


# Fair Trade



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# **Code of Conduct Organizations and Fair Trade Labeling**



# Code of Conduct Organizations (CCOs): What are they?

- Definition: *a nongovernmental organization that develops one or more formal statements of rules of conduct regarding environmental and/or social domains of sustainable agriculture that producers voluntarily agree to implement* (Ingenbleek, 2006).
- Examples: Fair Trade (20 certifiers in FLO), Organic (97 approved by the USDA)

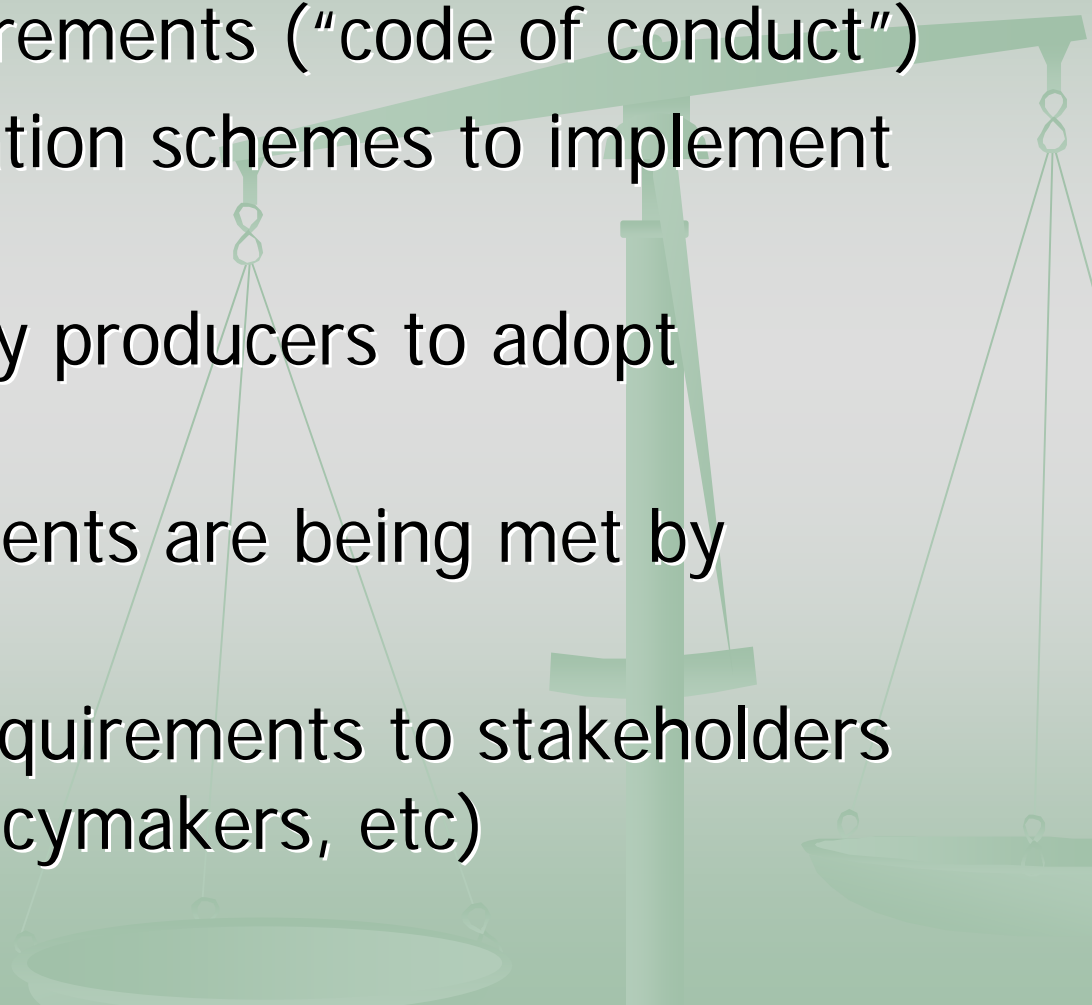
# CCOs: Why do they exist?

1. To pursue an idealistic goal (social / environmental sustainability)
2. To protect a firm (when it is held responsible for behavior of upstream firms)



*Image: USDA Organic  
Certification Label*

# CCOs: What do they do?

1. Determine requirements (“code of conduct”)
  2. Develop certification schemes to implement requirements
  3. Convince primary producers to adopt requirements
  4. Ensure requirements are being met by producers
  5. Communicate requirements to stakeholders (consumers, policymakers, etc)
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# CCOs: Types and Examples

- Idealists
  - Organic
- Case-Solvers
  - Fair Trade
- Size-Seekers
  - Utz Kapeh
- Window-Dressers
  - Real CA Cheese



