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## Co-operatives and Fair-Trade



*Background paper commissioned by the Committee for the Promotion and Advancement of Cooperatives (COPAC) for the COPAC Open Forum on Fair Trade and Cooperatives, Berlin (Germany)*

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February 2005



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## INTRODUCTION

This paper is meant to provide a first insight into an apparently new range of activities of the co-operative movement: fair-trade activities. Some may claim that fair-trade or at least ethical trade is an essential characteristic of the co-operative movement from day one. Still, we could argue that fair-trade as a concept is very much associated with attaining development achievements through alternative North-South trade patterns.

In the literature and on the internet, a lot of information is available on both the co-operative sector and the fair-trade sector. Little though is known about the common grounds, the conceptual and historical relations between both domains and about the actual and potential synergy, the mutual benefits for co-operatives and fair-trade when conceived and applied together.

In a first attempt to deal with these matters, we propose the following *lead-questions*:

- *Definition and categorisation.* How do we define fair-trade and related concepts? What is the historical background of the fair-trade movement? What similarities and common grounds do the co-operative and fair-trade sector share? What are differences and divergences between these two sectors?
- *Practice.* What is the involvement of co-operatives in fair-trade initiatives *in practice*? What are fair-trade strategies of co-operatives and to which extent we can observe successes and problems?
- *Synergy.* Why should fair-trade make use of co-operatives in the various stages of its operations (production, expedition and importing, retailing)? Do co-operatives constitute an advantage for fair-trade organisations? And vice-versa: should co-operatives jump on the fair-trade bandwagon for the sake of their own distinction?
- *Policy.* How can institutional bridges between co-operatives and fair-trade agents be created?

## ***WHAT IS FAIR-TRADE? WHAT IS CO-OPERATIVE TRADE? WHAT DO BOTH HAVE IN COMMON?***

The daily practice learns that the terms 'fair-trade', 'co-operatives' and 'co-operative trade' are often used loosely and interchangeably. Different people attach different connotations to them. However, not every 'correctly produced' article on the shelves of a shop has the status of fair-trade. And, not every farmers association is a co-operative.

Since the concepts 'fair-trade' and 'co-operative' are not just the fruit of academic discussions but rather the expressions of underlying social movements, good definitions do matter.

A conceptual clarification is even more legitimate because of the nebulous jargon that is used by the different movements concerned. In other words how do we define equitable trade, co-operative trade, ethical trade, alternative trade and fair-trade?

### **1. Fair-trade: definition and criteria**

Fair-trade is a set of business initiatives that are run according to certain objectives and criteria. At the same time it is an international social movement (IIED, 2000; Young, 2003; Pirotte, 2005).

The idea of fair-trade originated in the 1960s as a response to the unequal terms of trade imposed upon the developing countries. In many western countries this led to a new social movement with the aim to alleviate poverty in the South by building direct, sustainable relationships with disadvantaged producers and providing fair access to markets in the North. These aims are still very much in vigour but meanwhile fair-trade has developed into a powerful force and a recognised '*label*'. Indeed, the labeling issue became quite important to distinguish the fair-trade products from the other 'ordinary' ones. The labeling organisations became the reference organisations and backbones of the fair-trade movement.

The *definition of fair-trade* as it was developed by the joint *labeling organisations* is as follows.

*“Fair-trade is a trading partnership, based on dialogue, transparency and respect, which 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”.*

Fair-trade organisations (backed by consumers) are actively engaged in supporting producers, in awareness raising and in campaigning for changes in the rules and practices of conventional international trade ([www.bafts.co.uk](http://www.bafts.co.uk) and [www.ifat.org](http://www.ifat.org) )

The *goals* of fair-trade are therefore:

- To improve the livelihoods and wellbeing of producers by improving market access, strengthening producer organisations, paying a better price and providing continuity in the trading relationship.
- To promote development opportunities for disadvantaged producers, especially women and indigenous people and to protect children from exploitation in the production process.
- To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively.
- To set an example of partnership in trade through dialogue, transparency and respect.
- To campaign for changes in the rules and practice of conventional international trade.
- To protect human rights by promoting social justice, sound environmental practices and economic security.

These criteria are known as the ‘FINE’-criteria. *FINE* is the informal co-ordination platform composed of the following representative bodies:

*FLO* (Fair-trade Labelling Organisations International) was established in 1992. It is the worldwide standard setting and certification organization. *FLO* is active in 45 countries and is based in Bonn, Germany.

*IFAT* (International Federation for Alternative Trade) was established in 1989. It centralises the support, promotion and advocacy of its 155 members in both the North and the South (all of them involved in alternative trade or fair-trade). *IFAT* is now based in the Netherlands.

*NEWS* (Network of European World Shops) was established in 1994. It is the umbrella of 15 national World Shop associations in 13 European countries, representing about 2500 ‘world shop’ outlets (“Magasins du Monde”). There is no common definition of a world shop. World Shops are bottom-up and grassroots-based initiatives. But it seems that offering fair-traded products and campaigning for a fairer world trade system is what unites them.

*EFTA* (European Fair-trade Association) was established in 1990. It is a network of 11 fair-trade organisations in 9 European countries which import fair-trade products. It is based in Maastricht, the Netherlands, and is active in co-ordination of and support for its members and the promotion of fair-trade towards commercial and political decision-makers.

Apart from those organisations, mention should be made of the North-American counterpart of *EFTA*, the *FTF* or Fair-Trade Federation, the Washington-based association of fair-trade wholesalers, retailers and producers. *FTF* was established in 1994 and has now 115 members.

Likewise, there is also an *FTA* or of Fair-trade Association, grouping and representing fair-trade importers and wholesaling organisations in Australia and New-Zealand.

The *FLO*, named first here, is in fact the youngest branch at this tree. *FLO* is an apex body in its own right, gathering certifiers such as *Max Havelaar* (founded in the Netherlands in 1988) and *Transfair USA* (1998). The certifiers provide us the *strictest criteria* for fair-trade.

