

**FAIR TRADE: A BETTER MODEL FOR NORTH-SOUTH
ECONOMIC COOPERATION**

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ABSTRACT

This research paper addresses the question; does Fair Trade create more positive outcomes for producers and communities in the developing world than the free market model? The proposition that free market capitalism does indeed have significant unsatisfactory negative outcomes, and that alternative economic models may hold the potential for creating more positive outcomes, drove the research and informed my reading of the literature. It also shaped my case study of the U.S. based mid-sized transnational corporation ForesTrade, Inc., a company that imports certified “Fair Trade” coffee as part of its operations. Of particular concern in this paper are the inequalities inherent in trade relations between developed and developing countries as a result of an imbalance in their individual competitive advantage.

The case study data came from document reviews and interviews with key players in the business partnership structure, consisting of coffee roasting customers, environmentally conservation-minded NGO investors, and developing world producer cooperatives. All of these players help to create a system of “Fair Trade” whose key criteria is also reflected in ForesTrade’s organizational mission and vision which is dedicated to environmental conservation, socio-economic development, cultural preservation, and the production of high quality products. Both sets of data (interviews and document review) are compiled into one multi-category database via pattern matching logic. The categories assigned to the data are equal to the independent variables of the research, being socio-cultural, socio-economic, and environmental impacts. The dependent variable in this study is (the presence of) “more positive

outcomes for producers and communities in the developing world.” Categories for comparison include: domestic policy standards related to trade; incorporation of environmental externalities; labor issues (including income gaps, extreme working conditions, and the right to organize); decimation of cultural traditions; and the negative influence and dominance of powerful TNCs over states, workers, and competing economies. This database is then analyzed for a preponderance of either positive or negative socio-economic, socio-cultural, and environmental effects resulting from Fair Trade as conducted through the company ForesTrade, Inc. The balance between positive and negative outcomes is examined within the data set as well as compared to the outcomes of free market globalization described in the literature review.

Data analysis concludes that Fair Trade as practiced by ForesTrade and assisted by the guidelines provided by the Fair Trade Labeling Organization (FLO) does indeed produce more positive outcomes than the free market model in many of the areas highlighted in the literature review. While most of the case study outcomes are positive, the most significant points of critique regarding Fair Trade concern its pricing system and limitations for market access for producers.

This research shows along various lines how Fair Trade is performing as an alternative economic model to the standard practice of free market global economics. Material from this report should be useful to FLO in improving the design of the Fair Trade model; to producers in developing countries who are considering pursuing placement on the Fair Trade registry; and to the general debate over the efficacy and appropriateness of globalization as it is currently being pursued through free market economics.

Introduction and Statement of Research Question

I was drawn to exploring the topic of this paper during my six-month practicum with the for-profit company ForesTrade, Inc. (FT) of Brattleboro, Vermont. FT is a U.S. importer of organic spices and essential oils and Fair Trade¹ and organic coffees. The business model of FT is intentionally designed to incorporate and promote the growth and betterment of all stakeholders involved with its activities. As a result, FT was the only U.S. company awarded the 2002 World Summit Sustainable Development Business Partnership Award by the United Nations and International Chamber of Commerce. Their exemplary business model focuses particularly on the natural ecosystems and indigenous family farmers directly involved with or impacted by its production operations in the developing world. It was my background in environmental science, my coursework in the Organizational Management degree program at SIT, and the direct experience of this rare business model, originating from the northern hemisphere and attempting to deal equitably with its producers and suppliers working in the developing world, that gave me the desire to explore and document its impacts in greater detail. Fair Trade, especially when combined with organic agriculture, showed me a model that attempts to harmonize the concerns of the social, environmental, and economic spheres, which is no small task. Effectively addressing the needs of each of these interrelated spheres has become a clear and present challenge to humanity as signified by the World Summit on Sustainable Development held in Johannesburg, South Africa in 2002.

¹ Fair Trade, as supported by the Fair Trade Labeling Organization (FLO) and similar international regulatory bodies, is a system of trade between developed and developing countries that guarantees a minimum price to developing country producers for several commodities such as bananas, cocoa, tea, and coffee. Similar pricing arrangements are being developed for manufactured products as well. Additional social and environmental concerns are usually included in the criteria for members who wish to participate in a certified Fair Trade arrangement.

Additionally, my coursework at SIT was shadowed by the recent collapse of several large multinational corporations and the tragic events of 9/11 involving the World Trade Center, which can arguably be tied to various international economic and political inequities supported by the competitive global free market model. These social, economic, and political catastrophes highlight the present and demanding need for Western nations, especially the U.S., to examine the inequalities and injustices that may be fostered or exacerbated by globalization as practiced today. In this paper I wish to explore the weaknesses of globalization and to then compare these with the outcomes of the Fair Trade model using ForesTrade as a case study.

The topic I wish to address is: **“Does the Fair Trade model create more positive outcomes for producers and communities in the developing world than the free market model?”** The question, as stated, contains several key words and concepts, such as “Fair Trade,” “positive outcomes,” and of course, “free market.” I will define and explore these briefly here, and at greater length in the literature review and other parts of the paper.

The term *“Fair Trade”* has several different uses and meanings that I will attempt to clarify. Simply applying the descriptor “fair” to “trade” in common discussion usually means one is addressing a degree of equity inherent or lacking in inter-country trade relations. Fair trade advocates promote harmonization of domestic policies (such as labor, human rights, and environmental standards and tax and competition policies) among international trade partners. The intended outcomes are to create a level playing field (in terms of competitive advantage resulting from varying production costs from country to

country) for trade as well as to avoid a “race to the bottom” in domestic policies affecting production costs (Enders 1997, 369).

The term fair trade has also been taken on by organizations such as the Fair Trade Federation (FTF), which promotes the marketing of fair trade products whose production processes must satisfy certain criteria, which I will explore at greater length in the literature review. Finally, the always-capitalized term Fair Trade actually refers to a particular labeling system and business model requiring certification based on internationally established standards. The originator and officiator of this labeling system is the Fair Trade Labeling Organization (FLO). The Fair Trade business model, promoted by FLO, has emerged as a hopeful alternative to the inequalities of conventional international trade. FLO establishes a price floor for commodity products, such as coffee, tea, rice, bananas, mangoes, cocoa, sugar, honey, and fruit juices, that is always either above or equal to the conventional market price paid to producers in the developing world. Occasionally, the conventional market price for a given commodity will rise to meet the Fair Trade price minimum. If the conventional market surpasses the price floor, then the Fair Trade price will rise accordingly and provide a small premium to ensure that the Fair Trade price is always slightly higher than the conventional price. The goal of this pricing system is to ensure that workers in the developing world receive a livable income.

The need for establishing alternative compensation models to the traditional free market system is seen in the inequities of profit distribution to producers, the sustained collapse of prices in the conventional Coffee “C Market” on Wall Street, and the resultant hardships endured by rural producers supplying that market. From a macro level perspective, according to the International Coffee Organization, the world coffee market

ten years ago was valued at \$30 billion with producers receiving \$12 billion. This compares to today's market valued at \$50 billion and producers receiving only \$8 billion (Abell et al., 2002). Thus, while the market has grown in sales by 60%, the producers' share of the total revenue has decreased from 40% to 16%. According to James (2000), the prices that the producers receive are often "...less than the costs of production, which pushes them into an endless cycle of poverty and debt," with farmers generally receiving "...less than half the C market price, or between 30 and 50 cents a pound for coffee that retails for as much as \$10" (p. 2). The resulting income per family averages a mere \$600 dollars a year. The inequity of this compensation is dramatized by the fact that coffee is the world's second most valuable commodity market after petroleum (James 2000). While this anecdotal evidence of increasing inequity focuses on the conventional coffee market, the same profit maximizing logic that applies to this market also applies to other global free market ventures. Exact extrapolations may not apply to other industries, but variations are likely to differ only in degree.

Currently, in traditional North-South corporate production systems, the lowest margins of profit are consistently distributed to the local producers and workers of the developing world in exchange for their supplying and/or working for some of the most profitable northern based Transnational Corporations (TNCs). The result is that the gap between the wealthy and the poorest of our world is steadily widening. Stiglitz (2002) notes that:

Despite the repeated promises of poverty reduction made over the last decade of the twentieth century, the actual number of people living in poverty has actually

increased by almost 100 million. This occurred at the same time that total world income actually increased by an average of 2.5 percent annually. (p. 5)

Comparison between the standard free market model and the Fair Trade model in this paper is based on multiple issues that impact producers and communities in developing nations including: weaknesses in the theory of comparative advantage (which underlies free-trade); the destabilizing effects of the IMF and its structural adjustment policies; a race to the bottom of domestic policy standards; environmental externalities; labor issues (including income gaps, extreme working conditions, and the right to organize); decimation of cultural traditions; and the influence and dominance of powerful TNCs over states, workers, and competing economies.

Theories of Neo-Classical liberalization began to dominate economic thinking and policy in the mid 1970's as Keynesianism began to lose popularity. Deregulation, privatization, diminishing the role of government, and free-trade were all promoted to put market-determined outcomes forward as the optimal way to distribute resources and economic benefits. It is argued that free markets keep consumer prices low and increase production efficiencies through competition, which ultimately increases production capacity as well. Neo-Classical economics' hold on international trade policy made its most recent gains in 1995 with the conclusion of the Uruguay Rounds of the General Agreement on Tariffs and Trade (GATT) negotiations, which saw the creation of the World Trade Organization (WTO).

Theoretical propositions of this paper are:

- Free market capitalism has significant unsatisfactory negative outcomes for developing country producers.
- Alternative economic models hold the potential for creating more positive outcomes for developing country producers and their communities.

The literature review explores the first proposition by looking at both the theory and practice of Neo-Liberalism. The second proposition is explored in both the literature review and following case study on ForesTrade (FT). For the sake of this paper, analysis and application of conclusions is limited to certified Fair Trade commodity products. This follows from the fact that the case study deals with one of these commodities, namely Fair Trade coffee.

Literature Review

Recent History of Free-trade/Protectionism

A survey of the impacts of free market capitalism requires exploring the complicated interplay between macroeconomic policies of national and global institutions and the more mobile players in the market, namely Transnational Corporations (TNCs). This discussion begins with free-trade, also commonly referred to as Neo-Liberalism or Neo-Classical economic thought as applied to commerce on an international scope. The mantra of free-trade first gained momentum among developed countries and economists with the European Economic Community, which began in 1957 as a free-trade agreement. Support for free-trade continued to grow through the 1960s and 1970s and reached a crescendo with the establishment of NAFTA and the creation of the WTO

during the 1986-1995 Uruguay Rounds of GATT. These two “agreements” instituted free-trade as policy and ultimately law.

