

**United Nations  
Expert Group Meeting on  
“Cooperatives in world in Crisis”  
28-30 April 2009, New York**

**Enhancing the Global Linkages of Cooperatives  
- The Fairtrade Option -**

**By Tomy Mathews**

These are reportedly not the best of times for trade and commerce, and it might not be out of place to start by sharing some good news. Amidst the economic down turn that shows just about every sales graph hurtling south, one genre of business, or better, a certain way of doing business, seems to be buckling the trend. It has posted sales growth in 2008 (as compared to 2007) by 24 per cent in Austria, 40 per cent in Denmark, 57 per cent in Finland, 22 per cent in France, 75 per cent in Sweden, 43 per cent in the UK and by 10 per cent in the US.

Yes, Fair Trade<sup>1</sup> flows against the economic tide. After surveying 14500 respondents in 15 countries, a recent study by Globescan, indicated the above figures and also surmised that active ethical consumers make up more than half (55 per cent) of the population in the countries surveyed. Consumers are calling for a new model in trade in which justice and equity are integral parts of the transaction, says the Fairtrade Labeling Organisation, releasing the study ahead of the World Fair Trade day on May 9<sup>th</sup>.

About 7 million people comprising of small farmers, workers and their families in the developing world seem to be the better off today due to Fairtrade compared to others several times their number, who according to the votaries of fair trade, still remain at the mercy of unfair international trade rules. The vast majority of these producers are organised in to cooperatives of small farmers.

**What is fair trade?**

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<sup>1</sup> The term Fair Trade is used to refer to the Fair Trade movement as a whole and can be used to describe both labelled and unlabelled goods and the work of Alternative Trade Organizations (ATOs), Fair Trade federations and networks such as IFAT, NEWS, EFTA etc. The term fair trade is a broader term often used to describe one or many of the above, but can also occasionally be used to refer to trade justice issues. In such cases, it can be as broad as to describe general fairness in trade, such as tariffs, subsidies, worker rights and other issues. The term Fairtrade is used to describe the certification and labelling system governed by FLO designed to allow consumers to identify goods produced under agreed labour and environmental standards. (*Frequently Asked questions - FLO*)

“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.” Along with its above definition of Fair Trade, FINE, an informal Association of the four main Fair Trade networks (Fairtrade Labelling Organizations International, International Fair Trade Association, Network of European Worldshops and European Fair Trade Association) also spells out the strategic intent of Fair Trade thus:

- deliberately to work with marginalised producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency,
- to empower producers and workers as stakeholders in their own organisations, and
- to actively to play a wider role in the global arena to achieve greater equity in international trade.”

The Fairtrade Foundation U.K elaborates the concept further:

“Fairtrade is about better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world. By requiring companies to pay sustainable prices (which must never fall lower than the market price), Fairtrade addresses the injustices of conventional trade, which traditionally discriminates against the poorest, weakest producers. It enables them to improve their position and have more control over their lives.”

The fundamental premise of Fair Trade is obvious: global commodity commerce as it exists today is ill equipped to ensure the survival needs of the vast majority of producers of primary goods and services. By institutionalising fair terms of commodity exchange, fair trade seeks to engender conditions where producers and workers in the countries disadvantaged by global commerce are able to create for themselves sustainable livelihood options.

## **History**

It saves effort to reproduce the commonly acknowledged history of fair trade that existed as such since the fifties: Fair Trade started as a partnership between non-profit importers, retailers in the North and small-scale producers in developing countries. Many of these producers were at the time struggling against low market prices and high dependence on intermediaries. They saw Fair Trade as an opportunity to protect their livelihoods, bypass the middlemen and directly access Northern markets. Over the years, more and more Alternative Trade Organisations (ATOs) were created in different countries, often closely linked to volunteer groups and Worldshops. These networks of ATOs and Worldshops played a vital role in the development of Fair Trade as we know it today.

