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Fair Trade Coffee In a Global Economy

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ABSTRACT

As conscientious shoppers, the fair trade label we see on the coffee we drink from Starbucks and the bananas we buy at the natural food market often assure us of our ethical consumer choices. We should, however, question the accuracy of this marketing to find out where the products we buy actually come from. Are these goods truly traded fairly? Do these products provide equitable wages to farmers and their families in the Southern Hemisphere? This paper will inspect the current state of the fair trade industry as well as offer suggestions for improvement. The positive outcomes of true fair trade are discussed and the role of the Fair Trade Labeling Organization, or FLO, is examined. Additionally, the supposedly eliminated “middleman” is studied to reveal the flaws of the system. Lastly, various perspectives on fair trade are surveyed to develop a broader understanding of how fair trade functions. If properly implemented, fair trade has the ability to significantly reduce the gap between the rich and the poor in the developing world. In closing, suggestions are offered to redesign the fair trade system in order for the purported benefits of equitable trade to become reality.

Introduction

In an age where ethical consumption dominates the shopping habits of many American citizens, we are often quick to purchase products that “help” worthwhile causes. We buy everything from baskets of KFC chicken to water bottles marked by pink ribbons because we want to support the fight against breast cancer. We purchase “green” household cleaning products because we want to leave a positive environmental footprint on the planet. We drink fair trade coffee because we want to pay coffee farmers the wages they deserve so that they can create more promising futures for their families. However, many consumers are unaware of the deception and false marketing schemes of many U.S. corporations to attract susceptible American shoppers. However beneficial these fair trade products seem, they are used by many corporations to appeal to ethically minded consumers while disguising harsh realities. In order to truly assist the beneficiaries of fair trade in a global economy, it is necessary to re-evaluate and redesign the system of fair trade. The United States should further develop true fair trade in the coffee
industry in order to provide needed market regulation and offer underdeveloped countries the opportunity to develop social and physical infrastructure.

**Positive Outcomes of Fair Trade**

Fair trade, if implemented properly, has the potential to bring about vastly positive results in developing countries around the world. With the extra revenue from fair trade, Latin American coffee cooperatives are able to invest in projects that increase the security of their crops. In addition, an overall increase in income among coffee cooperatives in the developing world leads to better living conditions, economic security, and improved education for families; preservation of indigenous cultures; empowerment for women and producers; and the creation of a feasible global trading system. Coffee farmers and workers are able to develop crucial business skills that allow them to contend in the international marketplace. “By giving farmers and farm workers direct access to international markets, and the tools and resources they need to succeed and thrive, fair trade makes sustainable local development possible”.

As stated by the mission of TransFair USA, fair trade fosters global equitable trade, allowing farmers and farm workers to receive the just price they deserve. It ensures a higher-than-market price to producers and on average, “fair trade cooperative members earned 39 percent more than non-cooperative members”. Although small increases may seem insignificant to consumers in the North, even minute differences can bring significant positive change. Ivan Ramon, from the Cerro Azul banana cooperative in Ecuador states, “fair trade has increased the income of our members, decreased migration, provided employment opportunities in the community and improved self-esteem of the small-scale producers. Through enlarged employment opportunities, rural and underdeveloped communities are given the opportunity to modernize and provide vital necessities, such as healthcare and education, to their citizens. Through equitable prices, societies can work their way out of poverty to create better lives for all.

Not only does fair trade provide adequate funding, but it also opens the door to education. Education is commonly a limiting factor and often defines an individual’s economic status. Many fair trade cooperative members do not graduate elementary school and still others do not even complete the fourth grade. This lack of education severely limits the future of the
cooperative workers and their potential to get involved with equitable and ethical trade on a global scale. It is not uncommon for children to work beside their parents and extended family members to help pay for basic school supplies.\textsuperscript{7} Northern consumers and fair trade critics were enraged to hear about children harvesting beans that went into their lattes and cappuccinos and later charged Starbucks, among other coffee corporations, with favoring child labor.\textsuperscript{8}

