo 2002:19).

5.2.2 Impact on Unión Majomut

Unión Majomut has two layers of leadership, a board of directors and the members of the technical team. The board of directors are responsible for interacting with community delegates and with members in general, while the technical team is formed of specialists in agricultural engineering, accountancy, information technology and anthropology. There are also 50 community promoters in the technical team. These people are paid by the cooperative to promote organic production techniques among their neighbors. All decisions regarding Fairtrade are made by the board of directors, while the technical team are more of an executive branch in this regard. Information that relates to contracts, important decisions, earnings, price premiums etc are shared on regular meetings with community delegates. These are then responsible for sharing this information with their respective communities (Garza & Trejo 2002:9-10).

Unión Majomut receives frequent visits from several of its European Fairtrade customers. They help the cooperative with the commercialization process, risk management, contract negotiation strategic planning and diversification efforts. They also conduct joint workshops to discuss trends in the coffee market and contract management (Garza & Trejo 2002:14).

Unión Majomut existed before it became Fairtrade certified and Fairtrade is not the sole certification scheme that it participates in. It is therefore somewhat difficult to ascribe particular organizational feats

anywhere.

to Fairtrade. In a few specific areas, however, changes has been implemented as a direct result of feedback from Fairtrade auditing. These include: Financial reports have been simplified to make them easier to understand for members; emphasis has been placed on specific developmental projects for women; and incomes stemming from the social premium are now reported separately to improve transparency (Garza & Trejo 2002:13).

Unión Majomut is working with other Mexican cooperatives to lobby certifying organizations to unify the certification criterions for all sustainable coffee production whether its organic, shade-grown or Fairtrade. This way, a cooperative would only need one certificate (Garza & Trejo 2002:13-14).

5.2.3 Impact on community development

The social premium of $0.05/lb that Unión Majomut withhold must amount to a little less than $50,000 a year[13] and it is used to a variety of purposes. The use of the money from the social premium is decided by the delegates' assembly (Garza & Trejo 2002:10). In the early years, when it was still just a tiny part of Unión Majomut 's incomes that came from Fairtrade, it was divided proportionally to all members based on how much they had supplied. But since Fairtrade is now a major source of revenue, the social premium has grown and it has been decided to use it exclusively for development projects and infrastructure improvements (Garza & Trejo 2002:11-12). Among the projects found worthy of financial support are the salaries for the 50 community promoters mentioned above (Garza & Trejo 2002:9). New furniture for the cooperative's administrative offices for $150,000. Purchase of an electronic coffee grader for $90,000 – half of which was donated by an international aid agency. Construction of an organic coffee warehouse for $50,000. Construction of a peasant training center for $60,000 – of which 75% was donated by an international aid agency. The peasant training center is where the community promoters will receive their training, and where 40 female organic vegetable and chicken promoters will be trained (Garza & Trejo 2002:16).

13 Based on the harvest of 2001-2002 being 6,500 sacks (988,780 lb) and a Fairtrade social premium of $0.05/lb. As mentioned several times already, the social premium has now risen to $0.10/lb. I have not done recalculations based on current premiums since this would also necessitates an adjustment for inflation and it would skew the relationship between the numerical size of the social premium vis-a-vis the dollar costs of the development projects it has funded.

5.2.4 Summing up

Below is a list of the key findings from this case study. The elements on the list are all opportunities:

- The high Fairtrade price
- Access to cheap credit from abroad
- High enough income to stay farmer, as opposed to migrate for work
- Technical assistance provided by customers
- Organizational capacity building offered by customers
- Improved transparency in cooperative
- Workshops on a variety of topics, held by customers
- Development projects financed by social premium

Chapter VI: Synthesis

In this chapter I will first discuss the findings from the literature review and from the case studies in relation to my research question and the findings from the theory and theory discussions in chapter III. All this in order to distill the main opportunities and limitations that can be expected to arise from Fairtrade certification for a newcomer. Following this discussion, I will assess the relevance of my theory.

6.1 Synthesis of findings from literature review, cases and theory

Below I will discuss my findings to see how one might cancel out another and how they relate to my research question. I have arranged the findings into seven categories that should cover them all. I will discuss these in turn. The seven catagories are modeled on the findings from the literature review and the case studies since only they are specific to Fairtrade in coffee. I will add elements from the theories and the discussion of these, when applicable.

The seven catagories are: The Fairtrade minimum price, access to credit, cutting out the middlemen, the Fairtrade social premium, economic and social stability, benefits of organization, and finally environment and gender.

6.1.1 The Fairtrade minimum price

The high minimum price is, perhaps not surprisingly, the feature of Fairtrade that is most universally accredited among Fairtrade proponents as a positive thing. It is argued that it allows the individual producers a sense of economic security as he or she is - in theory at least - guaranteed a certain income from a given production volume. When I stress that it only works in theory, it is because of problems of supply being out of sync with demand. As Berndt found, cooperatives in her study could typically only sell a little more than 20% of their coffee as Fairtrade.

