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FAIR TRADE COFFEE PRICES. THE CASE STUDY OF ALTROMERCATO

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INTRODUCTION

Since its foundation, Fair Trade has established itself as a leading symbol of the trade movement for social justice. For many years, the neoclassical economy considered prices and relative utility as the only two variables influencing consumers' decisions (Pedini et al., 2017). Furthermore, the business market was, and to some extent still is, driven by the ultimate goal of profit maximisation. As pointed out by Paul Hawken in the *Ecology of Commerce*, *"making money is, on its own terms, totally meaningless, an insufficient pursuit for the complex and decaying world we live in"* (Hawken, 2010 p. 2). Hawken called for a transformation of the international global market paradigms in which businesses would be able to create a new kind of economy capable of regenerating ecosystems and safeguarding the environment while bringing innovation, prosperity, and welfare to small producers. The Fair Trade movement was created precisely to respond to trade inefficiencies and inequalities and to provide fair remuneration for producers from developing countries. It has also established a connection between producer and consumer, showing how the latter's choices are influenced not only by price, as evidenced by the neoclassical economy, but also by social, ecological, and ethical motivations.

When dealing with Fair Trade, it is inevitable to talk about coffee. Not only was the first product to be labelled as Fair Trade, but it is also one of the few Fair Trade commodities which are listed on the stock exchange, and it is, therefore, easier to understand the effects of the Fairtrade Minimum Price and the Premium. Nowadays, the coffee sector is facing numerous challenges that are putting at risk the lives of millions of coffee farmers constantly striving to obtain fair remuneration for their commodity. In fact, despite the value of the global coffee market steadily increasing due to the fact that more and more emerging economies and coffee-producing countries have raised their consumption, significant differences still exist among actors in the coffee value chain. The volatility of world coffee prices has, on the one hand, enriched coffee companies and, on the other hand, worsened coffee producers who retain less and less share of the final retail value of coffee.
In order to promote discussion about Fair Trade coffee and to know how much it

improves the small farmers' participation in this market, this work has been designed to analyse one specific Italian Fair Trade organisation, namely "Altromercato", and how its value chain and breakdown price is beneficial for its coffee producers. The following describes the structure of the work, which is articulated around four chapters.

Chapter I presents a historical overview of the Fair Trade movement from its origin to the present. In particular, it provides the official definition of Fair Trade, highlights the differences between the terms Fair Trade and Fairtrade and presents the actors who are part of this movement. Chapter I concludes with a focus on the Italian Fair Trade movement.

Chapter II deals with Fair Trade labels and standards. Initially, some current labels placed on products that consumers can easily recognise on market shelves are presented. The chapter then focuses on the two most important Fair Trade organisations: Fairtrade International (FLO) and the World Fair Trade Organisation (WFTO). For each of them, a historical overview and an in-depth analysis of their organisational structure, labels and standards are provided. This chapter enables the reader to understand the objectives and means used by Fair Trade organisations to guarantee small-scale producers a sustainable livelihood and fair payment. Particular attention is paid to the two most representative elements of Fairtrade: Minimum Price and Premium.

Chapter III introduces the product chosen for this analysis, coffee. The first section describes the evolution of the coffee industry and consumer culture. Next, the chapter focuses on the current coffee market, highlighting its volatility and value chain. The remaining part is devoted to Fairtrade coffee. Data and statistics on its consumption and production are provided in the beginning. Then ample space is given to the standard that Fairtrade has devised for coffee and the benefits that Fairtrade Minimum Price and Fairtrade Premium have brought to producers over the years. The chapter concludes with a review of the literature on the economic, social and environmental impacts of Fairtrade certification on coffee producers.

The final chapter focuses on the coffee prices of Altromercato - the leading Fair Trade organisation in Italy. The initial sections are dedicated to the history, the organisational structure and the actors who are part of Altromercato. By reviewing Altromercato's operating budgets, data regarding production and purchasing value are provided. After the overview of the organisation, the chapter focus on Sidama Coffee Farmers Cooperative Union, which is the coffee producer from which Altromercato buys its Sidama Arabica Coffee. The final part of the chapter analyses Altromercato's breakdown price for Sidama coffee for the years 2019 and 2022. It concludes by comparing the results found with data retrieved on Altromercato's website and the breakdown price for coffee sold in the traditional market.

CHAPTER I

THE EVOLUTION OF FAIR TRADE

This first chapter aims to introduce the reader to Fair Trade, starting with presenting a historical overview of the Fair Trade movement from its beginning to its current status. Although there is no consensus regarding a starting date for Fair Trade, the World Fair Trade Organization considers 1946 the initial year of this social movement. The subsequent sections continue by providing a definition of the term Fair Trade, analysing the elements that characterise the activity and listing the actors involved throughout the Fair Trade supply chain. The chapter concludes with a focus on the Italian Fair Trade movement, and, in particular, a closer look is given to Equo Garantito and Fairtrade Italia.

1.1 Where did it all begin?

The contemporary Fair Trade movement can be traced back to 1946 in the United States when handicrafts coming from the 'Global South' were sold in the 'Global North'.[1] It all started from the will of religious, charitable organisations, which, after World War II, began development projects to aid communities in the South, which consisted of selling craft products (Gendron et al., 2009). The aim was to provide development and economic opportunities for marginalised handicraft artisans living in these developing countries by creating a sustainable and direct relationship with the North (Fair World Project, 2018).

The early roots of Fair Trade

Many authors identify different trade practices that later converged into what we now call fair trade. Following Le Velly (2006) distinctions, it all started from charity trade in the late 1940s early 1950s to then became solidarity trade at the end of the

[1] 'Global South' and 'Global North' describe economically poor and wealthy countries, respectively. The former refers to Africa, Asia, Latin America, and the Caribbean. The latter, to the USA, Canada, Europe, Russia, and Japan.

1950s and development trade at the end of the 1960s.

Charity trade has this name because religious organisations were the first who had the idea to aid communities and refugees in the South through development projects financed by the sale of crafts commodities. However, in the beginning, these organisations were not yet fully aware of what was the best way to have a positive impact on the population. In fact, *"there were no systematic links between the crafts sold and the communities who benefited from the assistance"* (Gendron et al., 2009, p. 65; Low & Davenport, 2005).

When this connection was made, charity trade became solidarity trade. This alternative commerce emerged from activist and solidarity movements which aimed to import and sell products from marginalised countries through new outlets, which will take the name of World Shop (Gendron et al., 2009). Finally, as will be explained later, development trade was initiated.

This section will present the four organisations – SELFHELP, SERRV, OXFAM, and S.O.S. Wereldhandel - which gave rise to the Fair Trade movement and their development from charity to fair trade over the years.

The origin of the movement can be traced back to when an American businesswoman, Edna Ruth Byler, visited a women's sewing group run by the Mennonite Central Committee (MCC)[2] in Puerto Rico (Bondarenko, 2018). After witnessing that the women were not being paid enough for their handiwork, Byler decided to sell these crafts in church basements and fellowship halls back in Pennsylvania. Her project, named SELFHELP Craft of the Word, was so successful that in 1962 MCC decided to adopt it, and, in just ten years, SELFHELP Crafts opened its first World shop in Canada (Ebeling, 2009; Enns, 2020). In 1996 SELFHELP Crafts rebranded as Ten Thousand Villages, a Fair Trade organisation with a mission to *"create opportunities for artisans in developing countries to earn income by bringing their products and stories to our markets through long-term,*

[2] Mennonite Central Committee (MCC) an Anabaptist organization founded in 1920 in the U.S. MCC is a relief service, and a peace agency whose mission is to help uprooted and vulnerable people and to increase peacebuilding and justice work. Further information is available at https://mcc.org/learn/about/mission

fair trading relationships".[3]

In 1949 the Church of the Brethren established the SERRV (Sales Exchange for Refugee Rehabilitation and Vocations), a non-profit organisation with the mission of helping displaced European refugees to earn income by selling their handicrafts. They started by selling cuckoo clocks from Germany to US members of the Church, and in 1958, the first SERRV store, the International Gift Shop, was opened in the US (SERRV n.d.; Low and Davenport 2005a).

Europe joined the movement in the late 1950s when Oxfam International, an NGO founded by a group of Quakers, began selling arts and crafts made by Chinese refugees in its shops in the United Kingdom – the first product was a stuffed pin cushion.[4] During the 1960s, Oxfam became one of the largest charity organisations in the UK. In 1964, it created the first Alternative Trading Organization (ATO) – Oxfam Trading. At the same time, the S.O.S. Wereldhandel (today Fair Trade Organisatie), a Roman Catholic organisation, was established in the Netherlands. In 1967 Fair Trade Organisatie began importing wood crafts from artisans living in slums in Haiti and later by setting up subsidiaries in Central Europe (West Germany, Austria, Switzerland) (Bondarenko, 2018).

As anticipated above, the breakthrough in Fair Trade occurred towards the end of the 1960s when the aforementioned religious organisations, together with international development agencies, started assisting producers from the South in producing and exporting their craft. This alternative way of trading, known as development trade, found its international recognition in 1968 when, during the second session of the UNCTAD (United Nations Conference for Trade and Development) in New Delhi, the strategy for promoting development through the "Trade, not Aid" slogan was launched (Gendron et al., 2009). This approach, which

[3] The mission statement is reported at https://www.tenthousandvillages.com/about-us#mission-vision

[4] The name 'Oxfam' comes from the Oxford Committee for Famine Relief, founded in Britain in 1942. Its initial mission was to provide food supplies to people in enemy-occupied Greece during the Second World War. After the war, Oxfam expanded its work, sending materials and financial aid throughout Europe first and to developing countries later.

implied the establishment of equitable trade relations between developed and developing countries, led to the growth of Fair Trade (EFTA, 2001b). In 1969, the first "Third World shop" opened in the Dutch town of Breukelen. For the first time, not only handicrafts but also food products imported by Fair Trade Organisatie were sold. It began with sugar cane, and, in 1973, coffee from Guatemala was added to the Fair Trade product line (WFTO, 2020b). World shops (also known as Fair Trade or charity shops) had a pivotal role in the Fair Trade movement. Because, in parallel with the introduction of new products, they began to spring up all over Europe, thus becoming not only selling outlets but also, above all, promoters of advocacy and awareness-raising campaigns.

Growth and metamorphosis of Fair Trade

During the 70s Fair Trade Organization began to meet informally at conferences. Still, despite the initial boost, until the 1980s, Fair Trade products were mostly traded in a niche market of World shops and by mail order. Being part of a niche market is one of the two main characteristics Le Velly (2006b) identified when dealing with development trade, along with the fact that the product has a higher price than the traditional market.

Therefore, to increase Fair Trade sales, ATOs identified two ways: develop a new ethical brand or create a label for the already existing brand.

The first approach was more company-oriented since a new brand would have set itself as an alternative to regular products, thus maximising profit for the outfit in the North, not producers in the South (Bennet, 2012). Two examples are worth to be mentioned.

Between 1986 and 1991, the cooperative Equal Exchange developed its own Fair Trade coffee brand. The idea was to create an alternative way of trading by promoting direct trade with organised small farmers' cooperatives, supporting sustainable practices, establishing long-term contracts and paying a fair price for coffee.[5] Equal Exchange thus began to import coffee from Nicaragua (Café Nica) and sell it to retailers in the US despite the embargo imposed by the Reagan

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[5] In 1992 international coffee prices fell to 46 cents a pound. Equal Exchange continued to pay $ 0, the threshold minimum at that time (Simpson & Rapone, 2000).

administration on all products from Nicaragua's Sandinista government (Equal Exchange, n.d.).
Likewise, in 1991 the British ATO Twin Trading, together with Oxfam, Traidcraft, and Equal Exchange, founded Cafédirect, intending to trade directly to *"give coffee bean, cocoa and tea growers a larger slice of the purchase price for the products"*.[6] In 1994 Cafédirect became the first coffee brand to carry the Fairtrade certification mark.

The second approach, which became a common practice, was the creation of a label. As Dalvai (2012) explains, in the late 1980s, the Fair Trade movement underwent a metamorphosis. There was a shift from the "ethical sensitivity of fair traders and consumers" to the "ethical demand by mainstream consumers". This change means that the new Fair Trade model was more oriented toward answering ethical issues posed by consumers rather than focusing on the original aim of fair trade, which was to ensure self-development and create a partnership with small and marginalised producers. This fact led to the creation of the first Fair Trade label. In 1988, Max Havelaar, a priest from the Netherlands, working with the coffee cooperative Unión de Comunidades Indígenas de la Región del Istmo (UCIRI) in Mexico, and Nico Roozen, a leader of the Dutch NGO Solidaridad, conceived the idea of certifying fair trading practices in coffee to mainstream fair trade commodities. Within a year, certified Fair Trade coffee in the Netherlands increased its market share from 0.2% in 1987 to 1.7% in 1989 (Reed et al., 2014). The "Max Havelaar" label posed itself as a guarantee that a product complied with specific environmental and labour standards and, as a result, empowered local communities and small producers. Certification facilitated market access, increased product quality, raised consumer awareness, and spread the movement globally.

Networking

By the mid-1980s, World shops and ATOs became more professional. This can be explained as a reaction to the emerging commercial context. Several factors define the new context. Firstly, the ATOs introduced foodstuffs in the Fair Trade market

[6] Cafédirect website, https://www.cafedirect.co.uk/about/ accessed in August 2022

(starting with coffee from Nicaragua). The decision was taken after the drop in sales of handicraft products due to the presence of new commercial players (such as Pier One Imports and Bombay Trading Company), which jeopardised the uniqueness and the exclusivity of the Fair Trade movement (Gendron et al., 2009; Littrell & Dickson, 1999). Secondly, consumers became more ethically conscious, demanding higher-quality goods (Low & Davenport, 2005). Lastly, European and North American countries enacted stringent legislation regarding health and safety standards in terms of marketing.

This context and the successful joint venture embodied in Cafédirect and the Max Havelaar label urged international ATOs to create different Fair Trade networks. The goal was to consolidate the new role obtained and expand public awareness of the Fair Trade movement in the trade market.

Below are presented the five key networking organisations of Fair Trade: IFAT (WFTO), EFTA, NEWS, FLO, and FINE. The last two, created as a response to the label fatigue, will be further deepened in the next section.

In 1989 a substantial number of over 30 fair trade organisations created the International Federation of Alternative Trade (IFAT), today known as the World Fair Trade Organization (WFTO) (Bondarenko, 2018). IFAT's original aim was to *"cooperate with poor and oppressed people in the Third World countries to improve living conditions by directly importing their products"* and *"to educate the consumer about the unfairness of conventional trade"* (Simpson & Rapone, 2000). One peculiarity of this federation is that its members are trade organisations and producer groups located worldwide. This broad membership permits, especially the producer groups, to work directly and, thus, improve the living conditions of vulnerable people in their country (refugees, women, and seasonal workers) (Littrell & Dickson, 1999).

A year after, in 1990, eleven of the leading ATOs in the European countries established the European Fair Trade Association (EFTA). EFTA members include Altromercato (Italy), Gepa (Germany) and Traidcraft (United Kingdom). It is possible to define three ways through which EFTA operates and *"stimulates practical cooperation between its members"* (EFTA, 1995). First, through the work of its Advocacy and Campaign Office (established in 1995), EFTA raises awareness and influences decision-makers sitting in the European Parliament and Commission. Second, by creating a solid network and exchanging relevant information, all members can benefit from it.[7] Third, EFTA developed its own database through which all members can have access to pertinent information regarding the cost of monitoring Fair Trade suppliers (EFTA, 2001a; Redfern & Snedker, 2002).

In 1994, the Network of European World Shop (NEWS!) was established. NEWS was formed by 15 national World Shops associations spread across 13 European countries, representing more than 2500 World shops. As EFTA, also NEWS facilitated the cooperation between its members. It kept this strong connection by organising conferences and campaign activities which increased the level of professionalism and experience of its members. In 2008 NEWS ceased to exist in its original form. It is currently part of the European Chapter of the World Fair Trade Organization: WFTO-Europe.

Before moving to the following organisation, it is worth defining what a World Shop is. According to Redfern & Snedker (2002), four elements characterise World shop:

- It is a shop that embraces the principles of Fair Trade. It shows its commitment through its values statements, promotional material, and actions.
- It exists to promote and sell Fair Trade commodities. Therefore, fair products need to take up the most significant share of the shop's stock.
- It reinvests the profits from its sale into the Fair Trade system.
- It provides the consumer with all the relevant information about the product (who is the producer, which is the product's origin, and price transparency). It improves the situation of producers through campaigns and raises awareness of the importance of trade justice, fair prices, fair wages, and working conditions.

[7] For instance, the entire chocolate production for all of the EFTA members is organize by Claro, a Swiss Fair Trade organization.

In 1997, FLO (the Fairtrade Labelling Organization) was created by 17 Labelling Initiatives (L.I.s), which emerged worldwide, starting with Max Havelaar. The original intention with which this network was founded was to ensure that producer registers and product-related standards were harmonised and monitored throughout the supply chain (Reed et al., 2014). FLO regulation and certification will be further explored in Chapter II.

In 1998, the four key Fair Trade networking organisations established FINE, an acronym for the first letters of the organisations mentioned above. Despite being an informal network, FINE was fundamental for the development of the Fair Trade movement because it coordinated actions among its members, promoted fair international trade relations and cooperated on advocacy and campaign issues (Bondarenko, 2018; Reed et al., 2014). One of the most critical successes obtained so far is the definition of Fair Trade (see section 1.2) adopted in 2001.

Mainstreaming

The expansion of Fair Trade into the mainstream market required a further institutionalisation of the movement due to the proliferation of numerous labelling initiatives. Many authors define this proliferation as 'label fatigue' – meaning a consumer distrust towards fair trade products since there was no standardisation on labels, each responding to different criteria (Fairtrade International, n.d.g). Moreover, this increasing availability of Fair Trade commodities in conventional distribution channels opens the door to an intense debate.

On the one hand, many academics argued that the corporatisation of the movement made Fair Trade standards more blurred. By associating themselves with the traditional economic actors (such as Newman's Own and Nestle), labelling organisations lost the original aim of fair trade, which was to *"create an alternative or substitute for the capitalist economy (e.g., a "solidarity economy") rather than engaging for-profit businesses to transform their practices"* (Bennet, 2012, p.21). Others, particularly Mohan and Fridell, were even harsher by saying that fair trade *"became a new way to make money, a new way of marketing in a high-quality niche market made up of highly socially motivated citizens of the Global North"*

(Odegard, 2014, p.10).
Finally, certification poses a threat to groups of small and marginalised producers.[8] These producers cannot always pay high certification costs, and their volumes of commodities delivered are certainly inferior compared to large-scale companies (Daviron & Vagneron, 2011).

On the other hand, as pointed out by Low and Davenport (2005a) and Moore (2004a), Fair Trade could not be conceived as an "alternative trade" anymore since it was developing no more as an alternative to the traditional market but within that market. Scholars defended this transformation by claiming that the only possible way to broaden Fair Trade's client base and, thus, impact more producers was to move into the mainstream market by creating a partnership with large distributors (Gendron et al., 2009).

As a result of mainstreaming efforts, FLO was created, and in 2002 the Fairtrade Certification Mark was launched. Two years later, also IFAT found its FTO Mark. The distinction between these two labels will be explored in the next chapter. However, it is essential to mention right from the start that the WFTO label applies to organisations rather than products, and its standards are weaker because they do not require democratic control at the producer level, but only that producers can take part in the decision-making process (Davenport & Low, 2012; Huybrechts, 2010).

The contemporary challenges of Fair Trade
During the first decade of the 21st century, fair trade organisations, particularly FLO and WFTO, worked on defining and improving clear standards and criteria for labelling products. Moreover, they started also to create partnerships with Small Business and Civil Society Organisation (CSOs) to face emerging challenges. One

[8] Small producers are described as having no access to the conventional market or failing to get satisfactory payment for their work due to their small size, low investment level, handicaps, or discrimination.

example is the coalition between the WFTO and the African Monitor.[9] They joined forces to reach the African continent's Sustainable Development Goals (SDGs). This section uses precisely the SDGs as a reference to analyse the issues that fair trade organisations face nowadays.

Since its foundation, reaching sustainable development has always been one of the core goals of the movement. When in September 2015, the UN General Assembly adopted the Agenda 2030, FTOs became a significant driver of the SDGs. The SDGs are a set of 17 overarching global goals that can potentially improve the lives of more than a billion farmers and agricultural producers (Fairtrade International, 2020a). While Fair Trade targets all 17 goals, below are presented the 5 SDGs where it can really have a positive impact and make a difference.

SDG 1, 'End poverty in all its forms everywhere', is central to Fair Trade's mission. According to FAO report "Ending extreme poverty in rural areas", around 80% of the extreme poor live[10] in rural areas (B. Davis et al., 2018). Since 2015 Fair Trade has helped achieve this goal via the Fairtrade Minimum Price and Fairtrade Premium (see Chapter II). Coffee farmers, who were heavily affected by the price crisis in 2019, are among those who benefit most.

Fair Trade plays a significant role in achieving SDG 2 'Zero hunger' by promoting sustainable agriculture through its environmental standards. In doing so, it provides small-scale farmers, who produce over 70% of the world's food needs (Wolfenson, 2013), training and technical support and empowers producers to add value to their business (Hawrylyshyn, 2019).

Fair Trade standards prohibit any kind of gender discrimination, ensuring that women in communities and workplaces obtain more decision-making power, equal pay, better wages and specific rights related to motherhood. Fair Trade promotes numerous projects and strategies targeting SDG 5 "Gender equality" since data shows that, despite women growing around 60-80% of the world's food, only 25% are involved directly in Fair Trade (Fairtarde International, n.d.).

SDG 12, "responsible consumption and production", is intended precisely to create

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[9] African Monitor (AM) is an independent Pan African continental body to monitor development commitments, delivery as well as the impact on grassroots communities established in 2006 (African Monitor, n.d.)

[10] The extreme poor are defined as those individuals earning less than USD 1.25 a day.

sustainable development and network. The aim is to inform and provide consumers with clear information on where and how the products were made. Fairtrade Trader Standard ensures small-scale farmers with *"transparent contracts, fair prices, openness about sourcing and market prospects, pre-financing for producers and compliance with labour and environmental law"* (Hawrylyshyn, 2019).
Finally, SDG 13 is "climate action". Fair trade organisations are at the forefront of addressing this issue since climate change heavily affects farmers. According to the "Fairtrade and climate change report" drafted following the 2021 UN Climate Change Conference (COP 26), more than 500 million small-scale producers are at risk of financial collapse, endangering not only their lives but also those of their families (Feurer et al., 2021). Nyagoy Nyong'o, Global CEO at Fairtrade, has called for fair trade and international organisations for immediate and comprehensive climate action in the last two years. In one article published in April 2022, she provides alarming figures on commodities production, including banana, cocoa and coffee (Nyong'o, 2022). Due to the combination of higher temperatures and lower precipitation, banana production will be negatively impacted. It is estimated that nearly 50% of the land used to farm bananas will no longer be fertile. A similar fate is expected for cocoa, where water shortage and the lack of precipitation will result in a shrinkage in production. In Kenya, coffee berries produced by coffee bushes plummeted by more than 40% in just three years, from 2017 to 2019.
The impact of climate change on the coffee sector will be further explored in the chapter dedicated to the case studies.

1.2 Definition of Fair Trade

Throughout its history, there have been multiple attempts to define Fair Trade. In 2001, as anticipated, FINE succeeded in developing a standard definition that today is widely accepted and embodies the two wings[11] that characterised the movement

[11] First wing: "integrated Fair Trade". It is associated with a radical conception of the movement, that consider fair trade as a tool for modifying the dominant economic model and the label a tool of transition. This vision was embodied by most of the craft producers in the IFAT network, importing FTOs (e.g., EFTA in Europe) and WFTO-member producer organizations.
Second wing: "labeled Fair Trade". It is associated with a more commercial vision of the movement, that has as its purpose that of expanding the Fair Trade market as the main strategy to improve the

during the 80s and 90s.

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

The strategic intent and goals of Fair Trade that arise from this definition are:
1. To improve the livelihoods and well-being of producers by improving market access, strengthening producer organisations, paying a better price and providing continuity in the trading relationship.
2. To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3. To raise awareness among consumers of the adverse effects on producers of international trade so that they exercise their purchasing power positively.
4. To set an example of partnership in trade through dialogue, transparency and respect.
5. To campaign for changes in the rules and practice of conventional international trade.
6. To protect human rights by promoting social justice, sound environmental practices and economic security (Redfern & Snedker, 2002).

Huybrechts (2010a) pointed out that this definition overcomes the idea of Fair Trade as an "alternative" to conventional trade. This subtle but fundamental distinction had previously been dealt with by Low and Davenport (2005a). According to the authors, "*alternative trade" allowed marginalised Southern producers (e.g.*

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producers' livelihoods. This vision was positively welcomed by most producer organizations which seen the entrance in the mainstream market as a way to increase their production volumes *associations of the landless urban poor, divorced and widowed women or groups of small family farms) a means of accessing Northern markets without having to deal through commercial 'middle-men', brokers and wholesalers"*. Therefore, World shops, church organisations, mail orders and all the non-mainstream distribution channels were categorised as an alternative to conventional trade. Only during the late 1990s, the term 'fair' starts to be used over 'alternative' because its meaning suggests a more inclusive vision of the movement. Following the adoption of this new definition, the IFAT changed its name from International Federation for Alternative Trade to International Fair Trade Association in 2003 (Fairtrade International, 2016a). However, as we have seen in the section Mainstreaming, the transition from 'alternative to fair' occurred not without debates and critics.

Another peculiarity of this definition is that it integrates three fundamental dimensions: economic, political and social.

The economic dimension is represented by trade activities, including import, transformation, and distribution of products, which fair trade operators perform throughout the supply chain. Again, the mainstreaming turn that characterised the movement has significantly increased the role and importance of the market in the practice of Fair Trade.

The social dimension is linked with producer support. Fair Trade's goal is to support small and marginalised producers in the South by ensuring them fair trade conditions (e.g. long-term relationship, fair price, social premium). Such tools are indispensable to improving producers' livelihoods and expanding the network of Fair Trade.

Finally, the political dimension is represented by education, regulation, and advocacy. As highlighted in point 5, modifying and creating new regulations is one of the strategic intents of Fair Trade. To achieve this goal, Fair Trade operators must travel three paths: educating citizens, particularly new generations, about the legislative context of the country and informing them about the economic system; promoting lobbying campaigns either with public and private institutions; and being active and present whenever a decision on new regulations has to be taken (Huybrechts, 2010).

Fair Trade or Fairtrade?

Sometimes it is difficult to understand and correctly identify the numerous terms used while discussing Fair Trade. Moreover, some companies can take advantage of this confusion to trick consumers into buying commodities they believe were produced ethically and sustainably. Below is presented the distinction between Fairtrade and Fair Trade (or fairly traded).

