

Consumers and Fair Trade: Lessons from a Decade of Dramatic Growth and Growing Impact

Daniel Stokes, TransFair USA

dstokes@transfairusa.org

Consumer Demand for Ethical and Eco-Labels

The growth of markets for Fair Trade Certified products clearly illustrates that consumers are increasingly interested in products bearing third-party ethics and sustainability guarantees. But continued consumer education and outreach remain crucial. Low overall rates of consumer awareness, and to a lesser extent, “label fatigue,” as more companies and initiatives begin to make fair trade claims, remain challenges.

Since TransFair USA's founding, the growth of the U.S. and international markets for Fair Trade Certified products has been dramatic and sustained. This growth has supported increasing commitment to more ethical and sustainable sourcing among both mission-driven companies and, more recently, mainstream industry leaders. Certification volumes for Fair Trade coffee in the United States grew at a CAGR of almost 55% between 1999-2007. Despite the present economic downturn, this growth has continued. Coffee certification volume for the first half of 2009 was 45% higher than during the same period in 2008. Preliminary year-end figures for 2009 suggest a growth rate of approximately 25% for the year.¹ TransFair USA has now certified over 400 million pounds of coffee, most of which was also certified organic. Our certification of nearly 100 million pounds in 2009 alone represents approximately 20% of the U.S. “specialty,” or fine coffee market, and Fair Trade may be the fastest-growing segment of the coffee market overall. More importantly, farmers and workers around the world have now earned over \$175 million in additional income, including over \$35 million in Fair Trade development premiums², as a result of the continued growth of Fair Trade Certified products.

Fair Trade's impact also goes far beyond coffee. The success of Fair Trade has encouraged the expansion of the model into additional product categories. TransFair USA now certifies coffee, tea, cocoa, fresh and dried fruits, nuts, sugar, honey, vanilla, spices, rice, quinoa, cut flowers, wine, herbs, olive oil, and more. Many new standards have been developed at the request of businesses looking to convert larger segments of their supply chains to Fair Trade Certified. For example, in 2009, TransFair USA worked with a major retail ally to introduce Fair Trade Certified avocados from Mexico to the U.S. market for the first time, and standards for a range of imported vegetables are under development. Industry has encouraged the Fair Trade Certification system to begin to look beyond agriculture, as well. Retail-sector leaders have encouraged our counterpart in the United Kingdom to begin to develop aquaculture standards for Fair Trade shrimp from small producers in Southeast Asia. Labeled goods from a pilot project to introduce Fair Trade Certified apparel—both made from Fair Trade Certified cotton, and manufactured in the world's first certified factories—will arrive in U.S. stores this autumn. Fair Trade Certified products represented an estimated \$1.2 billion retail industry in the U.S. in 2009, and more than \$4 billion globally.³

Fair Trade Certification has begun to move beyond niche markets and into mainstream business. TransFair USA now works with over 800 companies that serve an estimated 40 million consumers through over 50,000 retail outlets. These retailers include such high-volume venues as Sam's Club,

1 TransFair USA. *Fair Trade Almanac 2009*,

2 One of the key characteristics of the international Fair Trade Certification and labeling system is the provision of guaranteed “social premiums,” or funds paid directly to cooperative representatives or workers' committees, earmarked for democratically selected local community and economic development initiatives. These include health systems, scholarship programs, housing loans, women's empowerment programs, and investments in product quality.

3 Fairtrade Labelling Organizations International (FLO).

Target, Costco, and Wal-Mart stores, alongside natural foods leaders like Whole Foods Market. The mainstreaming of Fair Trade offers our farmer and farm worker partners unprecedented opportunities. Leading UK chocolatier Cadbury's announced late last year that it would convert its Dairy Milk bar—the most popular chocolate bar in the United Kingdom—to 100% Fair Trade Certified cocoa this year. This commitment has already enabled Ghana's Kuapa Kookoo cooperative to double its sales on Fair Trade terms. Nestlé announced in December that it would convert the cocoa in its Kit-Kat bar on the UK and Irish markets to Fair Trade Certified cocoa from Côte d'Ivoire. Kit-Kat is Nestle's biggest seller in those markets. This reflects the degree to which large companies have sought to use Fair Trade Certified products to gain competitive advantage in recent years.

Of course, businesses rarely engage with Fair Trade out of a sense of altruism. They get involved with the Fair Trade system because they seek competitive advantage. They want to protect their brands from external critics, and secure supply chains for quality products. They are also interested in the opportunity to tap into some of the most important and fastest-growing segments of the consumer economy. A range of leading market researchers agree that consumers from all walks of life are becoming increasingly likely to demand more sustainable, more ethical products. 70% of U.S. consumers buy organic products occasionally; as many as 25% buy organic goods every week.⁴ A 2007 survey indicated that 75% of U.S. men and 84% of women considered a company's commitment to social issues very important when deciding where to shop. Top social issues of concern to U.S. consumers include worker welfare, health, the environment, and education.⁵ All of these are positively impacted on Fair Trade farms thanks to development premium revenues. Fair Trade thus offers businesses a way to contribute to causes that appeal to consumers' desire for responsibility while forming an integral part of their supply chains and business models.

