The Jus Semper Global Alliance

Living Wages North and South

How Sustainable is Our Latte?

An Assessment of Trends and Standards in Fair-Trade From the Perspective of a New Truly Sustainable People and Planet-Centred Paradigm

Álvaro J. de Regil

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Introduction

As in the case of Corporate Social Responsibility (CSR), there are two distinct versions of Fair Trade (FT). In the past two decades both FT and the social responsibilities of business have received diverse interpretations that have been advanced by various players. On one side of the fence, the greed and hypocrisy of big corporations have prostituted both concepts. To no ones' surprise, in the case of FT, the token advanced by the big corporations has become the most prevalent due to the sheer size of their business and their power to convey their message. Indeed, as I will expose in this paper, the sole motive of big players, such as Starbucks, to participate in FT is not to improve the lives of people. It is anchored instead on their commitment to increase shareholder value by increasing their intangible assets: the enhancement of the perceived image of a "good corporate citizen" through token gestures, which presumably will translate into greater market share and consumer loyalty. In reality, as with the broader concept of CSR, these are nothing more than attempts to dodge criticism and control the activity to their mercantilist advantage, which destroys the authentic origin and purpose of FT.

On the other side of the fence, there are other businesses, usually much smaller, that believe that it is possible through FT to make a profit and also bring meaningful positive changes to the livelihoods of many producers. This is definitely a step in the right direction. Indeed, regardless of how much hoopla big players try to give to their token Fair Trade in pursuit of good old shareholderism, FT is only truthful to its meaning when it is comprehensive –as some genuine coffee fair traders argue– and each stakeholder deems it to be sustainable. Yet, even on this side of the fence, to achieve true sustainability, the bar has to be lifted significantly; not only to guarantee an existence just above the poverty line, but to guarantee equitable terms of trade that provide a dignified life to all stakeholders in the South in line with that enjoyed by equivalent stakeholders in the North.

With the current market-driven structures governing societies worldwide, for the small landholders and labourers of the South to entertain the idea of pursuing a dignified life, equivalent to that in the North, through FT, it is sheer wishful thinking and a futile and frustrating exercise. To make it a realistic expectation, conventional wisdom both North and South must be radically changed to redefine the purpose of society, democracy and business. This entails that corporations must make the social purpose and their social responsibility as the pre-eminent and inextricable element of corporate culture in pursue of truly holistic sustainability, replacing money and shareholder value as its intended end. To put it succinctly, it is quite acceptable for business to reproduce and accumulate as much capital as possible for its shareholders, as long as none of it is done at the expense of the welfare and the sustainability of people and the planet, as it is systematically done today. Thus, to change the current ethos, true democracy and sustainability for people and planet, instead of today's untrammelled Darwinian capitalism, has to be the only purpose of societies. In this new ethos, the logic of the market would no longer rule, for markets and corporations must become mere vehicles to achieve our new intended end. Under this vision, FT would then become a natural end result of the socially-devoted and responsible new nature of business culture, which, along with the newly-redefined purpose of democracy, of government, of consumption and citizenship, all centred on the sustainability of communities and the planet, would act as mechanisms to achieve long-term sustainable well being. Then and only then, both in the case of FT in particular and in the broader case of the social responsibilities of business, may we achieve a sustainable and fair existence where we can actually procure the welfare of all and every rank of society.

To support my contention of the evident shortcomings and failures of today's market-based societies in creating an equitable ethos for all its participants, both through FT and more broadly through a responsible business culture, I will use FT coffee to illustrate the argument. Fair Trade coffee is undoubtedly the most important of all FT activities in the number of participating stakeholders, in the market value generated and in the level of consumer awareness. For these reasons, it is the best arena to observe how the interaction of the visions and missions of a diversity of stakeholders, from large corporations to small retailers, and from small landholders to crop labourers, illustrates the deviations, failures, shortcomings and also successes generated supposedly in pursuit of a truly sustainable ethos. Indeed, assessing the realities of Fair Trade coffee –and FT in the broader ethos of sustainable business practice– as an economic and social interaction, provides a sound case study to assert that there will be no realistic sustainability and, thus, no true fair trade and no such thing as a truly socially responsible corporation unless we transform the purpose of society, of government and business to make it the welfare of people and planet and nothing else.

Álvaro J. de Regil

Executive Director

Executive Summary

Executive Summary

I. *Context.*

This analysis was performed parting from the context that we live in an absolutely unsustainable environment based on the following rationale:

- The so-called democratic world is really an oligarchic world where the rules of the market have been undemocratically imposed over people for the exclusive benefit of the owners of the market and their partners in government, and are generating widespread injustice for the majority of the world's population both North and South and the rapid deterioration of the planet.

- There is an inherent contradiction and incompatibility between the logic of the market of sheer competition in pursuit of maximum profitability and shareholder value, and the pursuit of true democracy and sustainability where people and planet can thrive in a balanced ethos.

- Consequently, a *condicio-sine-qua-non* for true sustainability is the replacement of capitalism due to its inherent and sheer predatory nature of human and natural resources. We must move from irrational to rational and sustainable consumption, to empower people not to consume more and equally, but to develop their capacities to contribute to build dignified communities and protect the environment in an equitable and sustainable way.

- The future of Fair Trade (FT), Corporate Social Responsibility (CSR) and sustainability will directly depend on the health of society. Currently, the world's societies are sick, for we are immersed in a Darwinian ethos. Only if we replace the market-driven structures and build a truly democratic and sustainable ethos, would we have sustainable CSR and FT standards as natural by-products of a new people and planet-centred paradigm.

- Therefore, we cannot build a truly sustainable FT and CSR ethos if we do not first change the system from its core to build a truly democratic ethos that is people and planet centred instead of market centred.

II. *Envisioning the new ethos:*

- The new ethos must guarantee conditions of life of a high-quality standard for all stakeholders, and enable all participants to fulfil not just basic necessities, but to provide equivalent qualities of life for equivalent participants both North and South, and without hurting the environment. In this ethos all stakeholders set the standard under conditions of equal say, through a duly-democratic process.

- In this new ethos development entails the democratically-balanced development of all members of society, which will establish a culture of use of all natural and man-made resources to provide a high quality of life standard without the excesses associated with consumerism.

- Efficiency and productivity will no longer have meaning in terms of reproducing wealth but will be fundamental in consuming resources in the most efficient, balanced and sustainable way. Increments in the level of sustainability of systems and reduction of our footprint in all aspects of life of people and planet would be the new indicators and the true measure of development.

- FT is inextricably a part of CSR and, thus, of sustainability. But true CSR must be socially and environmentally sustainable in a comprehensive and holistic manner. Companies cannot be deemed responsible and sustainable if they are environmentally responsible and active in FT if, for example, they concurrently exploit their workers in the South or let their supply chains exploit their workers.

- Truly sustainable corporate citizenship must be holistic and comprehensive both vertically and horizontally. It must be sustainable in the social, economic and environmental dimensions of its activity in all countries, in all divisions, with every product or service, with all suppliers, with all distributors, in a comprehensive manner. And all trade must be fair trade, regardless of whether it takes place inside or outside of the formal FT certified arena.

III. *Fair Trade in the new ethos*

- In the current ethos, the FT labelling organisations set the FT standards but fail to define what is the standard of sustainability for all stakeholders. The fundamental criterion should not be if all products traded are FT certified but if certification guarantees that FT prices and other standards are truly fair and sustainable for all participants.

- Consequently, for FT to be truly sustainable two critical conditions must be added to their standards. First, the FT price paid by all buyers must truly provide a sustainable dignified life for every single participant –the high-quality standard; second, every buyer must buy one hundred percent of its products in such fair trade manner, either in the formal FT-certified network or outside of it.

- Traders not meeting these criteria can only portray themselves as sustainable if they commit to fulfil such criteria in time, through a formal and transparent agreement and a specified timetable. Otherwise, they must be portrayed as substandard traders.

- The sustainability of a business must be determined by society as a whole. Instead of corporations conveniently selecting their stakeholders, every individual or organisation must have the right to regard themselves as stakeholders.

IV. *Market assessment of Fair Trade Coffee – Identifying barricades in the current market ethos*

In coffee trade, the shift from regulated demand-side economics to neoliberal supply-side economics has condemned to dire poverty over 25 million small producers, and has affected many more million who depend indirectly on the coffee trade. The fundamental cause of their plight is the sheer greed of the institutional investors active in the coffee business in the context of untrammelled neoliberal economic Darwinism. To address this situation, FT-certified coffee sets a framework of minimum standards that are binding for all FT participants. The goal is to make the trade fair and sustainable. Yet the FT movement is enduring several barricades that are greatly jeopardising its mission and that expose how the pre-eminence of shareholder value over sustainability completely dominates the decision making process of the major participants:

a. ***Market-based ethos***. This is completely in contradiction with the concept of true sustainability of people and planet in a supposedly democratic ethos.

b. ***Competing standards.*** The lack of one set of FT standards generates undesired fair trade competition that anchors the FT system even more in the domain of Darwinian competition.

c. ***Greenwashing tokenism.*** Global importers only practice token FT and insist on Darwinian ways of doing business. Only a very small percent of the coffee they buy is FT-certified. Tokenism and deception also prevail in the self-designed sustainability schemes or other sustainability standards used by major players in the coffee market, which conveniently exclude the critical issue of ensuring that coffee prices provide truly dignified incomes to producers and living wages to workers.

d. ***Unsustainable price.*** The assumption that the FT-coffee price of $1,26 guarantees dignified sustainability is a far-fetched idea. The FT price in practice operates as a minimum floor price guarantee to protect producers against commodity-market speculation, but it does not lift them out of poverty as can be attested by well-documented hard-fact evidence.

e. ***Risk of commoditization of FT.*** The low FT-coffee price puts at risk the entire FT movement if, in the not too distant future, FT-coffee becomes the new mainstream standard coffee commodity, for which all marketers are willing to pay the low price to look good without really practising sustainable business models.

f. ***Low bar of FT standards.*** For true sustainability of coffee farmers to occur, it is of the utmost importance to raise the bar of FT standards in as much as to require a truly sustainable FT price for all participants before global corporations take control of FT –through their sheer economies of scale– and ensure that it remains a watered-down version of its declared mission.

g. ***Minimal representation in ICO.*** Coops of small producers have minimal representation in the global coffee-trading organisation (ICO) dominated by the big players and their Darwinian market-based vision.

h. ***Global structural quagmire.*** All sustainability standards aim at the lowest common denominator, which allows corporations to maintain a Darwinian unsustainable ethos and still look good. Given that the Fairtrade Labelling Organisations International (FLO) standards also integrate these standards, it becomes more difficult to break this barricade in quest of a higher ground.

i. ***Watering down of FT concept by admitting all producers.*** The current pressure to certify large coffee importers and producers, without lifting the bar, further increases the risk of watering down the original FT concept and engendering potential conflicts of interest by allowing labelling organisations to earn a license fee from coffee roasters based on volume, regardless of their commitment to truly sustainable practices.

j. ***Corruption.*** Increasing reports of corruption in the FLO system by producers and importers reinforce the need for the FLO to improve standards and systems to make the monitoring and certification process bullet proof.

V. *Market assessment of Fair Trade Coffee – Identifying positive trends in the current market ethos*

Despite the many hurdles, there are positive trends with a clear commitment to the sustainability of producers indicating that there is good business for coffee importers and retailers through this route:

a. ***Growth of comprehensive and Holistic FT-coffee trading.*** There is a growing number of participants in the FT-coffee trade that market almost or exclusively FT coffee in contrast with the niche marketing schemes of other players. Their view is that in order for FT to be truly sustainable for all participants in their supply chain, especially dispossessed producers and workers, it must be comprehensive and holistic in its practices.

b. ***Substantial price increase is completely doable.*** Some of these participants argue that the FT price can be made substantially higher immediately, by reminding coffee traders that the current FT price is still 40 cents lower than the market price all importers paid before the crisis, and they were all very profitable.

c. ***FT price can be paid inside or outside the FT system.*** In response to the excuse that there is not enough FT coffee to buy, comprehensive participants argue that there is no excuse for at least paying for all coffee – FT or not FT– the current FT price to improve conditions immediately. They also argue that there are thousands of individual producers who are not certified but produce coffee decently, and that there is currently an abundance of FT certified coffee that is not purchased as FT coffee because importers refuse to pay the price.

d. ***Critical mass of FT coffee market already in progress.*** Although FT is still in an infant state, it is rapidly growing and it is gaining a real critical mass in some markets. UK leads its growth with FT coffee already accounting for 20 percent of total ground coffee consumption in 2004 due to its explosive development. This is clear proof that, as consumer awareness grows, the critical mass for fair-trade consumption will exponentially grow, and in the case of the UK, FT coffee has already become a mainstream consumer item.

e. ***Sustainability practice beyond and above the current FLO standard.*** Some marketers are already practising standards beyond those required by the FLO that provide good role models to follow. These standards include a shift to FT without passing the additional cost to consumers; inclusion of producers on company's Board; distribution of company shares to producers; and profit-sharing schemes.

f. ***Strong growth of FT market.*** In addition to the explosive growth of FT coffee, FT in general is growing at a rather strong rate; a strong indication that the concept is enjoying excellent levels of acceptance among consumers, a precondition to create a critical mass that can gradually become ubiquitous and dominant.

VI. *Assessment of FLO system in the coffee trade:*

The FLO system is the more congruent model with sustainability of the different FT certification schemes in the market. Yet, in its current state, it will seldom deliver fair levels of sustainability. Consequently, the claim made by many that the FT price ensures a living income is highly questionable. A review of the FLO social standards, the FT price development procedures and the labour standards was made to produce an objective assessment:

a. ***Ambiguity in FLO Social Standards.*** The FLO's social development standards are not specific enough as to define what is the extent in which fair trade should make a "difference". The standards are marred with ambiguity and make no reference as to what should be the right degree of social development.

b. ***Price-setting procedure not designed to guarantee a dignified quality of life standard for producers and workers.*** There is no indication whatsoever that the objective of the price-setting procedure is designed to ensure that small farmers and/or workers in the South enjoy a dignified quality of life standard, and much less is there an indication relative to what should be such standard.

c. ***FLO standards for hired labour positively stand out.*** FLO's labour standards positively stand out from any standard, for they make a strong and specific emphasis on the achievement of living-wage conditions for all workers as the ultimate goal of the FLO system. They bear some contradictions and lack a specific mechanism to define living wages, but they are a great leap forward in the pursuit of the dignified sustainability of workers.

Overall, despite the identification of significant shortcomings, this assessment considers that the essence of the FLO system is still a very positive concept from which to build a higher ground in pursuit of social justice and sustainability. Several key elements already in place provide a good structure to build from. These elements are: the *safety-net price, the elimination of domestic intermediaries, the* *mandatory standards framework, the progress requirement to go above the standard minimum and the specific call for a living wage, all within a CSR framework.*

VII. *Corollary of the FLO's Fair-Trade ethos*

In the final analysis the FLO system draws the following consequences and ramifications:

a. ***No comprehensive definition of fair.*** There is a stark absence of a generally-accepted definition of what is fair, including the critical elements of a living income and a living wage. In its current state, fair trade can only aspire to make things less unfair in a quite unfair ethos without any serious attempt to change it. FT may mitigate the suffering but will not eliminate it without addressing the causes.

b. ***A North-to-South vision.*** There is no equal representation of the South in the FLO system. Why should the labelling organisations in the North define standards and impose them on producers in the South? While for the North empowering Southern workers to fulfil their most basic needs may be fair enough, for the South fair may be enjoying an equivalent quality of life in real income terms (purchasing-power-parity terms) to that enjoyed by equivalent farmers and farm workers in the North.

c. ***Darwinian-market logic.*** The FLO system was conceived with a market-based logic that by nature is the antipodes of sustainability and of the specific FLO's vision of fair trade. How can greater equity fit with a logic where the norm is total inequity or how can sustainability fit with shareholderism? Are we really expecting dispossessed producers to gradually eradicate poverty from their families, or are they only going to leave with less injustice in a very unfair market system? Are we really expecting coffee workers to be empowered to live a dignified life by global standards or just by what the North thinks should be dignified enough for the South? Why should the FT price of coffee be maintained since 1994, and why should one price fit the economics of all producers? The only reasonable explanation is that the FT system is anchored on the logic of supply and demand speculation, instead of on true sustainability. Thus, the only certain offer that FT can make to producers is a safeguard against another commodity-markets crash. To fulfil its declared mission the FLO has to start by putting people above the market.

d. ***Congruency with Mission.*** Although the FLO's market-logic system contradicts its formal declared mission and many of the claims boasted by many participants in the system, these are highly desirable. Thus, the FLO must redesign the concept and lift the bar to achieve congruence by becoming people and planet centred.

e. ***A Truly sustainable price scheme.*** Fulfilling in practice the claims made, especially the claim of lifting people out of poverty, requires the price of coffee to be substantially increased to a new plateau, and a price scheme to accommodate the great diversity in costs of living/production of the world's coffee regions must be developed. Importers must increase the share of producers in the value chain by reducing their margins as some large retailers have begun doing. Studies show that there is plenty of room for coffee roasters to decrease their margins since the share of producers in the value chain used to be several times greater before the 2001 crisis.

f. ***Large plantation coffee producers and global corporations.*** The FLO system must continue to give preference to disadvantaged producers, but the long-term objective must be to make all trade fair trade under a new FT concept with precise standards to make it the world's trade standard. In the close relationship between FT and CSR, FT must be regarded as the standard CSR practice regarding trade, as a truly holistic and comprehensive concept for all participants. If companies refuse, they will be regarded as sub-standard traders, with all its implications.

VIII. *Challenging the system. Building a new fair trade ethos with a long-term vision*

Parting from the assessment of FT coffee, this examination proposes what should be done, from the perspective of Jus Semper, to make the FLO system a truly fair concept for all agriculture commodity-trading products:

a. ***Revamping democracy.*** The FT concept and the FLO system are in a unique position and have an enviable opportunity to contribute meaningfully to this mission by becoming a truly democratic ethos. If they do not, in the same way that we endure a mock democracy we will have a mock fair trade, that lets corporations look good without really practising it. There are two specific contributions that fair trade should make to real democracy:

1. ***A Democratic fair trade system.*** The FLO and its labelling organisations must provide equal representation in the entire decision-making structure to producers and workers from the South. The governance of the FLO must become inclusive, direct, participative and from the bottom-up (South-North), as in real democracy.

2. ***Redefining the purpose of business.*** The FLO must put people above the market with a logic redesigned to really live up to the claims of sustaining a system of fair income and wages. In the new FT concept the purpose of business is redefined to make it the social purpose in a sustainable fashion. True sustainability requires a balance by moving the social purpose from the periphery to the heart of business organisations.

b. ***Redefining the key standards and key strategic elements*** with a new definition in sync with the declared mission of providing a sustainable ethos that lifts disadvantaged stakeholders out of poverty:

1. ***Define what is fairness in fair trade:***
   - ***Definition*** *must be in line with core human rights principles to uphold the right to "just and favourable remuneration worthy of human dignity",*
   - ***Practicality*** *must provide a living income and living wage to disadvantaged participants in the South,*
   - ***Fairness must provide North-South equality*** *to award equal remuneration for equal work of equal value between North and South using the Purchasing Power Parity (PPP) terms as the mechanism to assess a living income/wage for each producer's country,*
   - ***Ubiquitousness*** *must entail that living incomes and wages are paid to all producers and workers in the global economy regardless of whether they participate or not in the import-export trading sector.*

2. ***Defining the specific elements to be used as benchmarks and the mechanism to implement them.*** *The fundamental elements are:*

   - ***Anchored on the sustainable-paradigm logic.*** Parameters are no longer derived from supply-demand market speculations in London, New York or elsewhere, but based on a new truly sustainable paradigm.
   - ***North's standard of living of equivalent producers and workers, expressed in terms of household-living income, must be the benchmark*** *of reference to define the South's household-living income for producers and living wage for workers,*
   - ***Defined individually in PPP terms*** *for each country in question,*
   - ***Annual assessment*** *to accommodate fluctuations in household-living incomes in the North as well as fluctuations in the costs of living, in PPP terms, in the South,*
   - ***Long-term and Gradualist.*** Given the evidently radical and dramatic change from the current ethos, the approach has to be performed very gradually to reach its goal in the span of no more than thirty years or one generation through small adjustments every year,
   - ***Mandatory.*** If currently retailers are the gatekeepers to consumers, the FLO must vie to become the gatekeeper to producers by continuing to make the new standards mandatory,
   - ***Consumer leverage.*** The FLO can also become the gatekeeper to consumers. The more the concept is advanced the more the power as gatekeeper. This is a critical strategic element. Without it there would be no possibility of challenging the market and creating a new paradigm without paragon in history.

3. ***Holistic and comprehensive as the only standard practice.*** In the new ethos, global civil society must advance one formal trade system that truly pursues sustainability holistically and becomes ubiquitous instead of having one people-centred trade system and one corporation-centred trade system. Discussing how a new formal trade system should be designed is beyond the realm of this paper. Nonetheless, the major hurdles to a sustainable trade system are geopolitical and not operational. Envisioning a new people and planet-centred system is not a new endeavour. The International Trade Organisation (ITO) concept demonstrates that a fair trade system is indeed perfectly possible.

IX. *The social responsibility of consumers*

As a fundamental strategic element, *condicio-sine-qua-non,* to gradually build both a people and planet-centred trade system and a new formal trade organisation, consumer power has to be leveraged from the start to challenge the current system. Nothing will make corporations and governments react more to the demands of supposedly democratic societies than the logic of the market when the logic hits directly into the bottom line of corporations and financial market investors. Consumer power can make participating in FT and becoming a truly sustainable business a question of survival. The increasing number of well-documented consumer actions that have actually changed corporate decision-making and interests as well as the abundant number of consumer surveys can easily attest to this argumentation. Furthermore, there are several factors indicating that consumer leverage will play a fundamental role in the shaping of a new people and planet-centred paradigm:

a. ***Emergence of sustainability consciousness.*** The level of awareness about the impact of corporate activity in sustainability has been gradually increasing in the mind of consumers, and it is being empirically corroborated by their consumer behaviour. The growth of fair trade consumption and the actual emergence of a critical mass of conscientious consumers in important markets is a direct proof of the emergence of a new plateau characterised by high levels of sustainability consciousness among consumers. This shift to a higher moral ground is particularly strong among the youngest echelons of society, an indication that this change is here to stay. This is a new consumer culture anchored on the sustainability of people and planet –with fair trade featured prominently–, which is embedding a sense of responsibility in the consumer mind in the accomplishment of this endeavour.

b. ***Realistic consumer power leverage.*** Actual consumer actions demonstrate that consumer boycotts are a realistic and effective tool in changing corporate decision making, for it is enough to shift a very small fraction of market share from one brand to others to force positive reactions on the affected brand.

c. ***North's critical mass.*** A fundamental part of the strategy to mobilise consumers effectively and efficiently is to focus efforts on Northern consumers, who typically account for 70 to 80 percent of a global corporation's business. Moreover, they already have higher levels of consumer social consciousness awareness and are much better organised and with far more resources to put pressure on corporations than the South.

d. ***The morals for survival.*** People are not supporting fair trade and demanding a shift to sustainable business practices for merely altruistic reasons; people are also doing it for self-interest in response to a basic common sense of survival. In this way, the demand side –using the logic of the market– is beginning to challenge the system with its consumer power. It is, therefore, critical to feed consumers with a consistent flow of information to provide choices and to reinforce the need to act responsibly for both altruistic as well as self-interest reasons.

e. ***A parallel truly sustainable market of conscientious consumers.*** The combined effect of the growth of consumers' social consciousness and of fair trade is developing a new parallel market that, as the critical mass tips the scale, should build a new paradigm in the long-term. Becoming a genuine fair trade parallel market entails strategically competing against other options available that claim to be sustainable. Competing successfully requires delivering clear concepts and arguments to support our claims and that clearly differentiate us from other competing players. Building this parallel market requires that we successfully establish one single set of truly sustainable standards. Based on the consistent results obtained from most consumer surveys conducted in almost a decade, it is realistic to expect that consumers will choose our version of sustainability. To ensure that this occurs, the fair-trade movement must outperform competing players by delivering a sounder and congruent message, truthful to our claims, and with the reach necessary to trigger the critical mass required. It is also essential that this information provides consumers with choices; and the best way to give them choices and build a parallel market is by connecting consumers with producers, as fair trade is already beginning to do.

X. *Recommendations*

- *Build one single fair-trade system,*
- *Replace market-based with people and planet based context,*
- *Build in the span of thirty years,*
- *Provide a high-quality-of-life standard,*
- *Lift fair-trade standards onto much higher ground,*
- *Translate into living income and wages,*
- *Benchmark with North standard,*
- *Reduce footprint of high-quality-of-life standard in the new paradigm,*
- *Equalise North and South using purchasing power mechanism,*
- *Apply comprehensively and holistically,*
- *Commit all participants to thirty-year plan,*
- *Make fair trade the only trade,*
- *Advocate replacement of WTO with a new people and planet trade organisation,*
- *Create critical mass of conscientious consumers to tip the scale.*

In the final analysis, as outlandish as it may sound to some today, the only way to achieve true sustainability for people and planet both North and South is to replace the current market ethos with the new paradigm previously argued. Not doing so would not only render fair trade as another useful token effort, a mere poverty-mitigating mechanism full of rhetorical claims, that provides cover for the owners of the market, but would contribute meaningfully to further the decay of mankind and of our planet to a threshold of no return.

I. Context

From Social Darwinism to Envisioning a New Ethos – Fulfilling the Democratic and Sustainability Ideal

I. Context

From Social Darwinism to Envisioning a New Ethos – Fulfilling the Democratic and Sustainability Ideal

Democracy and Social Justice

Before discussing the concept of FT in general and FT Coffee in particular, it is important to establish the context and perspective used to measure the results generated until now by fair trade and the gap between its intended mission and the actual outcome.

Contrary to conventional wisdom, today's societies do not live in real democracies. Evidently, there are clear elements of democratic life that are used on a daily basis in many countries in the world. The most obvious examples are the presumably democratic electoral processes that are carried out at all levels of governments in a great majority of nations. Yet this does not mean whatsoever that elections should be automatically regarded as authentically democratic. Despite the fact that there are nations that have been considered as such for over a century, there are still elections worldwide that recurrently are questioned by part of the electorate as fraudulent. Some of the most prominent recent cases have been the presidential elections of 2000 and 2004 in the United States that, despite the tacit approval of corporate media, have been and continue to be questioned by large segments of U.S. society because they consider that the processes were tainted in different aspects, to the degree of changing the official results. A more recent case occurred in Mexico's fledgling "democracy" in 2006, when the entire electoral process was denounced before and after Election Day as illegally controlled by the executive branch, to a degree that millions of people went on civic strike, camping out for almost two months on the main boulevards of Mexico City, to denounce the election as blatantly stolen and a mockery of a real democracy.

However, even if the electorate would have rendered these electoral processes as carried out in a duly legal manner, this would have not changed the fact that we do not live in a truly democratic ethos in most parts of the so-called democratic world. Democracy in the Twenty-First Century is predominantly an exercise where civic participation is limited to the electoral process, with no real engagement between citizens and governments in the decision-making and in the executive process. This is nothing new; it is what is regarded as representative democracy. Yet it is no secret that the citizens of these formally regarded as democratic societies have typically endured governments that predominantly serve the interest of the elite. It was the norm during monarchical times, and it continues to be the norm during formally democratic times, more than two hundred years after the French Revolution of 1789. Indeed, what we had then and continue to endure today are oligarchic systems, which today are imposed, embellished with the velvet of a formal representative-democracy system, and which constitute a mockery of what the concept pretends to be.

"in a real democratic ethos, the primeval raison d'être of any government is to procure the welfare of all and every rank of society, especially of the dispossessed"

In a real democratic ethos, the primeval raison d'être of any government is to procure the welfare of all and every rank of society, especially of the dispossessed. Its obligation is to procure and guard an ethos of social justice. Yet this has always been a dream that has never been fulfilled but for a few nations such as Switzerland or the Scandinavian nations. In the rest of the world, we have always seen how in different eras –mercantilist, the industrial revolution, Gilded Age, neoliberal– a market–driven system of exploitation and injustice, that I call *marketocracy,* has been imposed with varying degrees to, at the very least, a very significant segment of the population if not to the majority.

Marketocracy continues clearly to be the case both in the centres of economic power as well as in the periphery, as it occurs today, in the latter case, for instance, throughout Iberian America. In many of these nations, especially in those where governments eagerly embraced the economic policies of the so-called Washington Consensus, things are as bad for most people as they were a hundred years ago, and they keep getting worse. But if we observe the case of the centres of economic power, there too, as in the U.S., tens of millions of people endure dire injustice, and the gap between rich and poor has consistently widened in the past two decades with the imposition of neoliberal economics. Indeed, The Economic Policy Institute consistently has been reporting the widening gap between rich and poor and how the U.S. has the greatest inequality among the most developed economies.[1]

"were people informed that the market was going to be placed more than ever above the people and that the primeval responsibility of so-called democratic governments, to procure the welfare of all ranks of society, was going to be ignored?"

