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Impact assessment on Local Fair Trade Organisations in Central America, Africa and Asia

By Andrew Nunn

Abstract

Despite the rising popularity of Fair Trade, a relatively small amount of academic research has been done on its impact on Local Fair Trade Organisations (LFTOs). This paper uses a unique set of data from Shared Interest Society Ltd, the UK based ethical investment co-operative, of 25 LFTOs across Central America, Africa and Asia to make a quantitative assessment of the impact of Fair Trade on them. They have a pivotal role as the buyers from the producer households and the suppliers to both Fair Trade and commercial buying organisations. The key issues are about the ability of LFTOs to achieve an “efficient technology” and diversify into other markets as otherwise they are fragile and may not be in a position to serve the interests of the producer households in the medium to long term. If they are accessing other markets, it suggests they are reaching an efficient technology thereby reducing risk and becoming stronger organisations. The findings suggest, while not confirmed statistically, the possibility that LFTOs in the Coffee Market and All Product Markets might be reaching efficient technology, able to compete with conventional firms, thereby reducing their dependence on Fair Trade markets. It also suggests, while not confirmed statistically, the possibility that the Fair Trade Market is helping the growth of the Local Market through reaching efficient technology. This study leaves open some questions however one option to answer these is rerunning this analysis in 5 years’ time when more data is available or looking for other avenues where data may be available such as Root Capital or FLO. A combined methodology based on the type of analysis conducted here with more data, and a case study-based method with a smaller number of LFTOs, might be a possible way forward.

**Impact assessment on Local Fair Trade Organisations in
Central America, Africa and Asia**

**Are LFTOs reaching an efficient technology enabling them to
compete with conventional firms or remaining dependent on Fair
Trade?**

By Andrew David Robert Nunn

Masters by Research

Durham Business School

Durham University

2015

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List of Abbreviations

3YMA - 3 Year Moving Average
ANOVA – Analysis of Variance
APPBOSA - Asociación de Pequeños Productores de Banano Orgánico Samán y Anexos
ATO - Alternative Trade Organisation
CDS - Cercle Des Secheurs
CECOCAFEN - Coffee Cooperatives Central Association in Northern Regions
COCLA - Central de Cooperativas Agrarias Cafetaleras
CSR - Corporate Social Responsibility
DCTM - Direct Contact Trade Model
EFTA- European Fair Trade Association
EU - European Union
FAO- Food and Agricultural Organisation of the United Nations
FF – Fair Trade Foundation
FLO - Fair Trade Labelling Organisation
FTAO – Fair Trade Advocacy Office
FUNDACION - Fundacion Solidaridad Talleres Artesonales
GDP - Gross Domestic Product
GPFU- Global Producer Finance Unit
GUMUTINDO - Gumutindo Coffee Cooperative Enterprises
IFAT - International Federation for Alternative Trade
ICA - International Coffee Agreement
ICO - International Coffee Organisation
ILO - International Labour Organisation
IMO - Intermediate Marketing Organisation
IS - Import Substitution
LFTO - Local Fair Trade Organisation
LIFFE - London International Financial Futures and Options Exchange
LPG - Liquefied Petroleum Gas
NAWOU - National Association of Women’s Organisations in Uganda
NEWS - Network of European Worldshops
NFTO – National Fair Trade Organisation
NGO - Non Government Organisation
PRIETO - Grupo Agricola Prieto
PSR - Producer Services and Relations Unit
PST - Prebisch-Singer Thesis
SALAY - Salay Handmade Paper Industries Inc
SERRV - Sales Exchange for Refugee Rehabilitation and Vocation
SPP - Small Producers Symbol
TNC – Transnational Company
UCPCO - Unión de cooperativas Agropecuarias de producción de café orgánico
UK - United Kingdom
UNCTAD - United Nations Conference on Trade and Development
USDA - United States Department of Agriculture
USA - United States of America
WFTO - World Fair Trade Organisation
WTO - World Trade Organisation

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Chapter 1: Introduction

1.1 Overview of this study

Despite Fair Trade's apparent success, it is not just an "anecdotic phenomenon" (Becchetti and Huybrechts 2008). There is a large amount of research covering impact, economic, marketing, organisational and policy studies. There are a lot of different types of players in this market from non-profits to cooperatives and for profit organizations. There has been a relatively small amount of academic research done in the impact assessments of Local Fair Trade Organisations (LFTOs) also known as Intermediate Marketing Organisations (IMOs) which are the intermediaries in the value chain.

"[LFTOs] play two principal economic roles, in compensating for a lack of competition for labour, and as a channel for investment in tangible and intangible assets, in addition to any wider social and political functions" (Hayes 2006).

LFTOs can vary in structure from co-operative to charity or community organisations or enlightened employer (Hayes 2006). They can also vary in their objectives and ways of functioning (Becchetti and Huybrechts 2008).

This study seeks to fill this gap by using a unique set of data from Shared Interest Ltd, UK based ethical investment co-operative of 25 LFTOs across Central America, Africa and Asia to quantitatively assessment the impact of Fair Trade on them. They have a pivotal role as the buyers from the producer households and the suppliers to both Fair Trade and commercial buying organisations.

The key question is "Are LFTOs reaching an efficient technology enabling them to compete with conventional firms or are they remaining dependent on Fair Trade?"

The key issues are about the ability of LFTOs to achieve an 'efficient technology' and diversify into other markets. As otherwise they are fragile and may not be in a

position to serve the interests of the producer households in the medium to long term. If they are accessing mainstream markets, it suggests they are reaching an efficient technology thereby reducing risk and becoming stronger organisations. If they are not and are remaining dependent on Fair Trade further analysis on the causes of this will be required along with solutions implemented.

The dissertation is split into 7 chapters: Chapter 1 sets the scene by giving an overview of the history of Fair Trade. Chapter 2 looks at dependency theory and Fair Trade's response to criticisms of dependency. Chapter 3 explores the impact of mainstreaming on Fair Trade. Chapter 4 focuses on Impact Analysis highlighting the gap in the literature which this dissertation addresses. Chapter 5 explains the methodology used and Chapter 6 analyses the results. Chapter 7 concludes the impacts this research has on our understanding of Fair Trade and the implications this has on the Fair Trade movement.

1.2 What is Fair Trade ?

It is important to firstly define Fair Trade as it has meant different things at different times such as eliminating unfair subsidies and predatory pricing practices (Ehrlich 2007).

“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, marginalized producers and workers—especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade” (FINE 2001).

The main difference between protectionism and Fair Trade is protectionism is focused on protecting the domestic economy whereas Fair Trade is concerned with labour and environmental standards (Ehrlich 2010).

It is also important not to confuse Fair Trade with Free Trade which looks at reducing trade barriers to increase economic growth of nations with profit the overriding

concern. This is very different to empowering the marginalised (Fair Trade World 2013).

A Fair Trade Organisation (FTO) also known as an Alternative Trade Organisation (ATO) has Fair Trade as part of its mission and at the core of its objectives and activities (Fair Trade Glossary 2011). The principles of Fairtrade are based on the experience of many FTOs and reflect the diversity of relationships.

Market access for marginalised producers

There are many producers who are marginalised, especially women and children who lack access to mainstream or added value markets, or can only access them through lengthy and inefficient trading chains. Fairtrade improves the livelihoods and well being of producers by improving market access, shorten trade chains enabling producers to receive more from the final selling price.

Sustainable and equitable trading relationships

Fair Trade relationships takes account of all cost of production with a minimum price enabling producers and workers to maintain a sustainable livelihood; one which not only meets day-to-day needs for economic, social and environmental well-being but also allows improved future conditions.

Capacity building and empowerment

Fair Trade relationships assist producer organisations to understand more about market conditions and trends to develop knowledge, skills and resources to exert more control and influence over their lives.

Consumer awareness raising & advocacy

Fair Trade connects producers with consumers which informing them of the need for social justice and the opportunities for change. Consumer support enables FTOs to be advocates and campaigners for wider reform of international trading rules, to achieve the ultimate goal of a just and equitable global trading system.

Long Term Relationships

There is a commitment to a long term trading partnership based on dialogue, transparency and respect (Fair Trade Advocacy 2009).

Renard (2003) highlighted that Fair Trade has two visions: firstly to impact the market enabling everyone to “maintain a decent and dignified livelihood and develop their full human potential” (WFTO 2014); but also to influence the “mainstream commercial practices within international exchanges” (Becchetti and Huybrechts 2008).

1.3 History of Fair Trade

Fair Trade has been around since the end of World War II first started by Christian groups developing Fair Trade supply chains such as the Mennonite Central Social Committee through its ten thousand villages program in 1946 (Ten Thousand Villages 2014) and SERRV (Sales Exchange for Refugee Rehabilitation and Vocation) International selling refugee produced handicrafts in 1949 (SERRV 2014). These pioneers were mainly non-profit co-operatives with a focus on conducting trade in a fair way, increasing consumer awareness and developing close relationships with the Southern producer (Becchetti and Huybrechts 2008). Volunteers sold these products from the back of churches until the first formal “Fair Trade” shop was opened in 1958 in the USA at the same time that OXFAM began selling Fair Trade items in the UK and Dutch Catholic group Fair Trade Organisatie (formerly known as S.O.S. Wereldhandel) in Holland (Fridell 2004). These volunteers were vital to the growth of the movement not just for a sales avenue but for advocating for Fair Trade (Kocken 2006). This was at a time when there was concern regarding dependency of Southern Producers on Northern Consumers.

Fair Trade was one, market-based response to this as it became clear that it was necessary to have Fair Trade marketing organisations in the North to provide advice, assistance and support to disadvantaged producers in the South. These were established and originally it was mainly craft goods that were exported (Fridell 2004). Coffee was the first non-craft good exported in 1973 and then tea, sugar, wine, juice and spices were added more recently (Fair Trade Foundation 2014a).

It became clear that effective certification was needed, this was pioneered in 1988 when a Dutch priest called Frans van der Hoff and an economist called Nico Roozen responded to a call from coffee farmers in Oaxaco, Mexico, "Help is nice, but a fair price for our coffee is even better" (Max Havelaar 2014). They developed the first Fair Trade label called Max Havelaar in the Netherlands, the coffee was imported from the Mexican UCIRI cooperative then roasted and sold in world shops through Solidaridad (Max Havelaar 2014). The label and independent verification helped to get the Max Havelaar coffee into other retailers such as Dutch supermarkets, soon exceeding handicrafts and within a year it had 3% of the market (Kocken 2006, Fridell 2004).

The Max Havelaar initiative has been replicated in many other markets: "Max Havelaar" in Belgium, Switzerland, Denmark and France; Transfair (in Germany, Austria, Luxembourg, Italy, the United States, Canada and Japan); "Fairtrade Mark" in the UK and Ireland; "Rättvisemärkt" in Sweden; and "Reilu Kauppa" in Finland" (Fair Trade Foundation 2014a).

In 1997 the Fairtrade Labelling Organisation (FLO) was setup to unite the national labelling initiatives and now "is a multi-stakeholder, non-profit organization focusing on the empowerment of producers and workers in developing countries through trade" (Fair Trade Glossary 2011). FLO is responsible for setting international Fair Trade Standards but also provides leadership, tools and services needed to connect producers and consumers (Kocken 2006). FLO-CERT GmbH is the independent Fairtrade certification company which "evaluates Fairtrade certification applications, verifies compliance with the Fairtrade Standards during audits, and decides whether Fairtrade certification can be granted or not" (Fair Trade Glossary 2011).

The Fairtrade Foundation (FF) is a National Fair Trade Organisation (NFTO) formerly known as 'labelling initiative' and the UK member of FLO. It is responsible for licensing, marketing, business development and awareness raising in a defined geographical area (Fair Trade Glossary 2011). FF was set up in 1992 by Oxfam, Christian Aid, CAFOD, Traidcraft, World Development Movement, and the National Federation of Women's Institutes. Since its inception it has added eight additional members including Shared Interest whose data is the basis of this study. In 1994 the

first Fair Trade chocolate and tea was certified in the UK and by 1996 single origin and organic Fair Trade coffee was added (Fair Trade Foundation 2014a).

The Fair Trade Mark shown in Figure 1.1 is the most visible sign of FLO.

Figure 1.1 Fair Trade Mark



Source: Fair Trade Foundation (2015a)

The Fair Trade Mark shows that a product meets the standards of:

- Fair prices
- Direct purchasing from producers
- Transparent and long-term trading partnerships
- Focus on development and technical assistance via the payment to suppliers of an agreed social premium

(Nicholls et al. 2004)

In 1998 FLO, World Fair Trade Organisation (WFTO), Network of European Worldshops (NEWS!) and European Fair Trade Association (EFTA) created a working group called FINE to harmonise Fair Trade standards and guidelines, increase the quality and efficiency of Fair Trade monitoring systems, and advocacy work. Preparation, hosting and facilitation of meetings rotates between members (Nicholls et al. 2004).

In 2004 WFTO, formerly IFAT (International Federation of Alternative Traders), created the Fair Trade Organisation (FTO) Mark which is an organisation mark rather than a product mark like the Fair Trade Mark. The product market covers agricultural

products whereas crafts are covered by the organisation mark. The FTO mark shown in Figure 1.2 indicates an organisation meets the World Fair Trade Organisation (WFTO) principles which are similar to the FLO principles. Once certified organisations are entitled to apply the FTO mark to all of the crafts that they sell (Marston 2013).

Another organisation mark is the Fair Trade Federation logo “that strengthens and promotes North American organisations fully committed to Fair Trade” (Fair Trade Federation 2014) which is shown in Figure 1.3.

Figure 1.2 WFTO Mark



Source: WFTO (2013)

Figure 1.3 Fair Trade Federation Member Logo



Source: Fair Trade Federation (2014)

The Fair Trade Mark is now the most widely recognised ethical label, a (Globescan 2011) report of 24 countries shows 60% of consumers recognise it across those countries, and in the UK, Ireland, Switzerland, Netherlands, Austria and Finland 9 out of 10 consumers who recognise the label trust it. The Co-operative Supermarket has switched all its Own Label hot beverages to Fair Trade and Tate & Lyle have switched all their retail sugar to be Fair Trade certified. Fair Trade products are available in over 125 countries with global sales of €4.8bn in 2012. To put this in perspective,

Nestlé's global sales were \$92 billion in 2013, so global Fair Trade sales equate to 5% of Nestlé's (Nestlé 2013a).

Fair Trade directly benefits over 1.3 million producers through 1149 producer organisations (FLO 2013). When dependants are also taken into account this equates to over 7 million people (Varney 2009).

Chapter 1 has given an overview of this study, defined Fair Trade including a brief history. Chapter 2 explores dependency theory and Fair Trade's response to dependency criticisms.

Chapter 2: Dependency Theory

There are a variety of criticisms made of Fair Trade and the one most relevant to this study is dependency. This chapter will look at the theoretical literature from economics and the economics of Fair Trade and will then explore the answers that Fair Trade has provided to these criticisms.

2.1 Dependency Theory and Fair Trade

Fair Trade was developed at a time when there were growing concerns regarding “the pace of trade in developing countries” which led to the first United Nations Conference on Trade and Development (UNCTAD) in 1964 (Kocken 2006).

Here the developed economies agreed to “grant improved market access to exports from developing countries” and to “a number of International Commodities Agreements ... aimed at stabilizing the prices of export products crucial for developing countries” (UNCTAD 2014). This led to the replacement of aid with the trade and the slogan ‘trade not aid’ being adopted by the Fair Trade movement (Fridell 2004).

Prior to this the leading economic thinking was that of comparative advantage, first mentioned by Adam Smith: “If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it from them with some part of the produce of our own industry, employed in a way in which we have some advantage” (Smith 1776). This was then developed by Ricardo (1817) explaining that even though it may be cheaper for Portugal to produce both wine and cloth than England, Portugal’s comparative advantage is to produce wine as it involves less labour input than cloth, and trade cloth with England where cloth involves less labour input. By each country focusing on the production of the good or service they have comparative advantage with, trade is to the relative benefit of all.

This theory was challenged by Prebisch (1950) in his paper ‘The Economic Development of Latin America and Its Principal Problems’. He noted a relative

deterioration of 36.5% in the prices of primary goods to manufactured goods between 1870 and 1930 which meant “the peripheral countries transferred to them a share of the fruits of their own technical progress”.

This was at the same time that Singer (1950) published his paper ‘The Distribution of Gains between Investing and Borrowing Countries’ which noted that the specialization of underdeveloped countries on export of food and raw materials to industrialised countries due to their investment had:

1. Removed most of the secondary and cumulative effects of investment to the investment country;
2. Diverted underdeveloped countries into types of activity offering less scope for economic progress;
3. Reduced the benefits to underdeveloped countries (Jolly et al. 2004)

Singer found the terms of trade for primary commodity exporters had declined between 1876 and 1948 significantly and this had the largest impact on them. The explanation he gave for the fall in terms was due to the income elasticity of demand for manufactured goods being greater than that for primary goods (Singer 2008).