The main criteria the fair-trade organisations propose to respect are:

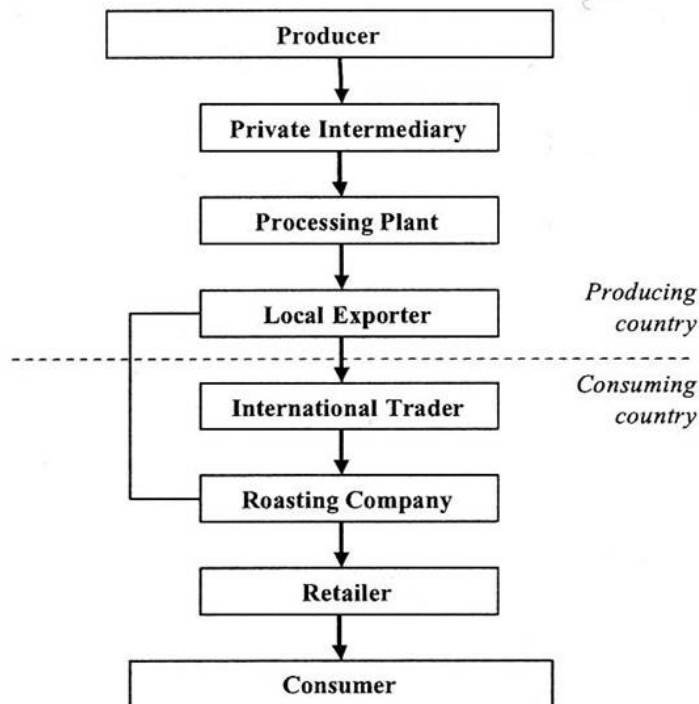
- (for workers:) decent wages, good housing, health and safety standards and the right to join trade unions;
- no child or forced labour;
- programmes for environmental sustainability;
- (for small farmers' co-operatives:) a democratic structure that allows members to participate in the co-operative's decision making processes.

Moreover, the trading terms must include:

- a price that covers the cost of production;
- a social premium to improve living and working conditions;
- partial advance-payment to prevent small producer organizations falling into debt;
- contracts that allow long term production planning.

Where exactly does fair-trade interfere in the commodity chain? Let us take the coffee commodity chain. It is a good example because coffee was one of the first products dealt with by the fair-trade sector. In addition it is still the prime icon of the sector illustrating the necessity and strength of the fair-trade approach. The 'normal' commodity chain for coffee looks as follows:

## COFFEE COMMODITY CHAIN

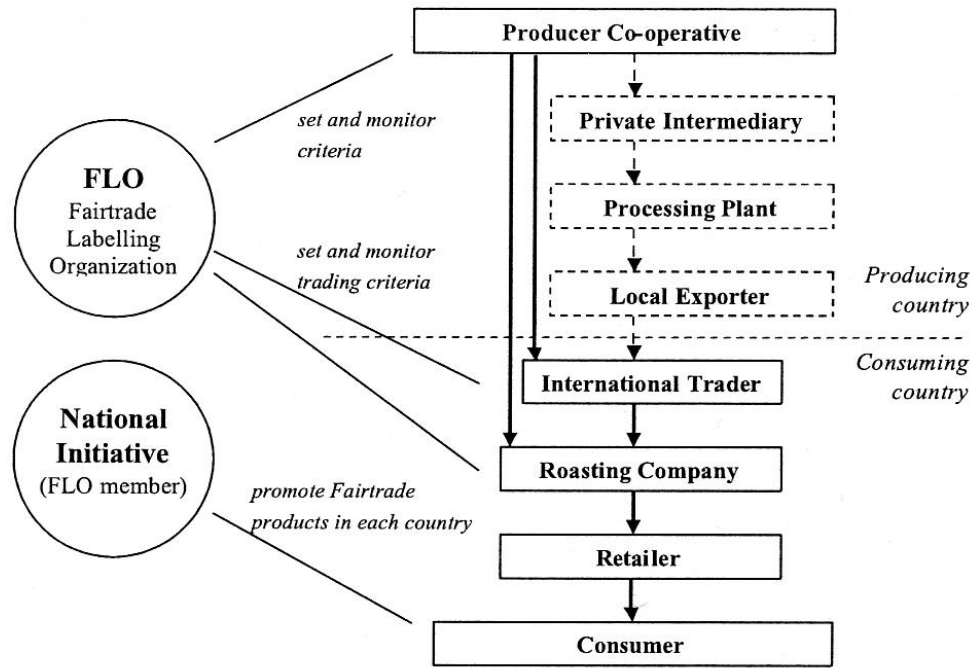


Source: Milford (2004)

Importantly, in this case, 70% of the producers are small-scale farmers. These producers only receive about 6% of the value of a pack of coffee. In the 1970s the producers retained an average of 20%. At the same time there has been a process of concentration. Local exporters are few. They are price-takers but have a strong position on the local market. The international coffee trading business is still more concentrated, with the top six companies controlling about 50% of the market. The coffee chain is characterised by more concentration the further down the chain one goes. Just a couple of large groups (Nestlé and Philip Morris) control about half of the market for roasted and instant coffees (Milford, 2004).



When fair-trade labelling gets in then we get the following picture:



Source: Milford (2004)

Thus the producer, the international trader and the roasting company are closely sanctioned by the FLO (labelling organisation). The producers' organisations have to follow a number of 'generic fair-trade standards'. The majority of their members have to be small farmers and their business has to be run in a democratically and participatory way. Their business operations are closely followed up and they have to protect the environment. The international traders and roasting companies have to pay a guaranteed minimum price, and when the world prices exceed this, they must pay an extra 5 US\$ cents premium. They also have to establish a long term and stable relationship with the producers' organisations and provide them with a prepayment of up to 60% of the contract value. The private intermediaries, the processors and the local exporters disappear from the chain, all of them bypassed by the direct link between producer and trader. The consumers can recognise a product as fair-trade, either by its specific fair-trade label or by the specific type of retail outlet.

## 2. Roots and related concepts

The former paragraph suggests that the *concept* of fair-trade has been narrowed over the years. However, at the same time the *connotation* of fair-trade starts

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covering a much wider range of activities and organisations than just the ones labelled as such.

Some may claim fair-trade is already embedded in the co-operative economy and the co-operative movement since the 19<sup>th</sup> century. In this way trade amongst co-operatives that adhere to their co-operative principles is defined by some as “fair-trade”. However, almost all of this trade was trade between co-operatives in the northern countries.

The South got involved in some kind of intercontinental fair-trade during the late days of the colonial era when missionaries brought with them suitcases full of goods produced by members of their parishes or village in order to sell them at ‘fair’ prices to their relatives and friends in the North. This ‘suitcase trade’ was the precursor of the modern fair-trade movement. It is generally accepted that the Alternative Trade Organisations of the 1960s were the real pioneers. They put forward an alternative option for the unequal trade relations between North and South. For them the producers were to receive a just and equitable price (above market). This ‘solidarity trade’ just like suitcase trade, operated at a very small scale. Typically, these organisations operated the whole trading process and were responsible for importing as well as distribution and sale of the products, often in the already mentioned world shops. The world shops are still a common mechanism that combines importing and selling of ‘fair products’. But there are many variances to that model. *Cafedirect* in the UK, for example, is a separate joint marketing company that was established by a number of ‘fair’ coffee traders to keep the costs down. Cafedirect sells its coffee in some of UK’s major stores. The *Day Chocolate Company* in the UK is yet another example. The company is co-owned by producers in the South. Recently a number of new types of alternative outlets for “fair-trade” products were set up like the alternative ‘worldcafé’s’ in Belgium (e.g. in Leuven) and France (in Bretagne).