Despite Fair Trade's impressive growth to date, its future potential is even greater. According to the National Coffee Association, only about one-third of U.S. coffee drinkers—a useful analogue for the population at large, as it represents at least 50% of American adults—are familiar with TransFair USA's Fair Trade Certified™ logo. However, it's very encouraging to note that Fair Trade enjoys a higher “conversion rate” than any other social or ecological label studied by the NCA, including organic certification.⁶ That means that a higher percentage of those who report familiarity with the Fair Trade Certified logo also report regularly purchasing certified products. TransFair USA's years of experience with grassroots consumer education and collaborative marketing with our licensee companies reflects this. Once consumers understand that Fair Trade Certification gives vulnerable farmers higher prices, more direct trade, and resources for democratic local development, they are in general very quick to support it. We are therefore dedicated to continued collaboration with all our partners to educate consumers about the impact of the Fair Trade Certification model.

Sustainable and Workable Fair Trade Strategies

TransFair USA's experience dictates that Fair Trade strategies can be both workable and sustainable if producers can access the financial resources and technical assistance they need, and companies can commit to building long-term relationships with their developing world suppliers, and building and promoting their Fair Trade Certified business effectively.

The mainstream expansion of Fair Trade has sometimes been a serious challenge for TransFair USA's farmer and worker partners. Farmers within the Fair Trade system are being called upon to deliver

4 Hartman Group. 2008.

5 Cone LLC. 2007. *Cause Evolution*.

6 National Coffee Association. 2009. *National Coffee Drinking Trends*.

higher quantities of consistent, high-quality products than ever before, and to navigate increasingly sophisticated business environments. Just a few years ago, for example, no Fair Trade coffee producers' organization would have been able to provide a mass-market retailer like Wal-Mart with sufficient quantities of high-quality coffee at a price point acceptable to Wal-Mart customers. Available supplies of Fair Trade Certified sugar for use as an ingredient could be insufficient to meet growing market demand as soon as this year. In response to challenges like these, TransFair USA created its Global Producer Services division in late 2005.

The Global Producer Services initiative at TransFair USA provides direct technical assistance in production, marketing, and business capacity building to Fair Trade producers facing barriers to sales on Fair Trade terms. Some of our most high-profile projects include our ongoing Responsible Sourcing Partnership in Brazil, an alliance among TransFair USA, Wal-Mart stores, USAID, and fourteen coffee cooperatives representing over 6,000 smallholder coffee farmers. The project is providing co-op members with training in quality improvement and marketing, and supporting infrastructural and processing upgrades. Participants' product quality, yields, and incomes have all risen substantially as a result. In Rwanda, TransFair USA has been providing coffee cooperatives with business, financial, and cooperative governance training to support long-term growth, while connecting farmers to immediate market opportunities. We have undertaken similar efforts in Ethiopia, Cote d'Ivoire, Colombia, Mexico, and Nicaragua. The Global Producer Services team is now developing projects in the sugar sector in Central America and Sub-Saharan Africa, the Peruvian and Indonesian cocoa sectors, and the Indian and Liberian garments sectors, among many others. TransFair USA is also collaborating with companies and alternative lenders such as Root Capital and Verde Ventures to ensure that Fair Trade producers have access to capital including both pre-harvest and commercial credit.

On the demand end of the supply chain, TransFair USA has found that Fair Trade Certification works best for all its stakeholders when companies make real commitments to their Fair Trade sourcing practices and suppliers. TransFair USA encourages larger companies that are interested in experimenting with Fair Trade to set modest initial goals. We then encourage our partners to increase their Fair Trade purchases over time, and to invest in their suppliers. We help them to make this work by sharing impact information that can inform companies' communications to consumers.

On Public Policy, Trade Distortions, and Trade Channels

TransFair USA and our colleagues within the global Fair Trade system are nongovernmental organizations by design, and as such do not generally play a direct policy-advocacy or lobbying role. Nevertheless, the farmers and workers around the world that we serve--like the rural poor everywhere--are acutely dependent on agricultural supply chains on which international trade policies have a significant impact.

The sugar sector provides an interesting illustration. Sugar is now the second most important Fair Trade Certified product on the U.S. market by volume after coffee. Tens of millions of poor farmers depend on sugarcane for their livelihoods. In a number of developing nations, sugar represents more than 3% of GDP. Fair Trade Certified sugar imported by just one of TransFair USA's licensee companies has already enabled small cane producers in Malawi, Paraguay, Costa Rica, and the Philippines to earn well over \$1 million in Fair Trade development premiums over the past five years. But the Fair Trade Certified sugar market is profoundly influenced both by the U.S. Tariff Rate Quota (TRQ) and at least three distinct bilateral Free Trade Agreements.

The past decade of growth has proven the Fair Trade Certified system's appeal to consumers and potential for impact at origin. The extent to which the system can continue to grow is in part

determined by the contemporary global trade regime.