The combining of their work is known as the Prebisch-Singer Thesis (PST) which implies the structure of the market is the reason for the inequality of per capita income in the world. This is due to the capitalist system which has existed since the 16th Century and was divided into the First World and Third World, and which “ resulted in a transfer of the surplus wealth from the Third World to the First World where it was consumed or invested in production” (Fridell 2004).

The market structure came about due to colonialism with Third World countries being dependent on First World countries for technology, capital and markets restricting and distorting their economic development. PST argued that there is a tendency for the results of technical progress in the richer countries to be retained in the form of higher incomes, while the benefits of technical progress in the export industries of poorer countries result mainly in lower prices (Singer 2008).

This thesis grew in popularity over the 1950s and 1960s and provided a justification for import substitution policies as:

“a) Developing countries had to build up a domestic production capacity in order to export manufactures

b) They would find it initially easier to produce for an existing and know domestic market than for an unknown global market” (Singer 2008)

However there were three main issues making it difficult to follow:

1. Internal markets of small countries were not large enough to support the economies of scale used by the richer countries to keep their prices low
2. Political will of the poorer countries as to whether a transformation from being primary products producers was possible or desirable
3. Extent to which poorer countries had control of their primary products, particularly in the area of selling these abroad” (Ferraro 2008).

Because of this mainstream policy it was difficult for countries to shift away from agricultural goods towards manufacturing exports (Bruton 1998).

However later research from Singer (2008) showed that diversification into manufactures could create jobs and savings on imports and reduce price volatility risk. This depended on the productivity through technical progress of developing producers being faster than that of developed producers. This lead to an expansion of the PST to “building up technological capacity, entrepreneurial skills, and of ‘human capital’ in general. Without such a technological capacity, a shift into manufactures requires foreign investment or aid” (Singer 2008).

2.2. Fair Trade’s Response to Dependency Criticisms

Following from the above, a significant criticism against Fair Trade is that it discourages diversification and structural change causing dependence on low value industries and Fair Trade markets. Indeed, some critics have argued that, by

guaranteeing a minimum price, Fair Trade ‘makes it harder for people to move into other activities’ (Collier 2008).

LeClair (2002) believes Fair Trade causes “prolonged dependency on low value added markets [and hence] retards the diversification of production that is fundamentally necessary for the economic advancement of developing countries.” This locks Fair Trade farmers into greater Fair Trade dependency and further impoverishes farmers outside the Fair Trade umbrella (Chambers 2009). The rationale for this argument is that the guaranteed above-market price provided by Fair Trade gives an incentive for individuals to focus on these despite there being poor economic prospects for these goods in the long run (LeClair 2002). This coupled with the dependence on Fair Trade markets would mean severe repercussions to producers if anything were to happen to these markets.

2.2.1 No other options in the short to medium term

However it is clear from the literature that for some producers they have no option in the short to medium term but to work in low value sectors. However, these develop their financial, physical, human and social capital (Wood 2003, Smith 2013).

From the literature there are three options open to increasing income:

1. Improving efficiency or increasing quality
2. Upgrading in an existing value chain
3. Moving into higher value chains

2.2.2 Improving efficiency or increasing quality

“We develop long term relationship and encourage farmers to improve their quality at every stage of the farming cycle...because of frustration at the failure to differentiate quality within the Fair Trade market” (Union Coffee Roasters 2013).

Since the beginning of the Fair Trade movement there have been questions around the quality of the products. Union Coffee is an interesting example as they were involved

early on in the Fair Trade movement and still sell some Fair Trade coffee but have moved away from it due to quality concerns (Union Coffee 2014).

The main criticism is based on conventional market pricing coffee on quality whereas Fair Trade coffee is aggregated together. “A farmer has two bags of coffee to sell and there is a Fair Trade buyer for only one bag. The farmer knows bag A would be worth \$1.70 per pound on the open market because the quality is high and bag B would be worth only \$1.20 because the quality is lower. Which should he sell as Fair Trade coffee for the guaranteed price of \$1.40? If he sells bag A as Fair Trade, he earns \$1.40 (the Fair Trade price) and sells bag B for \$1.20 (the market price), equalling \$2.60. If he sells bag B as Fair Trade coffee he earns \$1.40, and sells bag A at the market price for \$1.70, he earns a total of \$3.10. To maximize his income, therefore, he will choose to sell his lower quality coffee as Fair Trade coffee” (Haight 2011).

Haight (2011) suggests a possible solution is by grading Fair Trade coffee. For each grade of coffee the same premium of \$0.20/lb could be added ensuring higher quality coffee to the consumer and increased income to the coffee producer. “Today, 96% of the \$14 billion coffee market is regular coffee and only 4% is Fair Trade certified ... grading an extra 4% of output can't be an insurmountable obstacle” (Burnhill 2013). However there is still the practical question of who would be responsible for this and how this would work in practice? It would involve a lengthy dialogue from all the stakeholders currently involved with input from organisations such as SSCA (Specialist Coffee Association of America) and SCAE (Specialist Coffee Association of Europe) and would increase the costs of production.

Union Coffee rather than adopting this have helped develop a concept called ‘Direct Trade’ which focuses on speciality coffee with direct relationships with the buyer and seller not involving third party accreditation. The rationale for this is “We are excited by exceptional quality which is created at the farm. This demands collaboration between farmer and roaster to understand the specific demands of each producer” (Union Coffee 2014).

One option open to LFTOs to increase income is by improving efficiency or increasing the quality of the final product (Lall 2001). One of the ways Fair Trade

helps them to do this is by stipulating 25% of the Fair trade premium must be spent on improving quality (Fair Trade Foundation 2014b). Some Fair Trade buyers even pay additional premiums over the Fair Trade premium which can be used to improve quality such as The Co-operative Group in the UK with Fair Trade wine (The Co-operative Group 2014).

Fair Trade buyers can also help LFTOs overcome quality problems in other ways. Kagera, a Coffee Cooperative in Kenya has been helped through agricultural technicians (Clifford 2013). By improving the quality of the products they can obtain higher prices, an example being Gumutindo who have developed a gourmet product which is sold as a single source coffee by Cafédirect (Gumutindo 2006).

Fair trade premiums have also been used to increase efficiency of their processes, 45% of cocoa premiums in 2011 were used for this (Fair Trade Foundation 2014c). One of the more innovative examples of this is APPBOSA (Asociación de Pequeños Productores de Banano Orgánico Samán y Anexos), a banana LFTO in Peru which has developed a cableway to transport their bananas to their processing plant rather than farmers having to carry them (FLO 2014a).

Fitter and Kaplinsky (2001) feel the coffee market has an enormous potential to be differentiated. This is due to coffee being similar to wine and mineral water which were also marketed as relatively undifferentiated products decades ago, but are now sold as highly differentiated lines with significant premiums. This is already beginning to happen with importers paying up to 10 times the Fair Trade price for speciality coffee in some cases (Macatonia 2014). Café Peru, a Peruvian Coffee LFTO has focused solely on specialty coffee export markets of the USA, Germany and Costa Rica (Café Peru 2006). However for specialty markets quality has to be very high; this is one of the reasons it has been hard for LFTOs to break into the specialist cocoa market. However this is being rectified with new trees being planted and agricultural training given to farmers (Fair Trade Foundation 2012c). COCLA (Central de Cooperativas Agrarias Cafetaleras) saw this opportunity and has invested in a chocolate plant to meet USDA (United States Department of Agriculture) standards so they could export to North America and Europe (COCLA 2006).

2.2.3 Upgrading in an existing value chain

Another option available to producers to increase their income is by upgrading in their existing value chain (Gereffi and Memedovic 2003).

A good example is the coffee market, traditionally there have been many actors in the coffee value chain shown by Figure 2.1. Some of the most controversial are intermediaries sometimes known as ‘middle men’ or ‘coyotes’ often taking advantage of isolated coffee farmers who may lack knowledge of prices, transport or just need the cash (CRS 2012).

Figure 2.1 Coffee Value Chain



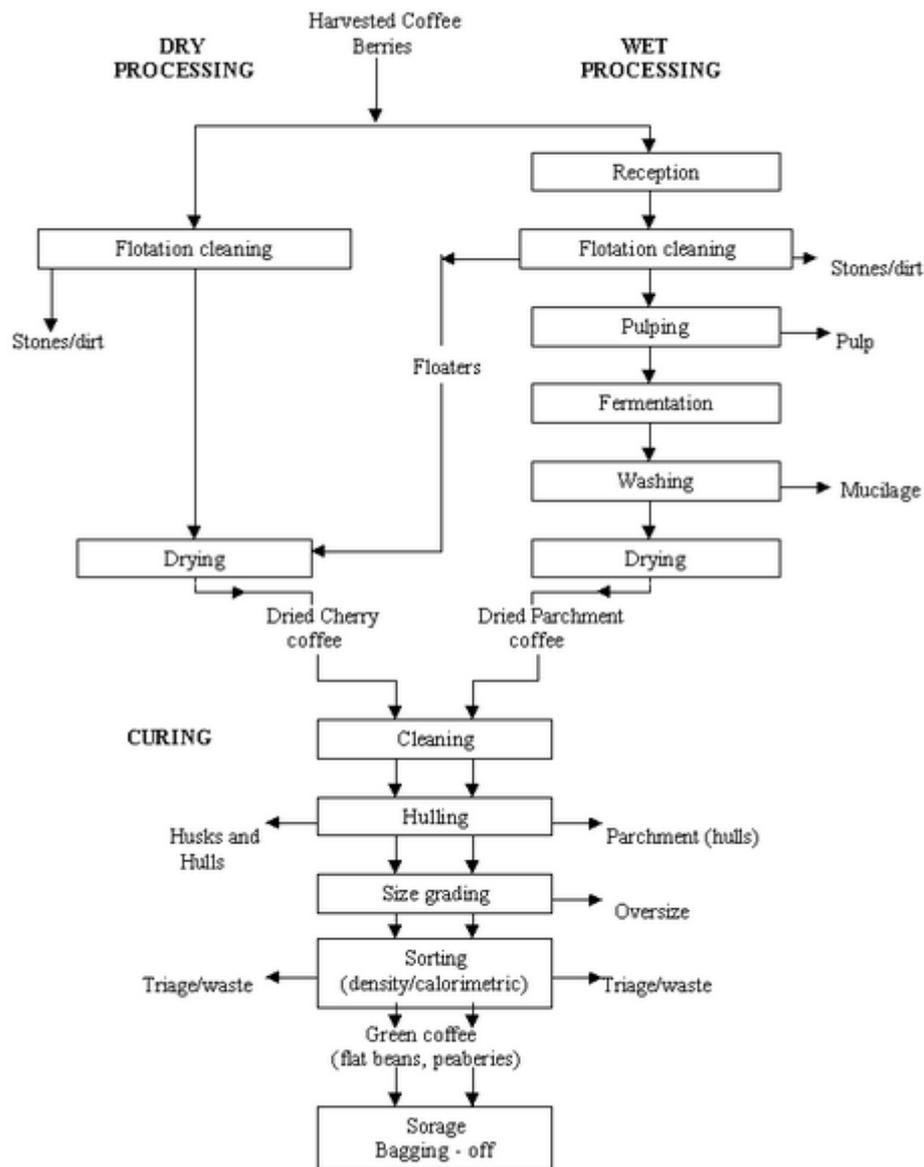
Source: CRS (2012)

Fair Trade enables farmers to bypass middle men by being part of a co-operative so they can gain knowledge of market prices, pool together for transport and receive pre-financing.

However there are other stages in the value chain, full processing alone on average costs \$1.25 per kilo of coffee (Kazoora 2011). So if LFTOs were able to do even part of this processing in house they would significantly increase the percentage of the final consumer price they receive. Figure 2.2 shows the different stages of the coffee process and the difference between wet and dry processing. Dry processing is known for enhancing body and complexity, whereas wet processing enhances clarity and acidity. In Nepal, Subedi (2011) found the cost benefit ratio for dry processing is thought to be higher at 1.4 than wet processing at 1.2. The choice of process chosen was dependent on knowledge, training, quality of capital supplied and finance.

A good example of dry processing is CECOCAFEN (Coffee Cooperatives Central Association in Northern Regions), a Nicaraguan coffee LFTO. They purchased the SolCafe processing plant in 1999 which included drying beds and sorting machines which also improved the quality of coffee (CECOCAFEN 2006).

Figure 2.2 Wet and dry coffee processing flow chart



Source: FAO 2014

A good example of wet processing is COPROCAEL (Cooperativa De Productores De Café La Encarnación Limitada), a Honduran coffee LFTO. They process all of their coffee “on a central wet mill using aquapulping, an eco-friendly substitute for the normal pulp, wash, & ferment procedure in traditional wet processing” (Higher Grounds 2014) In addition the by-product of coffee washing is pulp which can be used for composting which can improve coffee quality (Kazoora 2011).

Another market where there is potential to significantly increase income from processing is fruit. A good example is Cercle des Secheurs (CDS) in Burkina Faso which have moved into dried fruit and juices due to the low prices being paid for unprocessed fruit (CDS 2012).

Access to space on container ships can be an issue for some LFTOs especially fruit companies due to conventional competitors owning them. The costs involved in setting up their own importer are out of reach for the vast majority of LFTOs but would reduce costs and improve the percentage of the retail price they received. Agrofair has bridged this gap, it is owned half by the producers and half by Solidaridad a Dutch development NGO. LFTOs are receiving between 40% and 80% more than world prices. Agrofair has also allowed LFTOs to access markets they would never have been able to previously. Agrofair has also increased the range of products they export starting with bananas in 1996, followed by mangos in 2002 and Pineapples in 2003 (Agrofair 2015). Bananas are an oligopolistic market dominated by 5 Transnational companies (TNCs) controlling 75% of the world market due to the vertical integration of plantations, shipping and distribution and achieve significant economies of scale (Chambron 2010).

Shipping can also be very expensive for coffee averaging \$15,000 per container (Weber 2007). Vertical integration across the entire coffee supply chain is rare, one exception is Rogers Family Coffee but even then only 10% is fully integrated with the “rest that isn’t grown on their farms, varying levels of integration exist” (Neuschwander 2014). This is it due to it requiring new, specialised knowledge and major investments which carry significant financial risks. If LFTOs are able to remove other steps in the value chain this can be even more beneficial. Such as CECOCAFEN who have also installed a fully equipped cupping laboratory which allows aromas and regional flavours to be distinguished which can then be marketed for higher prices in the speciality markets. (CECOCAFEN 2006).

Although upgrading in an existing value chain can help companies reduce costs and improve efficiency however it is not cheap or easy. Integrating some parts of the chain e.g. a farm building a mill is more common than full integration. The most common reason for integration is increasing control e.g. processing techniques to give a higher quality product with some like Rogers Family Coffee constantly innovating

and trying new techniques with their mills which if they work they replicate. It's interesting within coffee virtually no company has the technical expertise to take over the shipping part of the value chain as its extremely expensive except on vast economies of scale of multiple commodities that aren't seasonal (Neuschwander 2014). Most integration in the coffee industry is backward as they are receiving the higher percentage of the retail price and can afford to take the financial risk.

Another example of LFTOs coming together is Pachamama, based in the US it is 100% owned by LFTOs in Peru, Nicaragua, Guatemala, Mexico and Ethiopia. "The vision was to create a global coop brand that farmers own and control. It would focus on a direct connection to consumers" (Kubota 2014). Their strategy was vertical integration by firstly selling directly to food cooperatives, which grew to distribution into about 60+ food co-ops nationwide. Then in 2012 they opened an office space/outlet store in Sacramento followed by the 2014 opening of their first cafe in Davis, California and now exploring more retail locations.

Mchinji Area Smallholder Farmers' Association (MASFA) is another example of an LFTO which has upgraded in its existing value chain by processing ground nuts into oil locally and exporting it via Twin Trading directly to UK supermarkets. They have also developed a community buying centre that includes an office and warehouse, which when not being used can also be hired out bringing in additional revenue (Smith 2013).

If LFTOs are able to bring processing more locally it can enable them to access local markets. A good example is Just Trading Scotland (JTS) which has invested directly in Kaporo Smallholder Farmers' Association (KFSA), a Malawian rice producer. Their rice cleaning and bagging was previously done in the UK, but by moving it to Malawi they have improved the amount of value add and improved the quality of the product (Smith 2013).

Hayes (2006) found that Fair Trade provided the means for diversification, "both by the individual household through education, and by the local Fair Trade organization with its greater access to product and credit markets and its potentially wider scope for profitable investments further down the value chain or in different markets".