Mention should also be made of the more recent phenomenon of *ethical trade*. Ethical trade can be described as trade that ensures that internationally recognised labour standards, in particular fundamental human rights in the workplace, are observed at all stages in the production and sale of goods sold. The driving forces behind ethical trade are mostly investor-owned companies and business who promote their ethical trade features either on their own (Carrefour, Sara Lee, Philip Morris and others) or in a joint ‘club’ of ethically inclined companies. They often may do so in collaboration with or under instigation of trade unions, NGO’s and alternative trade organisations. What drives profit-seeking businesses to be ethical? They may have a genuine interest in *corporate social responsibility*. However, critics will claim that their first interest rather lays in attracting more customers by getting in the picture with a clean image through so-called ‘cause-related marketing’. Whatever the motives, it cannot be denied that ethical trade is gaining ground and is widely publicised. Apart from workplace conditions, corporate social responsibility also touches aspects related with sustainability and environ-

mental awareness, such as animal protection, rainforest conservation and genetically modified organisms. In France, a number of ethically motivated persons and retailers have joined into an advocacy structure called *Minga*. Fair-trade is one of their principal objectives.

Fair-trade labelling has given a boost to the whole trade justice movement. Both alternative trade and ethical trade have been much influenced by the forceful technique of labelling producers, traders and products. Fair-trade labelling is not any more about producing its own products or creating its own distributive network. Products are labelled and retailing is done through existing outlets (mostly supermarkets). This makes for cost advantages. A much larger group of clients can be reached in this way. The products are still mostly the same: handicrafts, textiles, small furniture, tea, coffee, chocolate, bananas, wine and fruit juice and a range of dried foodstuffs.

But in addition, fair-trade labelling also creates an important benchmark for the ethical traders. By labelling certain producers and products as 'real fair-trade' the fair-trade movement sets higher standards to the ethical traders who discovered workers' and social rights only through the corporate social responsibility movement.

Looking at the three (competing) concepts one can see the ethical trade as the broader, more vaguely defined effort to meet certain ethical standards and criteria in trading relations. Alternative trade focuses on a direct link between producers and consumers in order to guarantee a just and equitable price for the producers. Fair-trade then is a technique that sets standards for producers, intermediaries and traders who want to show their adherence to certain set principles by showing a label. Fair-trade is a specific kind of ethical as well as alternative trade. Not all ethical trade or alternative trade is fair-trade.

### **3. Actual significance of fair-trade**

What is the *significance* of fair-trade? In 2002, the worldwide *retail turnover* of fair-trade labelled products was about 260 million Euro, whereas the turnover of the individual members of IFAT in 2002 totalled 238 million Euro. Since most products of the IFAT-members are non-labelled, both figures can be added without having too much of double-counting. Taking into account that the sale figures of the world shops are not included in these, one could arguably estimate the total annual turnover of fair-trade to be 500 million Euro (Young, 2003; [www.fairtradefederation.com](http://www.fairtradefederation.com)).

The sector also reports constant growth of turnover. Fair-trade certified coffee, for example, is the fastest growing segment of the speciality coffee market and about 2% of the world market. In 2003, 18.5 million pounds of green coffee was fair-trade

certified with a value of US\$ 208 million in retail sales. This represented a 90% increase in one year.

Still fair-trade accounts for not much more than 0.01% of all goods exchanged globally. This makes that fair-trade has some way to go still. However, the significance of fair-trade could also be expressed in the number of *people involved*. The agencies sorting under NEWS (the world shops in Europe basically) lean on about 100,000 volunteers who run the outlets in the 13 European countries where they have a presence. FLO has certified about 400 producer organizations, representing nearly 800,000 families (of the employed farmers and workers) in the third world.

It could be argued that the real significance of the fair-trade movement relates to its *indirect effects*. First of all the fair-trade movement is an important engine and promoter of changes in the regular trade because it creates growing consumer awareness and pushes for corporate responsibility and better conditions for producers in the third world. But the fair-trade movement is more than a mere advocate for changes in the unequal and inequitable trading relations between North and South. It is also a countervailing power by offering a concrete alternative to producers, traders and consumers. In the countries and regions where fair-trade products are procured the fair-trade system has also a pro-competitive effect because it often interferes in an oligopolistic environment where only a few buyers determine the prices.

## **4. Fair-trade and co-operative trade**

### **4.1 Where do co-operatives enter the scene?**

Summarising what we have seen so far, one could draw a picture holding three concentric squares.

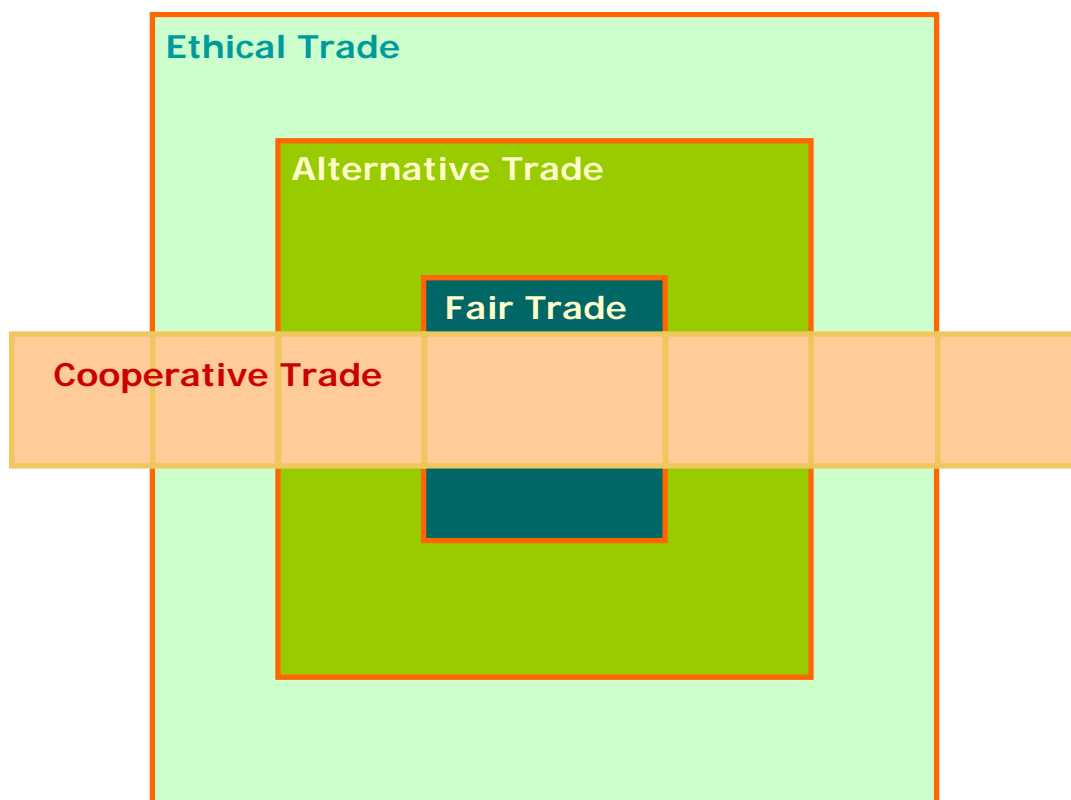
The outer square would indicate 'ethical trade'. Ethical trade then refers to every trade operation that does take working and living conditions of producers into account. Ethical trade can originate in both the profit and the non-profit sector.

