

# Beyond a Fair Price

The Co-operative Movement and Fair Trade

*By Samantha Lacey*



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Cover picture: Tea growers in Kericho, Kenya learning about forming co-operatives and supplying the Co-operative Group. Courtesy of Samantha Lacey.

All photographs are courtesy of Samantha Lacey unless otherwise stated.

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# Foreword

One of the common features of the co-operative and Fair Trade movements is that both were established as responses to inequalities and unjust market practices. Both movements responded to those inequalities by developing practices rooted in the values of self help, personal responsibility, democracy, equality, equity and solidarity. They have empowered and informed producers and consumers, and demonstrated that ethically driven businesses can flourish in a competitive market. This message is even more relevant today when the world is facing urgent environmental and food security challenges at the same time as the global economy is facing its worst crisis in decades.

This paper is therefore a very welcome and timely contribution to the debate on how the co-operative and Fair Trade movements can help build a fairer society, capable of addressing these crises. It is clear that a model that incorporates environmental and social responsibility and meets the needs of all in the value chain, rather than the needs of a few giant companies, is one that will be welcomed by many.

This publication, the second in the series by the Co-operatives for Development programme funded by the Department of International Development, is a significant contribution to that discussion. It shows how the co-operative and Fair Trade movements need to address the issues that prevent them from being more effective, and provides recommendations for how the co-operative movement could take Fair Trade to the next level. In doing so it shows that the movements could help empower smallholders in developing countries by linking co-operative values with the power of trading between consumer co-operatives in developed countries and producer co-operatives in developing countries.

The co-operative approach as advocated is an example of how, instead of one part of the supply chain gaining at the expense of others, all can benefit through long term sustainable relationships rather than short term profit

maximization and exploitation. It shows once again the contribution that co-operatives are making to lifting and keeping people out of poverty and how the two movements could accelerate that process – perhaps the biggest challenge of all.

**Mervyn Wilson**

*Principal and Chief Executive, The Co-operative College*



# 1. Introduction

The co-operative and Fair Trade movements have each played important roles in challenging the inequalities and exploitative practices of market driven supply chains dominated by multinational corporations (MNCs). An emphasis on competition and efficiency at the expense of long term sustainability and capacity building by MNCs has contributed to environmental degradation and migration out of rural areas. In contrast, the Fair Trade and co-operative movements have endeavoured to empower and inform both producers and consumers and have often worked together to this end.

This publication aims to examine this rich history of empowerment and to generate ideas and recommendations for how these two movements can work together to provide an alternative to purely profit driven value chains. It will suggest ways in which co-operatives can build on some of the work done with the Fair Trade movement to create a model that can start to address the twenty first century challenges of climate change, development and the food crisis.

A large body of research exists, which looks at the impact of Fair Trade on producers in developing countries. By comparison, the difference that forming co-operatives has on producers' livelihoods is relatively under researched. There have also been numerous consumer surveys about awareness of the issues that producers face and how this affects shopping habits in relation to Fair Trade. However, it seems that there is comparatively little research into the role that co-operatives, at both ends of the value chain, have played in the Fair Trade movement and the potential for the development of this role in future.

The findings of the paper are based upon interviews with a range of co-operative and Fair Trade stakeholders from within the value chain as well as experts in the field (see Appendix 1) combined with literature searches including academic and other published material. It primarily focuses on the consumer and retail perspective in the UK and the supplier perspective from Africa although other case studies are included.

The paper uses a value chain approach to examine the advantages and limitations of the current Fair Trade and co-operative movements and to suggest ways in which they could develop to provide a more sustainable alternative to the existing model, in which most of the power is concentrated among a few MNCs. The author hopes that the paper will stimulate further research and debate among policy makers, academics, co-operators and Fair Trade activists regarding the need to develop alternative value chain approaches that empower producers and help to safeguard our food supplies.

## 2. A Time for Change

This paper is relevant and timely because both the co-operative movement and the Fair Trade movement are reaching a crossroads. The Fair Trade movement has reached great prominence, primarily through the Fairtrade Labelling Organization's Fairtrade brand, and is struggling to balance the commercial demands of engaging with MNCs, with its pro-poor, development roots. Concurrently, the global co-operative movement is undergoing a revival following a period of decline. In the UK this has been associated with the Co-operative Group's recent rebranding and promotion of co-operative values and of Fair Trade, which has coincided with improved business performance and massive expansion of the business. In addition, the impact of the global financial crisis has reinforced the need for alternatives to current value chain models.

### 2.1 The Need for New Value Chain Models

The world is facing three, interlinked major global crises – financial, environmental and food. Each of these demonstrates that we are not living within our limits and each of them is having its biggest impact on the most vulnerable in society, especially in developing countries. Yet these people contributed least to the creation of the problems. During the recession following the financial crisis, politicians and businessmen alike are looking for ways to reinvigorate economies and prevent a similar kind of crisis from happening again. However, many have neglected the more long term environmental and food crises to focus on the more immediate economic one. By contrast, others see this as an opportunity to address the fundamental causes of the crises and to enhance development and food security by addressing all three problems at once.

It is beyond the scope of this paper to examine all of the causes, consequences and possible solutions for the crises. However, this paper will

try to highlight what can be learnt from the co-operative and Fair Trade movements by examining what can be achieved through their models of empowerment of producers and consumers, and how those models could be improved further. Whilst these movements provide alternative models that may inform current debate, they cannot alter the global trade agreements that are at the root of the inequalities, they can only challenge them and suggest alternatives.

Fair Trade and 'ethical supply chain policies' have developed as voluntary responses to inequalities in the systems that govern global trade, which tend to favour developed countries. Redressing this balance in a more fundamental way requires multilateral commitment from governments. There have been numerous attempts at achieving this but progress so far has been slow at best.

The Doha Round of trade talks were intended to be a 'development' round aimed at lowering trade barriers and developed country subsidies. However, they collapsed in 2008, partly due to unwillingness in the EU and the US to reduce tariff barriers and agricultural subsidies. In Europe, multilateral talks at the World Trade Organization have been replaced by bilateral agreements such as Economic Partnership Agreements (EPAs) that have been widely criticised for imposing unfair trade agreements on poorer countries (Action Aid, 2009) and which have not delivered on their promise of "poverty eradication, sustainable development and the gradual integration of the African, Caribbean and Pacific (ACP) States into the world economy" (Meyn, 2009). The economic crisis has led to further concerns that a conclusion to the Doha Round is now even less likely and that countries will start to adopt protectionist policies that will make the situation even worse (Meyn et al, 2009).

The financial crisis is also affecting developing countries more directly. Slower global economic growth is causing reduced opportunities for trade, income generation and employment in developing countries. This in turn decreases governments' budgets and limits their ability to provide public services. Reduced economic growth in developed countries also puts pressure on aid budgets and increases the risk that they will renege on pledged aid (Watkins and Montjourides, 2009). Decreased aid and trade income is further compounded by unfavourable exchange rates.

The global environmental crisis is disproportionately affecting the rural poor as well, through increased exposure of the world's poorest farmers to



Drought in Kisumu, Kenya caused this woman's bean crop to fail. July 2009.

droughts, floods and storms (UNDP, 2008). These weather pattern changes combined with the depletion of the underground water sources that currently irrigate a large proportion of the world's agricultural land and an over-reliance on fossil fuel based fertilisers, have severe implications for our ability to maintain or increase food production in line with demand (see Box 2.1). Indeed, many food commodities hit record prices during 2008 triggering riots and strikes from Mexico to Italy.

### **Box 2.1. The Environmental Food Crisis**

*The combined effects of climate change, land degradation, cropland losses, water scarcity and species infestations may cause projected yields to be 5-25% short of demand by 2050. Increased oil prices may raise the cost of fertiliser and lower yields further. If losses in cropland area and yields are only partially compensated for, food production could potentially become up to 25% short of demand by 2050 ... Taking into account these effects, world price of food is estimated to become 30-50% higher in coming decades and have greater volatility ... climate change could increase the variability in annual production, leading also to greater future price volatility and subsequent risk of speculation ... It is uncertain to what extent farmers in developing countries will respond to price effects, changes in yield and available cropland area. Large numbers of the world's small-scale farmers, particularly in central Asia and Africa, are constrained by access to markets and the high price of inputs such as fertilisers and seed.*  
(Nellemann et al, 2009)

Many are now looking to smallholders to help meet the increasing global demand for food and address the food crisis. It has been argued that supporting smallholders to increase production would kill three birds with one stone. Firstly it would help to reduce poverty among the world's 450 million smallholders. It has the potential to encourage environmental sustainability and may be more efficient in terms of investment required to improve yield (The Economist, 2008). Global summits have recognised the importance of supporting smallholders too. For example, in June 2008, representatives of 181 countries and the European Community met to discuss world food security. They signed a declaration calling on organisations and countries



*to put in place the revised policies and measures to help farmers, particularly small-scale producers, increase production and integrate with local, regional, and international markets.*  
(FAO, 2008)

However, information gathered from smallholder interviewees and their representative organisations indicated that the power imbalances in value chains prevent their voices from being heard. Even before the impact of the financial crisis, respondents complained of a lack of stable relationships with buyers and a lack of transparency within supply chains, both within and outside the Fair Trade system. There was often a sense of isolation and of communication and demands being top down and audit-led rather than two-way and pragmatic. Buyers were unwilling to consider supporting producers to maintain long term productivity, for example by establishing long term contracts. At present, traders can simply switch to alternative suppliers if crops fail or costs increase. However, this means there is little motivation for the players in the middle of the value chain to ensure that their suppliers have the skills and capital to maintain the ecosystems and develop the workforces necessary to ensure long term food production.

In order to compete in such a market, farmers have to find ways to produce crops as cheaply as possible. In the absence of enforced government legislation protecting the natural environment, workers rights etc, this often means that individual farmers are motivated to deplete natural resources and exploit human resources to keep their costs low. Since power is concentrated with buyers and not producers, they are not able to argue for higher prices or long term contracts to enable them to invest in systems to maintain soil fertility and protect worker health and safety, since buyers can just go elsewhere. This is starting to compromise their ability to maintain productivity.

## **2.2 Two Movements Provide Alternative Models**

Against this backdrop of disempowerment of producers, consumers have shown a willingness to engage with the issues facing developing countries and their farmers. The success of the *Make Poverty History* and *Trade Justice* campaigns, combined with unprecedented growth in sales of Fair Trade products, has sent a strong message to governments and retailers that people do not want their cheap goods at any cost. As a result, British

# The **co-operative** food

## Ethical Policy

Our Ethical Policy aims to maintain and strengthen our position as the UK's leading responsible retailer. What makes this policy unique is that it's based on member consultation and customer feedback. It's also a measure of our commitment to responsible retailing, the development of quality own-brand products and our careful selection of suppliers.

### Ethical trading

We are committed to support the Universal Declaration of Human Rights and improve conditions in our supply chains. In line with this, we will look to be the UK's leading retailer, and will:

- continue to promote Fairtrade and develop long term, sustainable relationships and offer the widest range and availability of Fairtrade products; and
- continue to apply our Sound Sourcing Code of Conduct across our suppliers, and in particular, secure progress in developing countries in relation to living wages, trades union recognition (where lawful), the end of child labour, and reasonable working hours and overtime.

### Animal welfare

We will seek to promote animal welfare and will work towards progressively improving standards of well-being. We commit to:

- continue to extend the range of products that meets higher animal welfare standards, eg, all eggs sold to be at least free-range and all own-brand fresh chicken to be reared to Co-operative defined higher standards;
- ensure all fresh products comply, as a minimum, with relevant UK farm assurance standards;
- continue to take the lead on the opposition to the use of animals for the testing of own-brand toiletries, cosmetics or household cleaning products (or ingredients therein); and
- continue to exclude fur from all products.

### Environmental impact

We recognise nature's limited capacity to generate resources and absorb waste and commit to:

- continue to be the UK's leading retailer on climate change, be this via our support for renewable electricity (eg solar power, wind power); on-site renewables generation, energy efficiency or investment in quality carbon offset schemes;
- seek to reduce the carbon footprint of our products, but never at the expense of the poorest producers in the developing world;
- reduce the waste arising from our operations and increase recycling;
- reduce our own-brand packaging, but never with recourse to materials where toxicity is a concern, or if opportunities to switch to recycled and biodegradable materials are negated; and
- increase the use of products from sustainable sources, particularly in relation to fish, wood, paper, palm oil and soya.

### Food quality, diet and health

Consumers should have access to high quality food that is produced and offered in a way that they can trust. We commit to:

- continue to be the UK's leading retailer in the removal of substances of concern, particularly additives and pesticides;
- ensure that our food range includes an increasing proportion of healthy offerings;
- continue to ensure that own-brand products carry clear and honest labelling;
- continue to support the development of progressive standards, eg traffic light labelling, Fairtrade, Humane Cosmetics Standard, and Freedom Food; and
- continue to oppose the adoption of genetically modified organisms or nanotechnology in circumstances which risk damaging the environment or compromising human health.

### Community retailing

We are committed to play a full and constructive part in the communities in which we trade, be that in terms of our investment, involvement or volunteering. We commit to be the UK's leading community retailer, and will:

- continue to offer the most diverse spread of stores of any UK retailer;
- continue to source regionally where there are proven sustainability benefits; and
- promote produce from our own farms.

### Open and honest

For each of the issues identified in the Policy, we commit to measure our performance, set targets and provide a full account of our progress in our annual, independently assured Sustainability Report.

### Member consultation

We will regularly reappraise members' views on these and other issues and develop our Ethical Policy accordingly.

The **co-operative**  
good with food



supermarkets have competed with one another to appear to be the greenest. The UK Co-operative Group, the largest consumer co-operative in the world, is currently doing particularly well. Despite the financial crisis, the business is expanding and is now the UK's fifth-largest food retailer. In the year to 10 January 2009, overall food profits rose by 38% to £219m and these profits will be shared with members (Kollewe, 2009). This growth has coincided with a re-focusing on its co-operative values and aligning itself with Fair Trade. The Group has also recently launched a customer mandated Ethical Food Policy covering everything from animal welfare to the environment.