In 1988, in an effort to expand the distribution of Fair Trade products to mainstream retailers, the Dutch ATO, Solidaridad, found an innovative way to increase sales

without compromising consumer trust in Fairtrade products and in their origins. The organization created a label, called Max Havelaar, which guaranteed that the goods met certain labour and environmental standards. The label, first only applied to coffee, was named after a best-selling 19th century book about the exploitation of Javanese coffee plantation workers by Dutch colonial merchants. The concept caught on: within years, similar Labelling Initiatives such as the Fairtrade Foundation, TransFair and Rättvisemärkt, emerged across Europe and North America in an effort to follow Max Havelaar's footsteps and boost Fairtrade sales. The organisations launched their own campaigns and certification marks and originally operated independently.

In 1997, these organizations created Fairtrade Labelling Organizations International (FLO), an umbrella organization whose mission is to set the Fairtrade standards, support, inspect, certify disadvantaged producers and harmonize the Fairtrade message across the movement. In 2002, Fairtrade Labelling Organisations launched a new international Fairtrade Certification Mark. The goals of the launch were to improve the visibility of the Mark on supermarket shelves, convey a dynamic, forward-looking image for Fairtrade, facilitate cross border trade, and simplify procedures for importers and traders. The Fairtrade system has always been about global relationships and global standards of fairness - these were recognised for the first time with an international Fairtrade Certification Mark.

The Fairtrade Certification Mark harmonization process is still under way – as of now, all but three Labelling Initiatives have adopted the new international Certification Mark. Full transition to the new Mark should become reality as it gradually replaces the old Certification Marks at various speeds in various countries.

At present, over 20 Labelling Initiatives are members of FLO International. There are now Fairtrade Certification Marks on dozens of different products, based on FLO's certification for coffee, tea, rice, bananas, mangoes, cocoa, cotton, sugar, honey, fruit juices, nuts, fresh fruit, quinoa, herbs and spices, wine and footballs etc.<sup>2</sup>

### **The how of Fair Trade: Ensuring compliance to Standards**

The working dynamics of Fair Trade rests on the authentication of the supply chain consisting of producers, importers, processors, retailers and consumers as built on and functioning according to standards of fairness, transparency and accountability.

This is achieved to through the instrument of standard compliance, the standards themselves being formulated in accordance with the felt realities of producers and workers in developing countries as obtaining in different commodity production situations. In general there are two sets of generic producer standards; one for small farmers organised in to cooperatives or other collectives built on participatory and democratic structures and the other for organised workers of plantations and factories.

Fairtrade labeled goods are the outcome of a structured process that seeks to guarantee that social, economic and environmental imperatives of producing and

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<sup>2</sup> FAQs (Fairtrade Labelling Organisation)

exchanging goods within the global community in a fair and equitable manner are met. Fairtrade attempts this through a set of standards whose guiding principles have been classified as under:

**Standards for Social development:** For small farmers Fairtrade Standards require an organizational structure that allows the farmers to bring a product to the market. All members of the organization need to have access to democratic decision-making processes and as far as possible participate in the activities of the organization. The organization needs to be set up in a transparent way for its members and must not discriminate against any particular member or social group.

For hired labour situations the Fairtrade Standards require the company to bring social rights and security to its workers. Some of the core elements are: training opportunities, non discriminatory employment practises, no child labour, no forced labour, access to collective bargaining processes and freedom of association of the workforce, condition of employment exceeding legal minimum requirements, adequate occupational safety and health conditions and sufficient facilities for the workforce to manage the Fairtrade Premium.

**2) Standards for Economic development:** For all products, Fairtrade Standards require the buyers to pay a Fairtrade Minimum Price and/or a Fairtrade Premium to the producers. The Fairtrade Minimum Price allows the producer to cover the costs of sustainable production. The Fairtrade premium is money for the farmers or for the workers on a plantation to invest in improving their livelihood. Premium money in this sense is meant to improve the situation of local communities in health, education, environment, economy etc. The farmers or workers decide themselves on what are the most important priorities for them and manage the use of the Fairtrade Premium. Also, Fairtrade Standards require buyers to give a financial advance on contracts, called pre-financing, if producers ask for it. This is to help producers get access to capital and overcome what can be one of the biggest obstacles to their development. This promotes entrepreneurship and can assist the economic development of entire rural communities.