Fairtrade (one word, with a capital F) is *"a strategy for poverty alleviation and sustainable development, whose purpose is to create opportunities for producers and workers who have been economically disadvantaged or marginalised by the conventional trading system"* (Fairtrade International, 2016a). It is used exclusively for all the organisations, commodities and labels belonging to the Fairtrade International system. The latter works to guarantee that all the certificated products respect fair trade criteria and meet economic, environmental, and social standards. Moreover, the Fairtrade Mark ensures fair and stable prices for small-scale farmers and guarantees a Fairtrade Premium that should be invested in developing and improving their cooperatives.

The consumer is assured that a product is Fairtrade only when its logo appears. Most Fairtrade products are food and drinks, but it is possible to find handicrafts and textile products.

Fair Trade (two words, capital F, capital T) or fairly traded has a broader meaning, and it is used in three ways:

a) to describe all the people who uphold and advocate Fairtrade and sustain local producers by encouraging the sale and consumption of local products.

b) to describe any trading system which protects and is "fair" to producers - it could be ethical trade, the Fair Trade movement, or fair trade products. Under this definition are included all the goods that, despite not having the Fairtrade Mark, are produced in compliance with fair criteria. One of the monitoring bodies which guarantee that these commodities meet specific standards and, therefore, can be considered "fair trade" is the WFTO.

c) as a substitute for "Trade Justice".[12] This campaign, promoted by organisations such as Trade Justice Movement, seeks to ensure fully transparent and democratic trade policies to allow governments to choose the best solution to end poverty and protect the environment (Trade Justice Movement, n.d.).

1.3 Fair Trade players

In the section *Networking*, we have already listed the key players in Fair Trade today. However, those organisations are just some of the actors that constitute the Fair Trade movement. These are producers, FTOs, World shops, networks, labelling, and lobbying organisations. Below, we identify the characteristics that define each player. The division is not always clear, and this is reflected in the multitude of groupings that the authors make. Therefore, the following categories derive from a union of different works (DAWS, 2008, 2011; Moore, 2004; Randall, 2005).

1. Producers

Producer refers to any entity, either individuals (artisan) or small-scale producer organisations (made up of several workers), that supply fair trade products regardless of whether or not it has been certified under the Fairtrade Standard for Small Producer Organisations. Moreover, these organisations can be further subdivided into three categories: primary, secondary and support organisations. A primary organisation produces concrete products (either agricultural or craft) and its legal members are individual small-scale farmers. Instead, a secondary organisation describes a small-scale producer organisation that provides services. A support organisation offers assistance that is essential for a company's management. One requirement that must be met by all three is that of democracy. These organisations must demonstrate that they have democratic structures in place and that all members have equal rights and vote in their decision-making process

[12] Trade justice is a campaign by non-governmental organizations lobbying for changes to the rules and practices of world trade. These organizations include consumer groups, trade unions, faith groups, aid agencies and environmental groups.

(Fairtrade International, 2019b).

2. FTOs

Fair Trade Organizations, once known as Alternative Trading Organisations, are those organisations located in Northern countries that *"act as importers, wholesalers and retailers of the products purchased from the Southern producer organisations"* (Moore, 2004, p.75). Under this category falls all the European national ATOs which emerged during the 80s and 90s that later came together and originated the EFTA. The term organisation is commonly used by various authors DAWS (2008), Huybrechts (2010), and Moore et al. (2009) because it is the most encompassing and neutral term. However, there is no unanimity among authors: Reed et al. (2010a) describe them as Fair Trade businesses, while Davies & Crane (2003) and Zhang et al. (2020) as Fair Trade companies. Nevertheless, regardless of the name used, all of these firms share three characteristics:

a. A total commitment to selling Fair Trade products.
b. Personal and direct relationships with small-scale producers to strengthen their capacities and improve their livelihoods. This criterion is not always applicable to large FTOs since they have partnerships with several producers, so they sometimes have to rely on intermediate structures (Huybrechts, 2010).
c. Using education and advocacy work to enhance the Fair Trade movement.

3. World shops

In the section *Networking*, we have already outlined the four characteristics that distinguish a World Shop. To remark the concept, they are specialised retail outlets established primarily in Europe to sell Fair Trade products from developing countries. These "not-for-profit" organisations have formed associations at the national level to regulate and coordinate their cooperation. Instead, at the European level, they are united under the umbrella of WFTO-Europe (formerly NEWS!).

They act not only as retail shops, but they also actively campaign, organise educational Fair Trade activities for the public and lobby at the local and international level to raise awareness of Fair Trade. In this work, World shops have been considered different from FTOs. In reality, as emerged from Moore's definition of FTOs, often these two players tend to merge into one single organisation (DAWS, 2008).

One example is in Italy, where many of the World shops are run by Altromercato, the main FTO of the country.

4. Network Organisations

Under this category falls the three networks, namely WFTO (formerly IFAT), EFTA and NEWS, that were created by European FTOs during approximately the last decade of the 20th century. A network is defined as a collection of Fair Trade organisations whose aim is to provide *"support, opportunities, information, a common meeting ground and access to the market" to its members"* (DAWS, 2011). DAWS (2008) adds a fourth international network that, unlike the three above, is the only one located in the United States. The Fair Trade Federation was founded in 1994 in Washington DC to bring together Fair Trade producers, wholesalers and retailers in the US and Canada.

5. Labelling Organisations

Since the end of the 1980s, fair trade actors started using a new resource, the label, to make fair trade products recognisable and, consequently, allow them to be sold in conventional stores. Through their standards and monitoring systems, these organisations ensure that every product marked with the label conforms to specific criteria. Moreover, the label is a guarantee not only for the producers, who will obtain some benefits from it but also for the consumer, who is sure to buy a commodity that will help disadvantaged communities. Many organisations came together to create the FLO in 1997, which is currently the largest Fair Trade labelling organisation. Under FLO, the national labelling initiatives are constantly expanding the Fair Trade labelled product range allowing new workers and producers to become part of the movement.

6. Lobbying Organisations

Lobbying refers to the attempt made by Fair Trade organisations to persuade decision-makers to change regulations or adopt new ones to improve the movement's development. Lobbying is one of the main activities carried out by all Fair Trade organisations at the local and international levels. We have already dealt with World shops that act as retail stores at the local level. In contrast, at the international level, one major organisation is the Fair Trade Advocacy Office (FTAO). The latter was founded in 2004 as a joint initiative of FLO, WFTO, EFTA and NEWS!, but it became a legally-independent organisation only in 2010. Since it is made up of the European Fair Trade networks, FTAO aims to *"monitor and influence EU legislation, policies and their implementation"* and *"improve the livelihoods of marginalised producers and workers in the South"* (FTAO, n.d.).

7. Conventional organisations

By conventional organisations, Moore (2004) refers mainly to supermarkets that stock and sell Fair Trade products. Despite not being directly involved and part of the Fair Trade movement, these stores are now fundamental in retailing Fair Trade products. They work together with Fairtrade to create sustainable livelihoods for farmers and workers in the supply chain. Moreover, they cooperate with Fair Trade organisations in the development and delivery of projects which positively impact marginalised communities. However, over the years, a number of these conventional organisations are starting to detach themselves from traditional Fair Trade labels and begin to sell "own brand" Fair Trade products. One recent case occurred in the UK in 2017 when the supermarket chain Sainsbury's, the largest retailer of Fairtrade products in the UK[13], launched its own label, "Fairly Traded", for tea products. The decision raised several criticisms since this new label failed to need high standards as third-party organisations, such as WFTO and FLO, negatively affecting millions of farmers and workers who will not be treated fairly (WFTO Europe, 2017). Moreover, the possibility of launching its certification logo in the market without any precise regulation or standard *"makes it easy for companies to resort to the ruse of 'green-washing' – pretending to be ethical without really being anything of the sort"* (Subramanian, 2019).

[13] In 2019, 15% of all Fairtrade Premium generated in the UK was through Sainsbury's Fairtrade own-brand sales (Fairtrade Foundation, n.d.c).

1.4 Fair Trade in Italy

Despite the first Fair Trade products - jute craft from Bangladesh - started to appear in informal markets in Northern Italy in 1979, the beginning of the movement is traced back to 1981 with the opening of the first World Shop, named "Dritte Welt Länden", in Bressanone (South Tirol). It is not accidental that Trentino-Alto Adige, the German-speaking region, was the first that introduce Fair Trade commodities in Italy. In fact, initially, the Italian movement was strongly influenced by the German ATOs, particularly GEPA[14], where Fair Trade was already well-established.

In 1988, the first Italian ATO, Cooperazione Terzo Mondo (today, CTM Altromercato), was founded in Bolzen, thus, inaugurating the spread of the Fair Trade movement all over the country with the Italian expression of "commercio equo e solidale". In the same year, RAM – Roba dell'Altro Mondo was established in Liguria; while in 1992 Commercio Alternativo that is the second Italian Fair Trade importing organization (rebranded in 2012 as Baum Società Cooperativa) emerged in Emilia-Romagna. Moreover, in early 1991 many world shops joined together and created the Associazione Botteghe del Mondo (Assobotteghe)[15], which became one of the founding members of NEWS! in 1994.

In 1998, ten years after its creation, CTM Altromercato shifted from cooperative to consortium, meaning that its shareholders are not individuals but cooperatives,

[14] GEPA is Europe's largest ATOs, founded in Wuppertal in 1975. It is one of the founding members of the main Fair Trade organizations, such as IFAT and EFTA.

[15] Today the network is formed of 72 members, for a total of 175 World Shops and 442 workers (of whom 64% women) in 12 Italian region. According to its Charter, Assobotteghe has three main goals:

1. It fights for a fair and dignified social development in the south as well as in the north of the world, in the safeguard of every ethnic, cultural, and religious difference.
2. It aims to coordinate the cooperatives, stores and associations involved in fair trade and to encourage the birth of new ones, intending thus to contribute to raising civil consciousness on development issues and to change the relationships of exploitation and injustice that govern trade between the global North and South.
3. By promoting fair trade, it is committed to carrying out information, training and education activities to help expose and change the current rules of international trade that are responsible for the destitution of the majority of the planet's population and the increasing degradation of the environment.

Translation and adapted from https://assobdm.it/chi-siamo/

mainly world shops. This change has made Italian world shops significantly different from other countries. They act not only as retail stores but are also very active in the decision-making process due to their strong relationships with ATOs. Becchetti and Costantino (2010a) claim that the work and the effort of volunteers working in the World shop were fundamental for the initial boost of the movement in the 1990s. At the same time, however, volunteerism was also its main limit.[16] Three weaknesses were pointed out: divergent views about strategic choices, scarce availability of public funds, and weak collaboration amongst World Shops (Becchetti & Costantino, 2010; DAWS, 2008; Huybrechts, 2010).

The need to have clear rules and objectives within which inscribe the activity of those who really make Fair Trade, and be recognisable as a unitary subject in front of the different institutions at local, national and supranational levels, led the Italian organisations to open a constructive dialogue that, in 1999, took shape with the drafting of the Italian Charter of Fair Trade Criteria.

Italian Charter of Fair Trade criteria

The Italian Charter of Fair Trade Criteria was approved in 1999, and it constitutes a significant turning point for the Italian Fair Trade movement at the political level since, from this moment, the will of all organisations to work toward common goals is clearly manifested while maintaining different operating methods. In April 2005, the final version was finally approved by AGICES, the General Assembly of Italian Fair Trade organisations.

The Fair Trade definition provided in the Charter differs slightly from the one we have seen in section 1.2. According to the Charter:

Fair Trade is an alternative approach to conventional trade; it promotes social and economic justice, sustainable development, respect for people and the environment, through trade, awareness-raising campaigns for consumers, education, information and political action.

Fair Trade is an equal relationship between all those involved in the chain of

[16] According to Equo Garantito 2022 Annual Report, nowadays 28792 members and 3465 volunteers are working in World Shops https://www.equogarantito.org/wp-content/uploads/2022/05/RapportoAnnuale-EG-2022.pdf

marketing: from producers to consumers (Equo Garantito, n.d.a).

While the FINE definition, also used in the IFAT International Charter, is more focused on achieving "equity in international trade and securing the rights of marginalised producers and workers", the Italian Charter emphasises social and economic justice. Another difference pointed out by Becchetti & Costantino (2010) is that Italian FTOs should "act as a non-profit organisation" (Art. 3 – Italian FTOs section).[17] However, this is not always true. For this reason, it is crucial to adopt a broader interpretation of this article, and that is, even if FTOs are allowed to make a profit, this result must comply with Fair Trade objectives and aims. To adhere to this interpretation, most Italian FTOs, especially World Shops, assume the form of cooperatives.[18] This 'nonprofit' constraint is not mentioned in the IFAT International Charter.

AGICES, today Equo Garantito

In dealing with the Italian Fair Trade movement, it is essential to dedicate a paragraph to Agices (Assemblea Generale Italiana del Commercio Equo e Solidale), the Italian General Assembly of Fair Trade organisations formally established in 2003. As we have seen above, Agices was fundamental in the drafting of the Italian Charter, and its main goal was to protect the values and standards enshrined in it. It also manages the Italian Register of Fair Trade organisations, verifying that FTOs comply with the principles of the Charter, particularly the non-

[17] According to the Italian Charter of Fair Trade criteria, Italian FTOs should: Italian FTOs should: 1)Promote fair economic initiatives; 2) Support awareness-raising and lobbying campaigns, at both national and international level, aimed at achieving Fair Trade objectives; 3) Act as non-profit organisations; 4) Include, as soon as they can, paid and adequately trained workers in their activities and structure; 5) Enhance the value of voluntary workers by training them and involving them in decision-making processes; 6) Make all information regarding their activities (be they commercial or cultural) available to other FTOs; 7) Set up and maintain direct contacts with peripheral self-development projects, both at local level and in economically disadvantaged countries, so as to establish Fair Trade twinning initiatives using all suitable means to favour a better knowledge of places, people, ways of living, and production methods that are compliant with Fair Trade principles.

[18] A cooperative distinguishes itself from traditional business by a member ownership, benefits, and control model. Traditional businesses concentrate the power of ownership in a single individual or sometimes a small group of partners. In contrast, cooperative member owners share equally in control of the organization. Moreover, each member has equal voting power and decisions must be made in conjunction with the wishes of the majority. Finally, a cooperative offers benefits to members that go beyond the primary goal of turning a profit (Derek Dowell, n.d.).

profit or cooperative status (Equo Garantito, n.d.b). In 2005, Agices played a fundamental role in the Fairtrade Town campaign[19] that ended with Rome being declared the first Italian Fair Trade town.

In 2014, Agices was rebranded with the name Equo Garantito. Equo Garantito ensures, through its own label, to easily identify member organisations as Fair Trade. Among its tasks, there are also:

- the promotion of Fair Trade through awareness raising and information campaigns;
- monitoring of the Italian FTOs through a certified guarantee system, in line with the international Fair Trade standards and recognised by WFTO at an international level;
- training activities on responsible and sustainable consumption and education on fair economy;
- advocacy campaigns and lobbying to achieve greater justice and equity in trade practices.

The Equo Garantito membership at present consists of 64 members and a total of 175 World shops with a retail turnover, in 2020, of more than €60 million deriving from the sale of food products (38%); handicrafts (33%) and textiles (29%) (Equo Garantito, 2022).

Fairtrade Italia

Fairtrade Italia is a non-profit consortium founded in 1994 to disseminate fair market products in large-scale distribution. The cooperative was formed by a rather large group of Italian non-profit organisations and NGOs (including Arci, Acli, Mani Tese, and FOCSIV). However, the entities typically involved in Fair Trade (mostly World Shops and major FTOs) did not participate in its creation. Indeed, the latter initially showed a particular aversion to the idea of product certification and the possibility that entities not specialised in Fair Trade could distribute fair

[19] The Fair Trade Town campaign was first launched in 2001 in Garstang, Lancashire, under the initiative of Bruce Crowther, a local Oxfam supporter, and the Garstang Oxfam Group. Fairtrade Town is a status awarded by a recognized Fairtrade certification body describing an area which is committed to the promotion of Fairtrade certified goods.

trade products. In 2003 Associazione TransFair Italian, this was the original name, changed its legal status from association to consortium as part of a development of certification and dissemination activities for fair trade products.
Fairtrade Italia is part of Fairtrade International (see next chapter), the international coordination of guarantee brands, along with 20 other brands operating in Europe, the United States, Canada and Japan. Fairtrade Italia's vision is a country where consumers, companies and institutions are aware of and feel responsible for the impact that daily choices generate at the time of production, as well as purchase and consumption.

Today, Fairtrade Italia has 26 members and in 2021, according to the Annual Report "The future is fair", witnessed an increase in sales, especially of bananas (which is the highest-growing Fairtrade product in terms of quantity with 14,230 tons), cocoa and sugar.[20]

The future strategies of Fairtrade Italia, as outlined by Director Paolo Pastore, are:
1. Empowerment of farmers and workers: building resilience to climate change, ensuring decent incomes and wages through increased market access and fair prices, and supporting women and youth.
2. Development and innovation: move from niche to mainstream and develop new business expansion projects.
3. Advocacy and citizen engagement: lobbying at all levels for action on power imbalances in global supply chains, inequality, risk to human rights and climate change.
4. Digitisation: invest in data and digital systems to build supply chains that are fully transparent and traceable, more equitable, and that clearly show the positive impact of Fairtrade.
5. Transform the Fairtrade system into an organisation that embraces innovation and partnerships with different supply chain actors and institutions. Combat land abandonment and encourage generational change (Fairtrade Italia, 2021).

[20] In 2021, Italians spent half a billion euros (553 million) on products containing at least one Fairtrade-certified ingredient. This is almost double the amount spent in 2019 when just 320 million was spent (Stefania Aoi, 2022).

CHAPTER II

LABEL, STANDARDS, AND ELEMENTS OF FAIR TRADE

As we have seen in chapter I, the proliferation of Fair Trade labels began in 1988 with the first Max Havelaar mark and, from that moment on, several Fair Trade labels and certification programmes that enshrined standards related to Fair Trade principles were established.
The use of certification certainly brings many benefits to the entire Fair Trade movement, from the producer to the consumer. Nowadays, the presence of a series of collectively shared and clearly defined standards, together with the monitoring work provided by third parties, bring greater credibility to the movement and, accordingly, allow producers to sell their products for higher prices (Distelhorst & Locke, 2018). Strongly linked with the latter is the entrance of these certified commodities into conventional trade channels (e.g. supermarkets), which began in the early 2000s and enabled the increase of Fair Trade market size. Finally, especially in the last years, new labels have been explicitly launched targeting new issues consumers care about, such as the environment. However, this development of Fair Trade has created some debates around environmental commitments. For instance, were created Fair Trade labels that can be used only by producers already committed to organic agriculture.

To better understand the terms used in this chapter, it is essential to highlight the differences between brand, logo, certificate, and label. These terms are frequently used in the Fair Trade industry and often wrongly interchanged (DAWS, 2011).

- Brands/trademarks. A brand represents an organisation or business and can be a word, a sign, a symbol, or a slogan. A brand is called a trademark when it is legally protected.
- Logos. A logo is just a graphic image that represents a particular brand or certificate.

- Certificates. A certificate demonstrates to the buyer that the supplier and the product he is buying meet the standards set by FTOs. A third party always carries out the certification process (e.g. accredited or authorised person or agency) to guarantee impartiality and absence of conflict of interest.
- Labels. A label indicates the product's compliance with specific standards, such as Fair Trade standards. The difference between a label and a certificate is that the first is a form of communication with the consumer, while the latter is a form of communication between seller and buyer. For this reason, all the information on the product and the organisation behind the label should be transparent and accessible.

This chapter starts by giving an overview of some of the current and newest Fair Trade (and mistakenly considered Fair Trade) labels placed on goods. It then focuses on the two main FTOs: Fairtrade International (formerly FLO) and WFTO. They are in charge of setting the standards, labelling the products and guaranteeing, through a monitoring system, that the commodity or the organisation marked as Fair Trade really complies with all the Fair Trade criteria over the years.

2.1 New models of empowerment

As we learned in the chapter's introduction, a label is a distinctive symbol applied to a product to certify that specific requirements were satisfied throughout its creation. Only private labels created and managed by private bodies exist in the Fair Trade sector. According to the International Guide to Fair Trade Labels, a label must have the following characteristics:

- Refer to specific standards
- Implement controls
- Put a specific logo on the product that consumers can recognise
- Be open to different economic actors: that is why they differ from brands developed by companies only for themselves (Commerce Equitable France et al., 2020).

Although the International Guide analyses several labels, this first section aims to give the reader a general overview of the variety of existing labels and introduce him to the newest labels he can find on market shelves. For each of the following labels will be considered four criteria: economic, social, governance, and environmental criteria.

- Small Producers' Symbol (SPP)

Figure 2.1 – Small Producers' Symbol Mark
(Source: SPP website)

The Small Producer Symbol (or Simbolo de Los Pequenos, SPP) is a Fair Trade certification system launched by CLAC, the Latin American and Caribbean Network of Small Fair Trade Producers, in 2011. It is the first Fair Trade label created and managed by producers' organisations, representing two-thirds of the Standards and Procedures Committee's members (the entity responsible for implementing the standards of SPP).

The SPP label, currently managed by SPP Global (formerly FUNDEPPO in 2012), aligns itself with the traditional and historical principles of Fair Trade by working only with small-scale producers. This label was indeed launched after Fairtrade International decided to include in its labelling system also hired labour situations, which CLAC considered as direct competitors of small producers.

The SPP initiative rests on three pillars: the Declaration of Principles and Values, the General Standard and the Code of Conduct. The first one is based on the principles and values developed and implemented by small producers' organisations. The Declaration comprises a broad set of values and principles ranging from the economic field to the environmental and health one. All these principles are then translated into the General Standard, which contains either compulsory or minimum criteria that the organisations of small producers must comply with in order to use the label. For instance, criterion 5.4.3 establishes as a minimum requirement that: *"All Buyers must commit to purchasing under SPP at* *least 5% of the total value of their purchases in the category of products they decided to buy under SPP (ex: Sugar, Cocoa, Coffee, Banana, Mango, Peanuts, Honey, Herbs or Handicraft) by the end of the second year of buying in the corresponding category of products"* (SPP Global, 2022). Finally, the Code of Conduct was added as a second level of protection to avoid misuse of the standards. Any non-compliance with this Code or any breach of the Standard may lead to the exclusion from the system (Renard & Loconto, 2013).

Small producers' organisations also need to pay three types of fees to become members and, thus, apply the label on their products: application fee, certification cost and annual membership fee.

The application fee is USD 150 and must be paid regardless of the result of the Eligibility Process. There is no exact amount for the certification cost since it depends on the rates charged by the specific Certification Entity. The annual membership fee, instead, varies depending on the size of the organisation. For organisations up to 100 producers, the cost is USD 150.00, while for the ones over 1000 is USD 750.00 (SPP Global, 2021).

According to the evaluation provided in the International Guide, the SPP standards emphasise economic and organisational aspects of Fair Trade by guaranteeing two things. They ensure high minimum prices compared to other Fair Trade labels and promote local economies to generate added value for producers and their communities (SPP Global, n.d.). However, environmental criteria and labour rights (ILO conventions are not clearly stated) need to be strengthened.

The last peculiarity of the SPP label is that it is one of the few labels whose headquarters is located in a producing country, Mexico.

- Fair for Life

Figure 2.2 – Fair for Life Mark
(Source: Fair for Life Website)

The Fair for Life label was introduced in 2006 by actors from the organic sector, and it combines three types of requirements: organic agriculture, corporate social responsibility and Fair Trade principles. Fair for Life label is very demanding for what concerns the economic criteria. Indeed, the FFL standard incorporates three essential concepts to define fair trading terms: guaranteed floor price, fair purchase prices, and fair trade fund.

These three components are negotiated between the producer and the buyer. The main goal is to reach an agreement based on a fair and transparent negotiation to ensure that producers and workers in developing and developed countries work for a fair wage under good and respectful conditions in a sustainable environment. Furthermore, the purchase price is always equal to or higher than the floor price and projects dedicated to social and environmental development are decided democratically by the beneficiaries (Fair For Life, 2022). Unlike SPP, the FFL label also places great emphasis on environmental criteria and labour rights. The Fair for Life Standard document has two sections dedicated to these areas. One of the core commitments is to ensure that all the actors affiliated with this label strive to minimise the environmental impact of their activities throughout the entire production chain. To reach this goal, FFL encourages its producers to implement sustainable agricultural practices and switch to organic farming progressively. Concerning labour rights, FFL standards clearly mention the eight ILO fundamental conventions[21] that producers must comply with to ensure

[21] 1) Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)
2) Right to Organize and Collective Bargaining Convention, 1949 (No. 98)
3) Forced Labour Convention, 1930 (No. 29)
4) Abolition of Forced Labour Convention, 1957 (No. 105)
5) Minimum Age Convention, 1973 (No. 138)
6) Worst Forms of Child Labour Convention, 1999 (No. 182)
7) Equal Remuneration Convention, 1951 (No. 100)
8) Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

that the working conditions do not jeopardise the individual development of the people involved. Moreover, efforts are made to improve their well-being at all levels: working hours, health and safety, fair wages and benefits (Fair For Life, n.d.).

However, as the International Guide highlights, the Fair for Life does not focus mainly on small-scale producers. In fact, the latter only represents 27% of the Fair for Life certified organisations, while plantations reach 27% and contract farming 46% (Commerce Equitable France et al., 2020).

- UTZ – Rainforest Alliance

Figure 2.3 – UTZ - Rainforest Alliance Mark

(Source: Rainforest Alliance Website)

Starting from the 1992 Earth Summit in Rio, many multinational companies began to implement initiatives to integrate sustainable development goals into their activities. In the last years, the so-called “sustainable development labels” have rapidly expanded and developed. Currently, the Ecolabel Index tracks 456 ecolabels in 199 countries and 25 industry sectors (Ecolabel Index, n.d.).

However, these labels are not identified as Fair Trade labels for three main characteristics:

- They do not follow any of the core economic criteria established by the Fair Trade movement. Indeed, buyers are not required to guarantee a fair price to the producers nor a long-term commitment. Moreover, there is no mention of payment of a premium for developing projects. As we will see more in detail in the following sections, these elements are fundamental to ensuring a sustainable livelihood for producers.
- There is very little, almost non-existent, effort in creating capacity building for

producers' organisations.

- They do not provide consumers with clear and transparent information. It is challenging to find standards on their website, and impact studies are unavailable to the general public (Commerce Equitable France et al., 2020).

These characteristics are synthesised by Green (2005) with the expression "watering down", i.e. *"the dilution of the principles carried by the pioneers (organic agriculture and fair trade)"* (Daviron & Vagneron, 2011, p.105).

