CQ Researcher

Published by CQ Press, a division of Congressional Quarterly Inc.

www.cqresearcher.com

Fair Trade Labeling

Is it helping small farmers in developing countries?

The number of products sold with fair trade labels is growing rapidly in Europe and the United States. Big chains like Wal-Mart, Dunkin' Donuts, Starbucks and McDonald's have begun offering coffee and other items. Fair trade brands hope to raise their profile by targeting consumers who care about the environment, health and fair-labor standards. Fair trade supporters say small farmers in the developing world benefit by receiving a guaranteed fair price, while the environment gets a break from intensive industrial farming. But critics say consumers pay too much and that fair trade's guarantee of a good return — no matter what the market price — sends the wrong economic signal to farmers. When the price of a global commodity like coffee tumbles in response to oversupply, over-compensated fair trade farmers will remain in an uneconomic sector long after they should have switched to some other crop or livelihood, free-market economists argue.

Small farmers like Dennis Alfredo Cruz, a coffee grower from Honduras, receive guaranteed minimum prices for their crops when they deal with fair trade-certified groups.

CQ Researcher • May 18, 2007 • www.cqresearcher.com
Volume 17, Number 19 • Pages 433-456

CQ Press

Recipient of Society of Professional Journalists Award for Excellence ◆ American Bar Association Silver Gavel Award

INSIDE THIS REPORT

The Issues 435
Background 442
Chronology 443
Current Situation 448
At Issue 449
Outlook 451
Bibliography 454
The Next Step 455

FAIR TRADE LABELING

THE ISSUES

435 • Does fair trade certification improve life significantly for small farmers?
• Does fair trade certification distort markets, hurting small producers?
• Would trade reforms help small farmers more than fair trade certification?

BACKGROUND

442 **Rise of Fair Trade**
After World War II, churches helped refugees by selling their handicrafts.

446 **U.S. Enters Market**
A co-op in Massachusetts launched fair trade coffee in the U.S. in 1986.

447 **Trade Justice Movement**
Fair trade coincided with growing activism over trade inequities for poorer countries.

CURRENT SITUATION

448 **Government Support**
Europe has given fair trade considerably more support than the United States.

451 **Proliferating Labels**
Competition from other labels threatens the fair trade movement.

OUTLOOK

451 **Growth Potential**
Fair trade could match the $15 billion organic market by 2012.

SIDEBARS AND GRAPHICS

436 **Fair Trade Imports by U.S. Increase**
Coffee sales grew dramatically.

437 **How Fair Trade Guarantees Safety Net**
Growers get minimum $1.26 per pound.

438 **U.S. Leads in Fair Trade**
The United Kingdom and Switzerland are next.

439 **Is Fair Trade Monitoring Adequate?**
Financial Times uncovers problems in Peru.

440 **Fair Trade Coffee Sales Rise**
U.S. market share and sales increased since 2000.

443 **Chronology**
Key events since 1948.

444 **Fair Trade Towns Boost Consumer Awareness**
Business picks up too.

448 **Consumers *Say* They Will Support Fair Trade**
But do they?

449 **At Issue**
Is fair trade the best way to help poor farmers?

FOR FURTHER RESEARCH

453 **For More Information**
Organizations to contact.

454 **Bibliography**
Selected sources used.

455 **The Next Step**
Additional articles from current periodicals.

455 **Citing *CQ Researcher***
Sample bibliography formats.

Cover: AFP/Getty Images/Mike Clarke

CQ Researcher

May 18, 2007
Volume 17, Number 19

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CQ PRESS
A Division of Congressional Quarterly Inc.

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CQ Researcher (ISSN 1056-2036) is printed on acid-free paper. Published weekly, except March 23, June 29, July 6, Aug. 10, Aug. 17, Nov. 23, Dec. 21 and Dec. 28, by CQ Press, a division of Congressional Quarterly Inc. Annual full-service subscriptions for institutions start at $667. For pricing, call 1-800-834-9020, ext. 1906. To purchase a *CQ Researcher* report in print or electronic format (PDF), visit www.cqpress.com or call 866-427-7737. Single reports start at $15. Bulk purchase discounts and electronic-rights licensing are also available. Periodicals postage paid at Washington, D.C., and additional mailing offices. POSTMASTER: Send address changes to *CQ Researcher*, 1255 22nd St., N.W., Suite 400, Washington, DC 20037.

Fair Trade Labeling

By Sarah Glazer

The Issues

At the upscale London supermarket chain Waitrose, the smiling faces of small farmers from Africa and Latin America lend a human touch to coffee packages bearing a distinctive green and blue "Fairtrade" label. [1]

In testimonials, the farmers say the fair trade company they deal with, Cafédirect, pays them better than competing coffee buyers and helps them preserve the environment. But Cafédirect coffee costs more than the competing brand, posing a dilemma for shoppers: Is it worth the extra cost, and do the farmers really benefit?

The answer for many British shoppers is apparently yes, judging from galloping sales of fair trade products, which have doubled every two years since 2002. [2]

Getty Images/Mario Tama

Starbucks is one of several big U.S. chains that sells fair trade coffee and other products. The fair trade label signifies that farmers in the developing world received a fair price for their crops. Only 20 percent of coffee-drinking Americans are familiar with the fair trade label, compared to more than half of British consumers.

The Fairtrade label, which signifies that farmers in the developing world received a fair price for their crops, now covers some 2,500 retail and catering lines in Britain, including fresh fruit, tea, chocolate and baby food. [3] Sainsbury's, a supermarket chain, sells fair trade bananas exclusively. Marks & Spencer, a major department store, touts its commitment to fair trade cotton T-shirts and underwear with full-page newspaper ads.

Britons now spend about five times more per capita on fair trade items than Americans. But U.S. sales of fair trade items have also grown rapidly — averaging an estimated 50 percent annually since 2001 — and some experts predict the United States could soon overtake Britain in per capita spending on fair trade products. [4] Coffee represents the lion's share of fair trade products, and U.S. fair trade coffee consumption alone already dwarfs any other nations' total retail spending on fair trade. (*See graph, p. 438.*)

At the same time, awareness of fair trade products is far lower in the United States than in Europe. Only 20 percent of coffee-drinking Americans are familiar with the fair trade label, compared to more than half of British consumers. [5] The U.S. selection of fair trade items is also more limited — the most common items are coffee, chocolate, tea and bananas — and they often are available only in health food or gourmet stores.

Fair trade brands hope to raise their profile by gunning for the market niche known as "conscious consumers" — those who care about the environment, health and fair-labor standards. Big chains like Wal-Mart, Dunkin' Donuts, Starbucks and McDonald's have begun offering fair trade coffee and other items.

Sam Magona, a Ugandan coffee farmer, says his revenues have more than tripled since he started selling under the fair trade banner in 1998. Until farmers organized into cooperatives — a requirement of fair trade certification — exploitative middlemen were taking "most of the profits," says Magona, chairman of the Gumutindo cooperative union, which represents about 3,000 small farmers in Uganda.

Many families in his village could not afford to send their children to school and needed them to work in the fields. And when the world price of coffee dropped precipitously in 2001-2004, coffee farmers who sold on the open market could not even cover their costs, Magona recalls. By contrast, selling fair trade products guarantees a minimum price, insuring farmers against disaster when the price of coffee, traded on international markets, drops.

Now, children in the Gumutindo community are attending school. "People have a roof instead of grass thatch," Magona says, and "they eat more meat now after selling the coffee." But when Magona factors in how much it would cost to pay the family members who donate their labor for free, he says he is just "nearly breaking even."

Experts say this is the reality of subsistence farming in developing countries — farmers live on the margins, fair trade or not. At the same time, the fair trade system often pays up to one-third more than farmers would get on the open market, according to Christopher Himes, chief financial officer of TransFair USA, the leading labeling organization that certifies fair trade goods sold in the United States.

Fair Trade Imports by U.S. Increase

U.S. importation of fair trade-certified coffee, tea and cocoa has risen significantly in recent years. Coffee imports alone have increased by over 850 times since 1998.