**3) Standards for Environmental development:** Fairtrade Standards include requirements for environmentally sound agricultural practices. The focus areas are: minimized and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and water resources and no use of genetically modified organisms. As part of the environmental standards, there is a list of prohibited materials that Fairtrade Certified producers cannot use for their production. However, Fairtrade Standards do not require organic certification as part of its standards. Higher costs for organic production are considered though, by higher Fairtrade Minimum Prices for organically grown products.

Each product/ product category has specific standards and fairtrade minimum prices and premium form the critical component of the product specific standard, in addition to spelling out standards applicable to unique production and processing issues that that each product/category, entails.

**Trading standards** stipulate that traders must:

• *pay a price to producers that covers the costs of sustainable production and living;*  
□ • *pay a 'premium' that producers can invest in development;* □ • *make partial advance payments when requested by producers;* □ • *sign contracts that allow for long-term planning and sustainable production practices.*

Activation of a Fairtrade supply chain can be said to begin with Producers who want to have their product Fair Trade certified applying to the Fairtrade Labelling Organisation. Certification per se is under the purview of FLO-CERT and is operationally independent of FLO whose overall mandate covers the promotion of Fairtrade and the facilitation of producers who want to access the fair trade market. FLOCERT's assessment covers not just the production of their product and their workplace practices but also the structure, functioning and democratic credentials of the producer organisation based on which certification is accorded or denied. Subsequent annual audits not only confirm continued adherence to the standards, but also assesses organisations for progressive levels of compliance and improvements. Fairtrade standards distinguish between minimum requirements which producers must meet to be certified Fairtrade and progress requirements that 'encourage producer organisations to continuously improve working conditions and product quality, to increase the environmental stability of their activities and to invest in the development of their organisations and the welfare of their producers/workers'.

Fairtrade standards are developed and reviewed by the FLO Standards Committee, a body constituted from among all stakeholders within the FLO system: FLO's member organizations, producer organizations and traders, in addition to external experts.

### **The critical difference**

In contrast to Codes of Conduct and other social labels, the Fairtrade Standards are not simply a set of minimum standards for socially responsible production and trade. The Fairtrade Standards go further: they guarantee a minimum price considered as fair to producers. They provide a Fairtrade Premium that the producer must invest in projects enhancing its social, economic and environmental development. They strive for mutually beneficial long term trading relationships. They set clear minimum and developmental criteria and objectives for social, economic and environmental sustainability. □ □ Fairtrade Standards need to be met by producers, their organizations and the traders who deal with Fairtrade products.<sup>3</sup>

### **Fair Trade - a global cooperative**

The vast majority of Fair Trade goods being sold today come from cooperatives. In instances like coffee, incidentally the flagship fair trade product as on date, the product is entirely supplied by cooperatives. Until several new products in the fairtrade basket of recent history were added, Fair Trade producers were synonymous with members of cooperatives. The principles on which cooperatives are founded offered for the ethical consumer the ideal structuring of relations of production of ethically traded goods. As an economic enterprise driven by the social obligations it has to the community of its members, Fair Trade found the cooperatives to be the ideal organisational platform on to which individual small producers could converge

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<sup>3</sup> All standards principles as summarised by FLO

to achieve collective bargaining power and the economies of scale needed to access global markets. In deed as an equal exchange and partnership between producers and consumers across continents, Fair Trade could be described as a globalised cooperative enterprise!

One must hasten to add though that the term cooperative is understood here not in the legally defined form existing in several countries of the South. Democratic assertions of cooperatives in several countries are marred by state interventions and partisan political considerations. Several associations of small farmers in countries like India that are zealous about guarding their democratic character and member control from statutorily sanctioned interventions by state actors opt for organisational structures at variance with the provisions of a legally registered cooperative. It must be in recognition of this reality that the Fair Trade world, while upholding cooperative principles as the defining character of small farmer mobilisation to access fair trade markets, today refer to them as small farmer organisations (SFOs). The resemblance between the organisational standards they are meant to adhere to and the organising principles of cooperatives, is all too obvious.

