



COPAC Open Forum: Fair Trade and Cooperatives 21 January 2005

Summary and Recommendations

Background

Cooperative enterprises around the world are increasingly becoming involved in Fair Trade as means to increasing their competitive edge in the market both in the consumer and producer sectors. The COPAC Open Forum was organized in Berlin, Germany to address the opportunities and challenges of fair trade for cooperatives both from a producer and consumer perspective. A study commissioned by COPAC provided background information on the theme, while invited speakers presented best practices and shared recommendations on how to expand the benefits of fair trade to cooperatives, especially through increased co-operative to cooperative trade.

Presentations

COPAC Study on Fair Trade

The COPAC commissioned study on Fair Trade and Cooperatives reviewed the history of the Fair Trade movement, its growth and methods of work including certification and labeling. Dr. Patrick Develtere, Sustainable Development & Development Cooperation, HIVA Duurzame Ontwikkeling of the Katholieke Universiteit of Leuven, Belgium situated Fair Trade among the equitable trade, ethical trade, and alternative trade movement noting that cooperative trade crossed all of these movements. He noted that it was difficult to estimate the significance of Fair Trade, however it was estimated that it accounted for 500 million Euro or 0.01% of all goods exchanged and worked with approximately 100 products. It also involved 400 producer organizations and 800,000 producer families according to Fair Trade organizations. Dr. Develtere noted the existing relations of FT and cooperatives – producers, workers and consumer co-ops as well as the common and distinctive features between the cooperative movement and FT movement concluding that a number of obstacles to collaboration. These included divergence in organizational structures, ways of working (co-ops formal – FT organization more informal), professional capacity. He concluded there was no obvious meeting point, but there were possible areas of synergy. Cooperatives could benefit from increased efficiency by working with FT and the movement as a whole could benefit from being associated to a modern ethical and progressive movement. FT organizations too could benefit from working more closely with cooperatives for improved links with producers through co-op networks, mainstreaming FT in the North by putting more FT on product shelves and using co-op information channels to raise awareness. He noted however that these findings were preliminary and there was a need for further research to understand the impact of FT on cooperatives. Dr Develtere concluded with a series of policy recommendations including:

- The need to bridge the information gap – further research on the impact in countries with strong/weak cooperative retail sector, methods to overcome divides in organization culture and values and the potential of cooperatives of ethicizing and reaching a larger public.
- Create institutional bridges between FT organizations and the cooperative movement
- Develop a joint agenda
- Start regional cooperative networking in the South to increase trade among cooperatives

Fair Trade and UK Cooperatives

Jacqui Macdonald Regional Representative, Verité; Associate, Co-operative College UK; Chair, Day Chocolate Company; Associate Director, Prince of Wales International Business Leaders' Forum presented a case study of the involvement of the consumer cooperative movement in the United

Kingdom with Fair Trade products in particular FT chocolate. The UK cooperative movement had taken a strategic decision to stock FT products in 1999. She noted that the UK was world's largest market for FT labeled products with £ 145 million of trade of which £24 million was through cooperatives. Today, 6% of FT sales are through supermarkets with on-third through consumer cooperatives. Further, sales of FT products through cooperatives by 72% year on year to end October 2004, thus the Co-op was has benefited from increased sales through its decision to market FT products. More importantly consumers – especially young people - have been attracted to the cooperatives because of these products – i.e. new customers and members. She reminded participants of the significant percentages of sales of FT product through the co-op: 90% of coffee, 17% of bananas.

Ms Macdonald then presented the case of FT chocolate and The Day Chocolate Company producing FT chocolate for the Co-op from cocoa produced by the Kuapa Kokoo Cooperative of Ghana. She underlined that UK customers have high quality chocolate products, while the producers received a fair price plus positive development impacts including increased income, increased capability, community development and personal and organizational development as well as positive gender impact. She noted however that the issue of price was a key issue. Due to the high volume of sales, margins had been lowered in order to ensure sales. Ms Macdonald further noted the massive marketing campaign undertaken in the UK to underline the unique relationship of the Co-op and FT products, linking it to the larger issue of responsible retailing, poverty reduction, globalization, etc. She noted too however, the ensuing need for education of consumer not only on FT but also on the use of FT products, many of which were not common products for local consumers – exotic fruit for example.

Ms Macdonald emphasized that not all FT was cooperative. However, she suggested that there was real benefit to promote “cooperative to cooperative” trade by use FAT techniques and reintroducing cooperative values. Using FT techniques cooperatives could create direct links. She reported too on the positioning of the UK cooperative movement to FT through partnerships with towns creating FT towns.

Ms Macdonald concluded noting that the cooperatives should focus on supporting “cooperative to cooperative” trade and not FT per se - building understanding and direct links. However, she agreed that FT can be an interesting option for cooperatives, but cautioned that it was not easy to introduce FT and transition markets. Product development is a long process requiring training in areas such as quality, delivery times, etc. Market access too can be difficult with Fair Trade labeling being a possible facilitator to market access. She agreed with Dr. Develtere that further research was needed to see “what has worked” in the move from development to business and underlined the need for support to cooperatives on the business side of Fair Trade.

