**Fair Trade and Co-operatives**

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**Introduction**

The Fair Trade and co-operative movements have much in common. This chapter aims to examine the convergences and divergences between the two fields, highlighting what they can learn from each other and how practitioners and researchers in the two areas can better collaborate.

Fair trade is an innovative approach to economic development that uses a market-driven approach to exploit the growing trend in ethical, or caused-based, consumption (Nicholls & Opal 2005). Fair Trade organizations aim to re-engineer the value chains between poor producers and artisans - typically in developing countries - and their wholesale buyers such that a greater proportion of the overall rents accrue to those who provide the inputs. Put simply, Fair Trade aims to ensure that the poorest actors in a supply chain benefit from more of the overall financial value creation as a development tool. Moreover, Fair Trade reconnects producers and consumers at the point of purchase such that consumption becomes a political – or, at least, life style – choice.

The definition developed by international Fair Trade networks and most commonly used in the academic literature (e.g., Moore 2004) is the following:

*Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers - especially in the South. Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.*

To do this Fair Trade follows several key principles:

* A minimum price paid to producers determined by local economic conditions. This should be above the cost of production and will hold should world market prices drop below it. When market prices are above the minimum price, Fair Trade organizations will honour the higher price
* An additional development premium (typically 10% of the overall contract) for community projects
* Long-term contracts that allow producers to plan their investment and spending over several years
* Pre-payment of a part of each contract to ensure that producers can smooth their income flow and invest in improving their crops or products before sale
* Technical support and capacity building to enable producers to maximise the value of their outputs
* Minimum labour standards, including no child labour
* Capacity building and technical assistance, for example to move towards higher value organic production
* Minimum sustainability and environmental standards

Starting in the Netherlands in 1988, these principles were formalized into a set of audited standards that are certified to consumers by a product mark or brand. Initially created on a country-by-country basis, in 1997 the Fair Trade Labelling Organizations (‘FLO’, now ‘Faitrade International’) brought together national labelling initiatives, producer networks, and associate members within an umbrella organization that agreed common standards and, in 2002, established a common Fair Trade mark. However, there are also a large number of Fair Trade products for which labelling standards do not yet exist. Producer organizations in this category are often members of the second key coalition network in the sector: the World Fair Trade Organization. The latter established a Fair Trade Organization, peer-reviewed, label.

In 2013, global *certified* Fair Trade sales amounted to £4.4bn (+15% on 2012). The UK market - the largest in the world - accounted for over 40% of the total. As well as the development benefits of the guaranteed minimum price, an additional €52 million was distributed to communities via the Fair Trade premium in 2013. In the same year, there were 30,000 certified Fair Trade products in 125 countries worldwide coming from more than 800 producer organizations in 74 countries. It has been estimated that Fair Trade benefits more than six million poor people across the globe.

In addition to direct action reconfiguring existing supply chains both to empower producers and to increase economic development, Fair Trade also campaigns for political change and trade justice. Indeed, these wider impacts of Fair Trade may well have had a greater overall impact than its direct economic benefits. As a consequence of consumer support for Fair Trade standards, many major multinational organizations have reviewed their supply chain practices, often acknowledging the need to integrate producers and artisans more fairly in their overall value chains. This has increasingly become known as creating shared value (Porter and Kramer, 2011).

This chapter is structured as follows. After this introduction, the second section describes the development of Fair Trade from its historical roots to the current organizational landscape and market organization. Next there is a discussion of several key issues and challenges that have emerged as Fair Trade has become increasingly institutionalized. Then, the fourth section explores the relationship between Fair Trade and the co-operative and mutual movements. Finally, conclusions serve to sum up the chapter.

**The Development of Fair Trade and the Role of Co-operatives**

The origins of the Fair Trade movement are located just after the Second World War, with various initiatives focussed on the import and distribution of handicrafts into the UK to relieve poverty. These were led by development NGOs and charitable organizations, often with a religious background (e.g., Diaz Pedregal 2007; Moore 2004; Nicholls & Opal 2005; Raynolds *et al.* 2007). Later, handicrafts, and then food products (mainly coffee), were typically sourced from producer (farmer or artisan) co-operatives, initially in Latin America. One emblematic example was UCIRI in Chiapas, Mexico, where coffee growers were looking for new export opportunities in the 1980s. With the help of Dutch priest Frans vander Hoff, who worked in their co-operative, the producers managed to sell their coffee to Dutch supermarkets, paving the way for the first Fair Trade label, *Max Havelaar Netherlands* (Roozen & van der Hoff Boersma 2001). In the handicraft sector, producer co-operatives joined together with European Fair Trade importers to launch the first international Fair Trade network (the International Federation for Alternative Trade [IFAT], later renamed World Fair Trade Organization or WFTO).