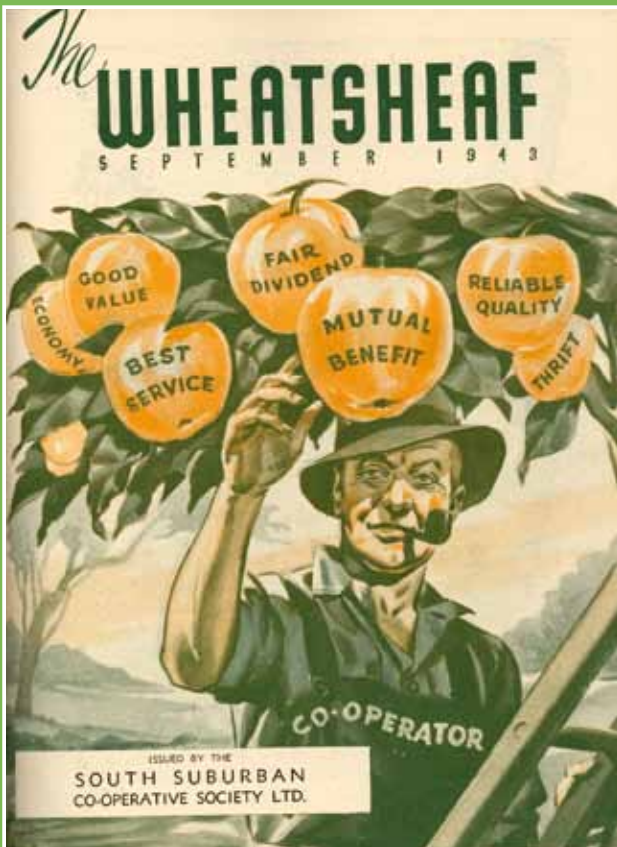
Both the Fair Trade movement and the co-operative movement have their roots in producer and consumer empowerment and in balancing economic needs with social justice. Frustrated consumers who object to current value chain models where all the power is concentrated among the multinational food and retail companies at the expense of the producer, have turned to Fair Trade and to co-operatives to find an alternative.

For over a decade these two movements have supported one another's growth. The Fair Trade movement sources extensively from producer co-operatives and co-operative retailers globally have played a vital role in bringing Fair Trade products to the mainstream consumer who does not frequent specialist shops. For example, the UK Co-operative Group was the first UK supermarket to sell Fair Trade products throughout all of its stores and supported the *Trade Justice Campaign* in 2005 with Christian Aid. The Italian co-operative, Legacoop claims to be the first Italian supermarket chain to stock Fair Trade products. Further details of co-operatives involved in Fair Trade can be found in *Co-operatives and Fair-Trade* (Develtere and Pollet, 2005) and *Co-operation, Social Responsibility and Fair Trade in Europe* (Shaw, 2006).

The co-operative and Fair Trade movements can help the voices of producers and consumers to be heard, through bringing them together into groups that can advocate their interests. For example, producer co-operatives represent the views of their producer members, Fairtrade community groups provide a forum in which consumers can come together to campaign for more Fairtrade products and consumer co-operatives have to consider their members' views regarding how they run their business. Ultimately, this could be a step along the path towards more equitable partnerships between producers and retailers, where the interests of both producers and consumers

are respected. By improving communication through the value chain and building longer term relationships, top down demands from MNCs to producers could start to be replaced by mutual decisions based on aiming for long term sustainability and capacity building in the interests of all members of the value chain.

Both co-operatives and Fair Trade are market based models that create enterprise based solutions to social problems, and encourage long term self-help. Neither are purely socially motivated, nor purely profit motivated but incorporate elements of both. Neither movement manages to balance all of these elements all of the time but this paper will explore some of the things they each do well, and not so well, to stimulate discussion regarding what may be possible in future.



Many of the ideas now associated with Fair Trade have long been associated with the co-operative movement as well.

*Reproduced cover of The WHEATSHEAF, issued by the South Suburban Co-operative Society in September 1943, courtesy of the National Co-operative Archive.*

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# 3. The Fair Trade Movement

## 3.1 Origins of Fair Trade

The roots of the Fair Trade movement lie in the mid twentieth century, when it was first promoted as a trading model through which to protect marginalised and economically disadvantaged producers. By providing them with market access, it aimed to improve incomes, thus raising their standard of living. The first Fair Trade products were sold in the United States when Ten Thousand Villages was founded in 1946 by Edna Ruth Byler. Byler was a businesswoman who, after travelling to poverty-stricken Puerto Rico, introduced the concept of development through trade by buying handicrafts from poor communities and selling them at a 'fair' price.

From the late 1950s onwards, Alternative Trade Organisations (ATOs) and World Shops grew in popularity in both North America and Europe. Such organisations include Oxfam (UK), which set up a trading company in 1964 to market Christmas cards and other products through the increasing number of Oxfam shops, as well as by mail order (see Figures 3.1 and picture overleaf).

As the volatility of commodity prices became a recognised problem for producers, ATOs became increasingly concerned with the unequal North-South trade relations that were keeping people in poverty. In 1989, the members of the International Coffee Organization failed to agree a replacement for the quota system of the existing International Coffee Agreement. This was followed by prices falling to record lows between 1990 and 1992. A new agreement was not reached until 1994 but it did not set out to regulate coffee prices (International Coffee Organization, 2009).

This highlighted the potential of the emerging Fair Trade principles to protect agricultural producers in the developing world. In response, Cafédirect was established in the UK, selling coffee imported from Peru, Costa Rica and Mexico at a 'fair' price at church and charity events (Cafédirect, 2009). Around



An early Fair Trade initiative by Oxfam proved popular in the 1970s.

*Reproduced from the Co-operative News, 29 June 1977, courtesy of the National Co-operative Archive.*

the same time, the Dutch label Max Havelaar began to import the first Fair Trade coffee from Mexico, which it sold in Danish Supermarkets. The purchase of Fair Trade consumables began to gather pace, growing to represent a stronger consumer voice against unfair and unregulated trade agreements.

As the global economy was rapidly expanding, there was an increasing expectation that Fair Trade would become globally standardised. In 1989 the International Fair Trade Association (IFAT, now the World Fair Trade Organisation or WFTO) was set up as an umbrella organisation for ATOs throughout the value chain and across the globe. The WFTO labels organisations (rather than individual products), although it is only now developing a management system to enable third party certification of these Fair Trade organisations (see Box 3.1).

Also during the late 1980s and early 1990s, the ATOs in Europe consolidated to form the European Fair Trade Association and the Network of European World Shops. Fair Trade labelling initiatives were also established in several European countries, such as Holland's Max Havelaar and the UK's Fairtrade Foundation. These came together in 1997 to form the Fairtrade Labelling Organization (FLO). FLO aimed to create internationally agreed standards, against which individual products could be audited and certified with the now well recognised FLO Fairtrade Mark (see Figure 3.1 and Box 3.1).



Launch of Young Co-operatives School Fair Trade Pack hosted by the Co-operative Group.  
*Courtesy of David Hickes.*

Consumer commitment to FLO Fairtrade has been enhanced by community based activities. Schools, towns and even cities have been encouraged to work towards Fairtrade status. Local groups run educational activities around Fairtrade Fortnight in February to March each year, supported by local Fair Trade retailers, often co-operatives. The Co-operative Group in the UK has also made an important contribution through its educational membership events, in-store promotions and support for the Fairtrade Foundation's work. The approach has paid off. Sales of Fairtrade certified products in the UK increased by 61% between 2006 and 2007, to £458million (The Co-operative Bank, 2008), 21 times what they were only 8 years before, in 1999 (Fairtrade Foundation, 2009).

Several companies have now committed to providing Fairtrade alternatives or even converting whole lines to Fairtrade. Sales of Fairtrade chocolate alone are due to increase significantly following the announcement from Cadbury that its Dairy Milk bar is to become Fairtrade certified in summer 2009, taking Fairtrade chocolate sales, from £45m to £225m (Bowers, 2009). If sales of non-FLO branded Fair Trade were included then total Fair Trade sales figures would be even higher. According to the Fairtrade Labelling Organization (2008), sales of FLO-certified products globally have increased nearly ten-fold to over 2.4 billion Euros annually in the last seven years. See Figure 3.1 for an overview.

**Figure 3.1 Timeline of the Fair Trade movement**



- 1994** Zapatistas publically objected to the North American Free Trade Agreement
- 1997** Fairtrade Labelling Organisation (FLO) established  
Kuapa Kokoo farmers vote to invest in a chocolate bar of their own
- 1999** Fairtrade products stocked in all Co-operative Group (UK) stores
- 2000** The Co-operative Group (UK) launches its own brand Fairtrade chocolate from Kuapa Kokoo and is the first retailer to bring Fairtrade bananas to the UK
- 2002** First World Fair Trade day held in May  
Sainsbury's launches its own Fairtrade products
- 2004** Tesco launches its own brand Fairtrade products
- 2006** Marks and Spencer launches a Fairtrade cotton clothing range
- 2007** African, Asian and Latin American producer networks become joint owners of FLO
- 2008** FLO announce findings of their strategic review covering further expansion as well as a better cost / benefit ratio for producers  
The Co-operative Group (UK) is first UK retailer to convert entire own brand hot beverages range to Fairtrade
- 2009** The International Fair Trade Association becomes the World Fair Trade Organisation and launches a consultation on a new Sustainable Fair Trade Management System

**Growth of Fairtrade in other mainstream retailers**

**Challenge to balance the demands of the mainstream with pro-poor development roots**



### 3.2 Challenges and Hard Choices

The rapid growth of Fair Trade, particularly FLO Fairtrade certified products, has massively increased the number of producers who benefit from fairer terms of trade. This is generally cited as evidence that Fair Trade is influencing mainstream trade. However, this success has brought with it challenges and hard choices. Many of the respondents interviewed for this research supported the view that the involvement of some MNCs has changed the nature of the Fair Trade system, making it more demanding for producers, but has not significantly changed the approach of those MNCs to their value chains. They said that the growth of Fair Trade has led to increased competition, demands and pressure within the system. The movement now has to decide how to balance a desire to grow, in order to affect the lives of more producers, with commitment to the principles on which the movement was based, namely as a way to protect marginalised and economically disadvantaged producers.

One of the ways in which Fair Trade has influenced multinational food and retail companies, particularly British supermarkets, is through demonstrating that there is demand for ethical products, from organic to Fair Trade. Many MNCs are now offering their own Fair Trade, or other 'ethical label' products such as Utz Certified or Rainforest Alliance. Some are also making efforts to tackle other supply chain issues through roundtables and other multi-stakeholder initiatives such as the Roundtable for Sustainable Palm Oil. Consumer awareness of food sovereignty issues has also increased, in part due to the consumer education that has occurred through Fair Trade campaigns and community groups and this too helps to drive wider change within MNCs.

The resulting increased demand for ethically sourced products has had two major effects. It has increased the amount of food and other produce bought under Fair Trade and other 'ethical' terms, hence presumably improving the livelihoods of many more producer families. However, it has also increased competition at both ends of the supply chain for smaller, dedicated Fair Trade organisations and has increased the demands placed on them. Smallholder farmers now find themselves competing with plantations certified under the hired labour standards, and having to meet increasingly stringent standards and audits, particularly under the FLO system. Dedicated Fair Trade brands, such as Cafédirect and Divine, that go beyond the requirements of the FLO Fairtrade standards, are now competing with supermarket own brand Fairtrade products that are produced more cheaply.



Respondents claimed that many supermarkets just buy Fairtrade certified commodities from traders without forming a relationship with the producer, so although the community still gets the Fairtrade premium, they do not get any of the other benefits of long term relationships or extra development support provided by some of the Fair Trade specialists.

Some stakeholders have questioned the extent to which the MNCs have changed. Whilst MNCs may now offer a Fairtrade certified alternative to their normal products, only a few have gone as far as converting whole product ranges. If companies offer premium 'ethical' products to enhance their brand or because they can charge higher margins on those products rather than as a step in an ongoing process towards making all their value chains more equitable, this brings into question who is really benefitting most from the relationship.

FLO currently labels individual products regardless of the operations of the remainder of the company; following the idea that to create real change in big companies, you have to start one step at a time. However, at present it is only producers who are audited against standards, not other members of the value chain, although buyers do have to meet requirements such as creating 'sustainable trading partnerships' and providing pre-financing to producers where possible. Considering the power is held by the rest of the value chain and that Fair Trade is supposed to protect producers, some are now arguing that there should be more stringent standards for other members of the value chain too. By contrast, the World Fair Trade Organisation (WFTO, formerly IFAT) labels entire organisations from any part of the value chain, and only works with dedicated Fair Trade organisations. This gives it more freedom to play a challenging, campaigning role in international discussions about trade rules but has also meant that it has remained more of a niche label.

In order to try to improve the lives of poor producers, the two main Fair Trade organisations have taken different approaches (see Box 3.1). FLO has engaged with MNCs, and is aiming to encourage them to convert more of their lines to Fairtrade, although it has no official standards requiring constant improvement for value chain actors other than producers. WFTO on the other hand only deals with dedicated Fair Trade organisations and tries to campaign for fairer global trade rules, but is only now developing auditable standards to which the Fair Trade organisations that carry its logo must adhere.

