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ADDRESSING THE COFFEE CRISIS? FAIR TRADE AND VOLUNTARY INITIATIVES

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ANNA MARIA LEIDA N. PACAÑO
(Philippines)

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Members of the Examining Committee:
Prof. Wil Hout
Prof. Howard Nicholas

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Enquires:

Postal Address:

Institute of Social Studies
P.O. Box 29776
2502 LT, The Hague
The Netherlands

Telephone : -31-70-4260460
Telefax: -31-70-4260799
e-mail: postmaster@iss.nl

Location:

Kortenaerkade 12
2518 AX, The Hague
The Netherlands

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INTRODUCTION

> *'Proper economic prices should be fixed not at the lowest possible level, but at the level sufficient to provide producers with proper nutritional and other standards in the conditions in which they live... and it is in the interests of all producers alike that the price of a commodity should not be depressed below this level and consumers are not entitled that it should'.*
>
> *-John Maynard Keynes, 1946*
> (As quoted from 'Rigged Rules and Double Standards', OXFAM Report, 2002)

The Research Problem

At present, gripping the world commodity market is a crisis which has pushed the coffee farmers to an almost brink of survival. Coffee farmers have been among the hardest hit by the long stretched-out crisis in the international markets. The magnitude of the crisis is not only exacerbated by how far the prices of coffee slumped in the last 10 years, but also the number of lives and economies of countries devastated. And all the while the big four main roasters, the multinational companies (MNCs) – Kraft General Foods, Nestlé, Procter and Gamble, and Sara Lee, are all raking in profit ('Mugged, Poverty in your coffee cup' Oxfam Report, 2002).

This has all the more raised the urgency to address the situation at the midst of the ongoing debate. This paper will discuss the coffee crisis in the light of existing trade arrangements - fair trade and corporate voluntary initiatives. However, let it be said that fair trade has more or less been a time-tested alternative because of its being producer-focused which has addressed concerns such as declining commodity prices, falling coffee incomes, and even severe employment conditions. Particularly the concern on price and income, these have been especially important for marginalized producers such as coffee farmers, who for a few cent price difference in their coffee greens could determine the course of their livelihood. Reconciling this then with the coffee crisis, it has been most difficult for MNCs to defend their position despite their voluntary initiatives because of their sheer might and power to direct and drive the course of international trade (Clarke, 2001:71 and Korten, 2001:40) which has more often adversely affected small producers like the coffee growers.

One of such multinational companies embarking on a voluntary initiative is the Dutch multinational company, Royal Ahold, one of the biggest food retailer in the world and the mother company of the Albert Heijn chain of stores. The Royal Ahold, through its coffee line, the Ahold Coffee Company (formerly called Marvelo) has established what it has called the 'utz kapeh'[1] code of conduct. The central question then of this paper will be, '*Will this voluntary initiative of Ahold bring any beneficial consequences to the coffee producers'*.

Justification of the Study

More than half a century ago, Keynes was proven right by history. Keynes then, had all the reason to believe that the Great Depression of the 1920's was partly caused by the instability and eventual collapse of commodity prices, that propelled him to propose as early as the convening of the Bretton Woods Conference in 1944, for the creation of an institution that would be responsible for commodity markets. However, the conference, which established the International Monetary Fund (IMF) and the World Bank (WB), failed to establish a comparable institution for trade,

[1] It means *'good coffee'* in one of the Mayan/Guatemalan languages.

although the need for one was recorded (Coote, 1992:45). In later negotiations, a constitution for the supposed International Trade Organisation was drawn up, known as the Havana Charter of 1948. Unfortunately, the trade organisation never materialised.

Almost fifty years later, at the end of the 1990's, international prices slumped to levels that were comparable in real terms to those prevailing during the years of Great Depression. Between 1988 and 2001, prices fell by two-thirds according to the 2001 report of the World Bank. Inevitably, the livelihoods of millions of small farmers have suffered. The crisis in the international coffee economy has been converted through the mechanisms of international trade into a deep social and economic crisis that has driven millions into poverty ('Rigged Rules and Double Standards', OXFAM Report, 2002, p.155, para.4).

While globalisation may be transforming international trade, many countries – and many millions of producers – remain heavily dependent on the export of commodities. Trading patterns established after the discovery of the New World, and developed through slavery and colonialism, remain intact. So too, do the problems that dogged commodity traders in the 1920's. Market instability and ruinously low prices are consigning whole swathes of the developing world to mass poverty and a marginal role in world trade. Cut off from the rising tide of global prosperity, there is a growing danger that countries dependent on primary commodities will become increasingly enclaves of despair (Ibid., p. 149, para.2).

Equally important in the on-going coffee crisis are the available solutions and alternatives for the coffee producers. In recent years, fair trade has become one of the available options for commodity producers. This is especially true to coffee growers since coffee has become one of the first fairly traded product. To quote Pablo Dubois, [2] 'In coffee the fair trade movement has clearly shown that producers can be paid double of today's disastrously low prices without affecting the consumer's willingness to buy a good quality product'.

The fair trade movement has been one of the most powerful responses to the problems facing commodity producers. It has given consumers an opportunity to use their purchasing power to tilt the balance, however slightly, in favour of the poor and disadvantaged producers (Ibid., p.165). In the current climate, fair trade has become the lifeline for many producers. Fair trade has given to many commercial businesses which operate at a profit but which retain the explicit development objectives of upgrading the lives of the farmers from whom they buy. At the heart of the fair trade is a central principle: a commitment to pay farmers a fair price – one that covers production cost and is stable ('Mugged, Poverty in your coffee cup' Oxfam Report, 2002, p.40, para.7).

However, despite the successes of fair trade there are obvious confines it could address. One of such is that, the fair trade markets has remained limited and small enclaves.

This is where it becomes relevant to understand and unravel other forms of trading arrangements, especially ones that target the mainstream market, such as voluntary initiatives which could probably form part in resolving the on-going coffee crisis. Of course, the very nature of these voluntary initiatives, which are almost always corporate-led, have exposed them to

[2] Head of Operations, International Coffee Organisation

critical remarks and heavy tirades from progressive blocks especially from what DeMartino calls as internationalist egalitarians.[3]

Objectives of the Study

The basic points in devoting a study on this Ahold Coffee Company voluntary initiative, called *utz kapeh* code of conduct are two-pronged: first, is to situate the understanding of this initiative in the context of fair trade initiatives and critically compare the apparent similarities and differences; and second, to assess the perceived consequences, either beneficial or disadvantageous, to the coffee producers.

The Methodology

The main methodology that was used in this research paper is qualitative analysis, specifically case study method of a corporate voluntary initiative, Ahold Coffee Company. The case study in this paper was critically located against fair trade initiatives. Framework for analysis were points raised and discussed in the theoretical framework.

The bulk of data gathering was done through key informant interviews. The interviewees were selected based on their knowledge and information on the background, rationale and inner workings of the whole Ahold initiative and/or the fair trade organisations. Their views would inextricably bridge the information gap on this research topic. They would comprise of the following: (1) Ahold Coffee Company; (2) Utz Kapeh Foundation; (3) Stichting Max Havelaar; (4) Fair Trade Labelling Organisation; (5)

[3] Discussion is done on Chapter 2 on this.

Solidaridad; (6) Consumer Representative; and (7) Utz Kapeh Certified Coffee Producer.

This was supplemented by existing secondary materials included journal articles, books, reports, documents, newspaper articles, brochures, and internet articles.

The Research Structure

This paper is structured in the following manner:

- The next chapter will comprise of the discussion on the coffee crisis. The urgency of the coffee crisis has been brought forward by various reputable international non-government organisations because of the magnitude of the perceived effects in the lives of coffee producers. The chapter will make a passing reference on the trade debate which is at the heart of the coffee crisis, and relevant discussions on the issues revolving around slumping coffee prices, deteriorating coffee quality, declining income, and worsening livelihood.

- Chapter Two will be the theoretical framework. The discussion establishes the legitimacy of fair trade as the preferred option for coffee trade, including the supporting principles and measures of fairness. However, it also features the notion of corporate citizenship as the underlying principle for other trade arrangements such as voluntary initiatives.

- Chapter Three is a discussion on the contents and salient points of the Ahold initiative, the *utz kapeh* code of conduct. This also briefly discusses the genesis of voluntary initiatives, of codes of conduct in general.

- Result and analysis are presented in Chapter 4. Main bases for the findings were the interviews conducted and content analysis of the *utz kapeh* code of conduct.

- The Conclusion provides the recapitulation of the contents of the research paper as well as personal standpoints and recommendations.

1. THE COFFEE CRISIS

The Urgency of the Problem

Within a span of less than two years, from January 1999 to November of 2001 the price of coffee has fallen drastically to nearly 50 per cent. Never has the price of coffee[4] come to its 30-year low than this period when the livelihood of almost 100 million people in over 50 developing countries involved in its production is at stake ('The Coffee Crisis', Denmark: Centre for Development Research, January 2002 and Madeley, 1992:37).

No agricultural commodity has suffered a steeper fall in its real price, or fluctuated more in price, than coffee (Madeley, 1992:37). The latest OXFAM Report, *'MUGGED, Poverty in your coffee cup'*, has tagged this a

[4] In 2000/2001, almost 94 per cent of all coffee exported from developing countries crossed the border in its green bean state. Hardly any processing and/or packaging (value-adding activity) of coffee is done in producer countries which could actually translate to fetching a better price for coffee (Ransom, 2001 and 'Mugged, Poverty in your coffee cup' Oxfam Report,2002). But this is because coffee cannot be transported across the globe without restrictions. For example in Europe, all coffee entering the European Union (EU) is subject to import duty that the higher the level of processing, the higher the tariff. By far, the largest amount of coffee then that is imported into Europe is in its raw state, in the form of unroasted green coffee beans ('Food for Thought – COFFEE', The Network of European World Shops NEWS! At www.worldshops.org/activities)

development disaster with long-term repercussions. The magnitude of the crisis is great that OXFAM, the International Coffee Coalition,[5] the Danish Centre for Development Research (CDR), to name only a few, have all launched their own campaigns and have brought forward their proposals for immediate and relief measures to address the coffee situation. The International Coffee Organisation (ICO) has likewise issued pleas to governments, companies, coffee cooperatives, trade unions and non-government organisations to come together for a comprehensive solution to the coffee crisis especially the price collapse. Yet, gripping the northern governments, especially the EU, is a strong inertia to table the issue of commodity crisis in the international agenda so that a more long lasting solution could be developed and agreed upon.

In the early nineties total coffee trade was worth USD 30 billion of which USD 12 billion remained in the developing countries; whereas in 2000/2001 total coffee trade was worth USD 65 billion of which USD 5.5 billion remained in the developing world.[6] Thus, ten years ago producer-country exports captured one-third of the value of the coffee market, while today it only barely captures less than ten per cent ('Mugged' Oxfam Report, 2002:2). Thus, growing coffee today has become a losing battle for the majority of poor small holders who barely recover cost of coffee production.

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[5] The International Coffee Coalition has been set up in December 2001 to create a common umbrella for different organisations campaigning on the coffee crisis. It includes 26 organisations representing 11 countries and 5 international organisations as follows: OXFAM International, European Fair Trade Association (EFTA), Fair Trade Labeling Organisation International, Network of European World Shops (NEWS), International Federation for Alternative Trade, OXFAM Wereldwinkels (Belgium or B), Christliche Initiative Romero (Germany or D), EZA (Austria), Fair Trade Organisatie (NL), NOVIB (NL), OXFAM Great Britain, OXFAM Ireland, CTM Altromercato (Italy), Magasins du Monde-OXFAM (B), Max Havelaar Belgium, Setem (Spain or E), OXFAM America, U-Landsimporten (Denmark), OXFAM Solidariteit (B), Frente Solidario (Costa Rica), Vredeseilanden (B), Intermon OXFAM (E), Kilimanjaro Native Cooperative Union (Tanzania), FTIC (B), ActionAid (UK), and IDEAS (E).