These two examples illustrate the central role of co-operatives in the emergence of Fair Trade and paved the way for the two main Fair Trade models. On the one hand, product certification has been developed by national labelling initiatives and later internationally by Fairtrade International to enable the retail of Fair Trade products (mainly food) in mainstream markets (see next section). On the other hand, organizational membership has been developed by the WFTO as another avenue to guarantee the ethical quality of committed fair trade organizations (FTOs), especially for more complex products such as handicrafts for which product certification is more difficult to implement. Over time, these two complementary approaches to Fair Trade have diverged from each other (see next section), with product certification developing massive sales volumes through mainstream markets as compared with a ‘niche’ positioning of specialized FTOs.

Whilst supplying producer co-operatives in developing countries have remained present in both approaches, co-operatives in the North are of different types depending on each model. In the first, mainstream market approach, the presence of co-operatives can be found at the retail level through co-operative supermarket chains such as The Co-Op in the UK or Migros and Coop in Switzerland. These supermarkets have been instrumental in mainstreaming fair trade in their respective countries but they of course also offer other, non-fair trade products. On the contrary, co-operatives participating in the second approach are specialized FTOs that exclusively import or retail fairly traded products. In both cases, Fair Trade offered an effective model via which to implement the principle of co-operation *between* co-operatives (Crowell & Reed 2009).

In Europe and in the USA, some of the organizations that were created specifically for the import and retail of Fair Trade products also chose to adopt the co-operative form, for example CTM Altromercato in Italy or Equal Exchange in the UK. In a study on specialized Fair Trade importers and retailers in four European countries (Belgium, France, Italy and the UK), Huybrechts (2010a; 2012) found that 22% of the FTOs had adopted a single co-operative or related form (such as the Community Interest Company in the UK) and that an additional 12% were group structures comprising one co-operative entity (besides a second, non-profit or business entity). This proportion varies much depending on each country. In Italy, where the legislation on co-operatives and more particularly social co-operatives has been very dynamic (Borzaga & Santuari 2001), the vast majority of ‘worldshops’ (specialized Fair Trade shops) and Fair Trade importers have adopted the co-operative form (Viganò *et al.* 2008). The co-operative as well as the purely non-profit form are seen as the most adequate organizational avenues to develop a Fair Trade activity and are even required for membership to the national Fair Trade network “AGICES”. This means that starting Fair Trade initiatives have incentives to choose the co-operative form as opposed to small business or self-employed statuses (Huybrechts 2012). On the contrary, most other countries offer a broader range of legitimate organizational forms, from non-profit to for-profit including different types of “social enterprise” models. Interestingly, the co-operative form was favoured, for example in Belgium, by the pioneer FTOs that sought to reinforce their commercial profile to be able to compete (and also collaborate) with mainstream supermarkets and brands.

When examining the types of co-operatives created to develop a Fair Trade import or retail activity, besides a few purely consumer or worker co-operatives, most organizations have clearly developed a “multi-stakeholder” model in which different stakeholder groups interact: paid workers, volunteers, consumers, partner FTOs or NGOs, local public representatives and even in some cases producers (Huybrechts 2010b). The involvement of producers as organizational members represented in the General Assembly and in the Board of Directors is a trend that has been launched by British FTOs (Cafédirect and Divine in particular) and adopted elsewhere, despite the practical difficulties of selecting producer representatives and having them regularly travel to Europe. The involvement of and interactions between different stakeholder groups through the governance of multi-stakeholder FTOs has been highlighted as a way to advance the multiple dimensions of Fair Trade (Mason & Doherty 2012) and social enterprise in general (Huybrechts *et al.* 2014), and has been eased by specific legal forms such as the social co-operative in Italy or the “SCIC” in France.

On the supply side of the Fair Trade model, the co-operative form has been advocated as the optimal structure to ensure integrated and effective producer ownership, although other forms of legal incorporation are permitted depending on the local context. Co-operative ownership ensures the right to participate in the decision-making and to receive part of any profit as a dividend. As a consequence, it is typically recommended that any producers who enter the Fair Trade system form a producer co-operative or mutual and, then, either become a member of the WFTO or request being listed as a registered producer organization in the context of the ‘Fairtrade International’ Fair Trade certification and audit scheme. The first avenue provides access to specialized Fair Trade importers and retailers, likely to offer a dedicated and long-term partnership to producers. WFTO producers are also typically in the handicraft or textiles sectors and, generally, operate at small volumes. The second avenue provides access to a much broader array of import and retail companies generally not focused solely on Fair Trade, including large food multinationals and supermarket chains. Certified Fair Trade products are typically food commodities such as tea, coffee, cocoa or sugar.