The square in the middle would correspond with 'alternative trade', indicating the involvement of the non-profit sector and the idea of an integrated commodity chain.

The inner square finally would indicate 'fair-trade', labelled and formally recognised as such by certification organisations such as Max Havelaar, Transfair America or FLO.

Co-operative trade then could be presented as a rectangle crossing all sections of the picture. Co-operatives can – in principle as well as in practice – be involved with ethical trade, alternative trade and with fair-trade. Producer as well as consumers co-operatives can be involved. Co-operatives can be involved as

producers or as buyers (e.g. Equal Exchange). They can be investors in North-South joint ventures (e.g. Socodevi) or providers of credit and technical support (e.g. Rabobank).



## 4.2 Defining co-operatives

Let us now look at the *characteristics* of co-operatives. The International Co-operative Alliance defines a co-operative as:

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

This definition is accompanied by seven principles that serve as criteria to determine whether an association of persons is a co-operative:

- voluntary and open membership;
- democratic member control;
- member economic participation;
- autonomy and independence;
- education, training and information;

- co-operation among co-operatives;
- concern for community.

The values on which co-operatives are based are self-help, self-responsibility, democracy, equality, equity and solidarity. At first sight, these principles and values seem to focus upon internal and organisational aspects of co-operative enterprises. Still, co-operatives will stress upon their market behaviour as well, stating they distinguish themselves by honest measurement, high quality and fair prices.

Co-operatives have come a long way since they originated in the 19<sup>th</sup> century. They are active in all economic sectors and all over the world. As a recognized and well established social movement, they have a representative body with the ICA and are officially promoted by the ILO through the 'Promotion of Co-operatives Recommendation 193' (2002) and by the UN through the Committee for the Promotion and Advancement of Co-operatives (COPAC).

### **4.3 Comparing co-operative and fair-trade movement: the differences**

If we now juxtapose the characteristics of co-operatives with those of fair-trade, it becomes clear that there is a long list of differences between both ideas. We can see differences and sometimes clear divides in terms of (a) the type of agencies, (b) the rationale, (c) the cultural values and (d) the economic activities.

#### (a) Type of agencies

*Social category:* co-operatives (basically associations of people) are social and economic *agents* whereas fair-trade is a form of trade, which is a *process*. In other words co-operatives are actors on the market, trying to correct it in favour of its member-shareholders. Fair-trade is one particular mechanism designed to modify the operating system of a particular market.

*Legal status:* a co-operative is a social concept and at the same time a *legal formula for a society* with economic activities. Fair-trade is a social concept as well but *leaves open all sorts of options* as for the society formula or the legal personalities that are involved. In the fair-trade movement we find co-operatives, indeed, but also associations, NGO's, foundations and traditional businesses.

*Type of agents involved:* as agents, co-operatives come in *all sorts*. Among the primary co-operatives (i.e. of which persons are member) one distinguishes producers' co-operatives, consumers' co-operatives and finance or service co-operatives. On top of that, there are apex bodies and secondary co-operatives (of which co-operatives are members) and regional, ideological and international representative bodies. The agents most directly involved with fair-trade are the labelling or *certifying agencies*, the *specialised outlets* (such as world shops and other specialized and on-line retailers) as well of a growing number of (national and international) representative bodies. Only they, it could be said, have in fair-trade their reason for existence. Apart from those, there are a lot of producers (associations and co-

operatives), ethically motivated importers, distributors and ordinary businesses (supermarkets and other) who are also involved in fair-trade, without making fair-trade their exclusive business. In the co-operative movement there is organisational uniformity, in the fair-trade movement there is organisational heterogeneity.

*Historical significance and appeal:* co-operatives do belong to a recognized, fully institutionalized and well established social movement, featuring not as much as an opposition to but as a corrective mechanism for the mainstream market- and profit driven economy. Fair-trade takes the shape of a new social movement, thriving on the same body of ideas which also gave rise to structural development co-operation and ecological awareness in production. This difference does have implications in terms of the appeal to the public: co-operatives have a rather old-fashioned image, whereas fair-trade has its appeal to a young and globally oriented generation.

(b) Drive and rationale

*Origin and drive:* co-operatives and the co-operative movement are *producer-driven* in the sense that originally, co-operatives were looked upon as an alternative mode of production; after that, it became clear that the co-operative form of equal shareholdership could also be applied for consumers, service-providers, etcetera. Fair-trade is rather *consumer-driven*, with campaigning NGOs as the original driving force. But both co-operativism and fair-trade are touching the whole of the economic cycle insofar that, once launched, they cannot be reduced to the production, the transaction or the consumption component.

*Target group rationale:* the co-operative movement aims to increase the incomes of consumers and producers in both North and South, whereas the fair-trade movement in the first place wants to improve the income situation of producers in the South. Expressed in terms of 'interests', one could say that co-operatives invariably are set up to create *win-win situations*. Fair-trade has a clear moral assumption about who should be the winner: the producer in the South. Put in other terms, co-operatives take the interplay of private interests very much into account, changing only the chances for a better outcome for those who join them. Fair-trade considers private interests as something to be submitted to a well-defined public interest (which is a decent income of the producer in the South).