The UTZ certification program was launched in 1999 by a Guatemalan coffee farmer and a Dutch roaster. However, the UTZ website marked 2002 as the foundation year, when the UTZ headquarters was opened in the Netherlands. Initially, the program was specifically designed for the coffee supply chain to promote its responsible trade, primarily oriented on social and environmental criteria. The original name was indeed UTZ Kapeh, which means "good coffee" in the Guatemalan Mayan language (Rainforest Alliance, n.d.).
After the program expanded its offerings, including new goods such as tea, hazelnut, and cocoa, the name was changed to UTZ Certified. Finally, in 2016, it was shortened to UTZ to reflect the new challenges it was addressing (child labour, climate change, farmer income).
Since 2018, the UTZ certification has joined forces with the Rainforest Alliance to strengthen and develop new agricultural standards and enable farmers to generate more income by teaching them how to improve working conditions, adapt to climate change, and protect the environment.
Rainforest Alliance is, instead, an NGO founded in 1986 with the scope to preserve biodiversity and improve farmers' and workers' social conditions. It launched its first program in 1989, intending to provide economic incentives to companies that practice responsible forestry (Rainforest Alliance, n.d.).
UTZ has developed "business-to-consumer" (B2C)[22] standards explicitly targeting different commodities (coffee, cocoa, tea, and hazelnut) and different actors (one

[22] Two standards: business-to-business (B2B) standards that are not communicated to the final customer through a label, and business-to-consumer (B2C) standards that are accompanied by an identifiable quality signal (logo, brand) and are aimed at product differentiation.

standard list for individual producers and one for groups of producers). In both cases, four criteria must be met: management, working condition, environmental and farming practices.

In 2020, the UTZ label was gradually reduced in favour of the new Rainforest Alliance seal launched in conjunction with the 2020 Rainforest Alliance Certification Program. Even this label, however, stands for farmers and companies taking steps towards a world where people and nature thrive together. Currently, more than 15000 products are certified UTZ, and almost 1 million farmers are involved in the UTZ program, mainly cacao and coffee farmers (Commerce Equitable France et al., 2020).

2.2 Charter of Fair Trade Principles

Some of the major actors in the Fair Trade chain are the certifiers. The presence of a credible and trustworthy label is a crucial characteristic of the movement. In particular, there are two leading standard-setting agencies: FLO and WFTO.
In 2009, Fairtrade International & WFTO (2009) released a "Charter of Fair Trade Principles" in which they comprised the five core dimensions of Fair Trade that each label has to comply with. This Charter aimed to provide FTOs with commonly shared principles and values to be used as an international reference point but, at the same time, leave them some freedom for what concerns the implementation of the latter. Although this flexibility can be seen as a risk of losing cohesion and cooperation among FTOs, it is fundamental for enhancing and improving these principles. The core principles are:

A) Market access to marginalised

Many manufacturers are either shut out of traditional and added-value marketplaces or can only reach them through drawn-out, ineffective trading channels. Conventional production systems have social advantages for communities, which Fair Trade enables producers to recognise. Promoting these values, which are not often acknowledged in traditional marketplaces, allows purchasers to do business with producers otherwise excluded from these markets. Additionally, it aids in reducing trade chains so that producers profit more from the ultimate selling price of their items than is typical in trade conducted traditionally through several intermediaries.

B) Consumer awareness raising & advocacy

Fair Trade partnerships serve as the foundation for bringing producers and customers together and educating consumers about the importance of social justice and the possibilities for change. In order to reach the ultimate aim of a just and equitable global trading system, consumer support enables Fair Trade Organizations to act as advocates and campaigners for broader change in international trading laws.

C) Capacity building & empowerment

Fair Trade connections help producer organisations better understand market circumstances and trends as well as the information, skills, and resources they need to have a more significant say in how their lives are lived.

D) Sustainable and equitable trading relationships

The economic underpinning of transactions under Fair Trade partnerships accounts for all direct and indirect production costs, including preserving natural resources and addressing long-term investment needs. Producers and workers are able to maintain a sustainable way of life thanks to the trading conditions provided by Fair Trade buyers. A sustainable way of life not only satisfies immediate needs for economic, social, and environmental well-being but also makes improvements in those conditions possible in the future. The importance of these elements in guaranteeing fair working conditions is acknowledged, and a commitment to a long-term trade partnership that enables both sides to cooperate through information exchange and planning has been made.

E) Fair Trade as a "social contract"

Establishing a long-term trade partnership based on communication, openness, and respect with producers is necessary to apply these fundamental values. Fair Trade transactions occur inside an implied "social contract" where purchasers (including final customers) agree to go above and beyond what the traditional market would anticipate, such as paying fair prices, supplying pre-financing, and providing assistance for capacity building. Producers get this in exchange for using the advantages of fair trade to better their social and economic situations, particularly for the most underprivileged members of their organisation. In this sense, Fair Trade is a collaboration for transformation and development through trade rather than charity.

The Charter mentions an additional Fair Trade dimension, which is the adherence to international standards that have been largely incorporated into national legal frameworks. Although violations of these principles are widespread both in developing and developed countries, particularly noteworthy is the compliance with ILO conventions which deal with labour rights. For instance, the importance of children participating in family-based production units' work is acknowledged by FTOs, as is the learning of skills necessary for their future employment. However, any participation in such work must be disclosed, closely observed, and must not negatively impact the child's safety, well-being, educational opportunities, or need for play, as stated in ILO Convention Nos. 138 & 182.[23]

Finally, the Charter describes the two different but related channels through which Fair Trade goods are exchanged and promoted. The 'integrated supply chain' is where goods are imported and distributed by organisations fully committed to promoting fair trade as a development tool to support disadvantaged producers. WFTO uses this approach. Instead, the 'product certification' refers to goods that

[23] ILO C-138, Minimum Age Convention, 1973 (No. 138) available at https://www.ilo.org/dyn/normlex/en/f?p=normlexpub:12100:0::no::P12100_ilo_code:C138, accessed in August 2022.
ILO C-182, Worst Forms of Child Labour Convention, 1999 (No. 182) available at https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C182, accessed in August 2022.

adhere to international standards, which verifies that they were manufactured, exchanged, processed, and packed in line with the specific criteria of those international standards. FLO uses this approach (WFTO Europe, 2013).

2.3 Fairtrade International

Fairtrade International (formerly FLO, Fairtrade Labelling Organization) was created in 1997 by seventeen Labelling Initiatives (LIs) as an umbrella organisation. It was intended to make it easier for LIs to work together to define worldwide Fair Trade standards, certify and audit producer groups and merchants, and assist producer organisations (Thomson, 1995).

While the label's promotion and interactions with parties in the sales market remained a national issue, all producer and importer-related operations were consolidated under this umbrella (Eshuis & Harmsen, 2003).

Initially, FLO was less of a coherent organisation and more of a "shared service provider" to its members. It was criticised for underrepresenting small producers' organisations in its governance systems and for not allowing them to vote (Bennet, 2012; Taylor et al., 2005).

Another critique was raised soon after FLO launched its Fairtrade certification mark in 2002 (see next section). Indeed, FLO was responsible for both standard-setting and certification. Moreover, throughout the five years following the founding of FLO, the auditing procedure was uneven, unstructured, and informal. Therefore, to boost its reputation, establish itself as a professional entity, and meet stakeholder needs for credibility, FLO turned to the International Standards Organization to help with internal improvements and external reputation (Balineau & Dufeu, 2010; Bennet, 2012; Reed et al., 2014).

On September 15th, 2003, to avoid any conflict of interest, FLO created an independent certification company named FLO-CERT, which in 2007 obtained ISO 65 accreditation (today ISO 17065).[24]

[24] ISO 17065 (ISO/IEC 17065) is a Product Certification Bodies Accreditation Standard. This standard is for the bodies who are certifying the quality of a product. Product certifications or licenses are issued by certification bodies to organizations, so the organizations can market it for their products. This certification assures the consumers that the product or service they are purchasing is according to international standards (ISO, n.d.).

The following is how the two organisations share their tasks: FLO sets up standards and policies that must be approved by the Standards and Policy Committee (a board-appointed committee with broad stakeholder representation), facilitates trade between producers and traders, assists producers in fortifying their organisations, increases production, improves market access, and promotes trade justice. In addition to managing the certification committee (producers, traders, national labelling organisations, and outside experts), making certification decisions, and auditing trader and store compliance, FLO-CERT certifies producers and ensures conformity with FLO's criteria (Bennet, 2012).
Today FLO-CERT serves over 6,000 customers in over 120 countries and has direct access to over 1.6 million farmers and workers in developing countries (FLOCERT, n.d.).

Besides Fairtrade International and FLO-CERT, there are three more entities that make up the Fairtrade Organization:

a) Fairtrade Producer Networks (FPNs). Currently, there are three FPNs in Africa & Middle East (Fairtrade Africa), Asia & Pacific (NAPP - Network of Asia and Pacific Producers), and Latin America & Caribbean (CLAC - Coordinadora Latinoamericana y del Caribe de Pequeños Productores y Trabajadores de Comercio Justo). Through these networks, Fairtrade producers have a voice in choices that may affect their future. As shown in figure 2.4, the number of Fairtrade certified producer organisations has increased constantly over the years, except for Fairtrade Africa 2019-2020.
b) National Fairtrade Organizations (NFOs). Their task is to market Fairtrade in their country and license companies to use the FAIRTRADE Marks. There are currently 19 NFOs covering 25 countries in Europe. Section 1.4 delves into Fairtrade Italia.
c) Fairtrade Marketing Organizations (FMOs). There are currently FMOs in Brazil, the Czech Republic and Slovakia, Hong Kong, India, the Philippines, Poland, and South Korea. Their task is similar to NFOs since they market and promote Fairtrade in their country. They differ because Fairtrade

International directly licenses companies in these countries to use the Fairtrade Marks (Fairtrade International, n.d.-e, 2018).

In 2006 and 2007, with the introduction of the FPNs in the Fairtrade systems, there were changes at the governance level. Indeed, producers, who were initially kept out of the voting processes, currently hold 50% of the votes in the Fairtrade International General Assembly and are represented in all system-relevant committees (Boards of Fairtrade International and FLOCERT and Standards Committee) (Commerce Equitable France et al., 2020). Nevertheless, if, on the one hand, this change empowered the producers[25], on the other hand, it created some friction within the organisation. In 2012, as a result of this new multi-stakeholder governance system, Fair Trade USA decided to separate from Fairtrade International *"with the objective of growing the impact of the Fair Trade movement to new products, geographies, and producers around the world"* (Fair Trade Certified, n.d.). With the launch of the campaign "Fair Trade for All", FTUSA introduced significant changes to coffee certification, which diverged from FLO's policy and standards (Bennet, 2012). Therefore, the willingness to enlarge the certification to new types of producers caused the rupture. However, soon after the shift, the two organisations released a joint statement in which they affirmed sharing *"a common mission to empower farmers and workers around the world to enable sustainable development for themselves and their communities"* (Fair Trade Certified, n.d.).

[25] For instance, after producers were included as members and had more seats on the Board (2007), they decided to increase the Fairtrade minimum price for Arabica coffees by USD $0.05 per pound

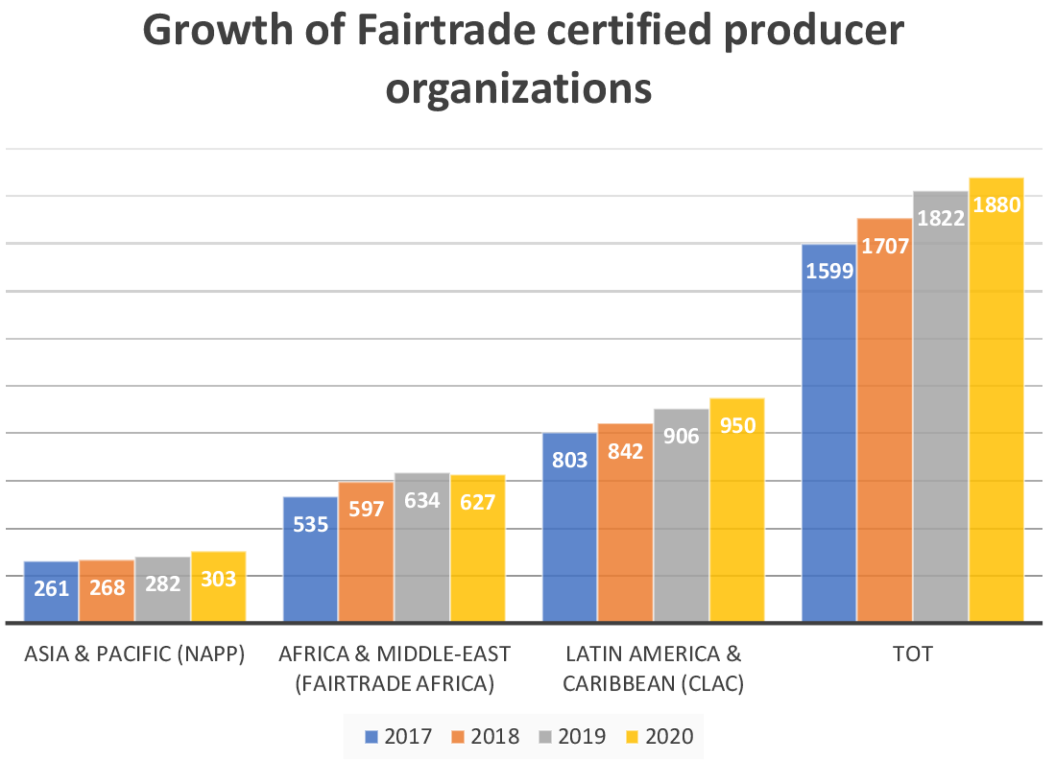

Figure 2.4 - Growth of Fairtrade certified producer organizations.

(Source: Fairtrade International)

International Fairtrade Certification Mark

Figure 2.5 – Fairtrade Mark

(Source: Fairtrade Website)

In 2002 Fairtrade developed the Fairtrade Mark to replace the many national symbols used by fairtrade organisations. The mark represents producers' optimism by uniting the goal of customers worldwide to change the world with the daily tenacity of people in developing countries. In the design of the mark, the producer symbol with an arm outstretched in honour of human endeavour and empowerment connects the blue sky of possibility to the fresh green of new growth (Fairtrade International, 2018).

Unlike WFTO Mark, Fairtrade Mark is a product label, not a business one. The Fairtrade Mark certifies that a product complies with Fairtrade International's social, economic, and environmental standards. Additionally, it has two sets of specific producer standards: one for small-scale producers and the other for organisations which employ hired labour to supply Fairtrade-certified products (see section *Fairtrade International Standard*).

In order to use the label on product packaging, some rules must be met. If we are dealing with a "single ingredient product" (e.g. banana, coffee, tea), it must contain 100% (dry weight) of Fairtrade content. Regarding products made with "Fairtrade ingredients" or composite products (e.g. cookies, chocolate bar, ice cream), a content of at least 20% Fairtrade is required. This threshold applies only to finish products that will be sold to consumers. The 2015 Fairtrade Trader Standard established that the minimal percentages have to be computed in volume for liquids and weight for solids. This computation allows for more significant benefits for producers, higher sales, and a wider variety of products eligible for Fairtrade certification. This means that if additional water and/or dairy make up more than 50% of the product, they can be removed from the computation. The percentage of Fairtrade ingredients is calculated as the total weight of all ingredients before processing to prevent losses that inevitably derive during the products' processing (Fairtrade International, 2015c, 2019b).

Whenever a consumer sees the Fairtrade mark on a product packaging, it can have four guarantees (Fairtrade International, n.d.h):

a. The Fairtrade Mark guarantees farmers a fair and stable price for their products – **Fairtrade Minimum Price**

One of Fairtrade's primary goals is raising producer earnings and allowing them to obtain a fair price for their commodities. This objective is accomplished by paying a guaranteed Fairtrade Minimum Price (FMP) and reducing the number of intermediaries in the supply chain, which decrease the ultimate gain for producers. Fairtrade International set this price accordingly to the principle of covering the average costs of sustainable production of the products while allowing the average producer to operate in a way that is both financially and economically viable without experiencing regular economic losses. It is also set accordingly to the global market price of each category of products. The FMP comes into effect whenever the reference market price or the negotiated price is below the FMP set for the product. It is, therefore, the lowest possible price that the Fairtrade buyer may pay to the producer. The floor price can also be conceived as a safety net that prevents producers from being compelled to sell their goods at a meagre price.[26]

The FMP is set by the Standards and Pricing Team (S&P). This team is responsible for approving and implementing the FMP and developing and revising all Fairtrade Standards. Before setting a price, six steps must be followed. It all starts with a pricing project requested by one of the Fairtrade actors (e.g. FPNs, NFOs, FLO-CERT), which must contain the reason for the project's need and a description of the project's precise goals as well as an evaluation of its risks and suggestions for reducing them. After the request is accepted, the project manager (e.g. the S&P Team, an NFO or an FPN staff) clearly defines the project scope, the list of stakeholders and the timeframe. This step is followed by the research phase, during

[26] For instance, following the suspension of the International Coffee Organisation (ICO) in 1988, the market price of green beans fell from around US$1.30 per pound of green coffee beans to below US$0.60. Producers within the Fairtrade system, continued to be paid between $1.20-$1.26 per pound (the Fairtrade minimum price set at that time).

which the project manager gathers all kinds of relevant information from internal and external sources, and the consultation phase, which lasts a maximum of 30 days and during which stakeholders send feedback on the project. Finally, after all the relevant comments and amendments have been included in the final draft, the Standard Committee, composed of representatives of key stakeholders of Fairtrade (e.g. producers, traders, NFOs, and external experts), meets and decides by consensus. The last step - implementation of an approved price – is taken every time there is the need to update the price of one commodity because costs go up or, as a rule, every eight years (Fairtrade International, 2015b, 2016b). For instance, in Colombia, the Fairtrade Minimum Price for bananas has risen from USD 8.5 per box in 2010 to USD 9.8 in 2014 due to increased prices for transport, fertilisers and wages (Fairtrade Foundation, 2014).
Several authors have discussed and debated whether the Fairtrade Minimum Price is really beneficial for producers or not. Below are presented the position of two authors: Peter Griffiths, who stands against the Fairtrade Minimum Price, and Alastair Smith, who is in favour of it.

In his articles, Griffiths (2010b; 2010a; 2011; 2012b) claims that the minimum price applies only to commodities sold under the Fairtrade brand, which may represent a tiny portion of the product satisfying the standards and a small portion of the primary cooperative's revenue. It does not apply to farmers or the primary cooperatives but only to the exporting cooperatives. Moreover, he highlights that Fairtrade International monitors only the price paid to exporters. It does not manage how the money is spent or keep track of how much gets to the farmer, and it does not monitor how much retailers, wholesalers, and manufacturers charge for Fairtrade products. Thereby, consumers are not aware of how much extra they pay and how much reaches the primary cooperative.[27] This situation inevitably raises numerous questions about whether Fairtrade really guarantees a fair price for the producer. A second argument Griffiths brings up is that guaranteeing a minimum

[27] Griffiths' example (2012): British cafe´ chains was charging 10p a cup extra for Fairtrade coffee, which made it possible to calculate that less than 1% of the extra price reached the Third World exporter. Costumers would have achieved at least 100 times as much if they had given the 10p to a reputable charity instead of buying Fairtrade.

price constitutes a distortion of the market mechanism. Indeed, since Fairtrade farmers are paid more and have a guaranteed minimum price to lower risk, this will result in Fairtrade farmers planting the same crop more during good years and grazing less during poor years. In support of his argument, Griffiths uses the example of a coffee programme launched in Vietnam in the 1980s and early 1990 that ensured farmers' prices were above the world price. Over 16 years (from 1980 to 1996), coffee production in the country increased so much that it led to a fall in the New York price due to oversupply. As a result, the lives of the other 24 million farmers who were not protected by the programme were at risk. Therefore, he concludes that *"the minimum price for Fairtrade farmers means that when there is a glut on the world market it is never the Fairtrade farmers who have to cut down their trees, always the poorest farmers"* (Griffiths, 2012, p.365).

Of a totally contrary opinion is Smith (2009, 2010). He refuses the idea that guaranteeing minimum prices will inevitably lead to the intensification of current production activities. There is evidence that government-backed subsidies encourage higher production, but governments set prices independently of the demand. However, this evidence is unrelated to Fairtrade practices since Fairtrade operates within the market mechanism. Moreover, expecting farmers to increase their supply merely by considering the price of a unit and not the whole level of demand is unrealistic. Smith also replies to the assumption that if Fairtrade farmers are paid more for one specific product, these farmers are less inclined to move to other crops. He cites several authors that documented that Fairtrade producers have practised diversification, partially mitigating the issues of oversupply and dependency on certain markets. Finally, Smith rejects the critics according to which consumers have to choose between Fair Trade and free trade. While Fair Trade is based on market principles, a large portion of traditional trade in commodity agriculture is governed by monopolistic or oligopolistic relations that do not follow free-market models in any way.

b. The Fairtrade Mark guarantees extra income for farmers and estate workers to improve their lives – **Fairtrade Premium**

Besides the minimum price, the Fairtrade approach includes a 'social premium'. Fairtrade International defines Fairtrade Premium as "an additional fixed amount on top of the selling price that producer organisations earn for every Fairtrade sale" and that "farmers and workers invest in projects they choose" (Fairtrade International, n.d.-c, 2021a). In 2020 Fairtrade farmers and workers received more than €190 million in Fairtrade Premium, 90% of which derived from the top 7 products: coffee, cocoa, bananas, sugar, flowers and plants, tea and cotton (Fairtrade International, 2021a).

The premium aims to promote democratic participation and associativity, two aspects of the Fair Trade ideology. Additionally, it serves as a tool to demonstrate that the North-South trading system benefits producers. However, Fairtrade Premium is constantly under criticism due to a lack of transparency in the use of money and a lack of communication among farmers (Dragusanu et al., 2014). For instance, Ruben & Fort (2012) found that in Peru, among 180 Fairtrade-certified farmers interviewed, 12% did not know about the existence of the Fairtrade premium, and 77% believed they received no advantages from it.

Typically, producers should decide democratically how to spend the premium in accordance with Fairtrade principles and aims. Therefore, it cannot be spent freely by the individual, but the organisation should use it. There are several areas in which it is possible to invest: the building of the school, health care, extra payment for farmers, reducing local power imbalances, offering training to increase community know-how, and buying new agricultural equipment (Doherty & Tranchell, 2005; Dolan, 2010; Fiedoruk, 2021; Meemken et al., 2017).

The rationale behind this decision is straightforward: producers and labourers who work together do more than they could do separately. This enables more considerable resources to be collected and spent on worthwhile projects for the entire community, not just on a single small farm.

As shown in figure 2.6, almost the entire Fairtrade Premium, intended for small-scale producer organisations, has been devoted to services for family members and investment for the producer organisations in 2020. The data is very similar to a year ago. It demonstrates that the majority of the premium is spent on everyday company operations and the organisation's financial stability rather than on community and livelihood programmes.

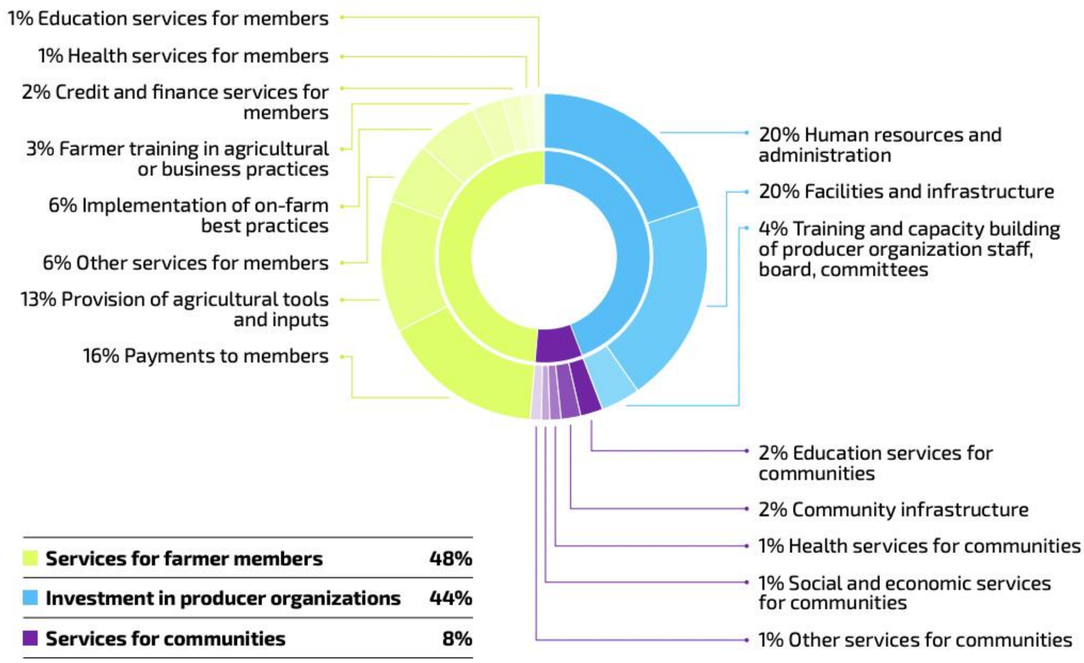

Figure 2.6 - Use of Fairtrade Premium by small-scale producer organisations 2020
(Source: Fairtrade International)

The peculiarity of Fairtrade Premium is that, regardless of the product's market price, it always benefits certified cooperatives because they use those extra resources to make equity investments in their organisations. However, as noted by Francesconi & Ruben (2014), Fairtrade Premium is truly beneficial when these organisations, which must be Fairtrade International-certified, respect and uphold members' decisions and rights over equity investments. A second criterion is that the premiums should be *"selectively targeted to well-designed organisations that have clearly defined and enforceable rules for member entry and exit"* (Loconto et al., 2021).

c. The Fairtrade Mark guarantees a greater **respect for the environment**

Environmental protection is a core aspect of the Fairtrade systems. In order to sell Fairtrade products, farmers must comply with environmental criteria. Therefore, they must enhance soil and water quality, control pests, refrain from using dangerous pesticides, reduce waste of resources and take measures both to prevent and reverse the deterioration of natural resources (Dragusanu et al., 2014).

Fairtrade standards forbid the use of some agrochemicals that are bad for the environment and urge farmers to adopt natural biological methods and practices that ensure the safety of their community and family. Moreover, by reducing the use of pesticides, farmers can develop nutrient-rich soils on their land, which are beneficial both for the plants and the wildlife (Fairtrade International, n.d.-b).

Another criterion to be respected is the protection of biodiversity. Producer organisations are required to have policies for carrying out actions for climate change adaptation and preventing deforestation. The latter is particularly relevant in West Africa, where cocoa farmers cut down protected forests to plant more crops (Fairtrade International, n.d.-b).

Additionally, Fairtrade arranges training for farmers to teach them how to cultivate crops in harmony with the environment and prevent monocultures. Numerous producers also use Fairtrade Premium in various initiatives for reforestation or the restoration of natural areas.

Developing farmers' abilities and expertise through technical assistance is also essential. Farmers who are part of Fairtrade have access to education and information, and they are more knowledgeable about environmental concerns and how they affect their lives and crops. Other than audits and on-site inspections, Fairtrade International requires producers to provide environmental reports describing their impact on the environment. Organisations are not allowed to produce genetically modified crops (GMOs) (Commerce Equitable France et al., 2020).