Theoretically, globalization via free-trade argues for a more efficient system of resource distribution and economic gain based on liberalized trade, the theory of comparative advantage, and privatization of state run industries. Theory claims that as countries concentrate on their respective strengths in production (and importing the other goods they need, but do not produce themselves), this creates greater production efficiencies and therefore lower prices (Weizsacker, 1998). This is the theory of comparative advantage in brief. This seems a simple yet elegant position since concentrating on a relative weakness in terms of industrial capacity would not lead to either a competitive advantage nor the most net efficient use of established systems of production in the world. Lastly, it is theorized that eliminating trade barriers between countries is necessary to allow trade to occur unabated so that it can reach its most efficient natural state. Backed with these arguments, free-trade proposes that internationally it “...benefits all consumers in all countries by making more goods available at lower prices” (McTeer, nd). It seems this would be an enviable situation, especially for the poor of the world, since it would increase their purchasing power. Theories backing free-trade came into conflict over the past half-century with other more protectionist opinions that trade barriers need to be maintained to protect domestic industries and countries’ trade balances.

What was left out of the debate advocating for liberalized trade was the ironic fact that the most developed nations vying for position in this liberalized world economy had

grown their economies under Friedrich List-type protectionist principles and not the widely promoted principles of Adam Smith. J.W. Smith (2002) notes:

America took the philosophical lead in protection of industry and markets, from 1816 to 1945 was one of the most protected nations, and virtually every nation which has ever successfully industrialized did so under the protection principles laid down by Friedrich List. (p. 40)

Britain, America, Germany, Japan and the Asian Tigers all developed under List protectionism even while the mantra of free-trade philosophy was given wide lip service. They knew the benefits of nurturing a domestic economy *until* it was capable of trading internationally. To not do so would be the equivalent of sending a child untrained in weaponry into a war zone. Yet this is just the kind of premature exposure that the establishment of NAFTA and the WTO has promoted for developing nations. Free-trade advocates argue that exposing developing markets to more competitive international players will shock the young markets into quickly raising their efficiencies. Yet as this review will hopefully show, the results have been on average far from beneficial to all players and competitors in the market. TNCs have found much opportunity in taking advantage of vulnerable domestic economies in international markets for the sake of expanding their market share and increasing profits.

Comparative Advantage

The ideology of comparative advantage is another fallacy that contributes to the inequity between the North and the South by narrowing growth strategies in the South to

natural resource exports primarily. Countries are told that if only they would find their particular area of specialization, and utilize it, then they will be assured their fair share of the wealth of the global economy. This concept has several weaknesses on an international level. First, from the simple perspective of countries having the right to a diverse economy, Daly (1996) comments that:

Contrary to the implications of comparative advantage, more than half of all international trade involves the simultaneous import and export of essentially the same goods....Another seldom mentioned corollary of specialization is the reduction in the range of occupational choices. Uruguay has a clear comparative advantage in raising cattle and sheep. If it adhered strictly to the rule of specialization and trade, it would afford its citizens only the choice of being either cowboys or shepherds. Yet Uruguayans feel a need for their own legal, financial, medical, insurance, and educational services, in addition to basic agriculture and industry. (p. 231)

The confining structure of the comparative advantage philosophy is obvious.

Hypothetically speaking, even if there were two or three clear comparative advantages for say, a North American or European country, no developed country today would ever agree to limit itself to so few options. The limitations placed on both its domestic production and export potential would be prohibitive.

Prasch (1996) presents a comprehensive list of unsupportable assumptions inherent in the theory of comparative advantage and further challenges its validity as a prime mover for free market and free-trade policy implementation. The limitations he lists include the assumed economic conditions where: no externalities exist; capital and

labor skills mobility within a given country are free and costless; there is full employment of all available capital and labor at all times; trade between countries is always in balance; capital does not cross international borders; and there is a "...fixed set of productive economic resources and technologies, including labor skills" (pp.39-40). These assumptions fail the test of reality as well as expectations of economic behavior derived from the classical economic model itself.

For example, externalities such as pollution from industry do indeed exist and history has shown (Love Canal in the USA, Union Carbide in Bhopal India, Exxon in Alaska, etc...) that firms often avoid (whenever possible) voluntarily including the costs of covering remediation of such externalities in their operation costs. Free mobility of labor and capital is also unrealistic because skills are often both job specific and even firm specific, and considerable resources (finances and time) are needed to retrain for a new position. If a country attempts to move its workforce to support its "newly discovered" comparative advantage more forcefully, these obstacles that arise during such a transition are not accounted for in the theory of comparative advantage. In other words, adjustment costs are assumed to be zero. Full employment is an obvious illusion, even in the healthiest economies, but without such a reality in applying the theory in question, the "...true social costs incurred in the production of various goods remain undefined" (Prasch, 1996, p. 42). The assumptions that capital never crosses national borders (especially with today's highly mobile financial markets) and that trade balances between nations are equal at any given point in time are also equally unrealistic.

In regards to countries having a static set of productive economic resources, Japan and Taiwan have clearly shown by example that specialization is not limited to pre-

existing natural resources or “gifts of nature” alone. Comparative advantage is something a nation, above all, has the power to create or change with human resources and over time. Certainly, Japan, Taiwan, and Germany may never be major agricultural exporters, but in dozens of other ways they are strong and diverse producers. Most often, developing countries are convinced to focus on exporting what appears to reflect their inherent comparative advantage, usually raw materials. Industrialized nations are very willing to take these raw materials, at relatively lower prices than the products that they manufacture with these resources, and sell them back to the developing countries. Once value is added to these resources, the profits from sales of high end manufactured products are significantly greater than those gained by the third world suppliers for the selling of their natural resources. The developing nations are thus left with depleted resources, minimal revenues, and an undeveloped and un-diversified economy. This is the continual siphoning of developing world (periphery) wealth to the industrialized world (center), again reminiscent of colonialism. This loss of the ability to add value to one’s resources and accumulate wealth further inhibits the periphery countries from successfully competing with the more diversified nations in the center. TNCs are again the primary recipients of this wealth siphoning, as they are the agents who buy the inexpensive imports, add value to the raw materials, and then sell these value added products with significant mark-ups.

WTO - Opportunistic Applications of Free-trade/Protectionism by the North

Protectionism and liberalization were alternatively and opportunistically taken advantage of by the developed world during the GATT Uruguay Round that began in

1986. Khor (2000) points out that northern countries obtained liberalization in areas where it would benefit them most and protectionism in areas where it would not affect their economic standing (i.e., technology and Intellectual Property Rights) (p. 21). Khor goes on to note that efforts by the developing countries to implement protectionist conditions on the entry and operations of foreign companies to protect domestic industry and their efforts to liberalize labor services were both stymied by the North. In summary, the free migration of capital and trade across national boundaries were acceptable to the North because it stood only to gain an even greater advantage for its corporations, but labor and significant technology flows were not allowed as these could ultimately provide advantage and benefits to members of the developing nations in the competitive market.

According to Stiglitz (2002) after the last round of agreements in 1995, “the net effect [of the signed agreements] was to lower the prices some of the poorest countries in the world received relative to what they paid for their imports. The result was that some of the poorest countries in the world were actually made worse off in regards to their new terms of trade” (p. 7). This is not a new situation, whereas the United Nations reports that “...the terms of trade of non-fuel commodities vis-à-vis manufactures fell from 147 in 1980 to 100 in 1985 to 80 in 1990 and 71 in 1992” (Khor, 2000, p. 10). The result of this 52% decline in the terms of trade was \$56 billion in income losses to sub-Saharan countries in the late 1980s. These figures express some of the real effects experienced by developing countries as a result of their participation in the global experiment of free-trade.

These types of agreements above show that liberalization is a wonderful idea for the North so long as it does not create true competitors in the South. Free-trade can then

exist as long as the North retains the higher competitive advantage and is ensured to profit at the expense of the South. Here we have a reality that is reminiscent of recent colonialism and of mercantilism before that. America has been added to the old imperial nations to form a bloc of political and economic self-serving power that continues to extract resources and cheap labor from countries on the periphery, and the TNCs based in the U.S. (which constitute the vast majority of TNCs in the world) are more than willing to benefit from these inter-country asymmetries.

The IMF

Joseph Stiglitz, former chairman of President Clinton's Council of Economic Advisors, chief economist and senior vice president for the World Bank from 1997 to 2000, and winner of the 2001 Nobel Prize in economics, recently published his insider account, Globalization and its Discontents (2002), of global economic policy. His major focus is a critique of the operations of the IMF, especially its failed conditional structural adjustments imposed on needy countries that had borrowed money from the institution. Stiglitz's general view is that even the international public institutions designed to assist failing national economies have lost sight of their original purposes, allowed themselves to be co-opted by special interests, and imposed a patronizing relationship upon developing countries.

The World Bank and IMF were both created during World War II as a result of the UN Monetary and Financial Conference at Bretton Woods, New Hampshire, in July 1944, for the sake of rebuilding Europe and preventing future economic depressions. Since then, their effectiveness has declined to a point of causing more systematic

destruction than positive solutions throughout the world. Under IMF-forced cutbacks in health expenditures and public education, AIDS has increased in Thailand, and families in developing countries make difficult decisions not to send their daughters to school since they can not afford to pay for tuition on their own (Stiglitz, 2002, p. 20). Countries who follow IMF recommendations, such as Kenya and the East Asian Tigers (S. Korea, Thailand, Indonesia, etc...) find themselves in economic depressions or worse. South Korea's experience of the collapse of the Asian market in 1997 was precipitated in part by excessive fiscal conservatism as conditionally dictated by the IMF in exchange for access to loans. While the IMF has conceded to its over-emphasis on fiscal stringency in connection to the East Asian crisis of the late 1990s, policy implementation has changed little since then.

Structural Adjustments/Debt Accumulation

It has been the IMF's blind commitment to a one-size-fits-all contractionary macroeconomic policy, fully contradicting Keynes and the expansionary principles under which the IMF was created to assist countries in dire straights and in need of borrowing funds for liquidity that has contributed to such dire global economic straits. Funds are only provided if countries raise taxes, devalue currencies, cut deficits, or raise interest rates all of which hurt social programs, education and programs for the poor while simultaneously slowing investment. The IMF argues that such disciplinary measures if voluntarily taken on by a country will signal a note of conservatism and restraint to the foreign community which will draw outside investments. It also argues that by devaluing a country's currency, its trade balance can be improved since a weaker domestic currency

will spur exports. Stiglitz (2002) points out that the IMF curiously holds keeping the rate of inflation low as the single most important condition, even at the expense of unemployment rates and growth. The latter two factors are often ignored, even in the short term, for the sake of preserving a low rate of inflation. This policy commonly leads to economic stagnation or downturns, and is certainly not a policy practiced by developed nations.

Often times the recovery plans designed and imposed by the European and Western officials of the IMF fail, but it is still the requirement of the borrowing country to pay back the loans. The statistics on debt repayment are dizzying. According to Smith (2002), “Third World debt climbed from \$100 billion in 1973 to \$1.7 trillion in 1999. With resource prices having dropped possibly 70 percent the past 40 years and still dropping, obviously that debt cannot be paid.” The magnitude of these debts and their related conditional structural adjustment requirements are such that they directly impact the ability of developing countries to meet their obligations under the WTO. Ultimately, the effect of these contractionary policies and debt accumulation is to create weaknesses at a microeconomic level, such as creating an unattractive environment for investment which in turn limits access to working capital for local firms.