## Box 3.1 The FLO and WFTO Fair Trade Certification Systems

### Fairtrade Labelling Organisation



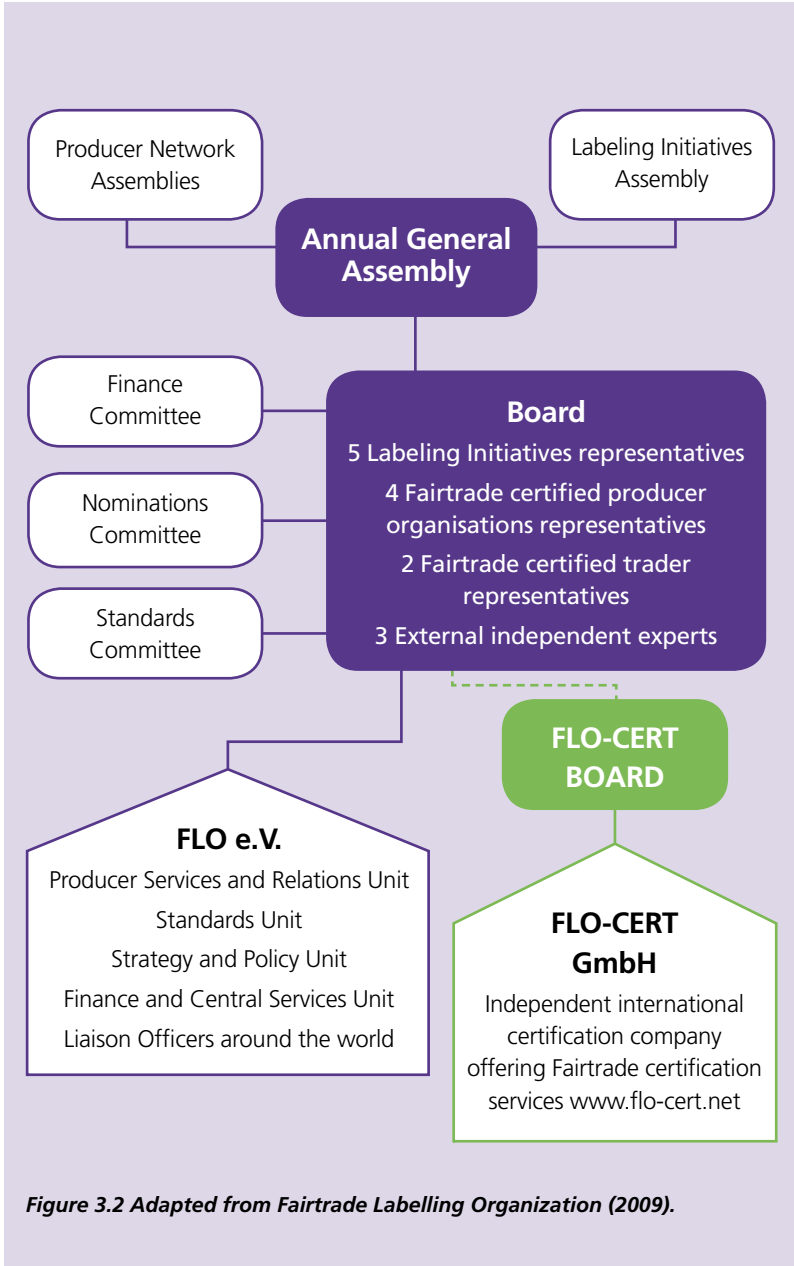
There are two distinct sets of Fairtrade standards for different types of producers, one for smallholders and one for hired labour, in addition to the generic standards. Standards for smallholders state that producers must be democratically and transparently organised in a structure that is free from discrimination of any particular group or individual. Hired labour standards state that companies must provide workers with decent working conditions, as defined by FLO in line with ILO standards, including the right to join trade unions, adequate health and safety conditions, anti-discriminatory employment practices and no use of child or forced labour.

Fairtrade standards also cover terms of trade. Most agricultural products have a Fairtrade price, which is the minimum that must be paid to the producers to ensure that at least the costs of sustainable production have been covered. If the world market price goes above this minimum price, the producers are paid the world price. In addition, producers get an additional sum per kilo, the Fairtrade premium, to invest in the economic, social and environmental development of their communities. Another key objective of the Fairtrade standards is to facilitate long-term trading relationships with producers.

The Fairtrade Labelling Organisation (FLO, a non-profit organisation) sets the standards which must be adhered to in order for national Labelling Initiatives to certify products with the Fairtrade certification mark. Labelling Initiatives and Producer Networks can both become members of FLO (see Figure 3.2).

Members of the **Labelling Initiatives Assembly** are organisations which use the FLO Certification Mark to label consumer products and promote Fairtrade *in their country* (such as the Fairtrade Foundation in the UK).

**Producer Network Assemblies** represent Fairtrade-certified producer organisations.



**Figure 3.2 Adapted from Fairtrade Labelling Organization (2009).**

### Box 3.1 continued

All members convene in the **General Assembly** to discuss membership issues, including annual accounts, possible admission or expulsion of members, and to elect the Board of Directors.

The Standards Committee sets and supervises the Fairtrade Labelling standards. Members of the **Standards Committee** include representatives of Labelling Initiatives and producer and trader networks as well as external experts. For a product to be certified as Fairtrade, licencees must pay the Fairtrade premium and take steps to invest in long-term relationships with producers.

Inspections are carried out by the independent international certification company, called **FLO-CERT GMBH**, which is responsible for the inspection and certification of producer and trader organisations against the Fairtrade standards.

Source: Fairtrade Labelling Organization (2009)



Water pump purchased with Fairtrade premium earned by Kuapa Kokoo, a Ghanaian cocoa co-operative.

## WFTO

The World Fair Trade Organization, previously the International Fair Trade Association, is a network of over 350 organisations that are committed to Fair Trade in all their business activities. WFTO monitors its members, who are allowed to use its logo to show they follow the WFTO's Ten Principles of Fair Trade.



- Creating opportunities for economically disadvantaged producers
- Transparency and accountability
- Capacity building
- Promoting Fair Trade
- Payment of a fair price
- Gender equity
- Working conditions
- Child labour disclosure
- Better environmental practices
- Responsible trade relations



The WFTO logo is used to brand organisations committed to Fair Trade, not individual products. As such, it covers all of an organisation's operations, but does not guarantee pre-defined minimum prices or premiums on individual products.

The WFTO is currently developing a label for independent third-party certification of Fair Trade organisations as part of the Sustainable Fair Trade Management System (SFTMS). Once certified, the organisation will be able to use the label on all its products.

Source: World Fair Trade Organization (2009)

### 3.3 Beyond a Fair Price

Fair Trade, in its various current forms, is clearly making an important contribution to ensuring that farmers in developing countries benefit more from international trade, and to raising consumer awareness of the issues associated with modern value chains. However, a Fair Trade certification system is also only one step on a road towards more equitable and sustainable global trade. Many of the factors that keep rural farmers in poverty are beyond the control of voluntary initiatives such as Fair Trade. It is also extremely difficult to create a certification system that meets all the expectations of all of its stakeholders, or even all of its intended beneficiaries, some of whom may have very different needs and capacities.

This paper does not seek to criticise the various Fair Trade stakeholders for the limitations highlighted by interviewees, but to focus on making recommendations on how relationships between value chain actors can be altered to provide more holistic benefits to producers and to address some of the inequalities in a more fundamental way. Each organisation has a different role to play and needs to work from where it is. It is as important for the specialist Fair Trade organisations to keep moving forward to demonstrate what is possible, as it is for the more mainstream organisations to be challenged to find ways to make these ideas a commercial reality on a bigger scale.

A key dilemma for FLO Fairtrade in particular, is whether it can balance the demands of engaging more MNCs and retain its support for development. Although the FLO Fairtrade logo is now recognised by about 70% of the UK population, with 64% of the population linking the Mark to a better deal for producers in the developing world (according to a TNS CAPI Omnibus survey, Fairtrade Foundation, 2008) there are now a plethora of other 'ethical' labels that provide assurances of 'no harm done' and other 'Fair Trade' organisations that go beyond what FLO Fairtrade assures. One interviewee suggested that in order for FLO to compete with these other labels and continue to be seen as a gold standard that supports development rather than just 'no harm done', it needs to address some of the limitations of the current system.

Many of the producer respondents and those who work with producers, argued that the current certification system is too focused on making

demands of the producers and not sufficiently demanding of the rest of the value chain. Respondents from the co-operative movement also said that FLO places a lot of emphasis on the benefit of the premium to producers. They felt that although the premium is helpful in funding community projects, often it is the process of coming together into democratic groups, such as co-operatives, that has the biggest impact on producers but said this is rarely recognised. Although democratic representation is a requirement for FLO certification, there is often little support to help producers through this process since there are no requirements for organisations further up the value chain to support the development of their suppliers. Many of the most marginalised individual smallholders are therefore unable to achieve Fair Trade certification because they have neither the means nor the skills necessary to form into democratic groups.

FLO is aware of many of the following issues and has highlighted some of them in its recent strategic review. However, it remains to be seen exactly how the proposed solutions to these issues will be implemented. Furthermore, these issues are relevant to the Fair Trade movement as a whole and to any organisation interested in striving towards more equitable and sustainable value chains.

Numerous Fair Trade organisations have developed their own approaches to making value chains fairer and more transparent, some of these call themselves Fair Trade and some do not. Much can be learnt from these pioneers and from the experiences and views of respondents expressed below. This could be used by Fair Trade stakeholders to improve the Fair Trade system but there are limits to what can be achieved by a certification system focusing on Fair Trade. Some of what is required is support for smallholders to help them to build up the skills to enter Fair Trade markets.

### **3.3.1 Enhancing the Development Focus**

Respondents identified a number of ways that the development focus of any Fair Trade initiative could be strengthened, but most were referring specifically to their experiences of the FLO system (see Box 3.1).

#### *Fair Price?*

Fair Trade is currently marketed as giving a 'Fair price' to farmers in developing countries. However, within the FLO system, unless the market

price for a crop is below the Fairtrade minimum price, individual producers still only receive the market price for their crop since the premium is used for community projects. It therefore does not generally directly increase the incomes of individual farmers. Many producers think the FLO minimum price should be increased to ensure it covers their costs. A number also said that since they often only sell about 10% of their produce to Fairtrade buyers and the extra money they receive in the form of premiums sometimes does not cover the costs of being certified. They needed more help to meet the costs of certification and auditing, especially since different buyers often required them to meet different standards, each requiring separate audits, such as Fairtrade, Rainforest Alliance, ETI etc. FLO does allow small producers to be audited at discounted rates for the first three years but this option is underutilised, possibly because many producers do not know about it.

Further complications arise because the 'fair price' usually only applies to the producer of the raw materials. In garments manufacture for example, many of the risks are associated with the working conditions and pay of the people who produce the clothes. However, the Fairtrade premium for a FLO certified Fairtrade cotton T-shirt only goes to the cotton growers. There are requirements for labour standards audits covering working conditions in the rest of the supply chain but this too has its limitations.

### *Long Term Trading Relationships and Improved Transparency*

Producers suffer from more than just low prices. They reported that despite FLO requirements for 'sustainable trade partnerships', producers still experience a lack of long term trading relationships. This means that they cannot plan for the future since they do not know how much of their crop they will be able to sell from one harvest to the next. The lack of transparency in the supply chain may mean that they simply sell to whichever local trader offers them the best price on the day and never know what happens to their crop after that. It also means they cannot work with their buyers to work towards improving production standards since they generally do not know who their next buyer will be.

The lack of transparency also makes it hard for producers to negotiate prices since they do not have access to information about where their crop is going, and how much it is being sold for further down the value chain. Organisations such as Crop to Cup ([www.croptocup.com](http://www.croptocup.com)) and Fair Trade Proof ([www.coffeepath.org](http://www.coffeepath.org)) have used web based systems to provide







Following training from the Swedish Co-operative Centre, this woman has been able to diversify into growing vegetables to supplement her income.

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Examples of the kinds of skills and training that can help producers to improve their income levels are: how to diversify into growing other crops, how to improve the productivity of their land, how to make compost and collect rainwater for irrigation, how to access other markets including local ones, how to achieve organic status, how to form and run a co-operative, how to interpret an audit report and how to make the necessary changes to pass. Support to diversify can be especially important since it reduces reliance on a single crop and a single market. The WFTO system of approving processes within organisations rather than individual products also facilitates diversification. In contrast, FLO requires each individual product to be certified, even if they are grown by the same people on the same land.

### *Sourcing only from Smallholder Co-operatives or a Level Playing Field*

Interviewees reported that since the introduction of ‘hired labour’ standards to the FLO Fairtrade system, many of the small, producer run organisations have had to compete with big plantation companies. Since the big companies are better placed to produce the quantity and quality demanded by MNCs, the producer organisations are often out-competed, even within the Fairtrade system.

However, when asked if FLO Fairtrade should go back to only working with producer controlled organisations, most producer representatives interviewed for this paper said that they did not object to the inclusion of workers. They said that workers, having no land of their own, were often even poorer than smallholders and deserved to benefit from Fairtrade as well. What they did want though was a way of levelling the playing field to make it easier for them to compete with the big companies, such as through the kinds of producer support programmes described above.



Should this tea plantation worker be included in Fair Trade?

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Can smallholders like this man be helped to compete with plantations?



By contrast, organisations such as Just Change, Traidcraft and Comercio Justo Mexico (see Box 3.2) source only from communities and small producer-controlled organisations, due to a belief that they deliver much bigger developmental benefits because the control rests with the producers themselves. Arguably, restricting sourcing to producer *owned* enterprises such as co-operatives rather than just producer *controlled* enterprises, could deliver even more benefits such as keeping the profits of the business local, and the empowerment that comes from producers knowing they own their own business.

### **Box 3.2 Three Mexican initiatives go their own way**

The challenges faced by smallholders within the Fairtrade system, such as increases in certification costs, the complex process of passing audits, competition with plantations, difficulties delivering the quantities demanded by big retailer companies, among others; created, contrary to traditional market competition logic, a solidarity movement between Mexican producers. They believe that collaboration and mutual aid are more profitable than competition for a market niche.

Independent Mexican coffee grower co-operative unions have created their own non-profit certifying body called Certimex, to make audits more affordable for small producers. Initially, Certimex only offered certification to organic or ecological standards. However, since 2000 it has worked with FLO and Comercio Justo Mexico AC to become an accredited certifier to Fairtrade standards as well.

Comercio Justo Mexico AC (CJM) is another Mexican initiative of small producers, society and other civil organisations. It was founded in 1999 to link multiple efforts to create and develop a domestic Fair Trade market for small-scale producers. It also provides support in commercial development to small producers' organisations. CJM is hence both a Fair Trade producers' organisation and a labelling organisation, similar to the Fairtrade Foundation in the UK or Max Havelaar in Holland. This gives it a different perspective to labelling organisations based in developed countries, since the connection to the producer is much stronger. However, due to the low incomes of most Mexicans, it has been difficult to develop a national market for Fair Trade products and the concept is viewed as elitist by many Mexicans.

CJM is an Associate Member of FLO, which allows them to participate in the decision making process at FLO but without the right to vote. It remains an Associate Member because of some key differences between its standards and those of FLO. The most important of these are:



- CJM only works with small producer organisations
- CJM defines small producer organisations as those with at least 95% of associates being small producers, compared to 50% within FLO.
- CJM has specific criteria that apply to big or multinational companies, to try to ensure real commitment to the principles of Fair Trade.
- CJM accepts organic certification as sufficient to meet the environmental requirements of Fair Trade.