In a truly democratic system, a problem generated by policy decision making, such as the change since the 1970s from demand-side to supply-side economics, would be rapidly corrected, for the policies that generated it would have been the result of duly democratic decisions taken by governments after fully engaging their represented in a process that previously received the people's endorsement of a set of policies through referendum. Instead, as we know, except for a few rare occasions, such as rejecting or accepting the incorporation of a country into the European Union or accepting or rejecting the Euro, little engagement takes place, especially as it pertains to economic policy. More than thirty years after Keynesian demand-side economics were abandoned, none of the citizens of the "democratic" nations, where the so-called "new economy" of neoliberal supply-side globalisation was imposed, were engaged in a decision making process and asked for their duly democratic endorsement for this economic paradigm. Instead, neoliberalism was undemocratically imposed. If there is any doubt, we should ask ourselves who decided that the so-called neoliberal globalisation was going to be applied in a given State? Were people asked to choose from a variety of economic policies so that governments in turn would obey the will of the people? At the very least, were people informed, in layman's terms, that the deregulation and privatisation of entire economic sectors was part of the neoliberal paradigm and that this means that economic policy would stop supporting the generation of demand on behalf of the support of supply, which belongs to the industrialists? Were they informed that, in order to do this, the neoliberal mantra calls for the reduction of taxes and the drastic reduction of the Welfare State? In a nutshell, were people informed that the market was going to be placed more than ever above the people and that the primeval responsibility of so-called democratic governments, to procure the welfare of all ranks of society, was going to be ignored? The answer to these questions is consistently no throughout the so-called democratic world, in the European Union, in North and Iberian America, in Asia, in Africa and elsewhere.

"governments have privatised the public matter and they discuss it in private with their partners: the institutional investors and the major shareholders of today's corporations"

It is for this reason that it is of fundamental importance to establish that the decisions affecting social and economic policy, as all others, are overwhelmingly not being taken by governments through a duly democratic process, because there is no real engagement and no debate between the branches of government and society, and the worst thing is that this is currently the norm and it is getting worse.[2] Governments have betrayed representative democracy, and instead of responding to the interests of the people, they respond to the will of the owners of economic capital, with whom many politicians are in close partnership. Thus, the working agenda of governments is not in line with the real demands of society, for the public matter has been privatised. Instead, those who finance the political campaigns of those who ascend to power dictate the political agenda. In this way, governments have privatised the public matter, and they discuss it in private with their partners: the institutional investors and the major shareholders of today's corporations. Democracy has been almost completely corrupted to its core, including the functioning of the key multilateral institutions, and only a democratic façade is kept to justify a legitimacy that is rapidly eroding. In many nations political mafias, whose only mission is to profit over people in partnership with the owners of big capital, have overtaken the halls of government.

These are the realities in which the world is living today, and not under an ethos of true democracy that those in power would like people to believe. *Marketocracy*, the logic of the market, and its owners reign over people. Thus, CSR and even Fair Trade are being driven to a large extent by the interests of corporations. Consequently, societies have to work very hard to change the current oligarchic ethos and build a new ethos to make it work for people and planet with long-term sustainability. Otherwise, we will continue to endure a mockery of democracy and endure the will of the few at the expense of the interests of the majority.

The Meaning of Sustainable

As is the case with democracy, the idea of sustainability has been manipulated to meet the needs of the so-called corporate citizens. Over a thousand global corporations publish annually their sustainability reports in which they take pride in portraying themselves as organisations that interact with individuals and communities in a sustainable manner. Yet, with very few exceptions, most corporations do not meet the standard because in more than one way their business activity does not generate sustainability for all direct and indirect participants. The most conspicuous example is the case of a living wage, an upheld human right and a fundamental issue with enormous repercussions in the livelihoods of millions of people. I am yet to find a global corporation that pays a living wage to its workers in the South or to those in its supply chain in the South. Most corporations like to boast that they pay wages above the minimum wage but, as we well know, a minimum wage is not a living wage at all, even in the most advanced economies.

There are dozens of definitions of sustainability. Most agree that a sustainable ethos must provide a high-quality standard of existence to the economic, social and environmental dimensions with long-term sustainability. This entails that there must be balance in each of these dimensions so that its participants –human beings, nature and the planet as a whole– can enjoy a high quality level of life. Balance requires that no participants thrive at the expense of others; a condition impossible to create under the current Darwinian capitalist paradigm, where savage competition is the standard and the logic of the market is to gain at the expense of other human beings, Mother Nature and the planet. An insurmountable amount of hard evidence readily available, including the reports generated by multilateral institutions, clearly shows that the logic of the market is completely unsustainable for all three dimensions and for all participants including the owners of the market, and will take us in the not too distant future to the irreversible demise of all species and our planet. Consequently, to change this course, *marketocracy* must be replaced by a new ethos with a true commitment to our survival by the unrelenting pursuit of high-quality sustainability, in the three dimensions aforementioned, for all stakeholders.

"sustainable business practices must provide a high standard to all, not just to barely lift them above the poverty line, not just enough to meet their basic necessities, but high enough to provide an equivalent quality of life vis-à-vis the quality of life of equivalent workers and farmers in the so-called advanced economies, and without hurting the environment"

In the case of corporations, truly sustainable business practices must guarantee this high-quality standard for all stakeholders and be able to sustain it through time. In the case of workers both in the supply chains of corporations as well as with smaller companies and producers, including those participating in FT, sustainable business practices must provide a high standard to all, not just to barely lift them above the poverty line, not just enough to meet their basic necessities, but high enough to provide an equivalent quality of life vis-à-vis the quality of life of equivalent workers and farmers in the so-called advanced economies, and without hurting the environment. Again, the context is that shareholderism and the market logic would no longer operate, for there is a huge dichotomy between the intended goals of the market and sustainability. They do not connect at all. The world cannot operate under a logic of social Darwinism and concurrently aspire to be sustainable. That is a rather schizoid logic, to put it lightly. Thus, the meaning of sustainable can only be the ability to generate a new ethos that delivers conditions of life of a high-quality standard for all participants in the three dimensions of human activity. In real democracy all stakeholders set the standard of the new ethos under conditions of equal say, through a duly-democratic process instead of the corporations and their partners in government in pursuit of their very private interests. This new ethos in pursuit of sustainability must assure the equitable and balanced interaction of all stakeholders: people, nature and the planet as whole, in all three dimensions: economic, social and environmental.

The fundamental need for equitable and balanced interactions notwithstanding, there is another critical element of sustainability that cannot be emphasised enough. Capitalism must be replaced not only because it is rather incongruent with the high-quality sustainability of all participants but also because it is a sheer predator of resources. Capitalism, like some sharks, must be in constant movement and consume energy to live. If these sharks stop swimming, they die shortly thereafter. The same happens with capitalism, for it is an unstoppable irrational mechanism of consumption. It demands constant and ever greater levels of consumption in order to sustain its unrelenting pursuit of the reproduction and accumulation of capital without being able to restrain itself and establish a balanced level of consumption that will allow it to not deplete the resources that it needs in order to reproduce itself. Instead, it has created a culture of consumerism with a scale of moral values anchored on never ending and artificially-created needs, where people function as alienated beings who are told to consume more and to feel the need for instant gratification in order to feel good. The clearly-evident consequences of the depleting and predatory nature of capitalism are irrelevant for the institutional investors driving the market, to be sure, for all is based on irrational consumption –using as bait consumer's instant gratification– in order to fulfil their short-term shareholder quarterly expectations. It is for these very reasons that entertaining the idea of true sustainability under capitalism bears an inherent and blatant contradiction and has no realistic possibility whatsoever.

In this way, true sustainability cannot be achieved only by eliminating injustice by lifting people out of material poverty and incorporating them into the market as literally billions of new alienated consumers who would then have the consumer power to consume from thousands of products and services of which they are currently deprived. Under capitalism such scenario would not only be unnatural but –in the utopian event of providing everyone with equal capacity of consumption– it would overwhelmingly deplete more resources than the current brand of capitalism. This remedy would indeed be far worse than the illness. Therefore, true sustainability would be in itself a new paradigm that must entail not only replacing capitalism with a system that is socially equitable, but it will need, at its very core, a new culture not based on irrational consumption but on building an ethos that allows people to develop their own capacities to contribute to their communities and to take from their communities in an equitable and balanced way.

"increments in the level of sustainability of systems and reduction in the levels of our footprint in all aspects of life of people and planet would be the new indicators and the true measure of development"

Along the lines of social scientists who have been advocating an ethos of no growth (La Touche, 2005 and Harribey, 2005), development would mean the democratically balanced development of all members of society who would enjoy access to the opportunities and resources necessary to develop and use their own potentialities to benefit themselves and their communities. In this new paradigm, society would establish a balanced culture of use of all natural and man-made resources to provide a high quality of life standard without the excess associated with consumerism. Key factors in the logic of the market, such as efficiency and productivity, would no longer have meaning in the sense of their value in the rate of reproduction of monetary wealth. Yet they would certainly have a meaning relative to their ability to reproduce sustainable practices. For instance, efficiency and productivity will still have enormous value in developing processes that would provide the amount of electricity needed for a city to function adequately by consuming less energy and contributing less to global warming. This would be achieved by changing energy consumption habits, the technology used to generate the required electricity from less energy as well as the use of more renewable and less non-renewable sources of energy. Economic monetary growth and consumption growth would no longer be valuable indicators. Increments in the level of sustainability of systems and reduction in the levels of our footprint in all aspects of life of people and planet would be the new indicators and the true measure of development.

"as long as governments and their multilateral institutions insist on refusing making CSR a comprehensive and binding practice instead of a voluntary business choice we will continue to have a mock CSR"

❒ True CSR

Parting from the concept of true sustainability, true CSR is straightforward. If a corporation's business practices are sustainable with all stakeholders in all three dimensions of its activity then society can deem it as a good corporate citizen. But since the vast majority of corporations operating both North and South are not sustainable for many of their stakeholders, it is of the utmost importance to insist, as long as all the current CSR standards continue avoiding critical factors of sustainability, that there is no truly sustainable CSR standard. Indeed, despite the fact that many of the specific norms are good standards, they are used by corporations to portray themselves as doing the social good without really doing it, since they conveniently choose what to report and which stakeholders to choose, and avoid the norms that they do not observe, beginning with the most critical issue in the practices of a corporation: the payment of a living wage to all their workers in their supply chains. This practice, which is the premeditated exploitation of human beings and the calculated violation of human rights, is enthusiastically condoned by governments. Thus, to no one's surprise, there is no comprehensive practice of CSR encompassing every aspect of business activity nor is there a CSR standard that makes its observance legally binding. It is for this reason that it should not matter if companies excel in some areas, for they should be deemed as clearly irresponsible and consumers should punish them as long as the systematic exploitation of human beings continues to be embedded in their practices, and they get to choose what standards to observe and which stakeholders to select. This is mock and not true CSR, and as long as governments and their multilateral institutions insist on refusing to make CSR a comprehensive and binding practice instead of a voluntary business choice, we will continue to have a mock CSR and as mock as it can get.

This context establishes the precedent to address the state of Fair Trade, for FT, as an area of business activity, falls naturally in the realm of CSR and sustainability. Compared to the more general CSR standards, FT is clearly an advanced business standard vis-à-vis true sustainability, for it is binding for all trading parties who choose to participate in it, and it does address the issue of living wages in a limited manner. Yet as long a it is not binding in terms of making it the legal standard for all trade transactions, it will remain only a choice in the same way that CSR is only a choice for corporations and, thus, it cannot resolve the mockery that the centres of economic power have made of CSR. As I have also argued in a paper envisioning the future of CSR, the future of Fair Trade will directly depend on the health of society. If we continue to have a mock democracy we will continue to have a mock CSR and a mock Fair Trade. Only when we replace the current market-driven structures and build a truly democratic and sustainable ethos, we would have, as a natural by-product of democracy, a truly sustainable business culture that is people and planet driven and no longer market driven. In this way, both CSR and, thus, FT, would be a natural by-product of the new paradigm that creates a new ethos for people and planet.

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1 See: Lawrence Mishel, Jared Bernstein and Sylvia Alegretto "The State of Working America 2006-2007", Economic Policy Institute, Cornell University Press 2006

2 Françoise Castex. Europe's undemocratic Union. Le Monde Diplomatique, January 2007.

II. Envisioning Fair Trade in a New Ethos

Sustainability with a Holistic Vision

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Sustainability with a Holistic Vision

What is Fair Trade?

Fair Trade is by nature a commercial activity where a number of participants derive some degree of fair monetary compensation in exchange for the work performed as part of the process that begins with the raw materials and ends with the actual consumption. These participants would include the suppliers of the raw materials necessary for producing, the actual producers and the workers involved in the production process, the distributors and finally the retailers and consumers. In the case of coffee, the process would begin with the planting of the coffee plants and ends with the purchase and price paid by the actual consumer for a coffee legitimately labelled as Fair-Trade coffee. Supposedly, the price paid to the actual producers is a fair price above the price used to trade in the commodity-exchange markets. It is also a floor price that provides some measure of stability in case market speculations drive the price drastically down. The basic idea is to bridge the distance between producers and consumers by eliminating all or at least some of the intermediaries in order to provide a more direct access to consumers with a better share in the value chain to the producer. The entities that actually bridge producers with retailers pay the higher price above the commodities market to then pass it on to consumers either directly or through their retail channel. Consumers in turn, knowingly and willingly, pay the premium retail price in support of a good cause and of a high moral standard, which is the fair transaction for the product of the producer.

Sustainability, the Declared Mission

The generally-agreed concept for Fair Trade coffee and all other Fair Trade products advanced by the majority of participants in the activity is that it pays a premium price that enables small producers to become sustainable. There are, to be sure, some variations and several evidently unsupported assumptions that I will address ahead, but the key elements of Fair Trade are a premium price, small producers and a sustainable livelihood. The U.S.-based Fair Trade Federation defines itself as *an association of fair trade wholesalers, retailers, and producers whose members are committed to providing fair wages and good employment opportunities to economically disadvantaged artisans and farmers worldwide.*[3] The mission of the Fairtrade Labelling Organisations (FLO), the leading entity in certification and labelling of Fair Trade in nineteen rich countries is *to enable sustainable development and empowerment of disadvantaged producers and workers in developing countries*.[4] The International Fair Trade Association (IFAT), another leading FT labelling organisation states that *Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South.*[5] Transfair USA, the FLO's U.S. certifying organisation, regards FT with a market-centred vision as *an activity that empowers farmers and farm workers to lift themselves out of poverty by investing in their farms and communities, protecting the environment, and developing the business skills necessary to compete in the global marketplace.*[6] It boasts that FT provides labour conditions where workers on fair trade farms enjoy freedom of association, safe working conditions, and living wages; an assertion, which is rather arguable. The FT labelling organisations set the standards of the FT concept but, as I will later explain, do not set a standard to define a living wage and sustainability and much less a mechanism to achieve them.

> *"although the social responsibilities of business in today's market-centred ethos are exclusively a voluntary option, from the perspective of the majority of people the dominant belief worldwide is that corporations, for moral reasons, must be entirely socially and environmentally responsible"*

Given that FT, in the case of food products such as coffee, cocoa, herbs, spices and sugar cane, among others, is intended to help small and disadvantaged landholders, it requires that buyers provide pre-financing of up to sixty percent of the value of the contract, if the producer asks for it.[7] Yet FT is not available to all small and dispossessed landholders. Albeit it focuses on dispossessed producers, it requires that they belong or form a co-operative in order to potentially qualify as "FT certified" if they pass the monitoring and assurance process. This excludes from the formal FT system thousands of small farmers who work independently but would qualify otherwise.

Fair Trade and True CSR – A Holistic Concept

Fair trade seeks to generate profit through presumably fair sustainable transactions that presumably provide dignified livelihoods to all stakeholders involved. Because its distinctive characteristic is its fair and regulated environment for disadvantaged producers, it is assumed to be socially and environmentally responsible. Does this mean that all other trade is unfair to at least some of the participants or that all other areas of activity of a company are not fair? Does this mean, on the other hand, that a company participating in FT should be deemed as socially and environmentally responsible and to be conducting business in a sustainable manner? The fact is that FT is one of many ways to conduct business. It is presumably a responsible practice. However, whether companies participate in FT or not does not determine if they conduct themselves in a truly responsible and sustainable manner, for practising FT is not a blank-check guarantee of sustainability nor does it release companies from their, for now, only moral obligation to be responsible for every additional piece of business that they practice. Although the social responsibilities of business in today's market-centred ethos are exclusively a voluntary option, from the perspective of the majority of people the dominant belief worldwide is that corporations, for moral reasons, must be entirely socially and environmentally responsible –surveys consistently attest to this belief, even in the youngest echelons of society.[8] Indeed, precisely because it is a prerogative of societies to pass judgement on the behaviour of corporations, their businesses bear a very strong moral obligation. Consequently, FT is only one of many ways in which a corporation can presumably become a responsible corporate citizen. It does not mean that all other trade and all other areas of activity of a company are irresponsible and unfair; nor does it mean that by practising FT a company must automatically be deemed as a responsible entity. Fair Trade, as an area of business, is inextricably a part of CSR and, thus, of sustainability. Nonetheless, what makes a company a truly responsible corporate citizen is if every single aspect of its behaviour is judged to be performed in a truly sustainable manner. According to the International Coffee Organisation, a consultation among Members States about their views on sustainability drew that the items that could be considered as a common denominator in pursuit of sustainability are: fair trade, social security, justice, and environment.[9] It can hardly be argued against that the terms "fair" and "justice" in pursuit of sustainability must be interpreted as the conditions necessary to provide a dignified life to all stakeholders. If there is any doubt, one must refer to paragraph three of article twenty-three of the Universal Declaration of Human Rights, concerning labour rights, which clearly states that *everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.*

True responsibility is a question of simple common sense, of honesty and of integrity in judgement. It is absolutely evident and obvious that doing the token thing, as argued earlier, is not the real thing. If there is a need to continually reiterate it, it is because of an absence of honesty and congruence in corporations. They do indeed want to appear that they are doing the public good but without really doing it, for their only interest remains mercantilist and not a high moral standard. As I have argued many times before, a company that behaves responsibly in some areas but irresponsibly in others cannot be regarded as a responsible business. Corporate social and environmental responsibility must be comprehensive, holistic, or it cannot be deemed responsible. A case apropos: from the perspective of The Living Wages North and South Initiative (TLWNSI), the sole initiative of The Jus Semper Global Alliance, a company that does not pay a living wage to all of its workers cannot be regarded as responsible even if it excels in all other areas of activity. You cannot be environmentally responsible, participate in FT and portray yourself as responsible if, on the other hand, you exploit your workers in the South or you let the workers in your supply chain be exploited. Either a company ensures that every single one of its business practices is sustainable for all stakeholders or it cannot argue to be responsible.

"true CSR and, thus, true fair trade require that a truly good corporate citizen becomes holistic both vertically and horizontally. It must act in a sustainable manner in the social, economic and environmental dimensions of its activity in all countries, in all divisions, with every product or service, with all suppliers, with all distributors, in a comprehensive manner"

In this way, in the case of FT coffee, assuming that a company's sole area of business is coffee, either it manages all of its contractual transactions with all of its coffee producers in a truly fair way, regardless of whether they take place inside or outside of the formal FT certified arena, or it cannot regard itself as responsible and to conduct business in a sustainable fashion. Furthermore, given that true social or environmental responsibility must be holistic, it cannot be enough to comply with all the standards of any of the entirely voluntary initiatives. As I have also argued countless times before, neither the standards nor principles of the UN, or the OECD, or the ILO, or of any of the multi-stakeholder initiatives for sustainability address critical issues such as the payment of a living wage. These initiatives have failed to address the demands of society and instead have fulfilled the demands of business. Thus, they are not holistic and much less are they binding. In this way, true CSR and, thus, true FT require that a truly good corporate citizen becomes holistic both vertically and horizontally. It must act in a sustainable manner in the social, economic and environmental dimensions of its activity in all countries, in all divisions, with every product or service, with all suppliers, with all distributors, in a comprehensive manner. Moreover, whether a corporation is deemed sustainable or not must depend exclusively on whether all stakeholders regard it as such or not. Thus, instead of the corporation selecting its stakeholders as it deems convenient, as is currently practised, every individual or organisation must have the right to regard itself as a stakeholder; and it should be the stakeholders and society as a whole who must assess the degree of sustainability of a business, from their perspective and not the other way around.

Consequently, in the specific case of Fair Trade coffee, this means that, as I will argue ahead, in addition to the FT-certified standards two conditions must be met. First, the price paid by all buyers must truly provide a sustainable dignified life for every single participant –the high-quality standard; second, every buyer must buy one hundred percent of its coffee in a fair trade manner, either in the formal FT-certified network or outside of it. If the buyers fail to meet both conditions they cannot portray themselves as FT coffee marketers and much less as good corporate citizens, unless they are striving to fulfil such goal in time, through a formal and transparent agreement and a specified time table. As this will become evident ahead, FT-certified coffee is not a guarantee that the FT price is truly fair and sustainable for all participants. The fundamental criterion should not be if all coffee traded by a buyer of coffee is FT certified but if the price paid for all coffee traded is truly fair and sustainable for all participants.

3 See home page at http://www.fairtradefederation.org/index.html

4 See website at http://www.fairtrade.net/support_fairtrade.html

5 See website at http://www.ifat.org/index.php?option=com_content&task=view&id=1&Itemid=11

6 See website at: http://www.transfairusa.org/content/about/overview.php

7 See Product Standards for small farmers' organizations and for traders of their products at http://www.fairtrade.net/smfarmers.html

8 See: Civic-minded Millennials Prepared to reward or punish companies based on commitment to social causes. Cone Inc., Press release, Boston, United States, October 24, 2006. See also: Álvaro de Regil, "Consumer Power in the Logic of the Market. Real and Direct Democracy in Pursuit of CSR. TLWNSI Issue Essay. The Jus Semper Global Alliance, December 2004.

9 See: ICO SURVEY ON SUSTAINABILITY – RESULTS, 16 September 2005.

III. Market Assessment of Fair-Trade Coffee

Identifying Barricades in the Current Market Ethos

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How FT-Certified Coffee Works

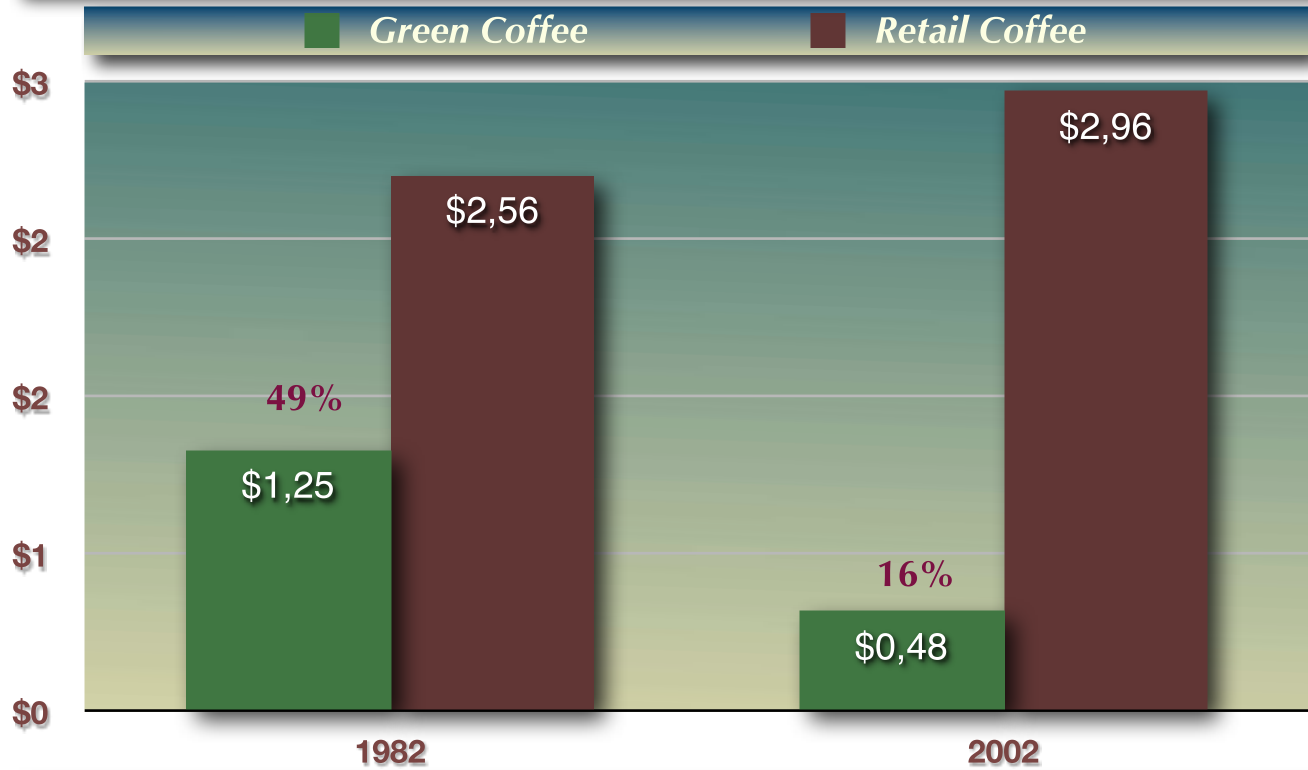
FT-certified coffee accounts for about two percent of the more than $80 billion world's coffee market, about five percent in the European Union and two percent in the U.S. It is important, nonetheless, to give perspective to this very important commodity market –the most-traded commodity in the world after oil– for it explains why there is a growing movement in pursuit of fair trade. While three-fourths of the world's coffee is produced by small landholders in just a few plots of land,[10] the distribution of the income generated in the value chain in this market is completely controlled by the buyers, in great detriment to the exporting producing countries and their producers, to the extent that the quality of life of the majority has deteriorated dramatically. Food giants such as Nestle, P&G, Kraft and Sara Lee, that care little about labour rights, the environment or sustainability, buy the cheapest coffee from large plantations (typically the cheap non-organically grown Robusta) and reap very high margins. As for the small-farmer high-quality Arabica C coffee, its price collapsed in 2001 to a 30-year low, and traded as low as $0,31/pound.[11] This generated a tremendous crisis for literally millions of families that depend directly on this commodity –over 25 million small landholders directly depend on coffee for survival (Oxfam America), and many lost their livelihood. Indeed, according to the UNDP, the coffee crisis is destroying the livelihoods of more than 20 million smallholder production households.[12] Estimates of the loss endured by these producers amount to around $4,5 billion dollars per year.[13]

Yet this crisis was only a storm in a permanent maelstrom created not only by market speculation, but by the sheer greed of the logic of the market commanded by the buyers. That is, while the producer price is subject to the speculations of the buyers in the commodities market, consumer retail prices allow retail marketers (Starbucks, Nestle, P&G, Kraft, Sara Lee…) to enjoy very high stability. When the quota clauses of the International Coffee Agreement (ICA) ended in 1989 when the U.S. government backed out of it –at the time the ICA was the main instrument to keep international coffee prices stable– consumers spent approximately US$30 billion per year (1990) on coffee, of which the share for producing countries was approximately US$12 billion (or 40 percent). Today consumers spend an average of $80 billion per year on coffee, and the share for producing countries has collapsed to approximately $5,5 billion (6,9 percent)[14]. The UNDP asserts that unfair trade policies continue to deny millions of people in the world's poorest countries an escape route from poverty and perpetuate obscene inequalities.[15] As in many other trades, the key players have created an oligopoly controlled by five roasters that dominate more than half of global coffee trade (Pizano 2001). On the trade side, eight investor-owned firms controlled 56 percent of the market, with two international traders (Neusmann and Volcafé) controlling 29 percent in 1998 (Ponte 2004). Indeed, the financial statements from leading coffee marketers exhibit high profit ratios from their business. Studies show that albeit a portion of them are attributed to added value in the coffees, as a segment of consumers switch through marketing from basic coffee to specialty coffees –the cappuccinos and lattes of the world– the bulk comes directly from the ratios between green coffee (raw coffee) and retail ground coffee because specialty coffees account for a very small portion of the market (Lewin, Giovannucci and Varangis 2004). Consequently, the collapse in share can be attributed primarily to the volatility of green coffee vis-à-vis the low elasticity of roast and ground coffee retail prices. While green coffee prices can collapse as much as 80%, retail prices do not adjust for downturns and may even increase. For instance, as shown in graph 1, the average ICO composite traded coffee price in 1982 was of $1,25 or 49 percent of the U.S. retail price of $2,56. In 2002, the average traded price was of $0,48 or 16 percent of the U.S. retail price of $2,96.[16] Green coffee prices collapsed 62 percent whilst retail prices increased 16 percent in the period. But this is not the worst comparison. In Tanzania, for example, for every $1 worth of high-quality Arabica coffee sold in a U.S. coffee house, a farmer now receives less than one cent.[17] One would expect that in a socially-responsible ethos buyers would pay higher prices to provide equivalent stability to green-coffee prices as retail-coffee prices enjoy. If buyers were profiting when the green to retail coffee ratio was 49 percent, they certainly could make the trade sustainable to producers by sustaining that relationship. Yet, since we live in a sheer Darwinian capitalist ethos, sheer greed, ergo shareholder value, dominates the mindset of the buyers.

"the UNDP asserts that unfair trade policies continue to deny millions of people in the world's poorest countries an escape route from poverty and perpetuate obscene inequalities"

These are the conditions that have originated the FT-Coffee trade movement. Fair Trade-certified coffee, contrary to the misconception of many consumers, is not a type of coffee. It is not of better or lower quality than non-FT coffee. Both are considered "C" price coffee, commonly known in the trade as of exchange-grade-class coffee. What the FT labelling organisations certify are the transactions under their standards. In order to do this, they provide a floor price to protect producers, which guarantees a minimum income in situations of drastic price dives due to market speculations.

Graph 1. Green to retail coffee ratios in the U.S.