Imports of Fair Trade-Certified Products, 1998-2006
(in pounds)

Year	Coffee	Tea	Cocoa
1998	76,059	N/A	N/A
1999	2,052,242	N/A	N/A
2000	4,249,534	N/A	N/A
2001	6,669,308	65,261	N/A
2002	9,747,571	86,706	14,050
2003	19,239,017	95,669	178,888
2004	32,974,400	180,310	727,576
2005	44,585,323	517,500	1,036,696
2006	64,774,431	629,985	1,814,391

Source: "Fair Trade Almanac 1998-2006," TransFair USA

But some consumers may be disturbed to learn that as little as 10 percent of the extra price they pay for a fair trade cup of coffee goes to the grower, according to some estimates. That's because wholesalers, processors, branders and retailers each take a little of the extra price for themselves. TransFair has no control over those extra dips into the profit chain, Himes responds; it merely guarantees that a fair price was paid to the grower.

Some critics say fair trade's guarantee of a good return — no matter what the market price — sends the wrong economic signal to farmers. When the price of a commodity like coffee, which is traded on world markets, tumbles in response to global oversupply, overcompensated fair trade farmers will remain in an uneconomic sector long after they should have switched to some other livelihood, free-market economists argue.

"If there's an artificial inducement — like fair trade — to stay in the market, then that retards the exit process [of farmers] needed to rebalance supply and demand," and encourages more farmers to enter the market, driving down the world price for everyone else, says Brink Lindsey, vice president for research at the conservative Cato Institute in Washington, D.C.

And, critics add, fair trade doesn't help the very poorest farmers, those who don't own land or aren't members of a growers' co-op, because the movement aims primarily to help small land-owning farmers. Large coffee plantations and their workers are barred from certification. "The cooperative system can end up discriminating against people who uphold the values of the fair trade movement but who happen to be part of bigger farms, or just don't want to join a cooperative," according to Lawrence Solomon, director of the Energy Probe Research Foundation, a Toronto firm that analyzes trade and consumer issues. [6]

Responding to free-marketers, other analysts say fair trade is sending an accurate market signal: Some consumers are willing to pay more for a product when they know the producer is paid fairly. The movement has been savvy enough to focus on the fastest-growing slice of the coffee market — the gourmet sector — and recently has been winning awards at international tasting competitions.

When Britain's Twin Trading Ltd. first started marketing fair trade coffee, the product had a reputation for poor quality, and "everyone laughed at us," says Communication Manager Simon Billing. "Now everyone's talking about its chocolaty, velvety flavors," he says at the firm's London headquarters, as a white-coated quality-control taster swishes samples of Peruvian coffees in his mouth and spits them into a bowl.

"If you talk to gourmet coffee or chocolate companies, they will say there's not enough good-quality coffee or chocolate out there," says sociologist Laura T. Raynolds, co-director of Colorado State University's Center for Fair and Alternative Trade Studies. "Fair trade is bolstering the capacity of producers to enter into this stronger specialty market." Indeed, as fair trade growers continue to improve their coffee beans, gourmet brands could lure them away with even higher prices than fair trade buyers offer.

Since 1997, the fair trade movement has been overseen by Fairtrade Labelling Organizations International (FLO), a Bonn, Germany-based association of 20 national labeling organizations like TransFair. FLO sets minimum prices and standards and monitors sites wherever fair trade products are grown and produced. Organizations like TransFair USA — the national labeling organization for North America — license and certify the actual buying and selling of fair trade products bearing their black-and-white label.

Most experts prefer the FLO system, with its independent inspectors, over efforts by corporate growers to create their own "fair trade" labels. Yet the *Financial Times* last year found

seasonal workers for fair trade growers in Peru were paid below minimum wage and questioned whether the inspection system could keep up with growing demand for fair trade products. [7] (*See sidebar, p. 439.*)

Fair trade's roots can be traced in part to the broader "trade justice" movement, which seeks to reform world trading rules seen as discriminating against poor countries. Massive demonstrations at World Trade Organization meetings have been among the most widely publicized protests against the current "free trade" regime, which critics say favors wealthy countries' markets at the expense of developing countries.

For Americans who are not likely to protest arcane trade rules, fair trade products are another way of reaching them, says Laura Rusu, a spokeswoman for Oxfam America, a leader in the trade justice movement. Her organization is currently lobbying to reduce the billions of dollars in federal agricultural subsidies coming up for a vote later this year in the U.S. farm bill. Government subsidies to American farmers encourage overproduction of products like cotton, driving down the world price and putting farmers in Africa out of business, Oxfam charges.

"If we look at only one thing to achieve change for most farmers — it's definitely through changing the rigged rules at the international level," says Rusu. Fair trade certification is "something in the meantime where we can make a change."

Yet with multilateral trade talks at a stalemate and wealthy countries reluctant to give up their subsidies and trade protections, some academics agree with activists that fair trade labeling may be a faster way to achieve some of those goals. The labeling scheme "is essentially an end-run around the government; it doesn't rely on policy makers making politically risky decisions," says Michael J. Hiscox, a political economist at Harvard University. Ironically, even though the labeling initiative grew out of a left-leaning movement hostile to free-market ideology, it has turned out to be a "market-based solution that relies on good information," he observes.

When it comes to international trade talks, "we're not holding our breath," confirms Himes of TransFair USA. "We're taking an approach that allows us to assist growers right now and raise society's awareness as we do that."

As the market for fair trade products continues to grow, here are some of the questions being debated among consumers, activists and the international community:

Does fair trade certification improve life significantly for small farmers in developing countries?

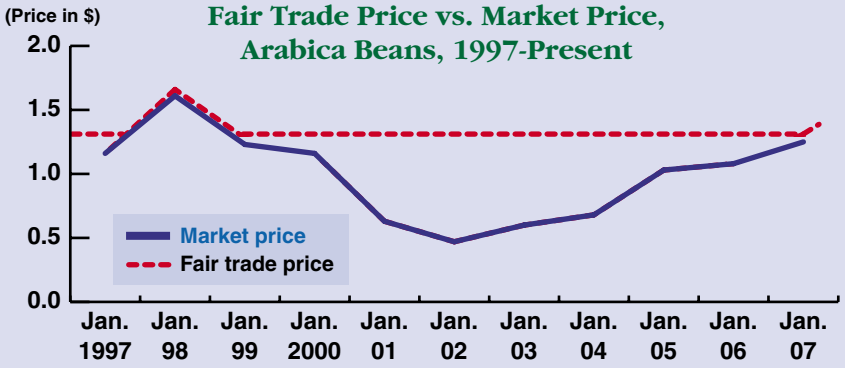
The face of Nicaraguan coffee farmer Melba Estrada darkens when she recalls 2001, the "sad and difficult" year when the world coffee price fell to a historic low of 49 cents a pound. After Estrada had paid the half-dozen seasonal workers who helped harvest the coffee on her three-acre family farm, "there was not enough money for our own food," recalls the widowed mother of six.

The major standard-setting body for fair trade, FLO, aims to keep small farmers like Estrada afloat during those difficult times by setting a floor price calculated to cover the farmer's costs and provide a decent standard of living.

Currently, the basic minimum price FLO guarantees for coffee from Central America, Africa and Asia is $1.21 per pound, plus a five-cent "social premium" for community projects the growers' cooperative chooses, such as schools or clinics. If the world coffee price rises above the minimum, the fair trade price rises to meet it, and the fair trade importer must pay that price plus the social premium.

