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Direct Trade: The New Fair Trade

By: Peter Latta

ABSTRACT

The growth of the coffee industry over the last 20 years has led to expanding global coffee markets. During this time, consumer product awareness has increased the demand for higher quality products. Coffee has been a leading export of many developing countries due to their fertile growing regions and availability of cheap labor. The creation of the Fairtrade Labelling Organization has led many to believe the coffee they are consuming is contributing to development in these products countries of origin. Recent studies show that the push towards fair trade coffee production has had little impact on the goals the organization seeks to achieve. An alternative model, Direct Trade, is increasingly becoming more popular with roasters and has proven to have a more relevant impact on individual farmers and villages it sources coffee from.

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INTRODUCTION

Expanding availability of high quality Arabica coffee varieties have led to growing numbers of consumers desiring better coffee. Produced by many of the world's poorest countries, coffee is primarily consumed by the world's wealthiest countries. Social response to labor inequalities has pushed the fair trade movement, leading to increased 'ethical' production in Latin America. The concept of fair trade, though well intentioned, may actually be more harmful than productive. In a world of barista competitions and "single origin" espresso, it seems the quality of coffee is more important to the sophisticated coffee consumer than the badge of a little known multi-national organization. Though fair trade organizations may stand behind their principles of growth and development, the concept of direct trade is proving to have a greater impact on growers and their communities.

This paper begins with a brief outline of the origins and supply chains of coffee production, followed by a look at the rise in popularity of coffee in the developed world and the growth of coffee as a commoditized product. I will then examine the Fairtrade

International (FLO) model, and end with a look into the direct trade model by examining three United States roasters and their efforts to influence development. Ultimately, this paper seeks to assess whether the FLO fair trade model is a viable resource for coffee producers in developing countries or if the new model of direct trade will benefit developing country producers more effectively.

ORIGINS AND RISING POPULARITY

Though coffee originated in the Middle East, its main production has been focused in Latin America due to fertile volcanic soils and optimal climate. Coffee trees require warm, steady climate, do not tolerate frost, and need plenty of seasonal rains (Daviron and Ponte 2005, 51). As Central America proved to be a suitable growing region, farms began producing for export. With the exception of Brazil, most producing countries consume little of their coffee. After planting, trees begin producing coffee cherries within 5 years, the harvesting of which is time-sensitive and seasonal. Once picked, the cherries can be processed wet or dry depending on the growers' desire. Green coffee is then graded for quality level, then exported. Ultimately, the beans will end up sitting in an importers warehouse and then in a roasting facility until processed and sold for a few dollars to eager consumers.

Before coffee became popular in the 20th century it was viewed as a luxury of the bourgeois in European cities (Samper 2006, 135). Initial access to coffee was limited due to high prices. However, as prices of necessary foodstuffs dropped the middle class were able to purchase coffee. As a result of coffee being an integral part of army rations, and soon became a staple at the breakfast table and remained cheap due to inexpensive labor and price controls. Coffee was soon regarded as essential to many Americans, and their morning addiction led to outrage when the price rose just pennies (Pendergrast 1999, 85). It is a commodity that has long led its consumers to urge political powers to control prices.

COFFEE AS A GLOBAL COMMODITY

Throughout the 20th century, various controls were set in place to regulate coffee markets. Early attempts to control price were made by Brazilian valorization when exports flooded markets due to a record crop that provided 82% of the world's coffee in 1906 (Pendergrast 1999, 82). Efforts at price controls involving the savvy, if questionable, business practices of German-American businessman Hermann Sielcken, the "Coffee King," determined the global coffee price in the early 1900s (Pendergrast 1999, 82). Post World War II consumption grew and eventually led to the first International Coffee Agreement (ICA) in 1962, which resulted in standardized price controls. Activists for ethical working conditions accelerated the modern fair trade movement by drafting the Max Havelaar certification initiative in 1988 (Haight, 2011), which stipulated certain standards of economic interaction.