# CCOs: Two Main Types

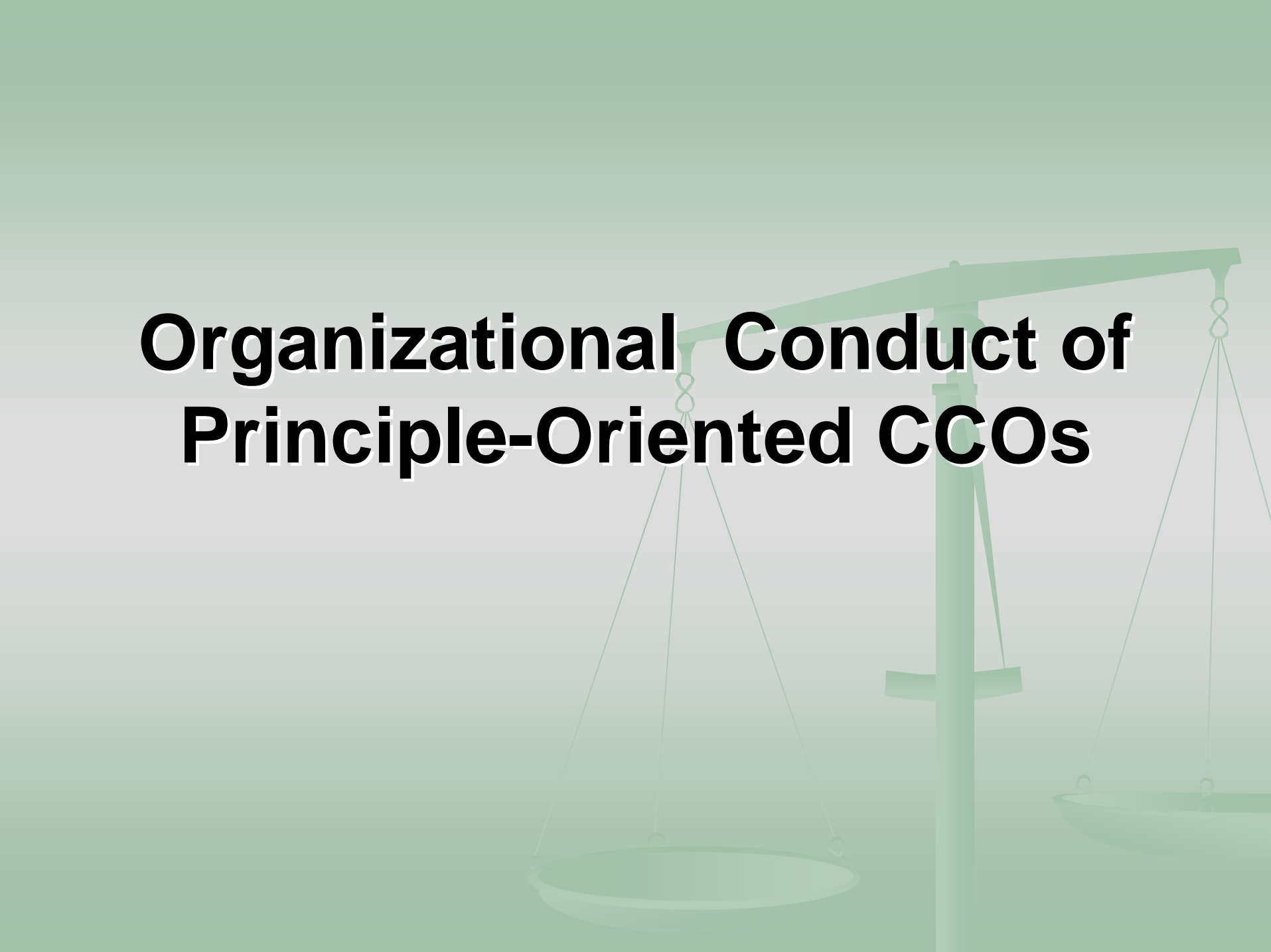


## 1. Principle-oriented

- First in the market
- Set idealistic standards for sustainability.
- Do not attract a lot of consumers
- Small capital investment: charities & subsidies

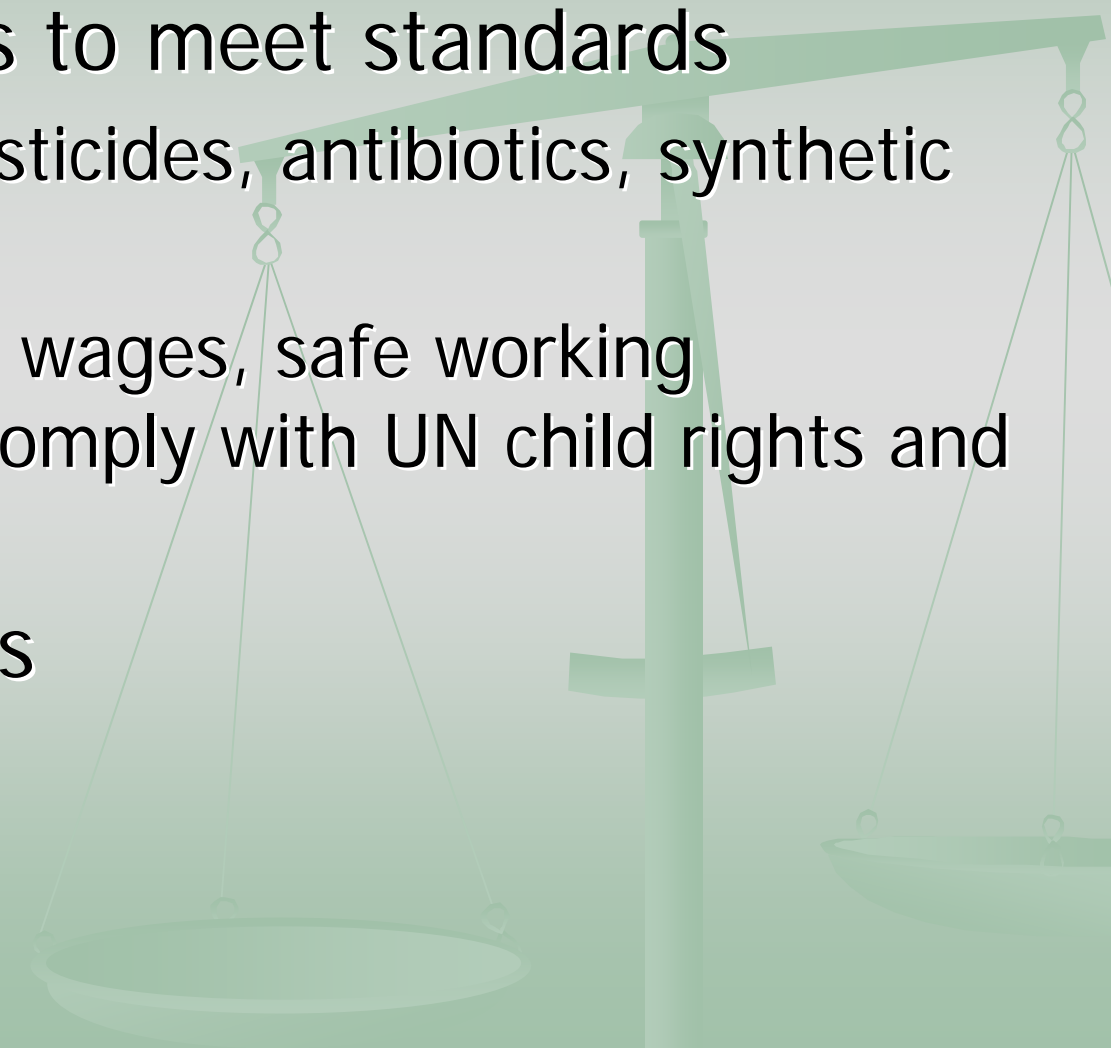
## 2. Size-oriented

- Founded as a response to idealistic CCOs
- Good, but less-than ideal standards
- Operate on a large scale, reach more consumers.
- Large capital investment: corporations



# **Organizational Conduct of Principle-Oriented CCOs**

# Product Differentiation

- Certify products to meet standards
    - Organic: no pesticides, antibiotics, synthetic fertilizers...
    - Fair Trade: fair wages, safe working environment, comply with UN child rights and local laws
  - Unique Products
- 

# Certification Institutions



- **First-party certification:** firm sets and controls its own rules
- **Second-party certification:** guideline set and followed by firms in a particular sector
- **Third-party certification:** external, independent group imposes rules and compliance methods for the industry
- **Fourth-party certification:** government or similar agencies set guidelines and have an external group monitor

# Certification Examples

- Cal Dining vs UCSC
- Fairtrade Labeling Organizations International (FLO)