[6] 'Coffee Charter, International Coffee Coalition' at www.eftafairtrade.org

Coffee as it is, is still one of the few internationally traded commodities that is mainly produced not on large plantations but on smallholdings farmed by peasant households (2002: 6). Naturally, the fall on coffee prices has been concretely translated to the substantial reduction too, in the income of the farmers by more than half over the last two years that it has literally pushed them at the brink of survival.

The big coffee roasters, Kraft General Foods, Nestlé, Procter and Gamble, and Sara Lee are raking however, in profit margins. David Ransom, in his book, *No Non-sense Guide to Fair Trade,* described how a price of one coffee jar is proportioned. In terms of the final price paid by consumers for a jar of coffee, by far the largest chunk stays in the North. Retailers (mostly supermarkets) have a mark-up of around 25 per cent – a bit lower than on some other lines, because the coffee market is large and 'price sensitive', which means consumers have traditionally been reluctant to pay more for what looks like a standard product. The largest chunk, around 55 per cent is taken by the shippers and roasters, a euphemism for the giant food corporations like Nestlé or Kraft. A good part of this is used to promote the key brands like Nescafé, Maxwell House, as well as covering costs. Another ten per cent is taken by the exporters – the traders and dreaded 'middlemen' who organise the trade in the producing country. This then leaves a measly ten per cent for the producers themselves, who as a group in the final calculation, receive far less than anyone else in the coffee chain.

Coffee, as the second most important export from developing countries after crude oil, plays a crucial function in the economy of these countries basically because of the heavy dependency for export income. In fact, coffee in some African countries such as Burundi, Angola, Ethiopia, and Uganda account for 79 per cent, 60 per cent, 54 per cent, and 43 per cent respectively, of their total percentage exports (2002:8 and

Madeley,1992:37), that it is almost considered as the lifeblood of their own economies. Because of coffee's significance as an export crop, the politics of coffee focuses not only on domestic issues, such as land rights, marketing controls, and labour contracts, but especially on international issues, such global prices and terms of trade (Bates,1997:3).

1.1 The Trade Issue at the centre of Coffee Crisis

Of all the policy arenas in which the emergence of global neoliberalism has been contested in recent years, trade has been most visible and controversial (DeMartino, 2000:190). The case for trade liberalisation is that it will bring about the best use of resources. The theory of comparative advantage lies at the heart of the case. This maintains that all will gain when countries specialise in producing those goods and services in which they are efficient, that they can produce at lower cost than other countries. Exchanging those goods and services with other countries is a central requirement of the theory. Its advocates hold that trade liberalisation leads to increased prosperity which benefits the poor as well as the rich, and that poorer countries gain from trading than not trading (Madeley, 2000:47 para.3). Furthermore, the theory has claimed that the poor countries will gain if they trade and those gains would eventually 'trickle down' to the poor.

Like this 'trickle down' theory, the theory of comparative advantage is discredited. It may work if trade takes place between countries at roughly equal stages of economic development. When it takes place between wealthy nations selling industrial goods and much poorer countries selling primary products, the former are likely to gain most from the deal. This happened throughout the twentieth century when the theory was given every chance to work. But the terms on which developing countries trade turned against them; they had to export more in order to import the same amount (2000:50 para.2).

Madeley has succinctly put it when he said that 'for most developing countries, international trade in goods and services is a paradoxical mix of the potential it offers to raise living standards and the low returns that it now yields'. Yet, trade has brought few benefits for most poor countries; the terms on which they trade have become increasingly hostile and they have to export more to import the same amount. Indeed, the key element of international trade is the 'terms' on which it takes place. The critical thing is not just the price of a commodity, but its price relative to everything else. This is the problem with exporting commodities such as coffee beans or other raw materials because over the years, the world price of commodities has tended to fall relative to the world price of manufactured goods (Ransom, 2001: 18 paras. 1 and 2). The Oxfam Coffee Report provides a good analogy of how a coffee farmer would have to sell twice as many coffee beans now compared to 1980 for a Swiss Army knife in the figure[7] below. There is a double whammy here for producer countries since the price of their exports tends to decline over time, but the price of imports does not fall as fast, leading to the deterioration in their terms of trade.[8]

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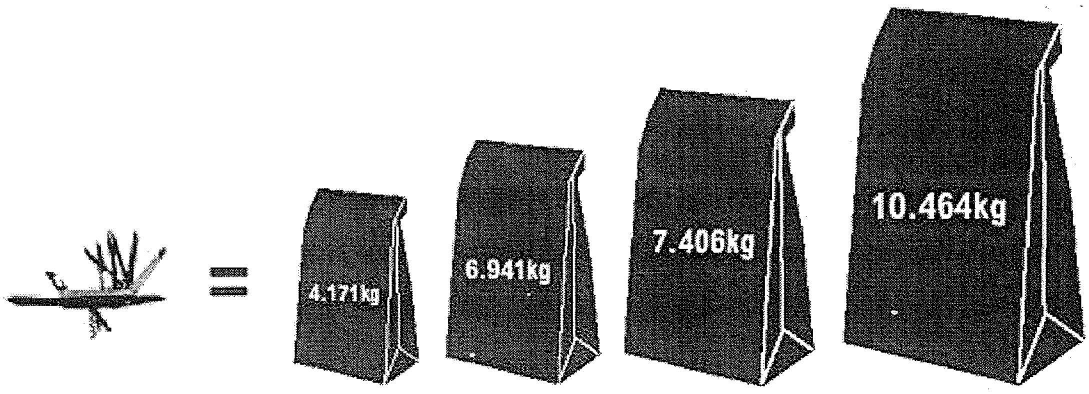
[7] Source: Figure is taken from 'Mugged, Poverty in your coffee cup', OXFAM Report, 2002, page 13

[8] Ibid. p. 12

How much coffee does it require to purchase a Swiss Army Knife?



	1980	1990	2000	2001
Coffee price* (US cents)	126.8	88.95	65.55	46.2
Exchange rate USD/SFR**	1.67	1.39	1.68	1.68

*December basis spot per lb
** Annual average

Source: Gerster Consulting

As agriculture has long been the mainstay of South – North trade, the demand for primary commodities has lagged behind that of other products and there has been a long run decline in the real prices of many commodities such as coffee and cotton. Aggravating the situation, the European Union hung on its Common Agricultural Policy (CAP)[9] which, one, has not permitted the entry into European countries of many foodstuffs and, two has made provisions for agricultural subsidies to its farmers (Madeley, 2000:49 and 'Rigged Rules and Double Standards', OXFAM Report, 2002). The most egregious example has been the United State's new farm bill. In 2000, rich countries subsidised their farmers to the extent of USD245 billion. Current subsidy patterns, with their emphasis on expanding production, have devastating effects on poor

[9] In the 1993 Uruguay Round Agreement, the developing countries were obliged to open their markets whereas the EU held on to its CAP.

farmers in developing countries. This is because these subsidies distort the market and enable the rich-country farmers to sell their produce at very cheap prices on the world market. The poor farmers cannot compete on such unfair terms ('Mugged, Poverty in your coffee cup', OXFAM Report, 2002, p. 37, para. 3).

Unfortunately too, for the South, there are major differences in the bargaining position of manufacturers and of primary producers in the world market (Barratt Brown, 1993:42). This has very serious consequences for developing countries, who are far dependent on exports of primary commodities than their Northern counterparts: the majority of developing countries rely on primary commodities for more than 50 per cent of their exports ('Unlocking the Trade Opportunity', United Nations Department for Policy Coordination, 1999, page 35, paras. 1 and 2).

The unequal trading relations between manufacturers and primary producers have become incorporated in the operations of the large transnational companies, whose size and importance have steadily increased over many years and rapidly in the last decade. The dominant position of these companies throughout the developing countries, with their control over both the buying and selling of the goods entering international trade, provides the final explanation for the weakness of the millions of small Third World producers in the world market. The strength of these large vertically integrated companies and the reason for their growth, lies in their control over sources of capital and technology (Barratt Brown, 1993: p. 43, para. 3 and p. 44, paras 1 and 2).

1.2 *Price and Quality of Coffee after the Collapse of the International Coffee Agreement (ICA) and the Introduction of Neo-liberal Market Reforms*

One of the crucial determinants referred as behind the coffee crisis has been the glut of coffee supply in the global coffee market. Coffee produced has so far outweighed coffee consumption. Supply has been growing at more than two per cent per annum, while growth in demand is around 1 to 1.5 per cent per annum.[10] However, it is often forgotten that one cause of oversupply was the push to promote export earnings under market reforms and the constant pressure from the International Monetary Fund (IMF) and World Bank (WB) for developing countries to open their markets at breakneck speed ('Rigged Rules and Double Standards', OXFAM Report, 2002 and 'The Coffee Crisis', Denmark: Centre for Development Research, January 2002). The coffee market failure is a result of the stunning policy failure by international institutions. The WB and IMF have encouraged poor countries to liberalise trade and pursue export-led growth in their areas of 'comparative advantage'. Many countries have since then worked to expand their coffee exports to generate foreign revenues to help finance their own countries debt. Unfortunately, the problem for many poor countries is that the comparative advantage can be very slim indeed – as the flood of coffee and other primary agricultural commodities onto global market shows. The countries are stuck selling raw materials that fail utterly, to capture the value-added by the time the product hits the supermarket shelves ('Mugged, Poverty in your coffee cup', OXFAM Report, 2002, p. 3, para. 2). Exacerbating this, is the IMF-WB 'one size fits all' approach that they have pushed onto all low-income countries, using structural adjustment lending (Ibid., p. 31). This meant the

[10] Association of Coffee Producing Countries and Oxford Analytica, as quoted from 'Mugged, Poverty in your coffee cup', OXFAM Report, 2002

implementation of an export-led growth and facilitating foreign investments through trade liberalisation, currency devaluation, and privatisation of state entreprises which are necessary measures to embrace a free market economy with utter inattention to the possible effects on marginalized sectors such as agricultural workers.