From a neoclassical point of view, that development is well in line with what can be expected to happen when FLO tinker with market forces. It can be argued that, in the Fairtrade market, FLO plays the role of government and the minimum price is deafening producers so they do not respond to price signals. The results being prolonged periods of oversupply and misallocation of scarce resources into investments in additional production capacity, which only add to prolong the crisis.

What this means for farmers is that, even though there is a price floor, an individual farmer's income for a given volume of coffee, is now, not only determined by the market price for coffee and the Fairtrade price for coffee, but also by the size of the Fairtrade quota the producer is given.

A quick example of this: if a farmer one year produces 100 pounds of coffee and sell 30% as Fairtrade for $1.25/lb and the rest in the conventional market for $1/lb, she will have a total gross income of (37,5 + 70) $107,5. If the next year, she produces the same quantity but her Fairtrade quota is reduced to 20%, because the cooperative has admitted more farmers in or the purchasers are cutting back, her income falls to (25+80) $105, if the regular coffee price stays the same, without her doing anything different from the year before. If she happens to be a member of one of the cooperatives that are able to sell most or all of their coffee at the Fairtrade price, her potential income loss could be even greater. Naturally, without Fairtrade all the farmer's coffee would be sold in the regular market at lower prices, so there still are advantages. If there were non, it must be assumed that Fairtrade would soon cease to exists as farmers would vote with their feets and sell their crop through alternative channels.

At first glimpse, a fixed and high price must look like a boon to any poor coffee producer - and it can be, if the producer in question gets a stable quota. But if the quota is changing, the farmer will have no more economic security than if she was selling under a regime of fluctuating prices. The only difference is the additional layer of bureaucracy that needs to be fed and the slightly higher price she receives for a part of her coffee. For the individual producer, it follows, that the fixed Fairtrade price is attractive insofar as there is a guarantee of actual sales. As seen in chapter 3, there is no such guarantees embedded in the Fairtrade rules. There is a requirement for buyers to issue sourcing plans for possible future purchases. This, however, is hardly a guarantee and it can neither offset the negative consequences that it can have for an individual farmer if her cooperative e.g. lets in more members, without securing a corresponding increase in future Fairtrade sale.

With regards to dependency, Fairtrade does not change this in relation to rich countries, however, one could argue that the individual is in an even more dependent position as a result of the Fairtrade price. While the farmers are still subject to the volatility of the market, they are now also dependent on the cooperative as they can now threat with reallocating quotas or letting more members in.

The notion of a higher price than otherwise possible - and a fixed price that is – will obviously seem highly seductive to any impoverished coffee grower. However, Fairtrade certification also caries costs. Costs that do not change with the volume actually being sold as Fairtrade.

From a linear-stages-of-growth point of view, the higher Fairtrade price could hypothetically be saved by farmers and subsequently used to make investments in technological upgrades that could bring about productivity gains and help initiate a development process. However, if the local economy is characterized by zero marginal labor productivity, technology would seem an odd choice to invest in, as labor should be much cheaper. It does not seems as if incentives are pointing in the direction of technological upgrades finances by the Fairtrade premium. Additionally, Fairtrade has rules that limits farmers' possibilities for growth, such as the one insisting that farmers must be smallholders that primarily rely on their own and their families labor.

Another important aspect with regards to the Fairtrade minimum price is that it is the price received by cooperatives, not by individual farmers. And as demonstrated in the case of Northern Nicaragua, there can be a big difference between what cooperatives are paid from coffee buyers and what is eventually received at the farm gate. Public Choice theory would also predict such an outcome.

6.1.2 Access to credit

Another feature of Fairtrade that draws near universal praise from the proponents in my study, is the access to credit. Fairtrade buyers are obliged to provide credit of up to 60% of the value of their purchases if requested. However, as described in the case of Unión Majomut, it can be hard for cooperatives to actually obtain this credit from the buyers.

In the case of Northern Nicaragua, it was evident that many farmers already suffer from quite a heavy debt burden and that the repayment of this debt is what majorly eat up the extra Fairtrade earnings. It was also mentioned that three banks with strong involvement in coffee financing had gone down. No reason was given for these bankruptcies, however, it is tempting to speculate that the banks might have been too heavily involved with sub-prime debtors that eventually defaulted on their outstanding debt.

Access to credit is, naturally, a good thing and presumably also a necessity as farmers are paid only when they sell their harvest, while production and living costs are spread throughout the year. But the idea that Fairtrade producers should receive credit from foreign buyers would probably not go down well with many dependency theorists. Not only are Fairtrade encouraging continued export of cash crops instead of cutting of the ties, but it is also encouraging poor country farmers to become indebted to rich country buyers instead of relying on the domestic financial sector. From a structural-change or linear-stages-of-growth perspective, I suppose that credit to small-scale inefficient farmers for anything but radical technological upgrades, would be seen as somewhat futile as they will give up at some point. It can be argued that their way of life have been rendered obsolete by market forces and nothing short of modernity can alleviate their plight.