Foreign TNCs benefit from structural adjustment programs imposed on developing countries by taking advantage of several of the resulting debilitating conditions. Currency devaluation is imposed on developing nations to increase their exports and improve their trade balance, but it also prohibitively lowers profit margins for exporting industries which often leads to their ultimate demise. TNCs then enter the country and assume that market share. Superior economies of scale (and thus efficiency)

and better access to working capital and markets for TNCs are reasons why the TNCs are able to survive in an economic environment where domestic firms cannot. Thus market access becomes severely limited for local businesses and products in the face of superior competition.

Debt-equity swaps also occur when the compounding interest of IMF loans convinces developing countries to allow the buy-up, for pennies on the dollar, of their domestic industrial capacity (industries and utilities) by developed countries and their resident TNCs in exchange for debt reduction. Unfortunately, these attempts are feeble and only further disable domestic economies as profits from those industries stay in foreign hands instead of benefiting the local economy. In summary, the remaining local industries in countries carrying the burden of SAPs and IMF debts simply cannot compete with foreign TNCs because the contractionary fiscal environment of the domestic economy prevents robust growth for firms without superior economies of scale.

Dominance of TNCs over States, Workers

Additionally, Jones (2000), notes that, “It is unquestionable that the structural balance of power between TNCs, states, and workers has shifted significantly in favor of TNCs since the 1970s.” He also concludes that, “...TNCs exist due to market failures, and that there is substantial reason to believe that their continuing existence extends rather than attenuates those market failures under specific conditions” (p. 954). This market failure is based on his assessment that TNCs hold their competitive advantage not from market strategies alone, but also from non-market strategies, such as politically obtained subsidies and privileged market access. He also points out that TNCs have

access to resources for competitive advantage that domestic firms lack, such as, "...cross subsidization, government support, superior insulation from currency fluctuations ... enhanced ability to exploit transfer pricing opportunities [oftentimes offshore tax shelters], and economies from bargaining leverage" (p. 948). While it is true that domestic firms may be able to access some of these non-market advantages to a lesser degree, the TNCs are still able to dominate the market because of their superior capabilities in each area.

The flexibility of TNCs and their dominant position in global economies has set them today among the primary players in determining the patterns for distributing the benefits of economic activities. Of the 100 largest economies in the world today, 52 are transnational corporations (Haines 2001). Additionally:

Mitsubishi is bigger than Indonesia (the Earth's fourth most populous country), General Motors is larger than either Denmark or Norway...The combined annual revenues of the biggest 200 corporations is greater than those of 182 nation states which, in turn are responsible for the livelihood of over four-fifths of humanity on this planet (Clarke as cited by Haines, 2001, p. 873).

Development, if any, fostered by TNCs can be the wrong kind of development for a region, since its concerns are not for the welfare of communities in which they operate, but more so for the profits of its owners who can be located anywhere in the world (Jones 2000). Dividends to stockholders, company ratings in the stock-market, and liquidity are of utmost concern to corporations and not the quality of public education for local communities, the maintenance of civil infrastructure (unless it serves the immediate needs of the TNC), access to investment dollars for small scale local entrepreneurial start-

up businesses, establishing adequate health care services, or other development related initiatives. It can be said that economic development ultimately promoted by TNC activities is best described as an externality rather than an intended outcome. The poor of the world, though, do need intentional and planned assistance to help them change their circumstances for the better.

Corporate welfare

Another deception in the free-trade competitive market model of globalization is the elaborate corporate welfare supports provided to TNCs based in developed countries. According to Smith (2002):

Federal corporate welfare takes the form of tax credits, tax exemptions, tax deferrals and deductions, a tax rate lower than others pay, price supports, funds to train workers, government-insured transactions of all kinds, government grants for research, government services (such as building logging roads for timber companies), outright subsidies, and lavish corporate lifestyles deducted from taxes. (p. 221)

The numbers are truly astronomical with 650 billion dollars spent each year by governments worldwide on subsidies (Roodman, 1998). Within the United States, the Food Security and Rural Investment Act of 2002, commonly called the Farm Bill, is currently poised to allocate between 17 billion and 19 billion dollars in farm subsidies to large industrial farms (“U.S. Farm Bill,” 2002). This free unearned federal support leads to exaggerated production relative to true market demand. Agricultural surpluses result which are then dumped in developing countries worldwide, thus deflating the prices of

domestically produced agricultural products to unprofitable levels for domestic producers. This ultimately destroys the livelihoods of farmers in these countries. Shiva (2001) notes that, “Within one growing season, millions of oilseed-producing farmers...lost the market for their diverse oil seed crops,” due to subsidized U.S. soybeans (to be converted into soybean oil) rapid entry into India (p. 99). Jamaica is currently dumping daily the milk that its dairy farmers produce because it is cheaper for consumers to buy the powdered milk imported from subsidized EU dairy farmers. Smith (2002) states that “Germany subsidizes her mining industries to the tune of \$85,000 per miner” (p. 195), certainly a luxury developing countries could not afford. Corporate welfare in all its forms creates a false market of international competition by skewing competitive advantages to countries with established revenues and tax bases that can support lavish subsidies for their corporations and not to poorer countries focusing solely on their industries’ efficiencies. Ironically, when a developing country does manage to subsidize an industry, it is often for the extraction of raw materials to be exported to the developed world, with politicians receiving kickbacks on those extracted resources.

UN Millennium Goals, Race to the Bottom

While the United Nations has set its Millennium Goals to reduce by half the number of persons making less than one dollar a day by 2015, it is unclear how, or if at all, corporations will be required to modify their international operations to assist in achieving this goal. The global standard today is for TNCs, often based in the developed countries of the North, to establish operations in the South, enjoying elevated profits resulting from lax governmental regulations (governing working conditions and

environmental impacts), low labor costs, and minimal taxes. While these corporations are simply seeking the competitive advantage justified and lauded by the traditional competitive market model, this “race to the bottom” of minimizing to the greatest degree any and all operating costs, including those related to labor and environmental safeguards, simply passes the burden of the expense of this operational and budgetary externalities onto the societies and environments in which they operate and onto future generations.

WTO Helps Ensure a Race to the Bottom

The race to the bottom for production standards is further exacerbated by WTO regulations. The lowest standards are gradually becoming international standards since:

‘...any law that requires imports to meet local or national health, safety, labor, or environmental standards that exceed WTO accepted international standards...[both national and local governments] must bring its laws into line with the lower international standard or be subject to perpetual fines or trade sanctions...’ (Korten, 1995, as cited in Smith, 2002).

The scope of these WTO restrictions, intended to eliminate any obstacles to international trade, includes laws that can regulate domestic conservation practices that minimize natural resource exports to protect local habitats (the conservation practices would be deemed impediments to trade). These regulations also apply to countries not wishing to import products unsustainably harvested and local content requirements that stipulate a certain percentage of local materials and labor be used in the production of products for export (Smith 2002, p. 207). Howse and Trebilcock (1996) describe U.S. embargoes that

were, "...targeted, either directly or indirectly, at tuna-fishing practices in the Eastern Pacific, particularly those of Mexico, which resulted in the deaths of large numbers of dolphins." Two review panels in the WTO ruled that these embargoes were unfairly targeted at domestic policies of Mexico. Here the conflicting priorities of advocacy for environmental conservation (and potentially other issues such as labor rights) and the preservation of trade liberalization are evident. It seems drawing into question the sovereignty of trade liberalization over other domestic policies is needed to preserve whatever gains have been made in these other arenas.

Environment

Economics is the successful combination of land, labor, and capital. So with the inherent inclusion of land, and therefore the environment, environmental issues and the simple concept of stewardship of an economic input are brought to the fore. Korten (1996) notes that the fivefold expansion of our global economic system since the 1950s has left our environmental resources and the earth's ability to accommodate for our patterns of use (sink functions) stretched to the limits of their capacity. The marine ecosystem shows strong indications of the unsustainable practices dealt by humanity - primarily by commercial free market fishing fleets. According to Gardner (2003) a decade long decline of global fish stocks is further threatened by precision mapping, satellite navigating, and other new fishing methods that hold even greater capacities to unsustainably harvest global fish populations. Currently, "...some 60% of the world's marine fisheries are being exploited at or beyond capacity," and "...by the end of 2000,

27% of the world's coral reefs were thought to be severely damaged, up from just 10 percent in 1992" (Bright as cited by Gardner, 2003, p. 8).

The atmosphere and our world's forests also show telltale signs of stressed capacities. The world currently has the highest concentrations of carbon dioxide in its atmosphere since as far back as 20 million years which has likely contributed to global warming and resulted in global icemelt rates at the poles more than doubling since 1988 (Gardner et al., 2003, p. xxi). This rapid change threatens to raise sea levels and impact coastal cities. Land ecosystems have equally suffered misuse with over half of the world's forests being decimated since the dawn of agriculture and "...about 30% of surviving forests seriously fragmented or otherwise degraded" (Gardner et al., 2003, p. 8). These forests hold much of the earth's biodiversity as well as its carbon which is released into the atmosphere when the forests are destroyed, thus further exacerbating the threats of global warming.

Destruction and overuse of natural resources as mentioned on the global scale above lead to both local and international situations of scarcity which can lead to the further abuse of the remaining ecological resources through intense competition driven by the free market. The players in this competition are the wealthy governments and corporations and the common poor masses of the world. As is often the case, "hundreds of millions of the financially disenfranchised are displaced as their lands, waters, and fisheries are converted to uses serving the wants of the more affluent" (Korten, 1996, p. 23). Korten goes on to point out that in terms of meeting the basic needs of all people, maintaining biodiversity, and ensuring the sustained availability of resource flows to future generations, our present economic system fails on each account through misuse of

our natural resources. One of the reasons for these failures is that an economic system based on unlimited growth with a finite resource base is an impossibility. Certainly, advances in technology can minimize impacts (they can also exacerbate them), but our economic system has yet to reach that type of efficiency and much of our global resources are already tapped, and likely over-tapped in many instances.

Korten (1996) points out a key determinant in allowing for such runaway impacts on the environment and that is the general failure to internalize fully environmental costs. The inability to internalize environmental externalities has long been demonstrated by corporations taking advantage of every opportunity possible to avoid (usually by legal loopholes, or accepting relatively lower fines) including these costs in their balance sheets (ie, General Electric's recent refusal to clean up PCBs discharged from one of its plants from the bottom of the Hudson River in New York). The absence of green National Income Accounting systems as well as green accounting practices² on the corporate level distorts the accuracy of assessments on resource scarcity which in turn weakens the accuracy of pricing in the market. While these green accounting systems were not in place during the previous Keynesian economic era, free trade has not shown any improvement in the accuracy of pricing in this respect either, despite its claims for increased efficiency.

There are also mounting threats that environmental externalities will be allowed to persist unaccounted for as the result of national powers losing their regulatory control over TNCs. This occurs partly via the movement of power to international bodies such as

² Green accounting is a system of financial accounting that incorporates the negative environmental externalities fostered by the operational practices of production firms (typically) into its total calculations. These individual assessments can also be represented in aggregate within a given country's National Income Accounting.

the WTO (as described above in the case of the U.S. government vs. Mexico regarding tuna fishing standards) whose primary role is to ensure the flow of trade. The issue of timeframes deals with the demand for short term profits, driven both by the need for TNCs to post quarterly profits to remain competitive and, perhaps even more so, by the tremendous rapidity of exchange in global financial markets (Korten, 1996). The tremendous amount of money exchanged daily in the financial markets has shortened the investment perspective into timeframes not nearly related to the timeframes needed for sustainable projects for local communities and the environments surrounding them.