Though it wasn't the first official act of fair trade, it would result in the creation of the Fairtrade Labeling Organization (FLO) in 1997. Incidentally, with the fall of the Soviet Union, the ICA collapsed in 1989, causing coffee prices to plummet and new markets and producing countries to emerge. However even after the many agreements and efforts to control price, the global market price of coffee is still largely dependent on annual Brazilian crop performance (Samper 2006, 140).

Brazil has long reigned as the leading global producer, even after the challenge of burgeoning Vietnamese coffee production in the 1990s. The grade of the beans produced is fairly low, which allows consumers to purchase cheap coffee throughout the world. This coffee is often a blend of up to 20 different types of beans sourced from various regions of Brazil (Mehta, 2014), and as a result of this, FLO approved coffee often attracts bad beans and produces a lower quality product than many products not similarly labelled. The result is a coffee product that is cheap and made to be enjoyed by a market of people who are unconcerned with the impact of their choices aside from the impression on their pocket book.

THE PLACE OF FAIR TRADE

Alongside Fairtrade Labeling Organization Intl., there are organizations like Fair Trade USA, Rainforest Alliance, and Equal Exchange whose aim is to improve the lives of workers while also promoting sustainability and development. "The primary way in by which FLO and Fair Trade USA attempt to alleviate poverty and jump-start economic development among coffee growers is a mechanism called a price floor, a limit on how low a price can be charged for a product" (Haight 2011, 76). The FLO has set these price floors at 20 cents higher than the price of commodity coffee on the New York Coffee Exchange, insuring that when commodity coffee price goes up, the Fairtrade price will rise with and stay above the new exchange price.

The difference between the two lay in the production technique and qualifications of fair trade (FT). Standards for growers to qualify for FLO licensing are based around social, economic and environmental development, including requirements that organizational structures provide access to a democratic decision making process, buyers pay a Fairtrade Minimum Price and/or a Premium Price where the money is allocated to promote economic development, the use of environmentally sound agriculture during production, and the prohibition of child or forced labor in any way (FLO 2011).

These standards, however, are often difficult and costly to achieve. Each certification requires different standards, and for many that includes changing time-tested farming practices which already avoid environmental destruction and have been effective means of sustainable production for decades. In *Farmers of the Golden Bean*, Deborah Sick claims that "member farmers have become disillusioned with FT" (2008, 147), as it leads to family farms being turned into "living museums created to entertain the certifiers" (Tucker 2011, 140). Moreover, the efforts of being certified are often not

required by transnational buyers and consumers in producing countries. (Tucker 2011, 140) It seems this is just another way trans-national corporations control their markets; with power, the wealth to pay a fraction extra, and the results of positive social response, it makes economic sense to buy Fairtrade to please the few consumers demanding a product that is sold as having a positive social impact.

Starbucks has become the single biggest factor in the coffee markets since they created “landscape[s] of leisure where people with disposable income go to consume, display themselves and watch others” (Daviron and Ponte 2005, 78). The company has created a globally recognized brand, and profoundly influenced popular culture. Their product, however, doesn’t have the fairest of origins. The C.A.F.E. Practices program – created by Starbucks in the 1990s to satisfy consumer pressure to buy fair trade products – has seen a mixed response in the communities it sources from. Few farmers have enjoyed assistance from the program, while the majority discredit it completely charging, “certifications is a business for most people...you can sell more coffee if you have a particular logo” (Timmerman 2013). For a branding giant like Starbucks, this is a familiar concept.

Furthermore, Gene Callahan argues that the FLO actually hinders growth by encouraging coffee growers to keep producing in times when they aren’t getting the premiums for their products (2008). This model, which many countries have pursued in producing coffee ‘mono-crops’, is actually slowing economic growth and creating more profit for large firms. By strictly focusing exports on coffee, these countries become increasingly vulnerable to plummeting prices and environmental risks.