*Strategic rationale:* one could state that co-operatives feature as *means to an end* (whereby co-operative ownership leads to equity and solidarity). Fair-trade, on the contrary, is much more *an end in itself* (whereby the 'fairness' is by definition corresponding with the decent income of the producer). To put it into a riddle-phrase: co-operatives aim for *justice by ownership*, while fair-trade tries for *ownership by justice*.

(c) organisation culture and values

*Logic:* co-operatives thrive on a logic that combines *market forces with self-help*, fair-trade is driven by a *support or assistance logic*.

*Condition:* because co-operatives primarily want to survive in a competitive market they see good *management* as the basic condition. Fair-trade agents will insist on *commitment* (on the part of producers, traders and consumers alike) as the most basic condition.

*Objective:* most co-operatives are *growth-oriented*. They believe that their business operations have to expand ever again in order to survive on an expanding market. Fair-trade agents consider *human development* and *respect of human rights* the prime objectives of their activities.

(d) economic activities

*Economic sectors:* in principle and in practice, co-operatives are active in *every economic sector* imaginable whereas fair-trade deals with a *limited* (even if gradually expanding) *range* of products and activities (mainly storable food and small commodities)

*Location of activities:* the co-operative movement first developed in the industrialized *North* and spread into the *South* through the subsequent involvement of the colonisers, the newly independent states and community based organizations (often sponsored by NGOs). It is fair to say that, although co-operatives are present in both the North and the South, economic links and alliances between North and South have not yet been developed into common routine. As far as fair-trade is concerned, however, the *North-South* link is the premise and the reason of existence of the phenomenon.

#### **4.4 Comparing the co-operative and fair-trade movement: communalities**

Having listed the divides, it should be stressed that co-operatives and fair-trade also do have many things *in common*. They share a set of values among which: equity, solidarity, just reward for efforts and economic activities and shared property. More specifically, we see the following common features.

*Participative* structure of the organisation. Co-operatives are businesses that allow for member-participation and seek a kind of economic democracy. Fair-trade organisation seek economic fairness and promote equitable participation of different stakeholders in the trading operations.

*Equitable income* for the producers is a price-determinant in addition to the market price. The concern for a fair treatment of producers is at the origin of both the co-operative and the fair-trade movement. Co-operatives started in the 19<sup>th</sup> century when producers were cheated by the weighers. Correct weighing is one of the basic concerns of fair-traders as well.

Activities are happening in a competitive *market* (where competitiveness with commercial and profit-oriented enterprises can at least always be measured). In



that sense, with their mode of production not being capitalistic, both co-operatives and fair-trade initiatives could be labelled as 'social economy' but never as belonging to a socialist or centrally planned economy.

Although economic activities are their core business, attention is given to *other spheres of life quality*. In the case of co-operatives, education and training are put forward. In the case of fair-trade, the concern is about environmental awareness.

Finally, both co-operatives and fair-trade agents struggle with their objective of *double-targeting*, i.e. establishing ethically responsible activities and surviving in a competitive business market (Pirotte, 2005). This requires a permanent balancing and readjustment of decisions concerning prices and production.

These communalities indicate that co-operatives and fair-trade agents may very well cover each other domain. The differences mentioned before do come as complementarities much more than as opposing forces. This calls for synergy in principle. But do we find synergy in practice? Purely hypothetically, we can see two possible bottlenecks.

First, originating from a totally different environment and in a different era, co-operatives and fair-trade agencies are embedded in a different organisational culture. Co-operatives will often have formal and permanent networks with other organisations within the same social movement. Fair-trade depends a lot on informal and ad hoc networking.

Second, it may be that the two sectors (co-operative and fair-trade) have no automatic mechanism to meet each other, and that meeting is rather by accident, or as a result of national 'third sector' policy.

## **2. Involvement of co-operatives in practice**

The Canadian study group 'Crises' has recently undertaken an internet-based social mapping of the principal actors within the world of fair-trade. They aimed to picture an overview of labellers, producers, importers, wholesalers and retailers as well as promoters of fair-trade products. The first element in the profile of each organization was the 'type of structure'. This enables us to get an idea of the relative importance of co-operatives in this sector. It should be noted that the e-search was primarily focused on the francophone world, together with a series of North-American organisations. Among the 19 actors identified in the North, only two were co-operatives (being the organisations Equal Exchange and La Sembra). Some were quasi-co-operatives (such as the French importer Solidar'monde). In the South (mostly in Latin American countries) 117 actors were identified of which 40 were co-operatives.

## 2.1 In the South: NGOs and producers co-operatives

It is clear that quite a proportion of fair-trade goods are produced or manufactured by co-operatives in *the South*. A quick survey of companies involved in the coffee sector shows that many American fair-trade coffee roasters or retailers (such as Human Bean, Just Us, Café Campesino, One village...) have their coffee beans grown and harvested by co-operatives in Latin America. Likewise, European NGOs have formed networks of outlets (such as La Tienda Solidaria 'Setem' in Spain) to allow co-operatives in the South to find consumers for their fair-trade coffee. Although profit-seeking private companies are not accepted as producers, many fair-trade producers feature as loose associations without legal co-operative status. Paul Rice, CEO of the certifying organisation *Transfair USA*, pictures the *advantage* of working with co-operatives as "co-ops provide legal structures and organizational processes that significantly raise the level of farmer participation in decision making related to coffee exports, investments, community development and a range of issues about which small farmers previously had no voice" (Rice, 2002). The problem to which the combination of fair-trade and co-operatives provides an answer is that of monopsonies or oligopsonies in the agricultural produce market in the third world. One or a few buyers dictate a (severely low) price to the disadvantage of the many small suppliers. When they have a direct access to the markets in the North, co-operatives do not at once eliminate middlemen, but they allow farmers to 'intermediate' their own product, capture higher margins for their agricultural produce and build economic independence from local oligarchs and traders. In Uganda, for example, the joining together of producers into the Uganda Co-operative Alliance allowed them to withstand the period of liberalisation (as a consequence of the Structural Adjustment era) in their country.

At the other hand, fair-trade co-operatives also have their share of organisational and management *challenges*. A study on fair-trade of the University of Liège (Belgium) shows that some co-operatives in Africa are dragging the burden of the old legacy of the state-intervention. Their case-studies indicated that the 'Tanzanian' type of co-operatives were large (over 50.000 members) and centralised, while the 'Nicaraguan' type were small (averaging 2.000 members) and autonomous. The Nicaraguan co-operatives had a clear advantage as for productivity and efficiency as well as, because of their smaller size, a more outspoken *visibility* of the fair-trade component. The already mentioned IIED-study also uses Tanzania as an example of suboptimal working of co-operatives (high operation costs, delays in payments to farmers, expensiveness of domestic credit compared to foreign capital) but blames this largely to the Ujamaa-legacy<sup>1</sup> which is typical for the Tanzanian context. As a result of the poor performance of Tanzanian co-

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<sup>1</sup> As an ideologically inspired government policy, the Ujamaa villages replaced the co-operative unions in the 1970s.

operatives, coffee exporters have since liberalisation started buying directly from farmers (IIED, 2000).