The Italian Cooperative Experience – Solidarity and Fair Trade

Mr. Hugo Valdés, Member of the Board of Directors of the Consorzio Apicoltori e Agricoltori Biologici Italiani (CONAPI) of Italy reported on the experience of a honey cooperative and its experience in promoting Fair Trade with producers in the South. Mr. Valdés introduced CONAPI as the largest honey producer in Italy. He mentioned too that it counts also a number of organic products (rice, pasta, sugar) and is known in Italy for its innovation and the traceability of its products from producer to consumer. CONAPI promoted Fair Trade in 1998 purely out of solidarity with producers in the South. It introduced the Mondovero brand through which a wide variety of products were marketed – honey, coffee, cocoa – however it recently decided to work differently given that it did not want to simply act as a dealer providing processing and marketing services to producers of the South. CONAPI had been limited to importing and transforming products with no real development component. It did not provide added value to producer nor did it allow expansion of producers into local or regional markets. Mr. Valdés underlined that these are some of the drawbacks of FT for cooperatives. FT provided commercial opportunities but only in one direction – South to North – and generally for one product. Thus CONAPI and the producer cooperatives it worked with established a new organization – Cooperativas Sin Fronteras (Cooperatives without borders CSF) which regroups both cooperatives from the North and South in a strategic alliance to expand FT, but also organic

production and aims also to extend into local markets (i.e. South-South collaboration). CSF is FLO certified but goes beyond the requirements including the obligation to link to local markets. The result has been a change in relationship from traders to partners, thus fitting better with the origins of why CONAPI had engaged in FT – solidarity. Mr. Valdés highlighted that the new co-op includes training and financing partner organizations which are key to the success of the initiative. He concluded saying, “Multinational corporations are the cancer of free trade; multinational cooperatives are the cure”.

The Ugandan Coffee Cooperative Experience

Mr. Jack Bigirwa, Chairman, National Union of Coffee Agribusinesses and Farm Enterprises NUCAFE focused on the pre and post liberalization experience of Ugandan coffee cooperatives and FT and asked the provocative question, “Is Fair Trade fair?”. He reminded participants of the history of cooperatives in Uganda, the role of government marketing boards and the apex cooperative organization (Uganda Cooperative Alliance UCA), and explained that NUCAFE has been established in 1995 to fill the gap left after the collapse of the government marketing board and their services to primary level cooperatives. It was those primary cooperatives that were involved in Fair Trade.

Mr. Bigirwa pointed out the advantages and disadvantages of fair-trade for primary cooperatives noting that FT is a niche market, i.e. small although growing; it is based on a system of guaranteed minimum prices and premiums – price and not the philosophy of the FT movement is of concern to the farmers; and it is a useful vehicle for well educated and organized farmers. The advantages of working with FT is that farmers receive better prices, marketing capacities, product quality and traceability improves, appellations are possible, and farmer cooperatives are strengthened and empowered while transparency and accountability increases. Fair-trade is also a good system for rural community development. However, these advantages are balanced with disadvantages. FT coffee is a niche market – approximately 1% of Ugandan coffee; there is a high cost for certification given the high standards, labelling only deals with raw materials depriving the producer of adding value through labelling; the issue of pricing is linked with the global market price of coffee, so even if prices are slightly higher, they continue to experience high and lows.

He concluded saying that FT did offer opportunities for cooperatives. If focused, it can alleviate poverty (income generation), enhance capacity improve coffee quality and protect the environment. However, if to be effective he noted that a policy changes and increased support was required to strengthen cooperatives and producer associations at the grassroots level. The focus must be at the bottom and not at the apex level. He further recommended that if FT was to be meaningful, further training, education and information was needed. Government too would be needed to create an enabling environment for business and trade. Further consumer awareness on FT was also required to ensure the growth of demand of FT products. He suggested too that research should be undertaken on the issue of the fairness of fair trade among the commodity chain – to answer the question, ‘Is FT fair?’ and if so, ‘for who is FT fair?’.

Fair trade and Uruguayan cooperatives: Best price or trade capacity building?