Source: ICO Composite and Retail Prices Historical data. *TJSGA 2007*

The current FT floor price is of US $1,26 per pound and US $1,41 per pound for organically-grown coffee (see section endnote).[18] Additionally, if the producer has a high-grade coffee, he or she should be able to negotiate a premium. The floor price is strictly the minimum to be paid and it goes directly to the producer. This is what is called the FT-certified coffee price. This price includes a social premium of $0,05 for C-grade coffee and of $0,15 for organically-grown coffee. In other words, the price set by the Fairtrade Labelling Organisation is generally of $1,21 and the social premium is added for the total price. This does not mean that each farmer gets paid that price. Since a requirement of FT certification is to operate as a co-operative, a portion is retained by the co-operative to cover operating expenses and overhead.[19] In its 2005 CSR report Starbucks reported that according to Transfair USA approximately 70 percent of the price paid actually goes to the small farmer.[20]

"in great contrast with all the CSR standards, the FT standards are binding and applicable to both trading partners: producers and buyers. It is a requirement and not a voluntary option if they want to use the FT label"

In addition to paying the FT-coffee price to the producing co-operatives, buyers must provide up to sixty percent pre-financing if the producers request it. Furthermore, the FT labelling organisations, organised as the Fairtrade Labelling Organisations International (FLO) have developed a set of standards, equivalent in concept to a CSR standard but specific to FT and the products in question. With the FLO not all the standards are the same for all FT products. For instance, the FT banana standard does not require the sixty-percent pre-financing in contrast to coffee, herbs, spices, cocoa and other food commodities, for it is harvested year round. By the same token, labour standards are also product specific and differ depending on the case of small farmers or hired labour. For instance, in the case of tea, reference to the ILO conventions is far more specific than in the case of coffee or cocoa. This is because most tea is produced in plantations that hire thousands of labourers whilst in the case of coffee and cocoa most are co-operatives that do not hire labour. In the first case, providing a living wage is of the utmost importance; in the second, the price paid is the critical factor. The standards for small farmers do address some labour issues with vague references to the ILO, but refer to the specific FT standards for hired labour if a co-operative or a small farmer hires workers in their activity in a significant and permanent manner. In this way, there are at least two sets of standards that apply to coffee: the Generic Fair Trade Standards for Small Farmer's Organisations[21] and the Fair Trade Standards for Coffee for Small Farmer's Organisations.[22] If there is a significant use of hired labour, the Generic Fair Trade Standards for Hired Labour[23] would additionally apply to a coffee producer. As a whole, the sets of standards address the social, economic and environmental dimensions of fair-trade activity that take place under the ethos created by the FLO.

It is important to re-emphasise that, in great contrast with all the CSR standards, the FT standards are binding and applicable to both trading partners: producers and buyers. It is a requirement and not a voluntary option if they want to use the FT label. The FLO is the FT standard-setting and certification body and regularly inspects and certifies coffee producing organisations. The actual certification is provided by FLO-CERT GMBH[24]; an independent certification company that acts as the Certification Body of the FLO. The mandatory certification requirement notwithstanding, determining whether FT is truly fair and sustainable for all stakeholders is an entirely different issue that I will address ahead.

Starbucks, where coffee is the business, and other large corporations retailing FT coffee provide an excellent opportunity to observe how big business and FT interact in real life. Their cases clearly show how the pre-eminence of shareholder value over sustainability completely dominates their decision-making process. Tokenism in their FT is the standard. There are also non-profit organisations immersed in FT coffee that attempt to bridge the gap created by the contradictions between shareholder value and the true sustainability of all stakeholders in the three dimensions of interaction. Unfortunately, in most cases they bend to the demands of the logic of the market and settle for a concept that has a long way to go before it can fulfil the intended aspiration of fairness and sustainability. There are also a lot of half truths that put in question the integrity of some of the major promoters of FT that reinforce the impression that they are far more committed to their own sustainability than to the sustainability of the participants that they boast to lift out of poverty.

Barricade: Starbucks – Prostituting the concept

Starbucks is by far the largest for profit organisation involved exclusively in the marketing of coffee and related paraphernalia. According to its fiscal 2005 CSR report, Starbucks Brand has a global presence with 10.241 retail outlets in 37 countries of which 1.133 are outside the U.S. It also reported $6,4 billion in net revenues of which 16,2 percent came from their business outside of the U.S.[25] Starbucks reported buying in that fiscal year 312 million pounds of coffee. Fair Trade coffee accounted for 11,5 million pounds or less than four percent. However, FT certified coffee is not its most important sustainability program. Starbucks reported prominently the progress achieved on its "Coffee and Farmer Equity" (C.A.F.E.) practices, which launched in fiscal 2004 with the objective of assuring that *high-quality coffee is grown and processed with environmental sensitivity and social equity* throughout its coffee supply chain.[26] The report shows that the company purchased 76,8 million pounds of C.A.F.E. coffee, equivalent to 24,6 percent of Starbucks total coffee purchases.[27] Starbucks explains that C.A.F.E. represents a significant enhancement of its Preferred Supplier Program launched in 2001, which is the basis of the current concept intended to award preferential treatment to suppliers that meet its guidelines. C.A.F.E. is comprised of 28 indicators against which farmers, co-operatives, processors and exporters are evaluated. The concept was developed in partnership with Conservation International, a non-profit dedicated to *conserve the Earth's living heritage, our global biodiversity, and to demonstrate that human societies are able to live harmoniously with nature*.[28]

Although Starbucks declares in the CSR report its commitment to expanding the amount of FT certified coffee, it states very prominently that FT is and will be only one source of coffee, alleging that its commitment is *to purchasing coffee in an ethical and sustainable manner, regardless of labels and certifications*. It explains that the FT system *only certifies co-operatives of small-holder, family-owned farms, a system that currently produces about two percent of the world's coffee supply. The majority of the high-quality coffee Starbucks purchases is grown by farmers outside this system, many of whom are small-holders*.[29] Starbucks has in principle a point regarding price when it reports that in its fiscal 2005 it paid an average of $1,28 per pound for each of the total 312 million pounds purchased.[30] Since it also reports that the average C price in the same period in the commodities market was of $1,04,[31] then it paid on average a premium of $0,24 for total Starbucks coffee purchases. Transfair USA reports instead that the C price for that period was of $1,08.[32] In any case, whether we take the $0,20 or the $0,24 premium price paid by Starbucks at face value, we can still conclude that Starbucks is already paying slightly more than the formal fair-trade price for 100 percent of its Starbucks brand purchases regardless of whether it is FT or C.A.F.E. certified or not. However, as I will explain ahead, to assume that this price is indeed a fair price that provides a sustainable dignified quality of life to all participants is completely a far-fetched idea.

"in examining the indicators that Starbucks uses...one can readily see that ensuring that the price paid provides a dignified life to both producers or, through a living wage, to its workers, is not addressed"

The 11.5 million pounds of FT-certified coffee purchased by Starbucks in 2005, representing 3,7 percent of total, gives Starbucks a share of around 10 percent of total FT-certified coffee in the world and of 21% of that imported into the U.S., which makes it clearly the major FT-coffee player in the U.S. and globally. Including both C.A.F.E and FT, Starbucks reports 88,3 million pounds of coffee, which, according to its standards, represents 28% of total, acquired under conditions of so-called sustainability encompassing the economic, social and environmental dimensions of its activity. Starbucks' CSR report includes many of the Global Reporting Initiative (GRI) indicators for sustainability reporting. Yet, since the current CSR ethos allows companies to cherry pick the areas and norms that it considers relevant, it does not report "in accordance", despite the fact that the GRI, as all other guidelines conveniently avoid critical issues such as the payment of living wages. Starbucks boasts that it has developed an integrated approach to sustainability and it outlines its principles. However, in examining the indicators that it uses, both from the GRI and its own C.A.F.E best practices, one can readily see that ensuring that the price paid provides a dignified life to both producers or, through a living wage, to its workers, is not addressed. Since both the GRI and the C.A.F.E standards only require the payment of a minimum wage, there is no indication whatsoever that Starbucks has seriously committed to raising such standard and requiring a living wage.

It is important to point out that the C.A.F.E. program provides, as in the case of other guidelines, such as the GRI, much flexibility. C.A.F.E. practices are structured into a set of 28 guidelines against which suppliers are measured. Yet whilst the guidelines for quality and economic transparency are mandatory, the rest are not. Thus, the system uses a rating scale that assigns a number of points with minimums and maximums that are used to determine the status of a supplier in a three-tier status-level system. This means that the quality of the sustainability performance of the C.A.F.E. suppliers is not consistent, and that while some qualify for Starbucks best sustainability-performance criteria, most barely make it to the lowest common denominator. Indeed, Starbucks reported the following distribution of C.A.F.E. suppliers in its three-tier system:[33]

- Strategic (score of 80% and higher in social and environmental areas): 27%
- Preferred (score of 60% and higher in social and environmental areas): 11%
- Verified (score of less than 60% in social and environmental areas): 62%

Starbucks gives preferential treatment to C.A.F.E. suppliers, and one would assume that the Strategic tier gets top preference. Nonetheless, in addition to the fact that Starbucks' standards do not guarantee whatsoever true fairness and sustainability to all participants, Starbucks allows a lot of slack in performance among its C.A.F.E. suppliers vis-à-vis its own standards. Therefore, the delivery of sustainability in the coffee supply chain of Starbucks, measured by its own criteria as reported in its own 2005 CSR report, still leaves a lot to be desired.

My assertion that in reality there is little sustainability of a dignified life for all participants through the current FT scheme, as practised by most buyers of FT coffee, will become increasingly evident as we progress in the analysis of the current standards for FT-coffee and the performance of buyers such as Starbucks. In the case of the big importers, the shareholder-value mindset is so ingrained in their corporate culture that it is nearly impossible to expect, without social pressure, that they decide for their self-interest to make true sustainability a core element of their corporate culture. It is important to mention that Starbucks joined the FT sector –as most companies have become involved in CSR practices– only after it was pressured and/or openly denounced and boycotted. Indeed, Starbucks joined the FT sector only after it was pressured through a consumer boycott seven years ago. Since then, its published statement of desiring to expand its FT program does not show any substance for, as reported in the press, it has refused to add more fare trade offerings to its product line.[34]

Today, Starbucks not only continues offering one single line of FT coffee that it incorporated when it reacted to the boycott, it continues not offering FT coffee in the cappuccinos, espressos and lattes that are brewed in one of their more than ten-thousand outlets for immediate consumption. Starbucks sells FT coffee exclusively on whole-bean bags for consumption at home. Granted that, under the current FT concept, 28 percent of its purchases come from either FT or C.A.F.E. schemes, and that it reported paying on average $1,28 per pound to all its producers in 2005, which made it for that year an "in principle" fair-trade coffee-price payer. Thus, why does it refuse to sell FT in all forms and prominently advertise it at its premises? Reports indicate that in 2001 its advertising was almost non-existent at the stores.[35] If you visit a store in the U.S. today it is exactly the same. I asked the attendant about their FT coffee and she had trouble remembering the term. I had to point at the menu board above the counter for her to see a small sign to remember it. Then I asked her if she could make me an espresso with it. She said she could do it but I would need to wait much longer than usual since they do not normally use that kind of coffee to be consumed at point of sale. Starbucks FT coffee was priced at $10.45 per pound compared to $9,95 for the house blend, a retail-to-producer price ratio of about 8 to 1 for both. As for the C.A.F.E program, there is no sign of it whatsoever at the store. Moreover, if you try the website and visit the online store, FT or C.A.F.E do not appear on the landing page despite the fact that there is a whole section on the left-hand menu for Starbucks Coffees that lists "All Starbucks Coffees" (Mild, Medium, Bold, Extra Bold, Ground and Whole Bean).[36] One has to figure out that by clicking further into any of these coffee categories the left-hand menu will expand to include organic and fair trade at the very bottom of the list.[37] If you click fair trade it will continue to show one single blend, named "Café Estima Blend", as it did six years ago. Not surprisingly, there is no reference to C.A.F.E. at the online store whatsoever. Again, if the company is so committed to sustainable trade why does it keep it at such a low profile from a promotional/advertising perspective? Yet, in regards to its corporate image it goes to great lengths in its sustainability report to portray itself as a deeply-committed good corporate citizen. It goes to such a length that it wrongly includes charity programs – informing society that it contributed U.S. $30 million to charity and three hundred thousand hours of volunteer work[38]– when such actions are the antithesis of sustainability and responsibility. If corporations would not profit over people there would not be any need for charity since everybody would be enjoying a dignified and sustainable quality of life. Charity only mitigates the suffering and attempts to hide the causes of such suffering. As we will further see, token FT is clearly the brand of fair trade practised by Starbucks.

"it should be of no surprise the evident double standard that Starbucks and most companies are so prone to use when dealing with their social and environmental responsibilities"

⦿ *Barricade: Starbucks and its Corporate Citizenship Misdeeds in Ethiopia*

In the current capitalist ethos, to expect corporations to seriously commit to sustainability for moral reasons is rather naive. The overwhelming majority get involved in CSR and sustainability strictly to dodge criticism and to build a positive reputation for their brands and corporate name. They ultimately expect to gain further competitiveness and shareholder value by building their so-called intangible assets (White 2006). There is certainly nothing wrong with that, as a by-product of good corporate citizenship, and profit from their added value as long as there is genuine commitment and congruency between statements and actions, and that such statements meet the demands for sustainability of the various stakeholders.

Unfortunately, that is rarely the case, and in the case of Starbucks such an image immediately collapses when one observes specific positions that it has very recently adopted. This is the case of Ethiopia, the birthplace of the coffee bean and, ironically, one of the poorest countries in the world, ranking 170 out of 177 nations in the Human Development Index[39]. Almost eighty percent of Ethiopians or fifty-six million people live with less than $2 dollars a day and almost one-fourth live with less than $1 dollar a day. In Ethiopia coffee has a huge stake on exports, accounting for sixty percent of foreign exchange earnings and ten percent of government revenue. Indeed, about 17 million Ethiopians directly or indirectly participate in the trade of coffee for their livelihoods[40] and have no protection whatsoever from commodity market speculators. In this way, when the median production per household is of three-hundred kilos annually, which translate into an income of $847 in one year, or roughly $2,32 per day, it is impossible to argue that by paying $1,28 per pound a company is paying a fair price for coffee. Yet, Starbucks and other major importers willing, 17 million Ethiopians could be lifted out of poverty literally in one year if importers would be willing to pay a truly sustainable price. One cannot avoid arriving at the thought of sheer greed dominating the minds of global corporations when research shows that a producer from the South shares about $0,03[41] (or less than 1 percent) in a cup of specialty mocha coffee sold by Starbucks for $3,40 or earns $1,28 (or 7,8 percent) in a pound of "Arabian Mocha Sanani" sold for $16,45. A household income of little more than two dollars a day is not a sustainable income and much less a dignified income even in Ethiopia, and Starbucks could certainly pay far more to make it sustainable.

Precisely because the prices paid to Ethiopians are not sustainable, they have been trying to get more for their product, which commands some of the highest consumer prices (Starbucks' Ethiopia Gemadro Estate currently sells for U.S. $12 and Sidamo for $10,45 per pound,[42] and it is attempting to trademark a type of Sidamo coffee for $26). Ethiopians –still using the logic of the market– rightly argue that given that Ethiopian coffees are some of the highest in quality in the world they want to trademark three types of local coffee beans: Sidamo, Haraar and Yirgacheffe in the U.S. The trademark is a powerful trade tool that empowers exporters to improve their terms of trade, which are currently dictated by powerful global corporations such as Starbucks. As little as it may sound, for Ethiopia it represents an infusion of an additional $88 million in exports[43], which are vital for 17 million Ethiopians to barely make a living. The trademark would in effect protect their coffees in a similar fashion to the D.O.C or A.O.C of wine in European countries that protect and regulate the quality and origin of their wines, such as Champagne and Bordeaux in France or Duero and Rioja in Spain. But in contrast to the European Union, Canada and Japan, where the trademark registrations submitted have been successfully admitted, in the U.S. they have stalled and only the Yirgacheffe coffee bean name is currently trademarked.[44]

The –so far– unsuccessful due diligence of the Ethiopian government with the U.S. Patent and Trademark Office (USPTO) bluntly exposes Starbucks' hypocrisy and has triggered a consumer campaign targeting Starbucks as a result of its clearly predatory, bully and robber baron behaviour. So much for its boasted commitment to sustainability and fairness, for what stands out is its sheer greed behind its so-called commitment. Indeed, when the Ethiopian government filed its trademark application with the USPTO in 2005 it found out that Starbucks had already filed to register Shirkina Sun-Dried Sidamo coffee as a trademark to market it as a limited edition coffee for $26 a pound, which, if it pays on average $1,28 currently, it would be selling it for a ratio of more than 20 times its cost of sales –a classic case of Trade-Related-Aspects-of-Intellectual-Property (TRIPs) promoted by the neoliberal mantra of today's capitalism. In this way, albeit Starbucks has not attempted to claim exclusive use of the Sidamo coffee name, its action effectively resulted in the suspension by the USPTO of Ethiopia's application. Moreover, despite the Ethiopian government's call to Starbucks to sit down to resolve the dispute amicably, proposing a licensing agreement from Ethiopia to Starbucks, since the country is the sole originating source identifier, Starbucks refused to sit down.

Unfortunately that was not all that "sustainability pundit" Starbucks did to block Ethiopia's government from protecting a resource of true national interest for Ethiopian society. Starbucks premeditatedly and purposely intervened in the USPTO decision by prompting the National Coffee Association (NCA) –the U.S. coffee trading association– to write a letter of protest to the USPTO. Indeed, the NCA's president told the Ethiopian Embassy staff that Starbucks brought the issue to his attention. As Seth Petchers, coffee leader of Oxfam's International Make Fair Trade Campaign comments: *Starbucks behaviour is indefensible*.[45] Yet Starbucks was daring enough to attempt a denial, which Oxfam promptly refuted arguing that *it was disingenuous to deny its responsibility* and renewed its call to Starbucks to abide by its commitment by immediately fulfilling Ethiopia's request.[46] However, it took Oxfam to launch a consumer campaign last October, for Starbucks to be at least willing to sit down with Ethiopia a month later with no concrete results. Only after a four-month campaign, where Oxfam has mobilised a hundred thousand consumers who have submitted a petition to Starbucks, several FT importers, such as Green Mountain Coffee, have met with Ethiopian officials and have agreed to support its initiative to trademark its coffees in the U.S.;[47] and, a week later, Starbucks appears to be giving in, for it now has stated that it will no longer block Ethiopia. However, it has not shown yet a willingness to support Ethiopia's initiative to trademark its coffees.[48] Thus, the campaign will continue to exert pressure until Starbucks moves to fully support Ethiopia's request and sit down to work out a licensing agreement.

It should be of no surprise the evident double standard that Starbucks and most companies are so prone to use when dealing with their social and environmental responsibilities. Many have a track record of actions that show the obvious incongruence between statements and deeds relative to their commitments to pursue a truly sustainable business culture for all stakeholders. Starbucks track record shows, for example, that in 2002 the company agreed to pay $18 million to settle overtime cases with its own employees.[49] In this way, it is only natural, as The Economist reported, that Starbucks was one of many U.S. companies deciding to commit to the already very business friendly principles of the UN Global Compact only after a three-year effort by the UN and the American Bar Association, produced a letter, full of legal boilerplate, which shields corporations from lawsuits based on claims that they have failed to live up to the Compact.[50]

It is by observing this consistent behaviour that one can only conclude that the $1,28 per pound, that Starbucks boasts to be paying to one-hundred percent of its suppliers, is a price so cheap that it strategically allows Starbucks to portray itself as committed to true sustainability without really fulfilling its promise. Not only is there abundant evidence indicating that even in Ethiopia –where the cost of living is only 15% of the cost of living in the U.S. in purchasing power parity (PPP) terms– $1,28 per pound of coffee at best is a palliative in the suffering of dire poverty, but there is also abundant evidence exposing a consistent strategy from most companies to manipulate standards to appear to be doing good without really doing it.

"fair-trade coffee business schemes, by aiming at the lowest common denominator, fail to fulfil the spirit of the term and provide true sustainability to disadvantaged participants"

As we will further see, the $1,28 per pound is only a band-aid in the oozing wound, which does not provide a dignified life. To be sure, it looks strikingly similar to the same kind of hypocrisy that other global corporations use when they want to literally brag about the fact that they pay more than the minimum wage in the countries in the South that are part of their supply chain, perfectly knowing that a minimum wage is far from constituting a living wage even in the most advanced economies. In this way, paying a bit more than the commodities market price and paying a bit more that the minimum wage run on the same line of strategic thinking. They look quite reasonable and are so cheap that they still allow corporations to easily meet their shareholder goals. Yet the strategy is only a tinsel, for it does not measure up to its commitment to sustainability whatsoever. Consequently, paying $1,28 per pound is such a bargain that it remains quite consistent with Starbucks' until now denial to support Ethiopia's vie to trademark its blends to get a higher price to reduce the suffering of its coffee producers. A higher price for premium-priced coffees may still be quite cheap but it is above what the company had already allocated to its cost of sales and it would go against the shareholder demands for dividends in the coming financial quarters and the token FT that it has chosen.

Barricade: The Big Boys Assault

Beyond the evident misdeeds and double standards of Starbucks, as the major player in FT coffee globally, there are other FT-coffee business schemes that, by aiming at the lowest common denominator, also fail to fulfil the spirit of the term and provide true sustainability. But even worse, they pose much danger to the capacity of the FT movement to pursue its true meaning, as the control of FT appears to be moving from civilian trenches to the world's big boys of retail business.

"if, as it increasingly appears to be emerging, Fair Trade coffee becomes a main stream staple under the current paradigm, the economies of scale that provide sheer negotiating power to these corporations can eventually make of so-called FT coffee a commodity and the standard without delivering its promise"

A. *Retail Giants*

In this scheme of things, we have a growing number of major global corporations that are marketing fair-trade coffee and other products but have no intention of committing to true sustainability for all stakeholders, especially the small producers and labourers in the coffee-trading sector. They have jumped onto the bandwagon of FT to practice the traditional tokenism that has engulfed FT and CSR practice from inception, with the sole interest of increasing their intangible assets to further boost shareholder value. Among them, major retailers stand-out, such as French retailer Carrefour, the second largest retailer in the world, and now, of all corporations, Wal-Mart, a global exploiter,[51] which last year announced that it is jumping into FT coffee[52] and is currently testing it in the U.S. in Texas[53] –Sam's Clubs has been selling Brazilian FT Marques de Paiva since 2005.[54] In fact, more than 500 companies including McDonald's and Dunkin Donuts are now selling so-called FT coffee in the U.S.[55] and many others do it in Europe, including the Dutch Ahold Group, third largest retailer in the World, which has already endured big governance scandals and consumer boycotts due to financial creativity[56] and that markets the Utz Kapeh FT coffee label.[57]

This should be of great concern for supporters of fair trade and sustainability. First of all, it is evident that paying the current $1,26 FT price for coffee –which has not changed since 1994– does not empower producers and workers to enjoy a dignified life and, thus, the Fairtrade bar must be lift substantially –to increase the producers' share in the value chain of their coffees, vis-à-vis the retail price– to fulfil its purpose. Second, some of these companies have a terrible sustainability and labour rights track record, even in their home countries. Despite Wal-Mart's permanent media blitz to overcome its tarnished image, it still does not even produce a formal global CSR report –it produces an ethical standards report of its supply chain but not a comprehensive one of its entire operation– and only some of its subsidiaries, such as Wal-Mart Mexico, provide a shallow one.[58] Yet, beyond these documented facts, the sheer power of these megacorporations and their obsessive pursuit of greater profitability at all costs will only make it far more difficult for the fair trade movement to fulfil its purpose. This seriously threatens the original spirit of FT.

"how are Carrefour and Wal-Mart going to generate sustainability for consumers, which is perfectly acceptable, and concurrently provide sustainability for coffee producers or labourers participating in their supply chains? They can only do it if the pay substantially more for FT coffee and enforce the payment of living wages in their supply chains without increasing consumer prices. This can only occur if they cut their margins"

If, as it increasingly appears to be emerging, Fair Trade coffee becomes a main stream staple under the current paradigm, the economies of scale that provide sheer negotiating power to these corporations can eventually make of so-called FT coffee a commodity and the standard without delivering its promise. This may well take place relatively in the short term, to the point that I would not be surprised if within a decade all Arabica coffee is labelled FT –the cheaper Robusta coffee is the kind used for the Nescafé, Folgers and Yubans of the world. As we can attest in the case of Starbucks, which in 2005 paid on average two more cents than the FT price for all its coffee purchases, the FT price is so accessible that leading importers seem willing to pay it because it is so cheap and so strategically convenient. Yet if we analyse the market strategies of Carrefour and Wal-Mart, both focus on offering the lowest prices. Carrefour emphasises providing consumer sustainability by enabling them to buy at prices that correspond to their purchasing power.[59] Wal–Mart's motto is *always low prices*. If we already know that $1,26 per pound is not sustainable unless we only want to mitigate the suffering of small-coffee producers, how are Carrefour and Wal-Mart going to generate sustainability for consumers, which is perfectly acceptable, and concurrently provide sustainability for coffee producers or labourers –or, for that matter, all stakeholders participating in their supply chains for all products? They can only do it if the pay substantially more for FT coffee and enforce the payment of living wages in their supply chains without increasing consumer prices. To be sure, this can only occur if they cut their margins; but undoubtedly they would regard such a scheme as anathema as long as we remain immersed in the current Darwinian paradigm of shareholder value. In this way, it is becoming evident that allowing megacorporations to get involved in FT without first substantially raising the bar for Fair-Trade coffee standards –especially green-coffee price and wages– may eventually give control of this sector to them and make of FT a watered-down concept with its price regarded as the standard price (a commodity price) without really being fair trade. It is also becoming evident that the current FT price of $1,26 can only function as a safeguard against sudden speculative downturns in the commodities market or a major natural disaster in a large coffee region.

"given that minimum wages only provide a fraction of the income necessary to enjoy a dignified standard of living both South and North, the only way is then to lift the bar of FT for price and wages to the level necessary to provide a dignified life"

Not only do many of these corporations have some of the worst images in their labour and supply chain practices by unrelentingly pursuing the greatest efficiencies at the cost of the sustainability of their employees and suppliers, but the odds of embracing truly sustainable practices are practically impossible. That is, some of these corporations, such as Carrefour, at least on paper, have incorporated into their sustainability standards some of the guidelines and indicators from the OECD, the GRI and others. Such standards make reference to internationally recognised norms such as, for example: the ILO conventions on labour rights. However, even if all corporations active in FT coffee would eventually fully adhere to all of these standards, that would not guarantee the sustainability of a dignified livelihood for producers and labourers whatsoever. As The Jus Semper Global Alliance has always contended, the OECD, the UN Norms, the Global Compact and all others defer to the ILO Conventions regarding labour standards (TLWNSI 2003). Yet the ILO's highest standard only requires compliance with the labour laws of each country and the payment of the legal minimum wage of each country (de Regil 2006). Given that minimum wages only provide a fraction of the income necessary to enjoy a dignified standard of living both South and North, the only way is to lift the bar of FT for price and wages to the level necessary to provide a dignified life. Thus, we need a truly sustainable framework and not the current CSR standards that have been watered down by multilateral organisations and some NGOs in reaction to pressures of corporations and their governments.

"the UK Food Group report cites complaints by Max Havelaar –FLO's labelling organisation in Switzerland– that Utz Kapeh is practising a sort of FT light"

B. ***Standard Setters – Utz Kapeh***

In addition to these corporations we have a diversity of initiatives that participate in FT coffee in some fashion and that work with corporations to develop supposedly sustainable conditions and that are not members of the FLO. Among them, the most relevant appears to be Utz Kapeh.

This organisation portrays itself as *a worldwide certification program that "sets the standard for responsible coffee production and sourcing";* but, in effect, clearly demerits the spirit of FT coffee and operates as an usher for the big boys or retail. Utz Kapeh competes with the FLO arguing that they complement each other since Fairtrade focuses on small producers and they do not.[60] Thus, the key difference, as Utz Kapeh poses it, is that it does not offer an FT Coffee per se but rather it labels with its seal of approval all the brands that it certifies to comply with its standards. Such a concept is to be expected since Ahold is a cofounder of Utz Kapeh. In this way, since Ahold has its own Ahold Coffee Company, it vies to certify 100 percent of its coffees with the Utz Kapeh FT label.[61] Utz Kapeh also certifies other well-known brand names such as Sara Lee and dozens of coffee roasting companies. To be sure, Utz Kapeh is a big-boys fair-trade player and it goes directly against the FLO's concept.

Indeed, at the same time it claims that the FLO and itself complement each other, it attacks the FLO's concept by arguing that *Fairtrade is a help program that invites consumers to choose Fairtrade-labelled products and actively participate in social and environmental improvements by paying a premium price*. To this regard, it contends that *market statistics show that the majority of consumers and companies are not willing to make this active contribution.*[62] In this way, Utz Kapeh asserts that people prefer their favourite brand if they know it is produced in a sustainable way, despite the fact that such an argument is easily refutable by the consistent position of consumers in surveys, expressing their willingness to pay a premium price for fairly-traded products if quality is at par.[63] In a fashion that conveys a sense of entitlement bordering on hubris, Utz Kapeh also boasts that its name is about *professionalism in coffee growing and traceability to ensure this* –whatever that means.

In contrast with the FLO, neither Starbucks' own C.A.F.E. or Utz Kapeh's provide a floor price to producers; but, as we have seen with Starbucks, they may pay equivalent prices or offer price incentives for quality, which provide some price stability. However, this could be well bellow the FT floor of $1,26. As reported by the UK Food Group, *list prices paid by Utz Kapeh buyers –cited by Renard (2004)– were above market prices (U.S.$ 0,70-0,77/lb compared to $ 060/lb)*. If you visit its website, it has a page on pricing, which refers to a premium price without establishing a benchmark, for it argues that its certified premium is explicitly determined in a negotiation between buyers and sellers with no participation from Utz Kapeh.[64] Not surprisingly, the UK Food Group report cites complaints by Max Havelaar –FLO's labelling organisation in Switzerland– that Utz Kapeh is practising a sort of FT light. [65] Evidently, Utz Kapeh's standards have no interest in lifting small farmers out poverty. Thus, for instance, its code of conduct does not make any mention of financing to producers in contrast with the FLO standard. It becomes evident that Utz Kapeh is a big boys club and that its activity undermines the FLO focus on opening markets for small producers.