Fair trade provides additional revenue that stems from the U.S. consumer market to fund the construction of schools in isolated communities in developing countries around the world.\textsuperscript{9} It is often said that our children are the leaders of the future; by educating this generation \textit{now}, the cycle of poverty is deterred. By the time these children become adults, they will already have built the business and practical life skills necessary to succeed and develop true fair trade for the future. Additionally, the next generation of coffee producers and workers will have the opportunity to achieve a university-level education. One fair trade cooperative in Costa Rica funded $84,270 in financial support for scholarships.\textsuperscript{10} A college education allows traditional workers to advance their knowledge of the industry to succeed and sustain local development in a globalized world.\textsuperscript{11}

Fair trade upholds the conservation of indigenous cultures and rural ways of life, providing farming families with enough money to sustain their crops and their native lifestyle by allowing them to remain on their multi-generational farms instead of immigrating to other areas.\textsuperscript{12} In many Latin American countries, it has become common for young men to leave the areas they grew up in to find work in cities in their country or in the United States. Latin American culture is growing accustomed to this migration of young adults. If the coffee industry is to have a future, a young and healthy workforce must exist. Fair trade breaks this cycle of migration by attracting more young workers through the opportunity to earn sufficient income.\textsuperscript{13}

As already discussed, many of the workers and farmers within fair trade cooperatives come from traditional indigenous societies. Many countries, in Latin America especially, were founded upon patriarchal ideals and a strong sense of \textit{machismo} has been intertwined with cultural norms. It is often a requirement for cooperative members to own their land. This presents a variety of obstacles for women living in communities in male dominated societies where land inheritance is
Although FLO does not specify that fair trade have a direct affirmative influence on women, case studies have proven a positive correlation. Epifania Velasco, a farmer from Mexico’s CEPCO coffee cooperative stated, “We have woken up. We realize that as women, we can do more than just stay home and have children”. Women in developing countries are empowered to have high aspirations for themselves and their children. However, many female cooperative workers continue to view the coffee industry as a man’s domain. They have expressed a desire for the fair trade market to support equitable trade within the weaving market and others with products typically crafted by women.

In addition to the empowerment of women, several studies have found that fair trade empowers coffee producers in general. In one study, farmers repeatedly described that the “increased attention to their farming—including the visits of fair trade and organic inspectors, buyers, and even visiting Northern consumers—promoted renewed pride in coffee farming”. Farmers and workers within fair trade coffee cooperatives feel a sense of increased self-esteem, economic security, and pride. Positive psychological mindsets can boost the production of a commodity and workers’ motivation. In a market where wealthy Northern consumers and multinational corporations traditionally have control, the opportunity for indigenous rural coffee farmers to take part in an international alternative trade movement is an inspiring and unique opportunity. Nonetheless, some producers are oblivious to the importance of fair trade in their own lives. Workers in the La Voz cooperative stared absently when asked about the aims of fair trade. This problem may stem from the sales of these beans being summed with the sales of traditional beans, resulting in a single income and one paycheck.

Yet another result of true fair trade would be the creation and development of a feasible global trading system. Fair trade aims to allow producers direct access into the international market. Farmers are able to invest profits from this system in both in the quality of their products, which enables them to access valuable sectors of the global market, as well as in social and economic development in their communities. This alternative trade movement would allow for a more even distribution of wealth. Still, the chief problem of traditional coffee exporting exists within the fair trade industry; a large sum of the income from exports ends up in the hands of an intermediary organization, not in the hands of the families harvesting the beans. If legitimate fair
trade were implemented and the numerous aims of fair trade were carried out, the global trading system could be revolutionized into an arrangement more just for all parties involved.