How Fair Trade Guarantees Safety Net

*Fair trade certification guarantees coffee farmers a minimum price of $1.26 per pound — $1.21 per pound plus a five-cent "social premium" to fund community projects (dotted line). When the world market price of coffee plummets, as in 2001-2002, the fair trade price remains stable and can be twice the market price. If the market price rises above $1.21, as it did last January, the fair trade minimum meets it, plus pays the social premium.**



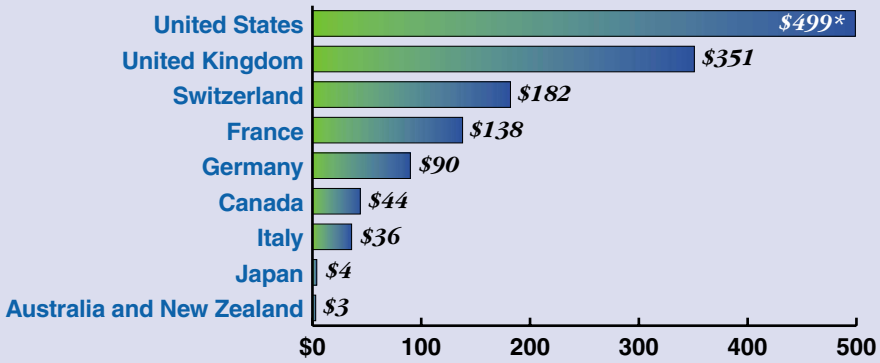
** Under new rules starting June 1, 2007, the social premium rises to 10 cents per pound.*

Source: TransFair; Market prices are from New York Board of Trade for Arabica beans, the type imported to the United States under fair trade.

U.S. Leads in Fair Trade Sales

With $499 million worth of Fair Trade Certified coffee alone in 2005, the United States leads the world in the retail value of Fair Trade Certified products. The United Kingdom is second, with a value of $351 million.

Retail Value of Fair Trade-Certified Products, 2005
(in millions of dollars)



** Only includes Fair Trade Certified coffee. Figures for other countries also include other products such as tea, cocoa, rice, sugar and fruit.*

Source: "Fair Trade Almanac 1998-2006," TransFair USA

For example, on Jan. 4, the world price was $1.25 per pound. [8] So the lowest an importer could have paid for fair trade coffee was $1.30 (the world price plus the social premium).

While the five-cent premium may not seem like much when the coffee price is high, as it is now, fair trade farmers say the guarantee can mean having enough to eat in lean years when the price drops precipitously, as it did between 2001 and 2004. (*See graph, p. 437.*) During those years, fair trade farmers could sell their coffee at more than double the street price paid by local "coyotes" — or middlemen. [9]

Indeed, while small coffee farmers around the world received an additional $17 million in income last year as a result of U.S. fair trade sales, they received an even bigger premium of $26 million in 2004, when world prices were at a low point, even though they exported half as many beans. [10]

But how much does that improve individual farmers' lives? Estrada, who started selling to fair trade six years ago, says the extra income allowed her to convert her dirt-floor adobe hut into a cement home and make investments on her farm to improve the quality of her coffee.

Fair trade provides credit in cash-poor seasons, better information about current world prices and bargaining power, advocates say, especially for farmers like Estrada who live in remote areas and used to sell to exploitative itinerant buyers.

"We were fairly impressed by the range of benefits," says Douglas L. Murray, co-director of the Center for Fair and Alternative Trade Studies, who directed a two-year study of fair trade's impact on farmers in Mexico and Central America. "But," he adds, "our conclusion was most of the benefits were beyond income."

Murray found that fair trade cooperatives gave growers technical skills to convert to more profitable organic coffee, developed marketing strategies to enter the gourmet market and helped farmers diversify into other products they could sell in slack seasons. "The social premium in some cases resulted in some fairly nice benefits, from health clinics and schools," he adds.

Yet those benefits only reach a minority of farmers and farmworkers. Only about 30 percent of the world's small-scale coffee producers are linked to fair trade networks. [11]

In addition, fair trade growers generally receive only a small fraction of the extra margin consumers pay. Take the fair trade cup of coffee sold at Costa, a London coffee bar. For several years, Costa charged an extra 20 cents a cup. But when *Financial Times* writer Tim Harford analyzed the costs, he found that more than 90 percent of that premium did not reach the farmer. The extra cost to Costa of buying free trade coffee beans should have translated to a cost increase of only 2 cents a cup, Harford calculated, since it only takes a quarter-ounce of coffee to make a cappuccino. The other 90 percent, he figured, went to Costa's bottom line.

"The truth is that fair trade coffee wholesalers could pay two, three or sometimes four times the market price for coffee in the developing world without adding anything noticeable to the production cost of a cappuccino, because coffee beans make up such a small proportion of the cost," Harford writes in his new book, *The Undercover Economist.* So why was Costa charging so much more? Harford's answer: fair trade coffee "allowed Costa to find customers who are willing to pay a bit more if given a reason to do so." [12]

Even analysts sympathetic to fair trade estimate that only five cents of an additional 20 cents the shopper pays for a pound of fair trade bananas would go to the farmers, largely because wholesalers and retailers all ratchet up their mark-ups. [13] Fair trade

Is Fair Trade Monitoring Adequate?

Financial Times *uncovers problems in Peru*

Some critics have suggested the monitoring system run by Fairtrade Labelling Organizations International, or FLO, may be inadequate, or even weakened by corruption. A *Financial Times* reporter wrote last year that four out of five fair trade-certified farms he visited in Peru paid summer coffee pickers below minimum wage, despite FLO standards requiring payments in line with minimum-wage laws. [1]

"Our standards for small-farmer co-ops don't cover their payments to seasonal workers," responds Ian Bretman, vice chairman of the Fairtrade Foundation, Britain's labeling organization, partly because it's "nearly impossible to verify" at every farm.

Bretman stresses that monitoring is aimed primarily at verifying the price paid to small growers — the main group the movement is trying to help. While small farmers are encouraged to pay decent wages, they're not subject to the rigorous inspections carried out at larger plantations with many full-time workers, according to Bretman.

Officers with the labeling organizations also point out that the farmworkers interviewed by the *Financial Times* were still being paid more than the prevailing local wage. "Certification isn't a guarantee that nothing bad ever happens; it's a guarantee there are repercussions when bad things happen," says Christopher Himes, chief financial officer of TransFair USA, the leading labeling organization that certifies fair trade goods sold in the United States. "The *Financial Times* article was interviewing groups we were in the process of decertifying."

While FLO does annual inspections of cooperatives when they're first certified, its visits become more infrequent once a co-op is established after several years. In a cooperative of 1,000 farmers, only 10-15 of the farms might be visited, according to Bretman, so certifiers won't necessarily catch every violation.

In a written response to the *Times*, the Fairtrade Foundation said that of the Peruvian cooperatives mentioned in the article, one group sold only 10 percent of their beans on fair trade terms; another 15 percent. "This means they remain heavily at the mercy of the conventional market, often forced to sell for less than the cost of production" and "are often still very poor themselves." [2]

The *Times* reporter also quoted industry insiders saying non-certified coffee was being falsely exported under a fair trade label. The Fairtrade Foundation responded that FLO audits "had already identified irregularities in the supply chain in Peru" and had scheduled an inspection for the week following the appearance of the article.

Nevertheless, industry observers have questioned the ability of certifiers to keep up with growing demand for ethically grown coffee — possibly creating an incentive to misleadingly export non-certified coffee. Some also questioned the independence of the certifiers. FLO answers that inspections are conducted by FLO-CERT, a company owned by FLO but operated independently.

[1] Hal Weitzman, "The Bitter Cost of 'Fair Trade' Coffee," *Financial Times*, Sept. 8, 2006, at www.ft.com.

[2] "Fairtrade Foundation Briefing on *Financial Times* Article," at www.fairtrade.org.uk.

labeling organizations also charge fees to co-ops and wholesalers for their services — like inspecting farms — which are reflected in the price.

Defenders of fair trade say this is the way the free enterprise system works, and fair trade is no different. "This is a business, not a charity," says Billing, at Twin Trading in London. "We have no way of controlling the margins beyond what we're paying growers."

Even Harford acknowledged that at the time of his Costa study, the extra 80 cents-$1.10 a pound that fair trade was paying farmers could still nearly double the income of a farmer in Guatemala, where the average income is less that $2,000 a year. [14]

Still, some critics consider fair trade pricing deceptive for the consumer who thinks the extra cost is going entirely to the farmer. "It may be more efficient to provide that help by supporting a charity than it is to pay 40 pence (80 cents) more for your coffee when you don't know what happens to the 40 pence," says Philip Booth, editorial and program director at the Institute of Economic Affairs, a conservative London think tank.

"Only a very small percent of all the people who buy fair trade coffee would ever write a check to [a charity like] Oxfam," TransFair USA's Himes retorts. "For all the people who don't have writing a check to farmers on their top 10 list of things to do today, what we're talking about here is millions of consumers in tens of thousands of outlets."