Numerous studies evidence the positive impact of certification on the environment. Blackman & Naranjo (2012) found that certified organic coffee farmers in Costa Rica, compared to conventional ones, were more likely to employ organic fertilisers, windbreaks, shade trees, and a range of other soil protection techniques instead of pesticides and chemical fertilisers. Similarly, Bacon et al. (2008) found that 68% of Fair Trade coffee farmers in Nicaragua had implemented ecological water purification systems, compared to 40% of conventional farmers. Moreover, 43% of Fair Trade farmers had implemented soil and water conservation practices, while only 10% of conventional farmers had done so.

d. The Fairtrade Mark guarantees small farmers a **stronger position in world markets**

Working directly with Fairtrade partners and customers strengthens producer organisations because they learn essential technical and market expertise. Typically, fair traders prefer the cooperative form since it is unquestionably the most trustworthy and reliable type of partner.
Every cooperative must adhere to the seven principles set by the International Cooperative Alliance. Cooperatives are voluntary organisations open to all people; democratic, autonomous and independent. They also provide their members access to training, education, and information; they collaborate and build alliances with other cooperatives and aim to promote their local communities' sustainable growth. Finally, members must make equitable contributions to the cooperative's capital, devoting surpluses to its growth and improvement (International Cooperative Alliance, n.d.).
A farmer's organisation benefits from institutionalised ownership, institutional sustainability, a decision-making framework, and socialisation of Fairtrade premiums thanks to a cooperative structure. Another advantage is that cooperatives provide small producers access to developed-country mainstream markets, which can help them negotiate higher pricing on the traditional market. Moreover, if the cooperative joins a bigger national or worldwide network, it will have a better chance of avoiding the so-called Fair Trade trap, which is to be dependent on only one Northern customer (Develtere & Pollet, 2005).
Cooperatives are essential not just for the global market but may also aid in breaking into the local markets, frequently left unexplored by the globally focused fairtrade

circuits. Because of this variety of channels, cooperatives gain negotiating power and competitive advantage.

Several Fairtrade producer organisations possess the ability to process and export on behalf of their members. For instance, coffee is produced by farmers who are part of village-level cooperatives often associated with regional cooperative organisations and national cooperative unions (Fairtrade International, n.d.h). These organisations purchase, collect, process, sell, and export coffee on behalf of a significant number of farmers. At this level, direct communication between cooperatives and Fairtrade participants is crucial. All Fairtrade importers and purchasers receive a list of certified producer organisations on a regular basis, and producer organisations receive a list of importers. When cooperatives are unable to find buyers for all of their coffee, this information enables them to send samples of their coffee to possible new customers (Fairtrade International, n.d.h). However, not all cooperatives have a strong foundation. Therefore, they might need to rely on export organisations (which must be Fairtrade certified) to do a large portion of the post-harvest work on their behalf. Fairtrade urges producer organisations to support one another in order to address this imbalance. For instance, many large-scale Fairtrade certified cooperatives provide access to credit to both their own members and those of other cooperatives. In this way, members of smaller cooperatives are able to use this fund to improve product quality, which in turn helps them compete in the global market. Moreover, in the longer term, this system will increase Fairtrade sales, and through technical assistance, the less-established cooperatives will develop the skills and knowledge needed to handle processing and export duties (Fairtrade International, n.d.h).

Fairtrade International Standards

Standards are essential to the work of Fairtrade International. They offer a list of precise criteria that may be independently verified to confirm adherence to minimum requirements and monitor improvements. Additionally, they make it possible for the system to function reliably throughout a wide range of nations, marketplaces, and producer organisations.

Fairtrade International summarises the key objective of the standards as follows:

- ensure that producers receive prices that cover their average costs of sustainable production;
- provide an additional Fairtrade Premium, which can be invested in projects that enhance social, economic and environmental development;
- enable pre-financing for producers who require it;
- facilitate long-term trading partnerships and enable greater producer control over the trading process;
- set clear core and development criteria to ensure that the conditions of production and trade of all Fairtrade certified products are both socially and economically fair as well as environmentally responsible (Fairtrade International, n.d.-a).

Fairtrade International standards are set in accordance with the ISEAL Code of Good Practice on Standard Setting, in which ISEAL defines how a standard should be developed, structured, and improved over time.[28]
The compliance with this Code, approved by ISEAL Membership Committee in 2016, brings Fairtrade International Standards a high level of credibility. The Standard Committee makes all decisions pertaining to standards. It also comprises representatives of the major Fairtrade system stakeholders, including independent experts and representatives from the producer- and market-facing activities. Similar to how the Minimum Price is determined (see section *International Fairtrade Certification Mark*), the S&P oversees the three main steps that have to be followed before approving (or reviewing) a standard. The process begins with the submission by one of the stakeholders of a standard development project, which should provide background information on the goals and scope of the new or amended standard. Afterwards, S&P is responsible for preparing a standard draft in which it has to consider any comments received by stakeholders. Finally, following the publication of a standard, stakeholders have ten days to submit further formal feedback.

[28] The ISEAL Alliance is the global association for social and environmental standards systems. ISEAL members are leaders in the field, committed to creating solid and credible standards systems. Further details on the Code of Good Practice on Standard Setting available at https://www.isealalliance.org/get-involved/resources/iseal-codes-good-practice

However, stakeholders can still provide the S&P Team with input at any time (Fairtrade International, 2020b).

Currently, Fairtrade International has designed seven Standards which contain common principles regarding social, economic, and environmental development and the prohibition of forced labour and child labour.
The first distinction to be made is the beneficiary of these Standards. On the one hand, there are Generic Standard designed for farmers (standard for small-scale producers' organisations - SPOs), workers (standard for hired labour organisations and standard for contract production), and other primary producers (gold standard). On the other hand, there are Generic Trade Standard designed for companies (trader standard), manufacturers (textile standard) and others (climate standard).

Concerning Generic Standard, it is essential to emphasise the differences between SPOs and hired labour standards. Indeed, common principles are completed and complemented by three specific principles which apply only to SPOs or hired labour situations.

Small-scale producers are the cornerstone of Fairtrade since approximately 90% of all Fairtrade producers belong to an SPO. The Fairtrade SPOs Standard seeks to provide farmers and their cooperatives with the tools they need to strengthen their resiliency and create successful enterprises. In doing so, three specific principles must be met:

1) Members must be small-scale producers. Small-scale farmers who manage their farms mainly with the labour of their own families and friends must make up the majority of the organisation's members.
2) Democracy. In the organisation's decision-making process, every member has a say and a vote. Moreover, all members decide where to allocate the extra funds that derive from the Fairtrade Premium.
3) Enable strong producer organisations. The Standard offers small-scale farmers a framework for creating solid and inclusive organisations, enhancing their agricultural performance, and producing additional

advantages for their constituents and communities (Fairtrade International, 2019b).

Hired Labour Standard was designed instead to provide the criteria for worker participation in the Fairtrade system, giving them more power to fight poverty, improve their status, and have more control over their life. Again, Fairtrade International highlights three specific principles that must be met:

1) Management of the Fairtrade Premium. The management of the Fairtrade Premium in compliance with Fairtrade criteria is the responsibility of the Fairtrade Premium Committee, which also includes workers' representatives.
2) Freedom of association and collective bargaining. Hired labours have the right to join trade unions to bargain their working conditions collectively.
3) Working conditions. All employees have equal working conditions. This standard guarantees hired labour fair wages (equal to or higher than the regional average) and that environmental, health and safety standards are upheld (Fairtrade International, 2014).

Briefly, standard for contract production[29] is used as a temporary measure for SPOs that are not yet democratically organised. In contrast, the gold standard applies to artisanal and small-scale mining organisations (ASMOs) and traders buying and selling precious metals produced by ASMOs.

The second group is the Generic Trade Standard. Trader standards are intended for companies and producers trading Fairtrade. The Fairtrade Trader Standard consists of four chapters which comprise specific principles that must be met. The General Requirement chapter outlines certification, product labelling, and packaging requirements for both finished and unfinished goods. One fundamental criterion is transparency, meaning that contracts signed by producers and buyers must clearly

[29] The Contract Production Standard applies to cocoa in the Pacific; rice and cotton in India; and cotton, dried fruit, almonds, apricot seeds and walnuts in Pakistan. For dried fruits, almonds, apricot seeds and walnuts nuts in Pakistan the standard is only applicable for existing certified operators.

detail all terms and conditions of Fairtrade transactions. The Trade chapter is intended to maximise producer benefits while maintaining customer trust. The two core aspects are traceability and product composition. Traceability ensures that every time a Fairtrade product is sold, an equivalent amount has been purchased from fairtrade producers under Fairtrade terms.

Moreover, consumers can trace the producer back from the product they bought. Product composition requirements, instead, demand traders and producers to include at least 20% Fairtrade contents in food composite products. The Production chapter deals with labour and environmental law that traders must comply with along the supply chain. Finally, the Business and Development chapter sets requirements that characterise the uniqueness of the Fairtrade approach. Besides Fairtrade Minimum Price and Fairtrade Premium (see section *International Fairtrade Certification Mark*), this chapter ensures that Fairtrade transactions are carried out under transparent and fair conditions, laying the foundations for producer empowerment and development.

Additionally to Trader Standard, Fairtrade International requires that certified traders also adhere to national law. For instance, in France, the law requires a minimum of three years of trading relationship between producers and traders in order to be declared Fair Trade (Fairtrade International, 2015a).

The last two standards are climate and textile standard. Climate standard is developed to support smallholders and rural communities to produce Fairtrade Carbon Credits and gain access to the carbon market.[30] The textile standard is intended to bring better wages and working condition to manufacturers and workers in the supply chain.[31]

Fairtrade International Certification

To sell a product that carries Fairtrade Mark, it is necessary that all actors involved in the supply chain, including importers and exporters, are Fairtrade certified. Since

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[30] Carbon credits are tonnes of carbon dioxide that either have been prevented from entering, or have been removed from, the atmosphere. Further information available at https://files.fairtrade.net/standards/Climate-Standard_EN.pdf

[31] Further information available at https://files.fairtrade.net/standards/TextileStandard_EN.pdf

2003, FLO-CERT has been the independent company in charge of inspecting and certifying producers and traders to ensure fairness throughout the global supply chain and that they comply with Fairtrade standards.

Every organisation which aspires to become Fairtrade certified needs to fill out the online application form on the FLO-CERT website. Afterwards, the organisation receives a questionnaire with the requirements it takes to become certified. Within 30 days of submitting the questionnaire, the applicant receives permission to trade before the initial audit to permit the FLO-CERT auditor to check the transactions during the first visit. The following step is the proper audit carried out by an auditor who will perform an on-site inspection. The auditor checks the applicant's facilities, reviews paperwork and talks with farmers, producers and committees to gather most information as possible. After the audit, there is a closing meeting where the auditor explains strengths, weaknesses and non-compliance issues. The meeting allows the applicant organisation to make suggestions on how to remedy its non-conformities. The last step is "analyse and certify". Once the audit is complete, a FLO-CERT analyst reviews the audit report and evaluates if the organisation fulfilled Fairtrade standards. In case of non-conformities are found, the analyst provides the applicant with a detailed list to correct them. Finally, when there are no more issues, the organisation receives the Fairtrade certification.

A Fairtrade certification cycle lasts three years, during which FLO-CERT carries out at least another audit to ensure that the organisation still complies with Fairtrade standards. If the outcome is positive, the certificate is renewed.

Although inspection and certification were free of charge, starting from 2004, producers' organisations must pay application, initial certification, and renewal certification fees. Following Fiedoruk (2021a), it is possible to give an idea of the fees organisations need to pay to become Fairtrade certified.

Typically, the application fee is fixed at €565. Still, FLO-CERT may charge different amounts each year depending on the number of certified products, the scope of the production, members of the organisation and hired labours. Once the application is approved, the organisation pays the certification and processing fee for the first year. In his analysis, Fiedoruk considered the cost of a small coffee producer organisation based in Kenya. Depending on the size of the company, the certification price for the first year may range from €1,545 to €2,940. Instead, the processing fee is determined by the size of the organisation, the number of items that must be certified, and other undefined factors. In this particular case, the author found that the estimated processing fee was €440. After the first year, the fees (€1260 and €190) became fixed and charged annually. The fees may vary if the organisation introduces additional licensed products during the three-year certification cycle. So to recapitulate, Fiedoruk found that if a coffee SPO in Kenya wants to become Fairtrade certified, it needs to pay €5450 for the full cycle certification costs.

2.4 World Fair Trade Organization (WFTO)

Figure 2.7 - WFTO product label

(Source: WFTO website)

The WFTO was founded in 1989 as the first networking organisation to proactively connect marginalised handicraft artisans in developing countries with retailers in the North to help them gain market access. The members of WFTO are very broad and represent the entire Fair Trade supply chain, but they all have in common the total commitment to fair trade and its policies. In particular, three groups are eligible to apply for WFTO membership: Organisations that trade fair trade products (FTOs); Fair Trade Networks (FTNs); and Fair Trade Support Organizations (FTSOs). Regarding FTNs, four regional networks currently exist: WFTO-Africa (formerly COFTA), WFTO-Asia, WFTO-Latin America, and WFTO-Europe.

Starting in 1997, WFTO developed a monitoring system composed of three phases (self-assessment, monitoring audit and peer visit) to verify that WFTO members and applicants comply with the Fair Trade principles established in 2001. Finally, in 2004, WFTO launched its own mark, which can be used only by monitored WFTO members. The WFTO mark guarantees that the organisation is committed to fair trade and meets its standards. Moreover, as pointed out by Ullrich (2007) *"the Fair Trade Organisation Mark serves to distinguish Fair Trade Organisations from commercial traders, such as Starbucks, that are involved in fair trade only through the purchase of products labelled under the FLO certification system"*.

In 2013, WFTO members decided to increase the credibility, sustainability and robustness of the organisation by developing a new Guarantee System. Compared to the old monitoring system, two main components were introduced: a new membership admission procedure and the Fair Trade Accountability Watch (FTAW) (see section *WFTO Guarantee System*).
Only WFTO members who successfully pass the GS can use the logo on the product, which must contain at least 50% ingredients (in weight or value) from verified Fair Trade sources (WFTO, 2021). It also exists the "first buyer label", which is intended for organisations that buy products from a WFTO member and re-brand them without being verified under the Guarantee System. To obtain the label, 95% of the product must be sourced from a WFTO Guaranteed Fair Trade Enterprise (WFTO, 2021). The rationale behind these two labels is to allow small producers to reach the global market and increase brand awareness.

Finally, in 2018 WFTO launched a new standard based on 10 Fair Trade principles which are described in the next section.

WFTO Fair Trade Standard

The new WFTO Fair Trade Standard, launched in 2018, comprises the WFTO's 10 Principles of Fair Trade and defines compliance criteria to evaluate how effectively members are implementing the Principles. This Standard is set and applied to all members of WFTO and is based on common Fair Trade values, the International Labour Organisation (ILO) conventions, human rights and other internationally recognised principles. The compliance criteria are requirements that every organisation that aspires to become a WFTO member must meet. Some are mandatory and need to be met from the beginning, while others can be achieved over a set period of time (WFTO, 2020a).

An abridged version of the 10 Fair Trade Principles and related compliance criteria is offered below.[32]

Principle 1. Creating Opportunities for Economically Marginalised Producers

The organisation needs to improve the economic and social conditions of economically and marginalised producers and workers, whether they belong to associations or cooperatives or are employed in family businesses. It also needs to re-invest the majority of its profits in its business and pay management at proportionate levels.

Principle 2. Transparency and Accountability

The organisation needs to provide transparent information on its activities to all trading partners, have a clear governance structure, and have a credible accounting system. Producers, workers and members need to be involved in the decision-making.

Principle 3. Fair Trading Practices

The organisation needs to trade with concern for the social, economic and environmental well-being of economically marginalised producers and workers. If the organisation buys Fairtrade products, it provides pre-finance on request[33], while if it receives pre-payment, the member needs to use it as agreed with the buyer. The organisation needs to maintain long-term trading partnerships based on solidarity, trust and fair competition with other FTOs. Finally, the member needs to respect the value of cultural identity, local materials and traditional skills.

Principle 4. Fair Payment

The organisation needs to negotiate with all involved actors and mutually agree on

[32] The WFTO Fair Trade Standard's full list is available at https://wfto.com/sites/default/files/WFTO_Standards%20Handbook_Feburary%202021_digital_smallest%20file.pdf

[33] For handicraft and other non-food FT products, an interest free pre-payment of at least 50% is made on request. For food FT products, pre-payment of at least 50% at a reasonable interest rate, not higher than the cost of borrowing.

fair payment. Fair payment comprises Fair Prices, Fair Wages and Local Living Wages. Fair Prices *"represent an equitable share of the final price to each player in the supply chain"*. A Fair Wage is an *"equitable, freely negotiated and mutually agreed wage, and presumes the payment of at least a Local Living Wage".* A Local Living Wage is *"remuneration received for a standard working week (no more than 48 hours) by a Worker in a particular place, sufficient to afford a decent standard of living for the Worker and her or his family".*

Principle 5. Ensuring no Child Labour and Forced Labour

The organisation needs to adhere to the UN Convention on the Rights of the Child and national/local laws on the employment of children. Any involvement of children in the production is always disclosed and monitored and does not adversely affect the children's well-being, security, education and need for play.

Principle 6. Commitment to Non-Discrimination, Gender Equity and Women's Economic Empowerment, and Freedom of Association

The organisation does not practice any discrimination of any kind. It needs to promote gender equality and ensure that women are given opportunities, full employment rights, full statutory employment benefits, and equal pay for equal work. The organisation needs to respect the right of all employees to form and join trade unions of their choice and to bargain collectively.

Principle 7. Ensuring Good Working Conditions

The organisation needs to provide safe and healthy working conditions for all, and working hours and conditions comply with national and local laws and ILO conventions. It also seeks to raise awareness of health and safety issues and improve health and safety practices.

Principle 8. Providing Capacity Building

The organisation needs to increase positive developmental impacts for economically marginalised producers and workers through Fair Trade. It also needs to support and assist its Suppliers of FT products in developing skills and capabilities.

Principle 9. Promotion of Fair Trade

The organisation needs to raise awareness of Fair Trade's aims and advocate for important FT issues. The member also needs to provide its customer with reliable information about itself and the products it markets.

Principle 10. Respect for the Environment

The organisation needs to maximise the use of raw materials from sustainably managed sources and buy locally where possible. It also needs to:

- reduce energy consumption and use renewable energy,
- use organic or low pesticide production methods,
- use recycled or easily biodegradable materials for packing and goods despatched by sea.

WFTO Guarantee System

The peculiarity of the WFTO Guarantee System (GS) is that it assesses that the entirety of a business, from the business model to its supply chain, comply with Fair Trade Standard. Only the organisations that pass the GS process become a member of the WFTO and can use the WFTO label on their products. This section analyses the five pillars contained in the WFTO (2019) Guarantee System Handbook, which ensure the credibility and sustainability of the system:

1) A new membership admission procedure
2) Self-Assessment Report (SAR)
3) Peer visits
4) External Monitoring audit
5) Fair Trade Accountability Watch

Depending on the organisation's complexity, WFTO attributes a risk category (low/medium/high) which influences the frequency of monitoring.[34] The initial risk level is established using a risk assessment tool, which changes over time based on the outcomes of audits, on-site visits, and comments from Fair Trade Accountability Watch.

The applicant organisation starts the membership process by submitting to the WFTO Office all the requested documents on the WFTO website. After the office confirms that the applicant fulfils the membership criteria and complies with WFTO Standard, the organisation receives the Provisional member status. However, within two months of their acceptance, they must pay the membership fee and sign the WFTO membership contract; otherwise, their provisional status lapses.

The second phase to officially becoming a member is the "self-assessment". According to the risk category, each member has to submit a Self-Assessment Report (SAR) every two years or three in case of low risk. This report is written following internal consultations and visits conducted by the organisation's management. Besides explaining their compliance with WFTO Standard, the organisation needs to provide supporting documentation, including annual reports, records of payments made to producers and workers, and strategy and action plans. Once the SAR is submitted, the member receives a monitoring audit alternating with a peer visit every 2, 4 or 6 years, depending on the risk level. An auditor is a qualified person trained by WFTO to conduct interviews with management and workers, review relevant documentation and visit production facilities. The audit ends with an exit meeting during which the auditor summarises the key findings and assessment against the WFTO Standard to the management. Afterwards, the auditor submits a report which, if it is evaluated positively by the WFTO GS, can be shared by the member. The peer visit process is the same as the monitoring audit. The only difference is that while the auditor is an external expert, the peer(s) is a person proposed by the member who belongs to other members in the same

[34] WFTO highlights five Risk factors: 1) number of producer organisations from which products are purchased; 2) number of different product lines; 3) level of control of the product flow and supply chain; 4) use of label; 5) % of purchase of primary products (value) from non WFTO members or from non FT verified sources.

country/region or from regional and country networks. Moreover, the peer must comply with two criteria: it has no conflict of interest and has relevant background and knowledge about Fair Trade and business practices.

The certification process ends with the review of the audit report by the WFTO GS team. If the organisation fulfils Fair Trade standards, it becomes a Fair Trade Organisation.

Additionally to these three monitoring and verification mechanisms (SAR, monitoring audit, peer visit), WFTO has included the Fair Trade Accountability Watch (FTAW). The FTAW is an online monitoring mechanism that allows members, stakeholders and the public to report complaints regarding WFTO members' compliance with the Standards.

CHAPTER III

THE WORLD OF COFFEE

Coffee is one of the most popular drinks consumed worldwide, and it is estimated that the 80% of it is produced by 25 million smallholders (Fairtrade Foundation, n.d.-b). Coffee is also a growth market. In the last 30 years, the amount of coffee produced has increased by more than 60% to meet the growing demand for this commodity (International Coffee Organization, 2019a). Compared to the past, growing demand does not come solely from developed countries but also from emerging economies and coffee-producing countries, which have become consumers as well. However, only 30% of production is consumed domestically, thus making coffee an export commodity.[35]
Furthermore, coffee prices have declined despite this growth since 2016.[36] As a result, millions of smallholder producers who depend on coffee production might be in danger. Price volatility causes income decline for farmers and unequal distribution of market power along the coffee chain. This situation is referred to by Daviron & Ponte (2005) as the coffee paradox – i.e "*the coexistence of a 'coffee boom' in consuming countries and of a 'coffee crisis' in producing countries*".

It was precisely as a response to a coffee crisis in the late 1980s that the Dutch NGO Solidaridad started the Fairtrade movement by designing the Max Havelaar certification system. Its goal was to bring certified coffee into conventional supermarket channels, thus ensuring farmers sufficient wages to turn a profit. Currently, Fairtrade International collaborates with over 800000 coffee growers globally through 656 Fairtrade certified coffee producer organisations (Fairtrade Foundation, n.d.-a).

The initial sections of this chapter aim to give an overview of the international

[35] In 2019/2020 the total production by all exporting countries was 165.1 million bags against a domestic consumption of 50 million bags, https://www.ico.org/new_historical.asp accessed in September 2022
[36] ICO observed a falling 30% below the average of the last ten years.

coffee market by focusing on coffee production, consumption, and price flow. The second part is devoted to Fairtrade International coffee, and it analyses Fairtrade coffee standard, how the Fairtrade Minimum Price is created and which benefits Fairtrade bring to farmers. The decision to focus on Fairtrade certification derives from the fact that the cooperative chosen for the case studies produce all Fairtrade-certified coffee.

3.1 Coffee Waves

The expression "coffee waves" was firstly coined by Skeie-Rothgeb (2002) in the *Roaster Guild Publication*. At that time, she defined three waves which represented three significant and pivotal periods of the coffee industry and consumer culture. Each wave begins with a significant disruptive transformation that has a long-lasting impact on the dynamics of the coffee industry. Successive waves, thus, come from an evolution of the coffee industry as a result of social development and historical events. Although it is easy to determine a year or event that started each wave, there is no actual "end" to a wave. Indeed, it is possible to find elements of each wave in the subsequent. The three waves are universally accepted by all relevant coffee institutions. However, this work follows the distinction made by the International Trade Center (ITC), which proposes the existence of a fourth wave (Bozzola et al., 2021).

- *First Wave: from novelty to commodity*

The beginning of the first wave coincides with the first industrial revolution in the late 1800s. From a commodity intended only for the higher social classes, coffee became increasingly available and affordable for normal people. This exponential growth was due to companies like Folger's and Maxwell House which made cheap and widely available coffee. However, during the first wave, people consumed coffee only as an energy drink and were not interested in the quality, origin, or the flavour of this commodity.

- *Second Wave: from commodity to culture*

The demand for higher quality and better tasting beans characterised the second wave. In the late 1960s/early 1970s, companies such as Peet's Coffee & Tea and Starbucks influenced the United States and, later, the rest of the world's coffee industry. Starbucks successfully captured consumers' demand for better quality and a complete coffee experience. By investing heavily in coffee shops and diversification of the commodities, it succeeds in transforming coffee shops into a "*third hangout space away from home and work*" and creating new coffee-based drinks such as frappuccinos (Lee & Ruck, 2022).

Following Starbucks' successful model, numerous coffee shop chains were founded and became popular in many countries thanks to globalisation.

- *Third Wave: from culture to consumer awareness*

Using the words of Lee (2021) the third wave *"marks a serious artisanal movement, signifying a movement away from coffee as a mass commodity and chain offering, and towards a celebration of coffee as agriculture, culture, craft, and expression. It marks a period in which coffee shops became a space of gastronomic experiences, giving rise to the barista as a respected profession and specialty coffee as a product of artisanal craftsmanship".*

The third wave started in the late 1990s and provided varied opportunities for producers. On the one hand, better quality leads to higher revenues. On the other hand, producers face extra costs to produce higher quality coffee as more effort and resources are needed. This period was also characterized by new initiatives to safeguard the producer, the environment, first and foremost, fair trade.

- *Fourth Wave: scalability of specialty coffee*

ITC traces back the fourth wave to 2015. However, there are still debates about whether this period of change is happening or not. The fourth wave seeks to merge the second wave's commercial approach with the third wave's sustainability concepts. Indeed, although the third wave increased consumer awareness and led all coffee industry stakeholders to make the supply chain more sustainable and fairer, it failed to expand the specialty coffee market. Therefore, the ultimate goal is to sell more coffee at a fair price to benefit the entire supply chain, especially producers.

3.2 The global coffee industry

Two coffee species: Arabica and Robusta

Despite being known 124 coffee species, just two are produced for consumption: Coffea arabica and Coffea Canephora (widely known as Robusta). Besides their size, colour and caffeine content, these two varieties differ in their origin, quality and price.

Endemic to West and Central Africa, especially Ethiopia, Arabica is now widely found and produced in Central America, South America and East Africa. Moreover, it is considered of a higher quality than Robusta; therefore, it is usually sold as single-origin or estate products and earns a higher market price. As a result, Arabica accounts for 60% of world production, with an export price from producing countries of USD 1.53/lb (Bozzola et al., 2021; Daly et al., 2018).