A third innovative Fair Trade initiative in Mexico is Zapatista Coffee. It arose out of the National Liberation Zapatista Army (EZLN), which represents the indigenous communities of Chiapas in south Mexico. The *Zapatistas* went public on January 1, 1994, the day when the North American Free Trade Agreement (NAFTA) came into effect. EZLN objected to the signing of NAFTA, which they say has opened the Mexican market to cheap, mass-produced US agricultural products; has led to the removal of Mexican crop subsidies without a similar removal of US ones and resulted in the removal of an Article in the Mexican Constitution that had previously guaranteed land reparations to indigenous groups throughout Mexico.

It is fighting for indigenous people to be able to enjoy autonomy, be able to organise their own education, health and land through direct democracy and hence safeguard their own idioms and culture. In 1995 the government agreed to grant them the autonomy to govern themselves and the EZLN started to organise their communities. They



created a 'co-operative government' called Junta de Buen Gobierno and organised their communities as Zapatista support bases.

They also created coffee co-operatives to trade organic coffee to provide an income to enable Zapatista to provide social services to the communities. These co-operatives are part of the Zapatista movement and pay a percentage of their income to the EZLN to support their work and support other communities in the movement that do not have this source of income.

The most successful of these co-operatives is Mut Vitz, which was created in 1997 and is certified by Certimex. Their coffee is sold through ATOs in Europe and the United States that buy from them through solidarity and support for their cause even though they are not FLO Certified. The Zapatista co-operatives have found that it is hard to compete with the bigger companies and to meet the increasingly stringent standards and complex processes in the FLO system. They have therefore decided to use their own, indigenous advisors to negotiate directly with their international buyers on a Fair Trade basis outside of the FLO system. Because of their unique identity, ATOs have been very supportive and their exports have grown.

Sources: Interview with Liliana Diaz from Comercio Justo Mexico; Raynolds and Long (2007), Gerber (2004), El Siglo de Torreon (2008), La Joranda (2004), Global Exchange (2009) and Wombles (2009).

Adapted from research carried out by Cynthia Jaramillo Carvallo in December 2008.

### *Access to More of the Value Chain*

The more profitable steps in the value chain are generally the ones closer to the consumer. However, it is often difficult for small producer organisations to expand their operations to access these more profitable activities due to a lack of capital and due to escalation tariffs that have historically for example, made it prohibitively costly to import chocolate to developed countries, but cheap to import the raw ingredients such as cocoa (FAO, 2003).

Co-ownership models (see Box 3.3) and partial product processing (see Box 3.4) by the producer organisation can increase their access to more profitable parts of the value chain.

### Box 3.3 Kuapa Kokoo farmers become owners of their own chocolate company

During the Structural Adjustment Policies in the early 1990s, the cocoa market in Ghana was liberalised. A group of entrepreneurial farmers realised that this gave them the opportunity to set up their own agricultural co-operative. This



would allow them to manage and market their own cocoa to the state owned Cocoa Marketing Company, which is still the only exporter of Ghanaian cocoa. They pooled their resources and, with the help of Twin Trading and a Dutch NGO called SNV, they set up Kuapa Kokoo with the aim of empowering farmers, increasing female participation in cocoa production and using environmentally sustainable practices.

They achieved Fairtrade status and started selling some of their cocoa under Fairtrade terms. They used the Fairtrade premiums to fund things that would benefit the community such as toilets, water wells, bridges, corn mills and much more. However, at their 1997 AGM they voted to go one step further. With the help of Twin Trading, The Body Shop,



A celebratory atmosphere at Kuapa Kokoo's 2008 AGM

Christian Aid and Comic Relief, they invested in a chocolate company of their own, based in the UK, to enable them to benefit from the rest of the value chain. In 1998, the Divine chocolate bar reached the shelves of UK supermarkets and in 2006, The Body Shop

decided to donate its shares in Divine to the farmers, increasing their stake in the company to 45%.

The 2008 Kuapa Kokoo AGM was more like a celebration than a meeting. There was music and dancing and people came from societies throughout Ghana to attend. It now has over 40,000 members in about 1,300 village societies. The co-operative has been hugely successful in increasing female participation. The 2008 AGM voted 12 women onto the 20 member National Executive, including the position of Financial Director. It also runs a Research and Development team that helps to educate farmers in a wide range of issues and runs a credit union to provide loans.



Sources: Divine (2009) and interview with Regina Corleley from Kuapa Kokoo at the 2008 AGM.

Co-operative to co-operative Fair Trade chocolate bars. Divine and Co-operative Group chocolate come from Kuapa Kokoo co-operative. Cocoa Camino chocolate is sourced from producer co-operatives and sold by a Canadian workers' co-operative, La Siembra.





### **Box 3.4 Producers start to gain access to more of the value chain through Co-op to Co-op support**

La Siembra is a North American workers' co-operative which produces Fair Trade chocolate, cocoa and sugar products under the "Cocoa Camino" brand. La Siembra is committed to extending the principles of its own co-operative model down its value chains. It does this by sourcing from and supporting producer co-operatives in Latin America.

For example, La Siembra assisted a sugar co-operative in Paraguay to establish its own sugar processing factory. It has supported a Dominican producer confederation in its efforts to establish a cocoa processing factory in the Dominican Republic by starting to source ingredients for its products from this factory. La Siembra will also start importing finished, 'value-added' chocolate products from a Peruvian producer partner (Naranjillo Co-operative) to be sold as part of a new baking line promoting direct-from-producer and value-added products from Autumn 2009.



The Cafiesa Factory, a co-operative cocoa processing factory in the Dominican Republic which La Siembra supported and collaborated with.  
*Courtesy of Barry Ésau, La Siembra Co-operative*

*La Siembra is not only selling Fair Trade products, but through the co-operative value chain, is creating a new economic system which allows producers to gain greater control of the value chain and therefore a higher share of the overall revenue generated from the end-product. By ensuring, not only that producers receive a fair price for their raw materials, but that they also have greater access to the value chain, the trade between La Siembra and its producer co-operatives adds depth to both Fair Trade and co-operative principles.*

Colin MacDougal, La Siembra

La Siembra is driven by values and principles that extend beyond Fair Trade. For example, the co-operative is concerned by the carbon footprint of its current manufacturing process, whereby cocoa is shipped from South America to Switzerland for manufacture, before the final “Cocoa Camino” products are sold in North America. It is difficult to find ways around this, given that this stage of manufacturing is vital for the distinctive taste of the products. However, an increase in volumes traded could make local manufacturing more feasible creating a more direct link between the South American producers and the North American workers’ co-operative, such as they are about to do with their new baking chocolate.

### *Facilitating Activism*

Helping the producer to recognise and defend their rights, and involving the consumer in campaigns and lobbying on behalf of the producer could enable consumers to support producers in a much more fundamental way. Some producers have used the Fair Trade market to support their own political struggles for recognition within their own countries, or simply to help them to survive within an oppressive regime. Zapatista coffee from Mexico (see Box 3.2), and Zayoutun Olive Oil from Palestine are examples of how producers have used Fair Trade to raise the profile of their struggle and improve their incomes. From the other end of the supply chain, The Co-operative Group in the UK supported a Trade Justice campaign in 2005 with Christian Aid to lobby politicians to make global trade rules fairer for developing countries. It engaged its banking members through its ‘Customers Who Care’ initiative, which encourages customers to take online actions or sign petitions supporting a range of global issues.

### *The Assurance of a Recognised Audit System?*

The audit process aims to provide companies and consumers with assurances that a product has been produced to certain minimum standards, whether with regard to labour rights, environmental sustainability or Fair Trade. However, one problem that many independent Fair Trade organisations face is that, because the FLO Fairtrade label is now so widely recognised, many well meaning 'ethical consumers' will refuse to buy 'Fair Trade' goods that do not have the FLO Fairtrade logo. Consumers like the assurance of a recognised label that they associate with a trustworthy certification process.

However, audit requirements can often exclude some of the poorest producers who would most benefit from access to Fair Trade markets because they may not have the skills or money to fulfil the necessary requirements (see Box 3.2). Some producer respondents also felt that enforced compliance with externally created audit standards prevented them from discussing their individual situations, capabilities and needs with their buyer.

A report by Impactt found that the short timescales and unrealistic demands of retailers combined with a top-down compliance led approach to auditing did little to improve working conditions in Chinese garments factories where workers did excessive amounts of overtime on very little pay. They found that moving away from audit compliance to a more constructive relationship where change is encouraged over a period of time was more effective. Staff training, internal communications and reduced overtime were used to improve productivity by reducing the number of mistakes. This allowed wage levels to be maintained while reducing the amount of overtime (Hurst et al, 2005). 3C has taken a similar approach (see Box 3.5).

The World Fair Trade Organisation (previously IFAT), only works with 100% Fair Trade organisations (see Box 3.1). Historically, it dealt with organisations on the basis of trust because it had a close relationship with them. However, they have now started to develop a Sustainable Fair Trade Management System to help Fair Trade organisations to communicate their work to the market. Instead of focusing on product certification though, their system focuses on the business practices of the whole organisation and takes a continuous improvement and process approach, rather than compliance with specific minimum standards. It also applies to any organisation that applies Fair Trade principles in all of its business practices regardless of the nature of

those activities or their geographic location. Its assessment procedure is much more generic than that of FLO and easier to adapt to individual organisations' needs. Much of the assessment is done internally, although the organisation concerned must have its entire management system externally audited every three years and its Sustainable Fair Trade Management System Report independently audited annually.

### **Box 3.5 Clear Conscience Cotton**

Clear Conscience Cotton Limited (3C) was set up in September 2006, with support from Oxfam and Twin Trading, to develop and test a service for textile brands wishing to develop 'pro-poor' sustainable supply chains.

It was recognised that:

- Growth of businesses owned by, or employing poor people can be an effective and sustainable means of reducing poverty.
- Supply chains usually have a much greater social and ecological impact than a brand's direct operations.
- Effective processes and partnerships for managing the social impacts of supply chain activities are lacking.
- The current social auditing approach in particular does little to promote positive development benefits and is often not even able to prevent abuses against minimal labour standards.

3C has piloted a very different approach, working with a major retailer and three of its suppliers in different parts of India. Using participative techniques and mainly local staff, it enabled workers and community members to identify and articulate their needs and problems. At the same time it evaluated the most positive impacts of the supply chain on poor communities. This was used to create a positive developmental action plan, which went beyond the 'do no harm' approach of compliance with minimal standards. The action plan enabled the retailer and their suppliers to understand the wider development challenges and opportunities and to address these alongside their workers, the local communities and NGOs. They also demonstrated the business benefits of their approach were wide ranging and included among other things, cost savings from knowledge sharing and joined up thinking through

the value chain leading to reduced wastage, increased worker skills and motivation leading to efficiency and productivity gains, reduced staff turnover and reduced audit and compliance management. The communities benefited from having their voices heard and saw real improvements in their lives.



Participative workshop by Clear Conscience Cotton in India.

*Courtesy of Broad Sky Associates Ltd.*

### 3.3.2 Expanding Further into the Mainstream

Although there are challenges associated with engaging MNCs in Fair Trade (section 3.2), the ability of those companies to help many more developing country producers to access international markets should also be considered. Engagement with Fair Trade can also help those MNCs to better understand the challenges producers face, especially when sourcing from smallholders.

The rise in popularity of Fair Trade has been associated with an increase in consumer awareness of supply chain issues. This enhanced awareness has helped to build demand and momentum for other 'ethical' initiatives by MNCs, including broad 'Supply Chain Policies', labour standards such as those of the Ethical Trading Initiative, 'no harm done' standards including labour and environmental criteria such as Utz Certified and Rainforest Alliance, and industry wide voluntary roundtables such as the Roundtable for Sustainable Palm Oil.

However, FLO Fairtrade is the only system that guarantees a premium above the market price to producers and requires that its use is democratically

decided by the producers, or workers and management in the case of the hired labour standards. Nevertheless, Fair Trade is currently still only a niche initiative and most respondents said that despite the rapid growth of Fairtrade, FLO certified producers often only sell about 10% of their produce under Fairtrade terms. This can make the income from the premium they receive fairly minimal, especially since the number of producers competing to supply the Fair Trade market is increasing so rapidly.

Increasing the involvement of MNCs, as discussed above, brings with it the risk that they will change the nature of the system. It is therefore important to balance their increased involvement, with increased demands for change from the MNCs themselves. The challenge is to enable Fair Trade to move away from being a western-led set of standards for producers, towards a system that creates more equitable relationships within value chains. FLO could use its leverage with companies to demand the development of a set of standards for other value chain actors based on continuous improvement within their own operations and regarding how they manage their relationships with their suppliers.

Such standards could include requirements for increased transparency regarding pricing and even limits on the profit margins earned by retailers on Fair Trade products to prevent them from making higher profits on Fair Trade goods than equivalent, non-Fair Trade products. Continuous improvement on providing producer support, engaging consumers in the issues and on developing long term relationships involving two way communication with suppliers, could also be included.

### **3.3.3 Use of leverage with politicians**

Fair Trade can also play a role in providing a practical way for individuals to express a political opinion. The popularity of Fair Trade offers an opportunity to persuade politicians that voters do care about the unfair trade rules that make Fair Trade necessary. Developing country producer networks such as the Africa Fair Trade Network can also lobby governments and international institutions for broader changes to trading systems that will help smallholder farmers who remain outside the Fair Trade system. Retailers with a strong relationship with their consumers could also involve their customers in campaigning on behalf of their producer suppliers. Consumer co-operatives, whose customers are members, are particularly well placed to do this.

### **3.3.4 Towards more holistic value chain standards**

The consumer is becoming more aware than ever of the importance of protecting the environment, the low prices paid to producers and the very poor working conditions of some of the world's factory workers.

The evidence is mounting that not only are developing country producers intimately dependent on their environment, but are also going to be the ones worst affected by climate change (United Nations Environment Programme, 2007; Nellemann et al, 2009). A holistic approach to value chains should therefore incorporate both adaptation to and prevention of climate change and environmental degradation alongside the more established monetary and democratic aspects of 'Fair Trade' criteria.

It is not only the world's producers who are neglected and exploited in value chains. Factory workers often work excessively long hours with no days off and in dangerous conditions for extremely low pay. A product that claims to support development should therefore also address labour rights issues throughout the rest of the value chain.

As discussed above though, audit-led approaches to certification may do little to create fundamental change in organisations, especially if they are based on looking for documentary evidence that can be falsified and can exclude the smallest organisations most in need of support. Respondents made it clear that standards need to be inclusive of the needs and capacity of small-scale producers and give credit for the reduced impact that some of their farming or handicraft production methods have, compared to highly mechanised techniques used by larger companies.