A comparative study of three wine producing co-operatives in Chile showed that fair-trade is only the first step in a long process to decent and stable living circumstances for the workers of co-operatives. The main observation was that, due to their different origin, their specific membership composition and their interplay with other business partners, not every co-operative benefited in the same way of the opportunities offered by fair-trade (Mori, 2003).

It should be mentioned that apart from joining in co-operatives, alternatives do exist for farmers to strengthen themselves against volatile or unfair prices. *Contract farming*, notably, is a system where a central processing or exporting unit purchases the harvests of independent farmers and the terms of the purchase are arranged in advance through contracts. Still, this contract may be an agreement between unequal parties and therefore co-operatives could be used to represent the farmers collectively and support them at all stages of the production cycle (Stessens et al., 2004).

In short, at the producers' end of fair-trade, co-operatives may come as an obvious choice. But they are not per definition efficient and well-performing organisations and they are not the only option either.

## **2.2 Co-operatives involved with fair-trade in the North**

### **2.2.1 New 'fair-trade co-operatives'**

In the *North*, the involvement of co-operatives in fair-trade is a less general feature and it is of a more varied nature. Co-operatives may assume the role of fair-trade importers, retailers, promoters and even providers of technical assistance. We give a non-limitative list of examples. We first look at some co-operatives that have been created in the wake of the trade justice movement.

In 1999, seven American roasters (including Café Campesino) decided to join the forces and to form *Co-operative Coffees*, a green coffee importing co-operative. Co-operative Coffees now comprises 17 community-based coffee roasters committed to support equitable and sustainable trade. The coffee beans are imported from several South American co-operatives, as well as from Ethiopia and Timor.

*Equal Exchange*, a worker-owned co-operative was founded in Massachusetts as early as 1986 to create a fair approach to trade, informing customers and offering them 'gourmet' coffee traded directly from small-scale farmer co-operatives in the third world. They now promote and sell their products (which also include chocolate) on-line.

In Canada, *La Siembra* proudly claims to be Canada's first fair-trade cocoa co-operative and also explicitly aims to import from co-operatives.

In the UK, *Out-of-this-World* is a consumer co-operative owned by 18.000 members and run by a small management team. It has three shops in Newcastle, Nottingham and Cheltenham and a mail order catalogue. Each product chosen must display a contribution to the following five ethical criteria: healthy eating, community development, fair-trade, animal welfare and environmental sustainability.

### 2.2.2 The Co-operative Movement jumps on the bandwagon

The British Co-operative Group heavily promotes fair-trade, e.g. under the recent slogan 'Fair-trade coffee: what a difference a penny makes'. The Co-operative Group is the largest consumer co-operative in the U.K. It employs over 75,000 people and has more than 3,000 high street outlets. One of the businesses in the Group is the Co-operative Bank, proclaiming an outright ethical policy. This includes initiatives like the Customers-Who-Care campaign, wherein 1.25 pence for every £ 100,- transaction is spend to ethical issues, including fair-trade. Forthcoming the Co-op Bank will co-launch (with the NGO Christian Aid) the Trade Justice Campaign. In the UK, which has the largest fair-trade market in Europe, 60% of fair-trade goods are sold in supermarkets (which to a large extent are co-operative owned).

In continental Europe, the Italian co-operative *Legacoop* (commonly known as COOP) claims to be the first Italian chain of supermarkets to sell fair-trade products. At the moment their range consists of 12 products: coffee, honey, cacao, tea, fruit juices and a variety of balls for sport. Since 2003 these products have been inserted into the co-operative brand products with their own line called 'solidal'. This choice enlarges the current selection to 25 products compared with the previous 12 with a relevant increase in product turnover. COOP is a founder member of Transfair Italy, the only certification authority in Italy for fair-trade products. Fair-trade products come from Central America, South America, Kenya, India, Pakistan and Palestine. Sales have been in constant increase since 1996. In 2002 they totalled 3,5 million Euro.

With its 10 co-operatives, *Migros* operates Switzerland's largest retail store chain that includes over 580 sales outlets. Apart from supermarkets and specialist stores, the Migros group also owns a number of production and service companies (e.g. travel organisations). Migros, with approximately 80,000 employees (and among the world's 500 largest firms) makes sustainability one of its trademarks. As a policy, Migros works together with external partners such as the Clean Clothes Campaign for the safeguarding of minimum social standards, WWF for the furtherance of environment-friendly use of forests and the Max Havelaar Foundation for the support of fair-trade.

In Japan, the *Seikatsu Consumers' Club Co-op* (SC), an organization founded by ordinary housewives now manages an advance ordering and joint buying system, serving over 230,000 households. One of their fundamental principles is to abolish differentials and discrimination. Realising that prosperity should not be based on sacrifices of other people, SC promotes and encourages fair-trade.

### 2.2.3 Other ways of co-operative involvement in fair-trade

Some co-operative initiatives from the North regarding fair-trade are in assisting production features and trade technicalities. U.S. co-operatives (coordinated through OCDC) have technical assistance programmes in Central-America, as well as other parts of the world, including East Timor where coffee co-operatives are the leading employer, foreign exchange earner and rural health provider. With the support of the National Co-operative Business Association (NCBA) since 1994, some 20,000 small-scale coffee growers in East Timor have organised into 16 organic co-operatives and 493 producers groups to create a national co-operative structure known as the *Coopérativa Café Timor*. In September 2003, NCBA assisted *Coopérativa Café* in signing an agreement with Starbucks to sell organically grown, fair-trade certified coffees to Australia and New Zealand under the brand of *Timor Lorosa'e* (Weihe, 2005).

Because of their market position and long-term experiences and networks, northern co-operatives can indeed help southern fair-trade co-operatives to penetrate new markets inside the fair-trade circuit, but also outside of it. The North American Co-operative Business International (CBI), inc., for example, is a market development company working together with some of the American co-operative development agencies. CBI itself has offices in Indonesia, Nicaragua and Russia and trades in a variety of grains (corn, food-grade soybeans, coarse grains), spices (vanilla, black pepper, cloves), speciality and high grade commercial coffee and high quality home furnishing. CBI seeks benefits for everyone, from the producer to the end user. Producers enjoy higher prices due to improved system marketing efficiency as well as sharing the reward for the delivery of consistent quality products to exacting specifications. CBI also assists producers and exporters with their specific financial needs.