On the other hand, Robusta originates in West and Central Africa, but today it is also largely produced in Brazil, Vietnam and other parts of South-East Asia. It is typically associated with a lower-quality coffee; thus, it is mostly used to produce blends, capsules, and energy drinks (for its high caffeine content). Robusta export price from producing country is typically around two-thirds of the price of Arabica. However, since it is less expensive to grow in a warm climate and more resilient to pests, Robusta might be crucial in satisfying the increasing demand for coffee in a world that is more and more at risk from climate change.

A further element that influences the value and quality of the final product is post-harvest processing, with a distinction between 'washed' coffee, 'sun-dried' coffee and ‘pulped natural coffee’ (Bozzola et al., 2021).

The washing method is the most popular and typically yields higher quality coffee. The process consists of removing the coffee cherry's outer skin and then fermenting the seeds in the water for 1-2 days. Since it requires many skills, this method is often used for expensive coffees.

On the contrary, the sun-dried process is less costly, but it requires 2 to 6 weeks. It consists in drying the coffee cherries naturally in the sun and is usually widespread in areas with low humidity or undependable access to water.
More recently, a third coffee processing appeared. The pulped natural coffee is a mix of the two methods mentioned above. First, a machine removes the outer skins, and then the beans are dried in the sun. Afterwards, the seeds are fermented for a day and then are dried again.

Production and consumption
As anticipated in the introduction of this chapter, coffee is a growth market. From 2012 to 2017, coffee production and consumption steadily increased by an average of 2.2% yearly. If this trend continues, it is predicted that the coffee industry will need to double or triple the actual production to meet the demand by 2050 (Panhuysen & Pierrot, 2018).

When dealing with Arabica and Robusta coffee, the geography of coffee production has already been outlined. Currently, coffee is produced in about 70 countries and the top five – Brazil, Vietnam, Colombia, Indonesia, and Ethiopia – cover almost 75% of the world's production. Figure 3.1 gives an overview of the top 10 origin countries both for Arabica and Robusta coffee.

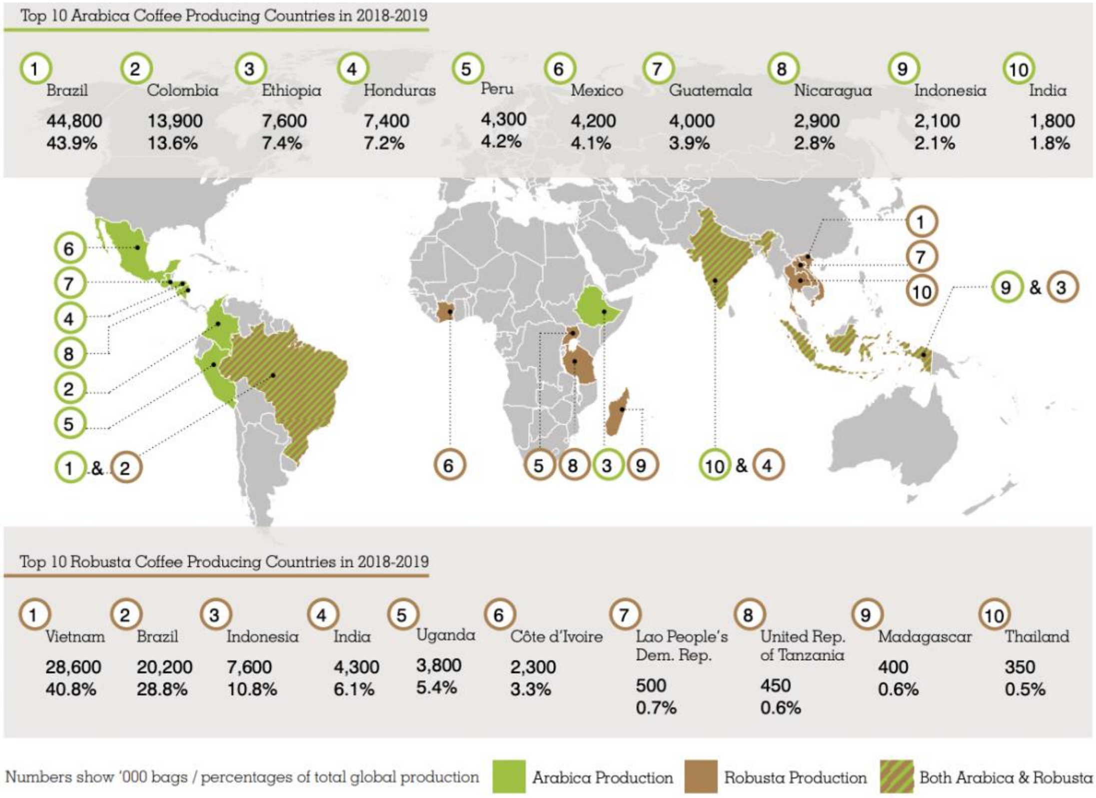

Figure 3.1 - Top 10 Arabica and Robusta Coffee Producing Countries in 2018-2019

(Source: International Trade Center)

Brazil is by far the world's largest coffee producer, growing, in 2019, 57 million bags a year, compared to the 31.2 million in Vietnam.

Nevertheless, most of the coffee produced is intended for export, with only 30% of coffee consumed in producing countries. This generated a total value of USD 20 billion on average in the period 2015-2020 (Samper et al., 2017). Moreover, coffee exports represent a significant portion of the gross domestic product for producing countries because they generate foreign exchange earnings and tax income. For instance, more than 25% of Ethiopia's export revenue comes from coffee, followed by Burundi with 20% and Timor Leste, Uganda, and Honduras with a share of 10% (Bozzola et al., 2021).

The United States is the largest single coffee market in the world, with yearly consumption of close to 27 million bags (16.1%), followed by Brazil and Japan. However, if we consider the European Union as one, it accounts for 28.1%, with Germany leading. In 2019, the United States spent USD 6.2 billion on importing coffee, while Germany spent USD 3.5 billion (Bozzola et al., 2021).

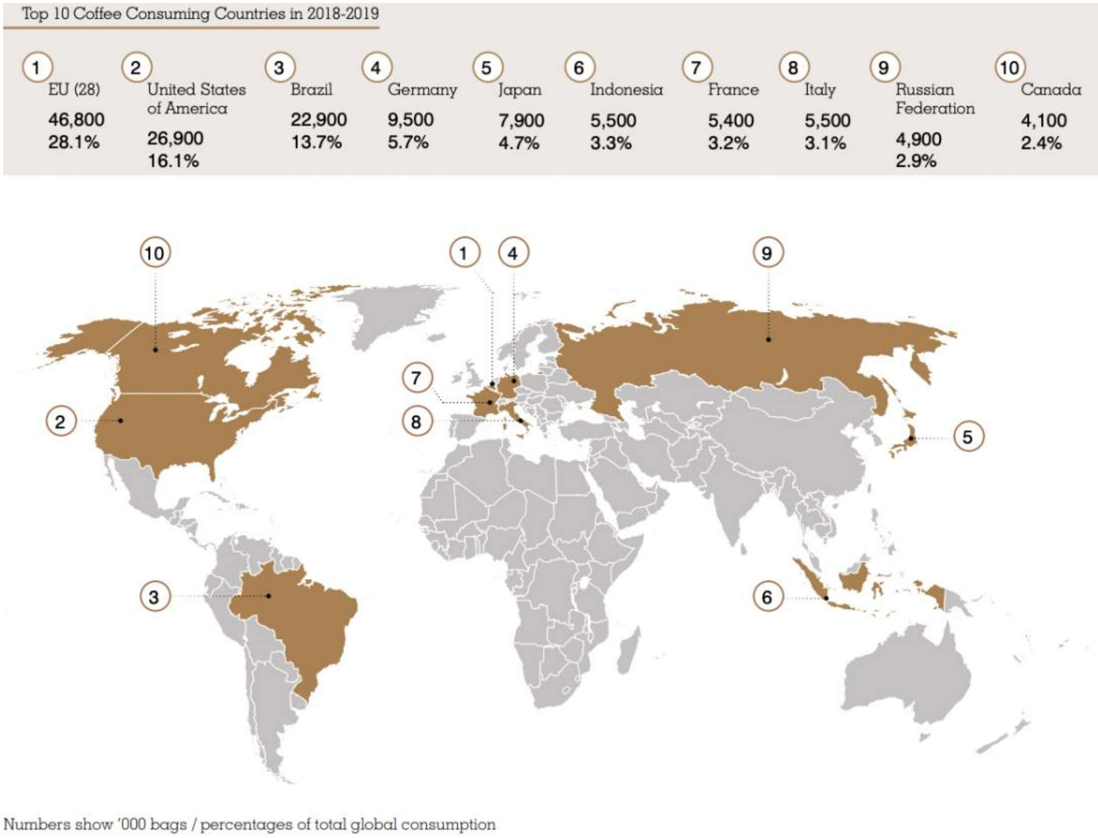

Figure 3.2 - Top 10 Coffee Consuming Countries in 2018-2019

(Source: International Trade Center)

3.3 The global coffee market today

Coffee price volatility

Coffee prices are usually divided into four categories: farmgate, FOB, futures, and ICO indicator.

- Farmgate price. It is the price at which the commodity is sold by the producer to other actors in the value chain. The income for coffee producers is determined by the quantity sold, and the price agreed with the buyer. This price is influenced by numerous factors such as quality, variety and market destination. However, producers are usually price takers since they have low market power due to a lack of infrastructure and poor market information.

- FOB (free-on-board) price. It defines the moment when the cost ownership and risk of any good transfers from the seller (exporter) to the buyer (importer). Once the commodity is loaded at the port, the responsibility passes to the importer. From the exporter's point of view, the FOB price must include: its cost of transport from the factory to the port, insurance and loading.

- Futures price. Coffee future is a solution to the extreme volatility of the coffee market. It represents the availability and demand of coffee at a certain time in the future. The price is determined by two market centres: New York and London. The London Intercontinental Exchange (ICE EU or ICE Robusta market) deals with Robusta coffee beans (market symbol RM). The New York Intercontinental Exchange (ICE US) deals with Arabica coffee (market symbol KC). The market price is determined every time there is a match between the 'buying bids' and the 'sellers' ask'.

- ICO indicator price. To understand better how the coffee price flows over time, the International Coffee Organization (ICO) has developed an indicator in which track prices of four main types of coffee quality: Colombian mild Arabicas, other mild Arabicas, Brazilian and other natural Arabicas, Robustas.

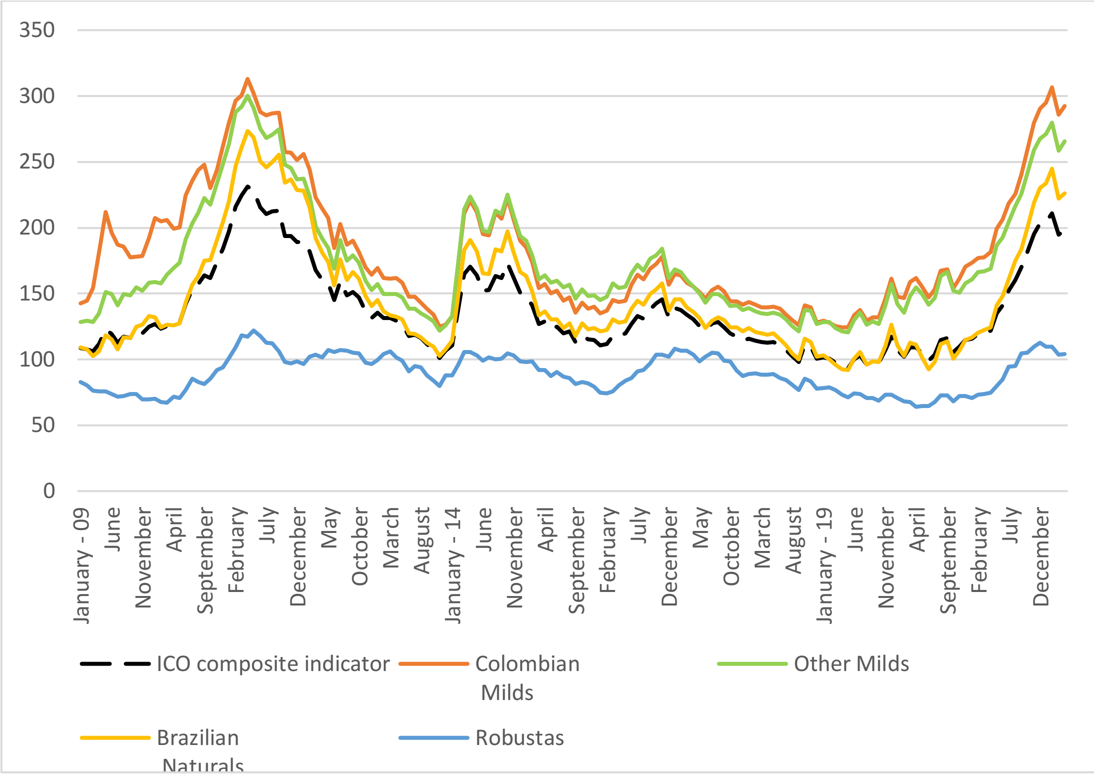

Figure 3.3 - ICO indicator prices - monthly averages (US cents/lb)

(Source: ICO)

Figure 3.3 shows price volatility over the past 13 years. From the end of 2021, coffee prices started to rise after being 30% below the average level for almost three years. When prices are low, the livelihoods of millions of farmers are at risk because they cannot cover production costs and invest in the maintenance of the fields. Numerous factors on the demand and supply side influence price volatility, from climate change to social and economic crises.

Although prices were already dropping, the outbreak of COVID-19 in March 2020 put even more downward pressure on prices. Due to the recession, which affected several coffee-importing countries, the demand for this commodity steadily decreased. At the end of June, the ICO composite indicator fell below the 100 US cents/lb mark (Kabeta & Dangia, 2022). In the following months, the price recovered, and currently, we are witnessing the other face of volatility, hence high prices. The leading cause of this increase is climate change.

It is commonly known that climate change has an increasingly negative influence on coffee growers' livelihoods. The consequences of this are several. First, rising temperatures and biodiversity loss worsen coffee pests and infections (Bouroncle et al., 2017). For instance, the Andes coffee-producing region was heavily affected by the La Roya fungus phenomenon, which proliferated because of the El Nino/La Nina climate phenomenon.[37]

Another cause is the decline in the quality of the beans. Not only the flavour and taste, but also the cherry size is affected by warmer temperatures. If the size decreases, the sale price is lower, and producers will earn less. Finally, extreme events such as droughts, storms, floods, and hurricanes are becoming more frequent, posing a serious threat to coffee yields. It is indeed a drought followed by a frost that happened in July 2021 in Brazil, which caused an increase in coffee prices in the last period. Since Brazil is the world's largest coffee producer, the estimated loss of 10 million bags has heavily affected prices for the global market, rising to 195 US cents/lb in November 2021 (an increase of 45% compared to May 2021) (Bastos, 2021; M. Davis, 2021; International Coffee Organization, 2021b).

However, this is not the first time a Brazilian frost influenced the market. The most famous one happened in 1994 when New York Arabica futures skyrocketed from 85 US cents/lb to 248 US cents/lb in less than three months (Bozzola et al., 2021).

To counteract the adverse effects of climate change, the entire coffee supply chain has started applying two strategies: adaptation and mitigation.

Adaptation is "*the process of adjustment to actual or expected climate and its effects. In human systems, adaptation seeks to moderate or avoid harm or exploit beneficial opportunities. In some natural systems, human intervention may facilitate adjustment to expected climate and its effects*" (IPCC, 2014).

The coffee industry could implement several measures to adapt to climate change. These include introducing climate-resistant coffee, restoration of degraded areas and integrated pest management (Bianco, 2020). Läderach et al. (2017) also suggest the transition from coffee production to other crops more suitable for warmer temperatures, such as cocoa. Finally, coffee companies should promote Corporate

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[37] El Niño and La Niña are climate patterns in the Pacific Ocean that last nine to 12 months and occur every two to seven years. La Nina leads to drought in the southern U.S. and heavy rains and flooding in the Pacific Northwest and Canada. El Nino has the opposite effects.

Social Responsibility (CSR) activities to increase the socio-economic conditions of their workers, thus reducing their risks (Bianco, 2020).

Mitigation (of climate change) is defined as "*human intervention to reduce the sources or enhance the sinks of greenhouse gases (GHGs)"* (IPCC, 2014). While adaptation methods are primarily intended for local groups, mitigation benefits everyone. The coffee industry has already implemented strategies that are reducing GHGs emissions and uplifting nature's carbon cycle.

Coffee Value chain

According to various authors, the coffee value chain is a buyer-driven commodity chain (Bitzer et al., 2008; Fitter & Kaplinksy*, 2001; Gibbon et al., 2008). This term was coined by Gereffi (1994) and it refers to "*industries in which large retailers, marketers and branded manufacturers play the pivotal roles in setting up decentralised production networks in a variety of exporting countries, typically located in the third worl*d".

It is estimated that raw or 'green' coffee accounts for a small percentage of the value of the final product.[38] Most of it is exported to the consuming countries, where it is then roasted, packed, and sold through conventional channels (e.g., supermarkets and coffee shops). Therefore, roasters and retailers in importing countries add the most value to the final product.

The coffee global value chain can be divided into seven categories: farmers, processors, export agents, global traders, roasters, retailers, and consumers. As shown in figure 3.4, it can be further divided into two groups: actors located in developing and developed countries.

[38] Only 10% of the coffee retail market is retained in the country of export (Panhuysen & Pierrot, 2020).

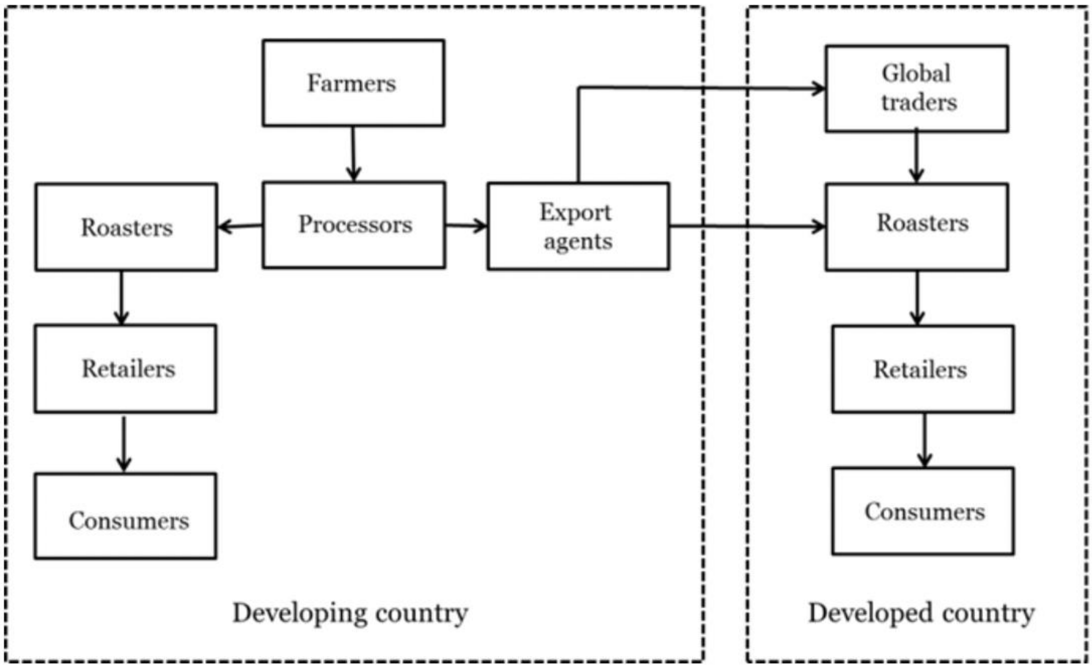


Figure 3.4 Coffee Value Chain

(Source: Mata et al., 2016)

The chain starts with farmers who grow coffee trees that produce the two species of coffee (Arabica and Robusta). Since 95% of coffee farmers are smallholders and, therefore, they do not possess the facilities to process coffee cherries, they need to sell them to processing plants owned by independent processors or organised into cooperatives. The post-harvest processing can be performed using one of the three methods ('washed', 'natural', and 'pulped natural coffee') outlined in section *Two coffee species: Arabica and Robusta*. This process produces green coffee, which is sold in the producing countries or exported. As already mentioned, only 30% of the coffee produced is consumed domestically, where local companies roast it and then sell it to consumers through local supermarkets.

The right-hand side of figure 3.4 shows the steps of exported coffee instead. Once processed, export agents agree on a price for green coffee with global traders or, sometimes, directly with roasters and sell it. Exports agents also have the task of shipping green coffee to traders. Traders store green coffee in international harbours and later ship it to roasters which ground the majority of roasted coffee and packed in vacuum-sealed bags. Finally, retailers (supermarkets, restaurants, coffee shops) buy the final product and sell it to the consumer.

It is not easy to determine the share of margin assigned to the various actors in the coffee chain because several studies report very different findings by considering different scenarios. For instance, Depperu & Todisco (2010) provide two examples with different conclusions. The first one is the study of De Toni and Tracogna (2005), according to whom the percentage distribution assigned to the various players along the chain is 20% the producers, 11% local intermediaries, 6% exporters, international traders 6%, 30% roasters and 15% retailers, 6% taxes. The other example uses the data provided by Transfair Italia: 8% producers, 3% local intermediaries, 7% exporters, and 83% roasters and retailers. The current scenario (see section *Final considerations*) is more similar to the latter.

As can be seen, roasters are dominant in the coffee market. However, there are few traders that have a strong influence. In 2019, only five traders' companies (Neumann Kaffee Gruppe, ED&F Man Volcafe, LDC, OLAM and ECOM) which are members of the Swiss Coffee Trade Association (SCTA) handled an equivalent of half of the total green coffee export production.[39] In the last decade, international traders have lost some of their bargaining power in favour of roasters. Roasters have extended their net financing terms with traders from an industry standard of 30 days to even further 360 days. By forcing traders to boost their credit lines and increasing their minimum capital stocks, this action has effectively turned them into inexpensive sources of financing for roasters. Furthermore, it contributed to a small number of multinational traders dominating.

The ten biggest roasters control over 35% of all coffee sales, and 86% of the total EU imports are roasted in just six countries (Germany, Italy, Spain, the Netherlands, France, and Sweden). To further consolidate their dominance in the coffee market, they began to acquire smaller companies and invest in specialty coffee to diversify their portfolio to generate growth (Panhuysen & Pierrot, 2020).
In 2019, the top roaster Nestlé generated a total revenue of USD 19.5 billion, equal to one-third of the revenues from the top 10 roasters. In the same year, it also signed

[39] Switzerland is currently one of the leading hub in the global trade of coffee, probably because of a combination of favourable tax and trade regulations (Tamari, n.d.)

an agreement with Starbucks, which allowed Nestlé to launch a new range of 24 premium coffee products through Starbucks's retail shops (World Coffee Portal, 2019). Starbucks itself has grown to become the fourth largest roaster globally after having established primary as the leader in retail coffee, with more than 32,000 stores worldwide (Panhuysen & Pierrot, 2020).
Although the coffee market seems highly diversified, most brands we see on supermarket shelves have been acquired by multinational roasters.

3.4 Fairtrade coffee

Production and Consumption

Coffee continues to be one of the most prominent product within the Fairtrade product line in terms of production volume and the number of farmers engaged.

Table 3.1 Fairtrade coffee 2020 Data

Data	**2020**
Total number of Producer Organizations	656
Total number of farmers	838,116
Total number of women farmers	125,717
Total number of hectares under Fairtrade certification	1,127,766
Total Fairtrade Production	889,589MT
Total amount of Fairtrade sales	226,338MT (66% organic)
Total value of Fairtrade Premium	€86,313,732

(Source: Fairtrade International)

Measuring the impact of Fairtrade products in global trade is not as easy as it was some years ago because Fairtrade no longer provides the value of sold Fairtrade products but only its volume. For instance, Fiedoruk (2021) calculated that, in 2019, the export of Fairtrade agricultural products was worth 10.67% of the global trade.

Table 3.1 shows some of the latest key data available regarding Fairtrade coffee. In 2020, Fairtrade producer's organisations coffee sold 889,589 MT of coffee, of which 25% directly as Fairtrade, making it the second-best selling product behind only bananas with 1,365,076 MT (Fairtrade International, n.d.-c). However, if we consider the share in the global agricultural trade of products, coffee outweighs bananas. According to the International Coffee Organization (2021a), the global amount of exported coffee was 7,735,860 tons in 2020. It means 11.5% of exported coffee was of Fair Trade origin, compared to 0.036% of exported bananas (Fiedoruk, 2021).

Another relevant factor is geographical trends. In general, there is a clear dominance of Latin America and the Caribbean regarding the number of producer organisations (POs) participating in Fairtrade, as shown in Table 3.2.

Table 3.2 Fairtrade coffee-producing countries – 2020

	Country	**Premium received (€)**	**Fairtrade Production (MT)**	**Volume sold as FT (MT)**	**Number of POs**	**Number of farmers**
	Perú	24,099,331	129,111	62,471	175	59,285
	Honduras	17,859,262	59,744	46,155	70	12,176
	Colombia	12,193,680	281,955	32,034	81	72,828
	Mexico	6,238,161	27,153	17,168	47	38,146
	Brazil	4,754,004	165,190	12,939	31	13,251
	Nicaragua	4,294,709	34,719	11,114	35	27,854
	Indonesia	3,872,492	28,785	10,117	23	28,082

	Guatemala	2,956,043	19,332	7,509	19	13,879
	Ethiopia	2,145,389	20,493	5,546	7	217,944
	Rest of the World	7,900,662	123,107	21,285	168	354,671
	Tot	€86,313,733	889,589 MT	226,338 MT	656	838,116

(Source: Fairtrade International n.d.)

Considering all products, 51% (950 POs) of all Fairtrade POs are in 22 countries of Latin America and the Caribbean, followed by Africa and the Middle East with 33% (627 POs in 28 countries), and Asia and the Pacific with 16% (303 POs 21 countries) (Fairtrade International, 2022). The first country by number of POs is Peru, with 267; as shown in Table 3.2, more than 60% of those are coffee POs.
Despite the number of POs, the number of farmers part of Fairtrade is relatively low. For instance, Ethiopia is by far the country with more Fairtrade farmers (26% of total coffee farmers) since it is the country with the highest presence of small producers' organisations worldwide and the highest area under Fairtrade certification (229,801 hectares).[40] Overall, 57,43% of Fairtrade coffee farmers are in Africa and the Middle East, 30,11% in Latin America and the Caribbean, and only 12,46% in Asia and the Pacific.