That said, it is not clear whether Fairtrade buyers will be more willing to lend out money at low interest rates to producers with poor track records of paying back, than would local banks. It must be assumed that major Fairtrade buyers will conduct due diligence investigations beforehand, and only lend out to those who pass. Those who can pass such a test would, to some extend at least, presumably also be able to secure credit independently.

As stated above, buyers are obliged to provide credit, but as noted in chapter 3, an exception from this rule exist, if a third party lender is willing to rate a given producer's credit worthiness in the junk segment. If the producer in question already has piles of unpaid debt, it should not be too difficult to find an independent third party lender of this particular opinion.

A part from this, since there is more Fairtrade coffee on offer than buyers request, producers are not really in any position to make demands. It should therefore not be too hard to get out of the obligation to provide credit to producers, if that is the desire of buyers. This leaves producers back at square one, where their chances of securing loans and the interest rates they will be charged, in part at least, depend on their ability to convince the lender that they will stand by their obligations.

6.1.3 Cutting out the middlemen

As seen in chapter 3, direct sale from cooperatives is an integral part of the Fairtrade way of doing business, this is done to empower producers and to teach them business skills. It is also recognized as a valuable feature in the literature. Murray et.al. for instance, finds that it is what eventually provide farmers with greater benefits. Weber on the other hand, greatly disagrees with this, as he find that middlemen are not unnecessary and that the functions they used to provide, must now be done by cooperatives at greater costs.

The idea behind FLOs insistence on cooperatives selling directly to foreign buyers, is presumably to enable producers to gain a bigger share of the value added throughout the initial stages of the value chain, though I have no evidence to support this claim. Instead of selling the coffee straight from the plant, cooperatives add value themselves when they take care of the initial steps of transportation, washing etc, and only sell the coffee after it is cleared for export.

Vertical forward integration can be a great idea, when conditions are right, that is when transaction costs between independent entities are higher than the costs of administering the task in-house. Another issue worth of consideration is whether it is advantageous to have control over the asset i.e. the coffee, in order to force compliance with other players further upstream in the value chain (QuickMBA).

Neither the literature nor the cases give specific examples that show this forward vertical integration to be advantageous when dealing in coffee – Slob being the exception - and he finds it highly advantageous. His methodology, however, seems a little dodgy in this regard, as he compares the percentage of the retail value that Fairtrade cooperatives receive with what individual non-Fairtrade farmers receive, presumably at the farm gate. By doing the calculation this way, the percentage-wise difference will inevitably seem high, 30% against 6%. But when all the cost bearing activities performed by the cooperative are deducted, the difference in farm gate price for Fairtrade versus non-Fairtrade coffee - and whether measured as a percentage of retail value or in other ways - must be somewhat less impressive. If using Public Choice theory to predict the difference, it would probably be very small – it would still be there because if there were no difference, then there would soon be no Fairtrade and hence no cooperative. Employees and leaders in the cooperative must be assumed to follow up on the incentives laid out and they would point towards maximizing the cooperative's take and minimize the amount sent to the farmer.

Weber may have a point in his critique. There can hardly be any advantages stemming from controlling the coffee until the point of export as it is a widely available commodity sold in bulk. As mentioned several times, the excess supply means that coffee buyers have many other possibilities, so even with control over a little more of the value chain, it will not be possible to coerce buyers into anything. The transaction costs should as well be quite limited as there is not much knowledge or anything else embedded in coffee, that needs to be transferred (at a cost) to the purchaser. And if the buyer pays on the spot and in cash, there is no need for contracts with its associated costs.

The cost of administering new task and learning new competencies, that are completely different from farming, will eventually add up and perhaps even surpass the gains made from climbing the few extra steps up the ladder. This is especially true if one takes into consideration that Fairtrade cooperatives, unlike private businesses, elect their leaders by popular vote. As Weber points out, this seldom lead to optimal business decisions. On the other hand, as seen in chapter 3, direct sale from cooperatives to foreign purchasers is used as an argument in support of Fairtrade, by the national Fairtrade association in the USA, TransfairUSA, and it is amongst other things mentioned that farmers learn business skills. Supposedly to know how to market their own produce. How poor farmers benefit from learning business skills, instead of focusing on say, improving their farming skills, is not elaborated upon.

For the individual farmer the only price that matters must be the one received at the farm gate. Whether the coffee is handled by a cooperative until it leaves the country or goes through a chain of various intermediaries, seems to be beside the point. When the goal is to tackle poverty through trade, it seems a little unjustified to limit the possibilities of specialization, as this is exactly why trade is often regarded as beneficial.