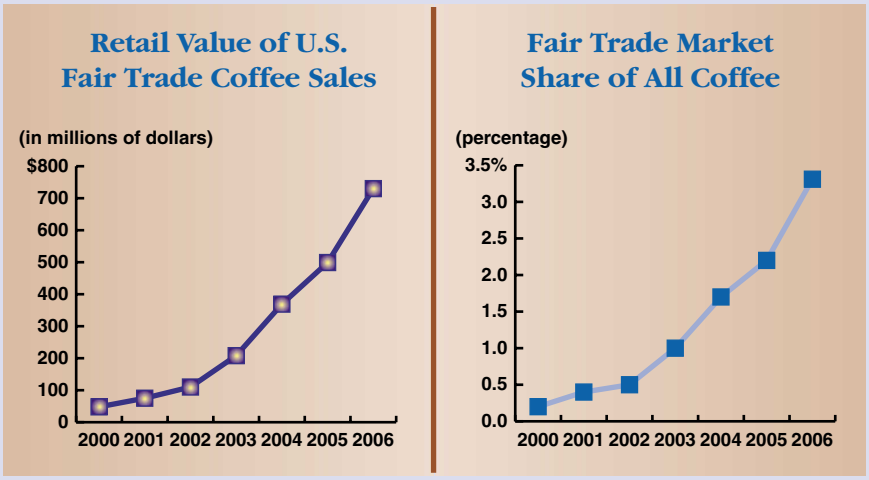
Moreover, the money farmers get is helping them develop a business; a charity check is merely a handout, Himes adds.

The extra cost of fair trade products can also reflect the fees fair trade labeling organizations like TransFair charge to farmers and wholesalers, which Booth criticizes as excessive. But if consumers want the fair trade label to be trustworthy, Murray notes, labeling organizations need to conduct inspections, and charge fees to cover the cost.

Some critics question the fair trade premise that farmers should stay on the soil, where they're only earning a few

Fair Trade Coffee Sales Rise

Since 2000, the retail value of fair trade coffee sales in the United States has increased dramatically (left). As a percentage of all U.S. coffee sales, the market share of fair trade coffee rose from 0.20 percent in 2000 to 3.31 percent in 2006 (right).



Source: "Fair Trade Almanac 1998-2006," TransFair USA

pennies more — rather than improving their lot through education and city jobs. "Fair trade is about Western feel-good rather than transforming people's lives," says Ceri Dingle of WORLDwrite, a London cultural exchange organization. The fair trade movement's encouragement of organic methods means farmers are doing more weeding by hand and don't have access to modern agricultural methods, she charges, encouraging manual toil.

Indeed, free-market economists like Booth argue that fair trade doesn't work as a large-scale development strategy; usually it takes urbanization and industrialization to accomplish that. For farmers like Estrada, the most dramatic change from fair trade may occur in the next generation, when children leave the farm. Her eldest daughter is studying medicine — the first in her community to attend college — under a scholarship funded by fair trade social premiums.

Surprisingly, some leaders of the movement agree their effect on people's lives is modest. Ian Bretman, vice chairman of the Fairtrade Foundation, Britain's labeling organization, calls the experience of Uganda's Magona "very typical" for subsistence farmers. "They're barely getting by," he concedes. "It's almost utopian to think we can transform that position in such a short period of time." With fair trade, he says, "We hope people don't fall below the level where they can sustain a decent lifestyle."

Does fair trade certification distort markets, ultimately hurting some small producers?

Some free-market economists have suggested that the fair trade approach could ultimately hurt most farmers, especially those not fortunate enough or savvy enough to join co-ops that sell to higher-paying fair trade buyers.

In a widely quoted report last December, the weekly British newsmagazine *The Economist* took up that argument. "By propping up the price, the Fairtrade system encourages farmers to produce more of these commodities rather than diversifying into other crops and so depresses prices — thus achieving, for most farmers, exactly the opposite of what the initiative is intended to do," the magazine editorialized. [15]

In the case of coffee, the propped-up price encourages more producers to enter the market and drives down the price of non-fair trade coffee even further, "making non-Fairtrade farmers poorer," the magazine said. [16]

But fair trade coffee is still such a small part of the U.S. market — less than 4 percent — that the idea it could sway world prices is almost laughable to those active in the movement. [17]

"If we did get to that [influential] level of market share, fair trade is flexible enough that we can change the standards," says Charlotte Opal, chair of FLO's Standards Committee, which sets minimum prices.

And some economists say fair trade coffee beans are essentially a different market from the world commodity market, which determines pricing for run-of-the-mill blends for consumers looking for the lowest-cost product.

"They're two different products and have a different demand-and-supply curve. To the extent that the signal is, 'Consumers want more fair trade coffee,' the effect should be to get more producers to grow fair trade coffee," says Harvard political economist Hiscox. "And that is the correct signal."

Studies by Hiscox and others have shown that consumers of fair trade products are willing to pay a higher price for the assurance that growers are paid fairly. (*See sidebar, p. 448.*)

Yet skeptics like Booth at the Institute of Economic Affairs doubt consumers would be willing to keep paying a premium if the world coffee price sends competitive brands plummeting. Could wholesalers sell enough fair trade coffee to keep farmers afloat in a glutted supply market? he asks.

"Absolutely, we'll be able to sell," responds Rick Peyser, director of social advocacy and coffee-community out-

reach at Green Mountain Coffee Roasters in Waterbury, Vt., a wholesaler of fair trade and other specialty coffees. That situation "already happened in 2001," he says, when world coffee prices hit bottom. "That's when our fair trade sales started to skyrocket," as customers' sympathies were roused by news stories about the thousands of poor coffee farmers being driven out of business.

CQ Press/Sarah Glazer

Ugandan coffee farmer Sam Magona proudly holds a bag of Mt. Elgon coffee produced by his cooperative of 3,000 farms on fair trade terms. Magona was visiting the London office of Twin Trading Ltd., which buys his coffee beans for Cafédirect, a fair trade company.

Some critics say fair trade unfairly creates insiders — those inside the fair trade co-ops who get superior prices — and outsiders, who are still beholden to market prices. "Whether it brings significant net benefits to the poor in general is questionable," the Institute of Economic Affairs' Booth concludes in an upcoming article. [18]

The poorest farmers are the least likely to benefit from fair trade, co-author Booth says, because they're not organized in co-ops and can't afford the certification fees charged to co-ops by labeling organizations.

"My concern is that the improvement for a small number of growers comes at a price — in particular restricting the corporate forms of the organizations involved by requiring them to be cooperatives," says Booth. He argues that co-ops are prone to corruption and mismanagement because there are no clear lines of authority.

Supporting that concern, a recent study of Latin American coffee cooperatives at Colorado State University found rather than democratically choosing a community project to fund from the five-cent-per-pound social premium, cooperative leaders have at times "made the unilateral decision to use the premium to cover operational costs." [19]

So why are co-ops a requirement? They provide the kind of central management crucial to checking that fair trade standards are actually being met, explains TransFair's Himes, and he says fair trade pricing provides incentives for small farmers to join them. "Dealing with the absolutely poorest unaffiliated farmer — that's not what fair trade does right now," he acknowledges.

Although cooperatives don't always live up to the vision of democratic institutions, Murray at the Center for Fair and Alternative Trade Studies says companies are equally prone to flaws in how management decisions are made.

Opal maintains that even farmers who don't sell to fair trade can benefit from a fair trade cooperative in their community. "We see prices for non-fair trade coffee going up" in those localities, she says, because "there's more information, and farmers in the village know what they should be earning." And projects funded by fair trade's social premiums, such as new roads, schools, clinics and wells, often benefit everyone in the village, she notes.

In the long run, the *Financial Times*' Harford speaks for many free-market believers when he concludes that "fair trade cannot fix the basic problem: Too much coffee is being produced." As long as growing coffee looks economically attractive, he argues, "it will always be swamped with desperate people who have no alternative." [20]

But it's hard to expect a coffee farmer, who must wait four years for trees to bear and who may farm on soil unsuitable for anything else, to turn on a dime in response to dropping world prices. "A coffee farmer who loses his land won't become a software engineer," observes Himes. More likely he'll join the illegal immigrants seeking work in some North American city, suggests Billing at Twin Trading.