The Dutch *Rabobank Foundation* for some years works together with the Green Development Foundation in supporting 122,000 coffee growers in 7 Central-American countries. Rabobank gives support to the credit divisions of the farmers' co-operatives and participates in risk-bearing capital and trade financing for the fair-trade networks.

While the Rabobank does give financial backing to southern co-operatives, the National Co-operative Bank in the U.S.A. provides working capital to the North

American Co-operative Coffee and Equal Exchange so that they can buy in bulk and cover the gap in their costs from shipment to consumer sales.

The Canadian co-operative development agency *Socodevi* sees its role as a broker and assists its partners in penetrating the fair-trade market. But it also explicitly broadens the concept of fair-trade by favouring co-operative to co-operative trade and North-South co-operative joint ventures. In this way in 2003 it helped Ivorian cacao co-operatives to sell 3 million tons of cacao on the international market through interco-operative trade. In Guatemala Socodevi assisted in the creation of a co-operative factory handling cabbage and leek. This co-operative is co-owned by Guatemalan co-operatives (51%) and a Canadian co-operative retailer (49%). Some Canadian co-operatives used the CIDA Industrial Co-operation Programme (CIDA Inc.) to do feasibility studies on potential inter-co-operative trade.

Similar business-twinning arrangements are stimulated by the Norwegian *Norcoop*. Consumer co-operatives of Honduras have business relations with Norwegian consumer co-operatives and housing co-operatives in Guatemala are involved in joint ventures with Norwegian housing co-operatives.

### **3. Co-operatives and Fair-trade: a fair deal?**

#### **3.1 Co-operatives for more fair-trade?**

Co-operatives could be a vehicle for fair-trade. In the South, the practice shows that co-operatives are the most desired and clearly the most accountable and stable kind of partner for fair-traders. A co-operative structure gives a farmer's association the advantages of institutionalised ownership, institutional sustainability, a decision-making structure and socialisation of the fair-trade premiums. If the co-operative becomes a part of a larger national or international co-operative network, there is a greater chance to avoid the so-called fair-trade trap, i.e. being dependent of just one Northern buyer (Pirrotte, 2005). Many southern producer co-operatives sell their products at the same time on the international market, through the fair-trade network as well as through traditional intermediaries. This plurality of outlets gives them negotiation power and a competitive edge.

Co-operatives can also help in penetrating the domestic markets that very often remain untapped by the internationally oriented fair-trade circuits. The largest Italian co-operative beekeeper's consortium CONAPI, for example, owns different brands that stand for quality, identity and innovation. Since 1998 CONAPI is trading with apiarists in Mexico, Guatemala and Nicaragua. In 1999 some 40 tons of fair-trade honey was traded by CONAPI. In 2004 this amounted to 170 tons or some 6% of honey turnover of CONAPI. Concerned with the limited access to the domestic and regional markets of the fair-trade products, CONAPI established the 'Association of International Co-operatives Sin Fronteras' with 15 co-operatives, 2

NGO's and one ethical banker. The association seeks for a maximum of added value in the producing country by favouring treatment and packaging in the country itself.

There are also some little exploited avenues for co-operatives to be involved in fair-trade, or equitable trade for that matter. Agencies working on behalf of the co-operative movement could provide their southern counterparts with agricultural inputs (seed and fodder) or credit.

But it is towards the northern consumer market that co-operatives may play a much bigger role than they do now. They could widen the range of fair-trade products. Also, they could serve as a positive challenge to both the Fair-trade Labelling Organisations (who are sometimes criticized for imposing terms too severe on fair-trade producers) as well as to the private 'ethical' traders who sail on the benefits of the prosperous fair-trade current without investing in it and sharing its 'burden'.

#### *Knowledge gap*

Very little comparative research has been done on the scope, operations and impact of fair-trade and co-operatives in developing countries. We can deduce the following major lessons from the existing case studies.

Fair-trade does create a lot of opportunities in terms of work and revenue for small farmers and artisans.

Fair-trade helps local co-operatives to become more professional.

The just price is not always at the centre of the relationship in fair-trade. Often fair-trade offers only a marginal bonus but makes the business of the southern co-operatives and their members more viable because of increased volumes.

Fair-trade is at the origin of many southern export organisations. They do not have the monopoly for trading with the local co-operatives. Many co-operatives trade with fair-trade and traditional traders simultaneously.

Local fair-trade organisations that are set up as co-operatives have more institutional sustainability.

Co-operatives tend to have a pro-competitive effect because they often interfere in an environment where monopolists or monopsonists control the market.

Fair-trade is not an all-in-one solution for inefficiency, lack of participation or moral hazard in local organisations and co-operatives.

### **3.2 Fair-trade for better co-operatives?**

Conversely, fair-trade could be an opportunity of quite some proportion for co-operatives and the co-operative movement. In her study Anna Milford (2004)

compared two kinds of support to Southern co-operatives: 'traditional' subsidies and fair-trade. She wanted to know what the effect was of these support mechanisms on the efficiency or inefficiency of co-operatives in the South. The inefficiency of co-operatives appears first through the 'free rider' phenomenon.<sup>i</sup> The members might leave the burden of management to the others. But inefficiency also comes with a lack of incentives for co-operative management to improve its performance. Thirdly, inefficiency appears when there is a lack of long-term investments as members living close to poverty tend to prefer receiving any sale surplus immediately rather than to make profitable investments. The key for well performing co-operatives is thus active membership. It is found, however that financial support that often comes in conjunction with technical and management support has the tendency to increase the problem of free-riding and reduce the productivity of the co-operative. The question is, therefore, whether this is also a problem in fair-trade. Through a case-study of a co-operative in Chiapas, Mexico, the author comes to the following tentative conclusions. (1°) The minimum price guaranteed by fair-trade functions as a subsidy per unit sold. This makes the fair-trade premium more market related and holds a self-correcting mechanism of some sort. Still, if the management turns a blind eye to the co-operatives' long term viability, risks of inefficiency, moral hazard and free riding remain imminent. (2°) The cases studied did not show that co-operative members tend to lean back and rely on the fair-trade premiums to guarantee them a decent income for years to come. This may have to do with the selection of the co-operatives (being 'fair-trade-able') or with the moral-boosting effect of non-economic activities (credit schemes and political activities) launched by the co-operative on the basis of the fair-trade financing. (3°) Apart from these 'efficiency' questions, another effect of fair-trade was illustrated. The oligopsonic cartels seem to become destabilized because of the increased level of information among farmers. Also, the author advocates fair-trade if only because it allows supporting co-operatives from the consumers side in situations where producers and consumers cannot communicate directly with each other. Finally, she puts things in perspective as fair-trade alone cannot solve the problem of falling international commodity prices and the effect this has on the living standards in Third World countries. She advocates that more research and involvement is needed concerning co-operatives in developing countries.