2.2.4 Moving into higher value chains

Moving into higher value chains is another option open to LFTOs to increase their income. The FLO producer business unit has a key role here in helping identify value added propositions such as ecotourism. There are many examples of diversification in the Fair Trade market such as into other agricultural markets. An example is the National Smallholder Farmers Association of Malawi (NASFAM) which was dependent on tobacco and maize but has moved in to higher value agriculture like birds eye chillies and groundnuts (ACDI 2000). They have since also developed the NASFAM Training and Development Institute provide both general and tailored training and consultancy services to meet specific client needs in areas from Organisational Development to Board Governance (NASFAM 2014).

Another interested example is COOCAFE, traditionally a coffee LFTO which has moved into higher value agricultural sectors such as ornamental plants and flowers. They have also moved into manufacturing of handicrafts in their own shop and have developed new markets through creating their own website and developed agro-ecotourism (Fair Trade Foundation 2006).

Another LFTO that is further along the eco-tourism route is Makaibari, a tea estate in Darjeeling. They achieved this firstly through a lodge guesthouse. The second stage was hosting additional guests in workers' homes. This started with 13 families in 2005 and has now increased to 21 families who charge \$25 per couple per day. It is hoped this will increase tea sales and one day will be extended to all households. Makaibari also have other ideas for diversification such as a computer centre which could lead to other higher income exports (Banerjee 2008, Makaibari 2014).

2.2.5 Efficient Technology

Hayes' (2006) analysis suggests the main benefit of the Fair Trade partnership to the producer household is in the process of investment in equipping the local organisation with an efficient technology, i.e. in creating and maintaining the ability of the local organisation to compete in the product market.

For an LFTO to compete in a market requires that a firm has an efficient technology, this is, the optimal allocation resources and technical efficiency short-run marginal

cost and long-run average cost are no greater than the market price. Fair trade can help LFTOs reach minimum efficient scale and overcome uneven production including “customer, supplier and management failure, equipment down-time, climatic problems and other hazards, both insurable and otherwise” Hayes (2006).

LFTOs must aim to become equipped to compete independently in the product market, since the buyer cannot give an open-ended and permanent commitment to purchase irrespective of the demand conditions in the buyer’s own markets, and should be explicit as to how the trading relationship may end at some point (Hayes 2006). Otherwise LFTOs are fragile and may not be in a position to serve the interests of the producer households in the medium to long term. It is interesting to note that most LFTOs have received “grant assistance from government and non-government agencies at some point in their development, and have reached their present strength only after a long period of struggle” (Hayes 2006).

In summary, to survive LFTOs need to reach efficient technology which requires significant investment in financial, physical, human and social capital.

2.2.6 Financial Capital

Fair Trade is known by many for helping improve the financial position of producers through minimum prices being above the conventional market. With producers being able to request up to 60% from buyers paid in advance of delivery (FLO 2014b), Fair Trade also assists with working capital management.

This is very different from traditional buyers, for example artisans are usually dependant on the buyer of finished products to provide materials which is often at a price that makes the produce uncompetitive to other buyers. However if they had the financial capital to buy their own materials they would not be dependent on them, thereby reducing their average cost of production and enabling them to sell at a competitive price to other buyers. Finance is also important for food LFTOs as they require finance for seeds and fertilizers every harvest and, like artisans, they may also be tied to those they sell their products to (Hayes 2006).

LFTOs require a range of financial products including: savings; leasing; pre-finance; pre-harvest working capital; trade finance; term finance; guarantees; equity;

insurance. Pre-finance is one of the most accessible financial products, other financial products are limited with term finance being very limited and insurance is extremely limited. Financing accessibility is dependent on the product with pre-finance the most accessible for coffee (Nicholls et al 2004).

Cash flow is very important for all businesses with many businesses failing due to lack of cash despite being profitable. Some crops such as bananas, cut flowers and tea are grown year round providing continuous cash flow. However other crops such as coffee are seasonal and require short term financing to pay for inputs such as seeds, fertilisers, pesticides, transport and labour until harvest.

For Dukunde Kawa a coffee LFTO in Rwanda “Pre-financing is still one of our biggest challenges as loans don’t come from the banks on time, and farmers want to deliver their coffee early and get paid. Some buyers only pay once their coffee is at port so farmers have to wait a month for payment but it’s much better if we can pay them immediately. We could also help shift microloans out to farmers” (Osborne 2010). This is a problem for many LFTOs as they are only able to sell a certain percentage of their crop into these markets which could be as low as 8% of their crop with the rest being sold in the conventional markets (Riedel et al. 2005).

They also require longer terms finance to improve quality and productivity.

“91% of Fair Trade producers have unmet financial needs... This holds back productivity and product quality, as well as the farmers’ capacity to adopt better technologies, build their business, and preserve the local environment” FLO (2014a).

Banks restrict lending to LFTOs as they find it hard to assess the risk of their members, the members also lack property rights preventing them from using their land as collateral. Members are also often dispersed across a large area meaning high transaction costs and it may take a long period for loans to be repaid (Nicholls et al. 2004). In some areas there is state subsidy, however this is often low and not universal (FLO 2014b).

Other options open to finance LFTOs include the Fair Trade International Global Producer Finance Unit (GPFU) which is helping LFTOs in providing relevant and reliable credit profiles and disseminating these to potential finance providers, as well as supporting financial institutions in pioneering and developing services especially in investment finance. They also work on specific projects in areas where there are specific bottlenecks in commodities and countries (FLO 2014b).

FLO have recently added two programmes to further help producers with financing:

- Fair Trade Access Fund of \$8-12 million which provides agricultural LFTOs in 42 countries with longer-term loans and technical support via mobile phones. This was launched in conjunction with Overseas Private Investment Corporation which links US organisations in this case Incofin Investment Management and Grameen Foundation (OPIC 2014).
- The Africa Agriculture Trade Investment Fund for African for African producers of €85 million in conjunction with German development bank, KfW and managed by Deutsche bank (FLO 2012).
- Another important component of the Fair Trade movement is the social premium, “an additional sum of money paid on top of the Fair Trade minimum price that farmers and workers invest in social, environmental and economic developmental projects to improve their businesses and their communities. They decide democratically by committee how to invest the premium” (Fair Trade Foundation 2014c).
- Some LFTOs have used these for microfinance programs. This enables households to build up cash reserves as insurance funds and thereby reduce the demand for distress borrowing. Also many households do not have the collateral to access formal credit institutions and these microfinance organisation provides small loans at rates that make production more economic (Hayes 2006).

- Bananeras de Uraba, a Colombian Banana and Plantain Producer offers microfinance to their employees to help start small business to create additional sources of income. They partner with the National Learning Service to provide skills-building programmes and this has led to businesses being created ranging from leather production to cake baking. Other uses of this social premium have been loans for education and or for home ownership (Bananeras de Uraba 2014).

There are other lenders to LFTOs ranging from semi-formal lenders including Credit unions to Co-operatives like Oikocredit which provide medium and long term loans, equity investments and capacity building to LFTOs in close to 70 countries (Oikocredit 2013) and Shared Interest whose data is the basis of this study.

2.2.7 Shared Interest Case Study

Shared Interest was started in 1990 by “a group of Fair Trade pioneers with a vision of a new way of investing money to reduce poverty. They created a financial cooperative with the aim of using the members’ pooled capital to lend to disadvantaged producer groups in the developing world.” It is the world’s only 100% Fair Trade lender, maintaining values based on love, justice and stewardship with an all-inclusive approach to cultures and religious beliefs (Shared Interest 2012).

It is set up as a community benefit society and “was originally launched in 1990 with the financial backing of the Joseph Rowntree Charitable Trust and the Ecumenical Development Co-operative Society” (Shared Interest 2014). Their funding today comes through supporters’ investments who lend between £100 and £100,000 each and get a return currently of 0.5% interest annually. There are 9000+ UK based lenders, and funds are placed into a central pot lending over £33 million countries to 97 producer groups in 24 countries (Shared Interest 2013).

For a number of years they have been increasing the proportion of directing lending to producers, which is why they have set up satellite offices in Kenya, Peru and Ghana. This enables them to better “create the right environment for Fair Trade to take place... a tool to generate equity in the world” (Shared Interest 2013).

Shared Interest diversify their risk by working with a variety of producers such as Candela, a Brazil nut producer which also produces candles and oil, and Craft Aid Mauritius which sells clothing and cotton bags, greeting cards, and Fair Trade sugar (Candela 2006, Craftaid 2012).

To qualify for lending producers must have at least three years of audited accounts. Shared Interest does not require any security for loans and lend in US Dollars, British Pounds and Euros only on Fair Trade contracts. It supports LFTOs with short and long term funding with flexible repayment (Shared Interest 2014).

Short Term Funding (Up to 12 months)

Export credit is a pre-finance facility which provides capital to enable producers to complete and deliver new orders or contracts. As orders are received from buyers, they can draw down working capital against these orders, up to 60% for commodities and 80% for handicraft producers.

For existing customers they also provide a stock facility to build up stock prior to fixing sales contracts up to \$200,000 and pre-harvest loans to maintain or improve crops, for example, to purchase fertilizers (Shared Interest 2014).

Long Term Funding (1-5 years)

Shared Interest provides term loans to purchase infrastructure such as machinery or in other ways such as financing exhibitions (Shared Interest 2014).

Practical Support (1-5 years)

Shared Interest also provides practical support through its charitable Foundation. This helps LFTOs to understand the expectations of social lenders like themselves through their access to project finance. LFTOs also benefit from their business skills training and mentoring projects in Swaziland, Rwanda and South Africa. They have helped producers reflect costs in their pricing, rebrand businesses to highlight their unique selling point, developing their processes and opening local shops (Shared Interest 2014).

There are some interesting case studies of how Shared Interest has been able to help LFTOs, such as financing CECOCAFEN (Coffee Cooperatives Central Association in Northern Regions), a Nicaragua cooperative. A key struggle for this organisation in its early days was obtaining credit for members due to banks being unwilling to provide credit which is vital for producers to cover production costs until harvest.

Finance was particularly important to Candela, a Brazil nut producer in Brazil when the Brazil nut market collapsed in 2002. They would have been unable to survive without finance from Shared Interest which enabled them to develop a natural oil from Brazil nuts (Osborne 2010).

2.2.8 Physical Capital

Financial capital has also enabled physical capital to increase. Physical capital refers to a factor of production such as machinery, buildings, or computers (Krugman et al. 2013).

This is very important as many producers are very remote with limited access to transport or market information and may depend on local middlemen to buy their produce and receive only a fraction of the real value.

North West Bee Keepers, a Zambian honey and beeswax LFTO was lacking the infrastructure to differentiate the types of honey or transport it without negatively affecting quality (Fair Trade Foundation 2013a). The solution to this was to invest in four wheel drive vehicles, buckets and honey presses to transport the honey effectively despite them being spread out over 1,200km (Tropical Forest 2013).

“This may be relatively small part of the initial investment, becoming of major importance only as the minimum efficient scale of the production increases” (Hayes 2006).

However for MASFA, they required significant investment due to suffering from antifloxin infection in their groundnuts which closed developed markets. This was provided by CORDAID partnering with commercial agricultural company Ex Agris and environmental trust Waterloo Foundation to build a groundnut processing plant

with an antifloxin laboratory. This has reopened those markets but also open local ones as they can now produce ready-to-use therapeutic food which is used for malnourished children and HIV/Aids patients as well as peanut paste to local producers (Smith 2011, Smith 2013).

By investing significantly in financial capital for the new machinery, Cafédirect has been able to break into the lucrative single use coffee pod market which is growing by 39% a year, by developing Nespresso compatible pods. They have also invested significantly in human capital to develop the process and choose the right coffee. (Guardian 2014a).

2.2.9 Human Capital

However financing without successful leadership can be a recipe for disaster shown by Ucraprobex who received substantial overseas aid which did not lead to good business skills; loans were borrowed to reconstruct the coffee fields with little understanding of the long term liability or effect on the business. This has led to their coffee not being of the highest standard (Ucraprobex 2006).

“Improving their health, education, and nutrition is not only intrinsically important in enhancing their capabilities to lead more fulfilling lives but it is also instrumentally important in increasing their “ ‘human capital’ ” with lasting influence in the future” (Anand and Sen 2000)

The benefits of Fair Trade have not just been increased financial and physical capital but also human capital. Human capital is the stock of competencies, knowledge, habits, social and personality attributes, including creativity, cognitive abilities, embodied in the ability to perform labour so as to produce economic value (Krugman et al. 2013).

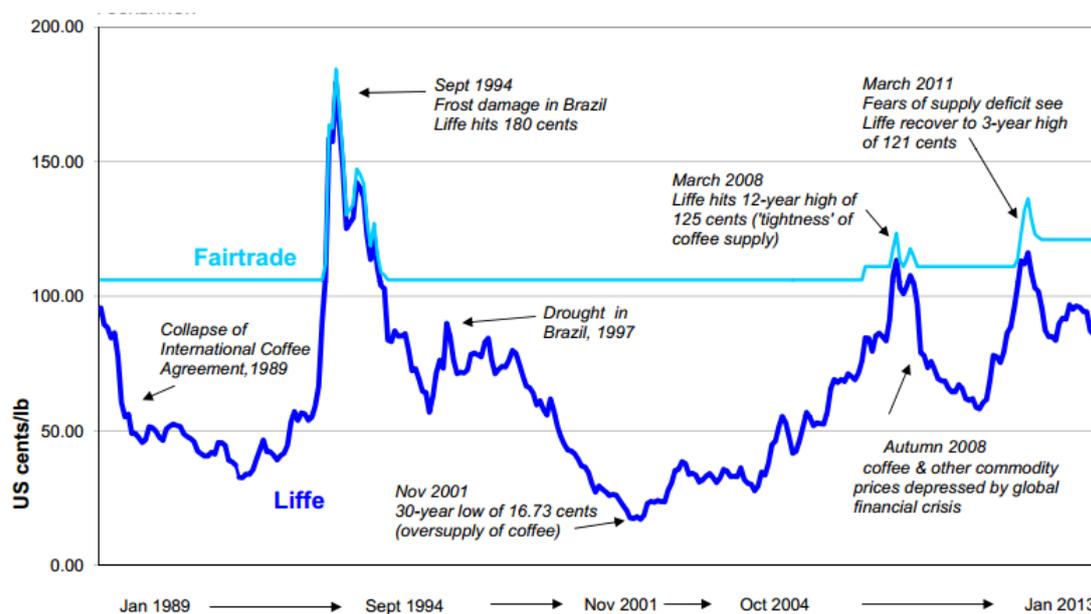
There has been a variety of investment in human capital from Fair Trade USA delivering management training to 180 coffee LFTOs in Latin America and East Africa in 2011 to basic education for workers (Fair Trade USA 2012).

Lack of access to education is a serious barrier to human capital being developed. “33 million primary school-aged children in Sub-Saharan Africa do not go to school... approximately 40% of Africans over the age of 15, and 50% of women above the age of 25 are illiterate” (Achieve in Africa 2009).

Prior to Fair Trade the low commodity prices meant LFTOs members struggled to feed their families and pay medical and school fees, ‘a major reason for children being taken out of school to contribute to the family income by working on the farm or in the informal sector’ (Fair Trade Foundation 2012d).

A good indication in the different the Fair Trade price has made to these LFTOs is by comparing the Fair Trade minimum price and the conventional market price. An example is Robusta Coffee between 1989 and 2013 shown by Figure 2.3.

Figure 2.3 Robusta Coffee Market 1989 - 2013: Comparison of Fairtrade price and London LIFFE price



Source: Fair Trade Foundation (2010)

Many LFTOs have seen the impact these low prices had on human capital. This is why Satemwa, a tea producer in Malawi has been used their social premium to provide adult literacy classes to improve human capital (Frank et al 2012). In Chapter 3 this study looks at the Chamraj Tea Estate which provides free education for all

workers' children from primary to junior college where both management and labourers' children are educated together leading to upward mobility.

Bloom et al (2004) highlight that most empirical studies narrowly define human capital to education. However, health is clearly an important factor to this as increased health enhances the ability to learn (Taras 2009).

Neilson et al (2009) looked at the Quality Upgradation Plan for tea producers in Southern India where the combination of teaching careful plucking alongside processing tea in their own factory at Upashi Krishi Vigyan Kendra (U-KVK) significantly increased the price received. This was a very strategic response of improving quality to the tea crisis. Originally it was a pilot that has now been expanded by the Tea Board to 88 locations through "subsidies of 50% of the cost of upgrading equipment and gaining ISO9001 and HACCP certification". This provided a major injection of new ideas and the entire community has realised the importance of quality in tea. New ideas can have a large impact e.g. by intercropping Coconuts with Cocoa, this can increase Coconut output and produce an additional revenue stream from Cocoa (Magat 2007).

However this often requires technical assistance which some Fair Trade buyers provide such as Traidcraft funding a project for Cotton producers in Kenya to intercrop cotton with cowpeas, pigeon peas and green grams (Traidcraft 2015).

The Shared Interest Foundation provide business skills training and mentoring through projects in Swaziland, Rwanda and South Africa and have created a Best Practice Project to join them all together. They have involved establishing local business support networks and helping them to become self-sufficient. These have helped producers reflect costs in their pricing, rebrand businesses to highlight their unique selling point, help develop processes and open local shops (Shared Interest 2015).