While neither the literature nor the case studies provide any evidence as to how the cooperatives handle the post-farming process more efficient than local intermediaries, there are some genuine theoretical concerns about the ability of cooperatives in general to handle these processes in a way that truly benefits the farmers and not primarily the cooperative's employees and leadership.

6.1.4 The Fairtrade social premium

All authors who found Fairtrade beneficial in my study mentioned the social premium as a component of forming their positive attitude. As previously described, the social premium is paid to cooperatives on top of the Fairtrade price and is to be used by the cooperatives for development projects agreed upon by its members. It amount to $0.10/lb so it take some volume before it add up significantly, but the higher the volume the more producers there are to benefit.

As described in the case study of Northern Nicaragua some improvements were found that has been paid for by the social premium - even though none of the interviewed farmers could point to specifics.

In the case study of Unión Majomut, there was a range of projects and purchases funded by the social premium or in part by this. Somewhat controversial, perhaps, the cooperative's by far largest social premium investment was in new furniture for the cooperative's administrative offices for $150,000[14]. The rest of the projects are smaller in size and generally co-funded by international aid agencies.

None of the articles in the literature review are specific about how the social premium has been used to improve the lives of the involved farmers, except in general terms such as development projects. In the two case studies, however, it was demonstrated how the benefits received by the farmers from the social premium accumulated to next to nothing in Nicaragua – at least not anything that anybody could remember. While in Mexico it was majorly invested in furniture for the administrative offices, which at a cost of $100/member seems quite exorbitant given the context. It is exactly this situation that Public Choice theory warns about, cooperative officials are no philosopher kings, they do respond to economic incentives.

Based on this limited data material, the social premium, under the current system of administration by cooperatives, does not seem to benefit individual farmers. And it quite frankly seems improbable that poor farmers would agree to use $150,000 on furniture in one case and have no recollection of any social premium in another, if the cooperative system worked democratically and transparent.

14 As mentioned in several notes throughout the description of the Unión Majomut case study, the numbers provided by the authors do not always add up. Perhaps this number is also a result of poorly performed arithmetic or semi-innumeracy.

6.1.5 Economic and social stability

Both in the literature as well as in the case studies it is highlighted that Fairtrade give producers a sense of economic and social stability. Something that is deemed a good thing. In the case of Unión Majomut for instance, farmers are described as feeling that they have enough income to stay farmers as opposed to migrate into towns in search of work. As noted in the case description, Unión Majomut is also selling organic coffee amongst others, so Fairtrade is hardly sole responsible for this development. Even so, Fairtrade's price floor does give stability – at least if one can continually sell a fixed amount at the Fairtrade price.

If one look at economic and social stability through the lenses of any one of the theories, a big question mark can be seen hoovering around whether stability should really be regarded as a good thing – especially when at a low level. Even if farmers sell all their coffee at the Fairtrade price, they will hardly become well off. They may just be able to feed their families and invest in next years crop. Consequently they will not be forced to find other work, they can stay on their farms and continue their lives as always.

It could be argued that this is a somewhat defeatist attitude towards poverty. With a mindset of looking for ways to tackle poverty, stability can never be an end, not even a stepping stone as it would halt momentum. This seems quite intuitive as it is hard to stand still and move at the same time.

I suppose that economic stability is seen as a good thing as it theoretically could give poor producers a time-out, a moment to seek alternatives to coffee production or invest in technology that can give a higher yield per area unit. But it is not clear how this should work in practice, as it seems incentives are pointing in the other direction.

A higher degree of social stability as indicated by less migration, must be nice for the individual farmer in the short run, having all her family close by. But with zero marginal labor productivity or close to that, it will work contrary to economic development in the longer run, as emphasized by the structural-change theorists. And, if there is also population growth, economic development and/or increased migration could soon become a necessity just to maintain status quo - alternatively there would be exponential growth against a finite resource.

Even if cooperatives sell 100% of their coffee at the Fairtrade price, experience no population growth, have no waste of resources due to corruption or excessive cooperative bureaucracy, they are still faced with what Weber identified as still higher demands for better quality, for multiple certification etc. All of which carries costs, and if the pie is not growing, something must be cut back.

I do not assume that any proponent of Fairtrade believes that stability on a minimum survival level is a good thing, however, I have difficulties seeing how exactly Fairtrade promotes development beyond the short term relief by the minimum price.

For an individual poor coffee grower, neither economic nor social stability can be an end – upwards mobility should be all that matters – if this indeed is an option at all, as some branches of Dependency theory questions.

6.1.6 Benefits of organization

Many, if not most of the great opportunities that are mentioned in the literature and in the case studies have to do with membership of cooperatives. Organizing farmers into cooperatives is in this forum, apparently more or less universally acknowledged as a great way to organize smallholder coffee production.