Meanwhile, and somewhat contrary to classical economics, the gourmet retailers who buy from Green Mountain are willing to pay more in low-priced cycles to tide over farmers of specialty beans so they can ensure a continuing supply of high-quality coffee, Peyser says.

Would trade reforms help small farmers more than fair trade certification?

If buying fair trade cappuccino at your local Starbucks is not the answer to addressing poverty, in the eyes of free-market economists, what is? It's something that's "less fun than shopping," suggests *The Economist* in a widely cited editorial.

"Real change will require action by governments," the editors wrote, including "reform of the world trade system and the abolition of agricultural tariffs and subsidies, notably Europe's

monstrous common agricultural policy, which coddles rich farmers and prices those in the poor world out of the European market." [21]

Similar U.S. government subsidies for crops like cotton and rice have been assailed by economists for encouraging overproduction of unprofitable crops, driving their prices so low that poor rice farmers in Ghana, for example, have been forced out of business.

Although they may disagree on the precise solutions — free-marketers want to remove all trade barriers, liberals generally want to keep some for poor countries — some prominent liberal economists agree that the current world-trade regime benefits rich countries at the expense of poor countries.

Since World War II, writes Nobel Prize-winning economist Joseph E. Stiglitz in his book *Fair Trade for All*, developed countries like the United States have been "somewhat duplicitous" in advocating that other nations reduce their tariffs and subsidies for goods in which the rich nations have a comparative advantage. At the same time, rich countries have been reluctant to open up their own consumer markets when it comes to goods where developing countries have an advantage. [22]

If governments really want to "make poverty history," as some British Labor Party leaders have pledged, they would change the way that world trade currently contributes to poverty, Stiglitz wrote in the *London Daily Telegraph*. Rich nations currently cost developing countries three times as much with their protectionist trade policies as they give them in aid each year, he estimated. A mere 1 percent increase in Africa's share of world trade would bring it some $60 billion, he calculated. [23]

In light of these huge monetary inequities, the relatively small fair trade movement may be a distraction from efforts to make trade agreements more equitable between rich and poor countries, some liberal economists worry. [24]

Oxfam America, which is lobbying to reduce some $4 billion in cotton subsidies to American farmers, calculates such a reform could increase the world price of cotton by as much as 20 percent. "When you look at a farmer earning a little over $100 a year on his farm in West Africa, an extra 20 dollars a year could mean his or her daughter going to school or a successful village effort at getting a well," says Oxfam America spokeswoman Rusu.

Recent multilateral trade rounds have continued to give the advantage to developed countries, which keep their protectionist trade barriers while persuading developing countries to drop theirs, according to Stiglitz. [25] The 2003 trade meeting in Cancun, Mexico, for example, ended in a walkout after many participants accused the United States and Europe of reneging on their promises over agricultural reform.

But even some advocates of trade reform doubt there's any life left in multilateral trade talks. "The Doha Round is in a coma right now, and it's unknown whether it will ever revive," says the Cato Institute's Lindsey, an advocate for reductions in U.S. tariffs. * "The outlook isn't promising for putting real discipline on our subsidies," either, he predicts.

That gloomy political outlook is one reason Harvard's Hiscox has become enthusiastic about fair trade as an alternative to trying to insert labor standards in trade agreements — for manufacturing as well as farming. Historically, poor countries have opposed such standards for fear they'll lose their cheap-labor advantage when it comes to exporting goods. And inserting economic penalties for countries that violate labor standards could ultimately hurt poor farmers in those countries and stifle economic growth, he points out.

On the other hand, if higher fair trade prices actually compensated firms for their higher labor costs, "everyone could win," he writes, and "it could be possible to improve working conditions without adversely affecting investment and growth in developing countries." [26]

Trade justice activists, as advocates for reform of international trade rules are known, are reluctant to admit to internal tension within their movement caused by fair trade activists, but there are some differences. "You can admit fair trade is part of a solution to a much bigger problem — one way of addressing poverty, but it's not a panacea and will not fix the problem overall," says Amy Barry, trade spokeswoman for Oxfam International, a leader in the trade justice movement and a founder of Fairtrade International, the British fair trade labeling organization.

Leaders of the fair trade movement in both Britain and America say they're linked in principle to the goals of the larger trade justice movement. But they say fair trade offers a market solution right now while the prospects for trade reform look dim. And, Oxfam's Rusu agrees, "given that it will take some time to get to a fair international-trading system, fair trade-certified products encourage consumers to use their dollar to choose products that are more fair."

The big question, according to Colorado State sociologist Raynolds, is: "Does an initiative like fair trade heighten awareness of inequalities in our current trade system so we can start to get the consensus and effort to get some significant reforms?" ■

* The so-called Doha Round in Doha, Qatar, in 2002 launched a new round of multilateral trade talks focusing on aiding poor countries.

BACKGROUND

Rise of Fair Trade

The roots of fair trade can be traced to projects initiated by

Continued on p. 444

Chronology

1940s-1960s

Churches and philanthropies sell Third World handicrafts, returning profits directly to craftsmen. Post-World War II attempts to liberalize trade begin.

1948
U.N.'s General Agreement on Tariffs and Trade (GATT) is set up, begins "rounds" of negotiations to reduce trade barriers.

1965
British humanitarian organization Oxfam starts "helping by selling" program, leading to sales of Third World crafts.

1980s

World coffee prices plunge, impoverishing thousands of small farmers; early fair trade labeling efforts start to pick up steam.

1986
Equal Exchange, a worker-owned cooperative in the United States, begins importing and roasting only "fairly traded" coffee.

1988
The Max Havelaar Foundation in the Netherlands begins marketing coffee under its own label, certifying that a guaranteed minimum price is being paid to the farmers.

1990s

Fair trade labeling efforts start in England and United States; international umbrella group formed to set fair prices and inspect farms; EU expresses support; coffee becomes dominant product.

1992
Oxfam and other philanthropic groups in England establish the Fairtrade Foundation, Britain's third-party auditor of fair trade practices.

1997
Fairtrade Foundation and labeling groups in other countries form Fairtrade Labelling Organizations International (FLO), to set prices.

1998
TransFair USA, the lead certifying organization in the United States, is founded.

1999
TransFair begins serious labeling effort; fair trade coffee sales begin average annual growth of 79 percent.

2000s

Major U.S. chains start selling fair trade coffee and other items; U.S. fair trade sales average 50 percent growth annually; activists demonstrate at international trade talks.

2000
Starbucks introduces fair trade coffee.

2001
Demonstrators charging that trade rules hurt poor countries stall World Trade Organization (WTO) talks in Seattle.

2002
WTO launches new trade talks in Doha, Qatar, known as the "Doha Round," focusing on development of poor countries.

September 2003
Trade talks in Cancun, Mexico, end as walkouts charge rich countries reneged on reducing farm subsidies; first fair trade fair held at talks. . . . Green Mountain Coffee Roasters in Waterbury, Vt., begins producing fair trade coffee for supermarket chains.

2004
Fair trade organizations from 30 countries sign declaration at Conference on Trade and Development in Sao Paulo, Brazil, calling for fair prices for small farmers. . . . Wal-Mart begins selling fair trade coffee. . . . Starbucks quadruples purchases of fair trade coffee over 2001.

2005
McDonald's begins serving fair trade coffee blend in New England, Albany, N.Y.

2006
European Parliament calls for European Union to support the fair trade movement . . . The number of certified fair trade producer organizations reaches 586 by year's end in 58 nations in Africa, Asia and Latin America. . . . Awareness of fair trade label among U.S. coffee drinkers rises to 20 percent from 7 percent in 2003.

Feb. 14, 2007
On Valentine's Day Divine Chocolate, a U.S. fair trade chocolate, is launched.

March 2007
Whole Foods Market chain announces it will sell TransFair-labeled products, with 10-year goal of making half of imported foods from the developing world fair trade. . . . TransFair announces more than 600 U.S. businesses carry fair trade products in about 40,000 retail outlets. . . . Fair trade coffee, fastest-growing segment of U.S. specialty market, sells $730 million retail in 2006.