The global coffee market was regulated by consecutive International Coffee Agreements (ICA) for almost two decades, the period from 1962 till 1989. The ICA was a pact among nations which created a public body, the International Coffee Organisation (ICO), to regulate the international coffee market (Bates, 1997:154). In the context of the ICA, price bands were provided for coffee and export quotas were allocated for each of the producing country. The ICO constructed an indicator price[11] and used it to set target prices for coffee. It also then set quotas for coffee exports so as to force the indicator price into the target range (minimum of USD 1.20 a pound of coffee to a maximum of 1.40 a pound of coffee). In the event that the indicator price set by the ICO exceeds the maximum target range, quotas then were relaxed; however, when the indicator price fell below the minimum target range, quotas were tightened. Although there were problems with this system – such as free riding, squabbling over quotas, and the emergence of a parallel coffee trade through non-member importing countries; most analysts agree that it was a successful and effective in raising and stabilising prices of coffee (Bates, 1997:25 and 'The Coffee Crisis', Denmark: Centre for Development Research, January 2002, para. 2). In fact some of its underlying principles were clearly sound. In particular they recognised that supply management was a key

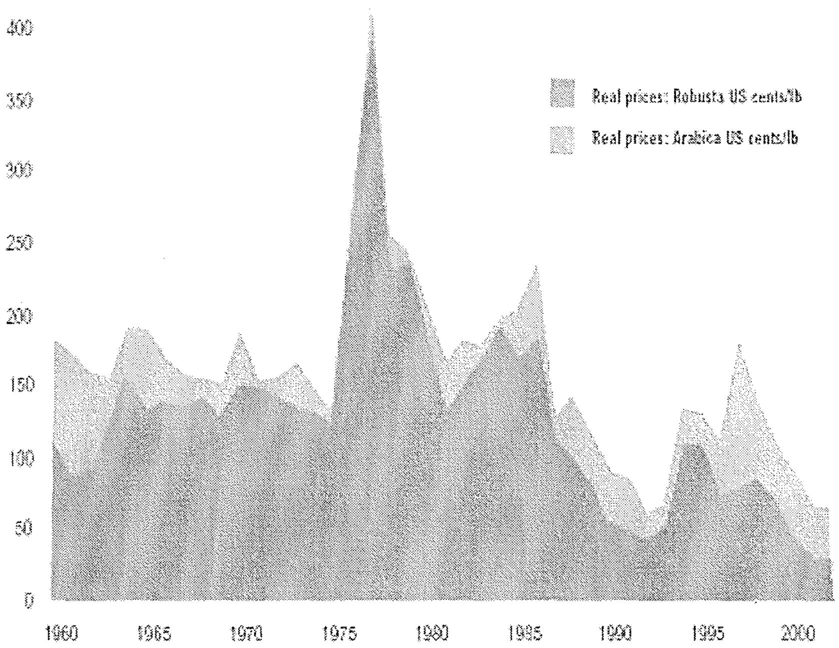
[11] Before the collapse of the ICA in July 1989, the last indicator price was within the range of USD 1.20 and 1.40 for a pound of coffee.

requirement to achieving more remunerative prices ('Rigged Rules and Double Standards', OXFAM Report, 2002, p.168).

During this period, domestic markets in most producing countries were controlled by the public sector through marketing boards, stabilisation funds, or quasi-governmental producer associations. Regulation often required specific quality control procedures at various stages in the domestic marketing chain. In some countries, governments even set prices and quotas allocated to private operators. These systems were plagued by a number of problems. Export quotas were allocated to traders on a political basis. Farmers received low share of coffee export prices. Corruption and graft were common. On the other hand, farmers received stable prices, and were often rewarded for a higher quality product with higher prices. They had easy and cheap access to inputs on credit, and were able to make informed investment decisions over the mid-term ('The Coffee Crisis', Denmark: Centre for Development Research, January 2002, paragraph 3).

Disagreements between members led to the effective breakdown of the ICA in July 1989. Opposition from the United States (US), which subsequently left as a member, was a major factor. Failures of South-South cooperation also played a large part, as new low-cost suppliers of coffee and cocoa in East Asia were well placed to benefit from the higher prices generated by African and Latin American governments who were restricting supplies, and had little interest in restricting their own output ('Rigged Rules and Double Standards', OXFAM Report, 2002, p.168) . Although the ICA survives, the ICO has lost its power to regulate the supply of coffee through quotas and the price range. Prices for coffee are determined on the two big futures market based in London's "Fox" market for the *Coffea Robusta* variety and New York's "C" market for the *Coffea Arabica* variety. The price of coffee is influenced by the huge number of contracts for coffee that are traded, which far exceeds the physical amount of coffee that changes hands.[12] Figure[13] below illustrates the sharp decline of both the Arabica and Robusta varieties for almost two-thirds of its original price from 1960 to its 2000 level.

The dramatic fall in real prices for coffee
Arabica and Robusta, USD cents/lb.



Source: World Bank. Price in constant 1990 US$. G-5 MUV Deflator
Prices for 2002 are Jan - May

Moreover, some other factors including the pulling out of the consuming countries' support for the quota system led to the collapse of the ICA. It

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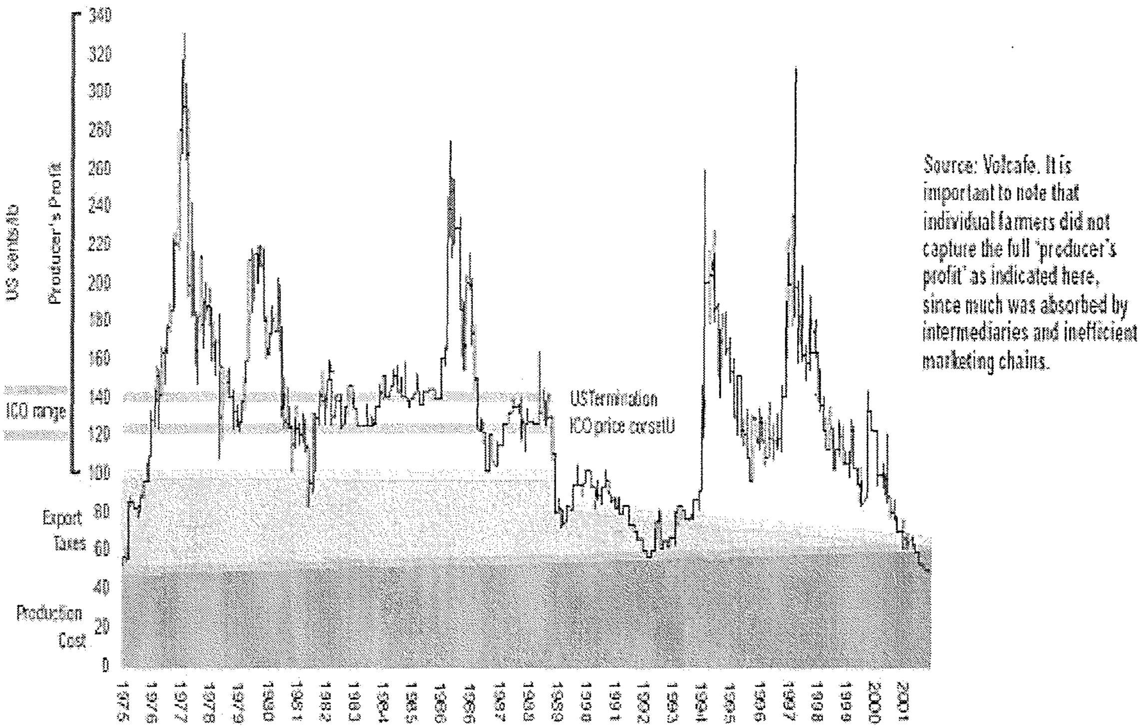
[12] 'Fair Trade, Contributing to equitable commerce in Holland, Belgium, Switzerland, and France, Equiterre 1999 at www. equiterre.qc.ca/English/coffee and 'Mugged, Poverty in your coffee cup', OXFAM Report, 2002, page 17 paragraph 3

[13] Figure is taken from 'Mugged, Poverty in your coffee cup', OXFAM Report, 2002, page 9

was also around this time that producing countries were much prodded by the IMF and WB to proceed with liberalising the domestic coffee markets. Although, international coffee prices fell sharply after the ICA collapse, it barely had any effect on coffee retail prices. The figure[14] below illustrates that despite the price fluctuations between the period 1975 till the first semester of 1989, coffee prices were still within the range of the ICO price corset of USD 1.20/lb. However, after the ICA breakdown in July 1989, coffee prices fell to a slump, even to the level where cost of production could not realistically be recovered.

Monthly New York Coffee futures (spot month)



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[14] Figure is taken from 'Mugged, Poverty in your coffee cup', OXFAM Report, 2002, page 17

Market liberalisation in producing countries resulted in the breakdown of quality control measures in the domestic trade and in declining levels of the overall quality of coffee ('The Coffee Crisis', Denmark: Centre for Development Research, January 2002). In many producing countries, the buying trend of traders during and after market liberalisation was to offer one standard price for all coffee. Price differentials were not offered to coffee growers for good quality coffee, which in fact discourages the growers to improve quality.

1.3 Life in destitution: Declining Income and Insecure Livelihood of Coffee Producers

Caught in the quagmire of the coffee crisis are the coffee farmers who have heavily depended on the coffee cash crop for their income and source of livelihood. With the slump in coffee prices, the farmers could barely provide the most basic of needs to their families any longer. The price crash in the world coffee market has pushed farmers into bankruptcy, with thousands losing their lands, and starvation looming all too close. In Mexico, tens of thousands of coffee farmers have fled their fields in search of incomes to feed their families, while in El Salvador, 30,000 jobs have been destroyed because of the price slump. Also, many of the 60,000 coffee producers in Nicaragua are facing loss of their land because of mass indebtedness. In all three countries, farmers have taken to the streets to demand government support to their brink of starvation plight. [15] Indeed, the crisis has pushed farmers to extreme situations, as

[15] 'Squeezing coffee farmers to the last drop', Global Exchange, October 2001 at www.globalexchange.org/economy/coffee

according to the World Food Programme in March 2002, the coffee crisis, combined with the effects of drought, had left 30,000 Hondurans suffering from hunger, with hundreds of children so malnourished that they needed to be hospitalised. Even the EU and the United States Agency for International Development (USAID) warned of increased poverty and food security issues for coffee farmers in Ethiopia, stating that farmers were selling their assets and cutting down on food. On the other hand farmers interviewed by OXFAM in Peru say they have cut back heavily on food, whereas in Vietnam's Dak Lak province, the income derived by the worst-off farmers, dependent solely on coffee, is now categorised as 'pre-starvation' ('Mugged, Poverty in your coffee cup', OXFAM Report, 2002, page 10, paras.8 and 9).

Extremely low revenues for farmers and workers engender a vicious spiral of rural poverty and exclusion. Women and children are the first to pay: there are extensive reports of abuses and use of child labour on coffee plantations. Working and living conditions are worsening such as unhealthy barracks, miserable salaries, unpaid extra time, repression of trade unions have been documented extensively. Access to education and health have worsened as farmers and workers are no longer able to afford school fees for their children, medical treatments, or even simply a healthy diet. As farm-gate prices are below production costs, many farmers migrate to the cities, increasing the masses of urban poor living in shantytowns, or to other countries, increasing the pressures associated with immigration patterns and resulting in the separation of families. The crisis has also led to social unrest and internal insecurity in producing countries.[16] In fact, in Guatemala, widespread land invasions by jobless casual coffee workers (usually coffee pickers) occurred in January 2002

[16] 'Coffee Charter, International Coffee Coalition' at www.eftafairtrade.org

after the small coffee growers laid them off as result of the coffee price slump (Oxford Analytica, Latin America Daily Brief, 19 June 2002).

It may seem economically irrational for farmers to continue to sell coffee at a price that does not allow them to cover their basic needs, but the decision is actually rational. The costs of replacing their coffee trees with an alternative crop are quite high. Also, the coffee farmers will have to face the severe lack of alternatives. Despite calls for several decades for diversification from commodity dependence, this has never happened partly because of the failure of international aid donors and national governments to promote rural development and diversification, partly due to the protectionist policies of the EU and US, which have effectively prevented developing-country farmers from benefiting from other commodities. This means that too many are depending on too few options ('Mugged, Poverty in your coffee cup', OXFAM Report, 2002, p. 31, paras.1-3).