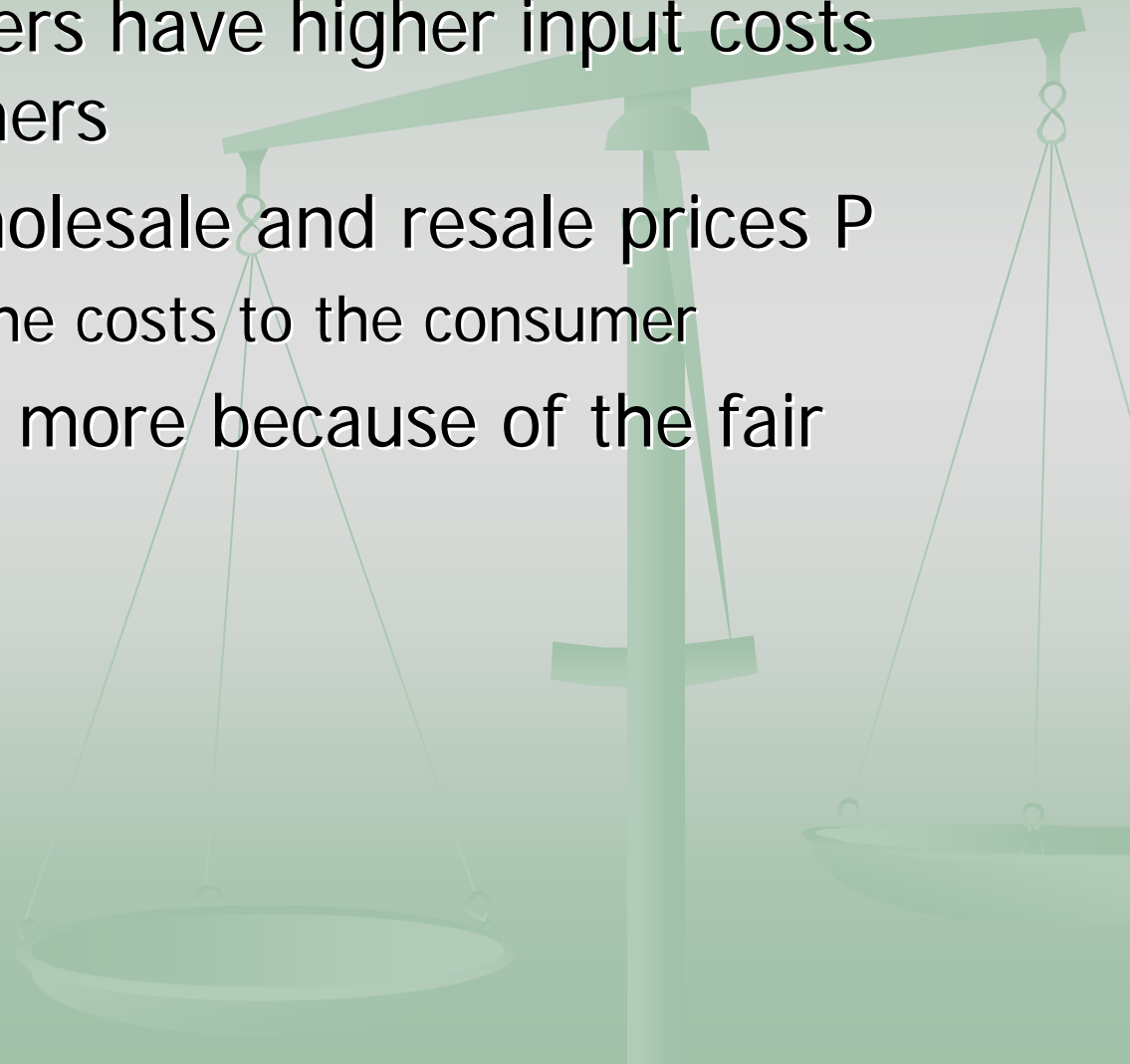
# Labeling



- Allows consumers choose between mainstream products and alternatives
- Certified labels: assure customers of quality

# Making a Profit

- Fair-trade farmers have higher input costs than other farmers
- Have higher wholesale and resale prices  $P$ 
  - Pass some of the costs to the consumer
- Consumers pay more because of the fair trade label



# Costs

- Farmers
  - Cost of investment to meet standards
  - Per pound cost for certification
- Certification costs in all stages of the supply chain may be needed



# Benefits

- Certified labels signal high quality products
    - Higher prices
    - Greater consumer loyalty
  - Find price-insensitive consumers who comprise niche markets
  - Will be meeting current and be able to meet future labor standards easier than other farmers
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# Growth Pattern

- Start with small capital, small scale
- Have slow growth
- Diversification: develop new sets of requirements for new groups of farmers



# Producers and Consumers of Fairtrade: Integrating Ethics to Price



Miriam Olivera

EEP142 Spring 2007



# Fair Trade Certification and Producer Standards

## ⌘ Different Fairtrade Certification Types:

⌘ Carried out by FLO-Cert GmbH, based in Germany

⌘ Given to;

⌘ Producers

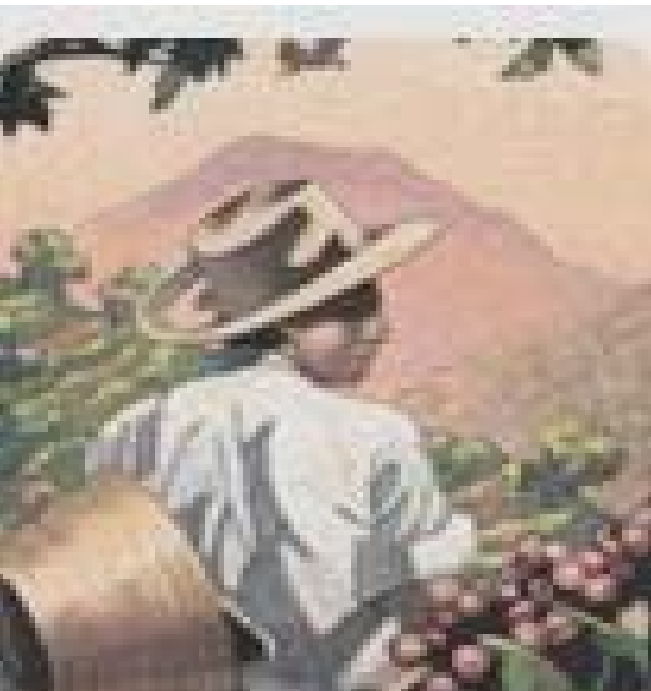
⌘ Traders: exporters, importers, processors, manufacturers

⌘ Fairtrade Labeling organizations International.  
Explanatory Document- Introducing Fairtrade and its  
organizations.2005. [www.fairtrade.net](http://www.fairtrade.net).