For example, environmental sustainability could be assured by establishing a training course in sustainable farming practices advising smallholders how to conserve their environment in a way that is cost effective and achievable given their resources. Knowledge sharing should be a part of this and the aim should be to make farming easier, cheaper and more productive rather than setting up paperwork trails to prove compliance. Assessment of compliance could then be undertaken by visiting a farm to see if the techniques have been implemented and if not, ensuring a plan is agreed that helps the farmer to overcome any obstacles that have prevented him or her from implementing the changes already. If the environment is being conserved effectively, it should be physically visible by the quality of the soil, water, crop and local biodiversity, not necessarily on paper. This approach would require

assessors to listen to and work with farmers in an advisory capacity, not simply as auditors.

Many of the issues associated with value chains do not occur or originate with the producers. Working conditions in factories, the carbon footprint of different transport methods, the policies of buyers and the types of packaging used all affect the overall impact of a finished product. A holistic value chain approach needs to start to integrate and tackle all of these aspects. However, at present consumers are often faced with a choice between a plethora of labels making a confusing array of environmental, labour and developmental claims.

There is a need for an integrated and holistic value chain standard that places pragmatic and achievable requirements on all members of a value chain using a continuous improvement approach. It should aim to address some of the causes of power inequalities within value chains, reduce duplication between existing standards and overcome the need for multiple audits for environmental and social criteria separately. Although this currently appears hugely ambitious, simply integrating and improving upon existing standards and improving transparency and communication would go some way to achieving this.

The new challenge for a holistic standard could be the addition of requirements for the MNCs at the top of the value chain regarding how they manage their relationships with all of their suppliers. Responsibility needs to start at the top in order for value chains to become more equitable. It also needs to start to address all of a company's value chains, not just niche products. A company could start with value chains where initiatives already exist but there could also be requirements for the company to make plans to eventually work through all their value chains, with particular targets for the most risky ones.

No voluntary initiative can solve all the problems associated with global trade alone, nor should it. There are things that can be done to improve and integrate the Fair Trade and other 'ethical' standards that already exist but these should not be seen as an end goal. Other actors in the global trading networks need to take responsibility and work to solve some of the problems that Fair Trade and others have highlighted. The reasons Fair Trade was necessary in the first place still need to be addressed. The popularity of Fair Trade demonstrates that people do care about these issues, and that politicians and businesses should work to eradicate some of the systematic inequalities and abuses of power in global trade systems.



## 4. Co-operative Value Chains

Co-operatives have played a role in producer, worker and consumer empowerment in Europe and elsewhere since the late eighteenth century. However, in contrast to the Fair Trade movement which is motivated by a desire to support poor producers in developing countries, co-operatives exist to solve a problem for their members: they are *self-help* organisations. Co-operatives are united by their common values and principles, which include “Co-operation among co-operatives” but each co-operative is an independent business with its members’ interests at its core. Producer, worker and consumer co-operatives exist all over the world, including in developing countries, and trading relationships exist between some of these. However, co-operatives are not primarily motivated to create North-South trading relationships specifically to benefit Southern producers (Develtere and Pollet, 2005).

Co-operative values and principles focus on democracy and meeting members’ economic, social and cultural needs, not simply on maximisation of profit for shareholders. Co-operatives have also played a prominent role in the Fair Trade movement, and many put this down to the values basis of the business model. The fact that each co-operative is owned by its members also helps to increase their voice within the value chain. For example, a producer co-operative is answerable only to producers and therefore represents their interests in negotiations rather than those of shareholders who, in the case of a plantation company, may be in another country. Equally, consumer co-operatives are owned by their consumers and are therefore answerable to consumers. Consumers may demand better conditions for producers and workers in their co-operative’s supply chains but they may also demand lower prices (Figure 4.1).

Throughout their long history, many co-operatives have actively sought to balance the economic and social needs of members. In contrast, many companies have only recently started to integrate corporate social responsibility into business models that are driven by profit maximisation for



Many co-operatives see themselves as a more socially responsible alternative to companies owned by investors.

*Reproduced from The Wheatsheaf, issued by the South Suburban Co-operative Society in May 1942, courtesy of the National Co-operative Archive.*

shareholders. A co-operative retailer may stock Fair Trade products due to the values basis of its business and because it is a good financial decision. In contrast, a shareholder owned business may do so in order to be able to charge higher profit margins on premium products and enhance its brand. Co-operatives have the potential to challenge purely profit-driven businesses to address people's social as well as economic needs; while the existence of the latter challenges co-operatives to remain efficient and competitive in order to survive.

#### 4.1 The Road So Far

Co-operatives are distinct from other forms of organisations in a number of ways. They are owned by their members, who are users of the service provided by the co-operative and whose membership is voluntary and open to all users. They are managed on a democratic basis in their members' interests under the principle of one member one vote. Co-operatives vary widely in form according to the service they provide, the culture of their members and their histories.

*Beneath the changes, however, lies a fundamental respect for all human beings and a belief in their capacity to improve themselves economically and socially through mutual self-help.* (MacPherson, 1995).

It is this fusion of social and economic goals, combined with the concept of self-help and democratic control that differentiates co-operatives. In

shareholder owned businesses, control depends upon size of financial investment. Charitable organisations tend to be funded by donors and perform work for the benefit of another group. Co-operatives are both value driven and pragmatic. They give people a structure in which to come together to find solutions to problems they face.

#### **4.1.1 The Origins of Co-operation in Europe**

Co-operatives have a long history dating back over 200 years to the second half of the eighteenth century. Building on ideas and experiences from these early co-operatives, five different traditions were established in Europe during the nineteenth century. All of these aimed to help people to access business services, from shops to credit, in a more equitable fashion. Many of these are the same issues faced by people in developing countries today.

In Great Britain in 1844, the Rochdale Pioneers opened one of the first and most successful consumer co-operatives with the aim of providing 'pure food' at 'honest rates'. Despite initial scepticism from nearby shop keepers due to the humble beginnings of the small shop, the model proved to be highly successful and quickly spread. This was largely because customer members knew they were buying unadulterated produce, and furthermore that any surplus, after expenses were covered, was returned to members on a regular basis.

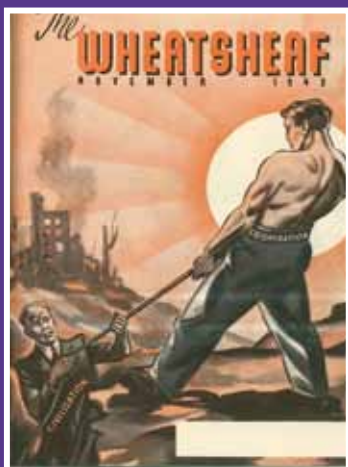
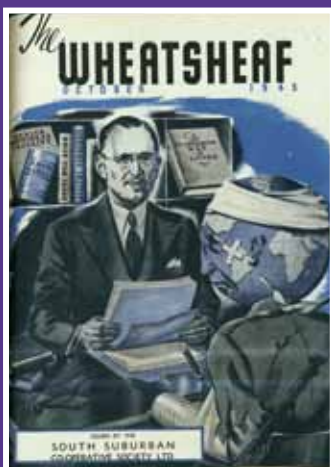
The first successful consumer co-operative at Toad Lane, Rochdale.

*Courtesy of Dickon Siddall*



At around the same time, French labourers created some of the first workers' co-operatives, where members were workers rather than customers. These were based on the principles of worker initiative and accountability in contrast to the hierarchical management systems common at the time. These too, spread throughout Europe and were particularly successful in Italy and Spain. In the 1840s and 1850s, credit co-operatives also started to arise. The most successful of these were established in Germany by Herman Schulze-Delitzsch with artisans and small merchants in urban areas, and shortly after, by Friedrich Raiffeisen in rural areas. These allowed people to save and borrow at lower risk and without ceding too much power to the lender (MacPherson, 1995 and Birchall, 2004).

In the second half of the nineteenth century, agricultural co-operatives arose in Denmark, Germany and Great Britain. People were migrating from rural areas to the cities, creating a new group of people who needed to buy food since they no longer grew their own. Farmers found they needed new agricultural techniques, access to finance, inputs such as fertiliser and an ability to market their produce in order to compete to serve the new urban market. Many achieved this by coming together to form agricultural co-operatives. By the end of the century, service co-operatives also arose in many parts of industrialised Europe to enable people to overcome some of the issues associated with rapid urbanisation. These included housing, health and insurance co-operatives.

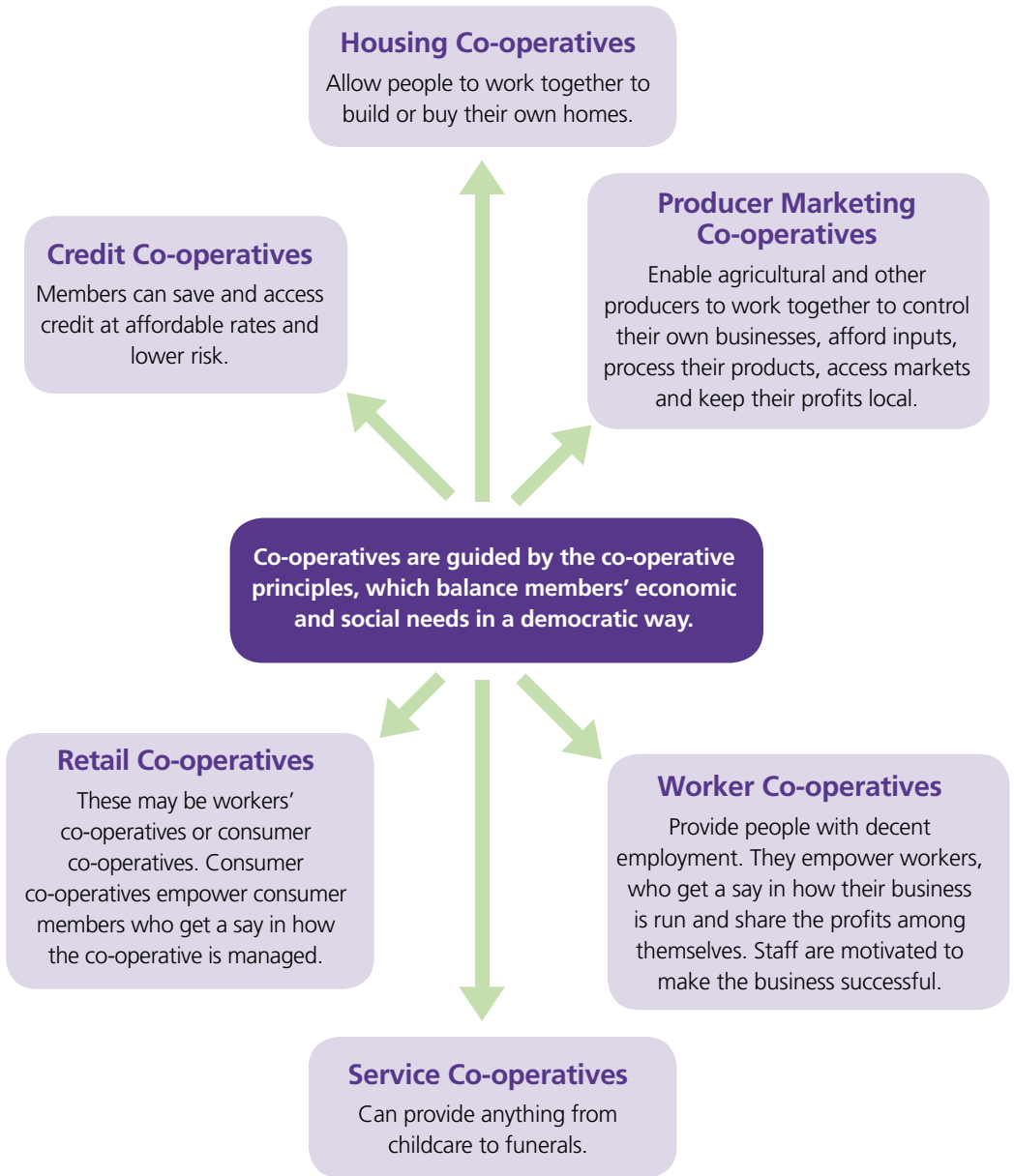


During the 1940s, the co-operative movement in Britain promoted itself as a way to solve the world's problems.

*Reproduced from The Wheatsheaf, issued by the South Suburban Co-operative Society in 1943, courtesy of the National Co-operative Archive.*

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**Figure 4.1 Co-operatives and member empowerment**



By the end of the nineteenth century, co-operatives of many forms were thriving throughout Europe and elsewhere (Figure 4.1). Challenged with the task of bringing these movements together, the International Co-operative Alliance (ICA) was formed in 1895. The ICA is a non-governmental organisation that unites, serves and represents co-operatives around the world. It does this by promoting co-operatives, encouraging the formation of supportive co-operative policies by governments and sharing information about best practice within the movement (ICA, 2009).

During the course of the twentieth century, in democratic, industrialised countries of Europe, co-operatives flourished. The movement as a whole promoted itself externally and worked to educate and empower its members, in some cases by setting up Co-operative Colleges. However, in many communist countries of Eastern and Central Europe, co-operatives were taken over by the government and no longer represented the interests of their members. Many were also closed by fascist regimes (MacPherson, 1995).

#### **4.1.2 The Americas, Asia and Beyond ...**

Co-operatives continued to spread and grow in countries around the globe. Many were started by immigrants in North and South America, Australasia and some parts of Africa. The Co-operative Wholesale Society (CWS) started to source from all over the world to supply the needs of the rapidly growing consumer co-operative movement in the UK. As it developed worldwide depots and trading operations, employees of CWS supported the establishment of co-operatives among British migrant communities, particularly in parts of the Empire such as Canada and Australia. These then became the cornerstones of co-operative movements in some of those countries.

Co-operatives have been particularly successful in North and South America. In Latin America, co-operatives fitted well with the traditional values of many people. Agricultural and fishing marketing co-operatives grew throughout the continent, along with financial, consumer and health co-operatives in some countries (MacPherson, 1995).

In Canada, where most people lived or worked on farms only a hundred years ago, agricultural co-operatives, especially dairy co-operatives, are particularly strong – accounting for 59% of market share in 2000 – but there are also many retail, credit, insurance and workers' co-operatives (Canadian Co-operative Association, 2009).





