

The Business of Beans Coffee in the Fair Trade Industry



For millions of people worldwide, the aroma of coffee signals the start of a new day. Coffee's sharp and earthy aroma marks it unique; no other beverage has such a recognizable and distinguished scent. Hot or cold, this beverage is by far a world favorite and was number seven on the list for "legal agricultural export by value" in 2005 (Coffee) with the "United States consuming one fifth of the total global production" (Polaski). With the coffee bean being such a major commodity in trade it easily opens niche markets of exploitative middlemen, extreme retail inflation from actual production cost and substandard conditions and pay for workers which often earn the description "sweatshops in the fields" (Fair Trade Coffee). But the imbalanced marketplace of coffee began to change in 1988 when it was "the first agricultural product to be certified fair trade" (Fair Trade Federation). This certification changed coffee fields forever as it encouraged development in rural farming villages and created self-sustainable economies throughout third-world countries.

A New Trend in Trade

Fair trade has been a part of the exchange market since the 1940s and is currently defined by F.I.N.E. (the informal association of the four main international fair trade

networks: Fairtrade Labeling Organizations International, International Fair Trade

Association, Network of European Worldshops and European Fair Trade Association) as:

A trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade Organizations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. Fair trade products are produced and traded in accordance with these principles – wherever possible verified by credible, independent assurance systems. (EFTA)

In other words, this partnership assures that the coffee we drink was purchased under fair and sustainable conditions. The “marginalized workers” that are often referenced in conversations on Fair Trade are those citizens who produce agricultural goods or textiles from third-world countries and are underrepresented in the open market. They are those who do not have alternatives to the unjust trading systems and are caught in a cycle of debt because of these monopolized markets. These “marginalized” workers are in fact a majority in the world. According to the World Bank, an estimated 2.7 billion people exist on less than \$2 per day (Fair Trade Federation). These are people who toil in their fields and homes day after day only to see their goods sold off at prices that do not cover production costs and thus, these are the people that the Fair Trade movement targets. Fair Trade’s “intent is to deliberately work with marginalized producers and workers in order to help them move from a position of vulnerability to one of security and economic self-sufficiency” (Fair Trade). And at the top of every Fair Trade organization’s list of products that are certified is coffee: the tiny little bean with enormous international impact.

The Cost of a Cup

According to TansFair USA, “conventional coffee farmers receive only \$.02 from the average \$3.00 latte” and it is this very price distortion that Fair Trade seeks to remedy. Part of coffee being Fair Trade certified is the floor-price that is set for the market. This is the guaranteed price that purchasers pay for any coffee bean that has been certified. Currently for Arabica, the highest-quality bean, minimum price is \$1.26 per pound with a \$.20 differential for beans that are also certified organic and an additional \$.10 premium for simply being Fair Trade (Fair Trade). Although this seems low, consider the following chart from Starbucks on their annual purchase of whole beans:

Avg. “C” Price/lb of coffee (market price)	Year	SBUX Pounds of FTC coffee purchased
\$ 0.90	2000	190,000
\$ 0.55	2001	653,000
\$ 0.53	2002	1,100,000
\$ 0.62	2003	2,100,000
\$ 0.76	2004	4,800,000
\$ 1.08	2005	11,500,000
\$ 1.08	2006	18,000,000
Total		38,343,000

Starbucks

By 2006, the Starbucks company alone had purchased over 38 million pounds of coffee. Multiply that year’s floor-price in the Fair Trade Market and that’s over \$41,000. By purchasing in the Fair Trade Market, Starbucks and its distributors cut out the middlemen and ensured that most of the money found its way back to the producers. The premium tacked onto Fair Trade coffee is guaranteed to return to the communities to stabilize jobs, provide better standards of living, increase income for large families and allow cash to flow into the community for such basic needs as healthcare, transportation and education.

If and when prices on the global market increase above the Fair Trade minimum, the Fair Trade minimum will rise equivalently to become the new global price (Fair Trade).

Currently, coffee prices outside of the Fair Trade market have dropped to \$.60-\$.70 per pound, but the companies who are selling the conventional coffee aren't lowering their retail prices. Instead they are pocketing the difference (Fair Trade Coffee). Without the Fair Trade Market's standards on minimum price millions of families who rely on their coffee fields suffer the drop in the purchase price while not being able to slow or halt their production. As long as companies continue to purchase within the Fair Trade market, the cost of a cup of Fair Trade coffee will always reflect the true cost it took to get it there.