2. Theoretical Framework

The concept of fair trade was born from the growing awareness of the unequal nature of commercial exchange between the North and South. By putting producers from the South and consumers from the North directly in contact with each other, and guaranteeing that distributors will respect certain economic and social criteria, fair trade seeks to create a more equitable share of aggregate value between producers and importers and thus assure a greater stability of prices and income for producers, allowing them decent standard of living.[17] In the current climate, fair trade has

[17] Workshop on a Socio-economy of Solidarity, Fair Trade Forum, January 2001 at http://fairtrade.socioeco.org

become a lifeline for many producers. Fair trade has given rise to many commercial businesses which operate at a profit but which retain the explicit development of improving lives of the farmers from whom they buy. At the heart of fair trade is a central principle: a commitment to pay farmers a fair price – one that covers cost and is stable (Ibid., p.40, para. 7).

2.1 Fair Trade: The Beginnings

Initially thought out as a means to bridge the income and generate jobs for poor communities in the South, the first fair trade initiative (but known then as 'alternative trade') date back to the 1950's when the Mennonite Central Committee of the United States set up *Ten Thousand Villages*, which up to this day continues to operate by distributing handicrafts and basic foodstuffs in nearly 200 stores in the USA and Canada. It was dubbed then as 'alternative trade', basically to distinguish from the conventional/mainstream trade and was organised to create a parallel system based on the tenets of equality, justice, and sustainable agriculture. What is meant by alternative trade in this context is a system of trade in which the partners seek deliberately to establish a more equal basis of exchange between the North and South. In addition to seeking a fairer relationship between groups of producers and consumers in the two worlds a greater understanding among consumers of the need of the producers for support for their independent development (Barratt Brown, 1993:156).

The growth of the alternative trade from the late 60's onwards has been associated primarily with political solidarity movements. One of the first was Stichting Ideele Import in the Netherlands which was set up to import goods from the Third World that were both politically and economically marginalized. Out of this work came the widespread support for campaign coffee purchased to support the Sandinistas in Nicaragua.[18]

Alongside the solidarity trade there was also a branch of alternative trade which might be described as development trade. It grew as a response to poverty and sometimes disaster in the South focused primarily on the marketing of craft products. The founders were often the large development and sometimes religious organisations in European countries such as OXFAM, HIVOS, Brod fur die Welt, Tear Fund, Intermon, Caritas. At the same time, these organisations, working with their counterpart organisations in the South, were helping to establish the Southern alternative trading organisations (ATOs) that organise producers and production, provide social services to producers, and export to the North. BRAC and CORR The Jute Works in Bangladesh, St. Mary's Ahmedabad in India, Pekerti in Indonesia, and the Community Crafts Association of the Philippines are just the few of the many organisations established at that time.[19]

By the 70's fair trade slowly gained ground by the emergence of fair trade organisations (FTOs) from several countries which specialized in importing goods and which also meant growing variety of products. World shops, which became the primarily outlets of fair trade products, primarily coffee and tea, came sprawling that at some point national associations became necessary to coordinate their efforts both for

[18] 'A Brief History of the Alternative Trading Movement', para.4 at www.ifat.org/dwr/resource3.html

[19] Ibid., para.8

educational campaigns and political activities focusing on global economic concerns.

In the mid-80's there was desire from the FTOs to come together more formally that at the end of the decade saw the foundation of the European Fair Trade Association (EFTA) and the International Federation for Alternative Trade (IFAT) –two very different types of organisations, with EFTA as an association of the 12 largest importing organisations; and IFAT as a global network of nearly 150 organisations in 47 countries aiming to improve the livelihoods of disadvantaged people through trade, likewise providing a forum for the exchange of information and ideas.[20] At the end of the 80's, the first fair-trade certification initiative or fair trade labelling organisation, the Netherland's Max Havelaar was established. Coffee was the principal fair trade product and became the main focus of Max Havelaar because of the product's volatility in the world market. Certification gave fairly traded products a legitimacy that allowed private companies to offer fair trade coffee at points of sale within the conventional distribution network and gave the consumers a guarantee that an independent organisation has confirmed a given product's adherence to certain predetermined ethical and environmental standards. A few years after, other European countries followed suit: Max Havelaar Belgium in 1990, Max Havelaar Switzerland in 1992, Max Havelaar Denmark in 1994, and Max Havelaar France in 1996. Other countries established their own certification organisations such as those in Austria, Germany, Finland, Luxembourg, Ireland, Italy, Norway, Sweden Japan, Canada, United Kingdom, and the United States, although all of the abovementioned agreed to be under the umbrella of the Fair Trade

[20] Ibid.

Labelling Organisations (FLO) International. FLO was created in 1997 with the aim to set up a standard in the certification processes.

Nearly fifty years, it is clear that fair trade had more than trade as its objectives as it has put in its focal objective the alleviation of structural poverty; of sustainably improving the living conditions of its partner producers in the South, thus making fair trade as a 'springboard to a better life.'

2.2 The Principles of Fairness

At the centre of the long-standing trade debate are three perspectives: free trade, proponents of protectionism in developing countries or progressive nationalist perspective, and fair trade or what DeMartino refers to as progressive nationalist perspective and internationalist egalitarian perspective, respectively. Free trade posits that it could bring opportunities for poor countries through the concept of comparative advantage,[21] whereas the progressive nationalists view trade in today's global economy as a site of international conflict, thus harmful for poorer countries, which then subscribes to the option of a combination of protectionism and development aid (DeMartino, 2000:192, and Maseland and de Vaal, 2001:1).

A third position, in recent years, have surfaced, one that has practically questioned the ethical premise of free trade in this era of global neoliberalism. This position maintains that international trade can be beneficial to developing countries as long as it is performed in a just

[21] Refer to discussion made in Chapter 1.

manner. The main tenet in conducting trade, is to have a moral obligation to pay decent prices for products that have been produced under decent conditions (Maseland and de Vaal, 2001:1). Fair trade in this sense is defined as, 'an alternative approach to conventional international trade which provides for a trading partnership that is aimed at sustainable livelihood to often excluded and disadvantaged producers through provisions of better trading conditions and awareness raising and campaigning'. [22] Sustainable livelihood could be ensured through (1) provision of prices which recovers cost of production or that which allows producers a decent living, usually above market level prices, and (2) adoption of production practices or conditions which ensures environmental sustainability and social standards, thus making for acceptable production conditions especially to concerned consumers in the North.

Maseland and de Vaal furthers that, the moral obligation to act in a fair trade manner stems from an idea of justice that lies underneath the fair trade concept. Fair trade becomes an operationalisation of an idea of what just trade should be. The two important factors of fair trade type of conduct, namely buying products produced under decent conditions and paying higher prices for these products, address two notions of justice that have an intuitive appeal to most member of society. The first of these notions is one that emphasizes abstaining from productions practices that violate basic principles, such as non-acceptance of (1) child

[22] Borrowing mainly from the definition adopted in April 1999 by **FINE** (an informal umbrella group of the four main international fair trade networks namely: Fairtrade Labelling Organizations International (**F**LO), International Federation for Alternative Trade (**I**FAT), Network of European World Shops (**N**EWS!), and European Fair Trade Association (**E**FTA).

labour, (2) forced labour, (3) bonded labour, and (4) gender discrimination in employment, to name a few (2001:3 para. 2).

The second notion of justice behind fair trade is the idea that specific actions should try to counter unjustified inequality by improving the situation of the least well off in the society. The term 'unjustified inequality' reflects the recognition that some inequalities might be due to differences in effort[23], or defendable because no one would gain by their eradication. Unjustified inequality then is inequality that does not come to the absolute advantage of the poor. The reduction of such unjustified inequality is what the fair trade practice of paying higher prices is intended to address. As Fair Trade Foundation succinctly puts it, 'by requiring companies to pay above market prices, fair trade addresses the injustices of conventional trade, which traditionally discriminates against the poorest and weakest producers' (Ibid. para. 3).

DeMartino on the other hand, points to a similar argument, very similar to the first notion of justice of Maseland and de Vaal, focusing mainly on what is called as capabilities equality, and deriving from Amartya Sen's work on internationalist ethic and normative criterion. Sen begins to explain capabilities equality by highlighting the range of physical and mental capacities that exist across individuals, but also the variety of physical climates in which people live, the diverse institutional structures that mark their respective societies and so on. These according to him, are significant differences that affect people's abilities to transform primary goods into the actual achievement that they have reason to value

[23] The position comes close to John Rawls own work about social justice. Rawls has rejected inequality of reward on the basis of natural or social differences between people, since one cannot attribute these differences to people's efforts or intentions. Further he argues, that the only inequality a rational individual would accept is the minimum inequality necessary to improve the situation of the least well off in society (Rawls, 1971).

(De Martino, 2000:107 and Sen, 1992). However he furthers, that what should be equalised in an ideal society is not primary goods *per se,* but human capabilities. If the end to which we aspire is an enhanced potential to achieve a valued life, then an egalitarian approach to justice should seek equality of human capabilities, rather than equality of the means to live a valued life (2000:108 and 1992).

The fair trade perspective argues that the normative perspective of capabilities equality provides a standard against which to interrogate practices that are sourced from comparative advantage such as strategies that countries pursue for their own economic interests. In this respect, the general rule is by all means simple but not necessarily easy, 'nations should be allowed (also encouraged) to adopt strategies that promote capabilities equality, and should be barred from undertaking those strategies that interfere with this end.' This is where certain employment conditions and practices become unacceptable such as gender discrimination in employment, weak or non-existent health and safety standards (2000:208, para2).

From the capabilities perspective, there is nothing sacrosanct about comparative advantage. This perspective refuses the neoclassical presumptions about both the naturalism and legitimacy of the determinants of market price. It therefore grants no particular normative weight to market outcomes. In this view, a market outcome is not right simply by virtue of the fact that it exists. It is right instead to the degree to which it accords with the overarching normative principle of capabilities equality. This is equally true of outcomes in domestic and in international markets. Whenever market outcomes are found to conflict in substantive ways with capabilities equality, there is reason to say that these are unjust (2000:208, para 3).

Following that fair trade is along the line of the normative concept of capabilities equality, the neoclassical advocates will naturally lay blame on fair trade being at the expense of efficiency and growth. Fair trade on the other hand argues that there is no unequivocally virtuous about efficiency and growth if it is predicated upon or produce inequality in substantive freedoms across members of society (2000:208). The reason for taking substantive freedom to be so crucial is that freedom is not only the basis of the evaluation of success and failure, but it is also a principal determinant of individual initiative and social effectiveness. Greater freedom enhances the ability of people to help themselves and also to influence the world, and these matters are central to the process of development (Sen, 1999:18). It could be then, that society is best served by what the neoclassicals would call 'inefficiencies' of all sorts – such as when protective legislation channels technological innovation in ways that reduce the rate of economic growth, but that also reduce the extent and depth of social dislocation that technological change often induces (DeMartino,2000: 208 and Polanyi, 1944).

Thus, efficiency and growth are relegated in the egalitarian view. Where growth does seem to be warranted, egalitarians are nevertheless sceptical of claims for the virtues of growth at all costs, and search instead for means of achieving growth that do not systematically undermine capabilities equality. Measures therefore, that cancel those determinants of comparative advantage which run counter to capabilities equality have no reason to be embarrassed on account of the fact that they reduce global economic efficiency or growth (2000:209, para.3).

In the end, the principle of capabilities equality is intended as useful political intervention – one that can enable a kind of politics and sustain sets of policy regimes which are appropriate to the monumental challenges of imbedded global inequality we face today. The value of this principle depends largely on whether it can provide reasonable policy guidance for the world in which we live, not whether it is uniquely right. It is indeed a principle that provides a foundation for a kind of politics that is particularly appropriate for a world of extraordinary inequalities like our own (2000:151).