As a democratic association of producers mandated to fulfill social obligations to the community of its members cooperatives are the natural constituency of fair trade. The Fairtrade social premium is in fact recognition of the community obligations that cooperatives have or must shoulder. Hundreds of cooperatives across the developing world, whose collectivism was still no match against the reality of globalised market forces and its reflections in their local milieus have used the enabling provisions of fairtrade to help their members trade their way out of poverty. Even more, the fairtrade social premiums have helped them to address long standing social needs of their communities, which were hitherto seen as possible only as entitlements from the state. The empowerment potential of Fairtrade for cooperatives thus goes beyond the increased control that producer collectives are able to exercise over the supply chain; they could now be the true agents of participatory development for their communities. The community needs that are addressed through the utilization of the Fairtrade social premium are collectively decided upon, unlike development prescriptions emanating from quarters unaccustomed to the community's felt needs.

The fact remains however that Fair Trade has as yet touched the lives of only a fraction of disadvantaged producers in the developing world. Against the killer waves of unequal global commerce fairtrade is still a trickle, at best a small stream. With the small size of the fairtrade market, cooperatives face access challenges and entry barriers springing from the products they have on offer, governing structures that may not readily fit in to standards and domestic legal frameworks. But most cooperatives are deterred from incurring the effort and cost of fairtrade compliance and certification due to the unsure fortunes the foray could bring them. There are more claimants obviously and legitimately than what the system is capable of accommodating. Better infrastructure, facilities for acquiring desired quality standards, language and communication skills and even cultural compatibility with the ethos of international commerce could give a head start to some, but would be debilitating limitations for others several times their number. The biggest challenge therefore continues to be the fairtrade market size and impressive as the growth rates are, justice in trade concerns still have to increase manifold for the enabling provisions of fairtrade to reach farther and wider and in forms acclimatized to the

varied nature producer realities in the developing world.

## **Part II**

### **Mainstreaming Fairtrade in origins: the case of a small farmer organisation from Kerala, India**

One central concern that is engaging those concerned with the wider gamut of trade justice issues is the less than desired impact that icebergs of fair trading situations have in the developing world. Will Fairtrade scale up to meet the ever growing challenge is one part of the concern. Equally significant is the worry whether it truly adds up to engendering humane and just conditions of existence and can readily be proposed as a genuine alternative to conventional trade. What follows is an attempt to look at fair trade not in the immediate situations of isolated producer organisations but against the wider challenges that confront organising of economic and social lives in the countries of the Southern hemisphere.

#### **The Kerala model of development**

The quality of life enjoyed by the people of Kerala has been the subject of Academic curiosity for some years now. On several key development indices, it seems to match some of the developed economies of the world. The curiosity factor stems from the fact that this has been made possible with a per capita income that is less than the Indian national average. Kerala seems to defy conventional economic wisdom that relates better quality of life with increased per capita income.

#### **‘An enigma within a paradox’**

Economic development as conventionally understood has bypassed Kerala. Industrialisation has been minimal and is more or less stagnant at the stage it was in the decade immediately following independence. Traditional industries, be it coir, cashew, or handlooms are in crisis, unable to cope with their mechanized counterparts or uneconomical considering the wage levels prevalent in the state. Unemployment is high, and the state has the dubious distinction of having the highest percentage of educated unemployed in the country. Land holdings have been fragmented and cultivated land has been dwindling rapidly in the state.

Yet, the quality of life of the people of Kerala measured against some of the universally accepted parameters like life expectancy, infant mortality, maternal mortality, literacy, subsistence wages, favourable sex ratio, etc, are far better than the national average and in some instances seem to match some of the industrialised west.