# Codes of Conduct to be Explored

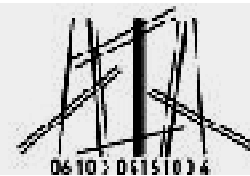
- ⌘ Minimum Price Standards
- ⌘ The Premium
- ⌘ Worker Participation & Representation
- ⌘ Financing
- ⌘ Long Term Contracts



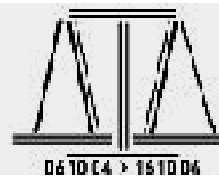
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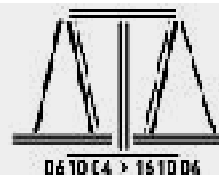
# Producer Certification

- ⌘ Carried Out By: FLO (Fairtrade Labeling Organization)
- ⌘ Any org that meets Fairtrade standards allowed to apply:
  - ⌘ small farm, co-op, plantation
- ⌘ Accredited inspector will visit site & compare to Fairtrade standards
  - ⌘ Follows International Labor Organization guidelines
    - ⌘ Ie. Child labor laws



# Trader Certification Requirements, The Ethics Aspect:

- ⌘ Trader/Buyer must assure a min price to producer
  - ⌘ Min price must at least cover cost of production (overhead costs),
  - ⌘ But negotiated price >>>Cost of Production
- ⌘ In addition: Must provide a premium (\$\$)
  - ⌘ This is on top of the agreed price, to the producer
  - ⌘ (not part of min price payment)
- ⌘ If commodity price goes up, Trader must adjust payment
- ⌘ Must provide financing



# The Premium

- ⌘ Premium rates are in the range of 5-30% of farmgate price
  - ⌘ farmgate price= the price of the product available at the farm, excluding any separately billed transport or delivery charge. (glossary of statistical terms, oecd.org)
  - ⌘ if min price= \$1.26/lb, premium would be \$0.05
- ⌘ Premium cannot be used as part of the payment to employees
  - ⌘ Must be used towards a development project
- ⌘ Decision on how Premium is spent is left to producer employees
- ⌘ Two Types of Organization: Joint Body & General Assembly



# Participation & Representation: Joint Body

- ⌘ Used as a plantation model
- ⌘ Mainly made of workers & then management
- ⌘ Workers elected to the Joint Body by the General Assembly:
- ⌘ Joint Body makes final decision on spending of Premium
- ⌘ Joint Body manages spending of premium



# Participation & Representation : General Assembly of Members

- ⌘ General Assembly of Members-
- ⌘ In hired labor situation/plantation: where all workers elect representatives to Joint Body
- ⌘ Joint Body to listen to general assembly in what they want
- ⌘ In Small Farmer Situation:
  - ⌘ General Assembly is only body
  - ⌘ all decide how premium will be spent
  - ⌘ people elected manage spending of premium



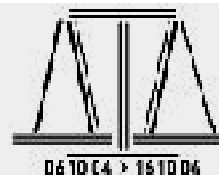
# Financing and Long-Term Contracts

## ⌘ Pre-Financing/ Microcredits:

- ⌘ If buyer places an order to Fairtrade Producers & Producer cannot afford the costs to meet order:
  - ⌘ Trader can may pay for the order in advance, if trader requests
  - ⌘ provides access to cash flow for producer

## ⌘ To encourage Long Term Relationship between Trader & Producer:

- ⌘ Contract is signed in the beginning of a season
- ⌘ For 2<sup>nd</sup> part of season:
  - ⌘ Trader writes a letter of intent on how much they are likely to purchase
  - ⌘ allows grower to plan ahead in production aspect



# More from the Consumer Side

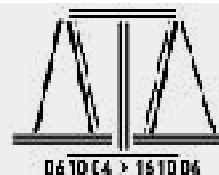


"Now, that is a GOOD cup of coffee."

Our Fair Trade flavors!



Coming soon - Fair Trade  
Chocolate & Vanilla!



# National Incentives

⌘ Fairtrade found in 21 countries:

⌘ Developed Nations:

⌘ Europe (60%)

⌘ N. Am

⌘ including Mexico?

⌘ Represents 0.1% of all goods traded internationally

⌘ Fair Trade sales in Europe have been growing at an average 20% per year since 2000

⌘ In Switzerland Fairtrade Market Share:

⌘ 47% of all bananas

⌘ 28% of the flowers

⌘ 9% of the sugar

# Producer Incentives in Global Market

- ⌘ Fairtrade certified Producers receive 1/4- 1/3 more than open market revenues
- ⌘ over 3,000 grass-roots organizations part of Fairtrade family
- ⌘ Producers represent over 50 developing countries
  - ⌘ The Trade Importing Organizations say 26% of their sales come from Africa
  - ⌘ 40% from Asia
  - ⌘ 34% from Latin America.



⌘ Hulm, Peter. Fair Trade. International Trade Forum Magazine. International Trade Center. 2/2006

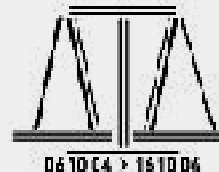
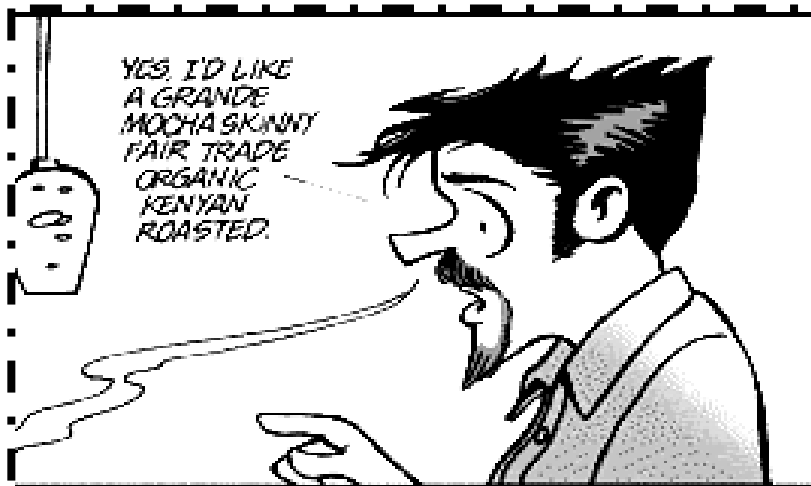


# Question: Does Price Matter When it comes to Fairtrade?

## ⌘ Study: Do Ethical Consumers Care About Price? A Revealed Preferences Analysis of Fair Trade Coffee Purchases.

⌘ Arnot C., Boxall P.C., Cash S.B.

⌘ University of Alberta, Department of Rural Economy. Canadian Journal of Agricultural Economics v.54 pp. 555-565. (2006).