Gastón Rico, General Manager of Cooperativas Agrarias Federadas (Federated Agricultural Cooperatives CAF) shared a failed experience of cooperatives working with Fair Trade. He provided an overview of the Uruguayan cooperative movement noting the significant market shares of agricultural cooperatives and the existing strong export capacity in a series of commodities including wool and honey. In 1992 producers formed the Central Apícola Cooperativa (CAC) which brought together 400 beekeepers in 13 primary level cooperatives. It was the largest exporter of honey in 1999 with 90% of the production being exported. CAC worked with the GEPA Fair Trade Company exporting between 20-25% of its production through them. The interest of working with FT was price as producers received an average or 25% higher prices for their honey through GEPA and CAC passed nearly the full premium on to its member producers. CAC also received advance payments on shipments. The limitations of the FT relationship became apparent in 2000. A series of factors led to the dismantling CAC and the FT relationship. Mr. Rico informed that 2000 national production declined due to drought by ten fold. Concurrently CAC had begun to invest heavily in a packaging plant which was unable to operate due to low production. The low production increased world prices

on honey and the FT organisations were no longer able to offer premiums, yet CAC had received advance payments for shipments which it could no longer assure. CAC collapsed as its member producers were not interested in supporting the structure. For the producers the Central had provided access only to higher prices. Mr. Rico concluded agreeing with Mr. Bigirwa that cooperatives must be strong before entering into FT relations. The situation of CAC demonstrated that the cooperative was not providing services to its members other than premium prices. Once prices could not be guaranteed by FT organisations, CAC members found other outlets for the sale of their products. CAC ceased to exist but was left with debt to the FT organisations. Mr. Rico noted too the need for training in management skills and capacity building. He concluded noting that Uruguayan cooperatives were interested again in exploring opportunities to work with FT but not only on a price basis.

Fair Trade Coffee and the US cooperative movement

Mr. Ted Weihe of the Overseas Cooperative Development Council (OCDC) of the United States presented the experience of the US cooperative movement with regard to Fair Trade cooperatives but focusing on development support for Fair Trade promotion. He noted that the US market is the largest importer of coffee. Although FT coffee is only 2% of the world market, FT coffee sales have increased 125% over the last two years and are expected to continue growing. Farmer income over the last five years has increased by USD 34 million with FT.

Mr. Weihe noted that unlike in the UK, consumer cooperatives are relatively weak. The worker cooperative movement was the initiator of FT. He mentioned the Equal Exchange, a worker cooperative founded in 1989 which has direct links with coffee producer cooperatives. Today, it markets to 1,600 supermarkets as well as marketing directly with consumers through the internet. Cooperative Coffee is an importing cooperative that partners US and Canadian roasters with cooperatives in the South. Café Campesino distributes coffee directly imported from 14 cooperatives in Africa and Latin America. Two financial cooperatives, the national Cooperative Bank and Eco Logic also provide loans for cooperatives in FT. Transfair USA, a labeling organization has certified 65 cooperatives or co-op networks (221 primary cooperatives in 19 countries). It estimates that through the certification, farmer cooperatives earn 3 to 5 more with FT coffee

However, the US cooperative movement was more heavily involved in providing technical assistance to enable cooperatives to increase their incomes through trade. A number of organizations including the National Cooperative Business Association also known as CLUSA, Land O'Lakes and ACDI/VOCA have been working with FT trade coffee cooperatives in El Salvador, Nicaragua, Indonesia, East Timor, Ethiopia, Colombia, Mexico and Rwanda. The support programmes all have a business approach and are not based on ideology, providing assistance in market access, adding value, and addressing issues such as quality management, processing, and delivery. A number of initiatives he reported had branched into specialty coffee markets where premiums were higher however entrance into specialty markets did represent challenges with higher standards.

He concluded noting that FT offered opportunities to increase the incomes of producer cooperatives through trade. Successful FT initiatives could be expanded through diversification into other product lines. He noted too that the technical assistance initiatives could benefit from better collaboration among cooperative development agencies. Links between the various local networks could provide additional opportunities.

Conclusions

Following the presentation and discussions, participants agreed that on the following:

- Further information and research on the Fair Trade and cooperatives would be useful.
 - Lessons learned
 - Is Fair Trade really fair?
- A forum and/or website on Fair Trade and cooperatives could be useful to discuss FT issues but also identify opportunities for cooperative to cooperative trade.

- > Linking cooperative networks should be a focus of FT and cooperatives – North–South but also South-South.
- > Build more systematic linkages and contacts on technical assistance project and programmes.
- > Seek to diversify FT product lines
- > Increase capacity-building and support to cooperatives to enable them to participate in FT initiatives
 - Develop a manual – step-by-step approach on how cooperatives can engage in FT.
 - Explore financing for cooperative development.
- > Include a value added component to FT at source
- > Encourage links between youth and FT cooperatives.



COPAC is a successful and on-going partnership between representatives of the cooperative movement, farmers' organizations, and the United Nations and its agencies. Established in 1971 as an inter-agency committee, COPAC's membership includes United Nations agencies and international non-governmental organizations who work together on equal terms to promote and coordinate sustainable cooperative development

through policy dialogues, technical cooperation and information, and concrete collaborative activities. Members of COPAC are:

- Food and Agriculture Organization of the United Nations (FAO)
- International Co-operative Alliance (ICA)
- International Federation of Agricultural Producers (IFAP)
- International Labour Office (ILO)
- United Nations (UN).