Among the many benefits mentioned, there is the ability of smallholders to pool together purchases of whatever item is in need, in order to receive discounts. Related to this there is an increase in general bargaining power, when being many and there is the possibility of economies of scale – in various areas of production, post-production and marketing I assume. All this is topped by the many services cooperatives can offer to their members: technical assistance e.g. with quality improvement, workshops on various relevant topics, marketing of the coffee and administration of funds. The provision of services by cooperatives is often aided by Fairtrade buyers. As seen the case of Unión Majomut, the cooperative's customers are very helpful in providing assistance. Strengthening of producer's organizations, organizational capacity building and work to make these organizations more transparent, are also some of the perceived benefits of Fairtrade involvement.

Contrary to this, Weber is concerned that Fairtrade is not entirely driven by a desire to help, but also by a fair amount of ideology. This could explain one of his other outstanding issues with Fairtrade, namely that, what he sees as systemic problems, not being fixed. With regard to organizing smallholders into cooperatives and then insist that the cooperatives take care of the entire post-harvest process until the coffee leaves the country, this could seem to be based more on collectivist ideals than on every day practicalities. Why, else demand that farmers are organized in cooperatives at all? Why not let it be voluntary or let farmers organize in ad hoc manners as they see fit? It would, of course, be a more laborious task to certify individual farmers instead of cooperatives, but there could surely be found a workable solution to this – e.g. cooperatives could be reduced to only deal with certification of a particular group of farmers. All other tasks could easily be left for farmers to decide on a case by case basis. Whether farmers wish to do a certain activity alone, through the cooperative or pay a third party to do it. There does not appear to be any particular reason why farmers cannot themselves decide whether they wish to climb up the value chain through a cooperative by doing many functions in-house or they wish to focus all their energy on their traditional core competencies, farming. In a neoclassical market friendly approach, this could be translated into a suggestion that FLO should step back a little and let farmers organize as they see fit. FLO's job could be to secure the smooth working of the basic Fairtrade infrastructure i.e. updating standards, facilitate knowledge sharing, promote the concept to rich country consumers to narrow the demand gab etc. The more Marxist strands of Dependency theory would probably support this way of organization into cooperatives but they would presumably not be satisfied with exporting coffee and promoting small-scale development projects.

In the generic standards for small producer's organizations it is stated that: "*Small producers can participate in Fairtrade if they have formed producer organizations (co- operatives, associations or other types of organization) that are able to engage in commercial activities, contribute to the environmentally sustainable social and economic development of their members and of their communities, and which are democratically controlled by their members.*" (FLO A 2009:3). Why it *must* be so, and why farmers' organizations must necessarily perform all these tasks, remains somewhat in the dark. And then again, one of the indicators that FLO uses to define what a small producer is, is one where: "*The capital, assets and infrastructure required for agriculture are such that collective marketing is necessary in order to sell to the target market.*" (FLO A 2009:4). I will argue that this quote confirms Weber's suspicion that Fairtrade, to some extend, is guided more by ideology than concern for poor farmers. Why else mention the necessity of collective marketing in a definition of what constitutes a small producer? There does not seem to be any obvious connection other than an ideological preference for organization into cooperatives. Having such preferences is by all means fine and entirely up to the organizations behind Fairtrade - and there should be no reason to keep it in the dark.

For an individual poor farmer, there must surely be many advantages from pooling resources and work together, but there do not seem to be any practical reasons for making it mandatory. Why not let farmers handle their cooperation themselves as they see fit? That way it will also be easier to examine what works and what does not, so that farmers can learn from each others experiences and the best fitted method prevails.

6.1.7 Environment and gender

On top of the more traditional and tangible issues, discussed above, Fairtrade also place emphasis on protecting the environment and promoting gender equality. These are also issues that has been mentioned as benefits of Fairtrade affiliation in the literature and both of the case studies.

While environmental protection is not unique to Fairtrade, I have not yet come across anyone other than Fairtrade, that explicitly promotes gender equality as an integral part of its criteria.

In the case of Northern Nicaragua, environmental protection was seen as an important area from which to derive competitive advantage vis-a-vis the presumed less environmentally concerned vietnamese coffee growers. This could not be traced back specifically to the influence of Fairtrade, however, I will argue that the idea of deriving competitive advantage from environmentally friendly production norms is a perfectly reasonable proposition. In this way, Fairtrade, together with other sustainable coffee certifiers, help poor farmers differentiate their product.

Seen through the lenses of one of the free market neoclassical theories, equal treatment of women could probably also become a strong selling point for Fairtrade coffee, and for the cooperatives - something that could truly differentiate it from its competitors in the wider ethical goods market. Even so, it is not my impression that emancipation of women is currently being used to further this end. While it is mentioned both in the literature as well as in the case studies of Northern Nicaragua and Unión Majomut, it seems to be regarded as an issue that will be dealt with through development projects instead of placing equal treatment of the sexes right at the core of the concept.