2.3 The Measures of Fairness

One of the centre pieces of fair trade is not only the provision of 'fair prices' or above market prices to producers, but overtime has also meant firming-up of certain measures or criteria of fairness. As fair trade began as a decentralised movement, with various organisations focusing on heterogeneous areas to assist producers, such as certification, marketing, awareness raising and campaigning, it is inevitable that different federations such as EFTA, IFAT, and FLO follow different definitions of fair trade and as such, different criteria and standards. However, certain common strands[24] could be identified among all of them.

[24] 'What is fair trade?' at www.trasfair.org , 'Certified fair' at www.equiterre.qc.ca/english/coffee, 'The Principles of Fair Trade' at www.equiterre.qc.ca/engl...te_alternative, and Ransom, 2001

Recovery of cost of production

A provision of minimum-price guarantee is made regardless of world commodity prices. Premium is also given for organically grown products provided that an officially recognised certification is undertaken.

Direct Trade

FTOs buy directly as possible from cooperatives or small producers in order to eliminate the various layers in the commodity chain which adds on to the price of the commodity. Producers and FTOs are equal partners who necessarily share information freely and help one another to achieve their own goals.

Cooperative Workplaces

Fair trade organisations work primarily with small businesses, worker owned and democratically-run[25] cooperatives and associations which bring significant benefits to workers and their communities.

[25] This means that members participate in the decision-making processes of their group such as identifying relevant projects to undertake and deciding how to spend, save, or invest on the profits of fair trade.

Decent Working Conditions

Fair trade organisations have always been vocal about their stance on the incompatibility of child labour and gender discrimination in the workplace.

Consumer Education

Fair trade has been working on educating the consumers about the inequalities inherent in global trade that affects the state of lives of the producers. Highlighted are the the producers' needs for living wages and healthy and decent working conditions. The fair trade movement has posed serious reputation risk to companies whose products are very susceptible to consumer sensibilities, such as coffee ('Mugged, Poverty in your coffee cup', OXFAM Report, 2002, p. 41).

Sustainable Development

Producers are encouraged to employ environmentally sound and friendly practices which makes use of local resources sustainably. This would have to include encouraging the following: (1) agricultural techniques that contribute to the preservation of natural resources, (2) integrated economic development strategy that brings about improvement in production techniques and diversification of production which could address the high dependence on a particular commodity for income, (3) integrated social development which could particularly focus on better living conditions such as education, housing, potable water supply and other identified needs of the community, and (4) improvement in product quality to develop the community's or the organisation's capacity to compete in the mainstream market on top of the fair trade network.

Access to credit or Financial Assistance

Crucial to small-scale farmers is access to affordable financing for various purposes, but mostly to bridge them before the final sale of their commodities. Fair trade assures the farmers that financial assistance is provided either through direct loans, prepayment schemes from the fair trade, or otherwise linking them to possible sources of financing. The interest is usually agreed upon and that cannot be more than the prevailing interest rates.

Long-term relationship

Contracts between producers and fair trade buyers must go beyond one full harvest cycle[26] and should reflect a longer commitment which both respects the rights and interests of the two parties. This is important in the light of availability of supplies and changes in the world market prices.

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[26] Especially for commodity producers such as coffee

Moreover, the fair trade organisations, especially under the umbrella of EFTA has set out the following goals (EFTA, 2001):

- improvement of the livelihoods and well being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship;

- promotion of development opportunities for disadvantaged producers especially women and indigenous people, and protecting children from exploitation in the production process;

- raise awareness among consumers of the negative effects on producers of international trade so that they can exercise their purchasing power positively;

- set an example of partnership in trade through DIALOGUE, transparency, and respect;

- campaign for changes in the rules and practice of conventional international trade; and

- protection of human rights by promoting social justice, sound environmental practice, and economic security.

2.4 Empirical Evidences: Fair Trade Success Stories

The Case of Coocafe(Consorcio de Cooperativas de Caficultores de Guanacaste y Montes de Oro R.L. or Consortium of Coffee Producer Cooperatives from Guanacaste and Montes de Oro), Costa Rica ('Unlocking the Trade Opportunity', United Nations Department for Policy Coordination, 1999, p.37)

Coffee is one of the major commodity produce of Costa Rica, accounting roughly to 20 per cent of its exports and fetching almost 28 per cent of Costa Rica's total export earnings. Just like any commodity producing country, Costa Rica is vulnerable to the price fluctuations in the global coffee market. This was basically the reason why the Coocafe cooperatives in 1988, was organised with a strength of 3,500 members focusing chiefly on marketing, economic, and social support.

At present, Coocafe accounts for three per cent of Costa Rica's coffee production, 75 per cent of which is exported and sold to fair trade organisations such as Fair Trade Organisatie of the Netherlands, GEPA of Germany, and Twin Trading of the United Kingdom. Initially, the cooperatives received funding assistance and technical advice from the German based Friedrich Ebert Stiftung (FES) which also later on helped them to obtain agricultural advice to start out organic production of coffee.

From the period 1991 to 1996, Coocafe's fair trade sales almost doubled from 1 million to 1.9 million kilogrammes. In the United Kingdom, one coffee fair trade brand which is also available through mainstream outlets, Cafedirect, has been using the Coocafe coffee greens. The increase in volume sales has been translated to significant benefits to Coocafe's producers. Between 1995 and 1996, the fair trade premium for two million kilogrammes of coffee exported was USD 267,428. The amount was utilised to fund social projects including education initiatives and women's development. Moreover, the premium payments from the fair trade coffee sales were (1) used to cover costs of services provided by Coocafe, (2) invested to processing plants, transports facilities and a food store for the community, and (3) set aside for Coocafe's reserve funds.

On top of these benefits, Coocafe was also encouraged to improve sustainability of its production and increase its premium by employing organic methods in its coffee production.

The bottomline in Coocafe's success which has made it a model of alternative trade marketing and communications is the insight of its leaders and its close ties with European partners. The excellent work it has put into opening up dialogue between its producer-members and consumers in the North has done so much to bring both sides together. These relationships have been facilitated by Coocafe's many contacts with fair trade.[27]

[27] 'The story behind fair trade' at www.equiterre.qc.ca/english

The Case of the Campesinos of the Mexican Sierra Madre (Barratt Brown, 1993:6-8)

In the high mountains of Guerrero, Southern Mexico the campesinos(farmers/peasants) of the Sierra Madre on the Costa Grande have organised themselves into a regional alliance of cooperatives and have begun to manage their own export trade in coffee and honey. The cooperative is not only concerned with livelihood but also of health, education, housing, and political participation. They have literally been shut-off from basic government services, owing to their location and geography. The cooperative movement has been based on a long standing struggle against colonial oppression, during Spanish occupation, when they were held in peonage suffering the severe exploitation, then again against landlords, traders and state marketing organisations which have been responsible for controlling prices and export permits.

As coffee has been the main produce of the campesinos, they needed to interact a lot with state marketing organisation and traders. At best, they get 45 per cent of the prices when delivered at the urban stores or free on board at the ports. However, the campesino movement has been working to strengthen the position of the rural producers in every step of the production process namely, storage, transport, distribution, also exportation, and in finance, commercial and industrial development. Thus, the movement has taken on other tasks needed for coffee processing such as scraping, cleaning, drying, hulling, sorting, grading, packing, transporting, marketing, and exporting through the assistance of Twin Trading Limited, the commercial arm of the London-based charity, Third World Information Network (TWIN). Further, since anticipation for income sometimes takes a longer while until the coffee greens are finally sold, the Mexican support agency ANADEGES[28] has been providing them financial assistance to tide them over the waiting period, rather than become prey to the tempt of traders who would indeed provide them ready cash at the expense of lowest price possible. The contributions of the two organisations have been most invaluable in the survival and livelihood of the campesinos.

2.5 Fair Trade and Voluntary Initiatives

Although the fair trade arrangement has spanned a wide range of commodities and activities that has directly benefited smallholder farmers through assurance of price premium, and occasionally technical support and advice on improving quality standards of products ('Rigged Rules and Double Standards', OXFAM Report, 2002), its markets have remained limited, small enclaves.

Fair trade occupies a marginal position in a world market that is consigning millions of people to poverty. Expanding world-market share by persuading consumers to pay a small price premium would help, but the barriers to market entry are formidable – in Europe alone, the rate of growth in fair trade is slowing down. Unless the principle of fair trade are applied beyond the existing market enclaves to the global market, the structural tendency towards over supply will leave poor countries and

[28] ANADEGES (Autonomy, Development and Self-Management) is an umbrella organisation that provides financial and technical assistance to campesino associations throughout Mexico and to urban migrants who want to return to their villages. ANDEGES has made partnerships with European aid agencies, like Twin Trading, which are prepared to put money up-front and share profits with Third World peasant associations and cooperatives (Baratt Brown, 1993:8 para. 3).

poor producers facing increasingly intense market pressures (Ibid, p. 167, para. 3).

This is where it becomes relevant to understand the emerging concept of voluntary initiatives usually corporate-led, organised around the principles of corporate citizenship and corporate social responsibility, since the MNCs have consolidated their economic power and control over the global market. Today, 47 of the top 100 economies in the world are actually MNCs and 70 per cent of global trade is controlled by just 500 corporations (Clarke, 2001:70).

The MNCs themselves are redefining their role. The notion of corporate citizenship is slowly taking root. Like citizens, corporate entities now insist that they have rights and corresponding responsibilities. International trade agreements and intense competition for foreign investment among development countries has led to a dramatic extension of these rights. In contrast, the economic and social responsibilities of the MNCs have remained voluntary in character ('Rigged Rules and Double Standards', OXFAM Report, 2002).

Fombrun (1997) defines corporate citizenship, 'as the responsibilities that attach to a corporation by virtue of its membership in society'. He furthers that, against the moral concept of responsibility and the political concept of citizenship, two other concepts could be juxtaposed: the social concept of 'integration' and the economic concept of 'reputation'. Corporate citizenship then becomes a justified fusion of moral and teleological reasoning that champions (1) ethical behaviour, (2) social integration, and (3) long-run profitability. These three are the so called pillars of corporate citizenship that makes for good business practice.

- Corporate citizenship is ethical because it encourages development of a cultural context that channels managerial acts and decisions in morally defensible directions.
- Corporate citizenship is socially beneficial because it calls for greater social integration so as to strengthen the experience of community.
- Corporate citizenship is profitable because it focuses attention on the reputational consequences that come from fulfilling the expectation of a diverse group of corporate stakeholders, and encourages a long-term view of economic returns.

3. THE CASE STUDY: Ahold Coffee Company, 'Utz Kapeh' Code of Conduct

> *Ahold strives to create profit while bringing economic, social and environmental benefits to the local marketplace. In this way, corporate social responsibility is integrated into our daily practice; it is simply the way Ahold does business.*
>
> *- AHOLD at www.ahold.com -*

The establishment of codes of conduct in general and their use in the business sector has grown exponentially since the end of the twentieth century due to the (1) so called globalisation of the world economy and (2) pressure from consumers and civil society organisations.[29] The individual codes on subcontractors, suppliers, producers could also be regarded as an

[29] 'The New Tactics Workbook: Business Section Tactics Used by Businesses, NGOs, and Government to Affect the Workplace at www.cvt.org/new_tactics

immediate outcome of increased pressure in the 1990's by human and labour rights groups (Cavanagh, 1997:99). This was to persuade firms to adopt these voluntary codes and consequently be responsible for the entire production process of the product, especially because there was an increasing tendency for firms to subcontract parts of the production process to different parts of the world (Cavanagh, 1997 and Madeley, 1992).