Quoting the Kerala Health and Family Welfare Department: *“The population of Kerala is uniformly scattered through out the state and is fairly well advanced in its demographic transition. The rapidly declining growth rate, highest mean age at marriage especially of families, a very high level of acceptance and awareness of family planning methods and fertility control, a moderate decline in the mortality rate etc are the commendable achievements in health standards which are almost comparable to that of developed countries in the world. Low birth rate and death rate along with higher female life expectancy, low infant mortality with negligible gap*

*between rural and urban and lower levels of disability are the special characteristics of Kerala's Health Status.*

*The Infant mortality is an index to measure the physical quality of life, in any given population. In 1995 it is 16 per thousand live births in Kerala – the lowest in the country as compared to the all India figure of 74. The continuous decline in the infant mortality rate from a high of 242 during 1911 – 1920 to as low as 16 in 1995 has contributed to the rapid increase in expectation of life at birth in Kerala. The projected figures are over 73 years of females and 68 for males during 1996-2000 and since again form an important indicator for assessing the overall health situation and quality of life in the state.*

*The health status of any state can be measured in terms of birth rate, death rate, infant mortality rate, expectation of life at birth etc. Kerala is far ahead of other states in the country and ranks first in attaining low birth rate, death rate, total fertility rate, infant mortality rate and in attaining high expectation of life especially of females. The literacy in Kerala is high and people are aware of their needs, conscious of their status and are generally demanding the services. They are enjoying a better healthier life than their counter parts in the country.”*

Distributive justice, agrarian mobilization, rights consciousness, unionized work force, statutory food distribution, universal literacy, universal primary health coverage, etc. have been considered the foundations on which Kerala's better quality of life edifice has been built.

### **Model or just a unique experience?**

Development literature is keenly divided on the term 'Kerala Model' and a growing body of new writing forcefully argues that Kerala's development path is just too unique to be called a model and of course not to be replicated elsewhere. With neo liberal economic thinking almost going unchallenged, until the cataclysmic events under the shadow which we are meeting today to deliberate on the role of the cooperatives, opinion seemed to converge on the Kerala model: it is unsustainable.

First and foremost, the argument goes, Kerala's quality of life is unsustainable because it is not matched by economic activity. It defies economic logic. The social security measures Kerala has institutionalised are considered liabilities in the new economic world order. The argument stretches further to demolish just about every institutional founding on which Kerala's quality of life rests: Organized workforce (read militant trade unionism!) is a liability and is held responsible for the flight of industries from the state. Land reforms, hailed as highly successful and unique in providing land to the tiller is blamed for having limited agrarian holdings and for making agriculture economically unviable. Homestead farming that has been observed as the backbone of food security for Kerala's households and the spring bed of bio diversity is projected as hindering economies of scale that monoculture commercial cash crop centered agriculture provides. The massive investments the state has made in the social sector is declared unsustainable and every economic prescription from the Central government's to multilateral agencies' constantly remind the state that 'there is no free lunch'.



There is unanimity in their prescription for Kerala: Dismantle the Kerala model or face economic extinction! The opinion makers, the government, the media are actively buying in to the argument. Consequently, investments have been dwindling in healthcare, education, public distribution system, labour welfare and labour protection. The crisis in the cash crop economy, consequent upon the wild speculative fluctuations in the global commodity market has bolstered the argument that international prices cannot support Kerala's high labour costs. Vast tracts of agricultural land has been giving way to real estate with its disastrous consequences on the food security of the state. Agrarian crisis is assuming alarming proportions and desperate measures by peasants, often misunderstood to be a phenomenon restricted to the cotton belt of India, are on the increase in Kerala.

### **Fair Trade Alliance Kerala: an effort to protect the gains of the model**

Fair Trade Alliance Kerala is the only mass based, farmer led movement in Kerala focusing solely on justice concerns in trade. It is uniquely positioned to offer the fairtrade market high value products, including a range of spices, coffee, cashew and cocoa. It is set amidst unique geographical advantage that produces some of the best quality items of cashew, spices and coffee globally. The farmlands are part of the Nilgiri Biosphere, a global environmental hotspot, where every human intervention must be carefully considered for its impact on the fragile eco system. The organisation draws its membership and movement character from mass movements of farmers in Kerala, especially movements in the forefront of the struggle against rural appropriation and peasant indebtedness.