2.2.10 Social Capital

Social capital is also an important factor and the effective management of social networks has been of fundamental importance to the growth of Fair Trade (Davies & Ryals 2010). “A balanced portfolio of customers, suppliers and production methods is of crucial importance to the management of both insurable risk and uninsurable uncertainty” (Hayes 2006). Producers that are able to differentiate themselves by becoming Fair Trade certified are also attractive to buyers looking to position themselves as ethical and social (Doherty and Meehan 2006).

LFTOs developing direct, personal, long-term relationships with buyers helps them develop management skills, and increase production capabilities (Lee 2014). Marketing is particularly important for non-traditional exports and Twin Trading’s experience of building Divine Chocolate was especially helpful with MASFA developing the liberation nuts brand for their ground nuts (Cramer 1999, Smith 2013).

Country level producer gatherings by Fair Trade USA have been helpful for this as they brought along US companies who placed orders, NGOs to help with capacity building services and social lenders to provide financing (Fair Trade USA 2012).

Raynolds (2004) concludes it is the capacity building nature of Fair Trade that will prove the most important in fuelling sustainable development in the long run. This is often achieved through workshops and direct personal assistance such as Co-operative Coffees which is a roaster co-operative in the US & Canada and which sends staff out for one-to-one training (Lyon 2008, Ruppell 2013). This improves LFTOs access to local, regional, international and mainstream markets which reduces dependency (Lee 2014).

Most of the studies cited above are anecdotal and there have not been enough impact studies to answer the question as to whether they are a direct result of Fair Trade’s positive features or merely an accident, or whether LFTOs themselves, realising that Fair Trade can create dependency, have sought to reduce any dependency themselves. The gap in this literature is the reason for this study being undertaken.

Chapter 3 examines the issues concerning mainstreaming, a major feature of Fair Trade’s own development in recent years, as Fair Trade products have entered mainstream marketing channels.

Chapter 3: Mainstreaming

One of the key questions for the Fair Trade movement is whether mainstreaming is the future or whether it has just sold out to the practice of the conventional market.

As noted in Chapter 1, the pioneers of the Fair Trade movement were mainly non-profit co-operatives with a focus on conducting trade in a fair way, increasing consumer awareness and developing close relationships with the Southern producer (Becchetti and Huybrechts 2008).

The introduction of mainstream companies to Fairtrade was started by Cafédirect retailing in supermarkets in the UK and Switzerland in the early 1990s (Bornhofft Moore 2010). This was followed by Starbucks getting accreditation for its coffee in 2000 (Starbucks 2014). Then, in 2000, Divine Chocolate Company undertook a joint branding exercise with Comic Relief and then the Co-operative Group. In 2002 the Co-operative Group and Starbucks converted all their own-brand chocolate to Fair Trade (Nicholls et al. 2004). In 2003, Procter & Gamble certified their first coffee brand (Locke et al. 2010). In 2005, Walmart, Nestlé and Tesco were licenced to carry the Fair Trade mark on their own-brand products (Bornhofft Moore 2010). In 2009 Tate & Lyle converted its entire retail range to Fair Trade, "In terms of size and scale, this is the biggest ever Fairtrade switch by a UK company and it's tremendous this iconic UK brand is backing Fairtrade." (BBC News 2008). This led to major chocolate brands such as Dairy Milk in 2009 and 4-finger Kit Kats being certified in 2010 followed by 2-finger Kit Kats in 2013 (Nieburg 2012). This has attracted a growing number of 'for profit' companies into other parts of the value chains such as importing and processing (Bornhofft Moore 2010).

This has meant Fair Trade value chains vary. They started with 100% Fair Trade Organisations (FTO) such as CTM Altercato trading directly through associated World Shops. Then FTO value chains developed with corporate retail participation such as Divine and Cafédirect. Next were FTOs such as Agrofair supplying supermarket own labels. Then corporate-dominated licensee and retailers such as Starbucks coffee entered the market. Next, corporate retail dominated, but not

licensees, such as own label supermarkets products sourced from second tier manufacturers. This was followed by corporate manufacturers as licensees to retailers such as Cadbury's converting major brands for general sale. Finally, corporations and plantations have developed where the control of the value chain remains the same but with adherence to Fair Trade standards and prices, an example being Dole (Doherty et al. 2012).

3.1 Increased Sales & Awareness

The main arguments for mainstreaming are these companies serve a different type of consumer than World Shops do and they are needed due to their superior economies of scale. This enables Fair Trade products to be sold at lower prices to a wider audience, thereby increasing sales which can have knock on effects such as greater brand awareness leading to higher global standards (Becchetti and Huybrechts 2008, Renard and Pérez-Grovas 2007). Renard and Pérez-Grovas (2007) argue that if mainstream firms do not grow the markets, then they cannot help small producers, and instead will join rival certifying schemes with much weaker standards.

Mainstreaming has clearly increased sales in the UK, in 2006 Fair Trade sales were a third larger than the year before mainly due to big retailers such as Marks & Spencer stocking Fair Trade Goods (Teather 2006). Since then mainstreaming has had a larger impact with Cadburys in 2009 deciding to certify 300 million bars of Dairy Milk and its packaged cocoa. The hope was that as it was an "iconic British brand ... This does really set the pace for the mainstream industry" (Wiggins 2009a) and would encourage other mainstream manufacturers to follow suit. This has clearly happened, a good example being Nestlé converting their Kit Kat bars that added an extra 800 million bars carrying the Fair Trade mark, thereby also increasing brand recognition (Nestlé 2013b). It has also happened in other products such as wine, the Co-operative Group has sold over 30 million bottles of Fair Trade wine and by 2011 this represented 60% of Fair Trade wine sales in the UK (Co-operative Group 2014). With supermarkets entering Fair Trade both stocking Fair Trade labels and having their own label Fair Trade products this opens up a large potential market with Tesco, as the market leader, taking nearly £1 in every £7 on the high street and wanting to be the "biggest seller of Fair Trade products in the UK" (Wood 2011).

Increased mainstreaming could be particularly helpful for LFTOs as Bondy and Talwar (2011) found that regular Fair Trade consumers were less likely to reduce their consumption due to global economic recession than conventional consumers. In the last global recession there was a significant impact on export markets with Non Food exports falling by 9.9% in dollar terms in India between 2001-2 (Economic Times 2002). “Fairtrade sales have in contrast held up in the recession even despite other specialist products, such as organic food, have fallen. The amount spent by shoppers on Fairtrade products rose from an average of £1.39 to £1.42 per shopping trip in the 12 months to September 2009.” (Wiggins 2009b).

One methodology used by Doherty et al (2012) to measure the impact of mainstreaming in the UK is to compare it with similar economies where there has not been mainstreaming. The Italian and UK have similar populations and wealth distributions (Cowell et al, 2012). Their Fair Trade markets have similar backgrounds in churches and World Shops and in both dominant FTOs emerged early - Traidcraft in the UK and CTM Altromercato in Italy. However, they have taken very different routes with Italy predominantly remaining with the 100% Fair Trade model whereas, as noted above, Fair Trade in the UK has moved into other value chains (Becchetti and Costantino 2010, Davies 2007). This can clearly be seen in the difference in estimated retail sales of €76.36m in Italy and €2,044.93m in the UK in 2013 (FLO 2014). Thus the UK Fair Trade market was nearly 27 times the size of Italy's.

France has a similar GDP and population to the UK and Italy and can be seen as a half-way house in Fair Trade terms (Doherty et al. 2012), as Fair Trade entered the mainstream in France 10 years after the UK but 10 years before Italy. France has estimated retail Fair Trade sales of €354.84m in 2013 (FLO 2014d). So France has four and a half times the Fair Trade sales of Italy but a sixth of the UK. This gives a clear indication that mainstreaming has helped increase the movement's sales.

There is also other knock on effects of these increased sales such as increased awareness of the brand and the movement (Renard and Pérez-Grovas 2007). This has clearly happened in the UK, in 2007 only 57% of British Consumers recognised the Fair Trade brand, by 2008 this was 70% which is interesting as this was when

mainstreaming started ramping up and by 2012 brand awareness was 96% (Mann 2012, Just Food 2008). However brand awareness was only 47% in 2012 in other parts of Europe which could be due to less mainstreaming (Mann 2012).

It is hoped that with these increased sales and awareness, these Fair Trade standards become “global ethical standards” (Hira and Ferrie 2006), and there is some evidence of improved industry standards of fairer market exchange (Nicholls 2010). Doherty et al (2012) see this as proof that Fair Trade has succeeded in demonstrating that markets should reward socially just production and trading.

3.2 Reputational Risk

However some like Reed (2009) see mainstreaming “threatens key aspects of what many see as the original vision of fair trade—most notably a primary concern for the plight of small producers and the goal of developing an alternative approach to trade and development—and may even be undermining its long term survival.” The study shows the tension is clearly visible in how the definition of Fair Trade has changed from FINE in 1999 “at sustainable development for excluded and disadvantaged producers” to 2001 revise as “offering better trading conditions to, and securing the rights of, marginalised producers and workers—especially in the South”. The key difference being the addition of workers to allow plantations in plus neither mention “long-term relationships based on solidarity, trust and mutual respect” which is an IFAT principle. The study claims these changes were made to make Fair Trade more palatable for mainstream firms.

Mainstream firms who have entered the Fair Trade Market have been accused of ‘Fairwashing’ or ‘cleanwashing’, defined by Low and Davenport (2005) as “a range of ways in which marketing fair trade through mainstream distribution channels creates opportunities for commercial businesses to appropriate and regulate the terrain”

Barrientos (2006) believes mainstreaming is an attempt by large corporations to cash-in on these markets rather than reform their business model, buying a very small percentage of their coffee as Fair Trade and purchasing the rest conventionally. An example often cited is Nestlé’s partner brand certified in 2005 represented 0.02% of

Nestlé's annual trade in coffee (Verdier-Stott 2009). Despite Nestlé having 100s of brands still very few of them are Fair Trade certified, though this has slowly been increasing with the Kit Kat brands becoming Fair Trade certified. Another example cited is Starbucks getting accreditation for only 1% of its coffee in 2000 however this has grown to 8.4% of their coffee in 2013 (Starbucks 2014).

There are also examples of consumers thinking all of a producer's products are Fair Trade such as Green and Black's. Originally Maya Gold was the only Fair Trade brand, however many consumers and even some Fair Trade shops thought the whole range was. However, this was addressed by all their brands becoming Fair Trade from the end of 2011 (Smithers 2010).

Fair Trade roses are a good example of potentially misleading customers with Tesco's entering with the Tesco press release "This is good news for producers, who will benefit from the additional sales, and good news for consumers, who will see a much greater choice of quality fairtrade products in stores" (Ransom 2005) and many thought these were from a small producer. However, the producers can be large international companies such as Osterian, a Dutch company which employs 4,500 workers. Also consumers would have thought workers were not being overworked, but supermarkets often confirmed the volume of their orders late making it very difficult for producers to plan and supply effectively, leading to workers being forced into compulsory overtime (Lawrence 2005).

It is thought that by not focusing entirely on small producers this blurs the difference between Fair Trade and rival certification undermining confidence in the label as more questionable conventional firms e.g. Nestlé join the movement (Renard and Pérez-Grovas, 2007). This has caused some of the early Fair Trade retailers to become disillusioned as they feel cheated by large corporations joining. A good example is a group of US coffee retailers in 2004 which dropped the certification altogether including Just Us Coffee (Rogers 2004, Just Us Coffee 2014). This disillusionment is a threat to consumers' perception of Fair Trade. Bornhofft Moore (2010) suggest making it clear for consumers so that they can distinguish between a company that is 100% Fair Trade e.g. Divine Chocolate and one that isn't e.g. Tesco, and whether a producer is a co-operative or a large-scale plantation.

Just Us Coffee, Equal Exchange have transitioned to using producers who are certified by the Small Producers Symbol (SPP in Spanish) which distinguishes small producers “keeping true to the original concept of Fair Trade” (Just Us Coffee 2014). There are already 60 producers as members certified by SPP (SPP 2014). Other retailers such as CTM Altromercato have given up on third party certification by FLO as they do not feel they need it due to brand loyalty and are still the largest FTO in Italy, however they have kept their IFAT certification (Nicholls et al. 2004, Altromercato 2014).

“When large, conventional plantations get fair-trade certified for improving practices, we consider that ‘fair-trade lite’” (Gogoi 2008). Doherty et al (2012) found an emergence of a ‘Fair Trade lite’ access to certification with nominal if any benefits to producers.

There is danger that earlier entrants to Fair Trade markets are being side-lined (Mohan 2009). A good example is Sainsbury’s which built a Fair Trade reputation and then switched to another cheaper supplier (Doherty et al. 2012). This, of course, is against the Fair Trade principle of fostering long term relationships. Smith (2009) found in reality that these relationships are now often for one season only or are ignored completely by major retailers. This is important to quality and investment as early buyers are more likely to invest in quality. However, as the number of LFTOs has increased the newer importers are less likely to remain loyal as they can just change suppliers (Nicholls et al. 2004).

3.3 Co-option Risk

Critics of mainstreaming see that there is a severe co-option risk, “the process by which one group gains converts from another group by attempting to replicate the aspects that they find appealing without adopting the full program or ideals” (Concise Oxford English Dictionary 2011). This is not a new concept and was mainly used to describe government entities “neutralising the effectiveness of movements for social change” (Jaffee and Howard 2010) however is now more used to describe conventional firms trying to maintain the status quo.

This is to be expected as the majority of commercial businesses focus on low cost fast production. Renard's (2005) study showed that this risks price reduction in the medium and long term if these newer entrants end up controlling this niche market as they could replace certification with their own criteria certified by other parties. However, there are some supermarkets such as the Co-operative Group in the UK which have a long history of similar values to the FTOs and have instituted ethical policies in its entire value chain. The Co-operative has also worked in partnership with these early pioneers such as Traidcraft to bring new products to market such as Fair Trade wine which it enabled through a partnership with Traidcraft at a time when there was no FLO certification and more recently rubber gloves (Nicholls et al. 2004).

Another success story is that of the Divine and Dubble brands from the Day Chocolate Company in the mainstream "showing that an alternative business model that challenges the conventional international trading system can work" (Doherty and Meehan 2006). One of the keys to this was creating innovative approaches bringing consumers and producers together to initiate change such as a fan club encouraging young people to lobby local shops to stock these and schools pack to increase awareness (Doherty and Meehan 2006).

However, most other conventional firms may not have similar values to the Day Chocolate Company and the Co-operative Group. Due to the power of these conventional firms there is dilution risk (Acona 2004).

3.4 Dilution Risk

"When a label becomes mainstream, it's on expansion mode and when that happens, the mission objectives blur, minimum standards of qualification if met satisfy the agencies, resulting in dilution at all stages" (Bornhofft Moore 2010).

Dilution risk is where even core standards are watered down such that the Fair Trade authorities are influenced by actors to make decisions in their favour rather than the overall social good (Jaffee 2010). There are many Fair Trade authorities but FLO is the most significant followed by the WFTO. Because Fair Trade certification fees are based on a percentage of sales, so companies with the highest sales contribute the most to FLO and potentially have the most influence over FLO (Bornhofft Moore

2010). With Starbucks being the largest buyer of coffee globally, this raises questions about the influence it may have over Fair Trade Authorities (Guardian 2014b).

Jaffee (2007) found the additions of mainstream companies weaken Fair Trade Organisations as they have less bargaining power and there is a dilution of the brand which could cause severe reputational damage to the Fair Trade Movement which undermines the Fair Trade Movement's transformative potential (Moore et al. 2006). Doherty et al (2012) agree and found "significant evidence of lobbying to lower Fair Trade standards and slow floor price growth" which suggests regulatory capture.

Regulatory capture in this case is where regulatory bodies (in this case the Fair Trade authorities) "make regulatory decisions in the commercial interest of those actors rather than the overall social good" Doherty et al (2012).

A good example of this is Fair Trade roses, which were behind other products in the queue for the development of a FLO standard. Some believe Tesco's interest in them led to them being fast-tracked. If this was the case, it shows the influence of Tesco's on FLO and how other large retailers could undermine the movement. The Fair Trade Foundation's response was that the standard had been in development since 1999 and that they had been sold in Switzerland since 2001 (Moore et al. 2006).

Doherty et al. (2012) feel it was the pressure from the retailers such as Starbucks which allowed plantations to be certified. The argument for plantations is they can guarantee larger volumes and reliability than small farm producers and if plantations were restricted from certification this would restrict the growth of Fair Trade. However, there are many concerns with plantations not being in line with Fair Trade aims and by opening up Fair Trade up to them it will lead to lower Fair Trade Standards.