Labor Rights, Income Gaps

Extreme working conditions are commonplace in factories in both developing and developed countries around the world. One way for TNCs to maintain their global competitive advantage, and certainly to be profitable, is to keep operational costs as low as possible. Labor in the free market system is often seen more as a cost to be managed than for the humanity it truly is. For this reason, minimal pay for long working hours is the standard formula for maximizing the output efficiency of each worker. Free-trade zones, where some of the worst examples of labor abuses exist, are designated in developing countries as places where TNCs can set up operations and be free from taxes and regulations above and beyond standard practice. For example, in the San Marcos Zone in El Salvador, women were found:

working 7-day weeks, most days from 6:45 a.m. to 8:00 p.m., sometimes working through the night until 5:00 a.m. and docked pay and threatened with being fired if they do not stay, spending 85-93 hours weekly inside the lint filled factory with no

air-conditioning, poor ventilation, and only five women's substandard bathrooms for the 700-800 employees. Those attempting to organize and protest the conditions, or who are observed talking with union organizers, are fired immediately. The typical worker earns the equivalent of US \$33.56 per week, or 51% of what the average Salvadorian family needs to survive in relative poverty (Marquez, n.d., as cited by Curry-Smithson, 2002, p. 13).

These types of conditions are common the world over, especially in the free-trade zones. This includes twelve hour days, six days a week, minimal pay, hazardous child labor, and nonexistent legal protections for organizing, collective bargaining (Curry-Smithson 2002). These conditions exist also in developed countries such as the U.S., but go unreported because illegal immigrant workers wish to remain invisible to avoid deportation. Consequently, low wages are key to maintaining competitive advantage in a liberalized global trading system. Mshomba notes that many sub-Saharan African countries have cheap labor to their advantage when considering the potential of expanding entry into the global textile and apparel markets (Mshomba, 2000). He notes that even manufacturers located in Mauritius are moving to Madagascar because of rising labor costs, illustrating the commonality of using cheap labor as one component of efficiencies in competition. While rewarding industrial efficiencies is admirable, the social costs do not appear to be considered. Analysis determining the average sustainable wage (perhaps enough to support a family of four to five) in countries is not discussed or weighed with importance nearly as much as which country can pay its workers the least, regardless of potential social-economic impacts.

Neoliberal globalization has an established track record covering decades that can now be assessed for its outcomes, specifically economic impacts, to see if the promises of its superior efficiency and ability to distribute newly created wealth to all are valid. In a recent UNCTAD Discussion Paper, Khor (2000) cites the *Human Development Report, 1996* which states that, "...over the past three decades, only 15 countries enjoyed high growth, while 89 countries were worse off economically than they were ten or more years earlier. In 70 developing countries, the present income levels were less than in the 1960s and 1970s" (p. 7). UNCTAD's *Trade and Development Report, 1997* (TDR.97), "...shows that since the early 1980s the world economy has been characterized by rising inequality, and North-South income gaps have continued to widen...In 1965 the average per capita income of the G7 countries was 20 times that of the world's poorest seven countries; by 1995 it was 39 times as much" (p. 8). These figures, along with similar ones presented by the World Bank show that the resulting inequalities of globalization as practiced today are clear and the need for change is pressing. Its implementation, of course, would require a significant consensus or enforceable international standard to become a reality.

Equal Pay for Equal work, A Race Up Instead of a Race Down

The relative inequality in pay between developed and developing world workers is cause for concern especially when considering the differences in purchasing power when transactions occur across borders. While the Purchasing Power Parity (PPP)³ may accommodate for some of the differences in wages, when individuals purchase products

³ Purchasing power parity (PPP) is a theory that states that exchange rates between currencies are in equilibrium when their purchasing power is equal in each of the two countries. So, when currencies are in equilibrium, the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services. When a country's domestic price level is rising (i.e., a country experiences inflation), that country's exchange rate must depreciate in order to return to PPP.

from other countries, which is assumed in a free market, serious disadvantages exist for the worker with a lower wage. The theory of factor price equalization, which arises out of the Heckscher-Ohlin model, states that when the prices of output goods are equalized between countries, as countries adopt free trade practices, then the prices of the factors (capital and labor) will also be equalized between countries. Thus, one of the results will be wage convergence between two countries.

J.W. Smith (2002) argues that in reality, market distortions do not allow for wage convergence in either an upward direction (for developing countries to ascend to developed country levels) or in a bi-polar convergence toward a mean wage level but rather in a biased direction downward towards the current level of developing countries. Therefore he argues that it is necessary to gradually establish equal pay for equally productive work via policy implementation and not market mechanisms. This would constitute a race to the top in wages as opposed to a race to the bottom. He further argues that gradually implemented increases in wages in a developing country would contribute to consumer and aggregate demand, strengthen domestic economies through the multiplier effect (the productivity of capital multiplied when spent repeatedly within the same economy), and level out the inequality in buying power and wealth accumulation between privileged economies of the North and the disadvantaged of the South. This approach of raising the labor standards in developing countries to equal developed countries instead of lowering wages worldwide via corporate competitiveness, even in developed countries, opposes the race to the bottom mentality which threatens to undermine livable wages for all workers.

Culture

With three quarters of humanity still deriving its livelihood from agriculture, the globalization of agriculture poses threats to the survival of cultural traditions for rural communities the world over. Neo-Liberalism and recent agreements signed at the Uruguay Rounds of the GATT have opened up agricultural societies to competition with large agricultural TNCs with deep pockets and large economies of scale. The two most significant agreements were the Agreement on Agriculture (AOA) and the Trade Related Intellectual Property Rights (TRIPs). The AOA requires that developing countries (less developed countries are excluded) convert their domestic subsidies to farmers and nontariff controls on agricultural products into tariffs that will then be reduced (Khor, 2000). This leaves millions of small family farmers growing traditional foods open to competition with the massive agricultural TNCs peddling their limited variety of genetically modified products. Food liberalization also raises food prices, making it even more difficult for citizens to feed their families. In India, where food subsidies have been cut, food prices have doubled (specifically in Bombay) due to the domestic scarcity created from increases in food exports. The poor in some instances have had to cut their food consumption in half to accommodate (Shiva 2000, p. 98).

The TRIPs agreement, heavily promoted by the developed countries of the world, allows for the patenting of life forms including agricultural seeds. The U.S. has somehow convinced the WTO that its own domestic patent laws should be adopted by the world community. Section 102 of the U.S. Patent Act of 1952 allows for inventions in other countries to be adopted as long as they have not been described in a publication. But in India, even documented plants such as “neem, haldi, pepper, harar, bahera, amla,

mustard, basmati, ginger, castor, jaramla, amaltas and now karela and jamun have all been patented (Shiva, 2000, p. 119)” by the West, thus potentially undermining local access to traditional plants for consumption and medicinal use. Additionally, sharing or saving seeds from season to season (a traditional practice thousand of years old) is now considered a criminal act if seeds that were bought are patented (Shiva, 2000). Farmers are forced to buy seeds, from the same company, year after year along with the synthetic pesticides and fertilizers that are required to grow the crops. Traditional farming techniques, culture, livelihoods, and knowledge of dozens of indigenous varieties of seeds and plants are all now at the mercy of influential players in the neoliberal market.

Fair Trade

Fair Trade was created as a hopeful alternative to the traditional forms of economic imperialism practiced by northern based TNCs. FLO⁴ deals primarily with commodities such as coffee, bananas, tealeaves, and cocoa, but has recently ventured into certifying the manufacture of footballs (soccer balls to Americans). The Fair Trade model has emerged as a means to ensure that disadvantaged agricultural producers and workers receive a higher price for their products and labor, thus combating the negative outcomes created by competitive multinational operations at the expense of the producers. FLO standards are comprehensively applied to supply chains and must be met by producers, traders, processors, wholesalers and retailers of a given product. The organization’s web site states that FLO “...addresses the injustice of insufficient income for a decent living

⁴ The Fair Trade Labeling Organization International (FLO), mentioned in the introduction, has an informative website that provides details concerning many aspects of the organizations activities. <http://www.fairtrade.net>

and insufficient market access by guaranteeing that producers receive fair terms of trade and fair prices or wages – however unfair the conventional market is”

(www.fairtrade.net). FLO is also interested in helping the farmers acquire business skills, experience with exporting, knowledge of organizing cooperatives, and familiarization with the international market for their products. Workers are also educated as to what their rights are and involved in defining the Fairtrade premium income. FLOs pricing methodology entails determining the Cost of sustainable Production (CoP), and Cost of sustainable Living (CoL). The Fairtrade minimum price will at least cover these two factors and then FLO creates a premium to be added on top of the minimum price. The premium is designed to be invested in social, economic or environmental projects of improvement, decided upon democratically within the local cooperative organization.

Several criteria for participating members exists specifically for international Fair Trade coffee certification (*Fair Trade Coffee: The Time is Now*, 2002). These criteria are fair price (as described above); direct trade and long-term relationships where importers buy directly from certified producers and commit to stable long-term relationships; democratic organization where producers must belong to cooperatives or associations that are democratically controlled by the members and both internally and externally transparent; access to credit where producers must be provided with pre-harvest credit (up to 60% of each order) when they request it; environmental protection which entails producers implementing integrated crop management environmental protection plans, as well as price incentives to convert wholly to certified organic. The bulk of the requirements, as one can see, exist between the importer and the farmer.

Renard (1999) assesses the fundamental factors that have led to the success of Fair Trade coffee as well as some of the paradoxes within the system. One paradox that she points out is that Fair Trade coffee exists in a niche market which implies the need to avoid an over supply of product so as not to ruin the pricing within the niche. Yet, the whole intention of this coffee product is to embrace as many producers as possible with market access which is not possible under these conditions. Another paradox exists when prices in the conventional market rise to a level competitive with the Fair Trade minimum. When this occurs, the intermediaries traditionally by-passed by Fair Trade become competitors and community cooperative incomes are threatened (Renard, 1999). Even with these challenges, FLO states on their website that Fair Trade labeled sales worldwide grew by 21.9% in terms of quantity between 2001 and 2002 (<http://www.fairtrade.net>).

Maseland and De Vaal (2002) compare the fairness of the fair trade concept with free trade and protectionism. Fairness in the study is based on benefits reaching the least well off in society. Two models were used for analysis, the comparative cost based Heckscher-Ohlin model and the static version of a standard new economic geography model (where economies of scale are central). The authors note that "... a problem with the inception of fair trade programmes might be that it changes the relative position of income groups in society, which could make the continuation of fair trade programmes unfair" (p. 270). In other words, as some groups benefit from fair trade pricing, others, perhaps in the same community, may not, and this can create another level of income inequity, something that Fair Trade was created to alleviate in the first place. Their assessment showed that the fair trade model "...was found to be always superior to

protectionism, but its superiority with respect to free trade depended on the price elasticity of demand of the product it targets at” (p. 269). In the static version, several variables seemed to determine success for the fair trade model, including transportation costs and the expenditure share on manufacture goods. They conclude that these short run model comparisons reveal the effectiveness of fair trade appears case dependent (market/product dependent), but that both long term studies and studies concerning the specific circumstances of small scale produces would show further dimensions of comparison.