# Experiment Setup

- ⌘ Based on Actual Purchases, in a market setting
  - ⌘ University Café
  - ⌘ Normally: price of FT=Reg, \$1.20
  - ⌘ Survey followed observed purchase to profile consumer
  - ⌘ 5 day study, n=500, 50/discount period
- ⌘ Variable: Price of Fairtrade and Regular
  - ⌘ Discounts of \$.10, .25, .50, per cup
  - ⌘ Discount applied on one type at a time
  - ⌘ Discounts given Twice per Day:
    - ⌘ early morning for one type
    - ⌘ late morning for other type
- ⌘ Control:
  - ⌘ Taste:
    - ⌘ Fairtrade Nicaraguan Medium Roast
    - ⌘ Regular: Columbian Medium Roast
  - ⌘ Income: Modeling



# Results

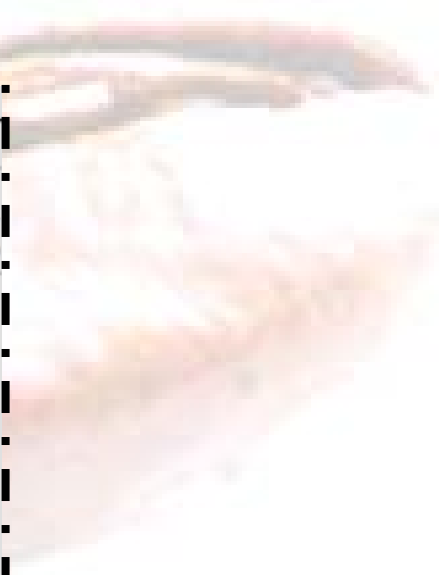


Table 1. Summary of respondents' gender, affiliation with the University, coffee purchases, and coffee consumption

Affiliation	Gender	Number of respondents	% of respondents	% Purchase fair trade	% Purchase Colombian	% Purchase dark	% Purchase light	% Purchase flavored	% Familiar with FT	Average cups per day (std)
Student	Male	85	18.8	24.7	44.7	20.0	4.7	5.9	81.2	2.4 (1.5)
	Female	96	21.3	28.1	33.3	8.3	11.5	18.8	84.4	1.9 (1.2)
	Total	181	40.1	26.5	38.7	13.8	8.3	12.7	82.9	2.1 (1.4)
Staff	Male	143	31.7	16.8	39.2	27.3	10.5	6.3	86.7	2.6 (1.6)
	Female	100	22.2	18.0	43.0	15.0	6.0	18.0	82.0	2.0 (1.2)
	Total	243	53.9	17.3	40.7	22.2	8.6	11.1	84.8	2.3 (1.5)
Contractor	Male	2	0.4	0.0	100.0	0.0	0.0	0.0	50.0	2.0 (1.4)
	Female	2	0.4	50.0	0.0	0.0	0.0	50.0	100.0	2.5 (2.1)
	Total	4	0.9	25.0	50.0	0.0	0.0	25.0	75.0	2.3 (1.5)
Visitor	Male	15	3.3	26.7	26.7	33.3	13.3	0.0	73.3	2.7 (1.6)
	Female	8	1.8	12.5	25.0	25.0	25.0	12.5	75.0	2.1 (1.0)
	Total	23	5.1	21.7	26.1	30.4	17.4	4.3	73.9	2.5 (1.4)
Total	Male	245	54.3	20.0	40.8	24.9	8.6	5.7	83.7	2.5 (1.6)
	Female	206	45.7	22.8	37.4	12.1	9.2	18.4	83.0	2.0 (1.2)
	Total	451	100.0	21.3	39.2	19.1	8.9	11.5	83.4	2.3 (1.4)

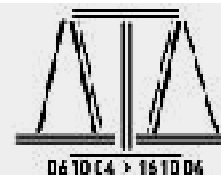
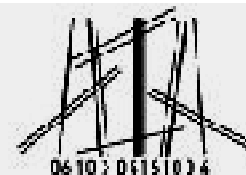
Demographics: 54% Male 54% Staff

Fair Trade Response:

Awareness: Staff (84.8) > Student (82.9)

FT Purchase: Students (26.5%) > Staff (17%)

FT Gender Purchase: Female (23%) > Male (20%)



# Results

Table 3. Own- and cross-price elasticities of aggregate purchase probability

For a 1% increase in the price of	% Change in the aggregate probability of purchasing		
	Colombian	Fair trade	Other
Colombian	-1.5582	1.1245	1.1245
Fair trade	0.1261	-0.4217	0.1261

- ⊗ Response Probability to Price Change
  - ⊗ Regular: Negative Price Elasticity ( $p=0.0001$ )  
*Consistent even with adjustment to exclude income*
  - ⊗ FT: Positive Price Elasticity ( $p=0.0702$ )  
*Consistent even with adjustment to exclude income*
- ⊗ Model 2 adjusts Price

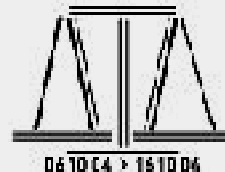


"Et tu, Juan?"

Table 2. Parameter estimates and standard errors (in parentheses) for two revealed preference brewed coffee choice models

Variable	Model 1	Model 2
FAIRTR ASC	-2.7524** (1.0402)	-4.7319** (1.2176)
PRICE	-2.2313** (0.5803)	-2.2356** (0.5844)
FTPRICE	1.7919* (0.9650)	1.7791* (0.9827)
OTHPRICE	-0.1564 (0.1077)	-0.1489 (0.1095)
FTKNOW		2.0916** (0.6019)
FTFEMALE		0.2166 (0.2336)
Log-likelihood	-482.3370	-460.8566
$\rho^2$	0.02	0.04
Number of observations	470	460

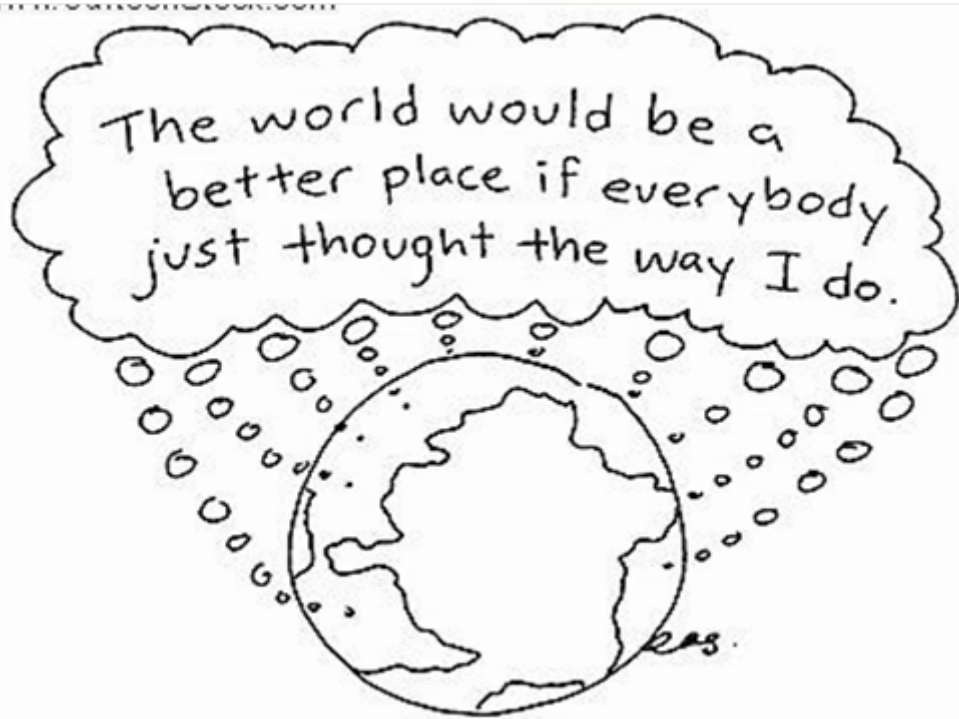
\*Indicates significance at  $p < 0.10$ ; \*\* Indicates significance at  $p < 0.05$ .