3.5 Lower Fair Trade Standards

There are already quite a few examples of Fair Trade Standards that seem to not be enforced from the Fair Trade minimum price not being paid, social premiums not being distributed, lack of long term relationships & pre-financing, indirect purchasing from producers. This is in addition to market data not being provided to producers and

the lack of democratic structures, consumer education and sustainable production methods.

3.5.1 Fair Trade Minimum Prices, Social Premiums & Sustainability

One of the central principles of Fair Trade standards has been minimum prices regardless of how low the market price goes which ensures a living wage for workers. It is intended to take into account the costs of production (land, labour, capital cost of sustainable production). The minimum prices should take into account a decent standard of living for workers and the costs of complying with Fair Trade Standards with some regional differences taken into account (Nicholls et al 2004).

Besky (2008) found that Dhokebari a tea plantation in Darjeeling, India workers “do not receive a transparent floor price (minimum price received per unit) mediated by Fair Trade certifiers”. Weitzmann (2006a) found casual workers were not paid the legal minimum wages in four out of five farms visited in Peru. “The low pay issue wasn’t picked up in our audit because it wasn’t done at harvest season” (Weitzmann 2006b) which casts doubts on the certification system. Valkila et al (2010) found even where the Fair Trade price is paid a much higher quality of coffee is demanded due to the glut of Fair Trade coffee and the power of buyers.

It is also possible that power exertion by new entrants could lead to delays in floor price growth, such as cocoa prices following Dairy Milk accreditation. It is interesting to note that the Fair Trade coffee price has only minimally increased between 1989 and 2008 (Jaffee 2010). Bacon (2010) found production and living costs have increased and there was a 41% real reduction in prices. This meant that many coffee farmers weren’t able to break even in the coffee crisis of 2005-6 with FLO minimum prices due to increasing costs so Fair Trade was further impoverishing them It’s interesting to note that although Bacon’s (2010) research contributed to the case for FLO to mandate a 7-11% minimum price increase there was objection to this from conventional firms and National Labelling initiatives. Whereas early adopters of Fair Trade Coffee such as Just Coffee and Equal Exchange lobbied for these higher prices and have established their own higher minimum price for coffee significantly above the FLO levels.

In addition to this there is a Fairtrade Premium this is “not optional, it is mandatory within Fairtrade contracts. Businesses are audited to verify the payment of the premium and producers are audited to check they have received it” (Lewis 2014).

There are also worries that exertion by conventional firms could lead to lower floor prices. There is already precedence of tea social premiums being reduced in 2008 to make them more competitive. Bastian (2006) is worried that coffee minimum prices are under threat, however they are being raised to encourage producers to join to increase supply. However 78% of Fair Trade prices and premiums have been reviewed in the last three years including coffee in 2011 where the Fair Trade premium was doubled (FLO 2012). Blowfield and Dolan (2010) also question whether social premiums are being distributed properly.

There also doesn't seem to be enforcement of sustainable practices as “using global satellite mapping, a Canadian NGO found that about one-fifth of all coffee production in one Fairtrade-certified association was illegally planted in protected virgin rainforest” (Weitzmann 2006a).

3.5.2 Long Term Relationships & Market Data Provision to Producers

Another principle of Fair Trade is that long term relationships are built on mutual trust and respect. This helps producers have a guaranteed income so they can plan and invest in their future productive capacity. However these are difficult to enforce with most standards only requiring 6-12 month contracts and no definition from FLO on what is a long term relationship (Nicholls et al 2004). Reed (2009) found that in some cases this was not even enforced for 6-12 month contracts. Utting (2009) found that some importers did not honour contracts if world prices moved against them. This is especially true for coffee producers as it is easy for an importer who experiences any problems to quickly switch to another. There is also concern that the retailers can quickly drop products leaving the risk with the importer so it is very one sided. Strong relationships with buyers have the added benefits of provide producers with quality and consumer feedback which they would not be able to receive otherwise (Nicholls et al 2004). “Teaching producers how to evaluate and grade their own coffee helps farmers to understand what buyers might be looking for, and puts them in a stronger negotiating position. It also encourages continued improvement” (Macatonia 2014).

This is true of FTOs however because some supermarkets do not have direct relationships they don't provide information to producers which is discussed later in this chapter (Doherty et al 2012).

3.5.3 Pre-financing & Consumer Education

Traditionally middlemen provided pre-financing on the agreement that producers would sell them their crops often at a low price. As mentioned in chapter 2 due to the seasonality of many Fair Trade crops small holder farmers need short term finance to pay for inputs. They were at the mercy of middlemen as most conventional lenders are unwilling to lend which is why the Fair Trade principles included pre-financing. Producers can request up to 60 percent of their contract, the buyer can charge interest on this but only up to their own cost of borrowing. Buyers "can lose Fairtrade certification if they deny producers access to finance without good reason" (Fair Trade Foundation 2015b). However this was inconsistently enforced and in 2008 this principle was effectively suspended. Some buyers such as the Co-operative have continued to pay these however some like Tesco's and ASDA have not (Davies 2014). Some importers have even been known to pay late (Utting 2009). It is interesting that some mainstream traders provide better credit to farmers at significantly lower interest rates (Valkila 2009). Plus some supermarkets have reinstated pre-financing however few educate their consumers on the Fair Trade movement and product origins which is left down to the NFTOs and early FTOs (Doherty et al 2012). This may be down to supermarkets not knowing where the premiums are being spent due to their lack of direct purchasing from producers (Haight 2011).

This change in consumer education has led to a change in consumption from early consumers having a higher level of action as they would have to seek Fair Trade products out from FTOs as they were not available in the mainstream (Bezencon and Blili 2010). This was known as the radical era of the 1980s to 1990s changed in 2000s to the pragmatist era when Fair Trade products became available in mainstream stores and consumers voted for them by buying them there and now has entered its passive era. (Doherty et al 2012) This is because consumers have to go out of their way not to buy some Fair Trade products e.g. if they are a Waitrose shopper who wants Non Fair Trade bananas they are going to have to go to another retailer as all there bananas are Fair Trade (Waitrose 2015). Low and Davenport (2005) see this has changed the

“message of Fair Trade from being a participant in international trade reform to changing the world by shopping”. The way they see this being avoided is by having the producers be shareholders and board members of the retailer e.g. Divine in the UK which they describe as radical mainstreaming companies. This ensures that retailers buy directly from the producers.

3.5.4 Transparency & Purchasing Directly from Producers

Another principle of Fair Trade is transparency so that “brand owners should be able to provide the full and direct supply chain of their produce” (Davies 2014). This is an important point as it allows consumers to see that they are buying directly from producers. This is a big selling point, as for certain products e.g. gold, traditionally there has been little transparency in this market and it has been obtained by dubious means including child labour (Frampton 2014). Another example is the fashion industry “where the supply chain makes it virtually impossible for consumers to know who made their clothes, let alone whether their garments were produced following environmentally and socially sustainable methods” (Panamas 2015). Direct purchasing and transparency has never been enforced as a principle (Doherty et al 2012).

Because of the lack of transparency in the value chain there have been cases of child slave labour being reported by Panorama (2010). They raised concerns that Kuapa Kokoo, a Cocoa LFTO in Ghana which supplies Fair Trade Cocoa to Cadbury and Divine had been using slave labour. Their response by the LFTO when notified was to suspend 7 out of 33 of their cocoa farming communities in 1 of its 52 major growing districts in Ghana. To put this in perspective they are supplied by 1,200 different cocoa communities and this is the only time that it has failed an audit of its farmers' practices in 15 years. The failed audit led to suspension of the LFTO which has now been lifted and the Fair Trade Foundation believe the suspension shows that the Fair Trade system is working.

Since then the Geo Fair Trade Project has been established as a pilot scheme to ensure the credibility of the supply chain and to validate the Fair Trade good and sustainable practices. Consumers can use this new tool to access geo-specific environmental and social data about the products they purchase to give 100% transparency (Panamas

2015). To continue and cover all products and all producers this will need considerable investments. Other producers have their own systems in place such as Cooperative Coffee's which has set up a Fair Trade Proof website to track coffee lots from farmers to roasters to consumers however these schemes would still need to be regulated (Fair Trade Proof 2015).

3.5.5 Empowering Workers through Democratic Structures

Another of the principles of Fair Trade is empowering producers since the introduction of plantations to the certification this includes workers. Workers describe "empowerment in terms of increasing levels of control or power of decision in hierarchical relationships on plantations and increasing control over their family economies" (Lyll 2014). From this it is clear that democratic structures are very important for worker empowerment.

The Fair Trade standard for Hired Labour Organisations requires that workers form a Joint body which decides how the Fair Trade premium is spent, as well as a separate organisation on site which tackles workers' rights (FLO 2014c). However, this can be very hard in practice to achieve with severe hostility between workers and management due to historical issues such as lack of property rights. Property rights are key to workers as it allows workers to gain independence from landlords giving individuals choice (Lyll 2014). Another key issue is wages which led to 500,000 plantation workers striking in West Bengal (Bhaumik 2005).

Where individual choice has been given there are examples of abuse such as in Upaja, a Fair Trade Tea Estate in Darjeeling. Their joint body gave funding to workers to buy community cows meant to produce milk as a supplementary income. However, some bought very small cows unable to produce milk and others sold off their cows so they could pocket the money. When workers were challenged by management on this it soured relations with management further (Bornhofft Moore 2010).

Although FLO monitors the co-operative voting and implementing of these projects, it does not judge their decisions (Nicholls et al. 2004). Haight (2011) believes this can be a significant problem as premiums are "often not used for schools or organic farming but to build nicer facilities for cooperatives or to pay for extra office staff".

FLO is now suggesting that there are discussions on how the money is spent rather than just doing these (Blowfield and Dolan 2010).

There are also concerns there is very little upward mobility in plantations with many labourers' children likely to also become labourers (Deepak et al. 2012). However, this has not always been the case in India with many workers' children leaving the estate altogether (Staff 2006). For those who decide to stay working at the plantations there are examples of managers commonly being the children of tea pluckers at Chamraj Tea Estate in Southern India. This may well be down to providing free education for all workers' children from primary to junior college. It is of note that both management and labourers' children are educated together which is unprecedented, as well as there being 40 scholarships a year for higher education (Bornhofft Moore 2010).

Where Joint Bodies had worked workers felt they had a stronger inner voice from being part of these meetings and from the training they had been given for this by Fair Trade Liaison officers on both technical skills and awareness about worker's rights, health and social issues (Lyll 2014).

Transfair USA is at the heart of this mainstreaming debate which hopes to "double US sales by Fair Trade farmers and extend Fair Trade benefits to millions of additional farmers and workers by 2015" (Just Coffee 2011). It parted from FLO in 2011 due to irreconcilable differences and has since renamed itself Fair Trade USA and created a label called Fair Trade for All with the aim to "adapt existing international Fair Trade Standards...and apply them first to coffee and then to additional categories over time" (Just Coffee 2011). This started with coffee allowing plantations to be certified and then moved into other products such as bananas, where "Transfair USA sidelined social movement participants to negotiate directly with number two banana giant Chiquita" (Jaffee 2010). The worry is that LFTOs will be undercut by the plantations due to their high volumes and economies of scale due in part to not having to look after workers as well as LFTOs have and thus LFTOs will lose market share (Jaffee 2010). However a coffee LFTO in Brazil called Coocafe, have publically expressed their support for extending Fair Trade to plantation workers (Fair Trade USA 2012).

Blowfield and Dolan (2010) are quick not to rule out plantations to Fair Trade as in the short term it would be very difficult to change the land tenure system. "Plantations are the legacy of an unfair system where the elite and the wealthy classes denied small producers their land, and small farmers always got the raw end of the deal," (Gogoi 2008). Gogoi (2008) feels that conventional firms have taken the easy route to source from the plantations rather than identify the small farmers and buy from LFTOs.

Many 100% FTO's exceed fair trade standards whereas conventional firms are likely to avoid these if they are not enforced cutting their costs and giving themselves a cost advantage (Doherty et al 2012). This raises questions about whether Fair Trade Authorities have the resources to enforce standards as it is hard to monitor some aspects such as labour conditions in Colombia as workers are generally afraid to speak out and the more complex the supply-chain the harder it is to monitor (Gogoi 2008).

3.6 Global Value Chains

Doherty et al (2012) examined the seven different types of value chain to see the propensity for co-optation, dilution or capture. They found there was no propensity in the 100% Fair Trade sold through world shops value chain e.g. CTM Altromercato. The FTO value chain with corporate retail participation e.g. Divine Chocolate had nil dilution but limited co-optation or reputational risk. The FTO supplying supermarket own label value chain e.g. Agrofair selling fresh fruit through supermarket branding has nil dilution, limited co-optation but high levels of reputational risk. The corporate dominated license and retailer value chain e.g. Starbucks has some co-optation of FT authorities and dilution of some principles with high reputational risk. The corporate retail dominated but not licensee value chain e.g. own label supermarket products sourced from second tier manufacturers had very high reputational risk, some co-optation for Fair Trade authorities but limited dilution. In the corporate manufacturer as licensee to the retailer value chain e.g. Cadburys converting major brands for general sale they found high co-optation, dilution and reputational risk due to power imbalance. In the corporations and plantations production they found high co-optation, dilution and reputational risk.

Chapter 3 has looked at the benefits of mainstreaming of increased sales, awareness and the hope for higher global standards as well as the challenges of reputational, co-option and dilution risks. Chapter 4 builds on this looking at the impact analysis of Fair Trade.

Chapter 4: Impact Analysis

Impact assessments are important to understand Fair Trade's benefits and whether it lives up to its claims. This chapter looks at: farmer and household analysis; value chain analysis and LFTOs analysis.

4.1 Farmer and Household Analysis

“Some critics claim that by focusing on achieving a fair price for poor farmers, the movement doesn't address issues of mechanisation and industrialisation - radical changes that might allow farmers in the developing world to stop doing back-breaking work and break out of the poverty cycle” (O'Neill 2007).

Impact assessment has mainly focused on the ultimate beneficiaries of Fair Trade the individual farmers and their households generically known as “producer households” (Nicholls et al 2004). This looks at the immediate impact on households by Fair Trade and is motivated by the desire to assess size of relief of poverty. The majority of this analysis has been done on the coffee market. This may be in part due to the fact “Of the twenty product groups covered by Fairtrade International standards, 40% of all Fairtrade-certified farmers in the world produce coffee” (Montanez 2014).

Murray et al. (2003) looked at Latin American Coffee farmers and found that Fair Trade has “in a short time greatly improved the well-being of small-scale coffee farmers and their families”. They had greater access to training which enhanced their ability to improve the quality of their coffee. Their children also had increased access to education.

Jaffee's (2007) study of southern Mexican coffee farmers showed they had higher incomes than conventional farmers but extra labour had to be hired to meet organic standards increasing costs, but overall this reduced household debts and enabled them to better feed and educate their children. There was also a multiplier effect of this increased income on the local community.

Becchetti and Constantino (2006) looked at Kenyan coffee farmers and found “Fair Trade is definitely responsible for the creation of an additional trade channel, crop

diversification and provision of in-kind services including technical assistance”. It had also increased capacity, economic and social wellbeing, but more could be done to increase human capital.

Arnould et al. (2006) looked at 1200 small scale coffee producers in Nicaragua, Peru and Guatemala and found Fair Trade had led to improvements in quality of life, health, education, material comforts, social participation, technical and social assistance, and even sustainable agricultural practices. Fair Trade was also a buffer against volatile markets. “It is a safety net, but given current pricing levels, production regimes, and farm sizes, Fair Trade coffee alone is not THE solution to the problems of the rural poor” (ibid.).

Berndt (2007) looked at coffee producers in Costa Rica and Guatemala finding that although it does help farmers hedge against market price volatility, but it may “encourage the employment of scarce resources in high-cost, low quality growing areas that could find better uses than coffee production, thereby limiting the long-term success of the individuals it is attempting to help.”

Beuchelt and Zeller (2011) surveyed 327 coffee farmers and found organic Fair Trade farmers have become poorer relative to conventional producers with organic coffee yields 43% lower. This meant their income was below the international \$2 a day poverty level.

Moberg (2005) found similar conclusions with Windward Island banana farmers who despite receiving higher prices did not have a net gain from Fair Trade when compared to conventional farming due to increased labour costs. This is very significant for the nation as up to 50% of the Windward Islands export revenue is from bananas (WINFA 2014). “A lot of farmers now know that Fair Trade doesn’t give him any more control over what he produces, how he produces it, or how he packages it. It’s a new kind of dependence” Moberg (2005).

Isaac et al. (2012) see bananas as the staple of the island. “There is certainly no doubt about it - Fairtrade has saved the Islands. Without it we would be in desperate trouble” (WINFA 2014). However Isaac et al. (2012) also see the potential for diversification

in the Windward Islands such as into niche markets e.g. pink flesh bananas and processing bananas into a variety of products such as baby food and snack foods. There is also the opportunity of moving into agro-tourism. However, it will need all the stakeholders of the industry to be more proactive to achieve this.