Another relevant trend in the Fairtrade coffee market concerns organic certification. As shown in Table 3.1, 66% of the volume of products sold by Fairtrade producers is certified organic. Obtaining this certification brings higher benefits to farmers since a Fairtrade organic differential - which is currently USD 0.30/lb – is added to the final coffee price. The International Federation of Organic Agriculture Movement (IFOAM) is the leading international organisation for agriculture

[40] There are 12.5million coffee farms worldwide and 95% of these are small-scale organisations. Ethiopia, with 2.2 million, is the first country by number of small-scale coffee farms.

standards and, in partnership with Fairtrade, is developing and expanding organic agriculture even more.[41]

Finally, the last important element to underline is the considerable gap between the volume of Fairtrade production and Fairtrade coffee sales (see Figure 3.5). With only 12,939MT of Fairtrade sales against 165,190MT produced (only 7,8%), Brazil has the highest percentage of coffee from Fairtrade-certified producers sold in the conventional market. Globally, only one-quarter of the total production is sold as Fairtrade, thus showing an inability of the Fairtrade market to absorb new entrants and satisfy its existing base of suppliers. Moreover, selling through conventional channels excludes small-scale farmers from benefiting from Fairtrade Premium. Despite these limitations, in the last decade, significant improvement has been made to increase the share of Fairtrade coffee sales. In particular, Fairtrade adopted three strategies. First, it made substantial investments in quality improvement programmes for coffee farmers to produce specialty coffee. Second, it took back its share in the specialty coffee market through coffee cuppings and tasting at international trade fairs and coffee events. Lastly, it expanded the 'south-south' trade by developing consumer demand in coffee-producing countries themselves. For example, Fairtrade Coffee produced in Kenya and Rwanda can now be bought locally (Fairtrade International, 2019a).

[41] "Organic Agriculture is a production system that sustains the health of soils, ecosystems, and people. It relies on ecological processes, biodiversity and cycles adapted to local conditions, rather than the use of inputs with adverse effects. Organic Agriculture combines tradition, innovation, and science to benefit the shared environment and promote fair relationships and good quality of life for all involved", https://www.ifoam.bio/organic-agriculture-biodiversity accessed in September 2022

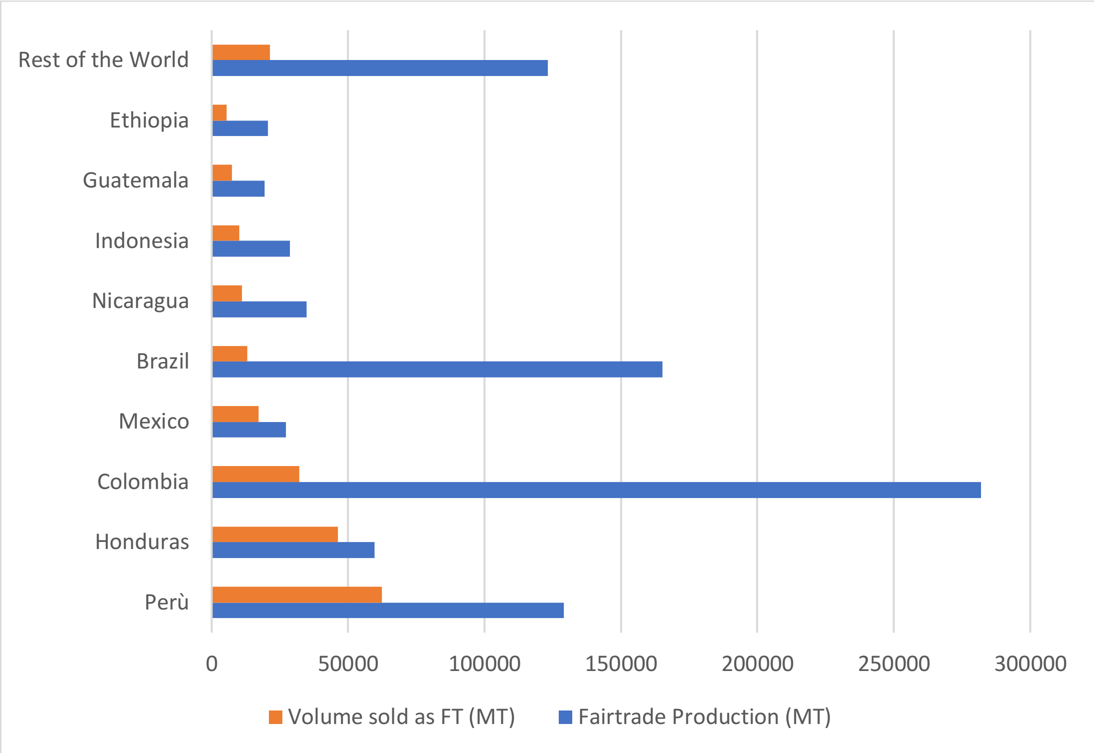


Figure 3.5 Fairtrade coffee production and Fairtrade coffee sales 2020

(Source: Fairtrade International n.d.)

Fairtrade Standard for coffee

In chapter II, section *Fairtrade International Standards*, we have dealt with Fairtrade Standards. Additionally to the Small-scale Producer' Organizations Standard, Fairtrade developed some product-specific standards that SPOs must comply with.

The Standards Committee approved the new Fairtrade Coffee Standard in June 2021. It applies automatically to all the organisations that began the certification process after 15 July 2021. In contrast, organisations certified before this date must adhere to all applicable criteria after their regular certification cycle and the transition periods mentioned in the Standard.

Before analysing in-depth the requirements enshrined in the Standard and its changes compared to the old version, it is worth mentioning that this Standard covers only the purchase and sale of the two species of coffee (Arabica and Robusta) in their primary form (green beans).

The Fairtrade Coffee Standard has four chapters: General Requirements, Trade, Production, and Business and Development. The following is a summary of the Standard (Fairtrade International, 2021b).

General requirements apply only to producer organisations and exporters willing to obtain Fairtrade certification. The section certification has been added in the new version with a distinction between Fairtrade POs and exporters.

The organisation must prove that it has been reputable, capable, and active for at least two years before applying for certification by providing General Assembly records and a business development plan. The term capable is intended for administrative, technical, commercial, and financial capacity. Moreover, it needs to demonstrate that it has market potential for at least the first two years of Fairtrade certification with a letter of intent from at least one customer.

On the other hand, the exporter needs to demonstrate with a record of the prior transaction and a confirmation letter from the Fairtrade PO that its export service is necessary and is required directly by a Fairtrade POs. The certification body will also evaluate whether the exporter has done business with organisations which violate human rights.

The chapter trade focuses on the requirements POs, buyers and exporters need to comply with to provide maximum benefits to producers while remaining credible to consumers. The new version introduced the traceability section, which requires SPOs to monitor their members' sales to prevent them from selling more than their estimated production and volumes and tracking their status if they are also registered with another Fairtrade-certified organisation.

Another section is devoted to contracts. Typically, sellers and buyers have to agree on a 'price-to-be-fixed' contract, with a price definition made at the sellers' call. However, this contract can be replaced by a 'fixed-price' contract in certain circumstances. The contract cannot include stop loss clauses, but it allows one of the two parties involved to use a broker for a specified case. Other requirements concern the extension of the shipment schedule beyond the limit of three months after the harvest, the cost of storage, insurance, and interest. If coffee is not purchased as green exportable coffee at the FOB level, the sellers must include a detailed cost breakdown of the price calculation to be paid to the SPO. Lastly, in the newest version, exporters must clearly define their role as buyers or sellers in the contract.

The 2021 Standard also includes a new chapter dealing with production to ensure that all actors involved in the coffee value chain promote sustainability. Fairtrade POs must identify and record the environmental risks that affect their agricultural performance[42] and their communities annually. Another requirement is to develop a climate adaptation plan to be updated yearly and adopt sustainable agricultural practices based on the plan.

The other sections of the production chapter address labour conditions. Fairtrade POs must assess annually whether they are operating in countries at risk of child labour or any other violation of human rights. Furthermore, they need to implement policy, procedures, and a monitoring system to prevent, identify, mitigate and remediate any case of child labour, forced labour, human trafficking and discrimination that could happen at the workplace.

The last chapter, Business and Development, requires a more extensive explanation that is provided in the next section.

Business and Development - Fairtrade Minimum Price and Fairtrade Premium

The last chapter of the Fairtrade Coffee Standard, Business and Development, sets requirements to ensure that Fairtrade transactions are conducted fairly and transparently.

It starts by outlining the components which determine the Fairtrade coffee price, thus the price that Fairtrade coffee certified POs should be paid when selling their coffee under Fairtrade terms. There are two possible scenarios:

- When the reference market price is below or equal to the Fairtrade Minimum Price

[42] Agricultural performance is defined in terms of productivity and quality considering external factors and exposure to the effects of climate change

- When the reference market price is above the Fairtrade Minimum Price.

As already discussed in section *Coffee price volatility*, the reference market price for Arabica coffee is based on the ICE US C contract in USD/lb, plus the prevailing differential (positive or negative) for the relevant quality, basis FOB origin, and net shipped weight. For Robusta coffee, the reference market price is based on the ICE EU RC contract is USD/MT, plus the prevailing differential (positive or negative) for the relevant quality, basis FOB origin, and net shipped weight.

The Standard defines prevailing differential as “the range valid in the mainstream market for conventional coffee of that country and grade at that moment”. Although there are no official country differentials established, these can help all stakeholders in the supply chain to make strategic decisions about whether to buy or sell a specific coffee by acting as a major indication of market trends. Moreover, differentials increase every time a relevant trader buys a considerable amount of coffee from a specific location (Cuevas, 2021).

The FMP ensures that coffee farmers receive a reasonable price which covers their production costs and assures them a decent standard of living when the reference market price shrink. When the market price is higher than the FMP, the trader must pay the market price, and the contract should include a detailed cost breakdown of the ICE US/ICE EU prices plus the prevailing differential.

Once the reference market price (or FMP) is determined, Fairtrade adds two other components to the final price which cannot be negotiated: organic differential (in the case of organic coffee) and Fairtrade Premium (to support coffee-growing communities).

The Fairtrade coffee price is as follows:

<table>
<tr><td colspan="2">Reference market price or FMP (whichever is higher)</td><td rowspan="2">+ Fairtrade organic differential</td><td rowspan="2">+ Fairtrade Premium</td></tr>
<tr><td>ICE US (Arabica) or ICE EU (Robusta)</td><td>+ prevailing differential</td></tr>
</table>

Since the introduction of Fairtrade coffee, FMP and Fairtrade Premium have been revised three times. Until 2007, the Fairtrade Premium was USD 0.05/lb, plus an additional USD 0.15/lb if the coffee was certified both Fairtrade and organic. From 2007 to 2011, the Fairtrade Premium was increased to USD 0.10/lb, and the "Fairtrade organic differential" was introduced to USD 0.20/lb. At the same time, the FMP for washed and natural Arabica was increased by 4 cents and 5 cents, respectively. FMP for washed Arabica was USD 1.21/lb, while for natural Arabica, USD 1.15/lb. The last and current revision occurred in April 2011. Fairtrade raised FMP for both washed and natural Arabica by USD 0.15/lb, and both the organic differential and Fairtrade premium were raised by USD 0.10/lb (Valiente-Riedl, 2013). Table 3.3 list the FMP, Fairtrade Premium and organic differenti al of Arabica and Robusta coffee.

Table 3.3 – FMP and Fairtrade Premium for Arabica and Robusta coffee

Product	**Quality**	**Processing method**	**Fairtrade Minimum Price (USD/lb)**	**Fairtrade organic differential (USD/lb)**	**Fairtrade Premium (USD/lb)**
Coffee Arabica	Conventional	Washed	1.40	0.30	0.20
Coffee Arabica	Conventional	Natural	1.35	0.30	0.20
Coffee Robusta	Conventional	Washed	1.05	0.30	0.20
Coffee Robusta	Conventional	Natural	1.01	0.30	0.20

(Source: Fairtrade International, n.d.-d)

Figure 3.6 compares the Fairtrade price (FMP + Fairtrade Premium) for Arabica coffee against the New York Arabica reference market price. The graph shows the volatility of Arabica prices over 20 years, describing for each peak point the reason the prices fall or rise. It is also possible to note the different increases of both FMP and Fairtrade Premium, reaching the final prince of 160 US cents/lb (FMP +

Fairtrade Premium; 140 US cents/lb + 20 US cents/lb). Even though Arabica coffee prices are rising again in the last three years, surpassing the FMP (see Figure 3.3), coffee producers have benefited considerably from this minimum price over the years.

The effect is even more visible when considering Robusta coffee (Figure 3.7). Over the past eight years, London Robusta coffee prices have almost always been below the FMP. They surpassed the threshold of 105 US cents/lb only in the first three months of 2017 and in December 2021 when the price reached the 8-year high of 112.76 US cents/lb (International Coffee Organization, 2021c).

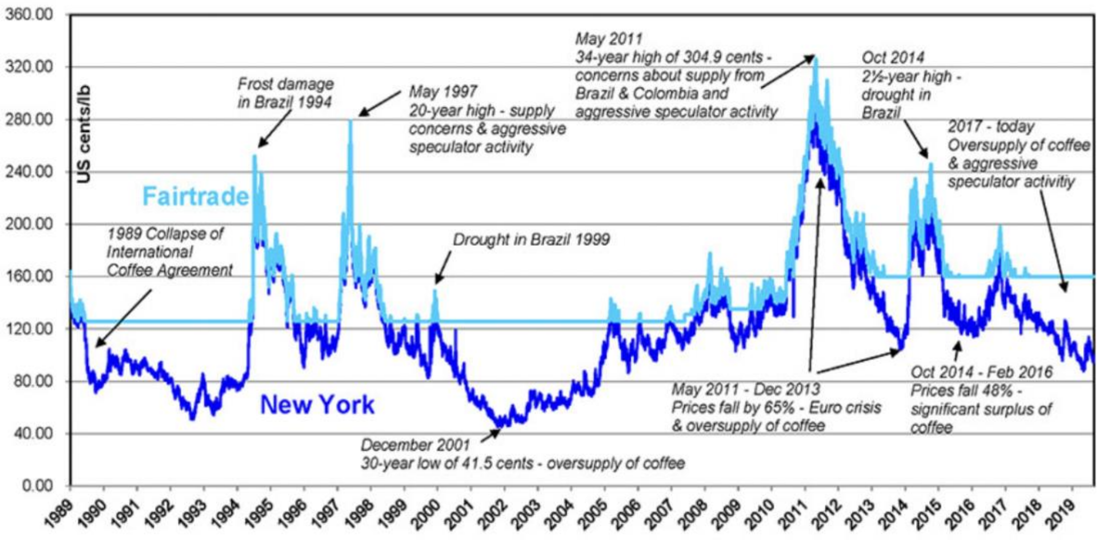


Figure 3.6 - Comparison between FMP and Robusta coffee prices: January 2013 – December 2019

(Source: Vanbreda, 2020)

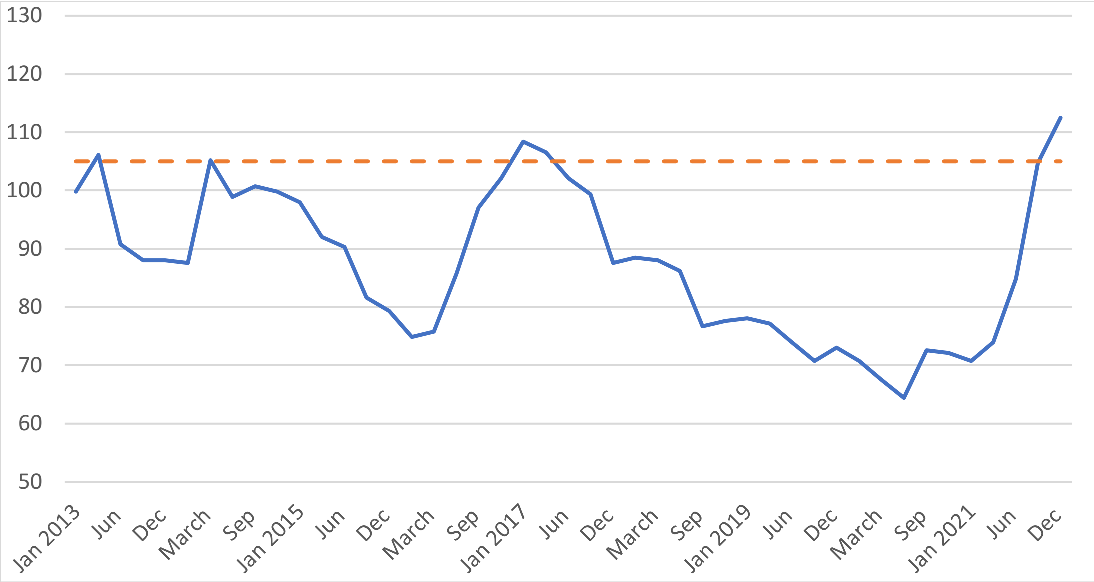


Figure 3.7 – Comparison between FMP and Robusta coffee prices: January 2013 – December 2021

(Source: author's elaboration based on data from IndexMundi)

The Fairtrade price model addresses the issue of volatility in coffee prices for its niche market participants by keeping prices consistent and above market levels, regardless of how high market prices rise, since it guarantees the Fairtrade Premium. The benefits of steady prices and added revenue attract marginalised and poor coffee growers to the Fairtrade market. Moreover, depending on production and sales, Fairtrade coffee prices can result in a significant gain in revenue for smallholder growers who are part of the movement. For instance, according to Eshuis & Harmsen (2003), smallholder coffee growers who supplied the Dutch market received Fairtrade pricing and premiums during a 15-year period that totalled almost €47 million in extra revenue. However, there are studies which show no effect at all. Valetto, Nagel, et al. (2021) reviewed 43 studies focusing on the impact of Fairtrade certifications on coffee producers' income, and they found that only 20 studies showed a positive effect on revenue. On the contrary, 16 studies showed no effect, and 6 studied negative effects. For further discussion regarding whether Fairtrade is really beneficial for producers or not, see the next section.

The Fairtrade Coffee Standard also sets requirements for the use of the Fairtrade

Premium. Buyers must guarantee sellers the payment of the Fairtrade Premium in addition to the price of the produce. Thereby, Fairtrade coffee farmers will always benefit from an extra amount that they democratically decide to use in ways that are most important to them. However, as already explained in section *International Fairtrade Certification Mark,* and shown in figure 2.6, the premium cannot be freely spent by producers. Moreover, the Standard requires that at least 5 US cents out of 20 US cents of Fairtrade Premium per pound of Fairtrade coffee sold must be invested in "*improving the productivity and/or quality of Fairtrade coffee and/or enhancing sustainable agricultural practices*".

In 2020, coffee accounted for 45% of the total Fairtrade Premium generated by all products. From the latest Fairtrade monitoring report, it was found that producers decided to spend 64% of the entire Fairtrade Premium on SDG2 (zero hunger), followed by SDG1 (no poverty) with 16% (Fairtrade International, 2022).

Effect of Fairtrade certification on producers

Fairtrade has the strictest social justice standards among the major coffee certification programmes. These standards aim to support democratic POs, provide premiums for social development, enhance worker rights, and facilitate long-term business relationships. Moreover, it is the only certification system that guarantees a minimum price with the express purpose of benefitting producers (Valkila et al., 2010).

Over the years, numerous authors have written articles regarding the effect of Fairtrade certification on producers. Some found positive effects, others negative. But before analysing the impact on producers, it is worth making a few remarks on consumers.

It is widely documented that consumers are willing to pay higher prices for the same commodity because they believe that by choosing Fair Trade, they are improving the livelihood of farmers. For instance, Arnot et al. (2006) conducted an experiment in a coffee shop to demonstrate that Fair Trade consumers are less sensitive to price changes. They increased the prices of both Fairtrade and conventional coffee and found that the chance of purchasing Fairtrade coffee was substantially less negatively impacted by the price raised, unlike conventional coffee. Another experiment made in US supermarkets by Hainmueller et al. (2015) found that the Fairtrade label increases sales by 10% when conventional coffee and Fairtrade coffee have the same price.

Typically, some Fairtrade products are more expensive than non-Fairtrade products for four main reasons:

- The existence of the FMP ensures that no matter of low market price fall, POs will always receive enough money to cover production costs and a sustainable livelihood.
- To obtain and keep the certification, there are fees that POs must pay yearly. Moreover, some costs are linked with auditing, traceability programmes, and product licensing. As a result, the final price for a commodity is higher.
- Sometimes, Fairtrade products, especially bananas, are packed in a way that distinguishes them from conventional commodities. Since this process is usually done at the farm level, the prices of packaging and transportation can be slightly higher.
- Many Fair Trade businesses invest additional money to foster long-term relationships and agricultural development with the producers.

Despite the ethical component, consumers are not fully aware of how their purchase will positively affect farmers and workers in developing countries. This lack of information could benefit roasters and retailers because they can increase their revenues by raising the price of Fair Trade products. Therefore, higher prices do not always correspond to higher benefits for farmers.

Following the distinction made by Negash (2016), the economic, social, and environmental impacts of Fairtrade certification on coffee producers are presented.

- Economic impacts

In his review, Negash (2016) finds strong evidence that "*Fairtrade provides a favourable economic opportunity for smallholder farming families who are able to form producer organisations and provide products of the right specifications for the*

market". Of all the authors cited, some have more extensive results. Ruben et al. (2008) conducted a comparative study in Peru, Costa Rica and Ghana, and they found that Fairtrade certification increased the yield of farmers' coffee production. They also found that profits from fair trade activities were by far the largest source of income for coffee farmers in these countries, with an average income share of between 70% and 90%. Finally, they discovered that those who participated in Fairtrade generally invested more money in house improvements and education. According to Utting-Chamorro (2005), Fairtrade was crucial in giving small-scale coffee growers in Nicaragua an alternative economic strategy. He found that despite coffee producers received a smaller share of Fairtrade price (between 1/3 and 2/3) due to the rise of other costs (export and processing costs), this amount was still enough for them to maintain their security while others were losing their land.
However, one recent study by Dragusanu et al. (2018) in Costa Rica, found that only certain workers in the coffee sector had income benefits. Farm owners, who were 33% of those working in this sector, experienced a 2.2% increase in income. In contrast, unskilled workers (the poorest and largest group, 61%) had no benefit from Fairtrade. Lastly, non-farm workers (intermediaries who accounted only for 6%) suffered a 2.6% decrease in income. Therefore, in this study, the certification impacted income inequality more than income itself.

- Social impacts

Although evidence shows that Fairtrade enhance POs internal democratic processes and participation, Negash clearly stated that Fairtrade alone is not sufficient to enable coffee farmers to escape poverty. This view is also shared by C. Bacon et al. (2014). They claim that increasing investments and integrating methods are required to tackle food security, livelihoods, and biodiversity caused by the fast spread of coffee leaf rust and declining commodity prices.
Another aspect to be considered is the one of education. Valetto et al. (2021) reviewed 19 studies concerning the effect of Fairtrade certification on coffee farmers' educational attainment. Of these, only 11 studies showed positive effects, while the others showed no or negative effects.
Akoyi et al. (2020) analysed the welfare of children in coffee-producing farm

households in Ethiopia and Uganda. They found that participation in Fairtrade certification schemes increased secondary school enrolment and children's schooling efficiency. Similarly, Arnould et al. (2006) found that Fairtrade farmers' children were almost twice as likely to be currently enrolled in school compared to conventional farmers.

In contrast, Dragusanu et al. (2018) found no evidence of positive effect of Fairtrade on school enrolment. Actually, they discovered that the certification was linked to a 7.3% decline in the likelihood that children of non-farm workers will enrol in high school. The authors consider these effects as a result of the negative income effects described above.

- Environmental impacts

Finally, Negash found evidence that Fairtrade POs are more likely to grow organic coffee, bringing environmental benefits. For instance, Fairtrade coffee production in Mexico is nearly entirely organic, thanks to the help of agricultural technicians hired with the money obtained from the Fairtrade Premium (Arnould et al., 2006; Jaffee, 2014) . Similarly, in Costa Rica, the cooperative Coope Llano Bonito hired a community organic farming promoter, allowing farmers to convert their coffee to higher income-generating organic production (Ronchi, 2002). Other examples of positive studies can be found in section *International Fairtrade Certification Mark* – "The Fairtrade Mark guarantees greater respect for the environment."

CHAPTER IV

COFFEE PRICES OF ALTROMERCATO

The previous chapters explained what Fair Trade is and how it works. Chapter I analysed the historical context in which fair trade originated and its development up to the present day. Chapter II examined the most popular Fair Trade labels a consumer can find on market shelves, focusing on the two leading labelling organisations (WFTO and FLO) and their standards. Finally, chapter III provided an overview of the state of the world coffee market, and then it focused on Fairtrade coffee and its benefits to producers.

The last chapter of this work is devoted to Altromercato, the leading Fair Trade organisation in Italy and among the main ones internationally. The purpose is to break down the retail price of Altromercato's coffee from Ethiopia to highlight how the margins are distributed alongside the Altromercato coffee value chain. The first section helps the reader understand what Altromercato is, its history and how it works. Next, the Ethiopian cooperative Sidama is analysed, and the relationship between it and Altromercato is described. As shown in chapter III, Ethiopia is a significant country in terms of coffee production, and Sidama coffee is one of the three single-origin coffees that Altromercato sells in Italy. The study considers Sidama single-origin coffee prices for two specific years, 2019 and 2022, and the reason for this choice will be explained later in the chapter. The final aim is to confirm what Fair Trade organisations have always professed, namely that producers selling through fair trade have a higher profit than those selling coffee on the traditional market.

4.1 Altromercato

History

Altromercato was founded in 1988 as a cooperative from the idea of three students – Rudi Dalvai, Antonio Vaccaro, and Heini Grandi – who wanted to support the UCIRI project, an organic coffee farmers' organisation in Mexico. This project led to the creation of the first Fair Trade label (Max Havelaar label, see section *Growth and metamorphosis of Fair Trade*), spreading Fair Trade in Italy and establishing world shops. Initially, Altromercato was composed of nine founding members, three workers and six world shops, and it was conceived as a cooperative. Compared to traditional businesses and profitable enterprises, cooperatives aim to maximise the value of social contribution and improve the level of the economic and social life of their members. In addition, cooperatives are rooted in their territories, and any extra income is distributed partly to members and partly to mutual funds. The rest is set aside as an indivisible reserve to foster the continued existence of the cooperative for future generations (Covi, 2009b).

On June 28, 1998, Altromercato shifted from cooperative to consortium following an expansion that came to include over 50 members all around Italy and led to the introduction of Fair Trade products in conventional retail channels. Using the words of Heini Grandi, one of Altromercato's founders, "*The transition from cooperative to consortium ensured broad participation of the world shops. There was a positive change in terms of professionalism and services that Altromercato, having more resources, was able to offer, thus ensuring a qualitative development for its members*" (Covi, 2009a). During the new century, the consortium grew, reaching 150 world shops and creating partnerships with other Fair Trade organisations. For instance, in 2004, it founded CTM Agrofair with the Dutch organisation Agrofair Europe. This joint venture is still active and deals with the fresh fruit and vegetable sector. The year after, Altromercato expanded its product catalogue by launching Natyr, the first fair trade natural cosmetic line. In 2016, it launched the "Made in Dignity" project intended to achieve a real and lasting impact in terms of environmental, social and economic sustainability in the area where the producer and its community reside. The project lasts for four-five years and enables the commercial partner to create an ethical supply chain of products such as coffee, sugar and cocoa. Finally, in 2021 Fondazione Altromercato was created. This foundation seeks to protect the environment and ecosystems, fight against poverty, and protect human rights by raising funds to implement technical cooperation projects for local projects (Pozzato, 2021).