A key goal of the fair trade movement is workers' rights. In a piece for the *Christian Science Monitor*, Kelsey Timmerman addresses the regulations on growers wage rates that don’t impact the migrant workers (2013). These workers are among the poorest in the supply chain and see no actual gain from the Fairtrade labeling movement, because the extra pennies associated with FLO labeling will not make it past the cooperatives designed to distribute the profits back to the communities and farmers. The International Trade Centre cites 500,000 smallholders being represented by 201 companies selling fair trade coffee in 2001 (2012). The report goes on to state that fair trade producers cannot obtain much of the production resulting in a problem of supply and demand. As more growers have shifted to produce more FLO coffee, the demand for it has seen little movement.

THE DIRECT TRADE MODEL

There is a shift, however, in the demand of niche coffee consumers representing a portion of specialty coffee. This minority has made small coffee roasters seek the best beans to produce unique, delicate Arabica roasts. Brands like Stumptown from Portland, Oregon, Verve Coffee Roasters in Santa Cruz, California and Intelligentsia Coffee based out of Chicago, Illinois have been leaders of Direct Trade coffee importing. They have

built their brands around quality coffee that has a unique relationship with the people growing it.

Verve Coffee's website reflects the importance of forging "genuine connections to place" (2014). Each of their coffees is accompanied by a description of the region and producer (often times highlighting the producers' families). This integral connection between the grower and roaster is an important first step in recognizing the hard work of the communities who have been taken advantage of for so long.

Intelligentsia Coffee states, "growers who do the best work should get the best price and individual recognition"(2013). Their standards reflect those of the Fairtrade movement with commitment to sustainable environmental and social practices, while adding that "trade participants must be open to transparent disclosure of financial deliveries back to the individual farmers" (Intelligentsia 2013). What is perhaps more impressive is that the verifiable price to the grower or the local coop, not just the exporter, must be at least 25% above the FLO price (Intelligentsia 2013). Stumptown, one of the first roasters to adopt a Direct Trade model, offer their unique perspective regarding social, economic, and environmental impact but closely echo the model of Intelligentsia by placing the utmost importance on quality rather than quantity (2014).

These buyers of "boutique" coffee are traveling to examine and purchase their beans at the farm level, meeting the growers, their families and their workers. They are forging relationships that go beyond contracts and trade agreements. As a result, it has become more common for specialty coffee producers to label their coffee in a similar manner as many winemakers by including producer, country, region, and farm. This, it seems, may be the new look of growth in high quality coffee regions of Latin America.

Admittedly, these are not the majority of coffee producers, but they are becoming more common. Daviron and Ponte note that 17% of the coffee imports in 2000 were for specialty coffee production (2005, 77). The Specialty Coffee Association of the Americas estimates that specialty coffee represents 37% of the retail value of a \$30-32 billion dollar US coffee market (2012). As everyday consumers are barraged with confusing labels, Direct Trade producers are focusing on creating better products that highlight the work of the community of farmers who are often under-represented. In the closing statements of "Fair Trade and Free Entry: Can a Disequilibrium Market Serve as a Development Tool," Alain de Janvry and colleagues state, "the logic laid out here suggests that well-intentioned consumers may be better served by institutions that transfer benefits directly rather than trying to channel them through product markets" (2012). It appears the Direct Trade is gaining ground on Fairtrade labelled products as the choice of sustainable coffee commodities.

CONCLUSION

The impacts of the latte revolution on Latin America have not always been positive. After years of empty promises from large firms, there are a few small roasters

making an effort to give back and deliver on their agreements. Roasters who are firmly devoted to the craft of making unique, high quality, nuanced coffee are making a difference in an industry run by giant transnational corporations. Their commitment to Direct Trade and the opportunities it brings the growers they support may prove to be the answer to labeling committees and international firms bent on profits acquired at the mercy of developing countries.

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