Reynolds (2000) argues that fair trade creates a bridge for the widening North/South divide because it challenges market competition based solely on price. By doing this she further argues that fair trade serves to re-embed global agriculture with its human and environmental origins and brings it out of an abstracted set relations between producers and buyers created by the capitalist market. With fair trade and organic agriculture already proving that socially just and environmentally minded production is possible in the South, the current and future challenge is to affect change within the conventional agro-food market.

Conclusion of Literature Overview

This brief literature overview of globalization is intended to show both the inequalities that exist in the practice of global free market capitalism as well as some of the major structural, institutional, ideological and political reasons for their existence. There is a close interplay between international institutions such as the IMF, WTO, and World Bank and the TNCs who position themselves to maximize profits, often times

even at the expense of developing country economies and cultures. TNCs through their efforts have threatened to invalidate the very economic theory that they have promoted to achieve their gains. The free market has become a market for dominant players, leaving the majority of the world simply unable to compete with their economies of scale and other competitive advantages obtained from non-market factors. Fair Trade has amazingly survived thus far in this hostile global market, and the remainder of this paper will explore the actual outcomes of the Fair Trade market model based on a case study of one American mid-sized multinational importer, ForesTrade, Inc.

Research Methodology

Methods for Data Collection-

The research methodology of this study was of a qualitative nature in the format of an embedded single case study on the U.S. based Fair Trade business ForesTrade, Inc., and its key partnerships. Data sources were multiple including document reviews and interviews. ForesTrade was recently the only U.S. company to be awarded by the United Nations and International Chamber of Commerce with the 2002 World Summit Business Award for Sustainable Development Partnerships. Because of the nature of this award and the business' mission of serving as a genuine partner with the communities and other players that make its operations possible, it seemed logical to include a representative sample of the partnering businesses and NGOs, via interviews, in this study as well. Interviews occurred by phone, except for the interview with the CEO (done in person), and all took place in the fourth week of January 2003.

Documents selected for review were chosen based on their ability to relate economic, social, and environmental impacts resulting from company operations. The time frame covered by the case study data was six years. This writer was working for ForesTrade, Inc. at the time of data collection, and facilitated contact with the company and some of its partners as well as access to essential documents for review.

This report covers FT's operations in both Indonesia and Guatemala as well as some of the impacts that affect the U.S. and European markets where products are delivered. ForesTrade's operations in Indonesia fulfill FLO's label requirements for Fair Trade. FT's Guatemalan operations are very similar to Indonesia except that a Fair Trade pricing system has not been established by FLO yet for spices, which is most of FT's market in this region. FT offers its own fair trade prices to the farmers for this commodity.

Data Analysis

Pattern matching logic was the means by which the data was assessed. The independent variables constitute the various categories of impact that ForesTrade has through the course of its operations. These are socio-economic, socio-cultural, and environmental with each containing subcategories. Each independent variable was assessed for positive and negative data. The dependent variable is the presence of better outcomes for developing country producers and communities from Fair Trade as compared to the free market model outcomes discussed in the literature review. Areas of impact from globalization with which the data will be compared include weaknesses in the theory of comparative advantage (which underlies free-trade); the destabilizing

effects of the IMF and its structural adjustment policies; a race to the bottom of domestic policy standards; environmental externalities; labor issues (including income gaps, extreme working conditions, and the right to organize); decimation of cultural traditions; and the influence and dominance of powerful TNCs over states, workers, and competing economies.

Working Definitions of Independent Variables, and their subdivisions:

Socio-economic, socio-cultural, and environmental impacts were independent variables, which influenced this case study. Impacts that are of a financial and profit making nature constitute the social-economic variable; whereas, the socio-cultural variable comprises of non-physical and physical impacts on individuals and communities, especially related to traditions, customs, common-use infrastructure, and community organizational structures. In addition to these two is the environmental variable, which affects the ecological integrity of the environment as well as the physical health of community members.

Each variable shows diversity of expression through multiple subdivisions. Therefore, the socio-economic variable has been subdivided into the following categories: Pricing and Profits, Trainings and Consultancies, Market Access, Grants and Loans (for Working Capital, Industrial Technology Acquisition, and Start-up costs), Financial management, Strategic and Organizational Management, Output/Yields, Local Industrial Capacity building. Further subdivision of the socio-cultural variable resulted in categories such as: Peace Promotion/Justice Issues/Civil Society, Community Infrastructure Development, Organizational Dynamics, Capacity Building, Personal and Educational Advancement Opportunities, Cultural Support, Numbers of Persons

Affected, Food Security. And, finally, the subdivisions of the environmental variable consisted of: Agricultural Practices and Trainings, Scope of Project or Total Acreage and Yields, Physical Impacts. A miscellaneous category exists also for the socio-cultural and environmental independent variables.

Threats to Validity

Certain threats to the validity of the collected data may occur in the research. The areas in which these potential threats may arise include the history of participation with ForesTrade, quality of instrumentation, sample group dynamics, issues of memory loss of interviewees, maturation of data, and weaknesses due to mortality of subject participation. While it is possible that the preconceived notions of Fair Trade by the interviewees may have skewed their responses, all individuals involved as partners in the venture with ForesTrade had been active for several years. Therefore, their responses seemed to be based primarily on first hand, and constantly updated, experience. This researcher worked for ForesTrade at the time of the interviews; consequently, creating possible biases in the research. The open-ended nature of the interview questions may have countered this to some degree. This researcher selected the documents for review based on my work experience with the company, which could have biased my selection process.

The quality of the instrumentation may be threatened by its actual design. For instance, the questions posed to interviewees were open ended which allowed for broad input, but there is a possibility that the questions were not sufficiently focused to produce answers specific enough to address the various independent variables adequately. The

documents reviewed were limited in that they did not provide a detailed year by year comparison, but substantial indicators for certain impacts were evident.

The sample group consisted of five individuals representing partnering organizations from the Fair Trade Venture. Only one of the prospective interviewees did not respond. This was the CEO of Transfair USA, the certifying agency for ForesTrade. However, the data was representative of four different types of partners, including the CEO of ForesTrade, Inc. The document sample represented all of the data that ForesTrade had on impacts, except for some internal information on pricing breakdowns.

Due to the nature of the one-time occurrence of the interviews, the variable of memory loss, by interviewees, of previous interviews during follow-up interviews was not applicable. In addition to this, the concept of maturation was not an issue either. This was because all the interviews were conducted at the same time, analysis occurred within two months time, and documents were dated appropriately. Mortality of the data can also be a threat. However, no weaknesses were suspected, due to all interview subjects completing the interview process. The CEO of Transfair was only a member of the population group and not the subject group since he never began the interview process, so his absence does not affect validity.

Presentation of Data

ForesTrade, a Case Study

The first set of data are five interviews including Thomas Fricke, CEO of FT; two environmental and socially minded NPO investors- Willie Foote, President of Ecologic Enterprise Ventures, and Jennifer Morris, Manager, Finance and Enterprise

Development, Conservation International; two coffee buying customers – Todd Casperson, Corporate Social Accountability, Equal Exchange, and Bill Harris, President, Cooperative Coffees; and one original partner and pioneer/consultant in the Fair Trade coffee market, Jon Rosenthal, co-founder of Equal Exchange and founder of Just Work Consulting. ForesTrade, Inc. is unique among Fair Trade organizations in that it truly depends on alliances to function and make an impact. Two open-ended questions were asked of each interviewee (see Appendix A). The comments made by the individuals interviewed do not necessarily represent the organizations for which they work.

The second set of data is a document review covering impacts FT has had amongst its producer stakeholders. Data was sourced from the following documents: ForesTrade’s Annual Report to Transfair USA 2002, Aceh Sustainable Coffee Program – Participants and Production Data Sheet -December 8/13/02, ForesTrade Submission to the Virtual Exhibition WSSD – Submitted August 1, 2002, Aceh Coffee Project Update – 8/19/02, ForesTrade At a Glance – 11/1/02.

See Appendix A for interview questions and paraphrased interview responses

See Appendix B for data compiled according to independent variables.

Analysis of Data

Data from both the interviews and document reviews was compiled and pattern matched with the above identified independent variables. A qualitative assessment of the data by independent variables follows with subdivisions italicized.

Socio-economic Impacts

Pricing and Profits is one of several sections that had substantial input both positive and negative from the interviewees in their responses. Fair Trade Prices paid to farmers are a significant boost over the conventional market on average and serve to increase local competition which raises prices paid to all farmers. FTs partnering farmers have received prices nearly three times the conventional market, depending on conventional market prices. Since FT's farmers also participate in organic farming, they receive an additional 15 cent bonus over the Fair Trade price floor of \$1.26/lb., totaling \$1.41/lb. The market also currently allows FT to provide consistent and unlimited demand for coffee cherries from farmers that allows them to plan on personal and enterprise investments.

Some qualitative criticisms do exist though in regards to pricing. Commodity price fluctuations change the relative value of Fair Trade and the highest margins of profit still exist on the retail end in the northern countries and not in the South. Additionally, the Fair Trade price has only been raised once in 14 years while the cost of capital and inflation rates have risen steadily. In regards to pricing and quality, several interviewees felt a multi-tiered pricing system for varying grades of coffee could capture many more producers and allow them to reap at least some benefits for their efforts. , Currently, the CEO of FT and customers both felt profitability lies predominantly in specialty coffees which command a higher retail price anyway. Raising only Fair Trade specialty coffees further defines the Fair Trade market as a niche market and not something that can merge easily with the conventional market. Some interview respondents felt that using commodities (being primarily agricultural products often with fluctuating market exchange prices, and not consisting of finished manufactured

products) for Fair Trade was too restricting and that other products besides commodities would produce more flexibility with pricing. Another deficiency within the profit structure is that there is no vehicle for the farmers to have equity in the Northern based business of FT currently.

ForesTrade staff provide *Trainings and Consultancies* on sustainable agriculture as well as provide support for start up of small businesses such as coffee driers. This assistance and transfer of skills builds-up the experience and expertise of the producers in their market. It also serves to support independence in the growing cooperatives. Compensation for these services is taken out of the price paid to farmers for their product.

The data shows that FT does indeed enhance *Market Access* by connecting local indigenous farmers to the higher valued international organic and specialty coffee Fair Trade markets. FT actually seeks out rural communities that may need socio-economic assistance when considering expansion of partnering activities. The local middlemen who normally take advantage of the farmers with their opportunistic pricing are left out of the direct buying process. Additionally, the Fair Trade label is another benefit that facilitates market access for these rural producers and FT assists in securing placement on the FLO registry for the farmers.