Not only co-operatives in the South can benefit from fair-trade. Fair-trade can also mean a lot to co-operatives in the North. Fair-trade is an excellent opportunity for co-operatives in the North to get on the international market in a way that is consistent with their own values and modes of operation. In addition, fair-trade gives northern co-operatives an additional chance to take up 'co-operative social responsibility'. In this way they can show that the co-operative sector is bound to go beyond traditional corporate social responsibility because their fair and responsible trading is inherent to their mission, is more than social marketing and is



based on equal and long-term partnership. Many northern co-operatives are presently trying to identify the distinctive characteristics of modern co-operatives. Involvement in fair-trade is one excellent opportunity to show that ethics is at the heart and core of co-operative distinctiveness. In addition, fair-trade can help co-operatives to respond to the increasing demand for transparency, accountability and traceability in the commodity chain.

*Some research centres involved in co-operative and fair-trade research*

The Manchester based *Co-operative College* ([www.co-op.ac.uk](http://www.co-op.ac.uk)) offers in the first place a training curriculum on co-operative management. The College is linked to the academic world and carries out case-studies on best practices in co-operative participation. The college is also the leading agency of the COSRAFT-project (Co-operation, Social Responsibility and Fair-trade). COSRAFT looks at the variables that determine the involvement of co-operatives in fair-trade in four European countries (U.K., Sweden, Belgium and Italy).

One of the leading research units on fair-trade is the *Colorado State University Fair-trade Research Group* ([www.colostate.edu](http://www.colostate.edu)). This team of academics basically focuses on producer co-operatives and associations involved in fair-trade and their effectiveness in reducing poverty in the third world.

The University of Quebec in Montreal hosts the study network 'C.R.I.S.E.S' (which means Centre for Research on Social Innovations). Studies and working papers by doctoral or post-doctoral students on all aspects of social economy initiatives, including fair-trade belong to its core business.

In Belgium, the *University of Liège* has a study team specialised in social change and development matters. In the past, they have been carrying out studies on the Co-operative Movement and on fair-trade. Likewise, the Leuven-based *HIVA Institute* ([www.hiva.be](http://www.hiva.be)) does have a track record in these subjects as well, producing an overview on social economy in both the North and the South (Develtere and Fonteneau, 2001) as well as a survey on the involvement of co-operatives in development co-operation (Develtere and Pollet, 2004).

Some research centres on development co-operation have carried out theoretical studies as well as impact studies on the economic and social significance of fair-trade. We already mentioned the study of Anna Milford of the Norwegian *Christian Michelsen Institute* ([www.cmi.no](http://www.cmi.no)).

#### **4. What happens next? Ideas for policy**

From the above it is clear that the worlds of co-operatives and fair-trade are still very separated but have much in common. They can mutually reinforce each other. However, how can they do this when they work out separate agenda's,

when there are little or no efforts to learn from each others successes and mistakes, when there is even no systematic encounter between the two movements? We therefore advance the following policy recommendations.

*Fill the information gap*

Co-operatives and fair-trade organisations are action-driven institutions. They have gained their respectable position in both Northern and Southern countries through continuous and consistent social and economic engineering. Both movements are convinced of the value of their work as well as their track record. The involvement of millions of shareholders, members, clients and volunteers is an indicator that there is societal support for what they do and achieve. However, in the emerging information society legitimacy and public recognition does not come solely with the value of what you do, but increasingly with the evidence-based confirmation and good marketing of what you do. Co-operatives and fair-trade organisations have to blend their action-processes with information-processes. Knowledge generation and utilisation then becomes extremely important. Both the co-operative and the fair-trade movement have to come up with the scientific evidence that they make a difference for their stakeholders (the shareholders, the poor, the clients) and have comparative advantages over other kinds of organisations operating in the same kind of environment and claiming to produce the same benefits (some NGOs, businesses, ...).

*Create institutional bridges*

The co-operative movement and the fair-trade movement are still two worlds apart, notwithstanding the many collaborative arrangements that we have discovered. The representative bodies should create institutional bridges between the two movements. This is a task for the international bodies such as the International Co-operative Alliance and the Fair-trade Labelling Organisation, but also for the national apex bodies of co-operatives and their fair-trade counterparts. When establishing these contacts, the two movements will discover the differences in organisational culture and modus operandi, but will probably also discover that they have more in common than they thought.

*Make a joint agenda*

The co-operative movement and the fair-trade sector face similar and sometimes identical challenges. They both have, for example, a weak institutional position and lack recognition by governments, international organisations and the corporate sector. They both also need to justify their 'alternative' approach in an economic environment that fosters homogeneity and uniformity. But they know that being different can pay off. The two movements can develop a joint agenda to prepare and create a better position for both in both the institutional and the market environment.

*Recognise each other's strengths and contribution*

Co-operatives, we have seen, can benefit from fair-trade. Fair-trade can benefit from co-operatives. Both movements have to get to know each other's strengths. The co-operatives can benefit from fair-trade because it gives privileged market access for southern co-operatives and helps them in becoming efficient economic actors. Northern co-operatives can also use fair-trade to advance in their search for co-operative social responsibility. Co-operatives can also bring a lot to the fair-trade sector: institutional stability and sound management for southern fair-trade partners, access to northern markets, help in penetrating the domestic markets, banking support, product development, new niches for the fair-trade sector and even the mainstreaming of fair-trade.

*Working apart together*

The foregoing is no plea for a merger between the two movements. As we have seen, the two movements have different origins, *raison d'être*, structures, operations and cultures. They are two movements in their own right. Their respective stakeholders demand different things from them. Both movements thus have to keep on working out their own agenda. However, as will be clear by now, be helpful for each other's advancement.

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- i One could add to analysis of Milford that a major contributor to co-operative inefficiency relates to the way they mobilise capital. Many prefer to raise operating capital from external (banks, donors, etc.) rather than member sources (share capital contributions). This means that in externally financed co-operatives, members have a relatively lower member equity stake in the success of the co-operative business and therefore put little pressure on management to improve efficiency.