Rogiro

Roots of the Trade

The coffee bean (shown above) is technically a berry from a bush. To earn the label of "fair trade certified" coffee must go beyond the requirements of price and also contend with farming practices. "Typically, Fair Trade farmers cultivate less than 3 hectares of coffee and harvest 1,000-3,000 pounds of unroasted coffee a year" (Fair Trade Coffee) and most of the Fair Trade coffee in the world is also organic. This is because Fair Trade targets minority farms that generally do not have access to large-scale production methods such as forest clearing, pesticide use and polluting machinery (Fair

Trade Coffee). Small-scale farmers are the best stewards of the environment because their farms are their homes; they are more conscientious of how and where and why they grow their crops than mega farms are. The most beneficial of all sustainable farming practices is shade-growing coffee. This is the practice of planting the coffee bean plant beneath diverse shade trees that are habitats for indigenous wildlife. This enforces natural pollination and defeats the need to clear massive quantities of acreage of forests for coffee plantations (Fair Trade Coffee). Since these plants are grown beneath natural habitats, at small-scale, pesticides are also strictly avoided. Since farmers avoid the use of pesticides the quality of their work environment goes up. Because there is no need for deforestation with this farming technique and there are no pesticides used, the practice of shade-growing coffee goes hand in hand with organic regulations and sub-regulations in the Fair Trade market. However, it must be noted that organic is not *required* by international Fair Trade standards. The sub-regulations of the market outline only standards for soil preservation, “minimized agrochemicals” (Fair Trade.net) and proper disposal of waste. The reason that so much of the Fair Trade Coffee is also certified organic is because of the premium price additional incentive within the program to help farmers make a successful switch to organic production and maintain preexisting ecological best practices.

Buying a Better Quality of Life

The regulations placed upon the growing of the coffee bean itself are second to the regulations that are placed upon producers and traders in terms of standards in the workplace. If producer and trader do not meet *all* of the strictly imposed Generic Standards for Small Producers’ Organizations then that producer’s beans are not labeled

as Fair Trade from any Fair Trade Organization and that trader is not granted entry into the market (Certification). Fair Trade Labeling Organizations International explains why there is the need for the separation of Generic Standards and Product Standards:

The problems experienced by producers and workers in developing countries differ greatly from product to product. The majority of coffee and cocoa, for example, is grown by small farmers, working their own land and marketing their produce through a local co-operative. For these producers, receiving a minimum price for their beans may be more important than any other aspect of a fair trade. Most tea, however, is grown on estates. The biggest concern for workers employed on tea plantations is likely to be fair wages and decent working conditions. To address these realities there are several sets of Fairtrade Generic Standards.

The Product Standards are generally the growing regulations which were discussed earlier. The Generic Standards are those most commonly thought of when Fair Trade is referenced. These standards are what have fueled the growing Fair Trade market, allowing more and more workers to enjoy a portion of the rich worldwide economy and establish a better quality of life. These standards set “clear minimum and developmental criteria and objectives for social, economic and environmental sustainability” (Standards). In the January 2009 release of the Fair Trade Labeling Organizations International for Small Producers’ Organizations, sections 4.2-4.6 detail the exact requirements that producers must meet. Among these, workers employed by Fair Trade Certified coffee producers are entitled to:

- Freedom from discrimination.
- Prevention of improper disciplinary practices (i.e. corporal punishment).
- The exclusion of bonded or involuntary prison labor.
- Regular and timely compensation with legal tender.

- Safe machinery and equipment on the worksite.
- Adequate training.
- Access to a clean water supply and clean sanitary facilities.

However, few of the sections give as much attention as those regulating child labor.

Section 4.3 of the FLO Generic Standard clearly defines what is considered legal child labor:

Where children help their parents at individual member level after school and during holidays...is not considered as child labour under the following conditions:

- Children may only work if their work is structured so that they may also attend school.
- For children who work outside of school hours, their work should not be so demanding as to undermine their educational attainment.
- If children work, they shall not execute tasks that are particularly hazardous for them because of their age.

Foremost, however, is the mandate that no child under the age of 15 shall be employed (or, rather, contracted). It is because of these regulations that the Fair Trade market can support such community development educational reform and healthcare improvement. Without these basic regulations the Fair Trade market would be just another mass-production market with “marginalized” workers.

A Peak at the Perks

To help quantify the impact this market has had worldwide, the below figures give a snapshot on pricing, demand, and community development. These figures represent a very small portion of the innumerable data-to-date on the Fair Trade market, but begin to outline the benefits small farmers are enjoying.

- The social premium paid *on top of* the per kilo price to Fair Trade certified coffee farmers for organic coffee is \$.20, according to Fairtrade Labeling Organization standards (Fair Trade Federation).
- In 2007, Fair Trade certified sales amounted to approximately \$3.62 billion worldwide, a 47% year-to-year increase (Fair Trade).
- Fair Trade products generally account for 1-20% of all sales in their product categories in Europe and North America (Fair Trade).
- In June 2008, it was estimated that over 7.5 million disadvantaged producers and their families were benefiting from Fair Trade funded infrastructure, technical assistance and community development projects (Figures).
- 800,000+ households (approximately 5 million people) earned a living from Fair Trade production, according to the European Fair Trade Association's January 1998 *Memento pour l'an 2000* (Fair Trade Federation).

To touch on only set pricing, environmental stewardship and socioeconomic impact is but a glimpse at the massive, ever-growing industry of Fair Trade coffee. With access to national and international markets, the “marginalized” workers of the world gain better footing in their sources of income and can provide a more comfortable life for themselves and their families. The market of Fair Trade continues to grow and expand into new products and communities all while removing crippling exploitative markets and setting the standard to which all trades are held.

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