"none of the standards intentionally undermine fair trade, but as long as they fail to address in a comprehensive manner the requirements to produce truly sustainable trading relationships between small producers, workers and corporations, corporations can easily used them to look good without really doing good"

C. ***Standard Setters – ETI***

Coming from an entirely different angle, the Ethical Trading Initiative (ETI) participates in FT to promote labour rights and, despite its good intentions, it fails to fulfil its purpose. The ETI is an alliance of companies, NGOs and trade unions that has developed its own code of conduct to protect supply-chain working conditions for workers producing for the UK market so that such conditions meet or exceed international labour standards. The ETI promotes its code of conduct for both manufacturing as well as agriculture. Its focus is labour rights wherever they may be, and monitors all its business members on an annual basis. Although the ETI does not have a fair trade label and it is not a member of the FLO it supports FT. Some of its member corporations are major UK retailers such as Marks & Spencer and Tesco, which market FT coffee in addition to roasters such as Union Coffee Roasters. Consequently, the ETI has produced the ETI Smallholder Guidelines, with small producers of coffee and other FT products evidently in mind. However, the ETI makes clear that while Fairtrade's emphasis is on ensuring that producers are paid a decent price for their product, the ETI's mission is to secure that decent minimum labour standards are met in the production of the whole range of a company's products.[66]

Nonetheless, as described in the table below, the ETI suffers from the same old problem of all labour CSR standards: based on the ILO's conventions, it sets legal minimum wages as the standard, and encourages a living wage without defining it in a practical manner and much less requiring it. Given that ETI's work is centred on the UK, this may not be a big problem in terms of a achieving a living wage ethos in the isle. Yet, when it comes to all the workers in the countries in the South who are systematically exploited to supply the UK and the rest of the North, it is a daunting problem. Thus, in regards to small coffee producers and coffee plantation workers, the ETI code fails in the same way all others do in demanding a truly dignified living standard. The ETI is only a voluntary standard for labour rights used by many companies in the UK. Other corporations may use similar standards such as the SA 8000, which also focuses on labour, or the more comprehensive GRI. None of them intentionally undermine FT, but as long as they fail to address in a comprehensive manner the requirements to produce truly sustainable trading relationships between small producers, workers and corporations, the latter can easily be used by them to look good without really doing it. A case in point: ActionAid UK has just released a report and campaign exposing how UK supermarkets', including Tesco, Asda and Sainsbury, buying practices incur in blatant human rights violations engendering poverty wages, dangerous conditions, long hours and insecure jobs for women working on farms and in factories across the South.[67]

Below, table 1 is showing how a living wage is not really addressed by the standards used by some of the large corporations already involved in FT coffee, which are assumed to ensure sustainability in the livelihoods of producers and workers by the various players:

Table 1. How major Fair-Trade Coffee players and code-setting organisations address the issue of a living wage

Starbucks	Uses its own C.A.F.E. norms, requiring from producers at least the payment of the legal minimum or industry standard, whichever is greater and mentions living wage with no definition (SR-HP1)2. For Fair Trade it defers to FLO standards.
Carrefour	Adheres to the ILO Conventions, in particular with regard to freedom of association and collective bargaining. There is no mention of minimum or living wages whatsoever.
Wal-Mart	Wages and benefits on its supply chain must comply with local and national laws or be consistent with the prevailing local standards in the countries, if the prevailing local standards are higher.
Ahold	Abides by the standards of the Business Social Compliance Initiative (BSCI), which in turn defers to the ILO conventions. Thus, BSCI clause 4 of its code of conduct establishes the legal minimum wage as the benchmark and encourages the payment of adequate compensation to meet expenses and disposable income (whatever that may be).
Utz Kapeh	Chapter 10, section F of Code of Conduct covers Workers' Rights and makes explicit reference to a number of ILO conventions. As for wages, it states (10.F.10) that *producer must pay his workers (permanent and seasonal) gross wages that comply with national and sector legislation*. There is no mention of living wages whatsoever.
ETI	The Base Code contains nine clauses, which reflect the most relevant ILO standards. Clause 5 explicitly states as a norm that *Living Wages are paid*. However, code 5.1 sets the benchmark at a minimum wage or whatever is necessary to meet basic needs and something extra, which falls into ambiguity and opens the norm to free interpretation: *Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income*. The ETI's Smallholder Guidelines make an extra effort to be more explicit but fail to be precise regarding what is a fair/living wage. It requires that buyers pay a price that exceeds cost of inputs plus labour at minimum or living wage whichever is higher. It requires the same from small producers who employ labour. It also warns that a national minimum wage is often not a living wage. Yet its best definition of a living wage does not offer a mechanism to define it and maintains ambiguity, for it only states that *All workers are entitled to a 'living wage'. That means that income/pay should be enough to meet basic needs (for example housing, food, fuel, clothing, health and education) with some left over to spend as wished.*
ILO	The ILO's wage standard is the minimum wage as specifically defined in Convention 131 and Recommendation 135 of 1970. There are other sector specific minimum wage fixing conventions for machinery (C028) and agriculture (C099). None of these conventions are considered Core or Priority conventions, meaning that only fifty nations have ratified them and important coffee producers such as Colombia and Ethiopia have not.

References to endnotes: Starbucks, [68]; Carrefour, [69]; Wal-Mart, [70]; Ahold, [71] and [72]; Utz Kapeh, [73]; ETI, [74], [75] and [76]; ILO, [77]

A peripheral player favouring large producers is Eurepgap; a standard with influence on coffee production created in 1997 as a private sector body that sets voluntary standards for certification of agricultural products worldwide. Eurepgap is the base of Utz Kapeh's production standards. It describes itself as an *equal partnership of agricultural producers and retailers, which want to establish certification standards and procedures for Good Agricultural Practices*.[78] Its goal is to maintain consumer confidence in food quality and food safety and secondarily to ensure a responsible approach to worker health and safety. It does not get involved in fair trade or labour rights. Yet it is worth mentioning for it has specific compliance criteria for coffee, which has generated criticism for favouring large landholders and for constituting in practice a barrier to market entry for small landholders (Tallontire and Vorley 2005).

"the standards directly developed or adopted by major corporations and multi-stakeholder organisations discussed above, none effectively address the true sustainability of producers and workers at the bottom of the pyramid"

D. ***Other major coffee players***

As for the large investor-owned traders that control the market, most have embarked on so-called sustainable practices outside the FLO system under the same lowest common denominator standards used by the players described above. Traders such as Ecom, Efico, Neumann, Tchibo and Volcafé –and roaster/marketers such as Nestle, Sara Lee and Kraft– have developed sustainability projects in collaboration with the Sustainability Agricultural Initiative. Nestle has developed a supplier rating system similar to Starbucks' C.A.F.E. practices, all below the FLO (Ponte: 2004).

Last but not least is the International Coffee Organisation (ICO). ICO's mission is to function as the *main intergovernmental organisation for coffee, bringing together producing and consuming countries to tackle the challenges facing the world coffee sector through international co-operation. It makes a practical contribution to the world coffee economy and to improving standards of living in developing countries.* The ICO cites *encouraging sustainable living conditions* as one way of fulfilling its mission. Yet, while it also mentions, as another way, to work together with the private sector through a "16 strong Private Sector Consultative Board", small landholding coffee producers, who represent 75 percent of the world's coffee production, have little representation. Among the members of the private-sector board you can find the trading associations of the big boys, such as the U.S. NCA, and the European and Japanese Coffee Federations but limited representation from coops.

As a reaction, NGOs involved in FT coffee such as Oxfam International (OI) have been pressing to increase representation of smallholders in the ICO. In OI's view ICO can create a space for small farmers to obtain debt refinancing, low interest loans and access to information and markets. But, even more importantly, the ICO could publicly call for a restructuring of the coffee industry so that coops can participate in a levelled-playing field with large plantations and global corporations.[79] Unfortunately, until now little progress has been made. OI had been requesting ICO to provide small-scale family coffee farmers and farm workers with equal representation in ICO's advisory forums by changing its current charter to resolve the current coffee crisis. OI argues that corporate interests are represented and enjoy dedicated forums, thus, small coffee growers should enjoy the same. OI wanted to participate in the 95th Council Meeting last may with Temporary Observer Status. However, ICO refused and only allowed OI to give a presentation without engaging in any "critical dialogue". In this way, as reported by OI, the ICO failed to come up with specific proposals addressing the problems of small coffee growers and, since 2005 continues to move at a snail's pace regarding the future of its operating charter.[80] As it usually occurs with most trading organisations, the ICO is dominated by the big boys of both exporting and importing countries.

Barricade: Structural Quagmire

In analysing the standards directly developed or adopted by major global retailers, marketers, investor-owned traders and multi-stakeholder organisations discussed above, none effectively addresses the true sustainability of producers and workers at the bottom of the pyramid, which is in principle the purpose of these schemes. The fundamental problem is that there is no such standard establishing a plateau that provides them a truly dignified quality of life or, for that matter, to all workers involved in manufacturing or service industries. The WTO's charter does not even recognise the 1948 Universal Declaration of Human Rights and does not make reference to the ILO Conventions. Thus, relative to workers working for both small and large coffee producers, as discussed earlier, in the best case, the current CSR and fair-trade frameworks resort to using the lowest common denominator available, deferring by default to the ILO conventions when setting the standard regarding labour remuneration, well knowing that such standard is an unsustainable legal minimum wage in each country. This environment soothes the demands of the big global players perfectly.

Consequently, it becomes increasingly evident that the problem at the root of the feebleness in the current standards is a structural quagmire created by the current Darwinian predatory culture that engulfs the world. Thus, the highest-level standard-setting organisations such as the ILO or the OECD, which respond to member governments, will not dare to move from the minimum wage standard, which in turn has always left global corporations free to roam the world in pursuit of the cheapest labour costs.

The majority of the standards used in FT share the good intention of encouraging employers to pay more than the minimum wage to allow workers to fulfil their basic needs and have discretionary income. However, under the current ethos, it is extremely naive to expect corporations to fulfil such a wish, which even if fulfilled would still not be a real living wage. As Jus Semper has always contended, in a globalised world a living wage must be of equal pay for work of equal value applied vis-à-vis equivalent workers globally instead of based on the prevailing local wage. In this way, unless civil society dares to lift the standard and specifically develop norms and mechanisms that guarantee a truly sustainable livelihood for all workers, the current calls encouraging a living wage are nothing more than lip service for their intended audiences.

"there is growing pressure to allow large corporations to participate in the FLO by opening certification to the big coffee plantations they use, without raising the standard"

⦿ *Barricade: Pressures to water down the FLO ethos*

As more large corporations jump onto the bandwagon of FT the demands in pursuit of truly dignified sustainable coffee producer prices and the wages paid to coffee workers share a very weak position. It is not only clear that these companies are currently manipulating the concept of Fair Trade –devising their own token marketing tactic schemes– but also that they will do everything in their power to undermine the efforts of true fair traders.

We should bear in mind that corporations such as Wal-Mart and Carrefour pay miserable wages to most of their workers in the South, in Brazil, Colombia, Mexico, Algeria, Tunisia, Indonesia or China, among others, which amounts to much less of what they should be earning vis-à-vis equivalent workers in the North in purchasing-power terms. Thus to expect that they will commit even to the shy demands for a fair producer price and a living wage for all workers involved in FT coffee is wishful thinking. Yet their sheer market power is putting the integrity of the FT movement into question not only by provoking confusion about what FT really is among consumers, but also by the pressure they are exerting to water down the original FT concept aimed at the small landholder.

In addition to developing their own schemes such as the Utz Kapeh concept, there is growing pressure to allow large corporations to participate in the FLO system by opening FLO certification to the big coffee plantations they use, without raising the standard. Many small producers in the South have expressed great concern about this issue (SETEM 2006). This has engendered divisions in the FT movement. To name one instance, Dean's Beans Coffee, a 100 percent FT-coffee marketer, dropped the Transfair USA label –the exclusive U.S. licensor of the FLO– in 2003 because it felt that it was giving too much attention to the big companies that offered meagre commitments to FT with their token FT.[81] Dean Cycon, president of Dean's Beans, explains that he has been asking Transfair for two years to make public the percentage that each licensee buys of FT coffee beans. However, according to Cycon, Transfair has refused to divulge the information arguing that it is a "company's secret".[82] Equal Exchange, another long time FT organisation, has expressed concern that it may have to follow Dean's Beans path should the current pressure from big coffee roasters to certify big plantations persist.[83] With the current FT price standards, are we really expecting large plantations to pay a living wage to their workers?

In reviewing Transfair's annual report, it acknowledges the concern expressed by other members of the FT movement and commits to avoiding *corporate greenwashing*. However, in defining *greenwashing* its commitment refers to attempts by corporations to lower standards.[84] It does not, nonetheless, commit to gradually requiring a 100 percent FT coffee, tea, cocoa, or any other FT commodity. It attempts to justify it by explaining that large corporations *may choose to take an incremental approach to Fair Trade, testing consumer demand and increasing their investment in Fair Trade based on market performance.* It argues that large companies *have the ability to expand the benefits of Fair Trade to millions of additional farmers, workers and consumers*.[85] Based on such rationale, one can only concluded that –as in the case of overall CSR performance, and presuming that the FLO standards truly provide a dignified livelihood to all participants– it is quite all right to have a business model that exploits a portion of your participants in your supply chain and still advertise that you are an FT practitioner. That is, the objective is not to be entirely responsible but just to do a little good, without any tampering with the structures of exploitation, as in charity. Thus, in the same way that corporations cherry pick the CSR standards where they look good, avoiding the rest, but portraying themselves as entirely responsible, they can portray themselves as FT practitioners before their consumers, even if only a portion of their coffee business is FT and outright exploitation reigns in the rest of their supply chains.

In this way, the question is whether Transfair is committed to making all trade FT or just to increase the volume of FT regardless of how committed to true sustainability are participants. Jus Semper has always contended that a company cannot be deemed responsible if it exploits workers even if it excels in all other areas of CSR. In direct contrast, for Transfair it is perfectly all right to use FT as a niche marketing strategy and not as a comprehensive commitment to sustainable business practices. It gives preference to the volume that big business brings than to a holistic commitment to fair trade. Transfair does talk about avoiding token commitments and it implies in its report that it expects companies to gradually increase their volumes. However, until the program would require a formal contractual commitment from a corporation to a timetable to make all coffee FT, there is no indication of a requirement that roasters/marketers must move from niche marketing to a real commitment to sustainability. Transfair earns a license fee charged to roasters of U.S. $0,10 for every pound of coffee it certifies, and it uses it as an incentive. To lower the fee, buyers must increase their total yearly FT volume and/or their total FT coffee as a percentage of total coffee business. Yet, given that there is no requirement to become 100 percent FT, roasters/marketers are free to do as they best deem. In practice Transfair allows the use of FT as a marketing scheme to look good and fulfil consumer demand as FT coffee continues to grow dramatically. It may not be token FT relative to *greenwashing* the current FLO standards, but it is certainly tokenism relative to real commitments to the sustainability of all stakeholders and the environment. Moreover, one has to wonder whether the fact that big corporations will generate in less time more revenue in licensee's fees than smaller roasters, such as Dean's Beans, has some weight on the lack of requirement for a comprehensive approach to FT marketing.

Fair-Trade coffee consumption is exploding in the U.S., with a 35 percent growth just in 2005 and a compound growth rate of 79% since 2001 (Transfair USA 2005). According to the National Coffee Drinking Trends 2006 survey of the NCA, almost three of every four adults in the U.S. drink coffee and 56 percent drink it daily, with specialty coffee accounting for more than half the value of total coffee in the U.S. market. Also, according to the NCA, more than half of coffee drinkers who are aware of fair trade buy it at nearly twice the rate of organic.[86] Moreover, coffee drinking in the U.S. continues to be on the rise. In a yet-to-be-released 2007 National Coffee Drinking Trends survey of the NCA, daily coffee drinking among adults has surpassed soft-drink drinking (57 versus 51 percent).[87] This is why large corporations are jumping on the bandwagon given consumer trends and the intangible assets that FT *greenwashing* offers. Considering that the U.S. is the world's largest coffee market and that Transfair is the sole FLO licensor in the U.S., it should be of great concern to those who pursue true sustainability and social justice that Transfair's FT practice does support the dominance of FT by large corporations –as a result of their economies of scale– without any commitment to a holistic practice and much less to lifting the bar of FT standards. Thus, the watering down may occur both because the price is so cheap that it makes it a bargain to participate, and because the economies of scale of large importers may be too attractive for some FLO members to reject the fees that will be generated. In this way, FT coffee may eventually become a watered down concept, literally a commodity, when large importers and their sources flood the market with "FT coffee" by paying the price and committing to standards that benchmark at the lowest-common denominator, unless the FT movement raises the standards to a higher ground.

⦿ *Barricade: Corruption*

Finally, there are the problems of corruption that should be of concern for the FT movement. In a recent report, the Financial Times warned that "Ethical" coffee from Peru, the world's top exporter of FT coffee, is paying to workers less than the minimum wage. There are also reports that non-FT coffee is being labelled and exported as Fairtrade, while other supposedly FT coffee is produced in protected rain forests. The FLO did not deny that it is occurring and it commented that this is an indication that there are deeper problems that must be addressed, such as the fact that many coffee workers are casual labourers.[88] There are also reports of coffee coops in Africa mired in mismanagement and exploitation. It is not clear yet how widespread are these violations but the incidents reported reinforce the need for the FLO and importers to improve standards and systems to make their monitoring and certification processes bullet proof.

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IV. Market Assessment of Fair-Trade Coffee

Identifying Positive Trends in the Current Market Ethos

IV. Market Assessment of Fair-Trade Coffee

Identifying Positive Trends in the Current Market Ethos

"there is a growing number of enterprises that show a clear commitment to the true sustainability of small coffee producers without any hardship to their profitability"

On the other side of the fence, there is a growing number of enterprises that show a clear commitment to the true sustainability of small coffee producers without any hardship to their profitability. This does not imply that they are already doing everything necessary to create a truly sustainable ethos for all the small farmers and workers of FT coffee that they work with, but what they are already doing appears to be a move in the right direction. Their route provides specific evidence and clear arguments on some of the things that are necessary and doable to build a truly fair-trade ethos if only there were the political will to do it among all participants.

☑ *A Comprehensive Holistic Approach – North America*

The FT model of these businesses is comprehensive FT instead of the niche-marketing model used by global retailers and larger coffee roasters. In North America, the majority of importers and retailers that approach fair trade with a holistic vision are members of the Fair Trade Federation (FTF). To be a member you must commit to market fair trade coffee exclusively and your 100 percent fair trade practices are verified and attested by the FTF. Currently, the FTF lists 26 coffee wholesalers in the U.S., Canada and Mexico, which reach consumers through hundreds of retailers and other channels. Some of the largest FT-coffee holistic wholesalers are Equal Exchange, a real pioneer in the fair trade movement, Dean Bean's Coffee and Alter Eco. They sell to high-end stores including Bristol Farms and Whole Foods, which carry them as specialty coffees, and to regional grocery chains such as Giant Eagle. But they only have spotty penetration in large grocery chains such as Albertson's where Equal Exchange is one of at least two FT-coffee vendors in some 160 stores since 2003. Most FT coffee in large chains including Albertson's, Kroger and Safeway comes from coffee roasters that do not sell only FT coffee and carry it as part of their CSR practice under a niche marketing approach. This is the case of Green Mountain Coffee and of Millstone Coffee Company –the latter owned by P&G. The former distributed 20 million pounds of coffee in 2005 of which one fifth of total was fair trade. Green Mountain has distribution in over 5000 supermarkets and in late 2005 signed a contract with McDonald's to market Paul Newman's blend of organic FT in over 650 McDonald's outlets.[89] Unlike in some European countries, there are no large grocery stores in North America that carry only fair trade coffee yet. The closest instance is Wild Oats markets, with 112 stores in the U.S. and Canada. Wild Oats specialises in natural and organic foods and has converted all bulk and bar coffees to fair trade, accounting for the vast majority of the coffee it sells (Wild Oats 2005), and it buys it from Green Mountain. Indeed, Green Mountain reported, for its fiscal 2005, that much of its growth was due to the tremendous growth of FT coffee. Yet Green Mountain considers that its future revenue growth may be jeopardised because the demand for FT coffee is growing faster than its availability (Green Mountain Coffee 2005).

"the current Fair Trade price (U.S. $1,26) is still about forty cents per pound lower than the market price all importers paid before the crisis and yet they were all profitable"

Such views appear to be very debatable. Comprehensive FT roasters argue that there is no business justification for not making all your coffee fair trade. Dean Cycon counters the arguments raised by some big corporations, such as Starbucks, for not buying all of its coffee from fair trade because the FLO only works with small landholders organised into co-operatives. He argues that if you are committed you should still work with independent small landholders if they otherwise comply with all other FLO standards, because there are thousands of small landholders who grow coffee decently and deserve to be paid an FT price. They are not certified just because the FLO does not have the resources to certify them yet. Moreover, Cycon argues that *there's literally tons of available Fair Trade registered coffee out there. Last year less than twenty percent of the Fair Trade eligible coffee was sold that way - if nobody buys it at Fair Trade prices it gets sold as conventional. The Big Boys simply choose not to pay the price for it - then they claim it isn't available.*[90] Cycon also reminds big importers that the irony of Fair Trade is that the current Fair Trade price (U.S. $1,26) is still about forty cents per pound lower than the market price all importers paid before the crisis and yet they were all profitable. Consequently, the profit margins are so wide that there is enough room to pay more and still make a good profit. Furthermore, in the unlikely scenario where one-hundred percent of the FT-registered coffee is grabbed by roasters and there is still more demand for it in the market, if you are committed you do not necessarily need the FLO label at all cost. As previously mentioned, Dean's Bean dropped three years ago the Transfair label but it maintains the FTF seal used by coffee marketers that only sell FT coffee. Dean's Beans continues to buy all its coffees from FLO certified producers without Transfair's certification for the transaction because there is enough FT-registered coffee available in the market. But even if that would be exhausted, a committed importer would still go to small individual producers who do not belong to a coop and would assist them in the production and export-import process as well as on the FLO certification process and, while the FLO process is completed, pay them at least the fair trade price and provide financing when necessary. FT is all about sustainability of those who are at the disadvantaged end of the trade in the current global market run by global corporations. Ideally, all products should be labelled, but if they are not, because a small producer cannot join a co-operative, why exclude him if he still complies with the spirit of FT? Indeed, even the FLO itself reports figures for both labelled and non-labelled FT, explicitly acknowledging the existence of this kind of FT. This is why among those participating in fair trade, reality has only two possibilities: either there is genuine commitment or they only see a business opportunity to use a label strategically and selectively to increase profits and intangible assets.

"creative fair-trade business strategies improve the sustainability of coffee producers and establish long-term stable relationships"

A Comprehensive Holistic Approach – Europe

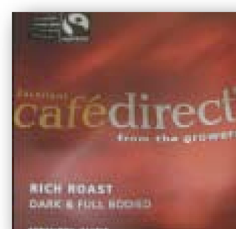
In Europe the penetration of Fair Trade coffee is higher than in North America or elsewhere, and in supermarkets and other retail outlets in some countries it is significantly more than in North America. In some cases there are retail and coffee chains that sell exclusively FT coffee. Fair Trade coffee penetration, nonetheless, varies greatly from market to market. While in the UK FT-coffee accounted for 20 percent of total ground coffee consumption in 2004, in Germany it was one percent and in Norway four-tenths of a percent.[91]

In observing the UK market, given FT coffee's penetration, the British retail chain Marks & Spencer has converted all of its 184 Café Revive coffee shops and all their Food Halls, inside Marks & Spencer stores, to only FT coffee. Fair Trade Coffee is as well the only coffee served in all AMT Coffee Shops and Slug & Lettuce pubs, which together represent over a hundred points of sale. Fair Trade coffee has definitely become mainstream in the UK, with over 3.100 supermarkets selling FT coffee including Tesco, but most chains sell it only as a niche in their coffee selection. Nonetheless, there are clearly opposing approaches to fair trade in the UK retail chains. The Co-operative Group, fifth supermarket chain in the UK, is the leading retailer advocating FT coffee and many other FT items in the UK, offering FT coffee in its more than seventeen hundred stores. The company moved in 2004 from niche to comprehensive FT marketing by converting all its own Co-op brand whole bean and instant coffees to FT exclusively. Additionally, Co-op distributes FT coffee brands Cafédirect and Percol. In this way, ninety percent of all the ground coffee sold in its stores is FT.

From a coffee roaster perspective, the explosive development of FT coffee in the UK has also enabled Cafédirect and Percol to make a sound business of FT coffee with their own brands. Cafédirect only produces coffee, tea and cocoa the fair trade way, while the vast majority of Percol's coffee is FT and the rest is organic. Both brands have good distribution of their products with all the major retailers in the UK, and Cafédirect is already a major competitor in the coffee business –FT or non-FT– with its FT roast and ground brand ranking fourth in the market.[92]

"there is a natural disposition in consumers everywhere, which has been consistent every time they are surveyed, to switch from a standard product to a product with the aura of offering consumers the added value of empowering them to do a good deed for humanity"

Beyond the strong penetration of FT coffee in the UK, there are two factual features worth commenting on that clearly reinforce the argument on behalf of lifting the bar of FT to provide true sustainability for the South's small farmers. When the Co-op Group migrated from niche to comprehensive marketing with its own store brand, it envisioned increasing the sustainability of small producers while protecting the sustainability of UK consumers. Thus, it switched to pay more for its coffee without passing on the increase in cost to consumers. Instead of using FT coffee as an upscale niche marketing approach with higher margins in low volumes –with a premium retail price– it gambled for large economies of scale that would enable it to increase total contribution to profit volume –despite the lower margins– while remaining competitive with consumers. The group vied for a reasonable profit whilst providing a better price to the producer without increasing the price to consumers (Tallontire and Vorley 2005).



The other case is CaféDirect. This company's business model goes beyond FLO's basic standards. CaféDirect works with one quarter million small landholders and their families. In 2004 it successfully initiated a programme issuing company shares, which included Southern producers who are represented on its Board of Directors. But it went even further when it also launched a profit sharing programme with its partner producers, which provided eight percent of gross profits to be put into their business for increasing capacities. The two cases illustrate creative fair-trade business strategies that improve the sustainability of coffee producers and establish long-term stable relationships. They also exhibit the true colours of companies that argue that they cannot convert all their coffee to fair trade.[93]

In western and central Europe FT products are distributed in 79 thousand points of sale, of which 53 thousand are supermarkets. In the overwhelming majority of cases FT coffee is available in these supermarkets. Coffee is by far, as elsewhere, the top FT product in sales volume. According to a 2004 survey by the FLO, after the UK's 20 percent in FT coffee penetration, next is Switzerland with six percent of ground coffee. Next are Austria, Denmark, Ireland and Belgium, ranging between 2,3 to 1,7 percent. Germany is at one percent and there are no figures available for Italy, France, Spain and the Netherlands. Considering the size of these markets and the level of consumer awareness, such low figures or lack of data should be taken with caution, for actual penetration figures are likely to be higher. There is no doubt, however, that the UK is currently the most developed FT market in Europe both in market penetration as well as in sophistication. According to the FLO, the retail value of labelled FT in Europe was of €597 million in 2004 and growing an average of 20 percent annually. In 2004, the UK accounted for 34,5 percent of the labelled FT market.[94]

It is clear that the more the FT-coffee market becomes mainstream, as in the case of Europe, the more we can observe specific instances of genuine commitment to the sustainability of producers from the part of coffee retailers. It is also evident that there is a natural disposition in consumers everywhere, which has been consistent every time they are surveyed, to switch from a standard product to a product with the aura of offering consumers the added value of empowering them to do a good deed for humanity. This is why the largest corporations in the world, that otherwise only have contempt and disregard for social justice, have been forced to jump on the bandwagon of FT. If they did not they would surely lose share in the marketing of coffee. Thus, they are being forced by consumers to offer FT, but only to the extent they currently see necessary to preserve their position and increase profitability following a niche marketing approach. Nonetheless, the previous cases are a clear indication of successful progress for everyone truly committed to generate sustainability through the FT marketing of coffee.

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89 CERES. McDonald's & Green Mountain Coffee Roasters Announce Partnership, 27 October 2005.

90 Fair Trade Roadmap - Dean's Beans - Fair Trade Coffee Fair Trade Coffee Roasters Organic Coffee Roasters at: www.deansbeans.com/ coffee/ fair_trade_roadmap.html

91 Jean Marie Krier. Fair Trade Europe 2005. FLO, IFAT, NEWS, EFTA, pg. 30

92 Ibid, pg. 66.

93 Ibid, pg. 66.

94 Ibid, pgs. 15 and 29.

V. Market Assessment of the FLO System in the Coffee Trade

How Much to Go Before True Sustainability?

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How Much to Go Before True Sustainability?

As previously indicated, the fact that there is a growing number of participants in the North that feel a commitment with the true sustainability of the coffee producers in the South does not imply whatsoever that the current practice of FT is or will deliver fair levels of sustainability. In considering the quality of sustainability one should ask what is fair and who sets the standard for adequate sustainability? Is the price established by the FLO truly providing a dignified quality of life to all stakeholders, especially those at the bottom of the pyramid? Coffee generates one quarter or more of export earnings for nine countries in Sub-Saharan Africa and Central America. Since the 1990s coffee exports have increased consistently; yet export earnings have decreased because of the speculations and greed of commodity market traders. As the Human Development Report asserts, this does nothing to achieve progress in meeting the Millennium Development Goals, and, in contrast with farmers in the EU, in the U.S., Japan and a few others, Southern farmers have no protection for falling prices. This is why the report asserts that the power of large supermarket chains is such that they have become the market gatekeepers. Consequently, importers have tremendous responsibility for empowering or denying stakeholders in the South a dignified life (Human Development Report 2005). Thus, how is the FLO standard envisioning that the practices of these gatekeepers allow producers and workers at the bottom of the pyramid to enjoy a dignified life?