As also mentioned in the case study of Northern Nicaragua, there can be severe cultural barriers that inhibit progress on this particular field. Perhaps this point is best illustrated by the fact that while one cooperative in Nicaragua actively encourage females to participate (presumably as a result of their Fairtrade obligations) and the other does not, the net result in quantitative terms is about the same. It is tempting to suspect that if cooperatives focused on equal treatment of the sexes as a way to command higher prices for their coffee, rather than as a matter that needs funding for projects, they would further their stated goal of equality much faster and much more cost effective. That said, it is unknown what the qualitative impact of a given quota of women in a cooperative is, as it is unclear in Utting-Chamorro's text and other's, what exactly is meant by participation. If the norm is that households consists of a man and a woman who produces coffee together, and that these households are affiliated with the cooperatives only in the name of the male, a simple change in accounting could dramatically increase participation by women. In the generic Fairtrade standards, however, the focus is on recruitment of women to cooperative's committees and as staff (FLO 2009 A:10), interestingly, there is no mentioning of women actually producing any coffee.

It must be assumed that the latter is the correct way to understand participation, and thus Fairtrade assisted female emancipation is only something that happens indirectly through participation in cooperatives. Something which hardly would help to ease Weber's suspicion, that Fairtrade is guided more by collectivist ideology than pragmatism.

6.1.8 Summing up

In the table below is a summary of the findings from the synthesis above.

	Opportunities	**Limitations**
Fairtrade minimum price	Ensures that farmers earn a profit after deducting production costs	Benefits are eroded by lack of demand. Leads to more excess supply
Access to credit	Secures a steady supply of cheap credit to finance investments	Eroded by loophole and poor bargaining position
Social premium	Pay for community development	Funds can be diverted or

	projects	squandered away by cooperative staff. Promotes corruption
Cutting out the middlemen	Securing that farmers take part in more value creating activities	Erodes efficiency and creates unnecessary cooperative bureaucracy
Economic and social stability	Promotes peace of mind	Inhibits development
Benefits of organizing	Pooling of resources and purchases, scale economies and mutual assistance	Impossible to opt out from
Environment and Gender	Promotes environmentally sound production processes and gender equity. Can be used to differentiate product	Gender equality is only treated as a development issue, not as a business case. Promotion of gender equality only applies to the realm of cooperatives, not actual production

6.2 Assessing relevance of theory

Since Fairtrade is in the business of tackling poverty, using theory from the field of development economics must be relevant by definition. I feel that my choice of theory has worked out quite fine. I have chosen some rather generic theories with different ideologic origins.

I feel they have proven their worth with regard to examining Fairtrade as a concept. Even though there were hardly any matches between Fairtrade and any of the theories, I think they worked well in exposing Fairtrade's soft spots.

As I use qualitative methods in this thesis, it is not easy to generalize, at least not statistically. It is possible, however, to make some analytical generalizations from my thesis i.e. how to expand theory. The theory that is most supported by my empirical findings is neoclassical theory, when focused on consumer choice - seeing Fairtrade as a way to differentiate. When applying this theory to manipulate the independent variable, Fairtrade, the results on the dependent variable, opportunities becomes quite positive. And this contrasts with almost all other theoretical findings. On the other hand, when applying another version of neoclassical theory, Public Choice, the findings tilts towards the other dependent variable, limitations. This disparity can easily be explained, however, as the two versions of neoclassical theory focuses on different aspects of Fairtrade, one on differentiation and consumer choice and the other on the political economy of the Fairtrade setup. While there were not much resonance between Fairtrade and neither linear-stages-of-growth nor structural-change theories, Fairtrade seems to be rooted in dependency thinking about the unfairness of standard commercial relationships - but interestingly, it is best fitted with one particular brand of neoclassical theory.

If I had used theory on e.g. marketing rather than economic development, I believe my findings would have been more favorable towards Fairtrade than has been the case. If the aim is to differentiate an otherwise generic product in a saturated market, then Fairtrade affiliation would seem as a perfectly reasonable option for a poor coffee farmer to engage with. But when measured against theories that work towards the same basic goal as Fairtrade i.e. to tackle poverty, it fails. An interesting point on its own.

Chapter VII: Conclusion

In the theoretical part of this thesis I held Fairtrade up against a wide variety of acclaimed theories on economic development. The purpose of this exercise was to see how Fairtrade compare with these in regard to fulfilling its own stated goal of tackling poverty and empowering producers through trade – as seen through the lenses of these theories i.e. examining the likely outcome of the incentive structure that Fairtrade creates.