Overall, although Fair Trade farmers income increased so did their labour costs, however many were better off financially. They also benefited from protection against price volatility which meant more stable incomes. In addition to this they received access to health and training for themselves and their families. In some places such as the Windward Islands there are dependency issues but there is opportunity for this to change.

4.2 Value Chain Analysis

There is also a secondary level of analysis looking at the whole value chain, defined as “the whole cycle of the organisation, production and delivery of products from inception to use and recycling” (Kaplinsky 2004).

Slob (2006) looked at the coffee value chain and showed that small holders received more income than they would have from conventional markets, approximately double. Even though they can only sell some of their product into the Fair Trade market: “Globally, only 6 per cent of Fair Trade certified tea is sold under Fair Trade terms” (Fair Trade Foundation 2012a).

The minimum price, social premium, pre-financing and increased access to credit from Fair Trade helped the stability of producers. The study also looked at the non-financial returns of training and technical support which enable farmers to improve the quality of their coffee as well as providing access to information which helps LFTOs make decisions e.g. when to sell or hold their products and helps strengthen their position. LFTOs are more able to diversify both vertically and horizontally than small-scale farmers due to the “stability of their organisations, their knowledge of the market and their growing awareness of the environmental aspects of their agricultural activities” (Slob 2006).

Valkila et al. (2010) also looked at the coffee value chain from Nicaraguan Farmers to Finnish consumers and found that the oversupply of Fair Trade coffee meant that “most marginalized coffee farmers cannot become Fair Trade certified” and that hired labours conditions changed very little. They found that “a larger share of the retail prices remained in the consumer relative to conventional coffee trade”.

Gent and Braithwaite (2005) showed that cotton producers are at the mercy of the market. The supply chain is very complex and they have little control meaning they gain a very small amount of the value add with the majority being captured by “brand owners, large manufacturers and traders”. They did note that there is still more value-added being retained in developing countries than other products. However, this goes to relatively few people which increases inequality. They feel more awareness is needed and Fair Trade is a great opportunity for this.

A Fair Trade Foundation report (2012b) found certain factors limited the impact of Fair Trade including illiteracy amongst producers, landed properties, reduced power of influence and negotiation by producers within the chain, limited production volume, and restricted size of farms and market conditions. They suggest reducing the volatility of the Fair Trade Markets by balancing supply and demand including limiting the introduction of new producers until the current ones have reached sustainable growth, as well as ensuring that all members in the value chain are committed to principles of Fair Trade and avoid dependence on particular markets or high volume buyers. This is in addition to implementing a mechanism to help protect producers against currency fluctuations.

Tuhvag (2008) looked at the coffee value chain and found Fair Trade inefficiency as Fair Trade importers don't have the same scale advantages as conventional firms with some having to outsource roasting to them. “The greatest challenge for Fairtrade actors is to decrease consumer prices for Fairtrade coffee and to gain control over the whole commodity chain.” (ibid.)

The value chain analysis showed that although income had increased, producers can only sell a percentage on the Fair Trade markets and a significant percentage of that price stays in the consumers' home market. Financing and technical support helped

strengthen organisation and LFTOs were more able to diversify. There are also barriers to the impact of Fair Trade including illiteracy, limited product volume and inefficiencies which prevent them from gaining control over the whole commodity chain.

4.3 LFTOs Analysis

Little research has been done on LFTOs, even though they have a pivotal role as the buyers from the producer households and the suppliers to both Fair Trade and commercial buying organisations.

Ronchi (2006) looked at Coffee LFTOs in Costa Rica and found “the failure of market power and low producer capacity was the underlying causes of the low share of coffee returns faced by producers”. They also found that Fair Trade strengthened LFTOs by improving efficiency.

Imhof and Lee (2007) looked at Bolivian Coffee LFTOs and found that Fair Trade resulted in more stable incomes and that Fair Trade producers were more likely to participate in other income generating activities, such as taxi driving. Fair Trade did not improve formal education such as primary school education, however producers did have a broader understanding of the coffee market than their conventional counterparts. This is likely down to the quarterly training courses provided by the LFTOs which has also improved quality and efficiency. LFTOs also offered training in organic production enabling farmers to go into this market if they wished, as well as pre-financing and entrepreneurial training building up capacity. They also found that the Fair Trade premium had been spent on improving production facilities which had improved quality and was “positive in terms of capacity building”.

Aguilar (2007) looked at Coraca, Irupana, a Bolivian Coffee LFTO which has caused structural change in the surrounding region. Fair Trade income has given stable incomes to members meaning they do not have to take children out of school and they can now go on to further education. It has also enabled the LFTO to build up working capital so that it is now self-sufficient for financing.

Ruben et al. (2008) looked at Coffee and Banana LFTOs in Peru, Ghana and Costa Rica and found that one of the main results was the strengthening of LFTOs through encouraging investment and asset accumulation. “The FT premium could further support this process if it is allowed to use premium funds for joint investment programs (in farmers’ cooperatives) or for the transition to co-ownership regimes (in plantations).”

Taylor et al (2005) found that due to slow growth in the fair trade coffee market, some LFTOs are using their improved organizational capacities to seek new channels including Non Fair Trade and Local Markets.

Bacon (2010) found that in several countries LFTOs have used Fair Trade as a tool to “gain direct market access and wrestle up to 30 percent of the coffee exports away from the transnational corporations and elite exporters that have controlled these channels since colonisation”.

What is generally missing from these studies, however, is a fuller understanding of how these LFTOs work and develop their capacity. In this context, it is important to understand their ability to access markets, not just Fair Trade ones but also local and conventional markets to understand the full impact of Fair Trade and its potential.

Chapter 4 has looked at farmer and household analysis; value chain analysis; LFTOs analysis. These issues are the basis of this study and Chapter 5 examines the methodology used.

Chapter 5: Methodology

Chapter 5 starts with an overview of the Shared Interest data. It then shows the methodology of how to answer the question of this study, “Are LFTOs reaching an efficient technology enabling them to compete with conventional firms or are they remaining dependent on Fair Trade?” This will be achieved by calculating sales growth rates over time for Fair Trade, Non Fair Trade and Local markets. Testing whether any differences in growth rates between markets are statistically significant.

5.1 Data Overview

This paper uses data from a unique database from Shared Interest Society Ltd. involving 25 LFTOs with between 6 - 12 years data. The LFTOs are spread geographically with 10 in Africa, 14 in Central America and 1 in Asia however by sales the majority of the data is from Central American LFTOs (94.89%) followed by African LFTOs (4.71%) and Asia only makes up 0.4% as shown in Table 5.1.

Table 5.1 Total Market Breakdown by Geography in 2007

Location	2007 Sales (\$m)	% by Sales
Central America	98,198,659	94.89%
Africa	4,876,660	4.71%
Asia	410,140	0.40%
Total	103,485,459	100.00%

These LFTOs are not always able to sell all their produce into the Fair Trade market due to demand. Shared Interest therefore splits LFTO sales into three Channels: Fair Trade; Non Fair Trade; and Local shown by Table 5.2.

Table 5.2 Total Market Breakdown by Channel in 2007

Channels	2007 Sales (\$m)	Market Share
Fair Trade	49,206,543	47.55%
Non Fair Trade	48,679,195	47.04%
Local	5,599,721	5.41%
Total	103,485,459	100.00%

This shows the Fair Trade Market is only marginally larger (47.55%) than the Non Fair Trade Market (47.04%) with the Local Market making up the remaining 5.41%.

The data can also be grouped by product sector for each LFTO. To ensure the confidentiality of participants they have been coded by number in Figure 5.3. LFTOs have been categorised by what they predominantly produce so LFTO 3 is categorised as a Food & Drink (Excluding Coffee) LFTO as although it produces candles the majority of produce is Brazil nuts. Similarly LFTO 8 mainly produces Non Food products such as Crafts and Clothes with some vanilla and spices so is categorised as a Non Food Producer. The full list of classification is shown by Table 5.3.

Table 5.3 LFTOs Classification

LFTO Number	Products	Classification
1	Honey, Blueberries	Food & Drink (Excluding Coffee)
2	Coffee	Coffee
3	Candles, Brazil Nuts, Oils	Food & Drink (Excluding Coffee)
4	Coffee	Coffee
5	Dried Fruits and Vegetables	Food & Drink (Excluding Coffee)
6	Coffee	Coffee
7	Coffee, Cocoa	Food & Drink (Excluding Coffee)
8	Ceramics, Carvings, Crafts, Wine	Non Food
9	Textiles, Cards, Paper, Sugar Packaging, Clothes, Vanilla & Spices	Non Food
10	Textiles, Paper Products	Non Food
11	Toys, Patchwork, Ceramics	Non Food
12	Bananas, Cocoa, Beef,	Food & Drink

	Milk	(Excluding Coffee)
13	Coffee	Coffee
14	Papyrus Paintings	Non Food
15	Soapstone	Non Food
16	Baskets, Batiks, Crafts	Non Food
17	Handicrafts	Non Food
18	Honey, Beeswax	Food & Drink (Excluding Coffee)
19	Pineapple	Food & Drink (Excluding Coffee)
20	Coffee	Coffee
21	Paper Products	Non Food
22	Coffee	Coffee
23	Coffee	Coffee
24	Soapstone, Palm leaf, Wood, Banana fibre, Sisal, Jewellery	Non Food
25	Handicrafts	Non Food

By these classifications the product breakdown is shown by Table 5.4.

Table 5.4 Total Market Breakdown by Product 2007

Sector	2007 Sales (\$m)	Market Share
Coffee	82,783,793	80.00%
Food & Drink (Ex Coffee)	16,320,162	15.77%
Non Food	4,381,505	4.23%
Total	103,485,459	100.00%

As Coffee makes up 80% of the data this has been grouped separately from Food & Drink which makes up 15.77% of the data with Non Food LFTOs making up the remaining 4.23% of the data.

5.2 Hypothesis

This study is looking to answer the question “Are LFTOs reaching an efficient technology enabling them to compete with conventional firms or are they remaining dependent on Fair Trade?”

This study is unable to measure efficiency, competitiveness or dependence directly, however it can try and infer them from proxies. The proxy this study uses for dependence is an increasing share of sales being made through Fair Trade channels.

If the growth rate of Fair Trade sales was lower than the growth in at least on one of the other channels, this supports the argument that Fair Trade improves competitiveness.

If the growth rate of Fair Trade was greater than that of other channels, this supports the argument that Fair Trade doesn't improve competitiveness leaving LFTOs remaining dependent on it which is against Fair Trade's aim of capacity building to empower workers.

Results in-between where the growth rate was the same as the other channels would indicate that Fair Trade is not encouraging dependence nor building capacity and improving competitiveness. This study used the below hypotheses:

H₀: Fair Trade share is falling or stable

H₁: Fair Trade share is rising

These hypotheses were tested for the Coffee, Food & Drink (Excluding Coffee), Non Food and All Products Markets.

5.3 Growth Rates Calculated Using Moving Averages

Total share of sales through the Fair Trade Channels could not be used as a proxy due to the large difference in scale between LFTOs from the smallest with annual sales of

\$77,136 to the largest with sales of \$42,962,216 annually which would skew the results.

An alternative is growth rates, which is the percent change in sales between one period and the next, the calculation used is shown in Figure 5.5.

Figure 5.5 Growth Rate Calculation

$$PR = \frac{(V_{Present} - V_{Past})}{V_{Past}} \times 100$$

Where:

PR = Percent Rate

$V_{Present}$ = Present or Future Value

V_{Past} = Past or Present Value

Source: Parker (2002)

Growth rates are independent of scale, so can be used as proxies for sales shares. This is because if on average the growth rate of sales through Fair Trade channels is higher than other channels, the share must be rising for the average producer.

These can be calculated over time by moving averages which help gauge long term trends by smoothing out noise from the data. Due to the data available a minimum of 6 years of data was used to calculate the 3 Year Moving Average (3YMA). The arithmetic mean was used to calculate these simple moving averages. Where there were more than 6 years of data all data years were used in calculations by taking the first 3 years and the last 3 years to give the most accurate analysis. Shares of sales by channel were provided by Shared Interest's annual reviews (an example is shown in Figure 5.6) and company accounts submitted by LFTOs (an example is show in Figure 5.7).

Only year end actual sales were used and forecasts were not as in many cases these were likely to be unlikely to be achieved. Where breakdowns by channel were not available the annual review percentage split were used to calculate these from the total sales for that year. The splits by channel used for the moving average

calculations are shown in Appendix 1. In a few instances there was poor communication from producers which meant there was missing data. If one year's data was missing and the average of the preceding or following years could be calculated this was utilised.

Where possible the growth rates were compared for the Fair Trade, Non Fair Trade and Local Channels. Growth rates were not able to be calculated for all LFTOs for the Local Channels, where this was the case the Fair Trade and Non Fair Trade growth rates for all the LFTOs were compared. Then for all LFTOs which had growth rates for all 3 channels these were compared.

Figure 5.6 Example Annual Review

Date: June 2007

To: Managing Director
From: XXXX

APPLICATION FOR A PRODUCER EXPORT CREDIT LIMIT
(Annual Review)

Name and Country: XXXX
XXXX

Ownership:

Nature of business:

Total turnover	(CUR) 713,000		
Number of producer groups	N/A		
Number of producer individuals	N/A		
Percentage women	62%		
Number of employees	145		
Sales channel	%	Product mix	%
Fair trade export	77	Textiles	83
Other export	20	Cards and Paper	8
Local	3	Sugar	9
		Packaging	
	100%		100%

Figure 5.7 Example Accounts

Summary of Sales (CUR)		XXXXX		Actual		Forecast	
Year End 30 September		2004	2005	2006	2007		
Orders							
XXXX		183,515	282,827	265,545	300,000		
XXXX		14,662	11,280	11,158	15,000		
XXXX		59,858	101,096	76,417	85,000		
XXXX		3,851	3,783	4,950	11,000		
XXXX		2,739	1,698	1,812	3,000		
	other IFAT	28,912	38,817	68,196	102,000		
Total IFAT		293,537	439,601	428,078	516,000		
Other Export		55,971	111,211	284,893	275,000		
Domestic		58,040	17,429	412	500		
Total Sales		407,548	568,141	713,383	791,500		
Surplus/(Deficit)		36,364	112,727	89,096	95,000		
Cash reserves		2,510	4,645	185,315	200,000		

The majority of sales figures were in United States Dollars (USD) however LFTOs 5,8 and 17 were in Great British Pounds (GBP). GBP figures were converted to USD on the year end date of their accounts using exchange rates shown in Figure 5.8.

Figure 5.8 Conversion rates

LFTO 5	GBP/USD	LFTO 8	GBP/USD	LFTO 17	GBP/USD
31/12/1998	1.653897	30/09/1998	1.698107	31/03/1998	1.683602
31/12/1999	1.615892	30/09/1999	1.647104	31/03/1999	1.612187
31/12/2000	1.490947	30/09/2000	1.468912	31/03/2000	1.596157
31/12/2001	1.448316	30/09/2001	1.468006	31/03/2001	1.426357
31/12/2002	1.612145	30/09/2002	1.566322	31/03/2002	1.423165
31/12/2003	1.791998	30/09/2003	1.667907	31/03/2003	1.579901
31/12/2004	1.93192	30/09/2004	1.806785	31/03/2004	1.835711
31/12/2005	1.721436	30/09/2005	1.765819	31/03/2005	1.882934
31/12/2006	1.961281	30/09/2006	1.868083	31/03/2006	1.738082
31/12/2007	2.007363	30/09/2007	2.034874	31/03/2007	1.959106
31/12/2008	1.461102	30/09/2008	1.809819	31/03/2008	1.986931
31/12/2009	1.622115	30/09/2009	1.61036	31/03/2009	1.429738
		30/09/2010	1.587069		
		30/09/2011	1.558068		

Source: www.fxtop.com

5.4 Significance Testing

Significance tests were used to help determine whether any observed differences were likely to be due to random fluctuations or unusual enough that random fluctuations rarely cause such differences (statistically significant).

The primary test undertaken was the ANOVA (analysis of variance) test which determines whether there any significant differences in the means (in this case growth rates) between channels (in this case Fair Trade, Non Fair Trade and Local) at the 5% significance level. If this was found to be the case one tailed t-tests would be undertaken, i.e. to see if FT sales growth is greater than the Non Fair Trade Market.

The assumptions of the ANOVA test are:

1. The dependent variable is continuous
2. The independent variable consists of two or more independent groups
3. There should be no significant outliers
4. The dependent variable is normally distributed in each group
5. There is homogeneity of variances
6. Independence of observations

(Laerd Statistics 2014)

Based on assumption 4 all suspected outliers were investigated by going back to the source data to check whether they were calculation errors. If data could be corrected it was but if it couldn't it was removed from the analysis. This led to the below exceptional treatment shown in Appendix 1:

Table 2 (LFTO 13) there were only sales figures for 2007 and 2008 so a single years growth rate was calculated

Table 3 (LFTO 6) – 2007 and 2008 sales data was missing so 2009 data was used for 2007-2009

Table 5 (LFTO 12) – 2005-7 sales data was missing so the growth rate of 2004 and 2008 was calculated.