"is the price established by the FLO truly providing a dignified quality of life to all stakeholders, especially those at the bottom of the pyramid?"

The FLO Standards in the Coffee Trade

The FLO has come up with a minimum price benchmark that, as we have learned in the case of Starbucks and others, is so low that Starbucks reports that it pays it not only to FT-certified and its C.A.F.E producers but to its entire sourcing network. With this and other examples, I have previously questioned the veracity of the assertion that many participants make that the FT price ensures a living income. Nonetheless, to make an objective assessment of how the FLO concept operates, a review of relevant FLO standards is necessary. Following is a review of social standards, FT price development procedures and labour standards:

"in considering the quality of sustainability one should ask what is fair and who sets the standard for adequate sustainability?"

❖ ***FLO Social Development – Standards for Small Producers***[95]

- ✓ 1.1 Fair Trade should make a "difference" in development for FT-certified producers.
- ✓ 1.2 The majority of the coop's members are small producers, and more than 50 percent of the production comes from small producers. Producers are defined as *not structurally dependent on permanent hired labour, managing their farm mainly with their own and their family's labour-force*.
- ✓ 1.3 Coops must be democratically structured, with a general assembly and voting rights for all members and an elected Board, and with a management staff in place. Management is transparent to all members, and participation in management is promoted,
- ✓ 1.4 No discrimination is allowed in the coops, and policies restricting membership admission must not exert any discrimination based on ILO's Convention 111 criteria.

Table 2. Assessment of FLO's social development

FLO's social development standards are not specific enough as to define what is the extent into which fair trade should make a "difference". It requires democracy, transparency and non-discrimination in the governance of predominantly small-farmer coops, but these standards are marred with ambiguity and make no reference as to what should be the right degree of social development. Since the fundamental element in the FT concept is the provision of an FT price to certified producers, it is necessary to analyse the criteria to set the price.

"there is no indication whatsoever that the objective of the price-setting procedure is designed to ensure that small farmers in the South enjoy a dignified quality of life standard and much less is there an indication relative to what should be such standard"

❖ ***FLO Price-Setting Procedures for Small Producers***[96]

- ✓ The FT price is the minimum price to pay for an FT-certified product,
- ✓ It is intended to strictly cover the average producers' costs of sustainable production (COSP),

which includes a business margin and profit to producer,

- ✓ If possible, global or regional prices are set; if not, national prices are set,
- ✓ Additionally, producers also receive an FT premium,
- ✓ The premium is intended for investment in the producers' community,
- ✓ Setting an FT price typically involves setting both the minimum price and the premium,
- ✓ Standards Committee and Standards Unit Director have the authority for price setting,
- ✓ The Board may participate in an advisory capacity working with the Standards Committee,
- ✓ The Standards Committee is composed of key stakeholders including producers, traders and labelling initiatives,
- ✓ The Standards Committee provides guidance and makes decisions relative to price,
- ✓ The Standards Unit manages price-setting projects including the necessary research,
- ✓ The various stakeholders may request a price-setting project,
- ✓ The Standards Unit may approve or reject a request,
- ✓ Supporting research is typically executed by consultation with at least one producer per country,
- ✓ The supporting research is designed to produce the COSP,
- ✓ Once a draft is produced a consultation with key stakeholders is initiated,
- ✓ A final draft is submitted to the Standards Unit for approval or rejection.

Table 3. Assessment of FLO's price-setting procedure

The price-setting procedure appears to be conducted through consultation of the key stakeholders. Yet there is no indication whatsoever that the objective of the price-setting procedure is designed to ensure that small farmers in the South enjoy a dignified quality of life standard and much less is there an indication relative to what should be such standard. Several specific comments must be made regarding this procedure:

No dignified quality of life standard. The greatest shortcoming in the price-setting procedure is that there is no standard that defines what should be the minimum dignified standard of living of producers that should be achieved and must be sustainable, and much less a procedure to determine it,

Logic of the market context. Failing to first define such standard and subsequently a procedure to determine a floor price that secures such standard leaves the odds for achieving a dignified sustainability of producers up to the market's "free" forces. It is good that there is systematic consultation with key stakeholders for the price-setting process. Yet there is no indication of any consultation to define a dignified quality of life standard.

Margin and profit to producer do not guarantee sustainability of a dignified quality of life. The FT price –including the premium– is the minimum price to pay, and it is intended to cover the COSP or the costs of sustainable production. The COSP includes input costs, labour, business margin and profit to producer, but it does not make any reference whatsoever to the need to require that such business margin and profit guarantee a dignified standard of living to producers,

Floor price acts also as ceiling to sustainability. The floor price provides a measure of stability. However, including the business margin and profit to producer as part of the COSP it also constitutes in effect a ceiling to the level of dignified sustainability to be achieved, if at all. In this way, if costs of production increase –especially hired labour– and leave insufficient or no margin to cover living costs of producers –or to cover costs for a living wage to workers, the only possibility to cover them is left up to the negotiating skills of producers to secure a higher price, sufficient enough to provide both living costs and wages with a decent degree of sustainability. This is again subject to the logic of the market in a very unlevelled-playing field.

No guarantees of emergence from poverty. This failure to address the dignified standard of living does not support at all claims, such as Transfair's assertion that the FT price *empowers farmers and farm workers to lift themselves out of poverty,*

Ambiguity leaves everything to free interpretations. The claim of the FLO that the FT price is *A stable price, that covers at least production and living costs, is an essential requirement for farmers to escape from poverty and provide themselves and their families with a decent standard of living* cannot be supported since it does not define *a decent standard of living*. Without precise definitions a living cost could easily refer to a misery quality of life by any standard.[97]

Final price is up to "free" market forces. Given that the FT price is the floor price, the actual price paid by importers –above the floor price– to FT-certified producers is completely open to market negotiations, where the bargaining power of corporations overwhelms the power of coops. Thus, there is no guarantee whatsoever that the final price paid will provide an ethos that can sustain a dignified quality of life. Given that there is no obligation to pay a higher price, anything above and beyond the floor price is strictly based on an unsustainable logic of supply and demand and the bargaining power of the trading parties. Starbucks, for instance, reported paying on average two cents above the floor price in fiscal 2005.

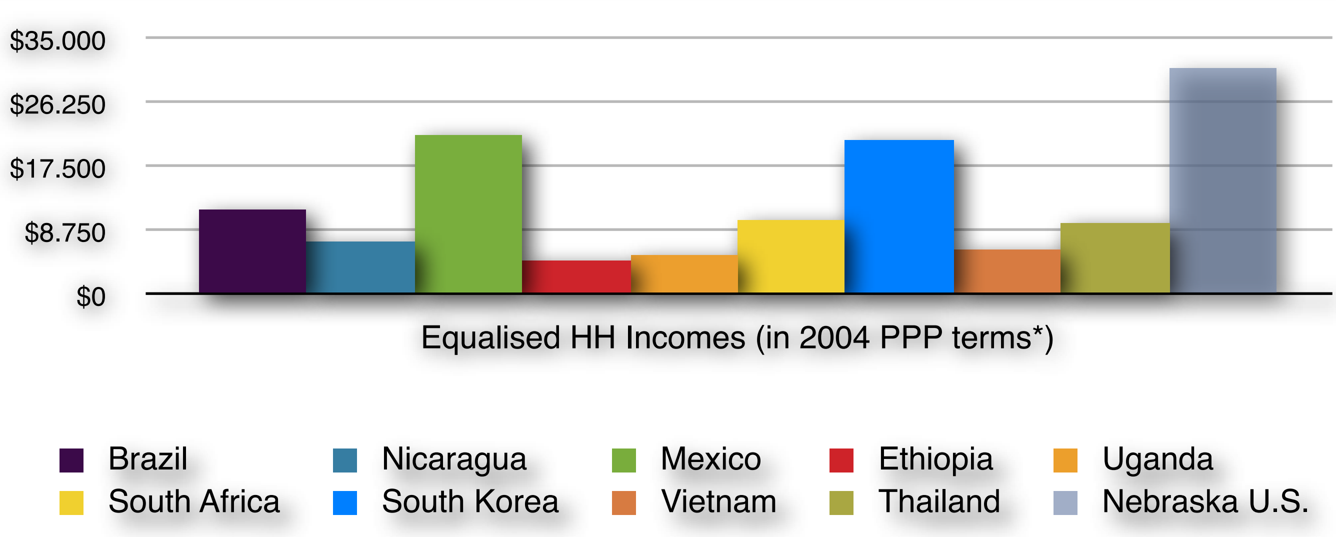
Market logic is completely unsustainable. Leaving the potential for a greater profit margin of small and dispossessed producers up to the free forces of the market contradicts the original intention of fair trade, which is to provide a dignified and sustainable livelihood to small producers. The logic of the market by nature generates inequality and cannot be used to seek dignified and fair sustainability.

One price fits all is incongruent with national economic dynamics. Giving preference to setting a global or regional floor price whenever possible vis-à-vis a national price, completely disregards the huge differences in the cost of living between countries and the constant fluctuations due to economic dynamics, and wrongly assumes that one price fits all. Such rationale is clearly engulfed in the logic of the market, where typically there is one price for each type of commodity, and there has never been any regard for the sustainability of a wide diversity of producers of the same commodity who have completely different living costs structures. In 2004 the global FT coffee floor price of U.S. $1,26 amounted to PPP $7,30 (*Purchasing Power Parities*) in Uganda, whilst it amounted to PPP $1,80 in Mexico because the cost of living in Uganda was 17 percent of that in the U.S., whilst it was 70 percent in Mexico.[98] Costs of livings differ widely between economies, as illustrated in graph 2 using rural Nebraska's living income as benchmark;[99] thus, one global price cannot respond to the economics of each individual producing coop, and much less can it guarantee that it will "*lift them out of poverty*."

No basis in criteria to ensure a living wage of coffee labourers. As we will see in the labour standards, there is no basis in the calculation of the costs of production to guarantee that covering costs provides enough income to the producer as to provide a living wage in the case of coffee farmers –or other FT farmers– who hire labour.

Premium has no direct impact on producers' coverage of living costs. The premium added to the price for both C-Price and organic Arabica, of five U.S. cents, amounts to less than four percent of the floor price and it is exclusively for community development. Thus, it should not be considered part of the direct sustainability of a producer's household (see section endnote).[100]

Graph 2. Equalisation of selected South's small-producer household incomes with rural Nebraska, U.S., basic household living income of $31,080



* World Bank: World Development Indicators 2006, table 1.1 TJSGA 2007

❖ ***FLO Standards on Labour Conditions for Hired Labour***[101]

Given that not all members of FLO-certified coffee coops are small producers and that there is increasing pressure to certify large coffee farms, the labour conditions of labourers working both sporadically or who are formally employed becomes increasingly relevant for the fair trade of green coffee. Albeit all labour standards are listed below, I will focus on FLO's wage criteria to assess the sustainability of farm workers:

- ✓ No forced labour and child labour in line with ILO's conventions 29,105, 138 and 182,
- ✓ Freedom of association and collective bargaining in line with ILO's conventions 87 and 98,
- ✓ Conditions of work in line with ILO's conventions 110 for plantations, 100 on equal remuneration and 111 on discrimination: *All employees must work under fair conditions of employment. The producer organisation must pay wages in line with or exceeding national laws and agreements on minimum wages or the regional average.*
  - Minimum conditions of wages:[102] *Salaries are in line with or exceeding regional average and official minimum wages for similar occupations.*
  - Progress Requirement concerning wages: *Salaries are gradually increased to levels above the regional average and official minimum.* In the Standards for Hired Labour the specific requirement of Standard provision 1.5.2.5 is that: *Salaries are gradually increased to 'living-wage' levels above the regional average and official minimum.* The Objective and Guidance for this requirement explains that: *It is expected that salaries will be negotiated between management and the workers' organisation through a benchmarking system (taking into account salaries and other benefits of comparable businesses) and in relation to the additional income a company realises through Fairtrade.*[103]
- ✓ Occupational Health and Safety in line with ILO's convention 155,

"the criteria used by the FLO for hired labour is a great leap forward in the pursuit of the dignified sustainability of workers in the FT system"

❖ ***Development Potential and Capacity-Building Standard***

In addition to the labour-specific standards for FT producers with hired labour, the FLO has standard 1.1, which is intended to contribute to the social welfare and empowerment of workers:

- ✓ Minimum Requirements:[104] Corporate Social Responsibility must be an integral part of the producer's culture, mission and strategic business plan, and FT must be a central element of the mission and plan. Employers must demonstrate that any FT revenues will promote the socio-economic development of their workers. Furthermore, producers are *expected to steadily improve their social performance using the progress requirements as guidance.*
- ✓ Progress requirements:[105] *Within one year of certification the company has adopted an annual work plan for social improvement, taking the progress requirements as reference (1.1.2.1).*

Table 4. Assessment of FLO's standards for hired labour

The criteria used by the FLO in pursuit of the sustainability of workers working for plantations, farms or any operation involved in FT with hired labour clearly and positively stands out from any multilateral or multi-stakeholder standard that I am aware of, for it makes a strong and specific emphasis on the achievement of living wage conditions for all workers as the ultimate goal of the FLO system. It bears some contradictions and it still lacks a mechanism specific enough to define what should be a living wage, but it is a great leap forward in the pursuit of the dignified sustainability of workers in the FT system. Several specific comments are deemed necessary:

A superior wage standard. The progress requirement is to go above and beyond the regional averages and official minimum wages, to reach a living-wage level, which puts the FLO wage standard apart from the ILO and all other norms that defer to the ILO regarding wage standards. It is also not a recommendation but a clearly stated requirement. Moreover, it calls for a gradual increase –in my opinion rightly so– which conveys the idea that the only realistic way to close the current gap between real wages and the living-wage standard is to do so gradually, since the gap is so huge in all Southern countries that it can only be achieved through short strides in the span of several decades.

Living wage jointly defined. The FLO progress requirement calls for a jointly-defined labour endowment system, including benefits, and not for a system unilaterally defined by the employer. The requirement upholds the labour relations of farming and plantation workers in the context of internationally-accepted labour rights as defined by the ILO; specifically the rights to freedom of association and collective bargaining, which provide adequate protection for workers assuming that labour legislation is enforced in the countries in question. It is nonetheless a superior standard since it is intended to achieve a living wage and it calls for a jointly-designed benchmarking system that takes into account the additional income that a large landholding producer should obtain from the presumably higher FT price.

Contradictory reference to comparable business. Unfortunately, the FLO standard calls for using the salary and benefits of comparable businesses as a point of reference in the development of the benchmarking system. This directly contradicts the call to achieve a living wage for currently the overwhelming majority of Southern workers in the agricultural, industrial and service sectors do not earn a living wage. Taking into consideration –as a guideline in the benchmarking system– the labour endowments of comparable businesses to achieve a living wage, defeats the stated goal of gradually increasing salaries to a living-wage level. The current standard practice of most corporations for setting their salary tiers is to develop benchmarks by comparing their salaries with comparable businesses. Benchmarks are usually the average salary for comparable jobs. The goal is to ensure that their salaries remain competitive, not too far below or above the benchmark. In the best-case scenario, most companies in the South pay minimum wages or a little more for low-skilled labour, which provide a misery quality of life. Since nobody pays a living wage in the South, benchmarking would not set the wages of FT workers above the misery wages. Only if a living wage is previously jointly defined as the long-term goal and is set significantly above the current benchmark resulting from the wages paid by comparable businesses could the FLO accomplish its stated goal of achieving living wages.

No mechanism or specific guidelines to define a living wage. A major shortcoming in the pursuit of a living wage is the lack of criteria and a mechanism to determine a living wage. It is good that the FLO calls for a workers-management joint definition of the labour endowments in large plantations. Yet the FLO needs to develop the criteria and mechanism to determine the living wage in each country and, if possible, in each region within a country.

No specific support to ensure a living wage standard. If the mission of the FLO is to create the conditions for workers in the FLO system to lift themselves out of poverty, the FLO must go beyond its current position and develop a living-wage-setting system that ensures that workers not only fulfil their most basic needs but achieve a sustainable dignified quality of life standard. It also needs to act as an active enforcer of such standard by advising workers and employers in the application of the system. Without such support, the power of corporations will make of the negotiating process a "business as usual" game. Not even in high-skilled labour industries, such as the automotive industry, do workers in the South, even if unionised, enjoy a living wage. Therefore, unless the progress requirement includes the criteria, the living-wage-setting system and the direct advisory role of the FLO in complying with such criteria –as the standard-setting and certifying entity– it is completely unrealistic to achieve a living-wage standard in the FLO ethos.

Positive integration of CSR concept in the FLO system. The FLO requirement of incorporating CSR practices as an integral part of corporate missions and business plans provides very positive benefits for workers. From Jus Semper's perspective, most major multilateral and multi-stakeholder CSR norms include many sound social, economic and environmental criteria. Nonetheless, they all have two major failures: 1) the lack of a living wage norm and 2) the voluntary nature of all CSR frameworks. Given that FLO's standards are mandatory and that the FLO has the power to certify or decertify participants, including importers, the FLO is in an enviable position to make both importers and large producers observe a CSR practice that, in regards to their Fair Trade business, includes a truly living wage standard and is mandatory and not an option.

Despite some major shortcomings, the essence of the FLO system is still a very good idea from which to build a new ethos in the pursuit of social justice and sustainability, and there are many truly committed participants that want to make it work. The positive elements that stand out are:

- ***Safety-net price:*** The guarantee price above the exchange price provides a safety net against drastic changes,
- ***Eliminates intermediation:*** By bridging producers with importers it eliminates domestic intermediaries,
- ***Mandatory-standards framework:*** Mandatory standards for certification puts the FLO above all other CSR/sustainability frameworks in that corporations cannot optionally comply or cherry pick the standards they like,
- ***Progress requirement to go above the standard minimum:*** This is of utmost importance relative to social and labour standards, since FLO's minimum

requirements are generally at par with most CSR/ sustainability frameworks used by corporations,

☑ ***Specific call for a living wage:*** The progress requirement to gradually establish a living-wage ethos among producers who hired labour is unique and really stands out from the norm.

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95 See: FLO. Generic Fairtrade Standards for Small Farmers' Organisations, December 2005

96 See: Andres Kratz. SOP Public Development of Fairtrade Prices. FLO, 12 September 2006.

97 See: FLO. Impact: http://www.fairtrade.net/impact.html

98 See: World Bank. 2006 World Development Indicators, Table 1.1, pg. 20. April 2006.

99 See: Sylvia Allegretto. Basic Family Budgets. Working Families' incomes often fail to meet living expenses around the U.S. Briefing Paper, Economic Policy Institute, September 2005.

100 The fair trade Premium to be added to the price was increased $0,05 by the FLO on 20 March 2007, to 10 cents for C coffee and 20 cents for organic. See: FLO announces increase in Fairtrade Premium and Organic Differential for Coffee: www.fairtrade.net/single_view.html?&cHash=3ffdd5067d&tx_ttnews[backPid]=168&tx_ttnews[tt_news]=17

101 See: FLO. Generic Fairtrade Standards for Small Farmers' Organizations, December 2005 and FLO. Generic Fairtrade Standards for Hired Labour, July 2006.

102 See: FLO. Generic Fairtrade Standards for Small Farmers' Organizations, pgs. 21-22. December 2005.

103 See: FLO. Generic Fairtrade Standards for Hired Labour, pg. 19. July 2006

104 See: FLO. Generic Fairtrade Standards for Hired Labour, pgs. 5-6. July 2006

105 See: FLO. Generic Fairtrade Standards for Small Farmers' Organizations, pgs. 21-22. December 2005.

VI. How Sustainable is Our Latte?

Corollary of the FLO Ethos

VI. How Sustainable is Our Latte?

Corollary of the FLO Ethos

In the final analysis, in envisioning a truly sustainable fair trade ethos, the assessment of the FLO system bears the following consequences and ramifications:

How Sustainable is FLO's Fairness?

There is a stark absence of a generally accepted definition of what is fair, including the critical elements of a living income and a living wage. If we are talking of fair trade, the first logical thing to define is what fair should be. Currently, to grasp the meaning of fair in fair trade one can only find it by induction in observing particular situations for it is not explicitly expressed. In this way, my induction is that fair in fair trade is a well-meaning effort to make things less unfair in a quite unfair ethos without any serious attempt to change it. There are clear expressions of a desire to lift dispossessed participants in the global market system out of poverty, but there is tremendous ambiguity in defining the different social states and in particular the desired social state of dispossessed participants. Fair price, poverty, living costs, living wage, sustainability, dignified, everything is left to the free interpretation of participants and observers. Such lack of clarity can only draw very incomplete progress in the mission of FT and a lot of latitude to participants who are only interested in fair trade to advance their very private interests and not to contribute to improving the welfare of dispossessed producers and workers.

A North-to-South Vision

Furthermore, the entire fair trading system appears to be dominated by the nineteen full-member labelling organisations in the North –there is one associate labelling organisation in the South: Mexico– since there is no equivalent representation of producers and workers in the governance of the FLO. There are no representations from each country where commodities are critical for the dignified livelihood of a significant number of families. Moreover, the twenty labelling organisations are not formed by civil coalitions with equal representation from North and South, but rather they are formed by individuals and civil organisations of each country where a labelling initiative is based. Why should the labelling organisations in the North define standards and impose them on producers in the South? Shouldn't producers and members of civil society in the South have proper representation with equal weight in the FLO and the labelling organisations? Why should the South not have equal representation in the decision-making process? These arguments are nothing new, and they have been raised many times before by producers to organised civil

"While for the North empowering Southern workers to fulfil their most basic needs may be fair enough, for the South fair may be enjoying an equivalent quality of life to that enjoyed by equivalent Northern farmers and workers"

society in the North.[106] In this way, the concept, its logic and the criteria that so far define fair trade constitute essentially a Northern vision. This has fundamental implications. For example, who is going to define what is a fair standard of living? While for the North empowering Southern workers to fulfil their most basic needs may be fair enough, for the South fair may be enjoying an equivalent quality of life in real income terms (purchasing-power-parity terms) to that enjoyed by equivalent farmers and farm workers in the North. Thus, currently the North's vision, however well meaning, dominates the thinking process in defining how fair trade should work, what fair should be, and the vision of Southern societies enjoys very limited representation.

"why is the current fair-trade system still anchored on a market-based logic? How are we going to "achieve greater equity" when the norm is total inequity?"

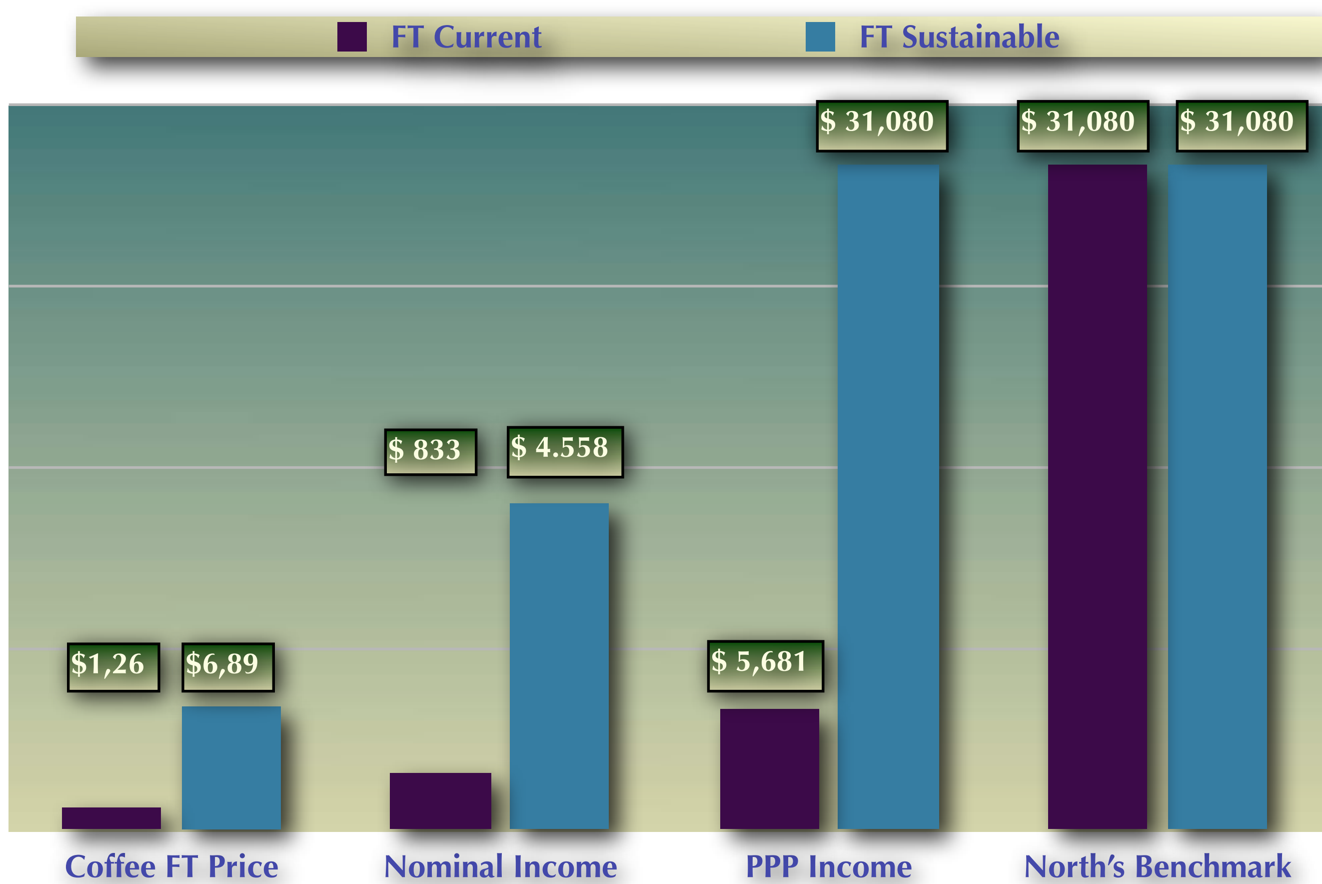
Darwinian-Market Logic

The FLO bears a market-based logic that by nature is the antipodes of sustainability. Has anyone asked if the so-called disadvantaged small producers chose to compete in the global market and deal with global corporations? Or, instead, were they forced to live in an unprotected global economy and scrap a living in whichever way they can find because their governments in reality work on behalf of corporations and fail to fulfil their basic democratic responsibilities? So, are they competing in a very unlevelled playing field determined by a Darwinian-market logic by choice or by default? If it is by default, why should fair trade continue to subject them to the logic of the market and the "free" forces of supply and demand? Is there really no way out of neoliberal dogmas in fair-trade thinking?

The FLO defines fair trade as *a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing their rights of, disadvantaged producers and workers – especially in the South.*[107] If such is the objective, why is the current fair-trade system still anchored on a market-based logic? How are we going to "achieve greater equity" when the norm is total inequity? How are we going to increase sustainability and "secure the rights" of producers and workers when the greater efficiencies, productivity and ultimately shareholder value of global importers are anchored on the idea of extracting maximum profit from an operation at the cost of all other participants, and when they also have the power to be the gatekeepers of the market? Why is fair-trade thinking still immersed in an efficiencies and competitiveness mentality proper of "free" profiteers?

Consequently, when it comes to certifying a coffee transaction are we really expecting dispossessed producers to make such a profit with $1,26, plus whatever they can negotiate, that they will gradually eradicate poverty from their families, or are they only going to leave with less injustice in a very unfair market system? If a coffee transaction is certified with a large landholder are we really going to expect that his workers will earn a wage that will empower them to live a dignified life by global standards or just by what the North thinks should be dignified enough for the South, if at all? Has the North even defined what dignified should be with precision? Why should the same FT price of coffee be maintained since 1994?[108] To illustrate the argument, as shown in graph 3, if we use PPPs to gradually equalise within one-generation (thirty years) the basic living income of an Ethiopian farmer household with the basic living income of a family of four in rural Nebraska, United States, which would be of $31.080 U.S. dollars in 2004 (Allegretto: 2005),[109] the equivalent nominal income for a family of four in rural Ethiopia would be of $4.558 in 2004, because the cost of living is a little less than 15 percent of that in the U.S. Given that the median production of coffee in Ethiopia is of 300 kilograms annually, the current annual nominal income, at $1,26, per pound is currently of only $833, which is equivalent to a PPP income of only $5.681 Thus, as illustrated in table 5, to receive the nominal income of $4.558 equivalent in PPP terms to the rural Nebraska family income of $31.080, the Ethiopian farmer would need to receive, in the span of thirty tears, a price equivalent to $6,89 per pound at current prices and not of $1,26 instead. That is, to provide dignified sustainability to Ethiopian farmers, the coffee price gap between $1,26 and $6,89 would need to be gradually closed, with annual increments, within thirty years in order to provide a living income using as the benchmark the living income of equivalent stakeholders in the North.