Altromercato actors and data

This section analyses three of the main actors (member organisations, subcontractors and suppliers, and producer's organisations) who are part of Altromercato and provides some relevant data about the impact of Altromercato. All the data were retrieved from the latest social report available for the year 2021 (Altromercato, 2021).

At present, Altromercato comprises 87 members present in 13 Italian regions, with a high concentration in the North, especially Piemonte (23 members), for a total of over 700 employees. These members are vital for the organisation because they not only represent the values and strategies of Altromercato and sell its product through the 225 world shops but also play a key role in the decision-making process by nominating the board of directors.

In 2020-2021, Altromercato collaborated with over 200 subcontractors and suppliers for the processing, transformation, and packaging of the products. These actors are mainly located in Italy and are selected according to their compliance with Altromercato's values and Fair Trade criteria and are checked through regular audits. The collaboration with contractors is usually long-lasting, enabling Altromercato to continuously work to implement new sustainable packaging or experiment with exclusive recipes.

Finally, there are producer’s organisations. They are both the suppliers of raw materials and the primary beneficiaries of the Fair Trade system. Currently, Altromercato works with more than 140 producers spread over 45 countries worldwide (see figure 4.1). Of these, almost 70% are involved in food production, while approximately 25% work in the home craft supply chains.

Figure 4.1 - Map of Altromercato's producers

(Source: Altromercato website)

As might be expected, more than 70% of producers are located in Latin America (the majority of which specialises in food production) and Asia (where handicrafts are produced). The remaining 28% are found in Africa, the Middle East, Italy, and Bosnia, the only two European countries (see Figure 4.2). Producers are chosen based on ethical criteria and the nature of the development project, which can occur with finished productions at origin - where the conditions are in place to generate more added value - or by including the processing of raw materials by subcontractors in the supply chain. Although 70% of these organisations are already monitored by an external guarantee system such as WFTO and FLO, Altromercato has developed its own Ethics Evaluation Committee (EEC). The EEC is an independent body within the organisation chart of the consortium, and it is composed of at least five voluntary experts recommended by members. Its task is to evaluate the compliance of producer's organisations with environmental and social criteria settled at the national level with the collaboration of Equo Garantito and with WFTO principles (see sections *AGICES, today Equo*

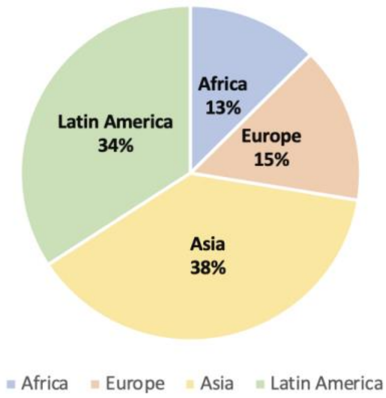


Figure 4.2 – Producers % divided per geographic area

(Source: Altromercato Bilancio Sociale)

Garantito and *WFTO Fair Trade Standard*). It is essential to underline that the EEC control is to be considered complementary to WFTO and FLO, not alternative.

Besides a fair price, other of Altromercato's milestones are long-lasting relationships and ensuring access to credit and pre-financing to create opportunities. Concerning the first aspect, Altromercato can count relationships of over nine years with more than 25% of the organisations.

As shown in Figure 4.3, pre-financing has steadily increased in the last four years. Generally, Altromercato advances between 30% and 80% of the order value to producers in the South who request it from the order and who may not have access to other financing forms to purchase what they need for their production. However, during the pandemic, Altromercato increased the pre-financing rate since a higher number of producer organisations required it. Of those USD 5.2 million, more than half (USD 2.6 million) has been allocated to Latin American producers (mainly coffee, sugar and cocoa farmers) and 40% to Asian producers (coffee, tea, species and handicrafts).

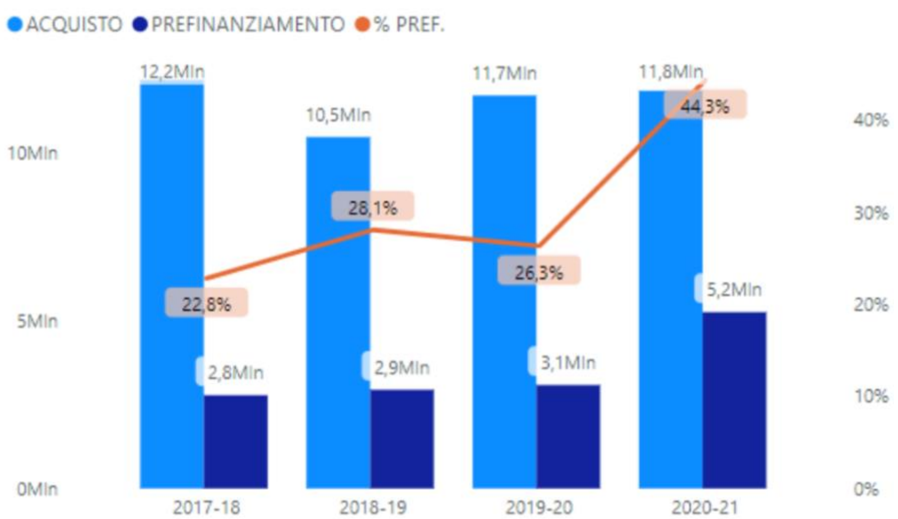


Figure 4.3 - Altromercato pre-financing and purchases, from 2017 to 2021

(Source: Altromercato Bilancio Sociale)

Altromercato coffee supply chain

Coffee was the first commodity imported by Altromercato, and it is still one of the top products of the organisation, along with cocoa and sugarcane. As extensively discussed in chapter III, the coffee market and production are increasingly affected by climate change. This leads to the appearance of new pests and diseases, such as La Roya, which have the greatest impact on Fairtrade coffee production. Additionally, flowering periods, plant development and production are severely affected by ecological and climatic imbalance, especially in the distribution of rainfall cycles throughout the year. It is estimated that without any concrete action to contain this phenomenon, the global area suitable for coffee production will be reduced by 50% by 2050.

Moreover, wild coffee, a vital genetic resource for farmers, could be extinct by 2080 (Del Forno, n.d.). Therefore, small coffee farmers are the most vulnerable and, on their own, have little capacity to adapt to a warmer world where climate and market volatility conspire against them. Likewise, consumers are exposed to supply shortages, impacts on flavour and aroma, and price increases. Through its ethical coffee supply chain, Altromercato is committed to achieving high social impact and low environmental impact. A low environmental impact is achieved because coffee is grown in the so-called coffee gardens. Small-coffee farmers do not practice intensive agriculture and do not use chemicals. Instead, they create these gardens by cultivating the plants in a diversified way and creating shaded areas that allow the development of high-quality coffee cherries. These methods permit the preservation of a suitable microclimate and make fertile soil thanks to the supply of the proper nutrients from the presence of other crops. Once the coffee cherry is ready, it is harvested by hand and then processed to obtain the green coffee that is then exported. The picking method results in a superior quality coffee, generally used for Arabica coffee. Altromercato is also very careful about packaging, having developed sustainable and recyclable packaging. Although the results will be available over the next year, for the three years 2020-2023, Altromercato is using the Life Cycle Assessment technique to measure the environmental footprint of its organic coffee, considering the whole path from the field to the cup to the end-of-life management of the packaging. On the other hand, the ethical coffee supply

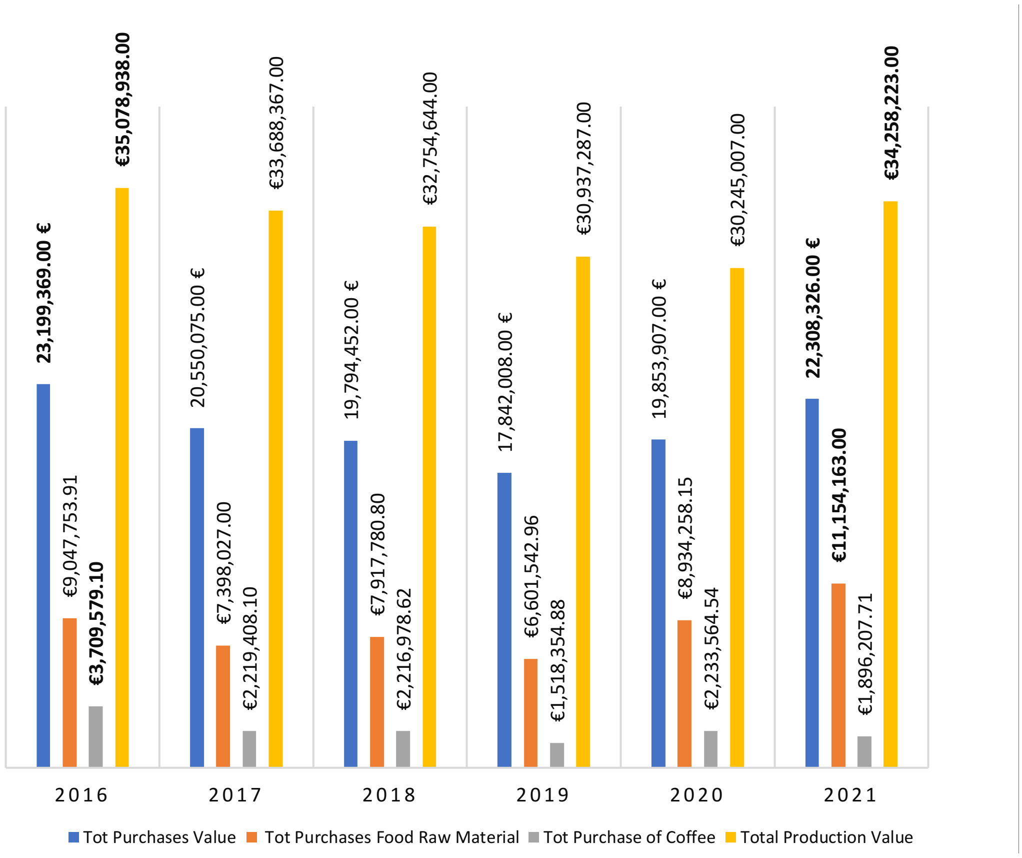
chain has a high social impact.
Firstly, Altromercato ensures producers a minimum FOB that is always higher than the market price. As it will be shown in the Ethiopian case study, the price is determined together with the suppliers to be able to cover all real costs and is constructed from indicators reflecting the situation in the local context. A comparison with the average income, data from annual questionnaires or the living wage calculation according to WFTO rules is used as a basis for determining the FOB. Furthermore, after a trial period of a maximum of two years for any new producer, Altromercato guarantees a lasting relationship not only on a commercial level but also in terms of technical support and cooperation. In this way, Altromercato is constantly monitoring that these partners protect workers' rights, respect social and environmental criteria and provide a quality product. Finally, Altromercato encourages organic production and helps producers in land conversion. To date, the amount of organic green coffee Altromercato imports from producer organisations exceeds that of conventional coffee. For instance, during 2018/2019, 65% of the total imported green coffee (217 out of 332 tonnes of coffee) was certified organic. While in 2020/2021, cups of organic Fairtrade drunk by consumers grew by 10% compared to the previous year, reaching almost 40 million units.

Figure 4.4 helps to understand how Altromercato's production and purchases value changed over the last six years. Data were retrieved from the latest operating budgets, which refer to June 30 of each year. The first trend that is worth noticing is the Altromercato Production Value. After four years of continuous decline (from €35,078 million in 2016 to €30,245 million in 2020), the last report shows an increase of 13% compared to the previous year. This growth positively impacted producers, especially after the pandemic, which significantly reduced purchases and affected with particularly positive results Altromercato world shops and industrial partnerships. During the period considered, more than 70% of the production values came from the sale of foodstuffs.
However, the primary intention is to bring out what the costs of Altromercato are. On average, costs for purchasing goods account for 60% of Altromercato's total

production costs. In figure 4.4, blue lines refer to the total purchase value directly from producers, orange lines refer only to purchases of food raw materials and grey lines to purchases of coffee. As can be seen, the trend of Altromercato Purchases Value is similar to the one of Production Value. In 2016 Altromercato spent €23,199 million to purchase raw materials, consumables and goods. Over the three following years, Altromercato reduced its purchasing, reaching a minimum of €17,842 million in 2019. Currently, costs for purchasing are returning to those of 2016. What is interesting to notice is the trend of the orange line.

In 2021 Altromercato increased the purchases of food raw materials by up to 11% compared to 2016. Food raw materials represent 50% (€11,154 million) of the total value of purchases. However, while purchasing food raw materials is increasing in terms of percentage, purchasing coffee is diminishing. The percentage of coffee purchased dropped from 41% in 2016 (€3,709 million) to 17% in 2021 (€1,896 million). This drop may be attributed to numerous factors. Firstly, as has been repeated several times throughout the work, coffee prices are highly volatile. Therefore, in case of climate crises (e.g. droughts, frosts) or other variables (e.g. increased transport costs) that negatively affect the harvest, coffee cost and availability can vary from year to year. Another aspect is the diversification of products that Altromercato offers. Whereas until 2019, coffee was always the second most purchased product after sugar cane, in 2020, Altromercato decided to invest in cocoa. This year, the percentage of cocoa purchased jumped from 4% to 24% and is currently at 34%. As a result of this shift, coffee has lost its second position while remaining one of the most important supply chains for Altromercato.

Figure 4.4 - Trend of production and purchases value, year 2016-2021



(Source: Altromercato operating budget 2016-2021)

The following sections analyse the breakdown price of one of the coffees sold by Altromercato to test whether or not, the benefit that Fair Trade generates to local producers. As anticipated in the introduction, the type of coffee analysed here is 100% Arabica single-origin Ethiopia, ground mocha and organic, produced by Sidama Coffee Farmers Cooperative Union.

4.2 Sidama Coffee Farmers Cooperative Union (SCFCU)

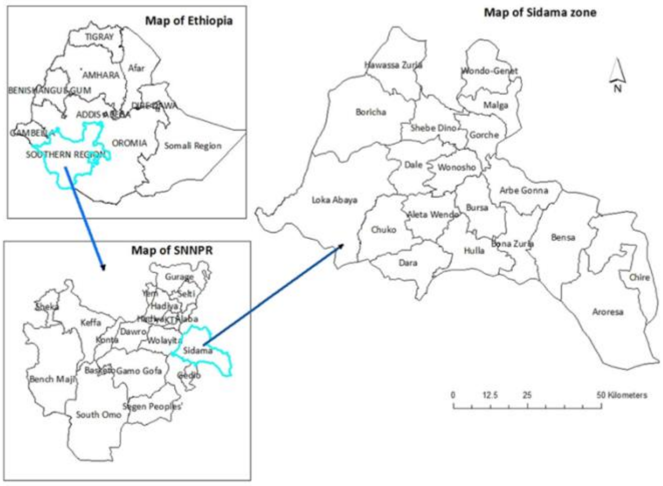


Figure 4.5 - Sidama region Map

The Sidama Coffee Farmers Cooperative Union (SCFCU) was founded in 2001 to represent coffee-producing cooperatives in the Sidama Zone of southern Ethiopia (see figure 4.5) with the goal of establishing a direct relationship between coffee producers, export companies and customers. The Sidama regional state, formed in June 2020 after the separation from the Southern Nations, Nationalities and Peoples' Region (SNNPR), is characterised by cooler temperatures compared to the rest of the country that slows down the ripening of the coffee cherry resulting in a more tasteful and high-quality coffee. The Union was created in a particular context. During the socialist era (1987-1991), Ethiopian coffee farmers were compelled to join a cooperative and were required to sell all of the coffee they had harvested to the cooperative. Up until 1991, the state had complete control over coffee marketing. Over the following ten years, rules were loosened, allowing farmers to sell their coffee even if they were not required to participate in a cooperative. This new context facilitated the establishment of the SCFCU. However, with the creation of the Ethiopia Commodity Exchange (ECX) in 2008, coffee returned to being controlled by the government. The main reason was that coffee was and still is the backbone of Ethiopia's economy. To date, Ethiopia is the largest producer of Arabica coffee in Africa and third in the world, contributing to about 7.6% of the global Arabica coffee production (see section *Production and consumption*). Moreover, coffee accounts for 4–5 % of Ethiopia's GDP, 10% of overall agricultural production, 40% of total exports, 10% of total government revenue, and 25–30% of total export earnings (Hundie & Biratu, 2022).

The ECX mission was to "*provide a modern, efficient, transparent and reliable market platform and warehousing service through adaptation of technology, excellence in innovation and with integrity*" (Ethiopian Commodity Exchange, n.d.). This system obliged all producers who were not part of a certified cooperative or who could not export directly from their commercial plantations to go through the ECX. Therefore, ECX was the only body entitled to inspect every lot of coffee and assigned it a grade according to its quality. In addition, the ECX did not provide customers with information on the washing station or community, making it impossible to sell completely traceable coffee in Ethiopia for a long time. Some empirical studies, such as Handino et al. (2019), have even questioned the usefulness of ECX since they found no evidence that producers can earn higher prices if they sell through ECX rather than not. Another significant change occurred in 2017 when the coffee industry underwent liberalisation, and the ECX's influence over the coffee trade diminished. Although the ECX continues to inspect and grade many lots of coffee, exporters may now trace coffee from the washing station to the port.

Today, SCFCU represent 53 primary cooperative and over 80,000 farmers (smallholders) located throughout the Sidama zone of southern Ethiopia - making SCFCU the second-largest Coffee Farmer Cooperative Union in the country.[43] For more than 30 years, its members have been growing and processing one of the highest-quality coffees in the world, respecting both the environment and Ethiopian tradition. The Union is very aware of environmental sustainability; therefore, it plants trees to reduce soil erosion and uses ecological machinery to reduce water consumption. In 2003, the Union obtained the Fair Trade certification by FLO and currently, 41 primary cooperatives have both FLO and organic certification and have the potential to produce 10,000 tons of organic Arabica beans per year, 95% of which is washed (SCFCU, n.d.).

The Fair Trade coffee value chain starts with farmers who cultivate and pick red

[43] The Oromia Coffee Farmers Cooperative Union (OCFCU) is the largest Union comprised of 405 cooperatives and over 307,000 farmer households. However, only about 10% of the cooperatives by volume is Fair Trade certified by FLO.

cherries in October-December. Usually, farmers are members of a primary cooperative. Section *International Fairtrade Certification Mark* - point D have already been describing the benefits of participating in a cooperative. To summarise, cooperatives provide their members with training, education, and information. Moreover, they allow small producers access to developed-country mainstream markets, thus increasing their income.

After cherries are picked, the primary cooperative collects them and starts processing tasks such as washing, pulping, and sorting. At this point, the parchment is inspected by the ECX, which grades the coffee. ECX grade the coffee from 1 to 9 (best to worst), considering raw and quality cup value, which account for 40% and 60%, respectively. Among the raw factors, there are defects (20%), shape & make (10%), colour (5%), and odour (5%). On the other hand, the cup quality factors are cup cleanness (15%), acidity (15%), body (15%), and flavour (15%) (Ethiopian Commodity Exchange, 2010). Once the coffee is graded, it is transferred to Cooperative Union.

Before continuing with the analysis of the coffee value chain, it is worth describing three major primary cooperatives which are members of the SCFCU.

- *Telamo cooperative*. The Telamo cooperative is located in the Shebedino woreda (district) and is the second largest cooperative in Sidama Union, with over 4000 members and 29 staff members working to deliver high-quality coffee. The cooperative is certified by Fairtrade and Organic and operates four washing and one drying station for natural coffee. Since its participation in the Union, Telamo has been able to access international markets and receive financial and technical support to improve farming and technical processes (Fair Trade Proof, n.d.-c).

- *Homacho Waeno cooperative.* The Homacho Waeno was founded in 1976 and is located around the Aleta Wondo district. It comprises over 3500 members, 240 of whom are female (6.3%). The cooperative is certified by both Fairtrade and Organic and manages four washing stations in which it prepares compost with cherry pulp. During the 2019/2020 harvest, Homacho Waeno was the only cooperative in the Union that presented an increase in production, overtaking Fero as the largest volume exporting cooperative in SCFCU. This achievement was obtained thanks to the continuous training and development of its members. Over the past ten years, the cooperative has held regular seminars during which it has trained a few model farmers on composting, pruning and selective harvesting. The latter, in turn, become mentors to other community members (Fair Trade Proof, n.d.-b).

- *Fero cooperative*. The Fero cooperative was founded in 1975 and joined the SCFCU in 2005. Located in the Wonsho district, the cooperative is recognised as a model organisation. It comprises over 5000 members, 17% of whom are female. Its coffee is considered one of the world's finest, having been granted several awards over the years. Currently, over 80% of its production is graded "Grade 1" by the ECX. However, the Fero cooperative is also very active on a social level. It has built four schoolrooms in every primary school in each of the five villages it has members in, and it constantly provides its model farmers with tools to implement and facilitate their work. Finally, it delivers workshops on the financial management of the farm, how to save and invest Fairtrade premium, and how to operate the farm with an entrepreneurial mindset (Fair Trade Proof, n.d.-a).

The SCFCU headquarter is located in Addis Ababa. Therefore, after the coffee is washed, the Union purchases it and transports it to the capital. Here, the coffee is ground, packed and the Union prepares all the documents necessary for the exportation. After all these steps are concluded, the coffee is transported to the Djibouti port where it is loaded on ships. At this point, Altromercato becomes the relevant actor of the chain.
Altromercato purchases green coffee (FOB price) and ship it to Trieste port, which manages 20% of the total coffee imported into Italy (Saracino, 2020). Afterwards, the coffee is ready to be roasted and packed. Altromercato entrusts these two tasks

to the Goppion Caffè roasting company based in Treviso. The packaging is very important for Altromercato because is not only eco-friendly[44] but offers the customer the opportunity to know what is behind the product: method of processing, the origin of the ingredients, WFTO guarantees, the history of the producer, and the benefits that purchasing generates on producer communities. Finally, the final product is distributed among Altromercato member organisations all over Italy that sell it through worldshops or online.

Figure 4.6 below describes each step of the coffee value chain divided by: relationship between actors, actors, product, and service provided.

[44] Starting from 2007, Altromercato no longer uses aluminium - a non-renewable resource - in its packaging. It is estimated that by doing so, it has avoided the use of 60'000 kg of aluminium and the input of 52 tonnes of coffee packaging waste.

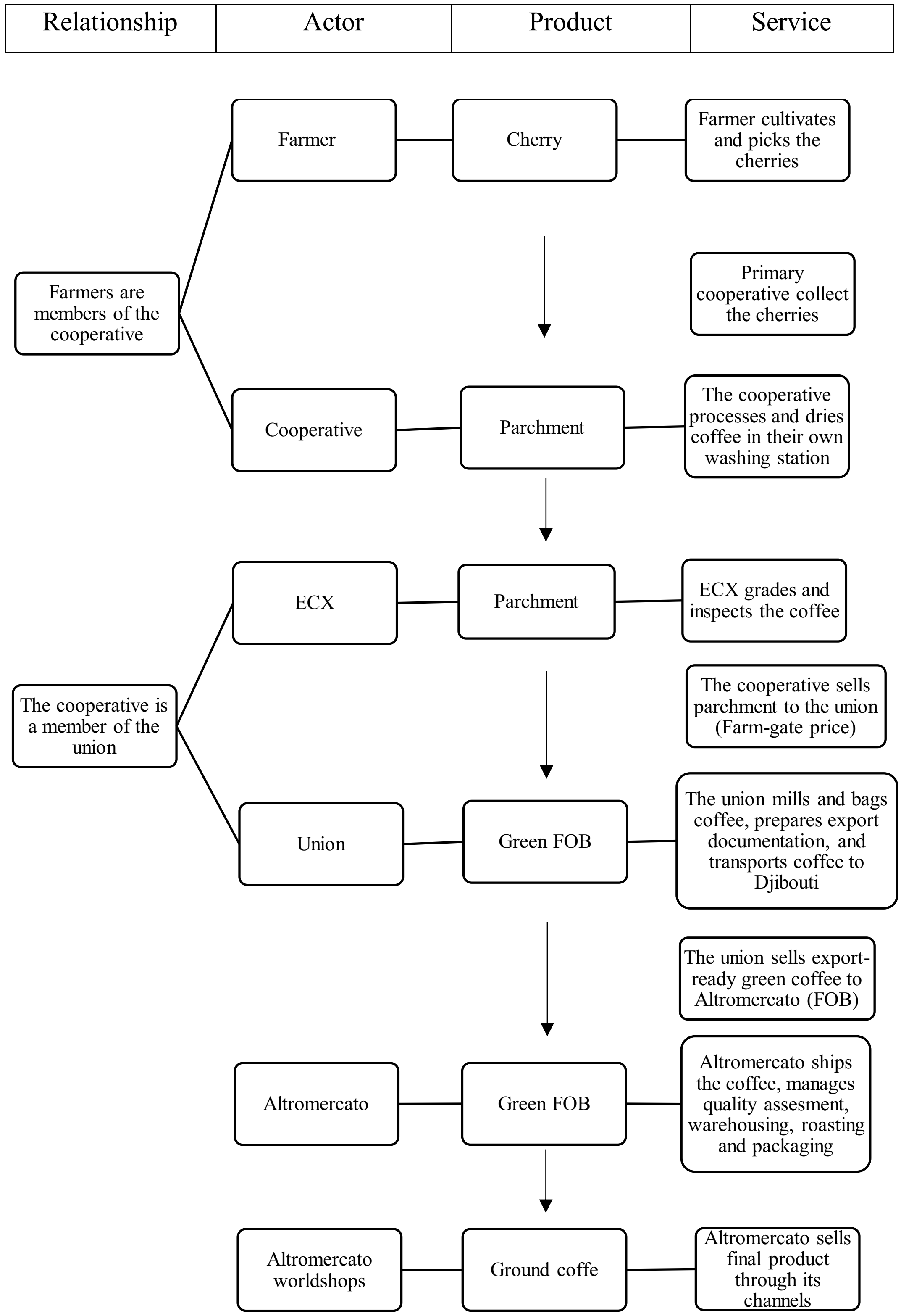


Figure 4.6 – Altromercato value chain in Ethiopia

4.4 The breakdown coffee price Sidama Arabica, ground mocha and organic

Figure 4.7 - 100% Arabica, coffee powder, bio, 250g
(Source: Altromercato website)

This final section aims to provide evidence of whether or not Altromercato is beneficial for coffee producers. In order to address this question, it has been chosen to select one specific type of coffee sold by Altromercato and verify, in two different years, the breakdown of the retail price. In its coffee catalogue, Altromercato offers only three types of single-origin ground mocha coffee: Ethiopia (Sidama Coffee Farmers' Cooperative Union), Mexico (Majomut Union), and Nicaragua (Cecocafen - Central de Cooperativas Cafetaleras del Norte). Most of the data were collected directly from the Altromercato procurement manager, product manager and purchasing and cooperation area manager. Data collected were then complemented and compared with others retrieved from other sources.