# Conclusions

- ⌘ Increase in Price for Regular
  - ⌘ Will shift Demand to Cheaper Product
  - ⌘ Regular consumer types are also willing to change to fair trade coffee
- ⌘ Increase in Price for FT
  - ⌘ no significant shift in Demand
  - ⌘ effect of price is smaller than regular
- ⌘ Purchasers of Fair Trade are less price responsive
  - ⌘ will not readily switch to other coffee types= Consumer Loyalty
  - ⌘ “conventional coffee varieties do not see a large increase in their proportion of buyers as the price of fair trade increases”
- ⌘ Price is not the only variable in decision making
  - ⌘ ethical attributes are primary influence on coffee purchasing behavior for most consumers of fair trade





The world would be a better place if everybody just thought the way I do.

# TransFair USA



# What is TransFair USA?

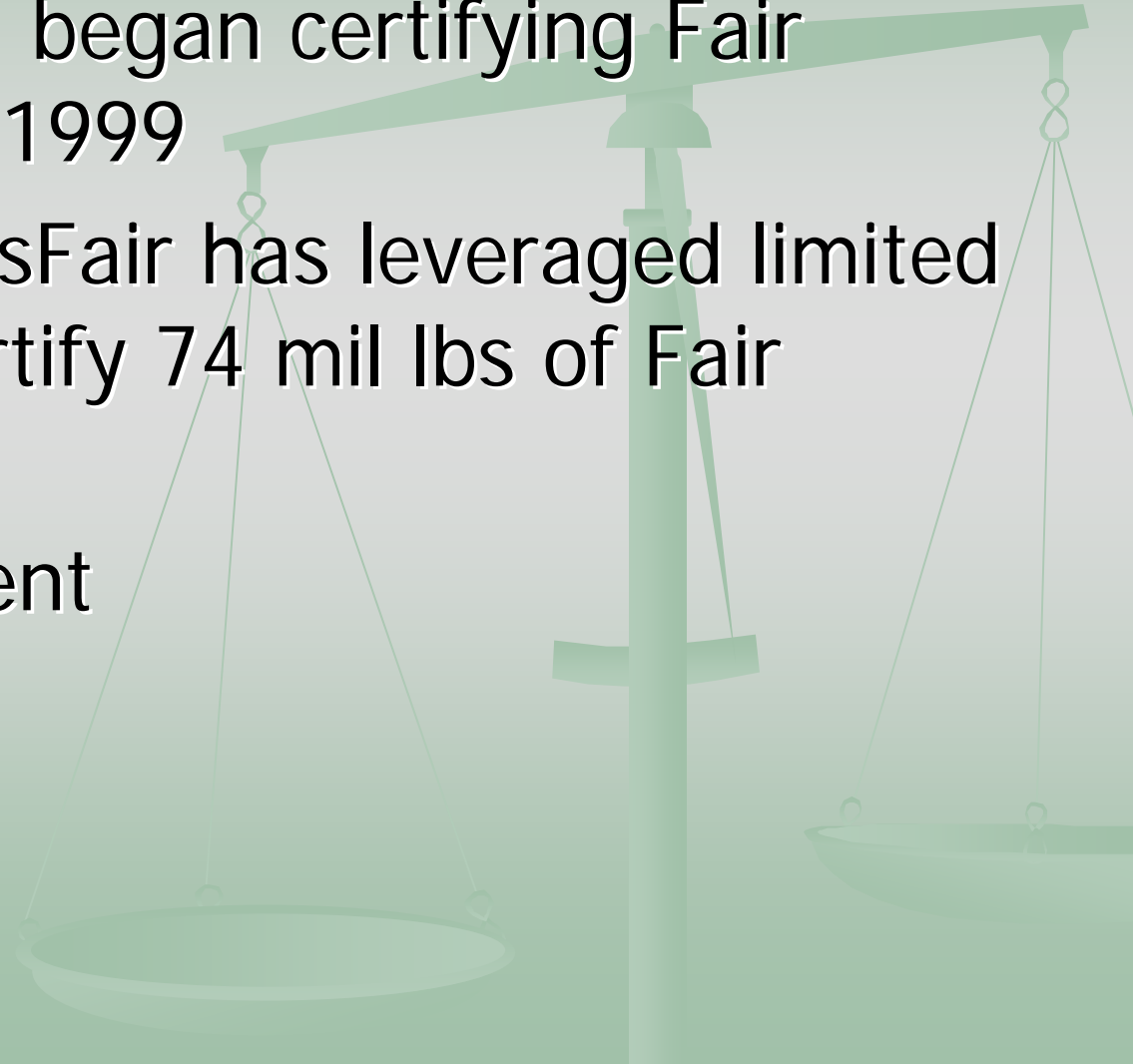
- Nonprofit organization based in Oakland, CA
  - 1 of 20 members of Fairtrade Labeling Organizations International (FLO).
  - Only third-party certifier of Fair Trade products in the US
- 

# What Do They Do?

- Audit transactions between US companies offering Fair Trade Certified (FTC) products and the internat'l suppliers from whom they source
    - Why do they do this?
  - Mission Statement
  - Values: **Empowerment, Integrity, Sustainability, Innovation, Excellence, Personal Development, Community, Fairness, Impact**
- 

# TransFair Starts in the US

- Opened in 1998, began certifying Fair Trade coffee in 1999
- Last 6 yrs, TransFair has leveraged limited resources to certify 74 mil lbs of Fair Trade coffee.
- Mission Statement
- Values



# TransFair, Fair Trade in the US

- Fair Trade in the US is now more than just coffee.
- More of each \$1 spent on these products returns to the farmers who produce them.