Table 9 (LFTO 15) – 2006 and 2007 sales data were missing so the 2005 sales data was used for 2005-2007

5.5 Coffee Supplementary Analysis

This study's intention is to track actual sales to measure market share changes to determine whether firms are reaching competitiveness. However changes in price level over time tend to distort the sales, the coffee market like many commodity markets is known for its volatility in price and growth in quantity so supplementary analysis has been undertaken to attempt to correct this is by deflating the sales. By deflating these it provides the current or real value so trends are independent of any price movements. This supplementary analysis was possible for the Coffee Market as it made up of only one product and the majority of it is traded on LIFFE Market. However this is much more difficult for the other markets as they are made up of a variety of products with a much smaller percentage sold on world markets such as Bananas where only 14% are sold on world markets (Chambron 2010). This makes calculating price and volume indexes a lot more complex and there was not the data breakdown to allow this. If there was more data available for each individual product supplementary analysis could also be run on these. The coffee sales figures were deflated using the International Coffee Organisation (ICO) composite quantity (which is shown in Figure 5.9) & prices data (which is show in Figure 5.10).

Figure 5.9 Exporting Countries Total Production

EXPORTING COUNTRIES: TOTAL PRODUCTION							
CROP YEARS COMMENCING:	2008	TO	2013				
(000 bags)							
Crop year	2008	2009	2010	2011	2012	2013	
WORLD TOTAL	<u>128 637</u>	<u>122 953</u>	<u>132 984</u>	<u>132 286</u>	<u>145 436</u>	<u>145 717</u>	

Source: ICO 2013

Figure 5.10 ICO Indicator Prices

ICO INDICATOR PRICES

ANNUAL AND MONTHLY AVERAGES: 2001 TO 2014

US cents per pound (lb)

Annual/ monthly averages	ICO Composite price	Colombian Mild Arabicas			Other Mild Arabicas			Brazilian Natural Arabicas			Robustas		
		Market		Daily weighted average	Market		Daily weighted average	Market		Daily weighted average	Market		Daily weighted average
		USA	Europe		USA	Europe		USA	Europe		USA	Europe	
2001	45.59	72.22	68.24	72.05	61.94	63.14	62.28	50.52	52.42	50.70	27.30	27.49	27.54
2002	47.74	65.26	64.78	64.90	60.43	62.31	61.52	45.09	45.92	45.23	30.83	29.76	30.01
2003	51.90	67.31	64.34	65.33	64.08	64.30	64.20	50.82	50.16	50.31	38.39	36.50	36.95
2004	62.15	84.15	79.49	81.44	80.15	80.64	80.47	68.18	69.11	68.97	37.28	35.65	35.99
2005	89.36	117.02	114.67	115.73	114.30	115.22	114.86	101.36	102.49	102.29	53.37	49.87	50.55
2006	95.75	118.36	115.70	116.80	113.95	114.80	114.40	102.89	104.19	103.92	70.28	66.98	67.55
2007	107.68	126.74	124.70	125.57	123.20	123.81	123.55	110.72	112.06	111.79	88.29	86.29	86.60
2008	124.25	145.85	143.12	144.32	138.32	140.86	139.78	122.51	127.86	126.59	106.31	105.03	105.28
2009	115.67	180.87	174.58	177.43	141.65	145.48	143.84	111.39	116.55	115.33	77.16	74.02	74.58
2010	147.24	223.76	226.22	225.46	194.40	196.63	195.96	145.71	155.93	153.68	84.09	77.63	78.74
2011	210.39	283.82	283.67	283.84	273.20	269.55	271.07	243.67	248.72	247.62	115.99	107.91	109.21

Source: ICO 2013

Then the method below was used to create the coffee deflators:

1. Constructing an annual volume index for Coffee setting the first year to 100.
2. Constructing a price index using the time-series for the average coffee price in each year, setting the same year to 100.
3. Multiplying the price by the volume index (and dividing by 100) to give a current value index for coffee
4. Deflate the original sales series by the current value index, for each producer by market channel.

This produced the deflators shown in Figure 5.10

Figure 5.11 Coffee Deflators

Coffee Index						
Year	Price	Price Index	Quantity	Quantity Index	Current Value Index	Deflator
1998	108.95	100.00	99695	100.00	100.00	1.00
1999	85.71	78.66	108143	108.47	85.33	0.85
2000	64.24	58.96	130005	130.40	76.89	0.77
2001	45.59	41.84	112913	113.26	47.39	0.47
2002	47.74	43.82	107703	108.03	47.34	0.47
2003	51.90	47.64	123109	123.49	58.82	0.59
2004	62.15	57.04	106199	106.52	60.76	0.61
2005	89.36	82.02	116153	116.51	95.56	0.96
2006	95.75	87.88	111169	111.51	98.00	0.98
2007	107.68	98.83	128350	128.74	127.24	1.27
2008	124.25	114.04	116614	116.97	133.39	1.33
2009	115.67	106.16	128622	129.02	136.97	1.37
2010	147.24	135.14	122798	123.17	166.46	1.66
2011	210.39	193.10	133355	133.76	258.30	2.58

Chapter 5 has given an overview of the data and methodology used. Chapter 6 builds on this with the analysis of results.

Chapter 6 : Analysis

Chapter 5 has looked at the methodology and data overview. Chapter 6 analyses the results for the Markets of Coffee, Food and Drink (Excluding Coffee), Non Food and All Products.

6.1 Results

Table 6.1 Average Growth Rates Comparison by Channel

Sector	FT3YMA	NFT3YMA	L3YMA
Coffee-Deflated (FT/NFT/L)	39.01%	22.65%	60.65%
Food & Drink - Ex Coffee (FT/NFT)	21.95%	-4.43%	
Food & Drink - Ex Coffee (FT/NFT/L)	23.43%	-0.42%	-6.51%
Non Food (FT/NFT)	3.50%	4.64%	
Non Food (FT/NFT/L)	1.85%	-2.00%	1.60%
All (FT/NFT)	19.29%	8.23%	
All (FT/NFT/L)	20.90%	8.63%	25.18%
All (Weighted)	34.98%	17.97%	47.56%

Table 6.2 ANOVA Test Results by Market

3YMA	P-Value	P-Critical	Statistically Different	F-Value	F-Critical
Coffee (FT/NFT/L)	0.256987145	0.05	No	1.450558809	3.4668001
Food & Drink - Ex Coffee (FT/NFT)	0.247166534	0.05	No	1.510718235	4.9646027
Food & Drink - Ex Coffee (FT/NFT/L)	0.190321679	0.05	No	2.215450579	5.1432528
Non Food (FT/NFT)	0.842226806	0.05	No	0.040662938	4.3512435
Non Food (FT/NFT/L)	0.748255603	0.05	No	0.294052829	3.4668001
All (FT/NFT)	0.185526007	0.05	No	1.804168086	4.0426521
All (FT/NFT/L)	0.35906183	0.05	No	1.043936658	3.168246

6.2 Coffee Analysis

Coffee LFTOs show the greatest increase in the Local Channel shown by a 3YMA growth rate of (66.14%) followed by the Fair Trade Channel (48.99%) and the Non Fair Trade Channel (19.45%). I therefore accept the null hypothesis that the Local share is rising faster than the Fair Trade share for Coffee LFTOs. This is suggestive of the possibility Coffee LFTOs are becoming less dependent on Fair Trade and more competitive however this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

6.3 Food and Drink (Excluding Coffee) Analysis

When only the Fair Trade and Non Fair Trade Channels are compared the Food and Drink LFTOs show the Fair Trade Channel growing fastest by 3YMA growth rate (21.95%) followed by the Non Fair Trade Channel declining (-4.43%). I therefore reject the null hypothesis and accept the alternate that Fair Trade share is rising faster than the other markets. This suggests the possibility that the Food and Drink (excluding coffee) LFTOs are not reaching efficient technology and thereby not able to compete with Non Fair Trade producers meaning they remain dependant on Fair Trade Markets. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

When All Channels are compared the Food and Drink LFTOs still show the Fair Trade Channel growing fastest by 3YMA growth rate (23.43%) followed by the Non Fair Trade Channel declining (-0.42%) and the Local Channel declining further (-6.51%). I therefore reject the null hypothesis and accept the alternate that Fair Trade market share is rising faster than the other markets. This suggests the possibility that Food and Drink (excluding coffee) LFTOs are not reaching efficient technology and thereby not able to compete with Non Fair Trade producers meaning they remain dependent on Fair Trade Markets. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

6.4 Non Food Analysis

When only the Fair Trade and Non Fair Trade Channels are compared the Non Food LFTOs show a slightly higher 3YMA growth rate in the Non Fair Trade channel (4.64%) than the Fair Trade Channel (3.50%). I therefore accept the null hypothesis that the Fair Trade share is falling. This suggests the possibility that Non Food LFTOs

are able to compete with Non Fair Trade producers and not remaining dependent on Fair Trade. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

When all channels are compared the Non Food LFTOs show a slightly higher 3YMA growth rate in the Fair Trade Channel (1.85%) than the Local Channel (1.60%) and a decline in the Non Fair Trade Channel (-5.54%). I therefore reject the null hypothesis that the Fair Trade share is falling and accept the alternate hypothesis that the Fair Trade share is rising. This suggests the possibility that Non Food LFTOs are not able to compete with Non Fair Trade producers and not remaining dependent on Fair Trade. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

6.5 All Products Analysis

When only the Fair Trade and Non Fair Trade Channels for All Products are compared this shows the Fair Trade Channel growing the fastest (19.29 %) at more than double the rate of the Non Fair Trade Channel (8.23%). I therefore reject the null hypothesis that the Fair Trade share is falling and accept the alternate hypothesis that it is rising. This suggests the possibility that LFTOs are not able to compete with Non Fair Trade producers and remaining dependent on Fair Trade. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

When All Channels for All Products are compared this shows the Local Channel is growing the fastest (25.18%) which is significantly faster than Fair Trade Channel (20.90%) and the Non Fair Trade Channel growing at less than half the rate (8.63%). I therefore accept the null hypothesis that the Fair Trade share is falling. This suggests the possibility that LFTOs are able to compete with Non Fair Trade producers and reducing their dependence on Fair Trade. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

The All Products 3YMA were weighted by the market breakdown by product in Table 5.3 to account for the differences in the product make up of the sample. This shows

the Local Channel (47.56%) growing the fastest, followed by the Fair Trade Channel (34.98%) and the Non Fair Trade Channel growing at less than half the rate (17.97%). I therefore accept the null that Fair Trade market share is falling. This suggests LFTOs are able to compete with Non Fair Trade producers and reducing dependence on Fair Trade. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

Chapter 7: Conclusion

The aim of this dissertation was to fill a gap in the impact assessment of LFTOs literature through using data from 25 LFTOs from Shared Interest. This is significant research as LFTOs have a pivotal role as the buyers from the producer households and the suppliers to both Fair Trade and commercial buying organisations. The key issues are about the ability of LFTOs to achieve an “efficient technology” and diversify into other markets as otherwise they are fragile and may not be in a position to serve the interests of the producer households in the medium to long term.

7.1 Reaching Efficient Technology

The Coffee Market and weighted All Product Market suggests the possibility that LFTOs may be reaching efficient technology thereby reducing risk and becoming stronger organisations. This is important as one of the principles of Fair Trade is capacity building so that LFTOs are able to compete with conventional firms. This was not statistically significant which means no definitive conclusions can be made. The analysis is also suggestive of the possibility that Fair Trade Export markets are helping LFTOs compete better in local markets, however this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

This analysis leaves open the question of the impact of financial, physical, human and social capital on reaching efficiency, which would need to be explored using a different methodology. As well as whether they have focused on improving efficiency or quality, upgrading in an existing value chain or moving into a higher one, again this would need to be explored using a different methodology.

7.2 Remaining Dependent on Fair Trade

The Food & Drink (excluding Coffee) Market and the Non Food Market suggests the possibility that LFTOs may not be reaching an efficient technology, and therefore not diversifying risk and so are remaining dependent on Fair Trade. This could make them fragile and may not be in the best position to serve the interests of the producer households in the medium to long term. This raises questions as to why they haven't been able to reach efficient technology. Are they lacking financial, physical, human

and capital? Have they focused on improving efficiency or quality, upgrading in an existing value chain or moving into a higher one? However this, again, was not statistically significant and hence we cannot have a sufficient level of confidence in this result.

One possible reason that the Coffee LFTOs have been able to reach efficient technology whilst the rest of the Food and Drink LFTOs have not is the difference in the minimum efficient scale. Coffee unlike the other industries is less vertically integrated which means the economies of scale are likely to be much higher for Food and Drink excluding Coffee LFTOs. Also Coffee was the earliest commodity market to be certified which could be a factor and further research should be undertaken in this area.

7.3 Fair Trade Market Growing Faster than the Non Fair Trade

One possible reason for the Fair Trade Market growing faster than the Non Fair Trade market could be that it pays a higher price.

Coffee prices have been as low as \$0.45/lb whilst the Fair Trade price minimum in 2010 was \$1.40/lb. However with organic certification and social premium this is a minimum of \$1.90/lb. Even when coffee prices hit a high of \$3.09/lb, Organic and Fair Trade certification would pay a minimum \$3.59/lb which is still a 16% premium (ICO 2012).

Therefore there is more incentive for producers to sell products there until it is saturated. Historically the LFTOs have only been able to sell a percentage of their food, drink and coffee into the Fair Trade Market but as these Fair Trade Markets have grown this may be why the Fair Trade share is rising. Globally the Fair Trade Market is unlikely to be reaching saturation point at present as at most Fair trade products have 1% of each product's global market share. However there are clearly some national product markets that could be nearing saturation e.g. Bananas in Switzerland (Krier 2008).

7.4 Local Coffee Market Growing Faster than Fair Trade Market

The analysis showed that Local Coffee Markets sales are growing faster than the Fair Trade Market which may be due to increasing middle classes increasing demand for higher quality coffee in South America and population growth (Southwick 2014, FAO 2010). Local Markets are also much more accessible than international markets as they have lower transport costs. Also LFTOs are not always able to get space on container ships due to conventional companies owning them so it makes sense to also sell locally. This reduces their dependence on the Fair Trade channel and demand in local channel is likely to increase further as more is marketed locally such as one LFTO in the study who have developed a local brand.

There is a possibility that the growth of Fair Trade has helped LFTOs access the Local market by helping them reach efficient technology. The support of buyers in the form of higher prices, social premiums, financing, training and feedback could have helped LFTOs improving efficiency and/or quality and upgrade in an existing value chain or move into higher value chains. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

7.5 Further Research Needed

As with many studies data was an issue, there was some missing data so averages had to be calculated if possible. Plus there were a few cases where this was not possible which reduces the reliability of our calculations. The ANOVA tests results are not significant so no definitive conclusions can be drawn this may be due to the small sample size. Also with our 3YMA calculations some LFTOs had only in the last 3 years of available data entered the Local Channel which meant for some results we received #DIV/0! Errors which may explain why when only the Fair Trade and Non Fair Trade Non Food Channels are compared it shows the Fair Trade share falling. However when all three channels are compared excluding those LFTOs where there are #DIV/0! Errors this shows the Fair Trade share is rising.

What is needed is more observations, these will increase over time at Shared Interest, so one possibility is to return to the same analysis in, say five years' time. However other avenues should also be explored for this data such as FLO and other similar

financing houses such as Root Capital in the USA, which may be able to provide more raw data than was available from Shared Interest.

This would help reduce the variation within the groups and would hopefully enable definitive conclusions to be made and therefore allow policy recommendations to be developed. Also with more data it may be possible to split each of the markets down further into individual food markets. This would then enable us to deflate these markets as done with Coffee. As without deflating them price changes could be distorting the trends. It may even possible to be split each of the markets down into regions to ascertain regional differences.

Shared Interest has in recent years added two new markets channels to their data Fair Trade Organic and Speciality which would enable us in the future to also see how these markets growth rates have changed over time.

To fully answer the question of whether they had reached minimum efficient technology, however, would require the data of the long run average costs of both these producers and their Non Fair Trade counterparts which most businesses are unlikely to share.

This was not available for all LFTOs however for some it was showing that despite turnover had grown 2.5 times the net profit margin had fallen from 5% to 0%. However this was probably due to them building a dry mill which is a financial risk but will hopefully increase the net profit margin in the future as it should reduce costs and increase the price they are able to achieve for their coffee sold.

Long run average cost data would also help determine whether there is a higher level of minimum efficient scale in the Food and Drink excluding Coffee Markets than the Coffee Markets.