My findings about Fairtrade's ability to deliver on its promises is not all rosy. With one notable exception, I found that Fairtrade was not particularly recommendable as a development tool according to the norms of any of the theories examined. Below is a summary of my findings from the theory part:

With a mindset of the linear-stages-of-growth theory of economic development, I find it justified to say that Fairtrade actively seeks to freeze society in what Rostow, has called the traditional society. It does so by putting a premium on small scale farmers' inefficiency and inabilities to compete. This is not good because this stage is the very first in a series of five consecutive stages that leads towards the age of high mass consumption, Rostow's notion of a developed society. Only a gradual process of savings and investments can produce economic growth and propel society into modernity. Economic output will grow only by making net additions to the capital stock i.e. investments beyond mere maintenance and replacement of worn out equipment. This necessitates savings that again comes from increases in productivity levels. Fairtrade rewards those with low productivity levels and by doing so, keeps them from migrating to better alternatives, and in effect sentencing them to continued poverty.

When using a mindset of structural-change theories, Fairtrade seems to have its share of weaknesses. The focus here is to change the nature of economic activities away from backward rural subsistence production where zero marginal labor productivity is the norm, and towards a modern urban economy with high productivity levels. One way to achieve this is for rural dwellers to migrate into big cities where they can be picked up by the modern sector. When Fairtrade saves poor and inefficient farmers from bankruptcies by paying them a premium for their produce, the poor farmers do not migrate. This is a problem because they then stay out of reach of the modern economy and as a consequence they will stay poor, as will their children.

Dependency theories are less focused on solutions and more on causes of poverty, or at least that is what they have in common. As the name implies, poverty stems in essence from poor countries' dependent position vis-à-vis rich and powerful countries. In order to break free of poverty it is essential to also break free of dependence and become truly independent. Nothing in the Fairtrade way of doing business works to further this end. Fairtrade is in the business of exporting cash crops to rich countries - and that does nothing to limit overall dependence. Consequently, Fairtrade can be seen as either irrelevant or as downright harmful. The latter because it can divert attention away from the perceived systemic unfairness of the global capitalist economy. Since Fairtrade does nothing to the perceived root cause of poverty, it cannot be used as a tool to alleviate it.

With a mindset of neoclassical theories, it is possible to see both positive as well as negative outcomes of Fairtrade. As an example of the former, Fairtrade can be viewed as a reaction to changing consumer preferences and by this token it is perfectly reasonable for poor farmers to sign-up. This will help them differentiate their product in a saturated market. Through Fairtrade, poor farmers can turn their main weakness i.e. being small and inefficient, into their major selling point. Another, and more negative neoclassical take on Fairtrade could be its distortion of the price mechanism. When Fairtrade pay a minimum price, farmers will adjust their production levels according to this instead of to what the market demands. This will inevitable lead to oversupply of Fairtrade coffee that will subsequently be dumped on the regular market, resulting in falling prices there. When following this logic, it becomes clear that Fairtrade helps one group of poor farmers on behalf of another. It does not alleviate poverty, it merely redistribute its plight. In a public-choice view, Fairtrade exposes poor farmers to a lot of additional risk, as it places new layers between them and the market. And, since everybody is self-serving individuals who react to incentives, cooperative leaders and other employees must also be assumed to divert resources to serve their own ends.

In the empirical part, I studied a selected sample of literature and cases on Fairtrade's impact, and here I was able to identify a number of perceived opportunities and limitations of Fairtrade certification for poor coffee growers. I grouped these findings into seven catagories and placed these under scrutiny in order to see which ones, if any, could stand the test of my research question, the theory and each other i.e. if one limitation could cancel out an opportunity or visa versa.. I will summarize my findings from the seven categories below:

The Fairtrade **minimum price** was universally mentioned as a good thing by the authors most favorable to Fairtrade. From the perspective of a poor coffee farmer looking at Fairtrade from the outside, it must surely look like a boon. And a part from the theoretical issues, mentioned above, it could be. Unfortunately, the theoretically founded qualms about Fairtrade's ability to keep supply and demand in check, without relying on the price mechanism, seems to be happening in reality. There is a great discrepancy between supply and demand for Fairtrade coffee, and since the price cannot go below a certain threshold, the logical next step is to introduce quotas. The Fairtrade standards do not guarantee that certified cooperatives can actually sell any of their coffee at the Fairtrade price, so it is up to the cooperatives to fight it out over the limited number of Fairtrade buyers. Even though all coffee is certified, cooperatives are often forced to sell more than two-thirds in the regular market at lower prices. Prices that their own Fairtrade induced oversupply help suppress. Without guarantees of actual sale, the Fairtrade minimum price does not give any more economic security than there is in a pure price system. Another important issue with regard to the Fairtrade minimum price is that it is what cooperatives receive. At the farm gate, prices can be much different. Naturally, coffee growers will vote with their feet and sell their coffee elsewhere, if they did not receive any benefits at all from selling to the Fairtrade cooperatives.

Another feature of Fairtrade that are widely held up as a good thing, is cooperatives' **access to credit** provided by Fairtrade buyers. Buyers are in theory required to provide up to 60% of the purchase price up front – if cooperatives ask for it. This rule has a significant loophole, however, which for all practical purposes makes it voluntary for buyers to provide credit – and besides, the oversupply of Fairtrade coffee place cooperatives in a disadvantaged bargaining position relative to buyers.