Codes of conduct are usually guidelines that address issues such as child labour, forced labour, wages, benefits, working hours, disciplinary practices, freedom of association, and health and safety. Additionally, they may also incorporate policies regarding legal compliance, ethics, environmental practices, and community investments (Ibid.).

As international trade strengthens the ties between producers in poor countries and consumers in rich ones, concern to prevent unacceptable abuse of labour rights has intensified. Consumers are demanding more than low prices. The MNCs have responded by adopting voluntary codes of conduct. These are supposed to set and enforce standards which reflect wider international values ('Rigged Rules and Double Standards', OXFAM Report, 2002, p.196).

3.1 *Past Initiatives on the Creation of Codes of Conduct*

Internationally Accepted Standards for Codes of Conduct

The Nine Principles of the Global Compact serve as an example of a universal corporate code of conduct addressing the areas of human rights, labour, and the environment through the auspices of the

United Nations.[30] The UN Global Compact brought forward by UN Secretary-General, Koffi Annan in January 1999 during the Davos World Economic Forum, has promoted the tools of dialogue and transparency for good practices among corporations supported by business, international labour and civil society organisations. Further, it has called upon the business community to accept internationally agreed norms as guides to behaviour which will supposedly give a 'human face to the global market' (2002, p.204).

On the other hand, the Organisation for Economic Cooperation and Development (OECD) has in the course of two years before 2000, revised and firmed-up the OECD Guidelines for Multinational Entreprises. The guidelines are recommendations on responsible business conduct addressed by governments to multinational enterprises operating in or from the 33 adhering countries[31] containing far-reaching changes that reinforce the economic, social, and environmental elements of the sustainable development agenda (OECD Guidelines for Multinational Entreprises, 2000). New additions in the revised guidelines include sections on the (1) elimination of child labour; (2) human rights; (3) combating corruption; and (4) consumer protection. Crucially, there is also a mechanism for monitoring corporate behaviour and investigating abuses ('Rigged Rules and Double Standards', OXFAM Report, 2002, p.204).

[30] 'The New Tactics Workbook: Business Section Tactics Used by Businesses, NGOs, and Government to Affect the Workplace at www.cvt.org/new_tactics

[31] The OECD convention signed in Paris in 14 December 1960 and came into force on 30 September 1961 has the following original member countries: Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Subsequently, after 1961 the countries as follows became members: Japan, Finland, Australia, New Zealand, Mexico, the Czech Republic, Hungary, Poland, and Korea.

In 1986, a group of business leaders from Japan, Europe, and the United States formed what was known as *Caux Round Table* which came out with the 'Principles for Business' by 1994. The rationale behind this initiative was the supposed tensions caused by the imbalance in trade. It specifically stated that global corporations 'should play an important role in improving economic and social conditions' and thus offer series of principles for corporate activity toward consumers, employees, investors, suppliers, competitors, and communities (Cavanagh, 1997:99). The principles are regarded as the first world standard ethical and responsible business practice developed by a group of business leaders. [32]

Collaborative Initiative of Non-government organisations(NGOs), Trade Unions and/or Businesses

The International Confederation of Free Trade Unions (ICFTU) on the other hand, along with the international trade secretariats (ITS) have developed a "basic code" which has set out a minimum standards with reference to core International Labour Organisation (ILO) conventions. The Code calls on the multinational enterprises to acknowledge its responsibility towards all the workers involved in the production of its goods, regardless of whether they are employed directly or whether they work for subcontractors or suppliers.[33] Furthermore, the ICFTU has also identified the code from the multinational Artsana (which produces the popular Chicco brand of children toys) as one of the more

[32] 'Can multinational buy good conduct?' Trade Union World at www.icftu.org

[33] Ibid.

significant step forward in realising good working conditions for the labour force. The code not only represented a negotiated agreement with the trade union organisations but was also one of the first examples of a major toy merchandiser which has agreed to follow a code of conduct based on the ILO core conventions.

The Ethical Trading Initiative (ETI) in the United Kingdom is a partnership among non-government organisations (NGOs), trade unions, and government with the view to establish a common framework within which companies can monitor labour standards in their suppliers.[34] Similarly, the Netherlands-based 'Clean Clothes Campaign' which has brought together Dutch development organisations, trade unions, and human rights groups has drafted a code of conduct on labour rights for the garment industry.

The Fairtrade Labelling Organisations (FLO) International a network of 17 national label initiatives under different names such as Transfair, Max Havelaar, and Fair Trade Mark has developed the fairtrade standards for coffee which among others provides for minimum requirements and process requirements for small producer organisations.[35] The FLO standards follow ILO conventions and standards and at the same time encourage the producer organisations to abide by national legislation in cases where higher standards are provided.

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[34] Ibid.

[35] 'FLO International: Fair Trade Standards at www.fairtrade.net and EFTA: Fair Trade Yearbook –Towards 2000)

Business-specific Code of Conduct

The Sullivan Principle used in the 1970's and 1980's, one of the earliest fair trade proposal and code of conduct was basically designed to prevent corporations in high standard countries from relocating to least developed countries simply to secure savings owing to lower standards (De Martino, 2000:213). A brainchild of Reverend Leon Sullivan, who was at the Board of Directors of General Motors, the code was specifically initiated for US MNCs conducting business in South Africa which at that time was torned by the issue of apartheid. One of the landmark results of the code was the desegregation of hundreds of companies and educational institutions and the flourishing of the black trade movement.

Starbucks, one of the world's largest coffee retailers, released in 20 October 1995 a framework for a code of conduct which provided for the minimum standards for working conditions on coffee plantations overseas from where they sourced. The code of conduct came out eight months after the coffee chain took up the challenge posed by the North America-wide grassroots campaign initiated by US/Guatemala Labour Education Project. The framework represents the first effort by a US commercial coffee company to begin setting criteria for coffee selection that go beyond quality and price to include the working conditions under which coffee is produced.[36] Unfortunately however, Starbucks has yet to implement the code of conduct.[37]

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[36] 'Starbucks Releases Code of Conduct' at www.hartford-hwp.com/archives, 03 November 1995)

[37] 'Justice and Java: Coffee in a Fair Trade Market at www. globalexchange.org/economy/coffee

3.2 *Background of the 'Utz Kapeh' Programme*

On 11 April 2002, two Dutch newspapers, NRC Handelsblad and de Volkskrant featured the new initiative of the Ahold Coffee Company which was tagged as intrinsic to the integration of corporate social responsibility[38] in Royal Ahold's daily business practice. A multinational corporation (MNC) was going out of its fold to set more careful attention to its coffee production process. Commodity-focused, the initiative introduces social and environmental standards to Ahold's corporate brand coffees. Moreover, Ahold has translated the EUREPGAP standards for safe and sustainable agriculture along with its own emphasis on social standards to a code of conduct, called utz kapeh which it has deemed would help coffee farmers to focus on streamlining its operations and would thus cut its cost of production.

Royal Ahold has positioned its coffee company to embark on a programme that would create a code of conduct to the world's second[39] most valuable market commodity, next to crude oil. At the outset one would likely to consider the initiative called "utz kapeh" programme as a fair trade initiative. Like fair trade organisations (or alternative trade organisations), Ahold has crystallised this initiative by placing a premium on the production process.

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[38] Corporate social responsibility (Ahold Corporate Social Responsibility Report 2002) is defined by Royal Ahold to mean: operating in a manner that contributes to the wider goal of sustainable development and ensuring a better quality of life for their stakeholders. Further, Ahold views social responsibility as the corporation's ability to respond to societal concerns regarding products, environment, and labour.

[39] Sources: 'Justice and Java: Coffee in a Fair Trade Market' at www.globalexchange.org/economy/coffee and 'Unlocking Trade Opportunities'- Report commissioned by the United Nations Department for Policy Coordination and Sustainable Development, 1999.

Equal emphasis is given on both social and environmental conditions for coffee production. However, unlike fairly traded coffee, the main idea is to produce positive environmental and social change by cutting production costs instead of raising prices.[40] Utz Kapeh targets the mainstream coffee market by working with farmers to produce coffee that can be sold at market prices instead of at the premium prices charged by fair trade coffees.[41]

As parameters are clearly set through a code of conduct drawn up by the Ahold Coffee Company together with a consortium of Guatemalan grower-exporters, a certification process has also been put in place to qualified coffee producers who will thus be assured of a market for their harvest.

3.2.1 The Birth of the Utz Kapeh Foundation

For purposes of clarity, though it is almost difficult to distinguish the 'ownership' of the utz kapeh programme being the brainchild of both the Managing Director of Ahold Coffee Company, Ward De Groote and Nick Bocklandt, a Belgian coffee grower in Guatemala, who three years ago started the Utz Kapeh Foundation, this paper would regard Ahold as the force behind the programme (NRC Handelsblad, 11 April 2002), while the management and operational functions would be that of the foundation.

The personal relationship between Ward De Groote and Nick Bocklandt became the cement in finally establishing the Utz Kapeh Foundation, it

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40 Ahold Coffe Company statement at www.ahold.com

41 Ibid.

was logical to establish the Utz Kapeh Foundation in Antigua, Guatemala where Bocklandt's coffee plantations were mostly located. In September this year however, it was necessary to already maintain an office in the Netherlands for easier networking with coffee roasters and possible project sponsors. It was also this time that Utz Kapeh has supposedly become an 'independent' entity from Ahold.

Funding

The start-up funds for the Foundation, for administrative overhead purposes was initially provided by Ahold. However this year, funding was provided by the Netherland's Stichting Doen for which it was alloted one seat in the Board of Utz Kapeh. Regular income of the Foundation will come from contracts of sale finalised between producers and roasters. The Foundation will receive from the first buyer an approximate of USD .01 for every kilogram of green coffee transacted.

The Main Functions

Utz Kapeh dedicates itself to improve and protect the social, environmental, and cultural conditions of the coffee growers all over the world. In coffee production, all over the world there are many instances in which farms are not managed on an ecologically sound or sustainable basis, nor are the farmers treated with social conscience. It is in this light that quality and progressive coffee growers distinguish themselves by demonstrating their commitment to social, environmental, and cultural improvement. Consumers too, are ever more aware and concerned with the plight of coffee workers, the state of the environment and food safety. Roasters are becoming more mindful of their responsibility to both retailers and consumers that the products they sell meet internationally accepted standards and requirements. To reconcile both the needs of coffee growers and roasters, it would be necessary that both share the responsibility to grow and process coffee in a sustainable way for both people and the environment. This is where the Foundation finds its main function - in bridging the needs and requirements of both the roasters and coffee growers. [42] However, the Foundation is not a marketing arm of certified producers. It only functions as an intermediary between producers and buyers.

The Utz Kapeh Foundation makes available the *utz kapeh* code of conduct to coffee growers, either small, medium-sized or plantation coffee growers/farmers after interest is siginified, likewise, assists the coffee growers in complying with the code and eventually provides appropriate help in attaining an independent certification for compliance to the code. It might also be that the roasters themselves recommend their existing coffee suppliers to subscribe and eventually get *utz kapeh* certified. Further, the Foundation assists producers with information and assistance to comply with the criteria of the code of conduct and helps find funds that will benefit the compliance of the producer to this code (Utz Kapeh Foundation Brochure).