This modern agricultural co-operative processes grapes and sells wine on behalf of its farmer members.

This service co-operative in Italy provides employment and care for disabled adults.



Electric co-operatives have been particularly successful in the United States, alongside the array of co-operatives also found in other countries. They arose because most companies in the early twentieth century only invested in electrical infrastructure in urban areas where homes were close together. In response to this, rural communities set up electric co-operatives to bring power lines into their areas and, in some cases, to generate power as well (Nadeau and Thompson, 1996). Since 1942 these electric co-operatives have been supported by the National Rural Electric Co-operative Association (NRECA). Today, NRECA has more than 900 member co-operatives, which serve 39 million people across the United States. Since 1977, the NRECA has also been providing expertise and support to the Rural Electrification Board in Bangladesh, helping to establish 70 electric distribution co-operative societies that supply power to over 45 million people. This has contributed to rural economic development and poverty reduction in those areas (NRECA, 2009).

In Asia, co-operatives emerged by blending the models developed in Europe with their own cultural, political and economic experiences. They played a particularly significant role in Japan where they contributed to its economic recovery after the Second World War (MacPherson, 1995).

Rural electricity co-operatives enable evening work in Bangladesh.

*Courtesy of NRECA.*





### 4.1.3 Co-operatives that are not Co-operative

In many developing countries, co-operatives have had a more troubled history that has reduced faith in their ability to be effective in development. Many people and policy makers in these countries associate co-operatives with the bad practices of the past and may not be aware of the opportunities for empowerment and sustainable self-help that are possible through member owned co-operative enterprise. There needs to be a greater awareness of the reasons why previous approaches to co-operative development were met by so many problems, and a much greater awareness of what can be achieved through them if they are member driven.

The reasons that co-operatives in developing countries are often not associated with member empowerment and self-help date back to colonial times. Although co-operative type endeavours such as savings clubs were part of traditional community life, modern co-operatives were set-up by European settlers and colonial governments in Africa, Asia and the Caribbean to facilitate the export of staple commodities. This often led to a 'top down' approach designed to meet business or government needs rather than those of the members. The approach has been termed "Co-operative Paternalism" as it was used to modernise rural populations, but was created *for* not *by* them. In some cases membership was compulsory and co-operative businesses were not allowed to compete with colonial business interests. This has left a legacy of a lack of democracy in the movements of those countries. People joined because it was the only way to access certain services and not because they felt any sense of ownership (MacPherson, 1995 and Pollet & Develtere, 2004).

After independence, many ex-colonial governments also encouraged, supported and, in some cases, managed co-operatives. Co-operatives were seen as a way to achieve government objectives such as national unity and economic development, by both east and west-leaning regimes. Government control of co-operatives was therefore intensified and they were supported with reduced taxes and market monopolies. However, this created co-operative movements that were bureaucratic parts of government, with no ownership by co-operative members and the advantages they enjoyed served to allow them to become inefficient and in some cases corrupt (Pollet & Develtere, 2004).

The problems associated with this top down approach were identified and debated during the 1970s by organisations such as the UN Research

# WEST AFRICAN DELEGATES SAY "WE WANT PRODUCER 'CO-OPS'"

**D**ELEGATES to the West African conference, recently held at Lancaster House, London, were unanimous in favouring the development of producer co-operatives in the territories they control.

Ways and means of improving agricultural production formed one of the more important items of discussion at the conference.

It was stressed that any serious modification in the prevailing systems of land tenure in the West African Colonies would be viewed by the farmers with intense suspicion.

There was general recognition of the fact that co-operation provides a means whereby the existing African social organisations of small-holders can be retained and combined with the gradual education of the farmer in better methods.

The strong communal sense which characterises West African society was described as an admirable basis for co-operative development.

Taking a leading part in the discussions was the Honourable Akintola Ojo, a member of the Nigerian Legislative Council, who is also president of the flourishing Ibadan Co-operative Produce Marketing Union, Nigeria.

## Picturesque Figure

A fine powerful-built figure and wearing at the conference his picturesque robes, Mr. Ojo is a farmer and cocoa grower in the Ibadan district and he has shown the closest interest in the co-operative movement since it was started in Nigeria.

Having considerable influence among rural producers in the Oyo Province, it is due largely to his efforts that the co-operative movement in the cocoa industry has made such progress.

In addition to his work as president of the union, Mr. Ojo is



The meeting is over, but the members of the executive of the Ibadan Co-operative Produce Marketing Union have a final word outside their premises at Ibadan, Nigeria. Listening white man is the senior assistant registrar of Nigerian co-operative societies.

To the right is the Hon. Akintola Ojo, president of the Union and himself a farmer and cocoa-grower, who attended the London conference.



a member of the Association of Nigerian Co-operative Exporters. On the introduction of the new constitution, Mr. Ojo was appointed the second nominated member in the Western House of Assembly and was one of the members selected to represent the Western region in the new Legislative Council of Nigeria.

Producer co-operatives were a popular way to improve agricultural production during the colonial era.

*Reproduced from Co-operative News, 21 October 1948, courtesy of the National Co-operative Archive.*

Institute for Social Development. Recommendations were made, that a more participative approach should be encouraged and that the role of governments should be reduced. It was not until the Structural Adjustment Programmes of the 1980s though, that government control and support of co-operatives was reduced or removed. Forced to suddenly compete, many Southern co-operatives went bankrupt. However, many adapted to become competitive, member-controlled businesses that served the needs of their members rather than those of the state (Pollet & Develtere, 2004). The effects of the collapse of co-operatives on farmers are explored in Box 4.1, while a prayer for co-operatives in Box 4.2 neatly expresses the challenges they face.

Co-operatives in the North were also struggling at this time. The expansion of the market economy in the late twentieth century combined with humanitarian and environmental issues brought new challenges. Decreased government support for agriculture, reduced trade barriers, the deregulation of financial industries and the rise of trans-national corporations created fierce competition for co-operatives worldwide. Many collapsed, lost their vision of what they stood for or demutualised. However, the ones that survived did so by adapting and by becoming more efficient and are now starting to enjoy something of a renaissance, especially among consumer and banking co-operatives.

#### **4.1.4 A Unified Vision for the Twenty-first Century**

Following the tremendous growth, diversification and challenges of the movement during the twentieth century, it was felt that there was a need to come together to find a new sense of common identity. Following several years of thought, debate and discussion, the revised Co-operative Values and Principles were agreed at the ICA Congress in Manchester in September 1995 (see Box 4.3). These provide the movement with a common purpose and vision and practical ways in which to implement this vision.

##### **Box 4.1 An insight from Jennifer Mbuvi, the Fairtrade Liaison Officer for FLO in East Africa.**

*The collapse of co-operatives in the 1980s and 1990s had severe impacts on farmers. Before this time, production needed very few inputs because there were fewer diseases and the soil was not depleted. Co-operatives helped farmers with finance and people could afford inputs. The co-op would do the processing and send the products to the market so the supply chain was also quite short: from farmer to co-op to market.*

*When the co-operatives collapsed, there was no one to market the crop, so many farmers abandoned their crops or did not tend to them well. Soil depletion and crop diseases increased, and crop quality decreased so the farmers were paid less for their crops. Since market liberalisation, more players have entered the value chain to take the place of the co-operatives. Brokers now come in, offer low prices for crops and do not maintain long term relationships with farmers. Other people supply inputs and services etc. and they charge a fee, whereas before these things were supplied at low cost by the co-op. This increases the cost of production.*

*FLO does not work with individual farmers, but with legal institutions with at least some democratic structure. The market for Fairtrade came from European consumers who wanted to ensure that the farmers and workers were properly remunerated. In order to trade with the Fairtrade system farmers needed to be organised. This is helping to support the revival of many co-operatives. However, some of these societies have old debts dating from when governments were more involved in their management and they have lost confidence so farmers have to put effort into rebuilding them democratically and getting rid of the debts.*

### **Box 4.2 A Prayer for Co-operatives by Edgar Parnell**

*GOD SAVE CO-OPERATIVES*

*Keep them from*

*The ACADEMICS who wish to pull them apart to see how they work*

*The PROFESSIONALS who believe that nothing can be achieved by ordinary men and women*

*The ADVISERS who never tire of finding new problems but never have time to solve any*

*The MANAGERS who want a co-operative to work for them, rather than for them to work for it*

*The POLITICIANS who seek to use co-operatives as their stepping stone to power*

*The GOVERNMENT that will bury them in bureaucracy*

*The PEDDLERS OF DOGMA who try to make them fit their view of the world and will not accept co-operatives as economic enterprises*

*The INVESTORS who would take them over and cash in on their assets*

*HELP THEM TO DELIVER BENEFITS working in the interests of their members without transgressing the rights of those outwith the co-operative.*



Transporting coffee. Kilimanjaro Native Co-operative Union, 1964.

*Crown Copyright, courtesy of the National Co-operative Archive.*

Kilimanjaro Native Co-operative Union (KNCU) now sells some of its coffee to Fairtrade buyers like Cafédirect. These KNCU representatives are demonstrating their range of products at the KNCU 75th anniversary celebrations. November 2008.



## Box 4.3 Statement on the Co-operative Identity

### Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

### Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

### Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

#### ***1st Principle: Voluntary and Open Membership***

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

#### ***2nd Principle: Democratic Member Control***

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

#### ***3rd Principle: Member Economic Participation***

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves,



part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

***4th Principle: Autonomy and Independence***

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

***5th Principle: Education, Training and Information***

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

***6th Principle: Co-operation among Co-operatives***

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

***7th Principle: Concern for Community***

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Source: MacPherson (1995)

## 4.2 Views of Co-operatives

The views of people interviewed for this paper (see Appendix 1) reflect the troubled history of co-operatives in many developing countries, but also a strong belief in their capacity for economic and social empowerment of individuals and communities. Interviewees expressed an acknowledgement of the difficulties faced in achieving good governance as well as efficient management. However, they could also cite examples of the added benefits of a co-operative style of governance when it is done well. These benefits go beyond just economic stability to start to tackle much more intangible problems such as lack of confidence and inequality or exclusion.

**Table 4.2 Views of co-operatives expressed by interviewees (see Appendix 1)**

Benefits
There is strength in numbers: <ul style="list-style-type: none"> <li>• Negotiating power.</li> <li>• Access to loans.</li> <li>• Shared knowledge and skills.</li> <li>• Inclusion of individuals that private companies would neglect.</li> <li>• Coming together helps to develop shared strategies for tackling problems faced.</li> </ul>
Attract like-minded people.
Have the autonomy to understand their own needs.
Enhanced control over own livelihood.
Owning their business gives members transferable skills in finances and democratic management, in turn improving confidence.
Any surplus is retained in the local economy.
Contribute to community cohesion.
Smaller modern co-operatives are more dynamic than older, previously state-run ones.
Improve and stabilise local prices, eg for food commodities, by offering a reasonable price to members that private companies have to compete with.
Often provide services at affordable rates that otherwise would not be available such as loans, water and electricity supplies and health insurance.
Co-operatives can form networks to argue for decent prices, fighting the system rather than each other.
Democratic and values basis fits well with development agendas.
Contribute to rural cohesion and provide services and market access to rural areas that may be under-serviced by private businesses.
Transparency can help to avoid members being exploited eg ownership of scales by the co-operative prevents exploitation by buyers with scales that are biased.
In some countries, the areas with successful co-operatives are more developed.



Challenges
<p>Perceived to be inefficient:</p> <ul style="list-style-type: none"> <li>• Organising members' AGM costs money.</li> <li>• Involving members in decisions takes time.</li> <li>• Involving members in inaccessible areas costs money.</li> </ul>
<p>In some countries they have attracted corrupt leaders and government intervention.</p>
<p>Some co-operatives struggle to achieve democratic representation of members and a balance of skills on the board.</p>
<p>Some encourage members to depend on a single commodity.</p>
<p>Member education and communication can be difficult; if these are lacking then the democratic nature of the co-operative is reduced.</p>
<p>Many old co-operatives have not modernised eg their IT systems, making it hard to compete with multinationals.</p>
<p>Gender balance can be poor, especially if membership requires ownership of land or assets.</p>
<p>Suffer from a bad image and a low profile due to their troubled history. Some modern co-operatives call themselves associations to avoid this, but this does not help to change the image of co-operatives.</p>
<p>Finding entrepreneurs with management abilities can be difficult. The most popular or powerful person in the community will not necessarily be the best manager.</p>
<p>Often judged against private enterprises on a financial basis when the benefits they provide may be much broader than this.</p>
<p>Low global profile:</p> <ul style="list-style-type: none"> <li>• Not well represented in global institutions and trade talks.</li> <li>• Not covered in development or business courses and text books.</li> <li>• Poor at promoting themselves, partly due to a lack of evidence of their advantages.</li> </ul>
<p>In some cultures where family is very important, family members may expect to get favoured positions or rates. This has to be dealt with sensitively (also applies to private businesses).</p>



Members of Mamsara Rural Co-operative Society in Tanzania, benefit from knowing their scales are not biased



Through belonging to a co-operative, the members of Chepchabas Co-operative Society in Kenya have been able to buy a truck to transport their tea.

Co-operatives are certainly not seen as a straight forward panacea to all the problems faced by communities of workers or producers in developing countries. It takes a lot of time and concerted effort to get it right. However, they have the potential to do much more than provide members with income. Co-operatives can contribute to community cohesion and can give members control over their own livelihoods, but these benefits are impossible to put a price tag on and are therefore often overlooked.

### 4.3 Renewed Interest in Co-operative Development

Co-operatives represent a significant proportion of the private sector in most African countries, particularly in the agricultural and financial sectors, which are so critical to development. Their values basis combined with their self-help enterprise approach gives them a unique balance of social and economic benefits that are hard to achieve through business or charitable projects alone. However, their contribution has gone unrecognised for a long time because many believed them to be obsolete due to the problems associated with government control, and there has been little research done to produce evidence to the contrary.

However, this is starting to change. Since the Co-operative Values and Principles were updated and re-launched in 1995, there have been a series of initiatives and agreements designed to stimulate the growth of truly *co-operative* enterprise sectors in developed and developing countries. This has also coincided with the agreement of the Millennium Development Goals, reflecting a move away from a belief in economic growth alone as a cure for all problems and towards a more holistic approach recognising that poverty does not just relate to a lack of income but a “lack of basic capabilities to lead full, creative, lives”.