The Current State of the Fair Trade Industry

Recently, multinational corporation giants such as Sam’s Club and Nestle have begun to sell fair trade products. Upon first glance, this appears to be a good idea as these corporations sell goods to an enormous sector of the market. However, many consumers may be unaware of the potential for these companies to exploit consumers in the United States and Europe who desire to pay more for products because they believe these products guarantee better prices for producers. Although fair trade once served its purpose and even acted as a lifeline to many producers, recent dialogue with many Mexican coffee producers shows extreme dissatisfaction and difficulty. In many fair trade coffee communities across the world, particularly in Latin America, international coffee prices have failed to cover production costs. The amount of money farmers and farm workers are receiving from fair trade coffee is not enough for them to maintain a decent standard of living. On multiple Costa Rican coffee plantations, farmers have eradicated their own coffee trees in order to enter a more profitable industry such as raising dairy cattle or to growing other crops. It is wrong to give false satisfaction to Northern consumers by buying fair trade if meanwhile, many families of coffee growers in the South are repeatedly struggling and have resorted to destroying their crops.

Currently, Mexico is the top supplier of fair trade and organic coffee in the world. Though this statistic would appear to portray the economy of Mexico in a positive light, the reality of the situation is quite different. The prices that Mexican coffee growers receive for their product are no longer sufficient to provide their families the quality of life they deserve. In the 1980s, NAFTA shut down the Mexican coffee institute, INMECAFE, which left “small producers in Mexico very vulnerable to price fluctuations just at the time when they most needed to be protected”. Farmers had to look elsewhere for a market, which resulted in many selling to coyotes, or middlemen, for extremely low prices. In 1992, Transfair International developed and created regulations for coffee trade. This organization was later named Fair Trade Labeling Organizations International, or FLO. “FLO sets standards that producers and companies must adhere to for their products to be sold with the fair trade label”, and also requires the purchaser
to create and develop a relationship with the coffee growers. Minimum prices and conditions are clearly outlined in order for all parties to receive fair and stable benefits. FLO calculates the cost of sustainable production and the cost of living for coffee growing families in each particular region. The coffee growers and cooperatives are then able to petition for a higher price if they do not agree the arrangement is fair.\textsuperscript{31} In spite of this, it is often difficult to determine a monetary value for what is “just.”

When prices were originally established in 1995, conditions for both parties were considerably better.\textsuperscript{32} Since then, however, the cost of production has risen drastically, creating a smaller profit margin for producers. Recently, many organic coffee producers have found that they are only receiving a \textit{slightly} higher amount of money for their organic coffee, which are significantly more labor intensive than regular beans.\textsuperscript{33} This has left many farmers to request an increase in payment from FLO. Even though FLO has responded to the pleas of many Mexican coffee farmers by giving them a small amount of additional money, this money has not been adjusted for inflation and is simply not enough.\textsuperscript{34} Though the idea of fair trade appears to be a respectable solution to both producers and suppliers, the harsh realities of the current economic situation in Mexico show otherwise.

Additionally, many consumers are unaware that “fair trade guarantees a minimum price to \textit{organizations} of producers”.\textsuperscript{35} Since the aim of this movement is to eliminate excess middlemen, the organizations were created to act as liaisons between the producer and the consumer markets. The producer organizations sort and process the coffee beans and prepare for exports. Frequently, these organizations end up consuming much of the higher fair trade price, and the farmers are left in a similar situation as in conventional coffee trade.\textsuperscript{36} Coffee growers continue to be exploited and middlemen continue to profit, completely defeating the true intent of the process.

Furthermore, the absence of a guarantee of fair trade prices to all workers involved in the production of the coffee beans also defies the aims of this system. In actuality, wage standards do not exist for temporary workers within the fair trade market.\textsuperscript{37} This allows large corporations to pay only a select group of employees the rate they truly deserve. A significant majority of the
workforce on small coffee farms is hired seasonally to pick and harvest the beans at the peak of ripeness.\textsuperscript{38} These workers and their families are therefore excluded from receiving the benefits of the fair trade market because they are not full-time employees of the organization. Many farmers in the Sarapiqui region of Costa Rica stated, “fair trade has not brought us a better income…those who really make money from our coffee are those who sell it cup-by-cup in the North”\textsuperscript{39} Giant corporations such as Starbucks, Seattle’s Best, and Coffee Bean continue to make large revenue as latte after latte is sold at nearly $4 a cup.