An important aspect of Fairtrade, is its notion of **cutting out middlemen**. This is generally something that is seen as a positive feature by proponents, while others are less convinced. While it is great idea to cut out middlemen that does nothing but siphon money in their own pockets, it is entirely different to cut out those who do valuable and necessary work. When the second kind of middlemen are cut out, cooperatives must take over their job and this will typically lead to higher costs because cooperatives are not specialists and therefore not as efficient in doing that particular task. Fairtrade coffee is priced FOB, meaning that cooperatives sell it only when it is cleared for export. All the various processes that the coffee berries go through from they leave the farm and until they are exported, are handled by the cooperative. There does not seem to be any evidence that this forward vertical integration up the value chain by Fairtrade cooperatives, is a particularly good idea. Certainly, there seems to be no good reason why it is an integral part of Fairtrade why not make it voluntary.

Fairtrade's **social premium** is also something that is widely acclaimed as a key advantage of the Fairtrade way of doing business. I have only data from my two cases to illustrate what sort of development projects it is used for. If this limited data is representative, then it seems that the social premium is fueling corruption more than development. It is paid out to cooperatives instead of individual farmers, and this seems to be a mistake. In my two case studies, at least, farmers did not benefit from the social premium in any significant way.

In much of the literature on Fairtrade it is stated as a good thing that Fairtrade brings about **social and economic stability**. In one case it is exemplified by the ability to continue farming coffee instead of migrating for work. Maybe these authors have not thought it completely through or maybe they do not mean it to the extend that I interpret it. To me, stability seems to be an odd thing to cheer for, not least when writing about impoverished farmers. Development will necessarily entail instability and this instability should be welcomed. To settle for stability seems to be an overly defeatist attitude, and it does not help tackle poverty. In a rural setting where the norm is zero marginal labor productivity, there are by definition a surplus of laborers. And, if coffee is the only source of employment, migration does not seem such a bad idea - if continued underemployment is the alternative. In addition to this, Weber found that the demands from Fairtrade buyers on quality, multiple certification etc. are rising fast as a consequence of the oversupply issue. This means that Fairtrade farmers, just to stay in business, need to continually invest beyond mere maintenance and replacement of their capital stock. To fund investments they need savings and to save they need to either live more prudently or improve productivity. To an individual impoverished coffee grower, stability on a marginally higher level should not look like too much of a golden opportunity.

Most benefits associated with Fairtrade has to do with **membership of cooperatives**. While there are certainly many reasons to cooperate with others, there do not seem to be any reasons why it should be mandatory. Why not let farmers decide on a case by case basis whether they prefer to do a given activity alone, through the cooperative, through an independent third party or perhaps even through another producer organization. If public-choice theory is right, even just a little, involvement in a cooperative can quickly end up doing more harm than good. So far, I have not seen any evidence suggesting that small scale coffee farming is most efficient when organized in cooperatives - which makes it even more bizarre to make it obligatory.

Finally, an aspect that also attracts much praise is Fairtrade's emphasis on **protecting the environment and on gender equality**. While the former is a shared goal with many other certification bodies, organic, bird friendly etc. I have not come across anyone but Fairtrade that specifically mention gender equality as an objective. I believe that these two issues represents the best of Fairtrade, as they are not market distorting, they do not infringe on individual farmer's civil liberties and they can be used to differentiate Fairtrade coffee in the market and command a higher price in return.

So, **what are the opportunities and limitations of Fairtrade certification for poor coffee growers?** Technically, there are none since coffee growers cannot become Fairtrade certified, only cooperatives can. If assuming the coffee farmers in question have worked around this, then one part of the answer is everything mentioned above i.e. all the theoretical and empirically founded limitations and opportunities. Another way of stating the answer is, that there are hardly any sensible opportunities for a newcomer. The overarching problem seem to be the same thing that makes Fairtrade look attractive: its elevated minimum price. This minimum price results in oversupply which again results in increasing demands on existing producers to improve quality and acquire multiple certificates. This in turn makes it next to impossible for a newcomer to enter the scheme. Should a newcomer succeed in entering, she will be subject to all the Fairtrade rules, of which some seems not entirely reasonable, she will be subject to continually rising demands, and she will face the same basic problem that many existing Fairtrade farmers face: she cannot take full advantage of her investment because demand in faraway countries are lacking behind.

While it is clear from my empirical findings that Fairtrade benefits the farmers who are already in the system, it is also clear that these benefits cannot be extended to newcomers as there is not enough demand. My theoretical findings suggest that this mismatch between supply and demand can be attributed to a fundamental design flaw in Fairtrade - what others would call its raison d'être, the fixed minimum price.

Chapter VIII: Literature

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