**Contested Issues in Fair Trade**

The increased distribution of Fair Trade products in mainstream supermarket has resulted in a huge increase in the overall volume of sales - leading to annual double-digit sales growth for more than ten years. This process has been described as *mainstreaming*. The conditions and the extent of this mainstreaming, however, have also raised concerns among practitioners and stakeholders about the possible dilution or co-option of the Fair Trade movement (Jaffee 2010; Moore *et al.* 2006; Nicholls & Opal 2005; Raynolds & Wilkinson 2007). This has been particularly focussed on the actions of Fairtrade International – the prime advocate of the mainstreaming strategy.

An example of the type of decisions made by Fairtrade International that have been contested by the WFTO and other Fair Trade supporters was the inclusion of plantations as registered producer organizations. Plantations are not typically owned by producers, who are, instead, usually employed only as salaried workers that do not take part in organizational decision-making (they are not part of the general assembly) nor enjoy any of the main economic benefits (dividends) of the company beyond their salaries. Fairtrade International decided to admit plantations to the Fair Trade certification scheme for some commodities that were traditionally produced through the plantation system rather than via producer-owned organizations, such as tea. However, the inclusion of plantations for any type of commodity was widely criticized for discouraging producer mutual ownership and for introducing unfair competition for other co-operatives. Indeed, whereas Fair Trade initially aimed to offer the latter a sheltered space for economic development, the new system put them on an equal footing with large plantations that had the volumes and capacities potentially to squeeze the co-operatives out of the Fair Trade system entirely.

Following criticisms from producer organizations and specialized Fair Trade importers and retailers regarding this type of decision, the Fair Trade movement has become increasingly fragmented. This has also been reflected in the certification systems, which have diversified away from the historical monopoly of the Fairtrade International (FLO) label. While the latter still accounts for the majority of Fair Trade sales, other (often organic) certifiers have launched competing labels, including Ecocert and IMO. The WFTO, historically focused on accrediting its members at the organizational (rather than product) level has accelerated the development of its own product labelling system. Finally, producer co-operatives in Latin America have joined together to create a producer-led Fair Trade label called *Simbolo de Pequenos Productores* (SPP). These last two examples show a willingness of some Fair Trade pioneers, including numerous co-operatives in the North and South, to reclaim grass-roots control over an initiative that they had helped to launch years earlier.

The integrity of the Fairtrade International certification and label system is also under increasing stress as some important organizations have disengaged due to divergences on the vision for the future of Fair Trade. In 2011, Fairtrade USA decided to reverse the trend that saw country-level Fair Trade initiatives coming together to form FLO and left the common certification system to focus on a more market-oriented approach. At the other side of the spectrum, specialized FTOs such as CTM Altromercato, GEPA and Oxfam Fair Trade have decided to remove the ‘Fairtrade’ certification from their food products and focus on their own organizational reputation as committed Fair Trade pioneers to convince consumers and supporters. Since the integrity and universality of a single Fair Trade commodity brand has been widely seen as central to the exponential growth of sales in food commodities, these changes represent a significant challenge going forward.

A further critical issue has emerged concerning the overall impact of the Fair Trade model. In particular, in 2014, a research team based at the School of Oriental and African Studies (SOAS) at the University of London produced research funded by the UK government Department for Foreign and International Development (DFID) suggesting that:

*This research was unable to find any evidence that Fairtrade has made a positive difference to the wages and working conditions of those employed in the production of the commodities produced for Fairtrade certified export in the areas where the research has been conducted. This is the case for ‘smallholder’ crops like coffee – where Fairtrade standards have been based on the erroneous assumption that the vast majority of production is based on family labour – and for ‘hired labour organization’ commodities like the cut flowers produced in factory-style greenhouse conditions in Ethiopia. In some cases, indeed, the data suggest that those employed in areas where there are Fairtrade producer organisations are significantly worse paid, and treated, than those employed for wages in the production of the same commodities in areas without any Fairtrade certified institutions (including in areas characterised by smallholder production). At the very least, this research suggests that Fairtrade organizations need to pay far more attention to the conditions of those extremely poor rural people – especially women and girls – employed in the production of commodities labelled and sold to ‘ethical consumers’ who expect their purchases to improve the lives of the poor* (Cramer *et al.* 2014, pp. 15-16)

Whilst the findings of the SOAS study were questioned by both the Fairtrade Foundation (in the UK) and Fairtrade International it, nevertheless, highlighted the difficulties in demonstrating the impact of the model with robust evidence. The research also revealed the relative paucity of data concerning Fair Trade’s effect on the lives of poor producers beyond sales figures alone. The controversy around the SOAS report also emphasised the danger of having an organizational, rather than individual, focus in terms of stated impact. Perhaps somewhat ironically, the centrality of co-operatives in the Fair Trade model may have contributed to this loss of focus on the individual producer or farm labourer.