Néstor Osorio, the director of the International Coffee Organization, explained how the price of a pound of coffee can make the difference between a farmer sending his kids to school or sending them to the field to harvest the crops. It can also make the difference between “subsistence and deprivation”\textsuperscript{40} However vital coffee is to the livelihood of many countries in the developing world, Northern importers continue to have much more buying power, allowing multinational coffee companies to control the supply of coffee instead of the farmers and workers who actually harvest the crop.\textsuperscript{41} A study by Jeremy Weber, a research economist at the University of Wisconsin at Madison, showed that Starbucks is the largest purchaser of fair trade coffee in North America even though fair trade coffee makes up only 3.7% of the company’s purchases.\textsuperscript{42} Clearly, there is a lot of room for improvement for Starbucks and other large U.S coffee corporations.

Yet another problem in this market is the prohibitively high barriers to entry. “In order to participate in the system, applicants must obey a set of rules that often seems more like a socialist wish list than a structure designed to help growers”.\textsuperscript{43} The required FLO inspection processes are extremely expensive for all fair trade coffee producers and especially for organic fair trade producers: “in the most recent harvest, the internal and external inspection processes cost one cooperative $15,938”.\textsuperscript{44} Most coffee farmers worldwide cannot afford to pay this fee, while farmers in the region of Oaxaca have found that engaging in fair trade has more financial disadvantages than advantages because they are no longer able to “make ends meet.”\textsuperscript{45} One cooperative’s production went down by 60%, leaving them unable to fulfill their contracts with multiple buyers. In defense of the entire situation, FLO “recognizes that the fair trade price is sometimes not enough, but feels trapped between the demands of buyers and traders in different
Furthermore, labor, shipping, and certification costs for coffee farmers have risen substantially over the past decade, decreasing profit margins. Rising costs within the overall coffee production industry and an increase in the cost of living have caused many coffee farming families to seek work elsewhere. A farmer in Perez Zeledon, Costa Rica, stated, “Coffee prices have been so bad that we can no longer support ourselves. I don’t want to divide my family by going to the U.S.”.\textsuperscript{47} The migration of the coffee workforce to places that offer more abundant job opportunities has resulted in a workforce shortage for the coffee production industry,\textsuperscript{48} which in turn has led to perfectly ripe beans being unpicked and left on the bushes. What may only be a mere decline in coffee production now could eventually result in a global coffee deficit in the near future.

**Differing Perspectives on Fair Trade**

Although the concept of “fair trade” has been around since the 1940s, it was not until recently that the term was further explored. One of the leading perspectives today is referred to as the “shaped-advantage” perspective. It sees fair trade “as a project that assists local groups in developing capacities to help offset the negative impact of globalization”.\textsuperscript{49} Another principal outlook is the “alternative” perspective that views “fair trade as an alternative model of globalization that seeks to ‘include’ the poorest sectors in the purported benefits of international trade”.\textsuperscript{50} Lastly, the “decommodification” perspective views “fair trade as a challenge to the commodification of goods under global capitalism.”\textsuperscript{51}

Originally, fair trade was developed to combat the effects of neoliberal globalization in poor communities in Latin America. This redesigned system offers “the most disadvantaged producers in developing countries the opportunity to move out of extreme poverty through creating market access under beneficial rather than exploitative terms”.\textsuperscript{52} However, in the 1980s various organizations developed that desired to have an impact on standard markets.\textsuperscript{53} The nature of fair trade changed to include many non-state actors who play important roles in the success of the market. As mentioned above, FLO set guidelines to allow underdeveloped and poor communities to develop social and physical infrastructure through enforced regulations such as no child labor,
strict hourly wages, as well as environmental sustainability.\textsuperscript{54} As a member of FLO and “the only third-party fair trade certifier, TransFair USA attempts to promote global development to the U.S.\textsuperscript{55} TransFair advocates equitable global trade and guarantees that socioeconomic progress is taking place through the use of fair trade revenue.\textsuperscript{56} This organization gives buyers within the world’s largest consumer economy access to certified fair products. Global fair trade encourages coffee growers to advance and progress towards social infrastructure and development. Higher wages reduce poverty, malnutrition, and environmental degradation, along with many other problems among coffee-growing families.\textsuperscript{57}