Utz Kapeh has also the function of finding resources for environmental and social improvement projects for the producers and their

[42] 'About Us', Utz Kapeh Fundacion at www.utzkapeh.org

communities. The Foundation acts like a 'broker' and gets a small remuneration from the producer after funds are already provided by the sponsoring organisation. However, the Foundation compels the producers to undertake project evaluation, which is usually timed during yearly compliance inspection of the code of conduct.

The People behind the Foundation

At present the Board of the Foundation is comprised of representatives from coffee plantation owner/coffee grower, non-government organisations, and the business sector.

Board of Directors

Nick Bocklandt - Chair
Guatemalan coffee plantation owner and grower

Jeroen Loots - Member
Representative from Stichting Doen

Nico Roozen - Member
Solidaridad

Christian Walthers - Member
Representative of American Branch of Coffee Roasters

David Rosenberg - Member
Director, Community Relations Office, Royal Ahold

Management and Logistical Support

Lucas Simon - Director (based in Delft, the Netherlands)

Rea Stout - Project Officer (based in Antigua, Guatemala)

3.3 The Code of Conduct

A code of conduct can contribute to improvement of working and living conditions on coffee plantations. It can strengthen our position. But only if it is more than just paper. It has to be effectively implemented, monitored, and verified.

- Representative of a Guatemalan trade union[43]

The Utz Kapeh Foundation brochure boasts that its Code of Conduct represents a consumer-driven, grower-accepted feasible coffee standard.

The Code as a Translation of EUREPGAP Framework

The Code practically applies the European Group of Retailers' Good Agricultural Practices (EUREPGAP) framework to the production of coffee. The EUREPGAP however, is drafted mainly for products such as fruits, vegetables, potatoes, salads, and cut flowers. Nonetheless, Ahold decided to translate this to coffee. Its main emphasis is reducing the risk of food safety lapses and incorporating integrated pest management (IPM) and

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[43] Report on Improving and Living Conditions on Guatemalan coffee plantations by Bart Ensing, Fair Trade Organisatie, July 2000

integrated crop management (ICM) in agricultural production.[44] Further, it sets a lot of responsibility to the grower/farmer by emphasising a demonstrated commitment to the following: (1) maintaining consumer confidence in food quality and safety, (2) minimising detrimental impact on the environment while conserving nature and wildlife, (3) reducing the use of agro-chemicals though adoption of IPM, (4) improving efficiency of use of natural resources such as soil, water, air, and energy, and (5) ensuring a responsible attitude to worker health and safety, welfare and training.

Components of the Code

The Code is a 61-page document that is mainly comprised of four parts:

- Part A is a 6-page enquiry on the general description and condition of the grower's farm, details such as location, size, coffee varieties, density of shade trees, altitude of the farm, coffee production for the last five years, etc.

- Part B comprises more than half of the Code and contains mainly the EUREPGAP requirements such as, varieties and rootstocks; site history and management; soil and substrate management; fertiliser use; irrigation; crop protection; harvesting; post-harvesting treatments; waste and pollution management, recycling and re-use; worker health, safety and welfare; and environmental issues.

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44 'EUREPGAP, The Global Partnership for Safe and Sustainable Agriculture' at www.eurep.org

- Part C contains 8 pages of aspects of growing/processing coffee which are not described in EUREPGAP such as, the specific details about the mills and an extension of social and cultural issues.

- Part D contains attachments on prohibited and restricted pesticide products and places to deposit this empty pesticide containers.

Although the Code makes clear that it is does not set out to provide prescriptive guidance on every method of agricultural production, it on the other hand, delineates what are called as minor or major 'musts' in each item. For a grower to obtain certification (done by an independent body and not by Utz Kapeh), compliance of the 'minor musts' is expected to be 95 per cent and the 'major musts', a full 100 per cent. Before the start of each item, a definition and/or direction of say, fertiliser storage, is provided. In turn, the grower is asked to fill in the specific situation of his/her farm on the particular subject matter.

In essence, since the level of difficulty in complying with the code is rather high, especially the provisions on food safety, Utz Kapeh is creating a niche market for quality coffee producers. Ahold has started with its PERLA coffee brand labels.

Utz Kapeh Certified: Benefits to the Producers

Being *utz kapeh* certified is a quality guarantee assurance. Utz Kapeh claims that with this, it becomes easier for both coffee grower and roaster to forge a long-term relationship because of a mutual reliance to one another – guaranteed buyer for the grower and a reliable source of safe and quality product for the roaster. But more than this, the grower apparently stands to benefit because of the following:

- Guarantee of selling coffee produce – the reality of current market 'oversupply'of coffee makes it rather problematic for growers to sell their produce. Utz Kapeh, on the other hand, assures the producers for a market to their coffee.

- Pre-financing for coffee – Utz Kapeh certified coffee growers have the privilege to borrow money from sources where Ahold could act as their guarantor. It is assured that lower interest rates will be made available.

- Better bargaining position – Although Utz Kapeh will never guarantee a minimum price for coffee, it will make an effort to guarantee instead the recovery of actual cost price of coffee production. Alongside this, Utz Kapeh could provide technical advices to coffee farmers who would need guidance in better managing their farms. In the end, it is aimed that *utz kapeh* certified coffee farmers will fetch a better price for their coffee, than other coffee growers would in the mainstream market.

- Option to modernise farm facilities – Utz Kapeh provides the service of finding and/or matching the needs of coffee growers to upgrade their facilities with appropriate organisations that could fund this need.

- Financing or Matching project proposals – Coffee growers could hand-in to the Foundation environmental and/or social improvement projects for funding which are deemed felt needs of the communtiy. The Foundation could either find funding sources or could also match the community with appropriate organisations who could provide them professional training or advice.

4. RESULTS AND ANALYSIS

To begin to understand the Ahold *utz kapeh* initiative would need a good understanding of some underlying reasons, motivations or even triggering points behind its creation, especially in the context of existing fair trade initiatives.

4.1 A Corporate Strategy: The 'Other' Context of the Ahold Voluntary Initiative

In 1988, the Marvelo Company , the coffee subsidiary of Royal Ahold and Albert Heijn (AH), the retail chain of stores of Ahold, were both under pressure from the consumers organisations and the press in the Netherlands to already offer fair trade coffee. It was during this time that national associations around Europe were intensed on their educational campaigns and political activities on global economic matters, and fair trade was basically viewed as an alternative. With hesitation, the Marvelo Company forged contracts with Max Havelaar and began roasting fair trade coffee, under its own corporate brand, *Café Honesta*. It had to struggle however, with the idea of basic minimum price for coffee with Max Havelaar for some time. This hesitation and struggle were the reasons AH started late in introducing fair trade coffee in its outlets, compared to other mainstream markets in the Netherlands.

In the mid-1990s, as an after thought of the Rio Declaration the business community was urged to promote greater environmental responsibility (Utting, 2002:1). It was also about this time that Albert Heijn (AH), sensitive to its customers' demands launched its "Earth and Values Program" which gave importance to establish the traceability of products, especially the treatment of people, animals, and the environment during the production process. It was almost necessary then during this time that Mr. Ward De Groote, the current Managing Director of the Ahold Coffee Company touch base with their Guatemalan coffee suppliers and impress on them the growing concern about traceability of coffee and the need to have more careful attention to its quality. Further, he already broached the idea of a certification system, for which standards in the production of coffee could be checked. With his visit to Guatemala, Mr. De Groote also became exposed to the difficult realities of coffee growers that he along with Mr. Bocklandt decided to do whatever was within their means to address the plight of the coffee growers. Thus, the birth of the *utz kapeh* programme of Ahold, eventually the code of conduct.

It was not a cumbersome process to convince the mother company, Royal Ahold to undertake this initiative. The *utz kapeh* initiative was well within the evolving corporate strategy of integrating Ahold's own brand of corporate social responsibility to its business practice. The timing couldn't be perfect since Ahold, as a market leader both in Europe and in the United States (US) decided to be on top of the debate about social responsibility in the US. This was proven in 2000, when Ahold became the Chair of the Global Food Safety Initiative, which was spearheaded by corporate executive officers (CEOs) of the world's leading food retailers and which eventually came up with a benchmark on food safety standard. More importantly, it should be noted that the holdings of Ahold in the US was and still is quite substantial and this was a good reason not to let up on the social responsibility campaign. The US too, has always brought in more than 60 per cent of total percentage of Ahold sales (Ahold CSR Report, 2002). What better product then to pilot test a voluntary initiative than coffee, a highly political and critical product, as Starbucks too, at that time, was supposedly to engage on the 'first ever code of conduct for coffee suppliers'. For some reasons, Starbucks never was able to implement its code of conduct and this might have been good timing for Ahold to position itself, especially its Coffee Company for a niche market where a code of conduct would lend it legitimacy.

Clearly gleaned from the sequence of events has been a purposive manner in establishing a corporate strategy which would critically earn more support from the consumers and retailers, the top list of priorities of any business entity. By all accounts supporting a code of conduct could be a profitable way, almost an investment for Ahold since it would most probably reap good reputational consequences (Fombrun, 1997:29) both to its loyal consumers and other brand consumers who might in the end be convinced to switch to Ahold corporate coffee brands, such as *PERLA*. This means that a good reputation has market value for a company(SER Report, 2001:36). Entreprises that do little to nurture their reputation, that are driven by opportunism and invest little in quality and good production conditions, are putting their social acceptance at risk (Ibid.). Ahold at present has the second biggest share of the coffee market in the Netherlands, although it still has a measly 13 per cent compared to Sara Lee's 65 per cent (NRC Handelsblad, 11 April 2002). Since Sara Lee and the other coffee giants, Kraft, Nestlé, Procter and Gamble, and even the German Tchibo have been oblivious to the pressure of adopting similar initiatives (especially now with the pressure of the OXFAM Coffee Report), Ahold would definitely find itself benefiting from its own actions, as the code of conduct would be perceived by the general public, more especially the conscientious consumers as 'an extra mile' where a few large coffee companies dare risk take. Indeed, it would be one good way of positioning its product, coffee label *PERLA* against other coffee labels available in the market. Add to this, the kind of curiosity media has accorded this initiative, when two national dailies had on the same day featured it on 11 April 2002. Of course, AH too, has its own house brand magazine, the second most widely read magazine in the Netherlands, which could be used or might have already been used to communicate this *utz kapeh* initiative. This would definitely doubly bolster the evolving image of Ahold which would come off as its modest way of addressing the plight of the coffee producers but at the same time satisfying its loyal customers who could thus claim some moral high in patronising the corporate coffee brands of AH.

Timing was of the essence in the launching of this corporate strategy. At the one hand there was the on going debate on social responsibility in the US, where Ahold had substantial holdings, then on the other hand, the introduction of a code of conduct which would address some important concerns in the production of coffee timed during the worst coffee crisis ever. Both became strategic starting points to fortify a corporate strategy that would inexplicably lend image to Ahold.

Another important part of the strategy for the *utz kapeh* code of conduct was to muster support from one important non-government organisation/fair trade organisation, which has a long standing track record and credibility in helping out producers and other peasant organisations in their livelihood, Solidaridad. The key was to be strategic in identifying support and not necessarily in mustering enough support from organisations. When criticised by Max Havelaar that the Ahold initiative was a 'splendid isolation' since it did not include representations from trade unions, and some other relevant non-government organisations, Mr. De Groote retorted that 'they wanted to start something and that they cannot take into account the wishes of the whole world'. What Mr. De Groote might actually meant was that, the utz kapeh initiative was voluntary, therefore, it was up to Ahold to identify groups who could necessarily support and work with them rather than criticise their initiative.