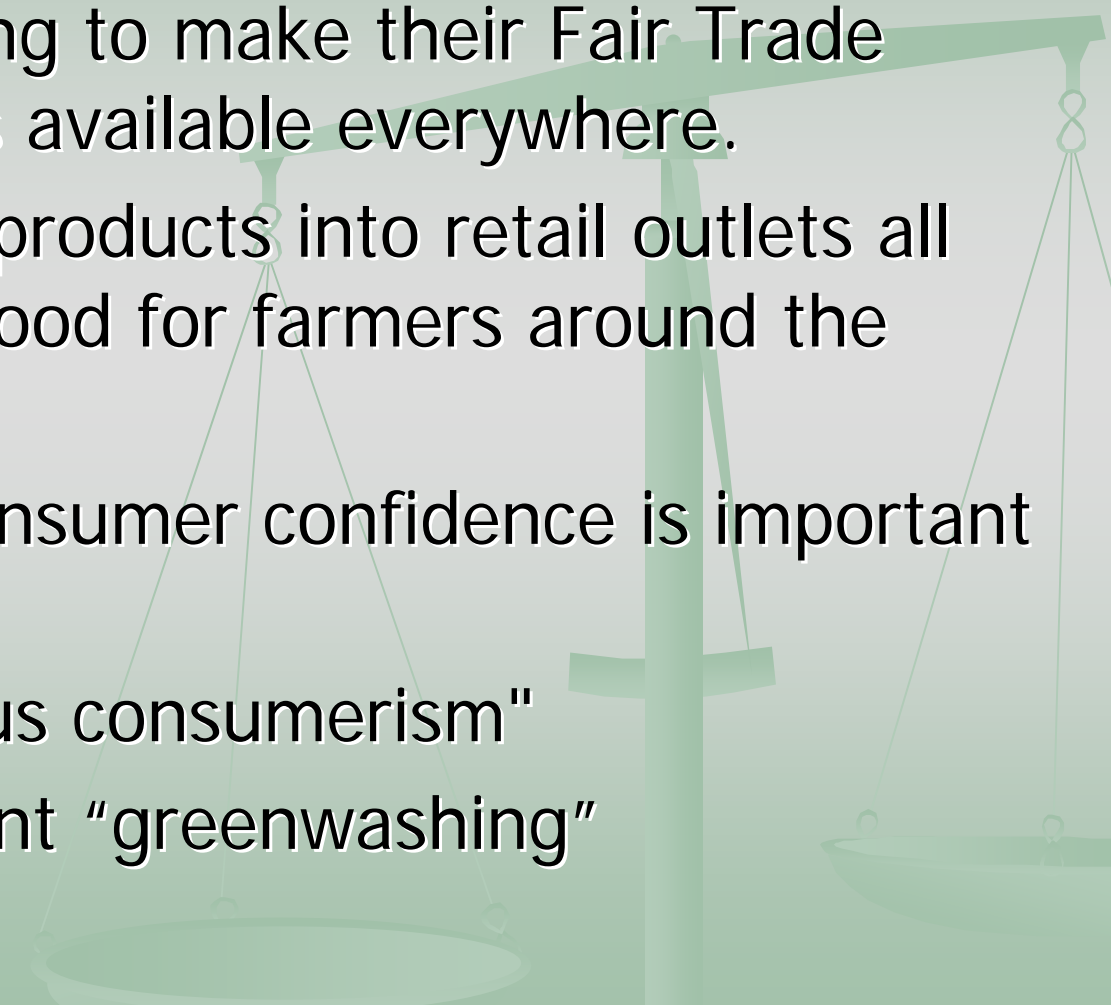


# Does TransFair control retail pricing of Fair Trade Certified products?

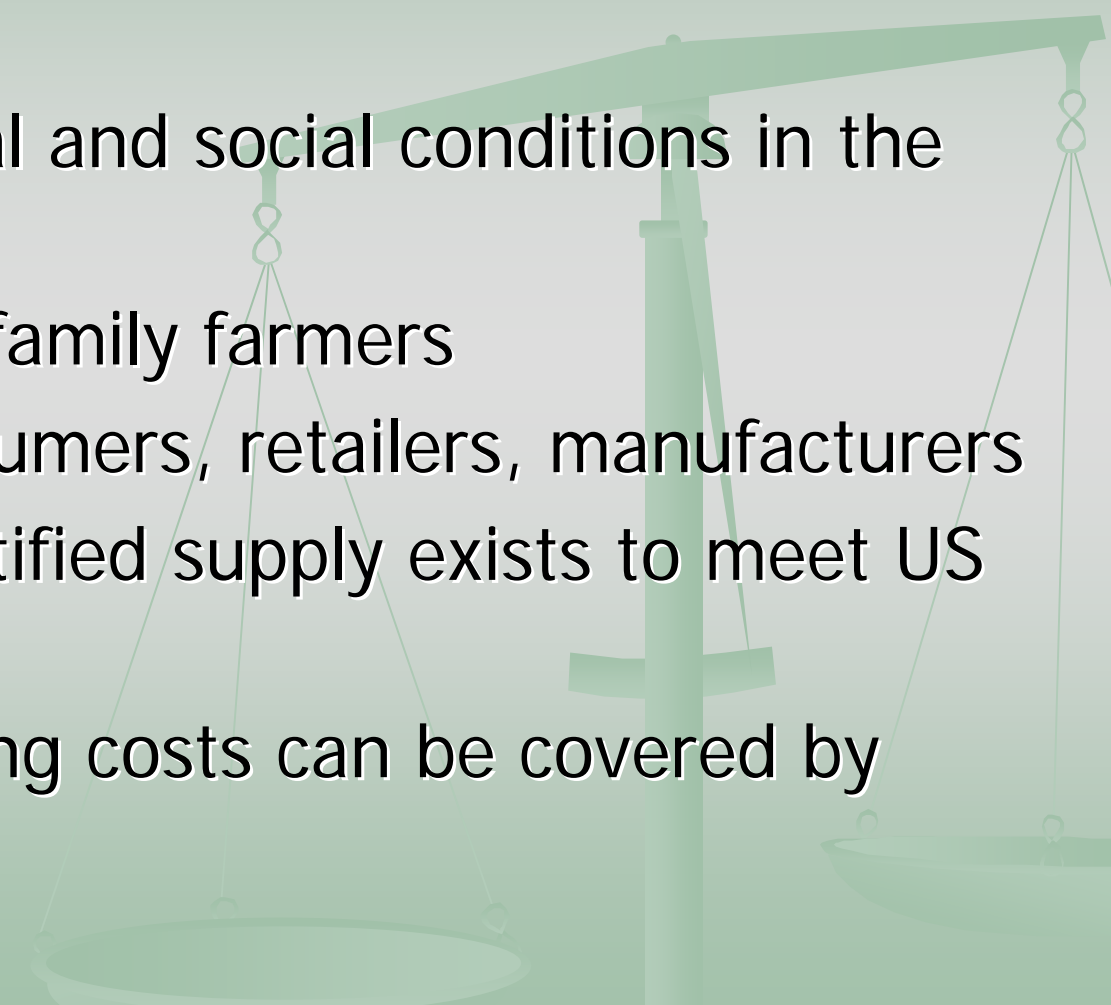
- No, Product manufacturers and retailers set their own prices.