According to Michael Barratt Brown, the founding chair of the Third World Information Network and Twin Trading Limited, “the major cause of underdevelopment in the South is a deterioration of primary commodities (coffee, tea and cocoa) in relation to that of the manufacturer’s overtime”.\textsuperscript{58} In addition, many of today’s coffee farmers and workers are indigenous people who grow a large percentage of the world’s coffee in parcels of land smaller than 10 acres. Because they are often unable to cover their production costs, they fall into a vicious cycle of destitution and debt. They then have no choice but to sell the rights to their harvest to manipulative middlemen in order to survive and to provide for their families.\textsuperscript{59} To prevent actors in the North from ruling the global economy and causing smaller Southern growers to suffer, market regulation of fair trade prices is crucial.

The first perspective, shaped-advantage, argues for fair trade as a project intended to help impoverished producers to better their place in the global economy through the expansion of networks and collaboration.\textsuperscript{60} This market is greatly influenced by the purchasing power of Northern consumers. Fair trade coffee must then be priced in a way that will attract customers who are looking to support the fair trade market, while still at a reasonable price. Planet Bean, a small vendor of fair trade coffee, relies almost solely on the ethical choices of coffee consumers and a limited market to make a profit.\textsuperscript{61} Many corporations have tried to primarily apply the shaped-advantage perspective to the local sector, which attracts little international attention and excludes coffee farmers who are not a part of the fair trade network. “World Bank and The International Monetary Fund have used their leverage over indebted poor countries to promote expansion of commodity exports,”\textsuperscript{62} causing many countries to export more coffee to pay off
debt, which in turn has created a worldwide oversupply and bankruptcy for coffee farmers. An “excess supply [of coffee] results in increased barriers to entry among producer organizations for a limited number of fair trade contracts.”63 Non-state actors and coffee producers alike must find just the right balance to keep the global supply of coffee at a viable level.

On the other hand, from the alternative globalization perspective, the state is not the key agent involved in fair trade. Alternative globalization is inclusive and attempts to reach the “socially excluded majority”64 through the market, which should serve the people. From this perspective, the structural causes of poverty and marginalization are analyzed.65 In accordance with philosopher Adam Smith, “True free trade will work in the best interest of all producers and consumers…as long as the state intervenes to prevent monopoly…”.66 Through alternative globalization, free trade will function without a lot of interference from governmental organizations. Government interference to ban, limit, or tax their trade hinders their ability to take in gains from equally advantageous trade.67 In order for both Northern consumers and Southern producers to profit, the government should leave affairs within the fair trade coffee industry to non-state actors and organizations. “Government cannot make trade more fair by making it less free”.68 The recent coffee market has forced fair traders to forgo ideals for state-regulated trading in order to work with prominent actors such as the World Bank and Starbucks, even though they allege these organizations lack true commitment to buying equitable products and use it to disguise exploitation.

The third perspective, decommodification, sees extreme barriers to fair trade’s ability to directly challenge the global trading system. However, “its greatest potential is seen in its ability to raise awareness among Northern consumers of global inequalities under which Southern goods are produced”.69 Through awareness of problems within the coffee industry, organizations may become involved in changing the current system of fair trade. One of the most significant contributions of fair trade is displaying social concerns on the international drawing board and giving small-scale producers leverage over large producers and multi-national firms.70 In addition, fair trade endorses noneconomic “values of cooperation and solidarity that challenge capitalistic imperatives”.71 Fair trade products reduce the gap between the producer and consumer by creating awareness of current conditions. Especially in today’s world of ethical
consumerism where movements such as fair trade are “in vogue,” consumers with adequate financial backing are likely to want to get involved and promote productive change within this trade movement. This approach promotes conscientious business while “proving that sustainable development can be both ethical and profitable”. With this information, Northern consumers are able to buy a product based on a moral decision.