Several challenges still exist in terms of market access though. Conservation International, one of the funders of coffee production in Aceh, Indonesia, has said it is difficult to convince their funders that Fair Trade commodities can actually be profitable because the pricing system, where consumers are expected to pay higher prices for coffee that is of a similar quality to a lower priced brand, counters the traditional thinking behind purchase behavior in the free market. The coffee roasters and retailers interviewed

all agreed that if it were not specialty coffee, Fair Trade coffee would not sell. This limits the sales and growth of Fair Trade coffee to a very specific niche. The beans that create this higher quality coffee must be grown above a certain altitude, which excludes farmers at lower altitudes from benefiting from Fair Trade pricing. In these situations market access is essentially denied based on a farmer's geography. A new labeling system for coffee in transition to being either Fair Trade or organic certified, and which still called for a slightly higher price than conventional coffee, could help open up the market to a broader profile of producers. In summary, market access is secured for more producers than previously was possible, but because of the niche within which Fair Trade coffee is successfully marketed, certain segments of producers continue to be excluded from the market.

The research shows that *Grants and Loans* for working capital, industrial technology, start-up do exist for producers via Fair Trade whereas it is likely they would not in the conventional market. FT provides affordable loans to finance equipment, crops, transport vehicles, and local micro-entrepreneurs. Financing is also provided for local processing infrastructure that increases farmer's control over the product and margin of earnings. The PPKGO cooperative partnered with FT has set up a micro-lending fund for the member farmers, but figures have not been produced yet. This data was obtained from a second hand interview that was documented. FT's customers have also provided generous grants for infrastructure development in the farming communities, such as \$48,000 from two customers in the North for infrastructure development in the farming communities (two seedling nurseries and several coffee processing plants) and \$30,000 from USAID as start-up capital for a new coffee project in Guatemala. These dollars are

funneled through FT, but go directly to the farming cooperatives and do not contribute to FT's revenue.

Several interviewees commented that while Fair Trade makes mention of farmers being provided with working capital, or pre-financed harvests as part of the payment system, in reality this rarely happens. Strong recommendations were made by FT's CEO, a NPO funder, and two large coffee roasters in the North for minimum levels of pre-financing to be required of customers or importers buying from the rural producers. They all concurred that one of the greatest obstacles to farmers being included in the Fair Trade market is lack of access to start-up costs. While the FLO website says "up to 60% of each order" will have pre-financing, prior to planting, provided to the farming cooperative by the customer to cover start up costs, this rarely occurs. "Up to 60%" has no minimum value and so while many farmers would benefit from higher prices for their products, the capital barrier still exists. With no financial track record, banks will not loan to rural indigenous farmers either.

FT takes the lead via assistance with *Strategic and Organizational Management* to help communities in form their own grower groups or cooperatives. This is a key step to create adequate economies of scale for the product supply base as well as to secure a place on FLO's registry. Another strategy for poverty alleviation that FT promotes is income diversification, especially through the farmers vertically integrating into the first stages of processing. Finally, all this is made possible through well suited alliances and partnerships with NGOs, funders, and customers that share a similar vision for serving the betterment of the socio-economic standing of rural producers.

One suggestion made to establish more comprehensive assistance to communities was the notion that the perspective of Fair Trade could shift from focusing just on the farmers to geographical regions as a whole for development. This shift would represent an even more people centered approach to socio-economic development.

Farm ***Output and Yields*** have increased on average about 60% due to organic and sustainable agriculture training and implementation. Annual growth for coffee imported from Indonesia has increased from between 25 and 50% each year for the last several years. In comparison to the conventional market, total yields for FT and its associated cooperatives are still a tiny fraction of the entire coffee market though.

This data section on ***Local Industrial Capacity Building*** revealed zero negative responses. FT, its funders, and PPKGO cooperative have built nine coffee processing facilities and two cupping labs (where coffee is tasted to assess its flavor profile and quality grade) to improve the control that local farmers have over the handling and quality of their product. Seedling nurseries have been built to promote replacement of old coffee plants with traditional coffee seedlings (an older variety that was grown prior to agribusiness' introduction of new species into the region). 27 farms have been rehabilitated and 25 vehicles have been purchased as well to improve local production and delivery capacities. These advances are made possible through the higher Fair Trade prices paid to farmers as well as grants and low interest loans provided by related organizations. While free markets do contribute to industrial capital improvements in developing countries, interested foreign parties usually maintain control of these assets instead of ensuring means by which local producers can own them, as FT does.

Socio-cultural Impacts

FT is involved with *Peace Promotion, Justice Issues, and Civil Society* through its operations in Aceh, Sumatra, primarily through guiding the democratic organization of the PPKGO cooperative. This has resulted in communities working together even during a civil war. Representatives of the three major ethnic groups (Gayo, Java, and Acehnese) are all represented within the cooperative. As far as promoting harmony between the Northern and Southern Hemispheres, on a broad scale, coffee customers in the North are consistently showing interest in the farmers in the South by requesting information on the rural communities. From the perspective of institutional change, one coffee roaster mentioned that even northerners who are opposed to Fair Trade, or unsure of it, are convinced of its social justice value once they visit communities that are involved.

FT and Fair Trade have helped *Community Infrastructure Development* in Aceh by assisting four communities rehabilitate their mosques and associated water systems. Over 1500 people have benefited from these improvements. PPKGO also supports two local schools and the rebuilding of 834 homes destroyed in the civil war.

FT facilitated *Community Organizational Dynamics* primarily through the organization of PPKGO cooperative which elects its officers democratically and earnings distribution is voted on. As a whole, the partnerships and alliances are seen as a model example for North-South economic cooperation. One critique was that the original model of Fair Trade was intended to create an alternative to conventional supply chains, but now the coffee eventually enters corporate hands before being provided to the customer.

Again, the PPKGO cooperative structure serves to enhance Capacity Building – The PPKGO cooperative began to see that its organizational power could be used for

accomplishing other tasks as a community. By working with FT, farmers are also able to gain professional experience with organic agriculture, quality control, and other aspects of running businesses. Women also represent 20% of the cooperative which serves as an indicator of the cooperative's ability to equitably include women in its operations.

Personal and Educational Advancement Opportunities are beginning to grow due to organic bonuses paid to farmers that often times go to family self-help initiatives. As a result of higher incomes, some children of farmers are now attending universities.

Cultural Support has been supported through both financial and social means. Increased profits have allowed 39 Muslim farmers to make their trip to Mecca. Traditional food crops are encouraged as well instead of the common all or nothing approach to cash crops. The organizational strength of the PPKGO cooperative also creates political power for the community. FT intentionally hires persons who are either from local communities or who can speak local dialects to preserve the native languages, validate their culture, and ease relations between the company and its partner producers. One strong critique came from John Rosenthal, one of the original founders of Equal Exchange and the entire Fair Trade coffee movement. He pointed out that by focusing exclusively on justice issues between the North and South, consumers, importers, and retailers alike can easily be supporting another form of institutional racism by overlooking the racial and poverty problems right in our own back yards here in the North. Buying a cup of Fair Trade coffee can be buying some piece of mind to ease a guilty conscience, but it may only be a temporary form of denial.

The number of *Persons Affected* by FT and PPKGOs activities has grown from 60 members in 2 communities to 1100 members in 21 communities in the last six years.

A critique, never the less, is that the people in the developing countries that need the assistance the most, those with no land, home, or occupation to support them, are not being reached by Fair Trade.

FT Fair Trade activities help promote *Food Security* through crop diversification and preservation of traditional staple crops for farmers participating in coffee program. This is atypical in comparison to conventional corporate agriculture which focuses exclusively on cash crops.

Environmental Impacts

PPKGOs and FTs sustainable *Agriculture Practices and Trainings* preserve biodiversity and protect songbird habitat in the threatened tropical ecosystems of Indonesia. Land management plans for each farmer are sensitive to local ecosystems by using organic farming techniques, pruning to promote natural growth, controlling soil erosion, diversifying existing plots with beneficial sustainable tree species for food, fuel, fiber, and income. Tree nurseries are also planted for reforestation and all sustainable agriculture is supported through ongoing trainings for the farmers. Annual third party organic certifications are a testimony to the success of these techniques.

Acreage/Yields/Physical Impacts totals data is minimal, but some totals are available. PPKGO in 2001-2 had 1029 hectares producing 568 metric tons of product. Soil fertility, yields, natural resistance to pests, and application of sustainable agriculture techniques on staple crops have all increased. Again, specific data figures are lacking, but in order to be certified organic, all farms must implement an array of sustainable agriculture techniques that are verified by both internal and external auditors. It can there

fore be extrapolated that all acres under production are now benefiting from these practices. Conservation International representative's only critique of the environmental conservation practiced through sustainable agriculture was that it cannot solve all of the environmental problems of a region or country. The final impact of ForesTrade is that organic products free of hazardous chemicals are provided to European and U.S. markets.

Conclusion

The data analysis, while not showing that outcomes are 100% positive for Fair Trade as practiced by ForesTrade, Inc. (FT), does show an overall balance of outcomes which supports the conclusion that Fair Trade produces more positive outcomes than free market economics. Fair Trade, in this study, creates better outcomes than standard free-trade in all of the following arenas of business operations: accounting for environmental externalities, socially just pricing and wages, support for labor rights (conditions and ability to organize), support for local culture and community, asymmetries of power , between foreign TNCs and local producers, and market access for local producers.

FT incorporates the threats of potential environmental externalities directly and preventively into its business operations by training local farmers in sustainable agricultures techniques. These methods conserve and preserve plant and animal diversity, soil fertility, water quality above and below ground, and the health of those working with or coming into contact with the product. Internal and external assessments verify these practices. These practices are significant improvements upon typical agri-business methods.

Pricing and wages is another area where FT differs from the conventional free market. FT pays prices (based on the global market and socio-economic assessments by FLO) for coffee product that support a sustainable livelihood and the capacity to save and invest. Farmers are able to invest either in their own businesses or their families with these atypical margins. Prices paid have been several times higher than the C market conventional price for several years now. One critique is that income differentials, between the farmers in the developing countries and the retailers in the U.S. and Europe, is still great, with the highest margins occurring at sale to the consumers in the North. So, Fair Trade is narrowing the income gap, but there is still significant ground to cover.

Labor rights in the farming cooperatives are valued more than in situations such as the free trade manufacturing zones or even farming estates of the South for several reasons. Farmers are encouraged to organize and use democratic processes to govern themselves and elect leaders. This differs strongly from the coercion used to deter workers from organizing in the South. Additionally, farming occurs on traditional family plots of land. Aside from having to follow organic guidelines, each farmer governs his own workweek and working conditions. Over three dozen farmers have been able to take time from their farming to travel to Mecca and complete one of their lifelong religious obligations.