Fair Trade Towns Boost Consumer Awareness

Business picks up too in British, Pennsylvania towns

Outside Bar 19 in England's Avon River Valley, a chalkboard proudly proclaims the "Fair Trade" menu. Inside, lunchtime tables filled with parents and children on Easter break testify to the restaurant's successful transformation from a seedy bar to popular — and socially conscious — family spot.

In 2003, when Richard Smith reopened the café with blond wood paneling in the picturesque town of Keynsham, he advertised it as an "alternative" venue featuring organic and local products and the first smoke-free dining environment in town. But he was reluctant to load the menu with fair trade items, fearing customers would think "they're overpaying for poor quality foods."

Confidence replaced reluctance a year later, when Keynsham, nestled in an agricultural river valley between Bath and Bristol, started a campaign to become a "fair trade town." The town council passed a unanimous resolution pledging to serve fair trade tea and coffee at town functions, encourage businesses to sell fair trade products and promote the concept of fair trade in the schools and local media. To qualify, the town of 15,000 residents had to satisfy the Fairtrade Foundation, Britain's lead fair trade labeling and certifying organization.

CQ Press/Sarah GLazer

Richard Smith finds that patrons willingly accept fair trade products at his Bar 19 in Keynsham, in England's Avon River Valley.

The proliferation of fair trade towns — at last count 262 in the U.K. — helps explain the rapid growth in British consumption of fair trade goods, some activists believe. The movement started in 2000 when Garstang, a small market town in Northern England, declared itself "fair trade." A year later, 71 percent of the town's residents recognized the "Fairtrade" label, compared to about 20 percent nationally. Today, more than half of adults in Britain recognize the label. [1]

Keynsham's campaign made it possible for Smith to do "a lot less advertising" to convince customers fair trade foods could be good quality and well-priced. Smith started promoting fair trade wines from South Africa and rum from Paraguay, which he features in the café's rum cake. (The tea, coffee and even pineapple juice are fair trade, too.) If anything, fair trade helped his business grow, he says.

"This is a good example of where fair trade has added to the business and is part of its identity," says Rachel Ward, a Keynsham official who kick-started the campaign. "Fair trade is a way of telling people this is a place worth shopping." Local officials hope fair trade status will help revive the main shopping street of the historic market town and even draw some of the tourists who flock to nearby Bath.

Across the "pond," attracting visitors and shoppers also figured in support for turning Media, Pa. into the first — and so far the only — fair trade town in the United States. When Media resident Elizabeth Killough pitched the idea to the local business association, she says, "They got it right away" as a way to attract "conscious consumers" — the well-heeled niche that goes for organic and fair trade products. Though Media has only 5,000 residents, restaurants and shops on its quaint Main Street compete for a daytime population of around 25,000 who converge on the county seat.

The idea was the brainchild of local tour magnate Hal Taussig, whose Untours Foundation makes low-interest loans abroad to create jobs and support fair trade products. "My own interest is to get all the merchants in Media to sell fair trade goods so when you walk down the street and ask people, 'What is Fair Trade?' they'll know what it is," says Taussig who donates

Continued from p. 442

churches in North America and Europe in the late 1940s to provide relief to refugees and other poverty-stricken communities by selling their handicrafts to wealthier markets.

In Western Europe, just after World War II, charities began to import handicrafts from impoverished Eastern Europe to promote economic development. [27] In the United States, around the same time, the Mennonite Central Committee began to develop a market for embroidery from Puerto Rico by creating a crafts-selling organization that would become known as Ten Thousand Villages.

By the 1960s, these initiatives had evolved into "world shops," marketing goods from the developing world. Their goal was to eliminate middlemen and return more of the profits to Third World craftsmen. Oxfam led this effort with its "helping by selling" program in 1965, marketing imported

the profits of his tour company to the foundation.

Media's town fathers decided to adopt the same criteria used in Britain after they learned how Garstang had pioneered the concept.

"As far as bringing people to Media, anything we can do to promote our town in a positive way is a bonus. And we're getting recognition around the country from other towns," says Media Borough Councilwoman Monica Simpson.

Media's restaurants were surprisingly resistant to serving fair trade coffee, because they usually rely on a single distributor for pre-measured coffee and urns, says Killough, associate director of the Untours Foundation. A supplier was finally located who had started offering fair trade coffee to compete for contracts at college campuses, where students demanded it.

Similarly, when Keynsham approached its largest employer, Cadbury Chocolate, about serving fair trade products in its employee canteen, the company resisted on the grounds its food supplier didn't offer them, town officials say. It's no small irony that the work force at the chocolate plant has been decimated as Cadbury jobs have migrated overseas to low-wage countries.

The chocolate giant does not carry the fair trade label on most of its products although it says on its Web site that it pays its growers a fair return. [2] But local employees still decided to put in a vending machine featuring fair trade hot drinks at the social club on the plant's campus.

In Garstang, the inspiration for fair trade germinated in 1999, when veterinarian Bruce Crowther attended workshops by the British charity Oxfam on Third World poverty, which condemned unfair trade practices. "They drew my attention to the realization that a child is dying somewhere in the world every two to three seconds because of poverty," he recalls. "That statistic totally horrified me."

Crowther draws a direct line from his activism as coordinator of Britain's fair trade towns initiative to 19th-century abolitionists, who campaigned against the slavery on sugar plantations with brochures asking, "What price is your sugar?"

CQ Press/Sarah GLazer

Local official Rachel Ward, right, helped turn Keynsham into one of Great Britain's 262 fair trade towns.

"It's absolutely the same argument today," Crowther says, for products that rich countries can buy cheaply because they pay Third World farmers so poorly. "It's morally unacceptable that people should suffer in order for us to get sugar for a cheap price," he declares.

Garstang is mirroring the slave triangle of more than 200 years ago — but in a reverse, fair trade image. In the 1800s, the triangle connected neighboring Lancaster, Britain's fourth-largest slave-trading port; Ghana, the source of the slaves; and the former American colonies where slaves were shipped. Since 2002, Garstang has forged a cultural exchange with a town in Ghana, New Koforidua, home to cocoa farmers selling to fair trade. In March, Garstang also accepted an invitation to become a twin town with Media, once an important stop for runaway slaves on the Underground Railroad.

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[1] Elisa Arond, "The Fairtrade Towns Initiative: Lessons from across the Ocean," May 2006, Oxfam America, pp. 15, 40.

[2] "Fairtrade is not the only way to ensure farmers receive a fair return for their crops," the Web site notes, since many farmers are not in cooperatives as required by the Fairtrade Foundation. See www.cadburyschweppes.com/EN/EnvironmentSociety/EthicalTrading/fair_trade.htm.

handicrafts in its charity shops in England. [28]

The first independent fair trade labeling initiative began in the Netherlands in 1988, when world coffee prices started to plunge. The Max Havelaar Foundation began marketing coffee under its own label, certifying that a guaranteed minimum price was being paid to the farmers.

Oxfam followed in 1992, joining with four other British philanthropic groups to establish the Fairtrade Foundation, Britain's third-party auditor of fair trade practices. Today, affiliated fair trade certifying organizations are active in Europe, Australia, New Zealand, Canada, Japan, Mexico and the United States.

In 1997, the Fairtrade Foundation joined with other national initiatives to form the umbrella Fairtrade Labelling Organizations International (FLO), to pool certification and marketing efforts. The FLO subsequently established

detailed standards for certified commodities governing pricing and labor standards. It monitors producer and trader groups to ensure compliance and may de-certify groups for failing to meet the criteria. [29]

To ensure fair prices, producers must receive a guaranteed minimum price and an additional "social premium" for community projects, set separately for each product by FLO.

FLO has developed specific standards for coffee, tea, cocoa, quinoa, bananas, cane sugar, rice, cotton, wine grapes, nuts and oil seeds, dried fruit, fresh fruit and vegetables, fruit juices, herbs and spices, flowers and plants. Until the recent introduction of fair trade cotton goods, sports balls were the only manufactured item certified by FLO.