Graph 3. Sustainable FT coffee price required to produce basic living income for Ethiopian farmers with U.S. farmers as benchmark using 2004 PPPs *



**(Calculations based on Ethiopian median coffee production of 300 kilograms/household annually)* *TJSGA 2007*

Table 5. Analysis of FT coffee price to make it sustainable for Ethiopian farmers using North's standard as the dignified living-income benchmark

➡ Ethiopia ranks 170 out of 177 in Human Development Index
➡ Percent living with less than $2 a day: 78% = 66 million Ethiopians
➡ Percent living with less than $1 a day: 23% = 19,5 million Ethiopians
➡ Coffee share of Ethiopia's foreign exchange: 60 percent
➡ Percent of Ethiopians directly or indirectly participating in coffee trade: 20% = 17 million
➡ Median annual coffee production per household: 300 kilograms = 661 pounds
➡ Income per coffee producing household @ $1,26/lb. = $833 = PPP $5.681
➡ Nominal income per day from annual household income: $2,32
➡ Equivalent income required to equalise Ethiopian farmer family budget with basic living family budget of U.S. farmer in rural Nebraska of $31.080, based on Ethiopian PPP cost of living of 15% = $4.558
➡ Price to be paid per pound to meet that income: $6,89

An honest response to the question of whether the current FT price for coffee would provide a dignified standard for producers and workers would not be able to support the ideal of lifting people out of poverty and providing them with a sustainable dignified life, because the logic of supply and demand still reigns supreme; namely that there is no guarantee of a living income to producers in a very speculative ethos. The only guarantee is a minimum price, if there is a buyer, and no guarantee of a living wage to workers. There are no safeguards empowering producers or workers to lift themselves out of poverty. There is only a relative safeguard against another commodity markets crash. Indeed, it is likely that the vagueness in defining the critical FT traits of living income, living wage and sustainability is premeditated, for, otherwise, such a goal would be unrealistic unless we change the market-driven ethos. What is certain is that there is complete incongruence between the pursuit of sustainability and the promotion of FT in the context of a logic imposing a capitalistic vision of commodity market speculation. It is likely that this is also the reason why there is only one price for coffee producers all over the world. The one-price-fits-all is irremediably subject to the logic of supply and demand in commodity markets. It doesn't matter if labour and inputs cost many times more in some countries than in others. The logic works on behalf of commodity traders, who have always completely disregarded the implications of their market speculations, and not on behalf of sustainable practices. To commodity traders, labour should also be a commodity and it should have one single global price that meets their efficiency and productivity demands.

Achieving a true living wage for workers and a living income for small producers, from the perspective of Jus Semper, implies defining a single universal living wage or income for comparable jobs and producers in the same trade by equalising them in terms of purchasing power parities. That is far more ambitious than achieving the UN's Millennium Development Goals (MDGs), which the UNDP concludes that under the current economics of the coffee trade cannot be met for citizens in the South participating in this trade. The UNDP explains how the collapse in coffee prices at the beginning of the current decade increased poverty in the households of the people participating in coffee production in coffee-producing countries. In Ethiopia, where more than one-third of the rural population survives with less than $1 a day, the coffee crisis cut the income per household about $200.[110] In Uganda it reversed a decline in income poverty and increased the GINI index from 34 to 42, suggesting that Uganda may be in a transition from a low to a high-inequality country.[111] In Central America the crisis produced a drop of 1,2 percent of GDP, and in Nicaragua the incidence of extreme poverty increased five percent for coffee farmers. The UNDP concludes that falling household income of people participating in commodity markets undermines progress towards the MDGs across a broad front.[112]

The MDGs aspire to fulfil basic human needs such as the eradication of extreme poverty and hunger, universal primary education, reduction of child mortality and improvement of maternal health. Yet the MDGs report serious setbacks in Sub-Saharan Africa where Ethiopia and Uganda are located. In that sense the FLO concept is a fabulous idea, for it represents a safety net from the misery of extreme pauperisation described by the UNDP when commodity speculation triggers price collapses. However, to fulfil its declared mission the FLO must start by putting people above the market. Unless FT is transformed to make it people and not market driven, the Darwinian market logic will not allow the FLO to deliver anything more than a safety net from extreme poverty. The current FLO system, in the best-case scenario, can only contribute to meet the basic needs of the MDGs. However, to achieve real living incomes and wages, as defined by Jus Semper, the system needs a complete overhaul.

"given that the explicit terms used are highly desirable, the FLO must redesign the concept and lift the bar to be congruent between claims and standards"

Congruency with Mission

To be congruent with the declared mission that the FLO is in principle striving for, FLO organisations have to lift the bar dramatically. But before lifting the bar they have to redesign the FT concept to make it people centred. Otherwise, the claims of the FLO organisations cannot be upheld because the current concept can only mitigate poverty by reducing it, for it is not addressing the causes of poverty among commodity producers, which to a great extent are market-driven causes. In my opinion, today an objective claim would be that the FLO is a poverty-mitigating ethos.

In specifically looking at congruency between claims and reality, the terms fair trade, living wage, living income, sustainable and many more do not really mean anything for they are free to be interpreted as every individual or organisation deems convenient. Yet the claims made using these terms by FLO organisations carry a great deal of responsibility before consumers and civil society as a whole. To be sure, the claims are very positive, but from a consumer or citizen perspective, they are completely misleading and confusing. Claims such as *a stable price, that covers at least production and living costs, is an essential requirement for farmers to escape from poverty,* from the FLO, or the standard claim in every Transfair USA press release that *TransFair USA audits transactions between U.S. companies offering Fair Trade Certified™ products and the international suppliers from whom they source, in order to guarantee that the farmers and workers behind Fair Trade Certified goods were paid fair, above-market prices and wages* is absolutely misleading for the reasons previously argued. Furthermore, there is so much latitude in the use of terms that the marketers can say whatever they want. For example, the supermarket chain Trader Joe's in the U.S. sells Organic Fair Trade Nicaraguan coffee with its own brand name and Transfair's label. The package informs consumers that *From two different sustainable, Fair Trade Certified farming co-operatives in Northern Nicaragua, these growers have pledged themselves to quality in three areas: quality of life for their workers, a quality environment and quality in every cup.* Quality of life for workers means whatever Trader Joe's and Transfair want quality to be, but it is a completely false claim for there is no standard and, thus, no assurance that workers engulfed in a global economy enjoy a dignified quality of life by "everyone's standard" (see section endnote)[113]. If the FLO concept requires that companies integrate FT and CSR as standard business practices, FLO organisations must also make sure that their mission and claims on their declared statements are faithful to the word and the spirit of the word, and that they do not deceive consumers and society as a whole. Consequently, given that the explicit terms used are highly desirable, the FLO must redesign the concept and lift the bar to be congruent between claims and standards.

"the volatility of the share of producers in the value chain is overwhelmingly driven by the speculation of the market investors. Thus buyers must increase the producers' share without increasing retail price"

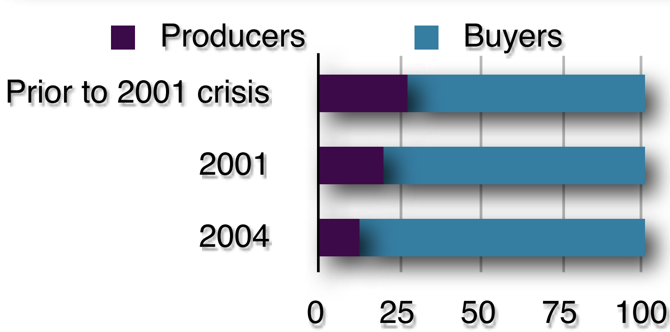
A Truly Sustainable Price Scheme

Fulfilling in practice the stated ideal of FT of lifting people out of poverty requires the price of coffee to be substantially increased to a new plateau, and a price scheme to accommodate the great diversity in costs of living/production of the world's coffee regions must be developed. To substantially increase the price, the market's supply and demand logic has to be replaced with a truly sustainable logic. If corporations want to take advantage of the added-value that the FT concept bears in consumer perception, they have to accommodate their business goals to fulfil the claims that the FLO allows and that they want to make. The dramatic increase in ethical concerns in consumer behaviour must be met with a truly ethical approach to the sustainability of FT producers. Otherwise, consumer organisations will make sure to inform consumers about the deception. Thus coffee importers/roasters must think long term and expect to build a greater market base of loyal customers with lower margins instead of thinking strictly on a quarterly basis to meet the demands of the institutional investors in stock markets.

If corporations really want to boast their support for sustainability, there is no business excuse. I deem necessary to repeat Dean Cycon's recount about the hidden irony of FT in that the current FT coffee price is still about forty cents per pound lower than the market price paid by importers three years ago - and even then buyers were all profitable; the implication being that the price does not need to be increased 40 cents, but whatever is necessary in each part of the world to provide a dignified sustainability to producers.

Furthermore, studies show that in assessing the green coffee to retail price ratios, roasters enjoy high-profit ratios despite the added value and other costs associated such as labour, marketing and distribution. Studies show that the bulk of the profit margin comes directly from the ratios between green coffee and retail ground coffee. As I explained, the collapse in producers' share in the value chain can be attributed primarily to the volatility of green coffee vis-à-vis the low elasticity of roast and ground coffee retail prices. While green coffee prices can collapse as much as 80 percent, retail prices do not adjust for downturns and may even increase. Consequently, there is plenty of room for coffee roasters to decrease their share of the retail price to pass it on to producers in as much as necessary to provide a dignified living ethos. A study estimates that before the 2001 crisis green coffee accounted for 27 percent of the retail price of roast and ground coffee. As shown in graph 4, by 2001 it had dropped to 20 percent, and by 2004 the producers' share of the retail price in supermarkets had gone down to 12 percent; and to less than three percent of the out-of-home price.[114]

Graph 4. Producers' share in value chain of retail price for roast and ground coffee



TJSGA 2007

The volatility of the share of producers in the value chain is overwhelmingly driven by the speculation of the market investors. Thus, buyers must increase the producers' share without increasing retail prices; namely, by cutting their margins. As earlier discussed, the Co-op Group in Britain did exactly that when it switched its entire co-op brand coffee to FT coffee. The Co-op Group concludes in a report that the reluctance of the three major coffee roasters in the UK to support fair trade are based on fear and it describes three types of fear:[115]

Table 6. Coffee roasters fear of fair trade

- *Fear of the financial impact: roasters would have to pay more for their beans. They would either have to absorb the cost and lose profit, or pass the cost on to the consumer,*
- *Fear of loss of control in their relationships with suppliers: the roasters would have to conform to externally-monitored standards that would bring a level of transparency into their supplier relationships to which they are unaccustomed,*
- *Fear of the impact on their reputation and brands: if a roaster adopted Fairtrade on one line but not others, consumers might infer that the other lines were "unfairly traded" and expect them to convert all their lines to FT.*

I would add that a good degree of greed lies behind this veil of fear. Unfortunately there is no law that binds corporations to a set of standards for fair trade or for socially and environmentally responsible practices. But the logic of the market is a double-edged sword, and consumers can slash out at corporations that insist on profiting over the sustainability of coffee producers. There is no justification for not being able to increase the price of FT coffee even in a supply and demand ethos. If the FLO really wants to honour the spirit of the term it has to gradually lift considerably the plateau for coffee prices and create a scheme to accommodate regional living costs. Even in the extremely unlikely scenario where roasters would demonstrate –through a public audit– that there is not enough margin to share part of it with producers, there is still the alternative of increasing retail prices. For example, retail prices could go up, in a single increment, $1, which will be passed directly to producers. In that very unlikely scenario, consumers must be responsible for paying a higher price in order to contribute to provide a dignified sustainability to producers. Nevertheless, regardless of which is the appropriate scenario, if coffee marketers want to profit from FT they must abide by genuinely sustainable standards and not by a deceitful scheme. If they refuse, consumers must be made aware formally and objectively about the true colours of such marketers and be offered the options to support with their consumer power.

"a labour exploiter is still a labour exploiter even if it is the best philanthropist in the world"

❑ *Large Plantation Coffee Producers and Global Corporations*

As the fair trade movement consistently grows in awareness and draws growing consumer preference, large corporations are naturally seeking to participate in it, mostly for purely mercantilist reasons. They want to profit from the increasing market share of FT in coffee and other product categories and from the intangible assets that are already built into the concept of fair trade and, by extension, into the concept of CSR. The original concept of Fair Trade is to change the terms of trade for small disadvantaged producers. Yet it is already a reality that some of the fair trade is coming from large producers, especially in other commodities such as tea, where the bulk is grown in large plantations, but also with coffee. Furthermore, since supermarkets and other retailers are currently the gatekeepers, the growth of FT is irremediably linked to the participation of large producers that supply the global brands that are offered by most retailers.

Rightly so, FT should continue to provide preference to small coffee producers. Yet the objective should be to make all trade fair trade under a new concept and precise standards as discussed above, in such a way that fair trade becomes the world's new standard. In this way, Fair Trade will become a truly holistic and comprehensive concept for all participants. If companies want to participate, they must adhere to the new standards. If they refuse, they will be regarded as sub-standard traders, with all its implications. In the close relationship between FT and CSR, FT must be regarded as the standard practice of true CSR relative to trade. Under the new ethos, if non-durable goods marketers such as Nestle, Kraft or P&G, or large retailers such as Wal-Mart, Carrefour, Ahold, Tesco or Starbucks want to position themselves as truly responsible corporate citizens, they will be forced to incorporate FT into their best CSR practices, holistically. In the same way that they cannot boast to be best CSR practitioners if they exploit their workers in some of their links in their supply chain, even if they excel in many areas of CSR/sustainability, they will not be able to portray themselves as socially responsible if they do not fully incorporate FT holistically, and in a comprehensive manner for each commodity, into their best practices. Either they are responsible holistically or they are irresponsible. A murderer is still a murderer even if he is the best parent in the world. A labour exploiter is still a labour exploiter even if he is the best philanthropist in the world. If the FLO strives to become holistic and build a new ethos, by leveraging the power of consumers, corporations will have no choice. This would be the unavoidable consequence of a true commitment to a genuine fair-trade ethos.

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106 SETEM. El Comercio Justo en España, pg. 42. Icaria Editorial, July 2006.

107 See: FLO. About Fair Trade: www.fairtrade.net/about_fairtrade.html

108 See: Transfair USA: Frequently Asked Questions – Advanced: www.transfairusa.org/content/resources/faq-advanced.php

109 See: Sylvia Allegretto. Basic Family Budgets. Working Families' incomes often fail to meet living expenses around the U.S. Briefing Paper, Economic Policy Institute, September 2005.

110 UNDP. Human Development Report 2005, pg. 140.

111 Ibid, pg. 47.

112 Ibid, pg. 141.

113 "Everyone's Standard" means that if the most demanding critic agrees that a Standard provides a truly dignified quality of life, then everyone else would also agree.

114 Bryan Lewin, Daniele Giovannucci, Panos Varangis. Coffee Markets – New Paradigms in Global Supply and Demand. Agriculture and Rural Development Discussion Paper 3, pg 35. The World Bank, March 2004.

115 The Co-operative Group. What a difference a penny makes, pg. 10, November 2003

VII. Challenging the System

Building a New People and Planet-Centred Paradigm

VII. Challenging the System

Building a New People and Planet-Centred Paradigm

To build a truly sustainable ethos, the current Darwinian system must be challenged to its core with a new paradigm from the people and for the people. That entails revamping democracy to redefine business, companies and trade. Parting from the assessment of FT coffee, following is a discussion on what must be done, from the perspective of Jus Semper, to make the FLO system a truly fair concept, in congruence with its declared statements, and the only trading concept. The argumentation is valid for all agriculture commodity-trading products and not just for coffee:

"to build a genuine fair trade ethos we need to build a genuine democratic ethos. FT is in a unique and enviable position to contribute meaningfully to this mission"

❒ *Building a New Fair-Trade Ethos – Lifting the Bar of Fair Trade with a Long-Term Vision*

◉ *Revamping democracy*

To build a new fair trade ethos that is congruent with its original ideal, the fair trade concept must be revamped by redefining its context, standards and inclusiveness. At the beginning of this paper I argued that we do not live in real democracy but in an oligarchy owned by global capital covered with the veil of representative democracy. Consequently, to build a genuine fair trade ethos we need to build a genuine democratic ethos. To this effect, the FT concept and the FLO system are in a unique position and have an enviable opportunity to contribute meaningfully to this mission. If we do not work in pursuit of this endeavour, nothing will really change; and in the same way that we endure a mock democracy we will have a mock so-called fair trade, that lets corporations look good without really doing anything. In this way, fair trade must itself become a truly democratic system by changing the current Darwinian context under which it operates.

A. ***A Democratic fair trade system***

The FLO and its labelling organisations must provide equal representation in the entire decision-making structure to producers and workers from the South. There is no way that Northern organisations in the FLO system, including the partner civil organisations, decide unilaterally what is fair trade, what are the standards and how the system should be managed. Not doing it would be equivalent to the very undemocratic way in which the WTO is run, in which the largest Northern economies try to control the agenda in the trade rounds, just like it occurred in Seattle and has continued occurring at every meeting of the Doha Round, with the resulting lack of progress. Furthermore, it would be extremely incongruent with the intended mission. In order to build a fair trade system to do justice, Northern organisations must include the victims of the prevailing unjust global capitalist system so that jointly, and with equal democratic weight, decisions are taken. Therefore, the governance of the FLO must become inclusive, direct, participative and from the bottom up (South-North), as in real democracy.

"If the FLO really wants to live up to its intended mission, it is going to have to think completely out of the box and make of fair trade a concept where the purpose of business is redefined to make it the social purpose in a sustainable fashion. Not doing it will condemn FT to be a poverty-mitigating resource and nothing more"

B. ***Redefining the purpose of business***

The other contribution to real democracy that fair trade must do is to put people over the market. Namely to change the context to a new redesigned logic that really lives up to the claims of sustaining a system of living income and wages. If the FLO really wants to live up to its intended mission, it is going to have to think completely out of the box and make of fair trade a concept where the purpose of business is redefined to make it the social purpose in a sustainable fashion. Not doing so will condemn FT to be a poverty-mitigating resource and nothing more. It is absolutely impossible to generate truly fair terms of trade for the South if the purpose of business continues to be shareholderism. True sustainability requires a balance between the financial and social responsibilities of business. Business cannot continue to deny its inherent social responsibilities for the impact of its activity, for business entities are social organisations that derive their wealth from other members of society. Corporate citizens, like everybody else, have rights and responsibilities and, as anybody else, cannot pursue their self-interests at the expense of others. Thus, business organisations cannot continue to pretend to be amoral and expect that their individual members leave their ethics behind every time they enter the office. Precisely because the current market logic is completely incompatible with the sustainability of all participants, there is a growing argument in favour of redefining the purpose of business. Corporation 20/20 is one of several international initiatives that seeks to redesign the purpose of business with the goal of moving the social purpose from the periphery to the heart of business organisations. This initiative has defined six core principles for corporate redesign shown in table 7.[116]

Changing the context to people and planet first is a *condicio-sine-qua-non* to redesign the FT concept in particular and the purpose of business in general. Without putting people first, critical elements such as price, living income and living wages cannot be re-evaluated to make them consistent with the intended

Table 7. Core principles of corporate redesign	
The purpose of the corporation is to harness private interests to serve the public interest.	*Corporations shall distribute their wealth equitably among those who contribute to its creation.*
Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders.	*Corporations shall be governed in a manner that is participatory, transparent, ethical, and accountable.*
Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs.	*Corporations shall not infringe on the right of natural persons to govern themselves, nor infringe on other universal human rights.*
Source: Corporation 20/20	*TJSGA 2007*

ideal of sustainability instead of with the so-called law of supply and demand. The current paradigm must be changed to a new paradigm based on true sustainability of every rank of global civil society. Lastly, relative to trade, the Fairtrade Labelling Organisation International in itself needs to redefine its own philosophy and corporate culture for it is clearly immersed in the current market-driven ethos, as previously argued.

⦿ *Redefining key standard concepts*

In a newly-redefined context where FT operates in a democratic ethos, all fair trade must have one single set of standards that truly fulfils its mission. Otherwise FT would be a glorified term for less unjust trade conditions, but very unfair all the same. In the following pages, I advance a set of standards envisioning a people and planet-centred paradigm. These standards do not pretend to be a perfect solution whatsoever, for there are no miracles to the problems of human nature. They do not pretend as well to offer formulas that consistently render desirable outcomes in every case. Nonetheless, these standards propose a realistic mechanism that can fulfil, to a very meaningful extent, the ideals of fair trade, if we part from the perspective of sustaining people and planet and not a Darwinian logic of the market. As I have earlier argued, the market –and commerce– must be only some of the vehicles necessary to build the new paradigm. It is imperative that these standard concepts are viewed outside of the current supply and demand speculative market-driven ethos. Otherwise, they would be unrealistic. In this way, following are the standards and key strategic elements with a new definition in sync with the declared mission of providing a sustainable ethos that lifts dispossessed stakeholders out of poverty:

A. ***What is fair in fair trade and worthy of sustaining it?***

- ***Definition of fair:*** To respond with precision I will conceptually define fair in fair trade from the perspective of Jus Semper: *Fair for disadvantaged producers is to empower them to enjoy their right to a dignified life in line with Article 23 of the UN Universal Declaration of Human Rights which states their right to "just and favourable remuneration ensuring for himself/herself and his/her family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection"*, as well as with principles one and two of the UN Global Compact, which refer to *the responsibility of corporations to protect and not abuse human rights within their sphere of influence.* This includes the responsibility of companies in their relationship with vendors and producers of all sizes, from whom they buy products and services, as well as in their relationship with workers throughout their supply chain.

- ***Practicality:*** To make this concept applicable in practice, fair must provide a living income to producers and a living wage to all workers in the fair trade system.

- ***North-South Equality:*** To further assess what living income and wages should be, living must be applied in terms of defining a living standard given that all participants are engulfed in a global economy. This means that living income and living wage are *that which, using the same logic of ILO´s Convention 100, awards equal remuneration for equal work of equal value between North and South in Purchasing Power Parity (PPP) terms*. That is, we make use of ILO´s Convention 100 of "equal pay for equal work of equal value', which is currently applied for gender equality within a domestic economy, but applied in this case to North-South equality, within a global economy, using PPPs as the mechanism.

- ***Ubiquitousness***: Given that the new context is the new paradigm where the purpose of business is redefined to put people and planet first, the new FT ethos assumes, by setting the example, that living incomes and wages must be paid to all producers and to all workers in the global economy regardless of whether they participate or not in the import-export trading sector (TLWNSI: 2006).

B. ***Putting fairness to work in fair trade***

Both the living income for producers and the living wage for workers are directly dependent on the trading of commodities at a price that must constitute a living price that will in turn ensure a dignified quality of life to both producers and workers. In this way, parting from Jus Semper's TLWNSI concept, the living standard is defined in a global context as follows:

- ***Anchored on the sustainable-paradigm logic.*** Parameters are no longer derived from supply-demand commodity market speculations in London or New York but based on a new truly sustainable paradigm.

- ***Benchmark is the North standard.*** The benchmark of reference to define the living standard for the current dispossessed producers and workers in the South is the dignified quality of life of equivalent participants in the North: producers and workers. This would be the average household income and wages of these equivalent participants in the North.

- ***Subsidies must be included.*** Since in most Northern countries farmers are frequently protected with unfair subsidies –incongruent with WTO's principle of promoting fair trade competition, which discourages "unfair" practices such as export subsidies and dumping products at below cost to gain market share (see section endnote)–[117] the dignified quality of life standard in the North must include the final living income enjoyed by producers and workers in the North as the result of the sum of the price producers receive from buyers and the subsidies producers receive from their governments.

- ***North's average living standard.*** Given that some commodities are produced only in the South, such as coffee, a North's Average Agricultural Household Living Income (NAAHLI) equal to the average household living income (including subsidies) –derived from the trading of all agricultural commodities produced in the North– must be defined as the standard dignified-quality-of-life benchmark. For example, to illustrate the concept in an exercise, the estimated basic family living income in rural Nebraska in 2004 of $31.080, was assumed to be the current NAAHLI. The NAAHLI would be the parameter that should be used to assess the equivalent living household income in the South.

- ***South's average living standard.*** To determine the South's household living income equivalent to the NAAHLI of $31.080, the purchasing power parities (PPPs) ratio for each country, as reported by the World Bank, were used. This represents the Average Agricultural Household Living Income (AAHLI) for each country participating in FT. For example, the 2004 AAHLI in Ethiopia is $4.558 based on PPPs of 14,7%. That is, because the cost of living in Ethiopia is much lower than in the U.S., Ethiopians only need U.S. 14,7 cents to buy the same that a person in the U.S can buy with one dollar. In contrast, the AAHLI for Indonesia is $10.281 based on PPPs of 32,8%, and in Ecuador of $18.219 based on PPPs of 58,6%. These are the equivalent standards of living vis-à-vis the U.S., at current prices, derived from PPP living costs for each FT participating country that should be used as the long-term goal to be achieved in FT to provide economic sustainability to producers.

- ***FT prices defined for each commodity from average per-capita production and average PPPs.*** To determine an FT price that enables each individual member of a co-operative participating in FT to receive, in as much as possible, an AAHLI equivalent to the NAAHLI, the average per-capita production and the average PPPs for all the participating countries in a specific commodity were used as the variables in the standard. To determine the countries, a database for each commodity was developed from the production profiles of each co-operative in Transfair's producers' list.[118] In this way, in the case of coffee, the average per-capita production was assessed by dividing the total average annual production of the 69 coffee co-operatives by the total number of members. This rendered an average coffee production of 1.474 pounds per member. Concurrently, the average PPPs for the 18 countries participating in FT coffee, based on World Bank's PPPs for 2004, were assessed to be of 36,6%. The same exercise was done for cocoa and bananas, and the PPPs were 37,06% and 50,27% respectively (the average cost of living in banana countries is much higher than the average for coffee or cocoa countries). This would provide an AAHLI for coffee producers of $11,386. In this way, by dividing the AAHLI by the average per capita production an FT price of $7,72 was determined. This would be the long-term FT price, at current prices, to be achieved in order to provide in as much sustainability as possible to coffee producers. Similar exercises with cocoa and bananas were executed, rendering FT prices of $3,25 and $0,37 per pound as opposed to the current FT price of $0,79 and $0,16 per pound respectively.

- ***Individual sustainable incomes dependent on actual production and cost of living.*** A preliminary analysis determined that a minimum per-capita production was necessary to enable most producers to receive incomes equivalent or greater to the AAHLI for their country. The higher each co-operative's average is above the total per-capita average, the more income per capita for that co-operative and the greater the probability that producers would receive incomes equivalent or higher to their country's AAHLI. Not using a minimum per-capita production would require unrealistically higher prices in order to generate dignified incomes even for the lowest per-capita production co-operative. Thus the average per-capita production was used as the benchmark, considering that it would be a fair benchmark for small landholders. The exercise allowed 38 of the 69 producers to meet or exceed their AAHLIs and four others generated incomes between 90 and 99 percent of the goal at the $7,72 FT coffee price. Moreover, only 12 coops (17 percent) received less than 50 percent of the AAHLI. Eight of these averaged very low per-capita production of around 20% of the benchmark. The other four were Mexican coops that, due to the high cost of living in Mexico (PPPs of 70%) and below average production, were unable to generate incomes above 50 percent of their AAHLI. The remaining fifteen coops generated incomes between 50 and 90 percent of the AAHLI. In the case of cocoa all coops meeting or exceeding their per-capita average met or exceeded their AAHLIs. In the case of bananas the same results were observed. The exercise drew good consistency in the relationship between meeting the total per-capita average for a commodity and meeting the corresponding AAHLI. The only exception was Mexico, which has a cost of living that is much closer to that of Northern countries than to the cost of living of other FT participating countries. For this reason the threshold to meet the AAHLI required a Mexican per capita average coffee production of almost double the total per-capita average of 1.474 pounds required for the other seventeen countries. Nonetheless, in all cases should coops not meet their AAHLIs, they would still benefit enormously from the new FT prices. Moreover, additional compensatory mechanisms could be devised to manage specific cases.

- ***Annual assessment.*** In practice the NAAHLI must be revised annually to accommodate fluctuations in the cost of living, which will increase or decrease the nominal figure. By the same token, the price to be paid to each producer in the South must be revised annually to incorporate the annual fluctuations assessed in the PPPs by the World Bank as well as the average per capita production for each commodity. Thus, for instance, if the NAAHLI in 2008 is of $32.000, the PPP index for the FT coffee producing countries is of 39% and the new average per capita production is 1.500 pounds, the new FT price goal to be paid to coffee producers would be $8,32 (FT price = NAAHLI x coffee PPPs / per capita production).