While community and cultural integrity are usually not a concern for TNCs when operating overseas, FT directly and indirectly supports expression of culture in several ways. First by using local dialects when conducting business with the local producers, FT supports and validates one of the most fundamental aspects of culture, language. While many companies may use the local country language, few will go so far as to

utilize rural Mayan dialects as ForesTrade does. Secondly, by hiring a diverse representation of local people to run the branch of FT that will operate in that particular country, FT supports local country representation in its operations. Thirdly, higher pricing for products and has allowed 39 farmers to make their trip to Mecca and four local mosques and community water systems to be rehabilitated and/or built. Dozens of homes have been rebuilt as well that were damaged during the civil conflict. Fourthly, FT agricultural practices encourage the use of traditional seeds and plants (coffee) as well as diverse plantings that include local foods for consumption. Lastly, the cooperative structures fostered by FT have promoted peace in a region rife with civil conflict by assisting diverse communities to organize and unify around a common cause.

The asymmetrical possession and use of economic and political power between TNCs and local people is also lacking in FTs operations. By encouraging the growth of, and then partnering with, local cooperatives of farmers, but refraining from owning equity in most of local operations, FT maintains a mutual relationship with local producers. The formation of cooperatives also increases the economies of scale of local communities and therefore the global competitiveness of local producers. FT also encourages local industrial capacity building by serving as a vehicle to distribute grants and low interest or no interest loans to producers which have been used to improve quality control and boost production, thus increasing local economies of scale. The cooperative in Aceh, Indonesia has also recently organized its own savings and loan economic infrastructures. These measures can also combat the negative affects (contractionary economic policies) that structural adjustment programs placed on borrowing nations by the IMF can have on local economies.

The last significant outcome created by Fair Trade is increased market access for local farmers. FT intentionally seeks out communities that may need an economic boost and attempts to link them up with the global market for coffee. While other TNCs deal with local farmers, most TNCs neither educate farmers in the functioning of the market nor explain the various costs of the supply chain. With Fair Trade there is both connection to and transparency with the global market. Additionally, since both Fair Trade and specialty coffee are niche markets, FT educates the farmers in the necessary knowledge and procedures for them to capitalize on the market.

All of these positive outcomes validate that the dependent variable of more positive outcomes as compared to free market outcomes. The less than 100% positive outcomes for Fair Trade does shed light on some weaknesses and areas where Fair Trade could be improved. Critiques of the current system lie primarily within the pricing structure and the provision of adequate market access. Transitional pricing and labeling and mandatory pre-financing are two other dominant suggestions put forth by the interviewees. While farmers can benefit from higher Fair Trade prices, without access to start-up capital, these potential farmers in many instances simply cannot enter the market.

This information would be useful to local indigenous producers who are considering entering the Fair Trade market, the Fair Trade Labeling Organization (since it sets the criteria and pricing systems for the Fair Trade market), and staunch advocates of a free market economy. Arguments for a universally accepted free market are often based on notions of efficiency, yet ignore the very real negative social and environmental impacts of markets. They equally ignore the possibility of embedding social value systems or counter-balancing institutions that can regulate or “referee” the extremes of

the market when necessary. Farmers should be aware of the difficulties in accessing start-up and working capital unless an organization such as ForesTrade serves as their importer. They should also be aware that the Fair Trade market is truly a niche market with certain quality requirements for success even though it deals with commodity products primarily. Valuable feedback also lies within the data analysis concerning ways that FLO could improve its criteria, or at least seek alternative systems of support, for the benefit of the producers.

Further research that could prove useful would be the exploration of a more elaborate model of cooperative economics for North-South trade that builds on the success of the Fair Trade model. While niche specialty markets support Fair Trade, so does the presence of a more complex decision making process for individual consumers than the traditional self-interested rational profit maximizing motive. A new model of economics that incorporates moral and social decision making as central components of consumer behavior could prove to be a more accurate and efficient system of human economic activity and resource distribution.

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APPENDIX A

Open-ended interview questions were as follows:

- How do you see your partnership with ForesTrade as promoting cooperative economics through Fair Trade?
- Is Fair Trade a replicable model (across other commodity segments or modes of production such as with manufacturing?)

Interview # 1 - Jennifer Morris, Manager, Finance and Enterprise Development,
Conservation International, Financier

Question 1.

Morris feels confident about the partnering relationship held between CI and FT. CI wrote one of the letters of confidence in regards to the World Summit award, so there is faith in the work that the FT partnership is doing. This includes the betterment of the livelihoods of Indonesian farmers as well as creating a system for conserving tropical mountainous regions. While even more could be done environmentally speaking, it is a good model. Fair Trade Coffee is a good model especially when prices are low.

Broadly speaking, though it depends on the product. The Day Chocolate Company is the first Fair Trade company to be partially owned by the Ghanaian

cooperative that supplies its raw materials. Since cocoa is a commodity, when the market price rises, the marginally improved revenues from Fair Trade cocoa are not as significant. For Day Chocolate, free marketing was key to there being able to sell product and make it competitive. The company uses media stars, radio, and TV Consumer education is key. This was an expense that would have burdened their operational costs. Their promotional was that there was no slaves labor behind the chocolate production. When Morris was talking to the World Bank and the IFC it was hard to convince them that Day Chocolate would sell because its price was so much higher than the market average. There was difficulty in convincing them that the social value of the product was sufficient. So, it is an exciting but difficult trade model to push.

From CI's perspective, Fair Trade is not sufficient by itself to address environmental concerns since it only makes casual reference to the environment and focuses more on price. While when it is combined with organic agriculture this is certainly a benefit, there are broader issues that need to be addressed.

Question 2.

The EU is supporting Fair Trade especially in Germany and UK. The UK is pushing to mainstream Fair Trade products. In the U.S. it is more of a challenge to garner support. One obstacle is the opinion from firms such as Starbucks that the Fair Trade products, coffee in this instance, are lacking in their quality and the professionalism of the licensers. Starbucks has no incentive unless pushed. Another

obstacle is the lack of commercial credit available to finance Fair Trade. The levels of financing would have to be increased for greater replicability.

Morris felt that what would be even better than creating an anomaly of ethical trade in the marketplace would be to eliminate the various subsidies of the developed nations that skew and distort international trade to the disadvantage of developing countries. Fair Trade does serve as a viable N-S model though.

Interview #2 – Willie Foote, President, Ecologic Enterprise Ventures, Financier

Question 1 –

Willie Foote felt confident that his organization’s partnership with ForesTrade is beneficial to the farmers of the South, certainly above the prices they would be receiving for their product if they were not engaged in Fair Trade. For Environmental conservation he thought it was necessary to have organic agriculture combined with Fair Trade, since money is the driver that works.

Question 2 –

In regards to replicability, and even improving the current agreements, there are two blind spots. The first is the lack of pre-financing which should be a requirement of contracts. This is currently a hard sell in the US but not as difficult in the EU, although the EU buyers got burned in '97-98 when the crops failed. The second is a weakness in fund management when it comes to the exporters. The buyers and community groups are covered by FLO, but the exporters in a tight market have been known to skim Fair Trade profits that were due to the farmers. This is a serious flaw in financial accountability. There is also a need to bring higher

quality standards to the product to maintain demand amongst buyers. Fair Trade could be considered a threat abatement strategy as well. While some say Fair Trade is a subsidy to the developing country producers, in an unfair marketplace where developed countries are subsidizing hundreds of billions of dollars, any model that assists the underprivileged is beneficial.

Interview #3 - Bill Harris, President, Cooperative Coffees, Buyer

Question 1-

Bill Harris did not feel he was being cooperative so much as challenging other coffee buyers to raise their standards. Working with FT was a good opportunity because they maintain the sense of partnership throughout the model. He said Fair Trade was a great model for North-South cooperation, that it actually promotes it, but it could be more creative, especially in regards to ownership. The current model doesn't accommodate equity for the farmers. Also the people that need it the most are not being reached, those with absolutely nothing. As far as making changes in a faulty market, Fair Trade is a beginning and a path but not the answer.

Question 2 –

Model doesn't work for traditional commercial ventures currently. Replicability would be easier where no exchange exists, like the coffee exchange which produces the c price. Pineapple is a good example of this. A drawback is that the FLO model of certification is all or nothing. A transitional label would be good

too, where a product is working on being certified. The model also does not take quality into account, so without organics combining with Fair Trade, there simply would not be a market. Certification may be needed for the greedy players who would simply take advantage of another buzzword to market their product. Another obstacle is the limited size of the market with production outpacing demand. The farmer cooperatives who got in on the game early, twenty years ago, continue to profit while other farmers simply can not find a place on the Fair Trade registry. Financing is another huge issue, where Transfair claims that “up to 60% of an order” must be pre-financed by the buyer if requested by the producer, but “up to” does not mention any minimum. Credit for farmers is lacking. So here, FLO is worried about PR and labels but the backend is not solid.

It does look like FLO is moving into manufactured products and other commodities which is good. Harris likes the flexibility of the Fair Trade Federation (FTF) in comparison to FLO. FTF deals with developing world artisans and is not restricted by commodity prices. The human side of replicability is that he has never met someone who visited coffee pickers or a factory and did not become convinced that Fair Trade was a good idea. The label of “communism” is ridiculous once you see the needs in the developing world.

Interview #4 – Thomas Fricke, CEO, ForesTrade, Inc.

Question 1 -

Thomas Fricke says “yes” Fair Trade is a new form of globalization. Fair Trade is more than organic farming and creating specialty markets, it is an effective tool for sustainable economic development especially in the South. It contains fairness, solidarity, active cooperation, and investment in improvements in the lives of producers and communities. FT subscribes to the core principles of FLO and its mission statement similarly reflects these principals. The Fair Trade paradigm also creates more understanding in consumers and the strong emphasis on producers at origin also increases political power of producers.

In Aceh, Indonesia, where FT is active, the book Max Havelaar condemning the Dutch colonization and virtual enslavement of the local population that started the Fair Trade labeling was based on the colonization of Indonesia. ForesTrade was the first Fair Trade company to begin operations in this historically significant region since the book was written in the late 1800s. FT came to Indonesia and successfully organized a cooperative with two communities (now 24) which was no small task since cooperatives in Indonesia under Suharto had been notoriously corrupt. Income, infrastructure, employment, and community resource management all increased and stabilized since the cooperative began.

Question 2 –

Replicability has been tough in Guatemala. FLO is tight with its registry and needs to be convinced of a ventures profitability. It required FT getting some major clients and the growth of Fair Trade in the US. While Indonesian coffee is not preferred in EU it is in US and works well in blends to create new coffee flavor

profiles. This year production capabilities are at 90 containers and 50 will be Fair Trade. So, replicability is possible but FT is unique amongst other Fair Trade organizations. Other have cooperatives that are heavily subsidized by the EU and NPOs and are primarily located in Latin America. FT has a more collaborative approach using strategic alliances. It is also more involved from the ground up with sustainable agriculture training, processing, and organic certification readiness. It is good that Fair Trade coffee is primarily within the specialty coffee market since it is the only coffee segment that is growing. One inherent discrimination to replicability is that only hard bean Arabica coffee grown above 1,100 meters can be sold as specialty coffee which cuts out the growers at lower elevations. In Guatemala need quality control, coordination, and alliances so it is a challenge. There is potential in India and E. Africa. It was beneficial for FLO to initially select large commodities such as coffee.

Two things are needed for replicability: 1) Loan guarantees, investment, capital availability 2) Other grades of Fair Trade probably in the form of a tiered pricing system to incorporate low-medium grades 3) It would also be beneficial to switch away from commodities and towards dealing with regions and producer groups. The FLO and Transfair labels do help to mainstream product. Another challenge is to get out of dealing only with gourmet specialty products and find a means to market common goods.