A final challenge to Fair Trade emerged in 2014, when UK year-on-year sales fell for the first time since the FLO label was established in 1997. The fall was only 4%, but was nevertheless seen as a blow to the future development and growth of the Fair Trade sector since it occurred in the largest single market. The cause was generally felt to be the rapid growth of discounters such as Lidl and Aldi in the UK supermarket sector – retailers that were, generally, less sympathetic to Fair Trade. However, only time will tell how significant this drop may or may not prove to be.

**Fair Trade and Co-operatives: Convergences and Divergences**

Several key principles of Fair Trade - for example, its focus on community development, a *fair* price, economic democracy, and the exclusion of intermediates - have been directly inspired by the co-operative movement (Gendron *et al.* 2009). Interestingly, the term *fair trade* was even used to describe the trading relationships among co-operatives in the 19th century (Anderson 2009; Develtere & Pollet 2005). From this perspective, the contemporary Fair Trade movement can be seen as a model for international co-operation among co-operatives (Crowell & Reed 2009). Moreover, Develtere and Pollet (2005) identified a number of other, specific, convergences between the Fair Trade and co-operative movements, which are summarized here:

* Both movements were initially conceived as alternatives to the dominant capitalist model, while at the same time being integrated in the market
* Equitable income is central to both initiatives
* In both cases, the economic activity serves – or, at least, coexists with - social and political purposes
* Both co-operatives and Fair Trade actors try to balance ethical standards, on the one hand, and survival in a competitive market environment, on the other

However, several key differences can also be observed between the Fair Trade and co-operative movements. Fair Trade, by definition, applies to international supply chains between the North and the South (and, increasingly, between the South and the South); co-operatives, on the other hand, may be active at the local and/or at the international level. Moreover, Fair Trade mainly locates the notion of *fairness* at the level of individual producers rather than at the level of the organization itself, especially given the recent evolutions in certification that no longer require co-operative ownership. Also, unlike Fair Trade, co-operative principles do not operate at the level of the supply chain *per se*, but rather are located and expressed within organizations.

In many contexts co-operatives have become sustainable over time by evolving an increasingly strong business focus that has, at times, threatened to dilute some of the field’s central political dynamics (e.g., Monaci & Caselli 2005). Some co-operatives have evolved to appear very similar to normal businesses, while others have been subject to buy outs by mainstream corporations, particularly in the retail and banking sectors. This trend led to the scandal concerning the UK based Co-operative Bank that almost destroyed it in 2014. Nevertheless, some authors have suggested that, even in such cases, the co-operative form still constitutes an alternative to the dominant capitalist model (Reed & McMurtry 2009), especially when the business is backed by a citizen movement or strong community engagement (Vienney 1997). The commercial evolution of Fair Trade over the past decade could be seen as following a similar path to that which many co-operatives followed, in that the challenges of maintaining the original features of the concept under conditions of mainstreaming lead to debates that opposed radical and pragmatist actors within the movements.

**Conclusion**

This chapter has set out the principles and practices that define Fair Trade and also considered some of the movement’s most urgent challenges and issues. It has also considered how Fair Trade and the co-operative movement relate to each other in terms of guiding *ethos* as well as activities on the ground. This discussion suggests, in conclusion, that the Fair Trade and co-operative movements have much in common, both conceptually and in practice. Nevertheless, Fair Trade is more than just a re-actualization of the co-operative idea. It has integrated itself in, and was inspired by, other movements seeking to ally economic activity and social and/or societal goals without necessarily focusing on a particular organizational or legal form exclusively. Its roots in disaster relief, poverty alleviation and development via international trade also differentiate it from the co-operative movement’s origins in community empowerment and local *fair-trading*. These two models of *capitalism with a conscience*, *doing well by doing good* or *creating shared value* have, however, signposted larger changes in global markets that they have both helped inspire – and can, in future, strongly benefit from.**References**

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