In 2001, the UN *Guidelines Aimed at Creating a Supportive Environment for the Development of Co-operatives* were produced. These provide advice to governments on co-operative policies, to safeguard their autonomy, provide light regulation and ensure a ‘level playing field’ with other business. They also advised that policy development should involve the movement itself. There is a UN Committee for the Promotion and Advancement of Cooperatives that monitors co-operative development around the globe and provides recommendations on how their development benefits can be enhanced (Committee for the Promotion and Advancement of Cooperatives, 2009).

However, ILO Recommendation 193 emphasises that co-operatives should not be promoted as ‘tools’ of development; rather, the members should be assisted and their autonomy respected. It emphasises job creation, mobilising resources, generating investment and contribution to economy. It also recommends international alliances between co-operatives.

#### 4.4 Co-operation among Co-operatives

The sixth co-operative principle is ‘Co-operation among Co-operatives’ (see Box 4.3) and co-operatives in many countries implement this by supporting the development of co-operatives both in their own countries and abroad. Following research carried out in 2003, Pollet and Develtere (2004) found two main categories of co-operative agencies supporting co-operative development:

- National Co-operative Development Agencies within the northern co-operative movements. These may be run from within an apex body for which development is one of many functions, such as the Canadian Co-operative Association or the German DGRV; or within a specialised apex body focused on co-operative development such as the Swedish Co-operative Centre.



Sotik Farmers Co-operative Society in Kenya has received support and training from the Swedish Co-operative Centre to improve its management and increase income for its dairy farmer members by diversifying into value addition such as making yoghurt.



- Individual co-operative businesses that develop their own international strategy. This could be undertaken as part of their normal business, such as for Land O' Lakes in the US or Lega Coop in Italy; or delegated to a specialised body such as SOCODEVI in Canada.

There are also international co-operative agencies that work on development. These include the International Co-operative Alliance, the International Raffeisen Union and the World Council of Credit Unions (WOCCU). Numerous social movements involved in development have also used co-operative models in some of their work – the Fair Trade movement, NGOs such as Oxfam and some religious organisations. Finally, several intergovernmental organisations also do work to support co-operative development, including the International Labour Organisation, the World Bank, the Food and Agricultural Organisation and the United Nations Development Programme, particularly through the Committee for the Promotion and Advancement of Cooperatives (COPAC).

Pollet and Develtere also examined the nature of the support given by these agencies to the co-operative movements of developing countries and found that it included: technical assistance, financial support, transfer of know-how and training, support with the development of co-operative laws and regulations, co-operative Fair Trade and the establishment of partnerships with various parts of the co-operative movement from apex bodies to individual primary co-operatives.

Many European and North American co-operatives are already supporting various forms of co-operatives in developing countries, improving members' incomes but also transferring skills and empowering communities to control their own development in a way that will hopefully last long after the support programme has been completed. In many ways this kind of work is much more comprehensive than the kind of purchases communities can make with money accumulated through Fair Trade premiums.

However, most co-operatives involved in co-operative development do not link it to their core business by subsequently trading with the co-operatives they have helped to develop. Were they to link their values with their core business in this way, the benefits for the communities could be multiplied by improved access to markets in developed countries. The co-operative retailer could also benefit from having a more direct link to their suppliers, a stronger message to tell consumers and hence build trust and commitment in the co-operative brand.

## 4.5 What Do Co-operatives Need to Better Contribute to Development?

If co-operatives in developed countries are to support, and potentially trade with, co-operatives in developing countries, they need to understand the challenges they face. At present, negotiating over quality and price or even paying a premium on a Fair Trade product can be done with no understanding of the issues the supplier faces. It is up to the producer to work out how to improve quality, cut costs and use the premium. However, often what is holding producer organisations back is not a lack of capital alone, but a lack of skills and knowledge. Larger, more established co-operatives can go a long way to helping producer co-operatives to improve their incomes by finding ways to help improve their skills.

In November 2008, the Africa Co-operative Development Agencies Forum met in Nairobi to share experiences and challenges associated with supporting co-operative development. A number of key themes emerged as being vitally important for co-operatives to be successful:

### *Access to Information*

Co-operatives, particularly those in rural areas or working with marginalised communities, often suffer from a lack of access to information, such as that regarding market trends and agricultural techniques. This makes it difficult for them to make decisions regarding what to produce and when to sell. North–South co-operative exchange programmes can be particularly effective at helping to inform both retailers and producers about the rest of the value chain of which they are a part.

### *Active Member Participation*

One of the best ways to ensure the long term viability of a co-operative is through good governance, ensuring that decisions are taken in the best interests of the members rather than the board or managers. In order for this to happen, the members need to understand how to participate in the voting and decision making processes. This will often require member training to understand the structure of the co-operative and what they should expect from it. This training can be funded by development projects or by the co-operative itself. Members also need to understand why they need to contribute financially to their co-operative and this requires trust. Trust may be hard to build but once it is established, co-operatives often grow rapidly.





Ambo Co-operative College, Ethiopia, working with co-operative members.

*Courtesy of Ambo College.*

### *Good Infrastructure and Market Access*

If a co-operative is located in an area with very poor transport infrastructure, this can severely impact upon its ability to expand since access to market will be reduced. Equally, if it produces a product in an area where there is a local monopoly at the next stage of the value chain, its leverage and ability to argue for a decent price will be reduced. Training by development agencies or experts from other co-operatives can help developing co-operatives to become more business focused. This can sometimes help them to see how to overcome these problems, such as by engaging with local government to improve local infrastructure. Partnerships between Northern and Southern co-operatives that incorporate trading relationships as well as development work can benefit both parties by ensuring a reliable supply for the Northern partner and access to market for the Southern producer.

### *Access to Affordable Capital*

Co-operatives have to raise money from their members to establish their business since they have no external shareholders. This can limit their ability to invest in areas that would help the business to expand. Access to capital is therefore particularly important for co-operatives. Co-operatives may be seen

as a risky investment or in some countries, affordable capital may just be very hard to come by, in which case, links with global financial institutions, or co-operatives offering loans at affordable rates, could make a huge difference. Shared Interest is a co-operative lending society that was established specifically to provide affordable loans to Fair Trade businesses. Alternatively, advice on how to apply for international aid money or business development loans could help co-operatives to access capital for themselves.

### *Longer-term and more Integrated Support*

Several of the Agencies present at the Forum reported that they had found training to be much more effective when members were involved in deciding what kind of training and support they require before it is provided. One of the problems they faced is that to provide inclusive training and support to co-operatives involves forming partnerships over extended periods of time and designing programmes according to the needs and demands of the members concerned. However, most funding for development projects is provided on short timescales to meet pre-defined outcomes. This makes an inclusive approach to development very difficult. By contrast, partnerships between Northern and Southern co-operatives, wherein objectives are mutually agreed upon and longer term relationships are formed, have the potential to overcome some of the limitations associated with short term project funding.

### *Good Leadership*

It can often be hard for co-operatives to find individuals with good leadership qualities, particularly in rural or poor areas. People may be elected to prominent positions in a co-operative due to their influence rather than their skills set. Sometimes this is associated with a lack of confidence among members. There may be people within the community who would be very good at being directors but cultural traditions, lack of education, or a lack of empowerment may prevent them from coming forward. For these reasons, membership training is particularly important, both to encourage participation in voting and to encourage the development of a second generation of leaders so the co-operative does not fail when one set of leaders move on or, worse, become corrupt. Training and expertise exchanges between co-operatives can be effective ways to support this process.

### *Improved networking*

Co-operatives may be limited by their knowledge of what agencies, NGOs and market players they could do business with or receive support from.



Development agencies and other co-operatives can be particularly effective at supporting the forging of these links and networks, simply by introducing developing co-operatives to other institutions.

### *Supportive Government Policy*

In addition to all of the above, co-operatives need a regulatory environment that nurtures co-operatives rather than being excessively controlling or bureaucratic. However, those agencies that had worked in this area emphasised how long it took for changes in legislation to get through the necessary legal processes. The 2001 UN guidelines discussed above are going some way to helping governments to address these issues though.

In summary, all of the factors necessary for a normal business to flourish, such as market access and good infrastructure, are also necessary for co-operatives. However, co-operatives also face some specific challenges due to their democratic principles, which only work if members are engaged in the running of their business. Furthermore, co-operatives are frequently established in poor, isolated communities in order to help those people to take control of their lives. This means that they often have to overcome numerous developmental challenges such as education, empowerment and finding sources of capital that privately owned businesses might not face since they would probably not do business in areas with such challenges.

The co-operative movement as a whole, and especially larger co-operatives in developed countries, as well as development agencies, have significant potential to support communities in the formation of co-operatives and in helping existing co-operatives to access new markets or become more efficient. This can be achieved through skills exchange programmes, training, networking and long term partnerships where the co-operative plays a dominant role in determining its own needs. The co-operative movement is founded on principles of democracy, self-help and balancing member economic and social needs and so it is particularly important that the members are supported in taking ownership of any programme of work undertaken for their benefit and that aid is not designed and implemented by external agents, since this creates a feeling of dependence rather than empowerment and ownership.

Co-operative to co-operative partnerships between developed and developing countries can be seen as both a business and development

opportunity creating economic growth as well as empowerment and poverty reduction.

#### 4.6 Co-operatives and Fair Trade

The growth of Fair Trade has been heavily entwined with the co-operative movement from the producer side to the retail side, and many of the stages in between. Fair Trade was initially established to help disadvantaged producers in developing countries to access international markets at fair prices. Since many of the first Fair Trade products were sourced from Latin America, and since the co-operative movements in those countries tended to be quite strong and producer led rather than government controlled (see 4.1.2), it was natural for ATOs looking for democratic producer organisations to source from pre-existing co-operatives.

When Fair Trade expanded into other developing countries where the co-operative movements were only just becoming independent from government, being able to sell some of their products to the Fair Trade market helped many co-operatives to survive in their newly liberalised markets. The payment of a 'Fairtrade premium' also enabled the co-operatives to undertake community projects for the benefit of their members.

FLO took the decision to expand its certification requirements to include other democratically controlled producer organisations, which were not legally registered co-operatives. This allowed other producer organisations, which were not necessarily *owned* by the producers themselves, to become Fairtrade certified as long as they were democratically *controlled* by the members. This was particularly important in places where co-operatives had a bad name for historical reasons, as discussed in 4.1.3, since it allowed producers who did not want to join co-operatives to benefit from Fair Trade. However, some interviewees claimed that it is still harder for producer organisations that are not co-operatives to get certified.

FLO has since created a new set of criteria for 'hired labour' to include people working for bigger companies. This requires the workers to have democratic representation, for example through unions, and that the company is willing to pass the benefits of Fairtrade, primarily the premium, onto those workers. However, one of the most empowering aspects of the co-operative business model is that the members do not just get a say in how it is run: they own the business. Ownership can create numerous additional benefits including empowerment and sharing the profits of the business (see Table 4.2). This

important element is often lost in other forms of producer organisation and in the hired labour standards.

Co-operatives are involved in the rest of the Fair Trade value chain too, more through coinciding values than due to any specific certification requirements. Financial co-operatives such as Shared Interest have helped to invest in building producer capacity. Worker co-operatives such as Suma and Infinity (in the UK) or Maya Fair Trade (in Belgium) import and supply Fair Trade goods to Alternative Trade Organisations, world shops and other Fair Trade retailers. The Co-operative Group was the first mainstream UK supermarket to make Fair Trade products available to customers that did not shop in specialist ethical or world shops. The decision to stock Fair Trade products in all Co-operative Group stores played a major role in helping to bring Fair Trade into the mainstream in the UK but also helped to strengthen the Co-operative Group's brand as an ethical retailer.

The three retail co-operatives interviewed for the purposes of this paper viewed themselves as highly ethical businesses and saw their co-operative structure as a key part of their values. All three were also trying to find ways to communicate 'the co-operative difference' to their customers to demonstrate the differences between co-operatives and private or listed businesses with Corporate Social Responsibility programmes.

The two smaller workers' co-operatives, said that being a co-operative helped them to attract like-minded members of staff. Small workers' co-operatives have the advantage of being able to fill niche markets and can differentiate themselves from their larger competitors by finding the new, innovative, ethical products to offer to committed customers. Indeed, those interviewed for this paper tended to avoid products from large multinationals and mainstream labelling initiatives such as the ETI. However, being small also means that finding the time to research each product individually is difficult and so they are likely to rely on trusted suppliers to find these products for them. For example both sourced from Suma, a workers' co-operative wholesaler, as they felt they could trust them.

For workers' co-operatives without a strict structure, it can also be hard to maintain continuity in their ethical policy if initiatives are dependent on the enthusiasm of individuals who may leave. Both workers' co-operatives interviewed for this paper set themselves very high ethical standards, and



The Unicorn Workers' Co-operative Supermarket in Manchester stocks a wide range of Fair Trade products, including ones not certified by FLO, and displays information about the ethics behind the products.

whilst their approach may not have been as systematic as some larger retailers, the element of trust, both with well known suppliers and with their customers was very strong. Neither felt that Fairtrade was the only way forward but saw it as one of a number of ways that they used to identify products that supported communities.

Consumer co-operative societies have often pioneered Corporate Social Responsibility (CSR) initiatives surrounding issues such as the environment, animal welfare and organic food but the degree to which ethics has been core to the business identity has varied over the decades and between co-operatives. The largest purchasing co-operative in Japan has a focus on ethical purchasing and the co-operative movement in the US has been intimately associated with the rise of organic food. The Co-operative Group has won numerous awards in recent years for its CSR initiatives, becoming recognised as the UK's 'greenest' retailer, and priding itself on its high levels of consumer-led ethical engagement. The Group has likewise played an

important role in helping to bring Fair Trade into the mainstream UK market, becoming the first supermarket to sell Cafédirect coffee (prior to it being Fairtrade marked) and the first supermarket to launch its own range of Fairtrade certified products, with which it later replaced entire non-Fairtrade own-brand product ranges (Figure 3.1).

From its roots with the Rochdale Pioneers, the consumer co-operative movement has been 'ahead of the curve' on issues of worker-welfare and business ethics. It has campaigned throughout its history on issues such as the minimum wage, factory conditions, and maximum working hours, as well as social issues including education and maternal health. Describing the CWS (now the Co-operative Group) as being the pioneer of Fair Trade would serve an injustice to the dedication of ATOs and world shops during the 1960s and 1970s. However, the significance of the consumer co-operative movement (of which the Co-operative Group is a part) is its engagement



Co-operative members have a long history of campaigning on ethical issues.