The voluntary nature of the Ahold initiative, the utz kapeh code of conduct has made it more flexible to custom fit it to the needs of the corporation. That is what it has exactly done when it has put on top of its agenda, customer satisfaction.

4.2 The Ahold Initiative: The Bottomline to the Coffee Producers

Content Analysis of the Code of Conduct

The main bulk of the utz kapeh code of conduct is the food safety requirements, adopted from the EUREPGAP framework that comprise almost 60 per cent of the entire code. In fact, the main strength of this Code is derived from the good command in chain responsibility. This is understandable since the main business of Ahold is retailing. Thus, the thorough attention to product safety.

On the other hand, the supposed social standards are buried in this EUREPGAP framework with provisions bordering mainly on occupational safety and health. Although, it also specifically mentioned about worker's welfare such as education and training for children, health care and housing and a specific section on recommendations for seasonal workers, these provisions were relegated at the end part of the Code, were only passing provisions, and were given the weight of 'minor musts' (meaning not entirely expected to be complied with). Also missing were specific policies or provisions on the non-acceptance and elimination of child labour in coffee plantations. Neither of the ILO Core Labour standards nor the Universal Declaration of Human Rights was mentioned in the Code as claimed by the Utz Kapeh brochure.

The apparent weakness of the Code in social standards could possibly be due to two reasons: one is the fact that Guatemala has a history of radicalised union groups and second is the fact that the other brain of this Ahold initiative, Nick Bocklandt is a Belgian coffee plantation owner and a coffee grower in Guatemala. Although, these reasons might not be entirely conclusive, they are still facts to be reckoned with, in contextualising the scope of the social standards.

The sine qua non is the failure of the Code in setting the tone for social fundamentals. It has room for a lot more of improvement before it could be regarded as a model to mirror better working conditions to coffee plantation workers or coffee growers. Solidaridad Executive Director, Nico Roozen, however, is of the opinion that since Ahold has already done the first step in the right direction, there is no way Ahold could turn its back on what it has started. Further, he believes that the

Code provides a unique opportunity for both social and ecological conditions to be mainstreamed in the coffee trade. He readily admitted though, that the social standards need more improvement, and so will the whole concept too, of *utz kapeh*. In this way, the social enlargement will accrue to the potential benefit of the coffee producers.

The Cost of Compliance

To be *utz kapeh* certified is to follow intently the code of conduct almost to the letter, since it will require fulfilling 95 per cent of the 'minor musts' and a 100 per cent of the 'major musts'. It also comes with a dear cost to the producers for which they might not have enough resources to finance given their difficult realities. The producers too would have to consider their preparedness, as fulfilment of the code of conduct conditions will not only mean allotment of money but also of time. Despite the assurances of the Foundation to find resources to assist the coffee growers in complying with the Code, the burden still rests with the producers who would have to weigh between 'surviving the now' or 'preparing for tomorrow'. Almost often the 'preparing for tomorrow' would have to take the back seat, as the coffee producer would have a family to feed.

Compliance provides a promise for the future, meantime the reality of the present would be a tough hurdle to the coffee producers. With the state of coffee growers, they would need more than financing for compliance of the code of conduct. They would also need bridge money to get them through the present.

Terms of Trade: Provision on Price

Utz Kapeh allows the forces of the New York "C" market and the London's "Fox" market to determine the base prices for Arabica and Robusta varieties of coffee greens, respectively. It will never guarantee a minimum price to coffee producers, like what fair trade organisations do. Neither is recovery of cost of compliance to the Code, which could very well be incorporated in the price of coffee greens (perhaps spread on a period of two or three years, which is a reasonable time for any return of investment) provided. However, the inequities of the market which is beyond what this Code (and beyond too the scope of this research paper) could address is the main crux why prices go as low as it could get. Ahold being a capitalist enterprise is naturally a profit driven and market-oriented entity.

On a best effort basis, Utz Kapeh pledges the recovery of cost of coffee production. How it is going to do this, is another question which the Foundation will need to address. However, the question is not so much where the Foundation will source the fund that will bridge the slump in prices (as this is the current trend given the reality of over supply) that will recover the cost of production for the coffee producers, but the length of time with which the Foundation can sustain this. Again there is no assurance that no more than the actual cost of production will be paid to the producers. The worst scenario will be a breakeven of only actual cost of production. Should this be the case, how would one suppose then the coffee growers to survive.

Pre-financing schemes and access to credits would be useful if the coffee growers are assured that the coffee produce would fetch the optimum price for them to repay these debts. Otherwise, the coffee producer would just be trapped in a quagmire of debt.

Assurance of Income and Sustained Livelihood

Selling price of coffee directly impacts the income of the coffee growers. Primary income of coffee growers is derived chiefly from the price the coffee greens fetch in the market. And since price is determined by the market, then income of the coffee growers would always be in a precarious state.

Even the lure of a long-term relationship with roasters would not be meaningful if all the coffee growers get would be impoverished income levels that could hardly address their family's basic needs.

Compared to the rest of coffee growers who might not be under the purview of the Code, there is definitely no telling if the ones that are *utz kapeh* certified will be better off given this trend, at least it is too early to tell.

The bottomline then to the producers is that, it is rather difficult to identify where producers would actually reap the benefits from complying with the Code. What is clear, is that the Code was primarily drafted to address a consumer concern.

4.3 Ahold versus Fair Trade Initiatives

Ahold at the very start never pretended that it was undertaking a fair trade initiative. Mr. De Groote emphasised that Ahold would never be able to offer the minimum price level offered by fair trade. He opined that Ahold was always in congruence in letting the market forces work.

Of course it could not be denied however, that the Ahold initiative sounds all too familiar with that of the fair trade initiatives. Both has laid claim that they have put careful attention to the production processes, both environmental and social standards. The FTOs, especially those in the business of certification, like Max Havelaar, has had significant successes in ensuring that this is being realised. However, Ahold is still a bit wanting on its social aspect.

The two are driven by different if not opposing ideological underpinnings. One is downright capitalist because of its unpretentious drive for profit that is at the core of its existence. Lately however, because of mounting pressure from consumer groups and international organisations, corporations like Ahold has claimed to adopt more responsible ways of running its business. These are under the bannership of so called corporate social responsibility and/or corporate citizenship. Thus as response to integrate this in the normal business practice of corporations, like Ahold, voluntary initiatives were created such as the *utz kapeh* programme and code of conduct. The FTOs on other hand, has for some time now, strived to offer an alternative to an existing economic (dis)order where so called 'losers' of global trade - the small farmers that are marginalised and are unable to compete are provided a scheme to survive through fair trading. What this meant is a definitive concept of justice where provisions of minimum price and decent working conditions are set out. To apply these two principles then to a product such as coffee, will require different treatments. Ahold would always refer to it as a 'commercial product', a great potential source of profit, whereas the

FTOs will refer to it as a 'political product', a tool to introduce reforms in the current climate of political economy.

What has become more apparent too, with these two initiatives are their own diverse audiences and focus groups – Ahold, the consumers; and the FTOs, first the producers, then the consumers. There is nothing in the corporate strategy of Ahold that would point that the primary concern or motivation for establishing the *utz kapeh* code of conduct was the coffee growers. It would be no wonder then that what Maseland and de Vaal describe as notions of justice or what De Martino calls as capabilities equality would reach the deaf ears of Ahold.

5. CONCLUSION

New trading arrangements have surfaced in recent years because of the growing criticism on the effects and outcomes of the global neoliberal nature of trade. Two distinct trading arrangements have come into existence, namely fair trade and voluntary initiatives. The former is by far the time-tested response to the perceived injustices of trade, whereas the latter in recent years became a creation towards what I would term as 'social appeasement' (instead of the commonly used term social responsibility) largely due to the abuses of multinational corporations.

These two trading arrangements have become relevant in scrutinising options for the coffee crisis that have pushed the lives of millions of coffee producers into destitution. Admittedly, fair trade initiatives, relatively a proven approach in addressing the income needs of the coffee growers do have its limitations. In probing for other options for the coffee growers, a focus on voluntary initiatives, specifically the Ahold *utz kapeh* code of conduct has been the reason and subject of this research.

The main findings of this research however shows that, the Ahold utz kapeh code of conduct is an investment for 'good reputational consequences' for its own and other coffee brand consumers and an effort to establish a niche market. It is difficult (if not entirely lacking) to project definitive benefits to coffee growers in terms of stable prices, and assured income and livelihood. In fact, the cost of Code compliance is an expense item to be borne by the coffee grower.

Where does that then leave the coffee growers in this coffee crisis?

It would take more than an Ahold or other similar voluntary initiatives, or fair trade to address the magnitude of the coffee crisis, a development disaster. As such, it would need the concerted effort and more importantly the political will of international institutions, national governments, civil society and non-government organisations (NGOs) to find long lasting solutions. The heightened campaign of international NGOs such as OXFAM, Danish Centre for Development Research, and International Coffee Coalition has helped in the purposive conscious building, awareness making, and communicating the problem to citizens of the world. These same organisations have also drawn up both comprehensive short and long-term proposals in tackling the crisis. This paper endorses these same proposals and recommendations as timely, relevant , and well thought out measures to abate the crisis and eventually assist the state of coffee producers.

This paper however, would like to emphasise a point: since current trading arrangements could not properly address the systemic related (meaning market attributed) collapse of commodity prices, then the World Bank nor the International Monetary Fund do not have business in encouraging export-led growth in the area of 'comparative advantage'. The failure of this intervention has had painful lessons, with the poor coffee farmers bearing the brunt. And the crux of this crisis although quite convoluted, could still be traced to irresponsible 'one size fits all' prescriptions of institutions who at the end could not even owe up to take responsibility for their own actions.

Maybe, Keynes was right to propose an institution that will be responsible for commodity markets. But we will never know, since it never was given a chance. Meantime the coffee producers are wallowing in misery.

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'Fair Trade : Paths to Sustainability?' at www.zadek.net/ftpt.pdf

'Fair Trade Standards' at www.fairtrade.org.uk/standards.html

'FLO International: Fair Trade Standards at www.fairtrade.net

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'Justice and Java: Coffee in a Fair Trade Market at www.globalexchange.org/economy/coffee

'New Slavery, Globalisation, and Fair Trade' at http://spp3.bham.ac.uk/GLOBALETHIC...blic_events/BISA

'Starbucks Releases Code of Conduct' at www.hartford-hwp.com/archives/47/044.html, 03 November 1995.

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'The Principles of Fair Trade' at www.equiterre.qc.ca/engl...te_alternative

'The Story behind Fair Trade' at
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Utz Kapeh Fundacion at www.utzkapeh.org

'Value Chains' at www. IDS.ac.uk/ids/global/valchn.html

'What is Fair Trade' at www.transfairusa.org/why/fairtrade.html

'Workshop on a Socio-economy of Solidarity', Fair Trade Forum, January 2001
at http://fairtrade.socioeco.org

Key Informant Interviews were carried out with the following people:

- Ahold Coffee Company
  Ward De Groote, Managing Director

- Utz Kapeh Foundation
  Lucas Simons, Director
  Ria Stoute, Guatemala Officer for Utz Kapeh

- Stichting Max Havelaar
  Hans Bolscher, former Director

- Solidaridad
  Nico Roozen, Executive Director

- Fair Trade Labelling Organisation
  Marjoleine Motz, former Overall Coordinator of FLO and currently employed at Fair Trade Organisatie