Interview #5 - John Rosenthal, Co-Founder of Equal Exchange and founder of Just Works Consulting, original buyer for ForesTrade Fair Trade coffee

Question 1-

Originally, Fair Trade was about creating an alternative supply chain using NPOs and cooperatives. But the implementation of Fair Trade labels on commodities was a step away from this original idea. Huge corporations are profiting today from Fair Trade. On a positive note, yes, Fair Trade does provide a living wage and professional skills are developed, but if in 50 years we are in the same place then we will have failed. The fall of Ben and Jerry's and Stonyfield were inevitable in the climate of corporate rapaciousness. Fair Trade is great but it's not enough. Starbucks is still killing culture while doing some Fair Trade.

Question 2-

Yes, Fair Trade is scaleable and reproducible across commodities and may actually be educating the consumer. One of its greatest limitations is that it has become just another money maker through higher margins on Fair Trade items. So while production may be more just, distribution of profits is business as usual. Starbucks and Equal Exchange still get most of the profits at the wholesale and retail end. To many it is just another commodity, while it only comprises a tiny fraction of each respective commodity market.

Perhaps the greatest flaw in Fair Trade is that it perpetuates institutional racism. White middle class professionals have an opportunity to feel great about helping people in the third world, but this is just an escape from the poverty, dislocated farmers, and people of color in our own country. It buys satisfaction and peace of mind. This all white population running these businesses is charity by

representation, not that there is anything wrong with charity, but it may not be the best way for Fair Trade to operate.

The Fair Trade coffee price has only been raised once in fourteen years all the while costs of industrial capital have steadily increased, thus reducing profits and viability. Fair Trade also lacks a mechanism to distribute equity to the farmer producers. Day Chocolate and the Mondragon Cooperative in Spain are good examples of movements in Fair Trade.

Interview #6 – Todd Casperson, Corporate Social Accountability, Equal Exchange, Coffee Buyer

Question 1 –

Between the North and the South, Fair Trade does support growth and development of Equal Exchange, the PPKGO cooperative, and the cooperative food system. As far as replicability, licensing is problematic with corporations buying only 0.5% of their coffee as Fair Trade and advertising themselves as socially accountable. There ought to be a minimum purchase amount in order to be called a licensed Fair Trade buyer. FLO in general tends to be very Eurocentric (there are no American traders on the board).

Question 2 -

The one price fits all system is also shortsighted while the occasional price variances make no logical sense (South America gets 2 cents less per pound at \$1.19/lb when selling to Europe). The prices are also not sensitive to country specific problems.

Therefore, a graded price system that tailors itself to quality and other differences would be more beneficial. Long term contracts are also needed.

This interviewees personal opinion is that associating with Transfair USA has not helped sourcing and quality, so the net benefits are few. Pre-harvest financing requirements with FLO/Transfair USA are very vague, as well, and the role brokers play is unclear.

APPENDIX B

DATA COMPILED

Socio-Economic

Pricing and Profits

Positive

- ForesTrade's presence has helped increase local competition resulting in overall fairer prices paid to farmers for their products
- Fair Trade Pricing plus organic increase and Fair Trade premium if conventional market rises
- ForesTrade Indonesia provides consistent demand and pricing for coffee cherries which builds confidence in the farmers in both their relationship with ForesTrade and their ability to predict their incomes and invest profits appropriately. Other TNCs only bought product from farmers when it was to the TNCs advantage
- Effective especially when prices are low
- Higher prices paid is a benefit to the South
- Yes, prices paid to farmers are up to three times as high -

Negative

- Commodity price fluctuations change relative value of Fair Trade
- Does not provide equity for farmers/producers x2
- Fair Trade now feeds corporate profit, as with Starbucks
- Highest margins of profit still exist in the north with the wholesaler and retailer
- Fair Trade coffee price has only been raised once in 14 years while industrial capital prices have risen consistently
- Need two tiered coffee pricing system to include low-medium grade coffee
- Needs greater financial accountability among exporters
- Traditional commercial ventures do not pick up on it
- FLO model is all or nothing
- Ventures can require heavy subsidies from NPO's and EU to get started, although FT has escaped this scenario thus far
- Currently, only higher altitude coffee beans command higher prices in specialty markets and can earn places on the FLO registry
- FTF offers more flexibility
- Better to pursue products with no exchange like the coffee exchange
- Need to be in specialty coffee market to see growth

Trainings/Consultancy

Positive

- Field extension training advisors for farmers
- FTI assists with the development of small businesses

Market Access

Positive

- Connect local indigenous growers to international high valued organic and fair trade markets
- Leading supplier of 'single origin' Fair Trade coffee
- Buys directly from farmers
- FLO labels do help mainstream Fair Trade products
- Challenging to gain support in U.S.

Negative

- Challenging to convince economic institutions of non-*Homo economicus* consumer behavior
- Higher quality standards needed to maintain demand x3
- Limited size to the registry relative to market demand x2
- Gourmet specialty reputation is limiting
- Currently, only higher altitude coffee beans command higher prices in specialty markets and can earn places on the FLO registry
- Transitional labeling needed, something creative to expand inclusion

Grants and Loans for Working Capital, Industrial technology, Start-up

Positive

- Provide affordable loans to finance equipment, crops and transport vehicles and local micro-enterprises
- Provide financing for local processing infrastructure increasing farmers' control over their product and their margin of earnings
- Villages have been divided into subunits which allows them to borrow funds. A mini-credit system has been created through a portion of member earnings going towards a lending fund.
- Green Mountain Coffee Roasters and Dean's Beans have contributed over \$45,000 and \$3,000 respectively since the beginning of the project in 1997. These funds have gone to support processing plants and seedling nurseries.

Negative

Lack of commercial credit, financing mechanisms in the system, although FT does

find financing x4

Pre-financing should be a requirement

Strategic and Organizational Management

Positive

- Facilitate and support organization of grower groups and registered cooperatives to promote economies of scale as well as to allow for registration with FLO
- Identify communities that are geographically isolated and in need of socio-economic development
- Promote income diversification
- Effective win-win environmentally and socially minded strategic alliances with Conservation International, Ecologic Enterprise Fund, farmer cooperatives, certification bodies, and socially minded customers -

Negative

- Switching to dealing with regions and producers instead of products would be a benefit

Output/Yields

Positive

- Farm Yields have increased on average within a given plot about 60% due to organic and sustainable agriculture training

Negative

- Still comprises a tiny fraction of a products respective market

Local Industrial Capacity Building

Positive

- Improved coffee processing methods for improved quality
- One coffee cupping labs (and another planned for early 2003) for quality assessments of product
- 25 Vehicles purchased for coffee transport with cooperative assistance
- 27 farms rehabilitated in four communities
- 9 small processing plants, with 5 local processing plants in villages of Gelagahan, Kenawat Redelong, Bener Lukup, Bintang Bener, and Blang Ara.
- Built a seedling nursery to assist in rehabilitating member farms and promote the traditional variety of coffee. In 2001-2 over 21,000 seedlings were distributed. Projections are for 40,000 in 2002-3.

Socio-Cultural

Peace Promotion/Justice issues/Civil Society

Positive

- Promote civil society through greater stabilization and unification of communities around cooperative and grower group organizational structures
- Peace promoted in the region in the midst of the civil war (treaty recently signed)
- Cooperative has some mixing of the three major ethnic groups with 94% Gayo, 5% Java, and 1% Acehnese. This compared with the general population represented by 60% Gayo, 30% Javanese and 10% Acehnese according to farmers Salim and Iswandi.
- Everyone who sees the benefits to the producers firsthand is converted

Community Infrastructure Development

Positive

- 4 communities have rehabilitated their mosques and associated water systems. Water is essential for cleansing before prayer in the Islamic faith. These water systems also support general domestic use. Over 1500 people and 290 households benefited.
- PPKGO provides supplemental financing for two local schools for victims of the civil war
- PPKGO supported 34 homes being rebuilt after destruction in the civil conflict in five communities
- Cooperative serves as a vehicle to channel government funds to rebuild an additional 800 homes for victims of the civil war
- Community infrastructure increased

Organizational Dynamics

Positive

- FT facilitates the organization of the PPKGO cooperative in 1997
- FTI partner PPKGO operates as a registered cooperative, whereby officers are democratically elected, decisions concerning how earnings are distributed are voted-on and the farmer members actively participate in the organization.
- FT offers a more collaborative model for start-up using strategic alliances
- Good model for N-S cooperation x3

Negative

- Originally Fair Trade was about creating alternative supply chains which is lost

Capacity Building

Positive

- The grower group or farming cooperative organizing often has positive social and cultural effects as people begin to think and act as cohesive communities with real potential to choose their paths of development.
- 20% of PPKGO members are women
- FT Directly involved with producer activities from the ground up
- Professional skills development for developing world

Personal and Educational Advancement Opportunities

Positive

- Many children of farmers are now able to attend universities (no specific number)
- Organic bonuses paid to farmers and their families and/or their organizations are largely directed towards family self-help initiatives and community-wide projects such as mosque repair, road re-habilitation, improved water quality, and medical care.

Cultural Support

Positive

- Increased earnings permitted 39 producers in five communities to go on the Haj or pilgrimage to Mecca from coffee producing regions in Aceh
- Cash crops do not eliminate ability to raise traditional staple food crops
- Social impacts positive
- Increases political power of producers
- FT maintains the sense of partnership
- Hires individuals from indigenous communities and those who speak local dialects to work in offices and do extension work

Negative

- Perpetuates institutional racism, provides an escape from poverty and racial issues in US

Numbers of Persons Affected

Positive

- Coop PPKGO has grown from 60 members in 2 communities to 1100 members in 21 communities over the last six years.

Negative

- Those who need assistance the most are not being reached

Food Security

Positive

- FTI promotes crop diversification

Miscellaneous Comments

Positive

- Effective tool for sustainable development
- Increases understanding in consumers
- Certification keeps out greedy players, offers accountability

Environment

Agricultural Practices and Trainings

Positive

- PPKGO Cooperative helps preserve ecological integrity by recycling organic matter, enhancing biodiversity, and protecting songbird habitat
- PPKGO production methods incorporate needs of the ecosystem into account by utilizing organic production techniques, effectively pruning to increase yield naturally, using gas powered weed cutters instead of herbicides to control weeds, and providing erosion control through plantings, among other techniques.
- Longterm land management plans for each producer
- Annual organic certifications
- Resource conservation and land reclamation by encouraging farmers to diversify existing plots with beneficial sustainable tree species for food, fuel, fiber, and income.
- Tree nurseries for reforestation
- Sustainable agriculture trainings for each farmer

Scope of Project or Acreage and Yields

Positive

- 1029 hectares with 568 tons of production in 2002

Physical Impacts

Positive

- Increased soil fertility, yields, and pest resistance
- Sustainable ag techniques are spreading to staple crops of vegetables, Tropical fruits and tubers

Negative

Not sufficient by itself to address environmental issues with organics alone