For coffee, the main fair trade product, FLO requires that producers be small, family-based growers organized into politically independent democratic organizations — cooperatives — and that they limit the use of environmentally harmful chemicals. FLO has developed separate standards for operations employing large numbers of workers, such as farms growing tea, bananas and other fruit.

Importers of fair trade products must comply with another set of FLO standards aimed at giving cash-poor farmers, often beholden to extortionate moneylenders, credit at reasonable rates: Buyers must agree to long-term purchasing agreements (beyond one year) and provide advance financing to farmers.

By the end of 2006, there were 586 certified fair trade producer organizations in 58 developing nations in Africa, Asia and Latin America. [30]

U.S. Enters Market

As the fair trade market picked up steam through the 1980s, coffee quickly became the dominant product. [31] In the United States, the pioneer in the market was Equal Exchange, a worker-owned cooperative in West Bridgewater, Mass., which began importing and roasting only "fairly traded" coffee in 1986.

TransFair USA, the lead American certifying organization, opened in 1998 and began a serious labeling effort the following year. Since then, fair trade coffee sales have grown an average of 79 percent annually, according to TransFair, and coffee remains the dominant crop.

In addition to coffee, TransFair introduced fair trade-certified tea and cocoa to the U.S. market. Sugar, rice and vanilla recently came under its label. Flowers, wine and nuts are new products on the horizon, according to Chief Financial Officer Himes.

Total U.S. sales of fair trade-certified products grew by 350 percent between 2001 and 2005 and by 60 percent between 2004 and 2005, estimates Harvard's Hiscox. [32] Today, more than 600 U.S. businesses carry fair trade products in about 40,000 retail outlets, according to TransFair USA. (For a list of stores, go to www.transfairusa.org.)

Much of the rapid U.S. growth is due to the "mainstreaming" of fair trade beginning in 2000, when Starbucks introduced fair trade coffee. In 2003, Green Mountain Coffee Roasters began producing fair trade coffees for large supermarket chains, and in 2004, Wal-Mart began selling it. Starbucks quadrupled its purchases of fair trade coffee between 2001 and 2004. [33]

In 2005, McDonald's introduced a fair trade coffee blend created for it by Green Mountain and Newman's Own Organics, which the chain now serves in 650 restaurants in New England and Albany, N.Y. But McDonald's doesn't tell customers the coffee — the only kind served in those restaurants — is fair trade. Indeed fair trade was not the main reason behind McDonald's choice. According to McDonald's USA spokeswoman Danya Proud, the "main impetus" was that "Green Mountain is a name well-known in that part of the country, and the quality of the coffee is high."

The United States currently accounts for almost a third of global fair trade sales, and Europe almost two-thirds. [34] The enormous scale of the American consumer market, especially for coffee, makes the United States the largest single consumer of fair trade goods. But as individuals, European consumers spend far more per person than the average American. Swiss consumers spend about 20 times more on fair trade and Britons almost five times more than the average American. [35] In 2003, the average Swiss spent 19 Euros ($26), the Briton $7, and the average American $1.60 on fair trade products.

Awareness of fair trade labels among American consumers remains far behind their European counterparts, although it is rising. A recent survey of the nation's coffee consumers — those most likely to have seen fair trade coffee in coffee bars — showed awareness grew from 7 percent in 2003 to 20 percent in 2006. [36] By contrast, more than half of British consumers recognize the label.

Fair trade became well-known in the United Kingdom partly because nonprofits like Oxfam, with hundreds of thousands of subscribers, had been conducting campaigns about injustices they perceived in the world trading system some 25 years before they started the labeling system.

"By doing that work for so long, you have quite a lot of the population that knows something about it in quite a detailed way," says Sophie Tranchell, managing director of Divine Chocolate Ltd., a fair trade company in England. The development of fair trade brands like Divine Chocolate and Cafédirect, exclusively for fair trade coffee, and their growing presence in British supermarkets also contributed to rapid sales growth.

Trade Justice Movement

The growth of the fair trade movement coincided with growing concern and activism over trade inequities for poorer countries amid expanding globalization. Widespread attempts to liberalize world trade and bring the benefits of trade to all countries began after World War II. In 1948, the General Agreement on Tariffs and Trade (GATT), set up under the auspices of the newly formed United Nations, attempted to arbitrate international trade disputes through a series of "rounds" of negotiations designed to eliminate trade barriers between countries.

Since those initial efforts, the world has been moving toward reduced tariffs and restrictions on trade. For example, between 1960 and 1980, lending by the International Monetary Fund and the World Bank was often tied to requirements that developing countries drop their trade barriers. [37]

GATT and its successor, the World Trade Organization (WTO), succeeded in generating more free trade; total trade in 2000 was 22 times that in 1950. "Global inequality has also grown," however, note two advocates of fair trade, citing figures showing that the share of the world's income among the poorest 10 percent fell during this period, while the richest 10 percent got wealthier. [38]

As developing countries continued to liberalize their trade barriers, wealthy nations like the United States were increasingly reluctant to drop their protections for products for which developing countries had an advantage, writes economist Stiglitz. "As a result, we now have an international trade regime which, in many ways, is disadvantageous to the developing countries," he concludes. [39]

These tensions came to a head in September 2003, when a series of multilateral meetings in Cancun, Mexico, ended abruptly without any agreement on the major issues. The meetings were intended to follow up on a declaration made at the WTO's meeting in Doha, Qatar, in 2002. The so-called Doha Round launched a new round of multilateral trade talks focusing on aiding poor countries. But the Cancun talks fell apart in large measure because many participants felt the United States had reneged on its promises, particularly pledges to reduce its own agricultural subsidies. [40]

Philanthropic groups focusing on Third World poverty, like Oxfam, have become increasingly convinced over the last decade that "trade not aid" is the best route to alleviating poverty in the developing world. [41]

Meanwhile, college-student activists concerned about overseas sweatshops and child labor have at times merged with anti-globalization activists, whose sentiments culminated in violent demonstrations at the WTO talks in Seattle in 2001. [42]

Supporting a wider campaign for global trade reform and trade justice is one of three aims of the fair trade movement — in addition to alleviating poverty and empowering small farmers — write fair trade activists Charlotte Opal and Alex Nicholls in their book *Fair Trade*. "Fair Trade began as a campaigning issue driven by activists and maintains a powerful international network of lobbyists," they write. [43]

The movement's growing political impact, the authors claim, could be seen in 2004 at the U.N. Conference on Trade and Development in Sao Paulo, Brazil, which generated a declaration signed by more than 90 fair trade organizations from 30 countries calling for greater trade price stability and fair prices for small farmers in developing countries. [44]

An evaluation by researchers at the London School of Economics found no "direct impacts" on WTO rules could be attributed to the fair trade movement but noted its increasing lobbying presence at international meetings, including a trade fair at the Cancun meeting. [45]

Poverty activists' increased interest in fair trade has been sparked by the perception that international aid, the main alternative to the fair trade movement, "often seems to have had little long-term effect," note Nicholls and Opal. While aid can alleviate sudden world crises like famines, they argue, it "often fails to offer a developmental path for the poor out of poverty and dependence on outside support." [46] ■

TransFair USA is the leading third-party certifier of Fair Trade products in the United States (left). Fairtrade Labelling Organizations International (FLO) is the worldwide fair trade standard-setting and certification organization (right).

Consumers *Say* They Will Support Fair Trade

But what do they do at the mall?

A majority of American consumers say in surveys they would pay more for clothes and other products if they knew they weren't made in sweatshops. But do they?

In a 2002 experiment, University of Michigan sociologists placed two groups of identical athletic socks in a department store, labeling only one group as being made under "Good Working Conditions." [1]

About a quarter of the consumers were willing to pay more for the labeled items — far fewer than the 70-80 percent who tell survey takers they will pay extra. [2]

More recently, a Harvard study at ABC Carpet in New York City found that more consumers bought towels and candles promising "fair labor conditions" than similarly priced products without the label. Intriguingly, when researchers raised prices of the fair trade products 10 percent above the competition, sales rose even more. When they raised prices 20 percent, they rose higher yet.