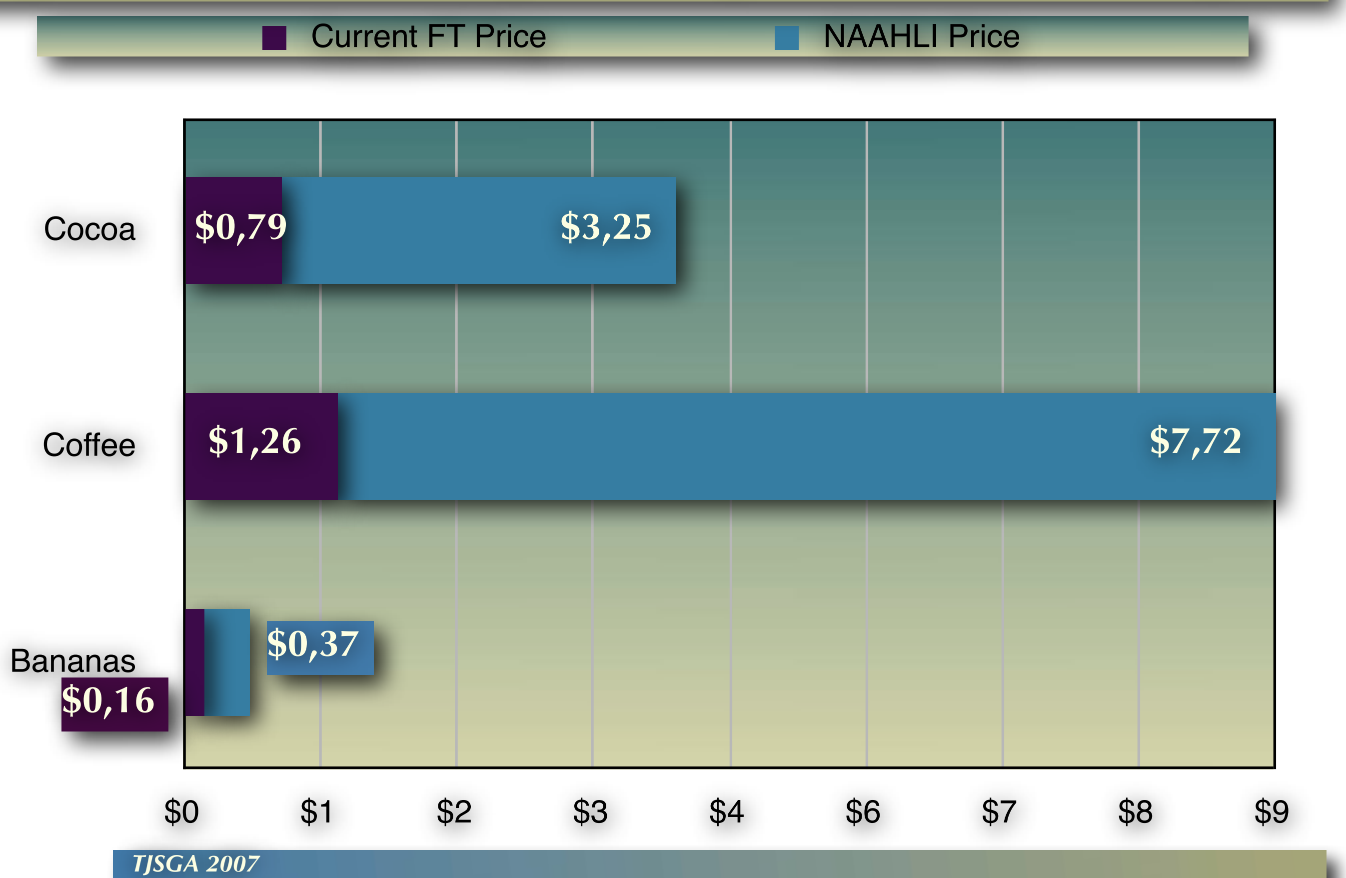
- ***Universal sustainable indicators.*** Both the NAAHLI as well as the FT, truly sustainable, prices for each commodity must operate as universal FT sustainability goals instead of as regional FT goals. If we assess one FT price for each country, buyers would naturally seek to buy at the lowest price. By the same token, if we have, for instance, one AAHLI for the EU, another for the U.S. and another for Japan, producers would seek to sell to the region with the highest cost of living because this will render the highest price. This approach, besides creating obvious conflicts of interest, would fail to work anchored on the logic of true sustainability and fall into the logic of the market.

- ***Living wages equalised based on PPPs.*** In the same way that commodity prices to be paid to Southern producers are assessed by applying the three variables described above, living wages would be determined by applying the PPP index of each commodity producing country to the average hourly wages paid in agriculture to Northern workers. This would constitute the North's Average Agricultural Living Wage (NAALW). In this way, if for instance, the NAALW in 2007 is $10/hour, the living wage in Ethiopia, with a PPP of 14,7%, would be of US $1.47/hour and in Nicaragua, with a PPP of 23,9%, would be $2,39. The living wage is not dependent on each commodity for it is based on the North's agricultural wages for all crops. In most cases living-wage gaps is an issue with large plantations and not with small landholders and their coops. Plantations do not pay living wages because they premeditatedly exploit their workers. Consequently, the gap to be closed is between what they pay and what they should be already paying today.

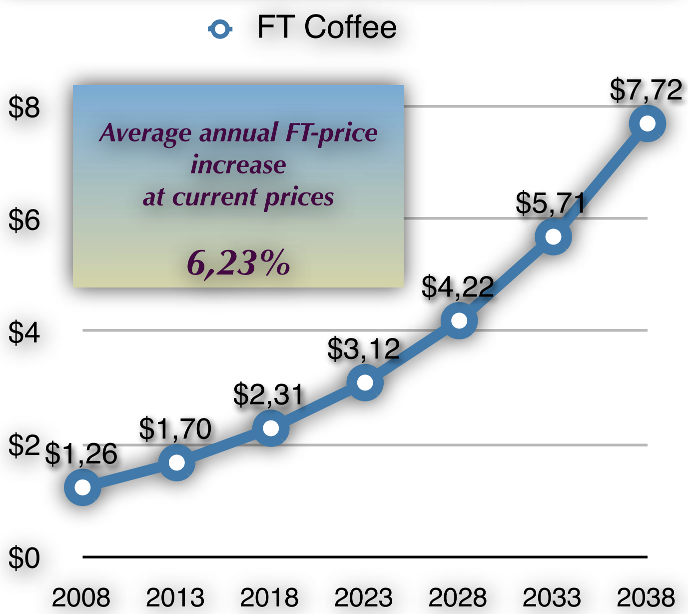
❖ ***Long-term Gradualism.*** This is evidently a radical and dramatic change from the current ethos. Consequently, weighing in all the conflictive interest, from the Darwinian mentality of today's robber barons, the refusal of so-called democratic governments to fulfil their basic responsibilities and the evident disruptions that such a change would cause if it is performed in one single year, even if all participants were convinced and passionate pundits of true sustainability, the approach has to be performed very gradually. From the perspective of Jus Semper, a programme to reach a truly fair-trade ethos can be carried out gradually every year and reach its goal in the span of no more than thirty years or one generation. This entails setting the fair price and living wages from year one as described above, and applying gradual increases in such a way that the goal of closing the gap between current prices and wages and sustainable prices and wages will be accomplished in no more than thirty years. Consequently, given that both the NAAHLI and NAALW must be adjusted every year, the rate of annual increase required to close the gaps in thirty years for each commodity would also need to be adjusted annually. As for the current FLO prices, these would act exclusively as the initial benchmarks to use as the starting point to close the price gaps.

❖ ***Specific sustainable price programmes for each individual commodity.*** Since each commodity has a different FT price, a thirty-year programme for each individual commodity must be prepared. This entails closing price gaps of different widths. If, for instance, the NAAHLI price is $7,72 in year one, the gap for coffee would be $6,46 for C grade Arabica. The FT price for cocoa is currently of $0,79/pound ($1.750,00/metric tonne), so if the NAAHLI price is $3,25 the gap would be of $2,46. This entails, as illustrated in graph 5, that the annual increase required for each product will diverge meaningfully, directly depending on the width of the gap. Furthermore, in line with the FLO's logic, if the current market price for a specific commodity is higher than the current FT price, then the market price would become the initial benchmark to draw the thirty-year programme. Closing an FT-price gap is illustrated further in graph 6, for FT coffee, which, to reach the goal of $7,72 in thirty years, would need to average an annual increase of 6,23 percent at constant current prices.

Graph 5. Current FLO fair-trade price and long -term sustainable fair-trade price



Graph 6. Projected increase of FT coffee to achieve sustainability in thirty years



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- ***Inclusive for all small producers.*** To certify small producers, the FLO currently requires them to organise as co-operatives. Some importers/roasters have decided to help them get organised into coops so that FLO-CERT certifies them. Still, some importers report that there are thousands of producing coops awaiting FLO certification in the FLO register. However, if the current goal of FT is to lift dispossessed farmers out of poverty, in the new paradigm congruency with such aspiration would demand that the FLO develops the capacity to provide technical assistance and inspection to all small producers. It would be absolutely incongruent to exclude millions of small producers who are unable to organise in coops from a truly sustainable global market system.

- ***Burden of assurance.*** It is very likely that one of the main reasons behind the FLO requirement imposed on producers to organise as coops is the FLO's lack of capacity to certify individual small landholders. Yet, in the new truly sustainable paradigm, certification must be extended to all producers and the cost of doing it must be paid by importers, at least until the price paid for the product –in the gradualist process– is enough to allow small individual producers to cover the cost and still maintain a dignified life. Furthermore, from a CSR angle, in the new paradigm, importers are responsible for making sure that all their business is sustainable. Thus, if they cannot find enough coffee, tea, bananas –or any other crop– certified producers, it is their responsibility to develop them by assisting uncertified ones to become certified, like some importers are already doing. And the most efficient way of doing so is to provide the financial resources necessary for the FLO-CERT to develop enough capacity. In the new paradigm, the burden of certification must fall on the traders and not on the small producers, for the social purpose is at the very core of the purpose of business.

- ***Mandatory.*** One of the greatest values of the current FLO system is that it is mandatory for any one wishing to participate. If currently retailers are the gatekeepers to consumers, the FLO must vie to become the gatekeeper to producers. Priority must continue to be given to small producers, since they will be naturally inclined to participate in a programme that actually vies to change the system and build a new paradigm anchored on true sustainability. Yet large producers, as the push to make commodity prices sustainable and stable gradually advances, will also become allured by the new paradigm. This will gradually make the system the trading ethos used by most commodity producers. By continuing to make the new standards mandatory the FLO can become the gatekeeper to producers.

- ***Consumer leverage.*** The power of retailers to act as gatekeepers is not cast in stone. They are getting involved in FT out of necessity due to the success of the FLO and civil society in creating consumer awareness. So the FLO can also become the gatekeeper to consumers. The more the concept is advanced the more the power as gatekeeper. This is a critical strategic element. Without it there would be no possibility of challenging the market and creating a new paradigm without paragon in history.

"envisioning a new people and planet-centred international trade system is not a new endeavour. A new fair-trade system centred on people and planet –along the lines of the new FT ethos– as outlandish as it may seem to some today, is indeed perfectly possible"

C. ***Holistic and comprehensive as the only standard practice in trade***

In the new ethos of the truly sustainable paradigm, all trade must be fair trade –and all fair trade must guarantee sustainability for all stakeholders. This entails pushing to overhaul the entire trading system and not just today's fair trade. The WTO is an organisation created by the usual suspects: the largest economies that follow the agenda imposed by their global corporations, which enjoy the enthusiastic support of many largely oligarchic and corrupt governments in the South. Fortunately, the Doha Round so far has failed, as a block of Southern governments, following the lead of Brazil and India, have concluded that there are no conditions to establish a fair global trading system with reasonably equitable terms of trade, not even for the most advantaged Southern producers. The Doha Round intended to maintain the very unfair terms of trade, with the usual subsidies for Northern farmers and a push to open the South's service sectors, as in public utility services, to global corporations, among other things. The WTO is still desperately trying to revive the Doha Round without changing the current conditions. It is very likely to fail again. Nevertheless, the failure of the WTO opens a window of opportunity for global civil society to advance a new formal trade system that responds to people.

Having a formal trade system that truly pursues sustainability holistically and that becomes ubiquitous is far more desirable than to have one people-centred trade system advocated by civil society and one corporation-centred trade system protected by our oligarchic governments. The people-centred trade system is a vision to be spearheaded by the FLO and other sectors of global civil society. It must come from the people and be imposed on corporations. However, we must concurrently continue working to force our governments to create a new formal trade system anchored on the same premise of true sustainability of people and planet, the same system gradually built by the people but now legally sanctioned by governments that finally respond to people.

⦿ *A people and planet trade system*

Discussing how a new formal trade system should be designed is beyond the realm of this paper. Nonetheless, it should be pointed out that the major hurdles to a sustainable trade system are geopolitical and not operational. Envisioning a new people and planet-centred international trade system is not a new endeavour. The wheel does not need to be entirely reinvented. There is a history of attempts to put in place a fair trade system that failed because, once again, the most powerful economies blocked them.

Before the WTO there were several post-war trade agreements proposed. The GATT or General Agreement on Tariffs and Trade, designed to be a temporary regulator of industrial goods –until, at the time in progress, an agreement to create the International Trade Organisation (ITO) was completed, was the only significant agreement upheld. The GATT was actually a consequence of the lack of political will to uphold a comprehensive trade system. It was approved by the largest economies because it constituted a fundamental instrument for the Northern-imposed new world order. A new post WWII world order that constituted a renewed North-South neo-colonial system of exploitation. As part of this order, the terms-of-trade imposed on the neo-colonial client states were, to be sure, very unfair. The client states were relegated in the international division of labour and trade to supply raw materials at erratic prices in exchange for manufactured goods protected by the GATT. As a result, during the subsequent three decades only a dozen Southern countries joined the GATT and no agreement regulating commodities was reached.

Paradoxically, at the end of the war a comprehensive trade agreement was proposed. This agreement encompassed an entire trading system conceived as the ITO to rule over every trading aspect, especially over the issue of erratic commodity prices.[119] Before the end of World War II, British economist John Maynard Keynes proposed the ITO along with an International Central Bank and an international currency for trade. It was meant to provide equitable terms of trade by eliminating the asymmetric conditions endured by the South. For instance, the new trade system proposed that the international currency of trade would be based on thirty primary commodities including gold and oil, which would automatically stabilise itself.[120] The ITO had the Havana Charter after the 1947-1948 Havana Trade Conference. In fact, fifty countries signed the ITO charter, but it was never ratified and it was at the end rejected by the major trading nations.

In dramatic contrast with the WTO, the ITO upheld key human rights enacted in the UN Charter in the Universal Declaration of Human Rights. It placed full employment, economic and social progress and development among its objectives, and it entirely devoted its second section to propose means of avoiding unemployment and under-employment. The charter also envisioned protecting small landholders who were producers of primary commodities such as coffee. Furthermore, while the ITO insisted on fair labour standards and the improvement of wages and working conditions and mandated co-operation with the International Labour Organisation,[121] the WTO premeditatedly ignores the subject for it regards it as anathema to its Darwinian mantra. Indeed, the ITO charter was the opposite of the WTO. Keynes died in 1946 and never knew what happened to the ITO, which by 1950 was considered a dead agreement.

In this way, there is no need to start from scratch whatsoever. The ITO concept demonstrates that a new fair-trade system centred on people and planet –along the lines of the new FT ethos described above– as outlandish as it may seem to some today, is indeed perfectly possible. It is the political will of the major economies and of the corrupt Southern governments –that largely work in connivance– that is starkly lacking. Consequently, global civil society must continue to build a truly sustainable fair-trade system, whilst, concurrently, continue to push to build a new international trade organisation that makes fair trade the standard and the only kind of trade.

116 Corporation 20/20 Principles of Corporate Redesign. A Brief Explanation: www.Corporation2020.org

117 Prohibited subsidies: Two categories of subsidies are prohibited by Article 3 of the SCM Agreement. The first category consists of subsidies contingent, in law or in fact, whether wholly or as one of several conditions, on export performance ("export subsidies"). The second category consists of subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods ("local content subsidies"). These two categories of subsidies are prohibited because they are designed to directly affect trade and thus are most likely to have adverse effects on the interests of other Members. (See "Subsidies and Countervailing Measures", and "Principles of trading System" at: www.wto.org)

118 See: www.transfairusa.org/content/certification/producer_profiles.php

119 See: Álvaro J. de Regil. Development with Asymmetries: The Third World and its Post-War Development Strategies,The Jus Semper Global Alliance, June 2001.

120 See: Álvaro J. de Regil. Keynesian Economics and The Welfare State,The Jus Semper Global Alliance, April 2001.

121 See: Susan George. Alternative Finances. The world trade organisation we could have had. Le Monde Diplomatique, January 2007.

VIII. The Social Responsibility of Consumers

Building a Parallel Market of Conscientious Consumers

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Building a Parallel Market of Conscientious Consumers

Nothing will make corporations and governments react more to the demands of supposedly democratic societies than the logic of the market when the logic hits directly in the bottom line of corporations and, consequently, of financial market investors. Today, the rules of fair trade are mandatory but, because governments refuse to support this concept, there is no legal binding and it remains strictly an option. In the case of strictly voluntary CSR standards it is far worse. Yet the power of consumers can make it very difficult for companies to refuse to change their ways. To gradually build both a people-centred trade system and a new formal trade organisation, consumer power has to be leveraged from the start to challenge the current system. Consumer power can make participating in fair trade and become a truly sustainable business a question of survival as companies vie to gain the goodwill of consumers for their business practices, hoping to turn them into tangible market gains.

The Fundamental Role of Consumers

As the fair trade movement in particular and CSR in general reach considerable levels of awareness among consumers, their power and their increasing demands for sustainability/responsibility are becoming a force that businesses have to reckon with whether they like it or not. A consumer boycott can become a real nightmare even for the most powerful companies, as can be attested by the likes of Wal-Mart.

Some consider consumer boycotts not politically correct, not realising that boycotts vis-à-vis the dire situation of millions of workers, and the social and environmental decay generated by the current corporation-centred system is the most politically correct and peaceful action that society can take to challenge the system. Using your social conscious based on your moral values to curve your consumer behaviour to put it in line with your values is the only direct contribution that people can make to vote with our consumer power in the direction we want governments and corporations to go. There is no other more effective, efficient and direct way to do it. The electoral process in so-called representative democracies is light years away from placing the issues that people really care about on the agenda because big capital sets the agendas that they want their sponsored politicians to follow. Consequently, voting with your consumer power is the most democratic and politically correct way to challenge the agenda and set it straight. This is why leveraging consumer power is a fundamental element in the development of fair trade and real corporate sustainable practices.

"voting with your consumer power is the most democratic and politically correct way to challenge the agenda and set it straight"

If there is any doubt, there is a growing number of consumer actions indicating that consumers can change decision making or cost dearly to corporations. There are as well a growing number of surveys that consistently show that the degree of concern for the social responsibility of corporations among consumers is becoming very meaningful and keeps growing, especially among the new generations of consumers.

Well-documented cases in the garment industry show how consumer campaigns developed by a network of college-student organisations of nearly a hundred universities in the U.S. forced companies such as Nike to, in turn, force in 2002 their South Korean suppliers in central Mexico to allow workers in several plants to remove corrupt company and government-backed unions and register their independent unions. This resulted in considerable gains in the labour endowments of workers in these in-bond plants. Very similar results have been obtained by this network in plants located in El Salvador, Indonesia, Sri Lanka and the Dominican Republic, which supply to Nike, Top of the World, Adidas, Disney, Old Navy and Gap among other brands.[122]

The network, organised as United Students Against Sweatshops (USAS), works closely with Worker Rights Consortium (WRC), an NGO specialised in performing audits in all the plants that supply finished branded products to the corporations that sell their goods on these colleges' campus stores. WRC was created by students, labour rights experts, and workers mostly in the South with participation from college and university administrators. The WRC's purpose is to enforce manufacturing codes of conduct adopted by universities, high schools, and school districts. Living wages is a prominent element of this movement. USAS's aim is to make campuses sweatshop free. USAS believes that university standards should be brought in line with those of students, who demand as students and consumers that their school's logo is emblazoned on clothing made in decent working conditions. USAS has fought for these beliefs by demanding that their universities adopt ethically and legally strong codes of conduct, full public disclosure of company information and truly independent verification systems to ensure that sweatshop conditions are not happening. Now, with over 200 universities in the U.S. and Canada, USAS have expanded their campaigns to include ethical contracting and campus community solidarity. In the former they seek to expand the leverage they have obtained over licensing to other areas in which educational institutions do business, such as purchasing, contracting, and investing. In the latter they seek to establish permanent dignified labour endowments for all the workers on their campus, who are routinely exploited.[123] In this way, USAS is challenging their universities' administrations' ethics in their business-to-consumer as well as in their business-to-business relations.

Outside the university ethos, Ahold, the Dutch hypermarket giant, was threatened in 2003 by angry shareholders and a consumer boycott. Ahold endured in 2003 and 2004 the effects of scandals triggered by the exercise of financial creativity, in the line of Enron and Parmalat, of as much as one billion dollars in just one subsidiary and, until late 2003, it had been unable to produce audited consolidated fiscal year financial statements for 2000, 2001 and 2002. To rescue Ahold, it brought in the Swede Anders Moberg, as the new CEO, who negotiated a deal so outrageous that it guaranteed him a huge package regardless of performance. The new scandal prompted protests from key investors and a consumer boycott of Ahold's Albert Heijn's supermarket chain. The shareholders' pressure and the boycott to the supermarket, which accounts for only ten percent of total revenue, were sufficient to re-negotiate the new CEO's compensation package and make it merit based.[124]

"consumers are developing a new value scale that they are using in their consumer decisions. They are not only becoming aware about the responsibilities of business but also about their own responsibilities as citizens of so-called democratic societies in a globalised ethos"

In the fair trade arena, there is now a network of more than one hundred active college student fair trade organisations permanently advocating for fair trade practices and consumption in the U.S. (United Students for Fair Trade). Their core objective is to raise the awareness of and expand the demand for Fair Trade alternatives, both on campuses and in communities.[125] There is also the previously-discussed ongoing NGOs consumer campaign led by Oxfam, with emphasis in the U.S. and Canada, to force Starbucks to sit down to negotiate the unblocking of Ethiopian coffee trademarks registration in the U.S. with the Ethiopian Government.

Emergence of Consumer Sustainability Consciousness

These are only a few examples of how consumer power has challenged big companies and forced them to change their business practices. Consumers are increasingly acquiring awareness about the deeds and misdeeds of corporations and how they impact the sustainability of people and planet, and subsequently are developing a new value scale that they are using in their consumer decisions. They are not only becoming aware about the responsibilities of business but also about their own responsibilities as citizens of so-called democratic societies in a globalised ethos. In the past seven years, surveys increasingly attest to this shift to a higher moral ground. Following is a brief description of surveys conducted in different parts of the world attesting to this growing trend:

- In a 2003 UK survey, 71 percent of all participants said they are positively influenced at the point of purchase or decision-making by a Cause Related Marketing programme. (Business in the Community, Brand Benefits 2003, supported by Research International, Dunnhumby and Lightspeed),

- In a 2002 survey of U.S. consumers, when asked about their reaction to acts of corporate social irresponsibility, 76 percent said they would boycott the offenders, and 91 percent said they would consider switching brands. (Cone, Inc. 2002 Cone Corporate Citizenship Study, Boston, United States),

- In Europe, CSR Europe found that 70 percent of European consumers say that a company's commitment to CSR is important when buying a product or service, and 44 percent would be very willing to pay more for products that are socially and environmentally responsible, as in fair trade (CSR Europe, The First Ever European Survey of Consumer's Attitudes towards CSR, MORI, September 2000),

- In the Millennium Poll, 23 percent of the general public across 23 countries reported that they had actually avoided the products of companies they perceived as not being socially responsible. (Environics/IBLF, 1999).

- A recent survey among 495 stakeholders including employees, consultants, NGOs, the financial community, academics, students, consumers, business associations and others, conducted by Pleon in 58 countries around the world, found that 72,5 percent support mandatory CSR reporting,

- In fact, 66,6 percent think reporting should be mandatory –for all companies of a certain size (29,1 percent), all companies (24,8 percent) or all publicly-listed companies (12,7 percent),

- By the same token, 70 percent think that the likely consequences of mandatory reporting would be that more companies will report on CSR; an event which respondents ultimately regarded to be of a wide social benefit, or that CSR will be acknowledged as an important issue by a larger public (Pleon. Accounting for Good: the Global Stakeholder Report 2005. Amsterdam and Bonn, September 2005).

This reflects the natural tendencies of consumers with minimum effort from society to educate them in favour of sustainable business practices. Hence, there is tremendous potential to tap into consumer support for good corporate citizenship. It is a question of business savvy and political will to tap into the consumers' natural disposition to support the good guys and punish those insisting on predatory practices. This is especially important when surveys also show that there are very strong levels of social conscience, among the youngest echelons of society, in favour of the need to establish a truly sustainable business environment. Indeed, in the U.S., a recent survey provides a window to the future behaviour of consumers. The survey found that young adults and teenagers appear to be prepared to reward or punish companies by leveraging their consumer power depending on their perception of the level of commitment of corporations to social causes (The 2006 Cone Millennial Case Study, October 2006). The study explores how corporate cause-related initiatives influence U.S. young adults and teenagers as consumers, employees and citizens (consumers surveyed were in the 13-25 age group):

Table 8. Consumer values in younger echelons of society

83 percent will trust a company more if it is socially/environmentally responsible.	*66 percent will consider a company's social/environmental commitment when deciding whether to recommend its products and services.*
74 percent are more likely to pay attention to a company's message when they see that the company has a deep commitment to a cause.	*79 percent want to work for a company that cares about how it impacts and contributes to society.*
69 percent consider a company's social/ environmental commitment when deciding where to shop.	*56 percent would refuse to work for an irresponsible corporation.*
89 percent are likely or very likely to switch from one brand to another (price and quality being equal) if the second brand is associated with a good cause.	
Source: Cone, Inc.	*TJSGA 2007*

In line with this increased awareness, consumer organisations are beginning to organise not just to defend the rights of consumers but to promote a sense of consumer social responsibility. Consumer organisations such as Co-op America in the U.S. are increasingly devoting efforts to do it right. Co-op America's mission: *to harness economic power—the strength of consumers, investors, businesses, and the marketplace—to create a socially just and environmentally sustainable society*[126] clearly involves the mobilisation of consumers to make corporations practice sustainable business models. According to Co-op America, among their successes, they have re-directed over one hundred million dollars to socially and environmentally responsible businesses. They have also played a leadership role in a consumer campaign aimed at pressuring P&G to convert 5 percent of its Millstone coffee to fair trade, so far. They also were instrumental in persuading CitiGroup to remove predatory lending products from the market and organised consumers' voice to help make twenty-two of the largest clothing retailers adopt anti-sweatshop standards.[127] Finally, they are currently participating in the mobilisation of consumers led by Oxfam to pressure Starbucks to stop its predatory practices in Ethiopia.

One of the major reasons behind the success of Co-op America is its conviction that it is necessary to actively involve consumers, calling them to take consciousness of the responsibilities people take on every act of consumption. This is why Co-op America has developed among other tools: *Boycott's Organisers Guide, Guide to Community Investing, Guide to Ending Sweatshops* and *Guide to Fair Trade*. Other consumer education tools of Co-op America, which provide valuable information and consumer choice for consumption decision making as alternative choices against unsustainable business practices, are: *Guide to Researching Corporations, Green businesses you can support* and *Background information on hundreds of companies in Responsible Shopper.*

In Spain, two distinct consumer studies show growing awareness about the social responsibility of corporations and a demand for reliable information to be used in consumer decisions in line with social values.[128] Similar responses indicating the growth of consumer awareness, organisation and mobilisation are emerging from most consumer surveys around the world; thus, similar consumer organising models are sprawling not only in Northern countries but also in Iberian America and other regions where new organisations with similar missions are being created by civil society. Consumers' sense of social responsibility is growing exponentially, globally.

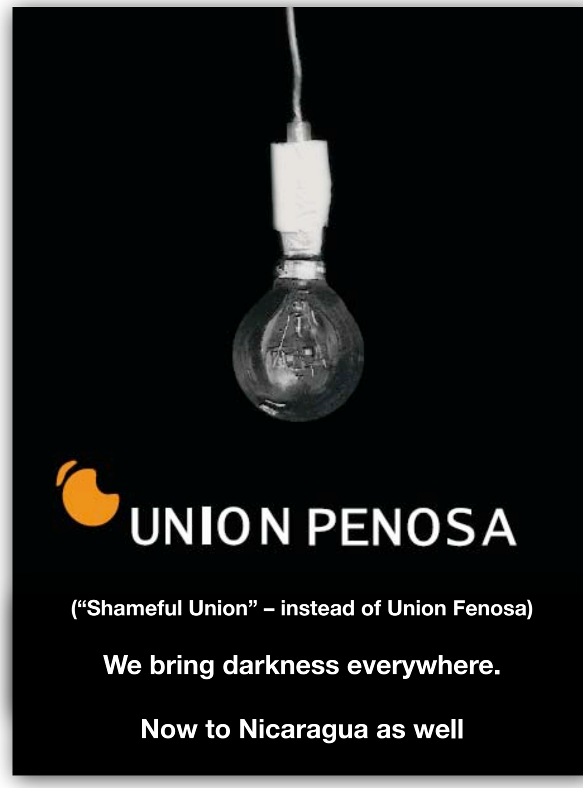
On the global arena, Consumers International (CI), representing 220 consumer organisations in 115 countries is the umbrella organisation for consumers in the world. In sync with the trends described above, CI is very active in diverse sustainability campaigns. To name a few, CI conducted a study to assess the impact of various sustainable coffee schemes, including the FLO, and concluded that they make a difference to the farmer. Thus, it decided to launch a permanent campaign to raise awareness among world's consumers about the plight of coffee growers and how these initiatives are providing some relief. CI considers that it is *vitally important* to communicate effectively to consumers the benefits of sustainable initiatives, so that they can contribute to their growth. As part of this campaign CI produced and extensive study on coffee and a 20-minute documentary for the general public. Other CI campaigns currently in progress are the campaign against unethical promotion of pharmaceutical industry drugs in the South and a campaign against Genetically-Modified Organisms (GMOs).