Through varying perspectives on modern-day fair trade, its impact is seen to both positively and detrimentally affect Southern growers and Northern consumers. Northern shoppers are challenged with various consumer choices while many Southern growers face daily hardships and are excluded from the fair trade market. Although tension exists between political objectives of fair trade and the actual capabilities, fair trade has benefitted, and continues to benefit, a select group of growers.

**How can the United States effectively implement fair trade?**

The question of how exactly the United States can properly execute fair trade in order to bring about the intended results remains unresolved. Many believe that fair trade and FLO need to get back to their roots. This redesign may require the alteration of various barriers of entry that make it challenging for large transnational corporations to get involved and the true elimination of organizations that serve as middlemen. Because the cost of certification and marketing through the fair trade network can be “prohibitively high”, many cooperatives see greater earning potential within the traditional coffee market and continue selling to coyotes (intermediaries between the producer and large U.S corporations). Certification is a vital component to the assurance of product quality to Northern consumers. It is therefore crucial for coffee cooperatives to have access to fair trade certification without putting themselves into a financial stranglehold, which contradicts the aims of equitable trade. The U.S should subsidize the labeling and certification process in order to benefit the fair trade market and global trade as a whole.

In addition, FLO should place greater restrictions on large U.S corporations. These multinational giants can take advantage of the fair trade label for their own marketing benefit and must be continually watched. As already mentioned, many companies who claim to sell fair trade coffee
actually only buy a small percentage from certified cooperatives. They are tapping into a “growing social cache” in which consumers like to feel as though they are making a positive impact. To regulate this exploitation of the fair trade label, FLO and TransFair USA need to play a more active role in this industry. Perhaps these companies must show proof that a designated percentage of their product originates from a fair trade farm in order to be able to sell their product with the fair trade label.

As discussed earlier, fair trade wages are only guaranteed to full-time cooperative workers. A significant problem arises because the majority of the harvesting employees are seasonal crop workers. Often times these people are uneducated and live in a cycle of poverty as they struggle to make a living for their families. FLO needs to set concrete standards that outline the wage regulations for all employees involved in the harvest of fair trade coffee. As the Director of PRODECOOP (Promoter of Cooperative Development in the Segovias), Merling Preza Ramos stated, “Coffee producers [and workers] are only asking to be paid a fair price…this isn’t charity. Behind a cup of coffee there are face and people—people who are working to produce good coffee”.

Conclusion

Without a doubt, the fair trade market faces significant challenges. Although the governmental interference by the United States would only further inhibit the fair trade market, intervention by non-state actors such as FLO is vital to the survival of fair trade and the global coffee industry as a whole. FLO and TransFair USA must find the precise balance between satisfying compulsive coffee drinkers and corporation giants in the North, while simultaneously providing moral and adequate wages for coffee harvesters in the South. The realities of fair trade are clear -- farmers and farm workers continue to suffer from impoverished conditions. Meanwhile the theoretical results of fair trade are excellent and would eliminate many of the problems central to the infrastructure of developing countries. What the fair trade industry needs is a revision of established fair trade prices and regulations in order to reach the original aims of the industry. Perhaps the only way to save the true fair trade market is to seriously consider farmers and their families first, and for just a moment, forget about the multinational billion-dollar corporations.
Endnotes


8 Ibid.


13 Ibid.

14 Ibid., 207.


17 Ibid., 209.

18 Ibid.
Ibid., 210.


Ibid.

Ibid.


Ibid., 197.


Ibid., 7.

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45 Ibid.

46 Ibid., 9.


50 Ibid.

51 Ibid.


54 Ibid.


56 Ibid.


65 Ibid.