But what makes the foray of these farmers in to Fairtrade significant is that Kerala possesses a socio economic and political climate where genuine social concerns of Fairtrade have legal sanction and, more importantly, wide social acceptance.

Fair Trade Alliance Kerala, a small farmer organisation created to access the global market on fair and equitable trading terms, intends to use these enabling conditions to try and prove that Kerala's achievements in the social sphere need not and should not be competitive disadvantages in the new global economy. Thus while the advocates of the neo liberal world order have been telling Kerala to dismantle its social security apparatus to become competitive in a changed global economic order, Fairtrade touts these very attributes as the distinguishing characteristics (USPs in the market lingo) of the production base of the goods its commits to the justice tuned global consumer. Trade unions rights are an avoidable nuisance in the globalised market place and it creates enclaves in producing countries where hard fought and won rights of workers can be dismissed with; fairtrade insists on workers rights to organise as inalienable throughout its supply chain. From child rights to gender equity to subsistence wages, Fairtrade's certification and inspection regimes ensure that fairness is not just a buzzword but a felt reality for farm, estate and factory workers. Investments in to health care, education and social security measures are wasteful expenditure and competitive liabilities for the liberalised economy; they are the propositions around which goods worth millions of euros, pounds and dollars are being offered on sale to the fairtrade consumers.

Fair Trade Alliance Kerala thus posits the case that the social quality of its goods and services are not competitive disadvantages but USPs that a justice tuned global

consumer would identify with. At the macro level Fair Trade Alliance Kerala hopes to create a ripple effect where the growing popularity of Fairtrade would make a compelling case for other regions of India and other parts of the world to proactively focus on concerns of equity and justice as imperatives for long-term survival in the global market place.

### **Fairtrade plus**

From its humble beginnings and niche market status, the fairtrade markets in Europe and the United States have grown dramatically. From an utopian fancy to cornering substantial shelf space in the multiples, from the engagement of a handful of Alternate Trading Organisations (ATOs) to popular brands converting full product lines, Fairtrade has been hailed as the success story of the decade. But growth has brought in its wake its own problems and challenges. Some of the pioneers have felt that the number chase has been at the expense of the core values of Fairtrade. The empowerment potential of Fairtrade has been seen as a casualty and small farmers and their cooperatives that have been painstakingly nurtured by pioneer ATOs are left to cherry picking by the big businesses that have entered the scene. Criticism has also been raised that the 'big boys' are entering the fray to 'fair wash' their otherwise unpopular business practices.

While for the most part the pioneers of Fairtrade both at the level of the ATOs and the producer co-operatives in the South have responded to the challenge by reasserting the core values of Fairtrade and distinguishing themselves as 100 per cent fair traders, there have also been some unique and creative responses to the challenge. One such has been the effort to increase the say of the small farmers and cooperatives higher up the value chain. An unofficial Gold Standard in Fairtrade is thus emerging, with producer cooperatives as owners of branding companies in the North to which they commit their products. Café Direct was a pioneer in this genre of companies, with coffee farmers owning part of the company and also exercising their say in its corporate governance as Board members. Divine Chocolate and Agrofair followed and today you have Liberation Foods CIC Ltd, a hundred percent fairtrade company marketing edible nuts, 42 per cent stake in which is owned by the International Nut Producers Cooperative, a joint body of nut producing co-operatives from Asia, Africa and Latin America. Fairtrade Alliance Kerala recently hosted the Global Assembly of Liberation and the INPC in a Kerala village. Cashew Nut farmers from Mozambique, El Salvador and India who earlier saw themselves as competitors undercutting each other to lure the elusive northern customer sat across and discussed how cooperation rather than competition needs to be the grounding premise. Peanut producers from Mozambique, Malawi and Nicaragua as also Brazil Nut producers from Bolivia, Peru and Brazil gazed at the common sky they share in the humid Kerala evenings. If in the pervading gloom of the economic crisis we are able to see a silver lining in that grassroots roundtable, we are definitely seeing the light at the end of the tunnel.