The decision to choose Sidama coffee as a case study is given for several reasons. As mentioned above, the fact that it is a single-origin coffee better highlights the margin that every actor involved in the value chain obtains. Indeed, in the case of blended coffee, more than two coffees are usually packed together, making it harder to verify the actual contribution of producers to the final product. Secondly, the difficulty in obtaining data has represented one major constraint of the analysis. While it was relatively easy to obtain data regarding the FOB price and the shipping, data regarding the second phase of the value chain (from the Trieste port to the final retail price) were missing or only partially given because they were sensitive. Additionally, Sidama coffee was one of the few for which it was possible to have data before 2020. Thirdly, the breakdown price of Sidama coffee is already present on the website of one of the Altromercato members. Therefore, it has been checked if the result coming from this analysis are compatible with what Altromercato demonstrates.

The two years chosen for the analysis are 2019 and 2022. As observed in the previous chapter, the coffee market is extremely volatile. This factor does not allow for a long-term discourse because any event can affect the coffee trend. Usually, the rise or fall in the price of coffee lasts only a few months. However, during 2021 and 2022, three major events greatly affect the coffee market. This topic will be dealt with in more detail later. It is important to emphasise from the outset that the situation described for 2022 (all data were retrieved in August) may change enormously in the coming months.

The two coffee prices analysis is structured in the same way. All costs are defined with the unit USD/lb to have continuity with the market price for Arabica coffee, which is based on the ICE US C contract in USD/lb. The coffee value chain (see Figure 4.6) is used as a reference to breakdown the price at each stage.

2019 Sidama Arabica, ground mocha and organic

The retail price is the first figure to consider to highlight the margin that each actor in the supply chain receives. This price is not fixed but varies according to the sales channel in which the products are distributed. It was not possible to find the exact retail price of Sidama coffee in 2019. However, according to Altromercato's procurement manager, in 2019, it was 20% less than the actual price. After checking various sources, the highest and lowest prices were chosen. The highest price was retrieved directly from Altromercato online shop, where Sidama coffee is sold for €7,10/250g.[45] The lowest price was retrieved from two different online shops of Altromercato's members (*Associazione Effetto Terra* and *Pangea- Niente Troppo*) that sell it for €5,50/250g.[46] Since these prices refer to 2022, 20% was subtracted and converted to USD/lb (the 2019 average exchange ratio is 1€ = 1,15 USD). An additional 22%, referring to VAT on coffee, was subtracted to the final retail price. Therefore, the average 2019 retail price for Sidama coffee is USD 8,2/lb (Highest: USD 9,24/lb, lowest: USD 7,16/lb).

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45 https://shop.altromercato.it/product/00000382/caff-100-arabica-monorigine-etiopia-macinato-moka-bio-250g, accessed in October 2022

46 https://altromercatoshop.effettoterra.it/products/caffe-100-arabica-macinato-monorigine-etiopia-bio, and https://altromercatoshop.commercioequo.org/products/monorigine-etiopia-sidama-union-100-arabica-macinato-per-moka-bio, accessed in October 2022

Once the 2019 retail price is determined, it is possible to breakdown the price to analyse the margin for each actor.

According to Altromercato data, in 2019, Altromercato paid the SCFCU a FOB price of USD 2,80/lb. As discussed in chapter III - section *Coffee price volatility*, FOB price comprises the processing and exporting costs, the farm-gate price, Fairtrade premium and Fairtrade organic differential. One of the main controversial aspects of Fairtrade is that the importer organisation (in this case Altromercato) is not required to ask the Union how the FOB is later distributed among its members. This lack obviously raises doubts as to whether the producers actually make money. Only the Fairtrade Premium (plus organic) is awarded directly to the individual cooperatives where the organic coffee comes from.

Although Altromercato did not possess the Farm-gate price data, it was possible to retrieve valuable data from other sources. Generally, considering the prevailing market price, the average farm-gate price for Ethiopia micro-lot Arabica coffee is around 46% of the FOB (Bozzola et al., 2021). However, if we consider Fairtrade's situation, the transmission ratio is almost 70% because it has to be added the Fairtrade premium and the organic differential. This percentage is in line with data contained in Erin Schneider's report (2014) which analysed SCFCU's member, Fero cooperative (Schneider, 2014).

Table 4.2 summarise the FOB price breakdown based on the average prices and costs for coffees purchased by Altromercato in 2019.

Table 4.2 – FOB price breakdown 2019

Farm-gate price (without Premium)	USD 1,29/lb	46%
Fairtrade Premium	USD 0,20/lb	7%
Organic differential premium	USD 0,30/lb	11%
Farm-gate price	USD 1,79/lb	64%
Processing and Exporting costs	USD 1,01/lb	36%
FOB price	USD 2,80/lb	100%

The voice processing and export costs include all incurred by the Union. The complete list is as follows:

- Cost of transforming cherry to parchment at washing station;
- Washing station margin;
- Transport to Addis Ababa;
- Warehousing in Addis Ababa;
- Dry milling;
- Dry milling loss;
- Export document preparation;
- Transport to the port of Djibouti;
- Local taxes;
- Exporter margins.

One of the pillars of Altromercato is that the FOB price is agreed upon with the producers, and it is always higher than the reference market price. This feature can also be found in this specific case. For 2019, the average reference market price was USD 1,05/lb, almost three times less than the price paid by Altromercato to SCFCU (International Coffee Organization, 2019b). It is important to bear in mind this data because it is one of Altromercato's strengths in establishing lasting and fruitful partnerships with producers.

In 2019, Altromercato loaded five containers of green coffee from SCFCU. Each container corresponds to 19200kg, and the transport cost from Djibouti to Trieste port plus customs clearance was 2000€/container. After converting all units, the total cost was USD 0,27/lb. This component is included in the ancillary costs with: the roaster cost (Goppion Caffè), the cost of the packaging, and the cost of the transportation to all Altromercato shops. Unfortunately, the latter costs cannot be disclosed to third parties. However, the product manager provided the percentage for each cost item of the retail price: 6% roaster processing, 2% packaging, and 1% transport.

Table 4.3 summarise the ancillary costs based on the data available.

Table 4.3 – Ancillary costs breakdown 2019[47]

Shipping + customs clearance	USD 0,27/lb	27%
Roaster processing	USD 0,49/lb	49%
Packaging	USD 0,16/lb	16%
Transport	USD 0,08/lb	8%
Ancillary costs	USD 1,00/lb	100%

The last two components of the retail price are Altromercato margin and retail margin.
Altromercato margin is the value that covers the structural costs to various activities such as research, import, cooperation, information and promotion, support and training for members.
The retail margin is the average value that goes to the retailer for the distribution of products in Italy.
On average, the retail margin is 7% higher than Altromercato margin.
Table 4.4 offers the detail breakdown price for 2019 Sidama Arabica, ground mocha and organic.

[47] May not add to total due to rounding

Table 4.4 – 2019 Sidama Arabica, ground mocha and organic price breakdown

FOB price	**Farm-gate price**	Farm-gate price (without Premium)	USD 1,29/lb	(~15,7%)
		Fairtrade Premium	USD 0,20/lb	(~2,4%)
		Organic differential premium	USD 0,30/lb	(~3,7%)
			USD 1,79/lb	(~21,8%)
	Processing and Exporting costs		USD 1,01/lb	(~12,2%)
			USD 2,80/lb	~34%
Ancillary costs	**Shipping + customs clearance**		USD 0,27/lb	(~3,3%)
	Roaster processing		USD 0,49/lb	(~6%)
	Packaging		USD 0,16/lb	(~2%)
	Transport		USD 0,08/lb	(~1%)
			USD 1,00/lb	~12%
Altromercato margin			**USD 1,93/lb**	~23,5%
Retail margin			**USD 2,50/lb**	~30,5%
Retail price			**USD 8,20/lb**	100%

This analysis shows that, by considering the average retail price for Sidama coffee in 2019, 34% is allocated for the Union. This amount ensures that all real costs are covered and guarantees people quality and dignity of life. The farm-gate price is another significant factor to consider. According to the Itakha crop report 2019/2020, the average farm-gate price of coffee beans for Ethiopia's southern regions was ETB 79/kg = USD 0,68/lb (ITHAKA, 2019). Although this number clearly demonstrates the higher profits that Fairtrade farmers gain, some clarifications need to be made. Firstly, USD 0,68/lb does not refer to the Sidama region only but is an average between twelve regions. Secondly, this price includes both Fairtrade and non-fairtrade farmers. Lastly, the farm-gate price for SCFCU was retrieved by combining information found online and not directly collected from Altromercato or the Union itself.

The following section analyses the price breakdown of 2022 Arabica Sidama coffee. The decision to analyse the current price situation arose from the desire to study how the coffee market has changed since the pandemic and whether Altromercato has adapted to the new events. The section opens with a presentation of the three factors that have had a significant impact on the current coffee market.

2022 Sidama Arabica, ground mocha and organic

Since March 2020, when Covid-19 was declared a global pandemic by the World Health Organisation (WHO), coffee prices have been highly volatile, mainly due to supply chain disruptions. An initial price increase was followed by a steady decline due to the recession in several coffee-importing countries, consequently reducing coffee demand. The ICE Arabica contract fell below US cents 100/lb at the end of June. Moreover, it disrupted internal logistics networks and the functioning of the export infrastructure. Shipping companies reacted to lockdowns and other restrictive measures by reducing their capacity. This decision backfired when, with global vaccination, both supply and demand rose again, and they had to order three times as much as they usually would to build up their stock levels. This has resulted in significantly more competition for container space on cargo ships and container shortages. All these implications caused freight prices to soar and, consequently, affected the coffee sector. For instance, in late March 2021, a cargo ship blocked the Suez Canal for almost a week, causing a collective loss of up to $15 million per day for businesses operating via the canal (Grant, 2021). Suez Canal is a crucial route for global trade and Altromercato as well. Currently, Altromercato's sea delivery rate is 73% and all freight transported from East Africa and Asia crosses the Canal.

To summarise, the first cause of the price increase was the cargo ship crisis which was hugely affected by the Covid-19 pandemic. In July, a second crisis occurred. Brazil, the world's largest coffee producer, faced a severe frost in major coffee-producing regions, which caused devastating, irreparable damage to coffee plants. The consequence of this extreme weather event influenced not only the coffee price, which reached a peak of over US cents 200/lb, but also the 2022 harvest.

After the recovery from the second wave of Covid-19 at the end of 2020, coffee prices rose steadily throughout 2021 (see figure 4.8). Finally, at the end of February 2022, a third event shook the world. The Russian-Ukrainian war is not only having devastating consequences for people, but it is also affecting the world economy. Due to the conflict, the cost of petrol and gas has risen enormously and consequently, so have transport costs.

On top of these three events, since November 2020, Ethiopia has been facing a civil war that can significantly affect the country's coffee industry. Despite the escalating conflict and restrictions on trade imposed by the government, coffee exports are continuing as normal thus far. However, the country's inflation rate has reached the highest level seen in a decade, more than 30%, causing an increased cost of living and, consequently, an increase in the price of the coffee cherry. According to Zwart (2022), the farm gate prices jumped from 22 Birr/kg cherry in 2020/21 to 40 Birr/kg cherry in 2021/22.

These four events that occurred within three years have brought the coffee market into a situation of extreme unpredictability.

Figure 4.8 – Arabica coffee futures on ICE US – from Jan 2019 to Aug 2022, US cents/lb
(Source: adapted from tradingeconomics.com)

After having described the factors that caused the increase in Arabica coffee price, the 2022 Sidama Arabica, ground mocha and organic coffee is analysed. As anticipated in the previous section, the highest price was retrieved directly from Altromercato online shop, where Sidama coffee is sold for €7,10/250g; and the lowest price was retrieved from two online shops of Altromercato's members that sell it for €5,50/250g. The 2022 average exchange ratio is 1€ = 1,05 USD, therefore, the average 2022 retail price for Sidama coffee (without VAT) is USD 9,36/lb (Highest: USD 10,55/lb, lowest: USD 8,17/lb).

According to Altromercato data, in August 2022, Altromercato paid the SCFCU a FOB price of USD 3,30/lb. Even if Fairtrade (USD 0,20/lb) and organic premium (USD 0,30/lb) are not considered, the remaining FOB price (USD 2,80/lb) is still significantly higher than the average ICE US market price (USD 2,25). This shows, once again, that despite the events that occurred since 2020, Altromercato ensures its producers higher profits than the conventional market.

While for Sidama 2019, it was possible to breakdown the FOB price, thus highlighting the farm-gate price, in this case, is not possible. In fact, the rising transport and processing costs do not allow to consider still valid the data found for

2019. However, assumptions about farm gate price can be made based on Ithaka crop report 2021/2022. The report estimates that the average price of green bean for the Sidama region at farmer gate level is USD 0,95/lb (+39,7% compared to USD 0,68/lb in 2019) (ITHAKA, 2021).

Increasing the 2019 farm gate price without premium (USD 1,29/lb) by 39,7%, and adding the two premiums, we obtain USD 2,30/lb (1,80+0,20+0,30 USD/lb) or 69,7% of FOB. Nevertheless, since these are just hypotheses, the results are not used in the final price breakdown.

In 2022, Altromercato loaded three containers of green coffee from SCFCU. For the shipping and clearing customs, it paid €2980/container, almost 70% more compared to 2019. After converting all units, the total cost was USD 0,22/lb.

For the remaining price items, namely the roaster processing, the packaging, the transportation and Altromercato and retail margin, the same method used for 2019 Sidama coffee applies.

Table 4.5 offers the detail breakdown price for 2022 Sidama Arabica, ground mocha and organic.

Table 4.5 – 2022 Sidama Arabica, ground mocha and organic price breakdown

FOB price		**USD 3,30/lb**	~35%
Ancillary costs	**Shipping + customs clearance**	USD 0,22/lb	(~2,4%) (21% ancillary cost)
	Roaster processing	USD 0,56/lb	(~6%) (53% ancillary cost)
	Packaging	USD 0,19/lb	(~2%) (18% ancillary cost)
	Transport	USD 0,09/lb	(~1%) (8% ancillary cost)
		USD 1,06/lb	~11%

Altromercato margin		**USD 2,20/lb**	~23,5%
Retail margin		**USD 2,85/lb**	~30,5%
Retail price		**USD 9,36/lb**	100%

Final considerations

Comparing the two case studies shows no substantial differences in the price breakdown. Indeed, the increase in the retail price in 2022 did not negatively impact the producer earnings, which remain on average at around 35%. However, an interesting inconsistency may emerge between the data in this case study and the data available on Le Rondini website (one of Altromercato member organisation). The choice of Sidama coffee was not accidental but was made precisely because, on Le Rondini website, there is a breakdown price for the same coffee. Therefore, the goal of the case study was to see whether the data found online are actually the representation of reality. The two figures below show the breakdown price in percent of Sidama coffee. Figure 4.9 represents the 2022 Sidama coffee, and Figure 4.10 is the one retrieve on Le Rondini website (Masotto, 2018).

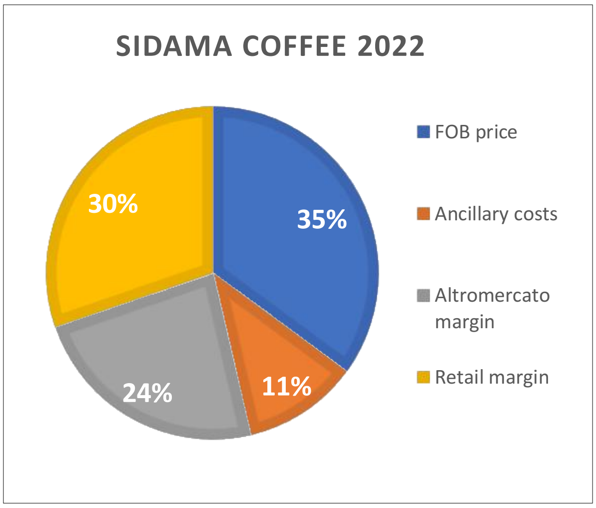

Figure 4.9 – Sidama coffee 2022 price breakdown

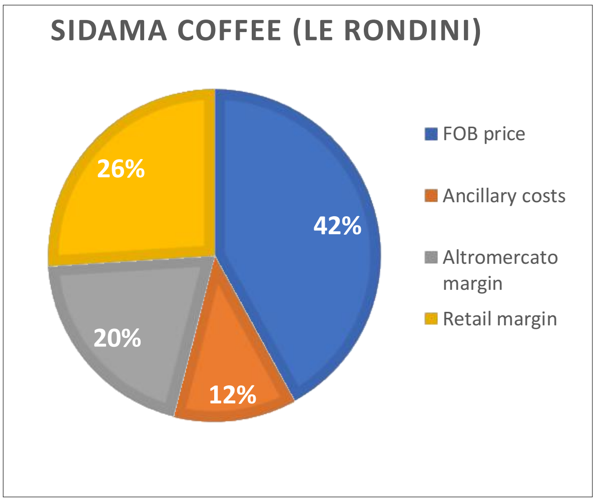

Figure 4.10 – Sidama coffee (Le Rondini) price breakdown

Apparently, there is a clear difference between the FOB prices, namely the money SCFCU makes on green coffee beans. As observed in the two case studies, FOB prices per cent for 2019 and 2022 have not changed much despite the aforementioned crises. One possible reason for this gap is the data taken into consideration. In fact, the retail prices for 2022 were taken from online shops, but most of Altromercato's income comes from worldshops sales where the retail price is lower and more akin to €5,50/250gr. Therefore, assuming that the breakdown made by Le Rondini considered the worldshop retail price and considering the lowest price, the 2022 FOB price percentage rise to 40%.

For greater clarity, Le Rondini cooperative was contacted to obtain the data used for its breakdown, but unfortunately, neither they nor Altromercato was able to provide this information. For an organisation which makes transparency one of its strengths, this is undoubtedly something that needs to be improved.

The results found in this study are thus valuable and highlight the benefits of Fairtrade. Chapter III analysed the traditional coffee value chain, showing the numerous service providers involved and contributing to raising the coffee price and reducing the grower's profit. It is essential to understand that the coffee itself represents just a tiny percentage of the value of the final product. Despite estimates that 10% of the USD 200-250 billion coffee retail market is retained in the country of export, Figure 4.11 shows that it is as little as 2%. The data were retrieved from Visual Capitalist, which used figures sourced from the Specialty Coffee Association based on the organisation's benchmarking report and coffee price report (Wallach, 2020). Another study, commissioned by the British Coffee Association, found that the value of the coffee retain in origin is even lower, around 1% (International Trade Center, 2020).

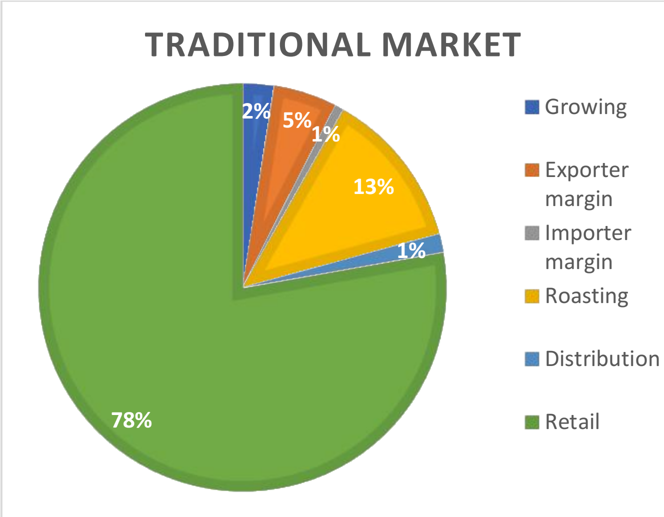

Figure 4.11 – Traditional market coffee price breakdown

(Source: Visual Capitalist)

Since Figure 4.11 refers to the traditional market, it is crucial to differentiate the exporter's margin from the grower's margin. While for Fairtrade, the FOB price is paid to the Union, which has a direct relation with the cooperative and farmers; in the traditional market, that 5% share has to be divided between local buyers, washing stations, milling stations and warehouses. The current traditional market is hugely unfair and inefficient. On the one hand, farmers have little access to the market, and on the other hand, it ensures roasters and retailers in importing countries, to capture the largest share of the value addition.

Finally, there is another consideration to be made about the FOB price paid by Altromercato. In the section *Business and Development - Fairtrade Minimum Price and Fairtrade Premium,* we dealt with Fairtrade Minimum Price for Arabica coffee, saying that it was USD 1,40/lb, plus Fairtrade Premium and organic differential (total USD 1,90/lb). As shown in Table 4.7, in 2019, the reference market price was below this threshold (USD 1,05/lb), therefore every coffee producer organisation could obtain at least USD 1,90/lb from the sale of Fairtrade coffee. In 2022, the reference market price (until August) was much higher (average USD 2,25/lb) and, considering the two premiums it reached USD 2,75/lb. If we now consider the two FOB prices paid by Altromercato to SCFCU – USD 2,80/lb in 2019; USD 3,30/lb

in 2022 – it can be seen that in both cases, the guaranteed FOB is higher.
This result shows that, regardless of the market price of coffee, coffee producers benefit more from selling coffee through Fair Trade than through the traditional market.

CONCLUSIONS

As described throughout the work, Fair Trade is an international movement that seeks to establish equitable trade relations that primarily benefit small farmers in commodities-producing countries. Chapter I began by discussing the origins of the movement and how it has developed over the years. Then, chapter II focused on the certifications and labels that can be obtained by products and organisations that comply with Fair Trade standards. In this chapter, particularly important is the section *International Fairtrade Certification Mark*, which deals with the role of cooperatives and the guarantees that producers receive from the Fairtrade mark, namely the Fairtrade Minimum Price and Fairtrade Premium. Chapter III dealt with coffee, the first Fair Trade certified product, and highlighted the differences in market prices and value chain between traditional and Fairtrade coffee. Finally, chapter IV tested the benefit of Fair Trade, using the case study of Altromercato.

There are, however, some weaknesses and unclear aspects of Fairtrade that need further discussion. Although Fairtrade sales are increasing steadily over the years, as well as the number of certified producer organisations (see Table 1.1 in section *Fairtrade International*), its market share still needs to grow. For instance, when coffee cooperatives are unable to market the entire production of its member at Fair Trade prices, they have to sell the crop at conventional prices, thus losing the benefit deriving from Fairtrade premium and, in some cases, Minimum Price. To address this issue, it is fundamental to boost the demand for Fair Trade commodities with strong promotion campaigns and enhance direct relations with producers, excluding, when possible, intermediaries in the value supply chain.
Another weakness found during the research is the limited transparency of information relative to the price breakdown along the chain. Undoubtedly, Fairtrade and Altromercato are two transparent organisations when it comes to management and commercial relations. On their website, it is easy to find the annual operating statements containing information regarding their expenditures, revenues and how money is allocated. However, as it turned out in the case study and confirmed by some Fairtrade operators, these organisations do not require producer cooperatives

to explain how the money is distributed among individual growers. The only certain information is the money Altromercato pays to the Union (FOB price) and that the Fairtrade Premium goes directly to individual cooperatives who invest it in improving their community's living conditions. For instance, Altromercato reports that some SCFCU primary cooperatives used the Premium to manage roads connecting their districts and to renovate a primary school.

Despite these flaws, the Fair Trade movement is constantly evolving and improving. The first example is the Fairtrade Standard for coffee (see section *Fairtrade Standard for coffee*) which is regularly updated to respond to crises. Among the new requirements introduced in the current version is a chapter called "production", which deals with environmental development and labour conditions. It was emphasised several times during the work that Fairtrade and Altromercato promote organic and sustainable farming to protect biodiversity and respect the environment. The second strength of Altromercato is the long-term relationships it has established with its producers, which have enabled them to overcome the difficult times of the pandemic. Altromercato carried out the orders and did not cancel them despite the delivery delays caused by the blockade of goods and ensured pre-financing to all producers who requested it.

The third benefit, and probably, the most important, is the price paid to the producers. One of the core principles of Fairtrade is the Minimum Price. However, the latter is constantly under criticism because it is a fixed price which is applied to all producers in the world and does not take into account the purchasing power and the living cost of individual countries. In the two-coffee price analysis, it was highlighted that the minimum FOB price guaranteed by Altromercato to its producers is always higher than the Fairtrade Minimum Price (case of 2019) or the reference market price (case of 2022). This additional amount guarantees producers higher earnings, which are invested in improving the community's facilities and allowing them to achieve economic sustainability.

As of 2021, Fairtrade itself started working on new prices to improve the living conditions of farmers and guarantee them a decent income. Besides the Minimum Price and the Premium, which remain compulsory for all coffee sales and represent a safety net that has helped many farmers stay afloat during the recent coffee price crises, Fairtrade is introducing the Living Income Reference Prices (LIRP) for coffee. A LIRP identifies the cost at which a typical farmer's household, with a workable farm size and a sustainable productivity level, can sell their harvest and make a living. Although the LIRP ensures fairer compensation for farmers, Fairtrade is still improving and testing its model to develop a standardised approach to apply to a wide range of commodities and regions. To date, the LIRP for coffee is available only for Colombia and Indonesia and is paid by companies on a voluntary basis. However, to truly ensure a living income for all farmers, LIRP is not sufficient, but it needs to be complemented with other interventions.

The objective of this work was to present the breakdown of coffee prices made by Altromercato to verify how much margin of the retail price is allocated to producers and whether the information retrieved on the Altromercato website is trustable. The results show that despite the numerous crises that occurred in recent years, Altromercato has always guaranteed its coffee producers a share of around 40% of the retail price. This finding is not only in line with what Altromercato claims but also clearly demonstrates the huge inequalities in the traditional market, where farmers receive only 2% of the retail price. This analysis does have limitations: it is made only on one specific type of coffee and the producer's margin may vary depending on whether the coffee is sold via the online shop or the world shops (where the retail price is lower). Furthermore, data related to ancillary costs were only provided in percentage terms, while the earnings of individual farmers were not disclosed because Altromercato is not obliged to ask producers for this information.

In conclusion, as also evidenced by Altromercato's flaws, Fair Trade is not a perfect system, and criticisms will continue to be made. However, it is undeniable that Fairtrade and Altromercato are constantly striving to improve and increase transparency in order to protect workers' rights and guarantee quality products for the consumer. To address the lack of transparency, Fair Trade organisations should require coffee producers to disclose the margins along their supply chain. This way,

organisations could add this information on coffee packages and their website, making the price breakdown more transparent for final consumers.
Anyhow, statistics show that Fair Trade will gain market share in the future. As a result, more research will be conducted, and more data will be available. It will then be possible to assess the positive impact on farmers and the environment on a larger scale.

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