To fully answer the question of the impact of financial, physical, human and social capital on reaching efficiency, proxies could be determined for each and regression analysis could be run. Also in depth case studies would enable us to identify any bottle necks in these areas from this Fair Trade policy could be developed.

To fully answer the question have LFTOs focused on improving efficiency or quality, upgrading in an existing value chain or moving into a higher one, you would need access to LFTOs strategy which they may not share. Nonetheless, a combined methodology based on the type of analysis conducted here with more data, and a case study-based method with a smaller number of LFTOs, might be a possible way forward.

7.6 Concluding Remarks

The aim of this study was to explore whether LFTOs Shared Interest financed LFTOs had achieved an ‘efficient technology’ and diversified into other markets. Otherwise they are fragile and may not be in a position to serve the interests of the producer households in the medium to long term as they are remaining dependent on Fair Trade. If they are accessing other markets, it suggests they are reaching an efficient technology thereby reducing risk and becoming stronger organisations. The findings, while not confirmed statistically, do suggest the possibility that Coffee and All Products LFTOs are reaching efficient technology, able to compete with conventional firms, thereby reducing their dependence on Fair Trade markets. There is also a possibility that the growth of Fair Trade has helped LFTOs access the Local market by helping them reach efficient technology. However this result is not statistically significant and hence we cannot have a sufficient level of confidence in this result.

Why might Food and Drink (Excluding Coffee) and Non Food LFTOs not been able to reach efficient technology?

Are they lacking financial, physical, human and capital? Have they focused on improving efficiency or quality, upgrading in an existing value chain or moving into a higher one?

What is the impact of financial, physical, human and social capital on reaching efficiency?

From these findings, the main implication for the Fair Trade Movement is further research is needed with a larger sample of data over a longer time period looking

deeper at the root causes behind these findings to determine the best way forward for Fair Trade policy. One possibility is rerunning this analysis in 5 years' time when more data is available or looking for other avenues where data may be available such as Root Capital or FLO. A combined methodology based on the type of analysis conducted here with more data, and a case study-based method with a smaller number of LFTOs, might be a possible way forward.

Appendix

Appendix 1: Calculation Tables

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year N	FT3YMA
2	1,336,086	3,761,323	5,305,140	9,723,051	8,644,717	10,844,386	2005	2008	41.08%
4	1,229,860	2,226,400	2,510,260	2,564,502	2,575,760	2,975,683	2004	2007	10.80%
6	831,993	1,196,771	2,340,470	8,098,269	11,442,783	14,806,813	2004	2009	51.04%
7	1,612,081	1,829,326	2,476,835	4,810,264	5,814,759	8,100,905	2003	2006	46.81%
13	263,549	693,535	1,302,788	945,848	1,127,445	2,659,101	2005	2008	27.94%
20	1,073,510	1,627,569	2,347,342	10,522,486	8,577,491	11,312,044	2004	2009	43.21%
22	48,254	151,625	357,373	1,330,364	1,843,681	2,455,802	2005	2008	116.18%
23	140,821	220,939	343,867	10,810	11,333	11,637	2004	2008	-24.98%

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	NFT3YMA
2	233,815	658,230	928,400	1,701,534	1,783,844	1,831,663	2005	2008	41.01%
4	1,814,044	3,283,939	3,702,634	5,233,368	5,256,342	6,072,463	2004	2007	23.46%
6	799,366	1,149,839	2,248,687	1,518,426	1,131,704	1,464,410	2004	2009	-0.39%
7	4,079,477	5,727,556	9,540,648	18,038,490	21,805,346	30,378,394	2003	2006	45.64%
13	0	0	0	335,616	525,318	0	2005	2008	56.52%
20	1,052,040	1,595,017	2,300,396	792,015	1,608,280	2,121,008	2004	2009	-1.67%
22	7,380	23,190	54,657	27,150	37,626	50,118	2005	2008	10.47%
23	295,724	463,971	722,120	661,528	701,064	517,833	2004	2008	6.14%

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	L3YMA
2	100,206	282,099	397,886	729,229	208,039	260,975	2005	2008	15.38%
4	30,747	55,660	62,757	618,611	621,327	717,797	2004	2007	135.88%
6	16,314	23,466	45,892	371,833	482,788	506,142	2004	2007	151.37%
7	145,915	584,396	627,318	1,202,566	1,453,690	2,025,226	2003	2006	51.08%
13	2,662	7,005	13,159	40,513	54,166	26,860	2005	2008	74.62%
20	21,470	32,551	46,947	621,548	536,093	707,003	2004	2008	79.18%
22	1,135	3,568	8,409	0	0	0	2005	2008	-25.99%
23	32,858	51,552	80,236	66,896	70,894	52,365	2004	2008	3.67%

Table 4: Sales through Fair Trade channel (FT), Food & Drink

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	FT3YMA
1	263,350	241,740	305,500	1,332,448	1,580,206	2,685,172	2000	2008	27.32%
3	162,064	74,625	478,969	573,710	667,835	660,537	1999	2008	11.47%
5	388,714	378,590	417,913	485,763	542,996	717,775	2001	2006	8.06%
12	2,051,484	2,447,426	2,629,368	2,010,464	2,080,566	2,383,327	2003	2007	-2.38%
18	139,141	127,017	227,664	377,514	412,927	332,114	2002	2005	31.49%
19	77,458	485,060	1,357,243	3,145,313	3,234,217	4,921,271	2003	2007	55.76%

Table 5: Sales through Non Fair Trade channel (NFT), Food & Drink

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	NFT3YMA
1	167,280	267,100	204,035	251,041	297,720	505,902	2000	2008	6.48%
3	167,871	538,432	215,920	1,258,461	1,464,928	1,448,921	1999	2008	18.26%
5	89,446	92,097	102,405	135,532	75,092	195,973	2001	2006	7.44%
12	227,943	271,936	292,152	30,616	31,684	36,294	2003	2007	87.58%
18	32,806	82,814	51,663	0	0	0	2002	2005	25.99%
19	137,702	862,330	2,412,876	5,458,043	5,612,317	8,539,852	2003	2007	54.82%

Table 6: Sales through Local channel (L), Food & Drink

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	L3YMA
1	134,636	161,970	252,093	347,595	412,228	700,480	2000	2008	13.02%
3	121,328	85,617	62,921	18,507	21,543	21,308	1999	2008	-6.57%
5	0	0	0	0	1,887	0	2001	2006	#DIV/0!
12	0	0	0	0	0	0	2003	2007	#DIV/0!
18	18,029	6,380	14,219	0	0	0	2002	2005	25.99%
19	0	0	0	647,564	665,868	1,013,203	2003	2007	#DIV/0!

Table 7: Sales through Fair Trade channel (FT), Non Food

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	FT3YMA
8	320,675	356,472	341,685	468,540	515,850	345,420	1999	2007	3.39%
9	183,004	469,423	457,499	995,744	552,856	728,621	2002	2010	9.40%
10	311,558	232,527	194,971	94,696	99,854	41,680	2001	2007	-9.04%
11	27,000	5,000	40,144	133,614	20,722	13,202	1999	2008	9.81%
14	21,000	13,000	17,000	25,494	40,167	51,350	1999	2007	10.94%
15	34,489	48,811	53,000	15,000	35,700	53,800	2001	2006	-4.28%
16	11,038	53,266	48,820	43,694	51,564	60,947	1999	2010	2.98%
17	18,667	20,675	28,434	22,300	18,217	34,000	1999	2008	1.06%
21	154,905	172,236	130,324	268,382	278,895	240,953	2002	2007	11.50%
24	195,074	190,467	192,577	307,413	326,846	462,080	1999	2006	9.57%
25	281,970	191,072	159,937	73,205	87,875	100,926	2001	2008	-6.81%

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	NFT3YMA
8	157,762	138,528	177,780	337,020	371,050	248,460	1999	2007	9.17%
9	89,502	126,000	168,271	255,319	280,681	369,915	2002	2010	15.39%
10	104,008	64,244	123,135	0	0	0	2001	2007	12.25%
11	130,000	73,000	39,725	0	0	0	2000	2008	-8.01%
14	2,000	1,000	1,500	7,248	9,190	60,000	1999	2007	42.48%
15	50,459	57,511	25,126	13,000	100,000	96,200	2001	2006	9.47%
16	16,752	1,087	1,039	8,877	10,565	16,878	1999	2010	7.54%
17	2,701	338	1,520	2,500	1,300	1,900	1999	2008	2.51%
21	83,998	65,487	88,014	98,670	102,535	94,921	2002	2007	4.51%
24	20,330	15,403	29,283	26,243	27,902	39,446	1999	2006	5.34%
25	53,055	52,801	44,518	2,314	2,200	1,510	2001	2004	25.15%

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	L3YMA
8	0	0	0	16,440	18,100	12,120	1999	2007	#DIV/0!
9	0	0	0	25,532	17,011	22,419	1999	2010	#DIV/0!
10	320,000	292,500	78,200	216,700	200,000	208,350	2001	2007	-1.52%
11	94,000	228,000	115,830	208,985	32,412	20,650	1999	2008	-3.82%
14	0	0	0	0	2,743	5,000	1999	2007	#DIV/0!
15	1,556	1,686	1,450	6,000	6,000	6,000	2001	2006	30.85%
16	10,536	11,295	4,606	7,221	4,383	4,552	1999	2010	-3.03%
17	10,580	15,935	17,579	27,787	25,450	26,619	1999	2008	6.82%
21	174,146	123,423	100,761	27,628	28,710	29,206	2002	2007	12.29%
24	98,967	82,974	84,485	41,238	43,845	61,986	1999	2006	-5.43%
25	21,000	1,909	3,336	9,625	11,554	13,269	2001	2008	1.18%

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year N	FT3YMA
2	1,336,086	3,761,323	5,305,140	9,723,051	8,644,717	10,844,386	2005	2008	41.08%
4	1,229,860	2,226,400	2,510,260	2,564,502	2,575,760	2,975,683	2004	2007	10.80%
6	831,993	1,196,771	2,340,470	8,098,269	11,442,783	14,806,813	2004	2009	51.04%
7	1,612,081	1,829,326	2,476,835	4,810,264	5,814,759	8,100,905	2003	2006	46.81%
13	263,549	693,535	1,302,788	945,848	1,127,445	2,659,101	2005	2008	27.94%
20	1,073,510	1,627,569	2,347,342	10,522,486	8,577,491	11,312,044	2004	2009	43.21%
22	48,254	151,625	357,373	1,330,364	1,843,681	2,455,802	2005	2008	116.18%
23	140,821	220,939	343,867	10,810	11,333	11,637	2004	2008	-24.98%
1	263,350	241,740	305,500	1,332,448	1,580,206	2,685,172	2000	2008	27.32%
3	162,064	74,625	478,969	573,710	667,835	660,537	1999	2008	11.47%
5	388,714	378,590	417,913	485,763	542,996	717,775	2001	2006	8.06%

12	2,051,484	2,447,426	2,629,368	2,010,464	2,080,566	2,383,327	2003	2007	-2.38%
18	139,141	127,017	227,664	377,514	412,927	332,114	2002	2005	31.49%
19	77,458	485,060	1,357,243	3,145,313	3,234,217	4,921,271	2003	2007	55.76%
8	320,675	356,472	341,685	468,540	515,850	345,420	1999	2007	3.39%
9	183,004	469,423	457,499	995,744	552,856	728,621	2002	2010	9.40%
10	311,558	232,527	194,971	94,696	99,854	41,680	2001	2007	-9.04%
11	27,000	5,000	40,144	133,614	20,722	13,202	1999	2008	9.81%
14	21,000	13,000	17,000	25,494	40,167	51,350	1999	2007	10.94%
15	34,489	48,811	53,000	15,000	35,700	53,800	2001	2006	-4.28%
16	11,038	53,266	48,820	43,694	51,564	60,947	1999	2010	2.98%
17	18,667	20,675	28,434	22,300	18,217	34,000	1999	2008	1.06%
21	154,905	172,236	130,324	268,382	278,895	240,953	2002	2007	11.50%
24	195,074	190,467	192,577	307,413	326,846	462,080	1999	2006	9.57%
25	281,970	191,072	159,937	73,205	87,875	100,926	2001	2008	-6.81%

Table 11: Sales through Non Fair Trade channel (NFT), All Products

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	NFT3YMA
2	233,815	658,230	928,400	1,701,534	1,783,844	1,831,663	2005	2008	41.01%
4	1,814,044	3,283,939	3,702,634	5,233,368	5,256,342	6,072,463	2004	2007	23.46%
6	799,366	1,149,839	2,248,687	1,518,426	1,131,704	1,464,410	2004	2009	-0.39%
7	4,079,477	5,727,556	9,540,648	18,038,490	21,805,346	30,378,394	2003	2006	45.64%
13	0	0	0	335,616	525,318	0	2005	2008	56.52%
20	1,052,040	1,595,017	2,300,396	792,015	1,608,280	2,121,008	2004	2009	-1.67%
22	7,380	23,190	54,657	27,150	37,626	50,118	2005	2008	10.47%
23	295,724	463,971	722,120	661,528	701,064	517,833	2004	2008	6.14%
1	167,280	267,100	204,035	251,041	297,720	505,902	2000	2008	6.48%
3	167,871	538,432	215,920	1,258,461	1,464,928	1,448,921	1999	2008	18.26%
5	89,446	92,097	102,405	135,532	75,092	195,973	2001	2006	7.44%
12	227,943	271,936	292,152	30,616	31,684	36,294	2003	2007	-
18	32,806	82,814	51,663	0	0	0	2002	2005	25.99%
19	137,702	862,330	2,412,876	5,458,043	5,612,317	8,539,852	2003	2007	54.82%
8	157,762	138,528	177,780	337,020	371,050	248,460	1999	2007	9.17%
9	89,502	126,000	168,271	255,319	280,681	369,915	2002	2010	15.39%
10	104,008	64,244	123,135	0	0	0	2001	2007	12.25%
11	130,000	73,000	39,725	0	0	0	2000	2008	-8.01%
14	2,000	1,000	1,500	7,248	9,190	60,000	1999	2007	42.48%
15	50,459	57,511	25,126	13,000	100,000	96,200	2001	2006	9.47%
16	16,752	1,087	1,039	8,877	10,565	16,878	1999	2010	7.54%
17	2,701	338	1,520	2,500	1,300	1,900	1999	2008	2.51%
21	83,998	65,487	88,014	98,670	102,535	94,921	2002	2007	4.51%
24	20,330	15,403	29,283	26,243	27,902	39,446	1999	2006	5.34%
25	53,055	52,801	44,518	2,314	2,200	1,510	2001	2004	-

Table 12: Sales through Local channel (L), All Products

LFTO	Year 0	Year 1	Year 2	Year n-1	Year n	Year n+1	Year 1	Year n	L3YMA
2	100,206	282,099	397,886	729,229	208,039	260,975	2005	2008	15.38%
4	30,747	55,660	62,757	618,611	621,327	717,797	2004	2007	135.88%
6	16,314	23,466	45,892	371,833	482,788	506,142	2004	2007	151.37%
7	145,915	584,396	627,318	1,202,566	1,453,690	2,025,226	2003	2006	51.08%
13	2,662	7,005	13,159	40,513	54,166	26,860	2005	2008	74.62%
20	21,470	32,551	46,947	621,548	536,093	707,003	2004	2008	79.18%
22	1,135	3,568	8,409	0	0	0	2005	2008	-25.99%
23	32,858	51,552	80,236	66,896	70,894	52,365	2004	2008	3.67%
1	134,636	161,970	252,093	347,595	412,228	700,480	2000	2008	13.02%
3	121,328	85,617	62,921	18,507	21,543	21,308	1999	2008	-6.57%
5	0	0	0	0	1,887	0	2001	2006	#DIV/0!
12	0	0	0	0	0	0	2003	2007	#DIV/0!
18	18,029	6,380	14,219	0	0	0	2002	2005	-25.99%
19	0	0	0	647,564	665,868	1,013,203	2003	2007	#DIV/0!
8	0	0	0	16,440	18,100	12,120	1999	2007	#DIV/0!
9	0	0	0	25,532	17,011	22,419	1999	2010	#DIV/0!
10	320,000	292,500	78,200	216,700	200,000	208,350	2001	2007	-1.52%
11	94,000	228,000	115,830	208,985	32,412	20,650	1999	2008	-3.82%
14	0	0	0	0	2,743	5,000	1999	2007	#DIV/0!
15	1,556	1,686	1,450	6,000	6,000	6,000	2001	2006	30.85%
16	10,536	11,295	4,606	7,221	4,383	4,552	1999	2010	-3.03%
17	10,580	15,935	17,579	27,787	25,450	26,619	1999	2008	6.82%
21	174,146	123,423	100,761	27,628	28,710	29,206	2002	2007	-12.29%
24	98,967	82,974	84,485	41,238	43,845	61,986	1999	2006	-5.43%
25	21,000	1,909	3,336	9,625	11,554	13,269	2001	2008	1.18%

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