# Does TransFair USA mind WalMart & McDonald's having FTC products?

- No. They are trying to make their Fair Trade Certified products available everywhere.
  - Expanding these products into retail outlets all over America is good for farmers around the world.
  - But they know consumer confidence is important to their model.
  - Support "conscious consumerism"
  - They try to prevent "greenwashing"
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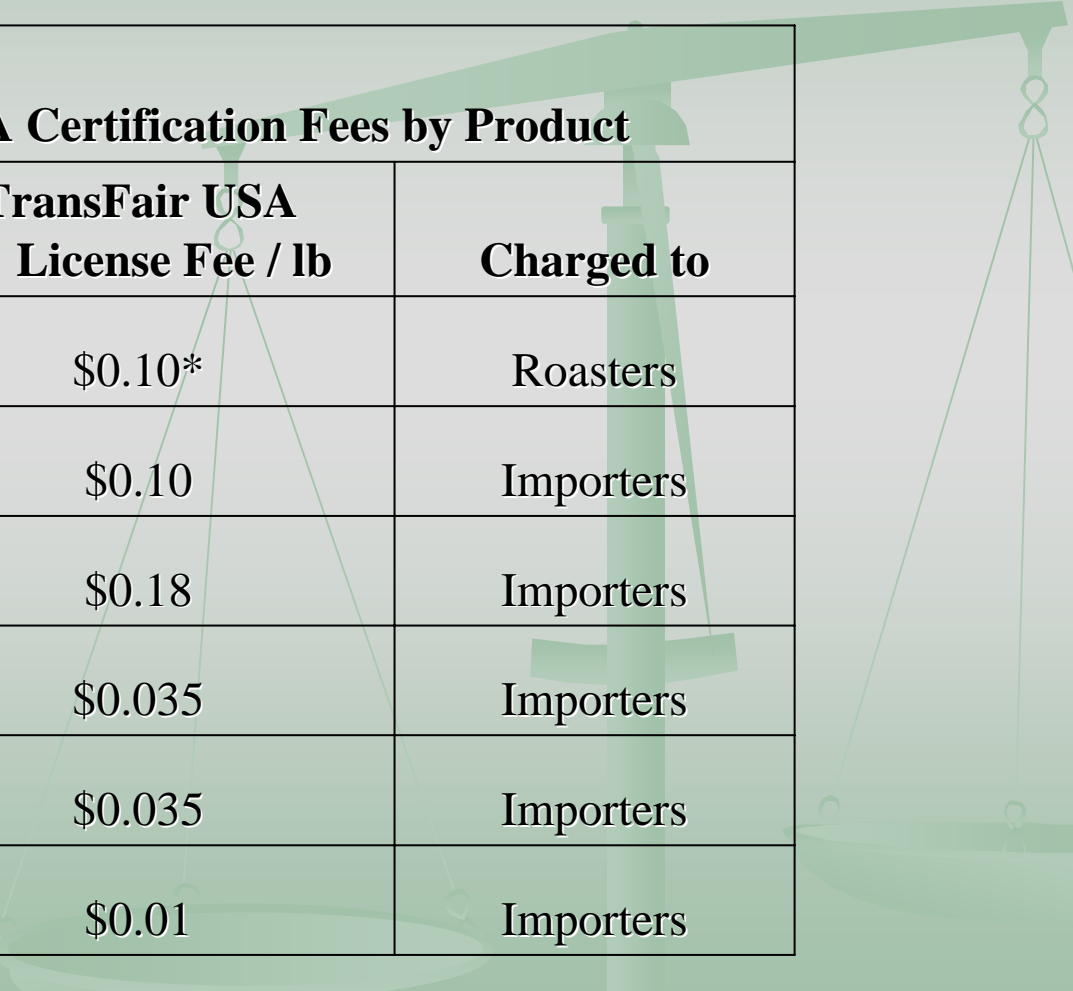
# Certification Criteria for Potential Products

- Labor, environmental and social conditions in the relevant industry
  - Potential impact on family farmers
  - Demand by US consumers, retailers, manufacturers
  - If adequate FLO-certified supply exists to meet US demand
  - If audit and marketing costs can be covered by certification fees
- 

# TransFair License Fees for US Companies

- 
- **Use their license fee revenue for a few main things:**
    - Making sure that product supply chains meet Fair Trade standards
    - Developing Fair Trade market through relationships with retailers and other business partners
    - Raising awareness of FTC label and building consumer demand
    - Connecting producer groups to US markets

# TransFair's certification fees as of December 1, 2006:



<b>TransFair USA Certification Fees by Product</b>		
<b>Product</b>	<b>TransFair USA License Fee / lb</b>	<b>Charged to</b>
Coffee	\$0.10*	Roasters
Cocoa Products	\$0.10	Importers
Tea	\$0.18	Importers
Rice	\$0.035	Importers
Sugar	\$0.035	Importers
Fruit	\$0.01	Importers

# Team USA

- The Transfair USA group all have extensive experience with producer cooperatives, exporting companies, and professional development.



# Senior Management



**Paul Rice** - President / CEO

Paul Rice discusses the coffee harvest with Hernaldo Lagos, president of the Lazahoren Coffee Cooperative.

- **Dave Rochlin** - Chief Operating Officer
- **Christopher Himes** - CFO
- **Sandra Beaton** - Retail / Hospitality Director
- **Elizabeth Bertani** - Marketing Director
- **Kimberly Easson** - Strategic Relationships Director
- **Chisara Ehiemere** - Certification Director
- **Jonathan Feldman** - Director of Development
- **Caren Holzman** - Category Management Director
- **John Keathley** - Operations Director
- **Hillary Miller-Wise** - Global Producer Services Director

# Campus Initiatives

- Cal Dining
  - Organic Salad Bars
  - Fair Trade Coffee
- No-Sweat Campaign
  - Student protests » Designated Suppliers Program
  - World of Good at Cal Student Store



# Sources

- Ingenbleek, Paul and Matthew T.G. Meulenberg. "The Battle between 'Good' and 'Better': A Strategic Marketing Perspective on Codes of Conduct for Sustainable Agriculture. *Agribusiness*, Autumn 2006; 22(4): 451-73.
- Codron, Jean-Marie et al. Social and environmental attributes of food products in an emerging mass market: Challenges of signaling and consumer perception, with European illustrations. *Agriculture and Human Values*. October 2006; 23(3): 283-97.