*Reproduced from editions of The Co-operative News from 1973, courtesy of the National Co-operative Archive.*

with members, who throughout its history have shaped the policies and practices of its retailing. As the effect of global supply chains on third world producers became increasingly understood, co-operative members began to demonstrate concern over accountability, particularly regarding the working conditions on the CWS tea estates during the 1970s (Anderson, 2008). These concerns started to highlight to the CWS's management there was a market for ethical retailing and financial services. It was therefore as much a business led decision, as a values based decision, to make ethical principles core to the business identity during the 1990s. The Co-operative Group is today at the forefront of developing and promoting Fair Trade as an alternative to conventional, unfair, unregulated trade – a trading model which it is naturally in a good position to support, given the close alignment of Fair Trade and co-operative principles.

Support for Fair Trade can be seen as a first step enabling retail co-operatives in developed countries to establish relationships with producer co-operatives in developing countries. However, it is now time to move beyond audits and premiums to more integrated business relationships with other co-operatives that involve skills exchanges and two way communication. Charitable work and the core business of running a co-operative can be brought together to support this. Northern co-operatives that want to demonstrate the 'co-operative difference' and move 'beyond Fair Trade', should consider reviewing the nature of their relationships with their suppliers and whether they could find ways to make them more like partnerships for mutual benefit.

# 5. Producer Requests

The findings in this section are primarily based on discussions with producer organisations such as KCU, the African Fairtrade Network, and others who have worked intimately with producer groups (see Appendix 1). They reflect a summary of the accumulated views of numerous individuals, African and European, who have spent years listening to producers both inside and outside of the Fair Trade system. Most of them had experience of the FLO, Fairtrade certification system and of producer co-operatives. Six key themes came out of discussions centring on the difficulties producers face and what they would like to see change in the Fair Trade system for it to be more effective at meeting their needs.

## 5.1 Flexibility and Commitment

In order to help small scale producers to develop to better supply the market and to meet their own need for income, interviewees felt that producers should be supported to improve rather than simply having to comply with demands and costly audits. They felt that they often face practical problems when trying to meet international standards and that two-way communication involving the standard-setters listening to their difficulties and providing support for them to adapt would be much more effective at improving conditions than simply being told in an audit that they have a “major non-compliance” and they have failed. This language is often hard for producers to understand and they may not have access to the necessary information or capital to enable them to comply. They want secure trading *partnerships* so they can work together to achieve and maintain necessary standards.

## 5.2 Consultation

Producers felt that many ‘ethical’ standards were created in developed countries and, despite the fact that they are supposed to protect producers, they often have limited input into ensuring the standards are realistic,

achievable and effective at improving their lives. Producers would like to be more involved in standard setting, to help standards be more relevant and achievable. They also felt that deadlines for implementing changes should be more realistic.

The FLO Standards Committee supervises and guides the Fairtrade standards. Its membership comprises all stakeholders of FLO (national Labelling Initiatives eg The Fairtrade Foundation in the UK, producers and traders) and external experts. The standard development process also includes a broad consultation phase following the requirements of the ISEAL Code of Good Practice in standard setting. Despite this, the producers interviewed still felt that standards are too dominated by the demands of the western stakeholders.

### **5.3 Level Playing Field**

Interviewees said that the difficulties small producers face when trying to access markets and comply with international 'ethical' and quality standards put them at a disadvantage compared to larger companies, for example plantations. Although most did not object to the FLO 'hired labour' standards, as they recognised the needs that the landless poor have. They also said that it meant that they are now competing with big plantation companies. Due to their size these Fairtrade plantations find it easier to meet the demands of MNCs, making it harder for producer organisations to compete, even within the FLO system. Some interviewees did say that the bargaining and educational power of co-operatives can help them get better prices and adapt to international demands if they're managed efficiently.

### **5.4 Responsive Support that Builds Capacity not Dependence**

Producers felt that any training and support they were given should be relevant to their needs rather than driven by the donor. It should also be more focused on giving them the skills to solve their own problems rather than on providing a complete package that is externally designed and achieves its aims but does not teach them how to overcome the same problem in future.

### **5.5 Good Governance**

Other problems that producers faced were ones associated with co-operative governance, some of which were discussed in section 4.2. Stakeholders in





Nyabomite Farmers Co-operative Society closed due to poor coffee prices but was revived with the help of the Swedish Co-operative Centre CEEDCo project in 2005.

the co-operative movement in Tanzania said that co-operatives that had previously operated in a top down manner, required member training to empower members. In this way, members can get involved so that their co-operatives work for them, for example by making sure that the management is efficient and reducing costs for members.

Side selling was also mentioned as a problem for co-operatives. If the members of a producers' co-operative sell to other buyers, the co-operative's income is reduced since usually costs are covered by charging a percentage fee on all goods sold through the co-operative. However, it is impractical to stop people selling to private buyers if they offer good prices or a faster sale. Co-operatives therefore face hard choices regarding what restrictions to place on members, how to police these rules and who to offer their services to.

## 5.6 More!

There was a consensus among interviewees involved with FLO Fairtrade that although they appreciated the premium, competition within the system is increasing as more producers become certified. This means that certified producers will often only sell about 10% of their crop at Fairtrade prices, the rest just being sold on the open market. Also, given that there is no guarantee of selling to the Fairtrade market from one year to the next, the risk of paying for a FLO audit and then not selling enough of your crop at Fairtrade prices to cover costs is quite high.

Producers said that the market for Fairtrade needs to become bigger, maybe by expanding into selling within southern countries as well as northern ones. Ruth from the Africa Fairtrade Network said

*... in South Africa there is a growing market for Fair Trade. All countries may be able to afford them (Fair Trade products). There are some chain stores with high prices that they could sell to. As a movement they have not been able to advocate in the south. People are willing to contribute to charity but don't know about Fair Trade at the moment. Even the government don't know about it. It needs to be incorporated into education so people know and understand it.*

This is the approach being taken by Comercio Justo Mexico (see Box 3.2). Alternatively, or ideally additionally, producers would like to see the terms associated with normal trade improve.

## 6. Conclusions and Recommendations

This paper has highlighted some of the ways in which the Fair Trade and co-operative movements have challenged purely market based, profit motivated models of trade to demonstrate that it is possible to balance values and enterprise and that there are social and business benefits to doing so. The two movements have often worked together over the past few decades. Fair Trade has often sourced from and supported pre-existing producer co-operatives, while retail co-operatives, particularly in the UK, have played a major role in bringing Fair Trade products into the mainstream.

At a time when developing countries are being hit by three major crises that were not of their own making, namely the financial, food and environmental crises, it is more important than ever to look for alternatives to current trade models that can be highly exploitative. A failure to address these issues will have global repercussions. Developed countries rely on developing countries for food imports, but in developing countries people are leaving the rural areas to move to the cities because unfair trade terms, high input prices and climate change are making farmers' lives harder than ever. Companies that recognise this and start to build more constructive partnerships with suppliers will benefit in the long term from more reliable supply.

The overriding message coming from the producer stakeholders interviewed for this paper was that they want long term partnerships with buyers that involve two way communication and a more level playing field. They need support to meet the standards demanded by the market but do not just want charity. Producer needs are complex and vary from one community to another. They are often limited in what they can achieve by lack of reliable income or access to capital, and restricted access to information. Fair Trade and co-operative stakeholders can help producers by involving them in decisions regarding how they need to adapt to meet international standards, by helping them to organise themselves and by sharing knowledge and

expertise with them. Often this can be more important than paying a premium since it gives those producers the skills to access other markets and to argue for decent prices for themselves. Co-operatives often have a stronger voice and are better able to articulate the needs of their members than producers can individually, helping to ensure any support given is appropriate for their needs.

Co-operatives have a huge global presence that could be used to create real change and to start to address some of these issues for the benefit of both consumers and producers. Co-operatives could work together to form networks of producers and retailers that agree to work towards more holistic, long term partnerships based on two way communication and that recognise the need to address a wide range of issues beyond a fair price. Consumer co-operatives could benefit from this by involving their members and being able to build trust in the co-operative brand as a holistic, responsible business model that supersedes the need for lots of individual certification labels.

Co-operative retailers could create a new best practice value chain model that is sustainable in the long term and more equitable. Long term supplier partnerships that challenge the current top down, demand driven relationships should be central to this. Trading with producer co-operatives would help to ensure that producers' needs were met.

Co-operatives can evolve the way they run their business to put social and environmental values at their core. For example by encouraging consumers to waste less, minimising the environmental impact of their operations, adopting best practice employment policies, lending and investing responsibly. Co-operatives also have a unique relationship with their members that could be built upon to involve members in campaigns, for example on trade justice, and further strengthen members' relationship with, and understanding of, their co-operative.

These recommendations cannot be achieved quickly but could be promoted as a vision towards which a network of co-operatives will work. Fair Trade may be used as a first step on this journey but it could be made clear that this is part of the journey not the end goal. Co-operatives could demonstrate they they are value driven organisations that represent the voices of their members by combining their influence as businesses to work together towards a more equitable trading system. This could really enhance consumer trust in the co-operative brand at a time when there is massive distrust in the practices of big business.



Smallholder tea farmers in Kericho, Kenya on a training course co-funded by DFID and the Co-operative Group to learn how to form co-operatives and get Fairtrade certified so they can sell their tea to the Co-operative Group in the UK. This is a good example of combining charitable work with trading power and building relationships between co-operatives.

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## Appendix 1: Interviewees

Interviews conducted by Dr Samantha Lacey between October 2008 and May 2009 unless otherwise stated. Interviews followed a semi-structured format covering a standardised range of topics.

Africa Fairtrade Network: Ruth Simba, Co-ordinator.

Cadburys and previously, the Co-operative Group: David Croft, Director of Conformance and Sustainability.

Clear Conscience Cotton: Mark Lewis, Consultant.

Comercio Justo Mexico: AC: Liliana Diaz, Promoción y Difusión, interview conducted by Cynthia Jaramillo Carvallo.

East Africa Fairtrade Network: Damian Salla, Co-ordinator.

Eighth Day workers' co-operative, Manchester: Brenda Smith, Shop Floor Manager.

Fairtrade Labelling Organization: Jennifer Mbuvi, Fairtrade Liaison Officer for FLO in East Africa.

Kagera Co-operative Union, Tanzania: John Kanjagaile – Export Manager and Coffee Grower.

La Siembra Co-operative: Colin MacDougall, President of the Board of Directors.

Lorna Young Foundation: Martin Meteyard, Chair. Also a consultant with over 20 years experience of the co-operative movement and a specialist in Fair Trade.

New Economics Foundation: Jim Sumberg, Director of Research and Programmes.

Oxfam: David McCullough, Trading Director; David Bright, Global Adviser; Rosemary Byrde, Global Fairtrade Policy Adviser and Phil Bloomer, Director, Campaigns and Policy.

Traidcraft: Paul Chandler, Chief Executive.

Twin Trading: Chris Penrose Buckley, Producer Partnership Programme and Simon Billing, Communications Manager.

UK Co-operative Group: Ian Burgess, Quality Assurance Manager, Brad Hill, Fairtrade Strategic Development Manager and Laura Vickery, International Development Manager.

Unicorn Supermarket, Manchester: Debbie Clarke.

University of Nairobi: Maggie Opondo, Lecturer and Researcher, Department of Geography and Environmental Studies.

World Fair Trade Organisation: Christine Gent, External Affairs.

World Wildlife Fund, Scotland: Adam Harrison, Senior Policy Officer, Food and Agriculture.

## Appendix 2: Glossary

ACP- African, Caribbean and Pacific

AFN – African Fairtrade Network

Agricultural Co-operative – Provide farmers with services such as affordable inputs (fertilisers, seed, equipment), group marketing (see also Marketing Co-operatives), processing of crops to add value (drying, fermenting etc), and sometimes credit.

ATOs – Alternative Trading Organisations

CJM – Comercio Justo Mexico A C: A Mexican Fair Trade initiative, see Box 3.2.

Consumer Co-operative – Retail businesses owned by their customers. These include food stores, department stores, electricity suppliers and many others.

Credit Co-operative – Use deposits from savers to lend to other members. This allows savers to earn interest and borrowers to access capital. This is especially important in isolated areas where commercial banks do not operate and sums involved may be small.

CSR – Corporate Social Responsibility

CWS – Co-operative Wholesale Society, now the Co-operative Group, UK.

Doha Development Round of the World Trade Organisation – Began in Doha, Qatar in 2001, pledging to implement fairer terms of trade for developing countries, which constitute a majority of WTO members. The Doha Development Round involves negotiation of policies to reduce both domestic and export subsidies and tariff barriers in order to improve market access.

ETI - Ethical Trading Initiative

EPAs – Economic Partnership Agreements. Trade agreements between the European Union and ACP countries.

Fair Trade – A group of initiatives that work to make trade fairer for producers. Includes but is not restricted to FLO Fairtrade and WFTO (see below).

Fairtrade – FLO Certified Fair Trade products. Unless otherwise stated, this is the system the paper refers to as it is the biggest and most well recognised.

FAO- Food and Agriculture Organization

FLO – Fairtrade Labelling Organization

ICA – International Co-operative Association

IFAT – International Fair Trade Association, recently changed its name to World Fair Trade Organisation (WFTO)

ILO – International Labour Organisation

KCU – Kagera Co-operative Union, a secondary coffee co-operative in Tanzania.

Mainstream – Available to the general public

Marketing and Processing Co-operative – Provides members with marketing and processing services. See also Agricultural and Primary Producer Co-operatives.

MNCs – Multi-National Corporations

Primary Producer Co-operative – Generally involves joint marketing of produce such as crops, meat and dairy products, fish or forestry products. See also Agricultural Co-operative and Marketing and Processing Co-operative.

SACCO – Savings and Credit Co-operatives. See Credit Co-operatives.

Service Co-operative – Includes Insurance, Health and Social care provision, Housing co-operatives and many others.

Smallholder – small scale farmer, usually a family owned farm.

WFTO – World Fair Trade Organization, previously known as the International Fair Trade Organization or IFAT.

Worker's Co-operative – Co-operative owned by its employees. Originated in France as labour co-operatives that would hire out their services. Now includes all kinds of businesses owned by their workers, such as retail chains including John Lewis.

WTO – The World Trade Organization is the forum where global trade rules and agreements are negotiated.













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