Albeit it does not go as far as analysing the pricing scheme, CI's position regarding fair trade is very much in line with Jus Semper's position. CI considers that fair trade schemes of the likes of American Express, Starbucks, Nestle, P&G and others are plain tokenism and questions whether they represent a genuine commitment to long-term sustainable trade. CI considers that as consumer support and demand for sustainable certified products grows, the answer will be on the shelf, as in the logic of the market. CI's study indicates, in line with most other studies, that, given clear and credible information, consumers will move away from conventional into sustainable brands. Even more important, CI believes that *there will eventually come a tipping point where a critical mass of consumers will ask of these leading brands "if 10 percent of your products can be ethically sourced, why not 20 percent? Why not 50 percent? Why not your entire range?"* CI argues that ethical choice is not a fashion, and it represents a permanent shift in consumer behaviour. Thus, CI demands that the consumer industry responds with a legitimate commitment to the *mainstreaming of sustainability.*[129]

As for the CSR arena, CI has been involved for most of this decade in promoting a truly sustainable and universal SR standard. Since 2003 it has been trying to influence the development of the new International Organisation for Standardisation (ISO) SR 26000 standard. CI believes that a possible ISO SR standard can only supplement the many other tools and requirements for companies working with CSR; thus, it has made clear that it does not exclude the need for national legislation and the many other voluntary initiatives from civil society. Given that the work of the ISO SR working group has been greatly influenced by big business, CI denounced the lack of transparency and called on ISO to resist corporate pressure to ban media reporting of its SR summit in Lisbon in May 2006.[130] CI's position supports the development of the ISO 26000 standard as long as it is done with much transparency and stakeholder participation. As a participant in the development of ISO 26000, CI's current position is consistent with its pursuit of genuine responsibility:

Table 9. Consumers International position regarding CSR

Core principles are relevant to all organisations
SR activities of organisations need to also include the supply chain
Philanthropic activities should not be considered as SR activities
SR needs to be implemented in the policies and procedures of an organisation
Communication is a core element of SR
Clear expectations about how organisations should interact with consumers
Core standards to benchmark SR activities
Stakeholder dialogue is essential
Source: Consumers International position on Social Responsibility activities in ISO, May 2006



The emergence of consumer power, relative to fair trade practices and CSR, has become so evident that even the OECD has been forced to acknowledge it by preparing a working draft on the issue. Among its conclusions, the OECD considers that *consumers are increasingly interested in finding out about social and environmental practices of companies; however, they are finding it hard to gather the information necessary to knowingly make a purchase decision. Making CSR visible to consumers constitutes a challenge for businesses, and companies are competing to find new inventive ways to communicate about their responsible practices.*[131]

"consumer power hits where it really hurts. Corporations are extremely sensitive to the perceptions, attitudes, values, preferences and decision-making process –and actual outcomes– of their target markets because this weighs in heavily on their pursuit for shareholder value"

Realistic Consumer Leverage

One frequent misconception in the mobilisation of consumers is that to achieve any meaningful success with corporations it would be necessary to mobilise millions of consumers. Yet it has been repetitively demonstrated that this is not the case whatsoever. In the previous examples, consumer campaigns mobilised at the most a few hundred thousand consumers who actually stopped buying temporarily or permanently a brand. In the ongoing case with Starbucks, little more than a hundred thousand consumers have signed-up and e-mailed Starbucks, but that has been enough to make the company stop blocking the Ethiopian registration of its trademarks.

Realistic consumer boycotts have the leverage to make corporations think differently and change their free-profiteering ways, because, by using the logic of the market, consumer mobilisations can chip away bits of business that, in these times of savage competition, are extremely valuable when a fraction of a point of global market share may be worth hundreds of millions of dollars. Indeed, consumer power hits where it really hurts. Corporations are extremely sensitive to the perceptions, attitudes, values, preferences and decision-making process –and

actual outcomes– of their target markets because this weighs in heavily in the eternal battle for market share, revenue and, ultimately, shareholder value.

If we inform consumers about the good and bad deeds of the owners of the brands they favour, corporations will commit to sustainable business practices far more expediently. If we expose good deeds, they will not waste the opportunity to gain consumers' goodwill and their patronage. If we expose bad behaviours, consumers will make it harder to ignore the truth than to change robber-baron practices.

Yet this does not entail mobilising millions of consumers. It entails strategy and creativity to move away a small fraction of market share to make it more worthwhile for corporations to behave in a socially-responsible manner than to look the other way. The cost of losing one-half point of market share can easily be worth more than the additional investment required to close the wage gap between current real wages and the wages required to provide a living wage. In the case of Jus Semper, the additional investment would be made gradually over thirty years, but the cost of lost market share would be suffered every year as illustrated in the tables below.[132]

Table 10. Cost of investment in responsible labour endowments versus cost of a consumer boycott

(in millions of dollars)

- *Industry's market value in sales revenue = $20.000*
- *MNC, Inc. Market share = 10% = $2.000*
- *MNC's South's production market value = 50%*
- *MNC's North's labour cost 30% =$300 (of North's sales revenue)*
- *MNC's South's labour cost 3,7% = $37 (of South's sales revenue)*
- *South's equalised –in PPP terms– labour cost should be 16.5% = $165*
- *Investment cost to close the gap by equalising real wages in PPP terms = $128 (PPP) (over 30 years). (This is how much the corporation would need to invest, at current prices, in order to compensate their workers in the South at par with equivalent workers in the North in terms of purchasing power).*
- *Cost of losing 0.50% (half a point) of global market share (in sales revenue) = $100/year*

Table 11. Comparative analysis of a global corporation's CSR investment versus refusal to invest *

- *In the above example, the MNC has a business worth $2 billion dollars, equivalent to a global market share of 10% in a $20 billion industry;*
- *The MNC generates 50% of its global production in manufacturing plants in the South, which includes production outsourced with contractors located in several developing countries eager to offer modern-slave labour;*
- *The cost of labour in the North is equivalent to 30% of sales revenue, whereas it is only of 3,7% in the South because the MNC is exploiting its southern workers and paying less than one-fourth of what they should be earning in terms of purchasing power to be at par with their Northern counterparts;*
- *In order to equalise compensations –in PPP terms– the company would need to increase its labour cost to 16,5% of the South's sales revenue –at current prices– or about $165 million instead of the current $37 million. The cost is still significantly lower than in the North because costs of living –using PPPs reported by the World Bank– in the South are substantially lower;*
- *The additional investment (gap's size), at current prices, is of $128 million, which will need to be increased very gradually under a thirty-year program. Since the economies of countries are dynamic and change constantly, the actual annual real-wage increase needs to be revised every year by applying the revised PPPs that the World Bank publishes;*
- *The average annual CSR investment in nominal wage increases in the South is of 5% or $4,3 million –at current prices*
- *If, instead, the corporation refuses to commit to closing the gap in thirty years, and civil society drives away one half of a point of its global market share of 10%, the annual cost in sales revenue would be of $100 million;*
- *The break-even point between the cost of the company's average annual investment of $4,3 million, and the cost of losing $4,3 million of sales revenue would represent a loss of 0,02% of global market share or a loss of 0,22% of global sales revenue.*

For further reference about gradual wage equalisation see The Jus Semper Global Alliance, The Living Wages North and South Initiative (TLWNSI), a strategic program to commit the private sector. © 2006 TJSGA. Available at www.jusemper.org.

Sometimes the costs of consumer boycotts occur spontaneously as unintended outcomes due to consumer nature in reaction to the predatory practices of corporations. A well-documented case is the five-month supermarket strike of 2003-04 in California. Southern California supermarket workers represented by their union went on strike against three major grocery store chains (Kroger, Safeway and Albertson's) for imposing a two-tier compensation system that reduced wages and benefits for current workers and new hires. About 59.000 workers and 852 stores from the three chains were involved in the strike. Hundreds of thousands of consumers stayed away from these stores in solidarity with workers as well as for simple convenience to avoid the worker's picket lines at the stores. The argument used by the grocers for their new plan was that they needed to trim their labour costs to compete with Wal-Mart. Thanks to consumer support, the grocers' stand cost them initially $1,5 billion in lost sales and more than $350 million in profits.

A number of reports after the end of the strike indicated that the grocers already heavy losses were growing due the loss of business and heavy investment in marketing and advertising to try to regain lost consumers, further indicating that there had been a permanent erosion of its customer base. Financial analysts estimated that Safeway suffered a 10 to 15 percent permanent loss of its customer base. Financial analysts also estimated that Albertson's had permanently lost 10 percent of its customers to other grocers. This projection was reinforced in a survey that found out that 14 percent of consumers who had been regular shoppers of the three supermarket companies indicated that they would no longer continue shopping with them, switching their buying habits for the long haul. Financial analysts were not banking at all on any future change for the better, and the stock prices of all three grocers were down sharply, outpacing the general downturn of the market.

This is a real case showing that if companies reject their social responsibilities and get penalised by consumers, financial markets, to be sure, will penalise them as well, ironically following the "logic of the market." In contrast, many competing grocers captured many former shoppers of the three chains. Costco, which does not have the bad reputation of Wal-Mart, appeared to emerge as a good consumer choice with a permanent increase of 11% in sales. Subsequent press reports indicated that the rising bad public image of the three grocers was further damaging their bottom line.

Many shoppers did not support strikers out of conviction but rather out of convenience to avoid the conflict. Many others kept shopping in the same stores. Nonetheless, the temporary move to alternative stores of a big portion of shoppers and the permanent migration of loyalties of 10 to 15 percent of shoppers was the essential factor for the losses suffered by the grocers. In fact, the losses endured were far more than what is necessary to make business change their practices, as I have discussed. The heavy losses were due to the combined effect of a formal strike with natural consumer reactions. In this case, despite the strike, the grocers imposed their two-tier system, but it cost them dearly among consumers and in financial markets. The case shows that predatory practices can cost so much that they reverse the planned gains in profitability. Indeed, the supermarket strike makes very evident the natural disposition of consumers who, without any previous planned campaign, moved permanently away from these grocers due primarily to the bad image they deservedly acquired with their predatory practices.[133]

North's Critical Mass

A fundamental part of the strategy to mobilise consumers effectively and efficiently is to focus efforts on Northern consumers. These consumers typically account for 70 to 80 percent of a global corporation's business. Moreover, the level of Northern consumers awareness about key concepts such as corporate responsibility, global sustainability, fair trade and about their own responsibility as consumers is far more developed, and they are much better organised and with far more resources to put pressure on corporations, than the South, despite the fact that corporations' bad deeds are far more frequent in the South. In this way, the effects of consumer pressure can be felt faster and far more deeply and efficiently if they are centred in key markets in the North where consumer mobilisation can deliver the necessary critical mass to exert the intended change. Furthermore, the traditional threat that corporations pose to Southern governments if they become unfriendly has no effect in the North. That is, whether a global corporation moves from Iberian America to Southeast Asia or to Africa, or vice versa, in search of friendlier heavens –or doesn't move at all– becomes a moot point, for consumers in the North will punish them equally and dearly as long as they refuse to change their ways. In a globalised world, exploiting coffee or tea producers or industrial workers also impacts negatively the citizenry of Northern countries in many different ways, and they are becoming well aware about it. This is precisely why Consumers International predicts the eventual tipping point where a critical mass of consumers demand genuine, comprehensive and holistic sustainable business models.

Sustainability and the Morals for Survival

The natural disposition of consumers to support the social good is a result of basic common sense moral values. The information readily available to the general public, increasingly indicating that standard business culture is predatory and obsessed with a race to the bottom, to the lowest common denominator that corporations can get away with in their social responsibilities is so overwhelming that for most people it is common sense not to support a bad deed. Yet consumers are not only acting altruistically, they are also acting on behalf of their self-interest, for they sense that the current ethos is unsustainable except for a global elite. In this way, consumers are increasingly seeking information that will empower them to support businesses that practice sustainable business models, that care for people, that care for the environment, that want to provide some sense of security and reliance instead of a sheer speculative environment controlled by a few thousand megacorporations that order governments how to govern in line with their very private interests. This sense, that in a global system imposed by a global oligarchy people must act as consumers to change the system because politicians, in the best case, will move at a snail's pace, is a simple common sense of survival. Thus, due to both moral values and self-interest, the demand side –using the logic of the market– is beginning to challenge the system with its consumer power.

Consequently, at the same time that the global movement for fair trade –as an inherent element of sustainability– maintains its growth to achieve the critical mass necessary to tilt the scale, the social movement and its specific organisations active in fair trade, consumer, CSR, corporate governance, ethical investment and other areas must act as the gatekeepers to access the consumer power of the growing cadre of conscientious consumers. To do this, it is critical to feed consumers with a consistent flow of information that enables them to make well-informed consumer decisions, and to systematically advocate the need to act as responsible consumers for both altruistic and self-interest reasons. It is also fundamental to work to create the universal set of civil-society-based standards that is based on a people and planet-centred paradigm anchored on true and direct democracy. The logic of the market should be used only during the process to empower people to power broker the change to the new paradigm.

❑ *A Parallel Truly Sustainable Market of Conscientious Consumers*

The fundamental strategic importance of consumer leverage can never be emphasised enough, for consumer power is the most valuable element to successfully challenge the system and build a new people and planet-centred ethos. Furthermore, in the case of fair trade, consumers play an even more important role. One critical strategic element in the success of consumer campaigns is to offer good choices. Unfortunately, in many product categories there are currently no truly good and responsible choices. In such cases, the alternative is to redirect consumption to the brands of the least predatory marketers until a truly good alternative emerges or the brands under boycott change their practices. In contrast, the shortcomings of fair trade that I have previously discussed notwithstanding, there are already some genuinely good consumer alternatives as opposed to those that do not want to commit to making fair trade the new trade standard. FLO's fair trade has a lot more to do to become truly fair, but is already clearly better than token fair trade or non-fair trade. Fair trade is also a more straightforward concept to grasp by consumers, despite the manipulations of some token practitioners. Therefore, in fair trade consumers are not moving from one bad choice to a lesser evil, they are moving to choices that in many cases are going in the right direction. By switching to genuine fair trade alternatives, consumers will build a new parallel market that, in time, as the critical mass tips the scale, should become the new standard for all consumer products and services. Consequently, consumers are not only contributing to change business practices but they are critically contributing to building a new paradigm in the long-term.

Becoming a genuine fair trade parallel market entails strategically competing against other options available that claim to be sustainable. Competing successfully requires delivering clear concepts and arguments to support our claims and that clearly differentiate us from other competing players. Based on the consistent results obtained from most consumer surveys conducted in almost a decade, consumers are vying for sustainable criteria that truly deliver high-quality-of-life standards for all people, especially the dispossessed in the South, and reduce our footprint on the planet. Consequently, if we raise our fair-trade standards to put them in sync with our claims, it is realistic to expect that consumers will choose our version of sustainability. Yet, to ensure that this occurs, the fair-trade movement must outperform competing players by developing creative strategies to generate sufficient resources to convey a sounder message, truthful to our claims, and with the reach necessary to trigger the critical mass required.

Given the growing emergence of the conscientious consumer, it is not surprising that people such as Jen Henriksson, president of the Swedish Consumer Association, proposed that the demand side (consumer power) could be strengthened to make consumers the ones who ultimately decide the content of sustainable development. In his opinion, consumers should decide the *content and levels that are essential for one's perception of sustainability*.[134] The most efficient way to strengthen consumer power is to provide them with practical and objective information. If we reach them consistently with a sound and higher standard, consumers will listen.

It is also critical that this information provides consumers with choices; and the best way to give them choices is to connect consumers with producers. Connecting producers with consumers creates a parallel market away from the neoliberal ethos that we are working to eliminate. This approach can also, naturally, bridge fair trade with business practitioners of legitimate CSR, for currently there are only loose ties that run in parallel but do not meet frequently.

As to how to connect producers with consumers, it is in as much the responsibility of social activist and conscientious consumer organisations to provide the necessary information to empower us to make well-informed choices, as it is to develop sustainable alternatives. The goal, already in progress, is to create a critical mass of sustainable producers and conscientious consumers, in such a way that this mass gradually spills over into sectors still under the influence of the social Darwinism mantra, to a point that, over time, we establish the new people and planet–centred paradigm as the new standard.

One set of standards certifying actual producers

The starting point is to establish one single and superior fair-trade standard that certifies producers on the eyes of consumers. Superior in the sense that it meets the criteria for true sustainability, as I have depicted, and stands out from other standards, such as UTZ Kapeh, which has already been labelled by some as a light FT standard vis-à-vis the current FLO standards. If effective communication and promotional tools are systematically used, the new FLO standard should gradually stand out in the perception of consumers as the right sustainability standard to support.

Such standard must be applied to producers of both commodities as well as of manufactured goods. In the case of coffee, tea, bananas, milk or other commodities, certification must go to the direct producer. In the case of business sectors where companies outsource from a supply chain that actually manufactures the finished goods, as in the apparel or publishing industry, certification must go to the plants that make the finished items and not to the brands nor to the retailers that market them. The long-term goal is to make all producers and marketers holistic fair-trade practitioners. Thus, in the case of durable goods such as apparel, computers or furniture, the manufacturer of the finished goods should be certified but the process of certifying must require that its entire supply chain of parts used to manufacture the finished goods must also be certified as fair trade practitioners. Consequently, marketers with consumer brands do not get their brands certified unless they are the actual manufacturers of the finished goods that go to the consumer and they have a certified manufacturing process that ensures that its entire supply chain complies with the same fair trade standards. In the specific case of coffee, a brand from a roaster that converts green coffee into a finished consumer good can only be certified if the entire product marketed under the brand or brands is fair trade. Thus if a marketer such as Starbucks wants to be certified in a growing FT ethos, it must source one hundred percent from FT sources and become a truly comprehensive FT practitioner by ensuring that its entire outsourcing comes from certified sources. As I previously argued, it is indispensable to agree to one single standard that guarantees truly sustainable conditions for all stakeholders.

Table 12. Certification

Producers	Brands/Retailers
Commodity producers	*Brands: When also manufacture finished goods if entire supply chain is already certified*
Consumer manufactured finished goods producers	*Retailers: Long-term when all items sold are already FT certified*

The conscientious consumer market

The second element is to build the critical mass of conscientious consumers. This is already happening and growing successfully. It is taking place as organised civil society (consumer organisations, social-cause NGOs, unions, churches, clubs, student organisations and a growing number of only fair trade entrepreneurs) spreads the word through word of mouth, internet, conferences and through some actual advertising vehicles.

Hard real evidence that the critical mass is growing is precisely why global marketers and retailers such as Starbucks and global grocery chains, as in the case of coffee, are jumping onto the fair trade wagon. They recognise that there is a growing market of increasingly conscientious an educated consumers, mostly in the North but also developing in the South. They perceive that by participating in FT not only will they gain intangible assets but also market share, as this market is growing at a much faster rate than their traditional market, and is actually chipping away share from their market as many consumers change their perceptions and habits to embrace fair trade, in many cases in a passionate way. The fact that consumer organisations are making their presence felt in traditionally business-dominated organisations such as the OECD or the ISO is another hard indicator of growing consumer influence.

One research study from the University of Illinois, provides further realistic evidence indicating that a parallel market of fair trade consumption is here to stay and grow rapidly, to a point that it will become a strong force to be reckoned with by neoliberal apologists. The study, aimed at assessing the potential for a conscientious apparel market in the U.S., reinforced the consistency in the results of four other consumer studies showing that consumers –aware of the harsh conditions in the plants used by the U.S. apparel industry– are willing to pay anywhere form 10 to 40 percent more for a fair trade garment. The research study was an actual wet test (real test) in a department store offering socks for sale, side by side, with and without a "good-working conditions" label displayed. The study found that, among those consumers who noticed and understood the label and the price difference, 50 percent were willing to pay 20 percent more for such product. The study argues that even if it is assumed that only 30 percent of U.S. consumers are willing to pay more for a fair trade product, that would be sufficient to absorb all the production from thousands of plants worldwide. The study also argues that this outcome is likely to be at least similar if not greater in other Northern economies. The point they make is that there is more than enough potential to create a parallel market of conscientious consumers.[135]

In this way, the potential for the creation of a parallel market of socially conscientious consumers and sustainable producers and marketers –as it is consistently attested both by surveys and the actual growth of fair trade– is very realistic. Indeed, as more and more consumers are becoming aware about the realities behind the clothes they wear, the beverages they drink, the cars they drive or the foods they eat, more and more are becoming conscientious consumers worldwide; and, as they gain in awareness, they support social causes and demand more information in order to make well-informed consumer decisions. Some people reasonably argue that one thing is what consumers say in surveys and another what they actually do. Nonetheless, the exponential growth of fair trade in the real world and the very strong consistency in the findings of dozens of consumer studies around the world are becoming evidence too hard to be discredited.

The reality is that a parallel market is slowly but steadily growing, and when it reaches a critical mass, it is bound to spill over to the Darwinian ethos. This, as it is already happening in coffee, tea and a few other commodities, will attract global corporations. The big difference is that in this case civil society, in its consumer role, will be setting the standards, and the only way for global companies to participate will be to abide by them. The new standards will convey that the good or service is produced and marketed under truly human and environmentally sustainable conditions under one set of universal criteria. Companies not delivering such standards will automatically default into the substandard and, thus, subhuman and sub-environmental conditions and will pay the consequences of having no access to the new conscientious consumer standard market.

The positive development of a conscientious consumer market supported by both hard evidence and market / social research notwithstanding, we can never rest assured that this market will consolidate. Despite all the positive trends, the forces of Darwinian capitalism are extremely powerful and will continue to unrelentingly work to dominate the lives of societies, through consumer alienation, the promotion of individualism, hedonism and sheer self-interest, which in turn will promote renewed class conflicts. Due to human nature, there will always be an opposing side that will attempt to impose the individuals' self interest over the welfare of all stakeholders. Therefore, it is of fundamental importance that the growing segments of society who want to change the system become well aware that there is never a real ending, and that we need to work in pursuit of the ideal of a new ethos unrelentingly, every day, indefinitely. Every goal that we achieve, every step that we advance is not static, and it will not prevail unless we work everyday to protect the new sustainable paradigm. To this pursuit, it is critical that we never lose sight that we are struggling to make possible the survival of people and planet, for a long time, for many future generations, under conditions where people and planet can thrive; for the sole purpose is the common good and not the survival of the few at the expense of the many. Therefore, we need to work every day to remind ourselves and everyone that we need to do the social good as consumers and citizens in every way we can on a daily basis, without recess, for our own survival and the survival of all living things.

122 United Students Against Sweatshops. Campus Organizing Manual. National Conference, Winter 2005.

123 See: www.studentsagainstsweatshops.org/

124 Hans de Vreij, Risky business, risky pay, 18 September 2003, Radio Netherlands

125 See: www.usft.org/

126 See: www.coopamerica.org/about/

127 See: www.coopamerica.org/about/whatwedo/oursuccesses.cfm

128 See: PriceWaterhouseCoopers. La actitud del consumidor hacia la Responsabilidad Social Corporativa (RSC) 2005, and La Opinión y Valoración de los Consumidores sobre la Responsabilidad Social de las empresas en España, CECU, Noviembre 2004.

129 See: Consumers International. Real choice or marketing spin? At: www.consumersinternational.org/Templates/Internal.asp?NodeID=95761&int1stParentNodeID=89650&int2ndParentNodeID=94997&int3rdParentNodeID=95754

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132 For a more detailed analysis, see: Álvaro J. de Regil. Corporate Social Responsibility: Consumer Power in the Logia of the Market. The JSu Semper Global Alliance, December 2004.

133 See: Álvaro J. de Regil. TJSGA's commentary during the California's supermarket strike. TLWNSI Issue Commentary. The Jus Semper Global Alliance, January 2004; and: Álvaro J. de Regil. TJSGA's commentary on the conclusion of California's supermarket strike. TLWNSI Issue Commentary. The Jus Semper Global Alliance, March 2004

134 Sveriges Konsumentrád. The Swedish Consumer Association. Speech: European Consumer Day Sustainable consumption, 15/03/05.

135 See: Ian Robinson and Bama Athreya. BACKGROUND PAPER: Constructing Markets for Conscientious Apparel Consumers: Adapting the “Fair Trade” Model to the Apparel Sector, page 3., Institute of Labour and Industrial Relations. University of Illinois at Urbana – Champaign, 22 March 2005.

IX. Concluding Remarks and Recommendations

IX. Concluding Remarks and Recommendations

"the only way to be truthful to the letter and spirit of sustainability is to replace the current ethos with a people and planet-centred paradigm"

Both for self as well as altruistic interests the only realistic way to procure the sustainability of future generations and our planet is to eliminate the current Darwinian market ethos and replace it with a new paradigm centred on people and planet. The fair trade movement is in an enviable position to contribute to this mission given the soundness of its claims and the growing disposition of the majority of the population, in our role as consumers, to build a truly sustainable world. To accomplish this, several fundamental actions must be accomplished by global civil society:

- ***Build one single fair-trade system.*** Fair trade must meaningfully contribute to build a "real democracy" ethos by building one single fair-trade system, with equal representation of North and South participants, and by building a new fair trade concept that redefines the purpose of business to put the sustainability of people and planet at the core of its nature as a new paradigm,

- ***Replace market-based with people and planet-based context.*** To meaningfully contribute to the redefinition of the purpose of business, the market-based context of fair trade must be replaced by the people and planet-centred context to be fully in sync with the current claims of fair trade of providing sustainability for all participants,

- ***Build in the span of thirty years.*** Building a radical new and genuinely democratic and sustainable new paradigm that replaces the market can only be achieved in the long-term through a gradualist approach in the span of thirty years or one generation,

- ***Provide a high-quality-of-life standard.*** Genuine sustainability must be capable of providing dignified conditions of life of a high-quality standard for all participants with special emphasis on the millions of participants in the South who are dispossessed,

- ***Lift fair-trade standards onto much higher ground.*** To achieve genuine sustainability, current fair trade standards must be lifted onto a much higher ground ethos along the lines proposed in this paper,

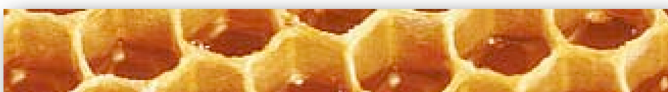
- ***Translate into living income and wages.*** This higher ground must effectively provide in practice living income and living wages of the high-quality-of-life standard for participants in the South,

- ***Benchmark with North standard.*** The high-quality-of-life standard, to be used as the benchmark, must be the North's standard for equivalent participants. Consequently, the South's incomes and wages of participants are gradually equalised with their equivalent in the North,

- ***Reduce footprint of high-quality-of-life standard in the new paradigm.*** The high-quality-of-life standard in the new paradigm entails, gradually but substantially, reducing our footprint in the planet, to establish a frugal culture of use of all natural and man-made resources without the excesses associated with consumerism. This should gradually decrease the amount of real income necessary in order to enjoy a high-quality-of-life standard in the North. Consequently, as global civil society gradually works to reduce our footprint on the planet, the gradual increase in the South's quality-of-life standard should eventually meet with the new North's frugal and sustainable high-quality-of-life standard at a point that must be significantly lower in the use of natural resources, particularly in the case of non-renewable resources, than it is today, due to greater efficiencies and much less consumerism.

Equalise North and South using purchasing power mechanism. As for the mechanism to equalise incomes North and South, the most practical and feasible way to determine the specific living income and living wages of Southern participants in the new fair trade system is by equalising them with the incomes and wages of equivalent participants in the North, by using the purchasing power parities mechanism for their calculation,

Apply comprehensively and holistically. Fair trade must be comprehensive in that it incorporates the sustainability of all participants in the trade of a specific item and holistic in that its participating organisations (producers, manufacturers, distributors and retailers) incorporate comprehensively the new people and planet sustainable practices in every single area of their activity.



Commit to thirty-year plan. To this endeavour, all participating organisations must formally commit to becoming holistic in the span of no more than thirty years and develop a comprehensive plan to accomplish it,

Make fair trade the only trade. The fair trade movement and global civil society as a whole must also work to make fair trade, in the long-term, the only kind of trade,

Advocate replacement of WTO with a new people and planet trade organisation. One area of activity in pursuit of this endeavour is the unrelenting advocacy before governments and multilateral organisations, of a new world trade order with a new organisation, along the lines of the ITO, that is democratic and that shares the same mission of fair trade of the sustainability of people and planet to replace the current WTO,

Create critical mass of conscientious consumers to tip the scale. The other area of activity in pursuit of this endeavour is the development and promotion of a new culture of conscientious-consumer responsibility anchored on the same principles of sustainability to create a critical mass with the specific goal of tipping the scale on the side of the new paradigm. Succeeding in leveraging the power of consumers in the logic of the market to create the critical mass is of the most fundamental importance and is a *condicio-sine-qua-non* to build the new people and planet paradigm.

In the final analysis, as outlandish as it may sound to some today, the only way to achieve true sustainability for people and planet both North and South is to replace the current market ethos with the new paradigm previously argued. Not doing so would not only render fair trade as another useful token effort, a mere poverty-mitigating mechanism, full of rhetorical claims, that provides cover for the owners of the market, but would contribute meaningfully to further the decay of mankind and of our planet until we cross a threshold of no return.

Appendix

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Acronyms:

- AAHLI: Average agricultural household living income
- BSCI: Business Social Compliance Initiative
- C.A.F.E.: Coffee and Farmer Equity
- CI: Consumers International
- CSR: Corporate Social Responsibility
- COSP: Cost of sustainable production
- ETI: Ethical Trading Initiative
- FLO: Fair Labelling Organisations International
- FT: Fair trade
- FTF: Fair Trade Federation
- GMOs: Genetically Modified Organisms
- GRI: Global Reporting Initiative
- IBLF: International Business Leaders Forum
- ICA: International Coffee Agreement
- ICO: International Coffee Organisation
- IFAT: International Fair Trade Association
- ISO: International Organisation for Standardisation
- ITO: International Trade Organisation
- MDGs: Millennium Development Goals
- MNC: Multinational Corporation
- NAAHLI: North's average agricultural household living income
- NAALW: North's average agricultural living wage
- NCA: National Coffee Association
- NGO: Non-Governmental Organisation
- OI: Oxfam International
- P&G: Procter & Gamble
- PPP: Purchasing power parity
- SETEM: Servicio al Tercer Mundo
- TJSGA: The Jus Semper Global Alliance
- TRIP: Trade-Related-Aspects-of-Intellectual-Property
- TLWNSI: The Living Wages North and South Initiative
- UNDP: United Nations Development Programme
- USAS: United Students Against Sweatshops
- USPTO: United States Patent and Trademark Office
- WRC: Worker Rights Consortium
- $: U.S. dollars unless otherwise noted

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