"It was more believable that standards were higher if the price was higher," suggests Harvard political economist Michael J. Hiscox, whose team created the label, "Fair and Square," and presented it as ABC's own for the experiment. His tentative conclusion: Retailers could increase their sales and their profits by charging 10-20 percent more for fair trade-labeled goods. (Another possibility is that consumers think there's some hidden quality advantage in a higher-priced item. Hiscox is designing new experiments to tease out that question.)

But Hiscox cautions that shoppers with less money are less likely to behave like ABC's customers, who are generally "well-to-do New Yorkers with a taste for contributing to social causes."

Hiscox has become an enthusiast for fair trade labeling because he thinks it might be able to achieve what the World Trade Organization has not — better labor standards abroad. Unions and activists have lobbied for including such standards in international trade agreements, but developing countries like China and India have resisted for fear they'd lose their cheap-labor advantage in their exported goods.

So far, sports balls are the only manufactured item certified by TransFair USA, the lead fair trade labeling organization in the U.S., which focuses on paying small farmers fairly. Cotton goods are the newest product to win fair trade labeling in Britain, but the label only guarantees that a fair price is paid to cotton growers in poor countries, not to makers of the garment.

No cotton goods are certified fair trade in the U.S. because of TransFair's concerns that it can't guarantee workers' conditions all the way up the manufacturing chain — from sewers to zipper makers. "Although African cotton farmers have a compelling story, that's not where the concern is in the U.S.," says Christopher Himes, chief financial officer of TransFair. "The sweatshop issue is very important to us. We want to make that the core mission of fair trade cotton garments in the U.S. We think we will do fair trade garments eventually, but we're not there yet."

Whether factory-made goods can be included in the existing fair trade labeling scheme — and inspected and certified in a way that's credible to consumers — is "the big enchilada," Hiscox says, if fair trade goods are to become a major player in this country's retail market and ultimately affect working conditions on a large scale.

"There are a lot of consumers that would like to advance [fair labor] causes while they're shopping," he says, "but we don't know how big a [group] that is and how much they're willing to pay extra."

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[1] The study, by Howard Kimeldorf, *et al.*, is cited in Michael Hiscox and Nicholas F.B. Smyth, "Is There Consumer Demand for Improved Labor Standards? Evidence from Field Experiments in Social Labeling."

[2] A study by Marymount University Center for Ethical Concerns found 86 percent of those surveyed in a 1999 poll said they would be willing pay $4 more for a $20 garment made under good conditions. A 1999 poll by the National Bureau of Economic Research found about 80 percent of those surveyed would be willing to pay more. See *ibid.*, p. 8.

CURRENT SITUATION

Government Support

Governments and political leaders in the United Kingdom and throughout Europe and have given the fair trade movement considerably more support than it has received in the United States, where politicians are more likely to scratch their heads over the meaning of the term.

In 2006, the European Parliament, in a largely symbolic move, unanimously adopted a resolution that called for a European Union-wide approach to supporting the movement. In previous resolutions in 1997 and 1998, it called on the European Commission to support importers of fair trade bananas and other goods.

The commission issued a declaration of support for fair trade with developing nations in 1994. And the 2000 Cotonou trade agreement between the European Union and African, Caribbean and Pacific nations called for the promotion of fair trade initiatives. [47] Several European governments also provide

Continued on p. 450

At Issue:

Is fair trade the best way to help poor farmers?

CHARLOTTE OPAL
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***CO-AUTHOR,* FAIR TRADE: MARKET-DRIVEN ETHICAL CONSUMPTION**

WRITTEN FOR *CQ RESEARCHER*, MAY 2007

Too many poor farmers in developing countries, the free market is a distant dream. There are no roads connecting their farms to market, so they are dependent on middlemen to come to their farm and buy their crops. They do not have access to price information, so they don't know how much the middlemen should be paying them. They can't take out loans to improve the quality of their products, build roads to access more buyers or switch to a more profitable crop.

Fair trade turns this reality on its head by ensuring farmers the income and organization they need to make the market work for them. In the fair trade system, small farmers are organized into cooperatives that pool their income to buy their own trucks to deliver product to the market, apply for low-interest loans or hire experts to help them diversify their crops. Individual small farmers living hand to mouth cannot access these free-market instruments — but once they are earning enough to live on and are organized into a cooperative, the benefits of a properly functioning free market are finally available to them.

Guaranteeing that the extra money consumers pay for fair trade-certified products actually goes to the farms with the best living and working conditions requires audits and inspections, some of which are paid for by companies, and some by the farmers themselves. Companies that carry the Fair Trade Certified label must pay a nominal fee for auditing to a nonprofit certifier. In the United States, this certifier is TransFair USA, and each $1 of its budget guarantees an extra $7 in income to fair trade farmers and workers — quite a strong return on a social investment.

Farms must also pay an inspection fee, although it is much lower than the fees they pay for organic, food safety and other certifications. As fair trade is the only system that guarantees farmers more money, it is no wonder that more than 1 million farming families are willing to pay for these inspections to gain access to the fair trade market.

If we believe the free market is the best way to relieve poverty for the rural poor, fair trade is the only mechanism consumers have for making sure the free market actually reaches small farmers. American families who buy coffee, tea, bananas, vanilla, and other tropical products every day want to know that their purchases are empowering, not impoverishing, farmers and workers. Fair trade certification gives them that guarantee.

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WRITTEN FOR *CQ RESEARCHER*, MAY 2007

The best way to improve the lives of the poor is to ensure that the necessary preconditions for development exist. These include good governance, a favorable business climate and free trade. These three conditions are mutually reinforcing. One of the biggest sources of corruption in developing countries is the regulation of trade. The fair trade movement in Europe has the potential to do considerable harm through its campaigning for the restoration of trade regulation in the coffee market, though its position on the regulation of the cotton trade is more sensible.

The movement should stick to its basic business principles, the application of which can help some farmers in particular conditions. Fair trade can help farmers by providing credit facilities, contracts with price guarantees and business facilities and information sharing in unsophisticated markets.

But fair trade has its downsides, too. There is considerable reliance on inefficient and unaccountable cooperative structures. The fair trade price promise is not quite what it seems to well-meaning and possibly naïve Western consumers. The various fair trade organizations do not promise to buy the farmers' produce at the price. They buy at a fixed price only what the market demands. In poor market conditions, there is a risk of "insider/outsider" markets where those who are able to sell at the price do very well at the expense of others.

Western consumers are probably also not aware that organizations charge wholesalers for the use of the fair trade label and that a huge proportion of this charge, in the U.K. at least, goes simply into marketing the brand. It is no wonder we only hear good things about fair trade! I doubt, too, that consumers know organizations charge producers to join up and that the fee is about 10 times the annual income of the average Kenyan.

Different business models have different disadvantages. There are, of course, costs and benefits of all ways of doing business, so the above points are not intrinsic criticisms of fair trade. In international development policy, we are used to important people campaigning for politicians to pull big levers. The reality is that once certain preconditions for development are in place, prosperity comes as a result of lots of people doing small things in the business economy. The fair trade organizations can help this process. But they should be modest in their economic claims and very cautious regarding their ethical claims.

Continued from p. 448

grants to cover the costs of certification for producers in developing countries.[48]

In 2000, government agencies in several European nations began purchasing fair trade-certified coffee and tea to serve in government offices, including the European Parliament building. The European Commission has co-financed a project securing commitments from policymakers to include fair trade criteria in public-procurement legislation.

© 2003 Fairtrade Foundation

Fair trade bananas are grown at the Juliana Jaramillo Cooperative in the Dominican Republic. Big banana growers are permitted to take part in the fair trade scheme, but big coffee growers and other large operations currently are not included.

Serving fair trade coffee, tea and biscuits in government offices can have a big ripple effect, says Divine Chocolate's Tranchell. "It's difficult for small fair trade product companies to get on the list of big catering companies," she says. "So if key accounts like government departments start to ask for products, then they're on the menu and other people can buy them too."

In Britain, the government has provided loan guarantees to help fair trade start-up companies like Divine Chocolate and has made grants to educate schoolchildren about how fair trade products help Third World families.

As Tranchell explains, the lure of chocolate "gives us an in" with kids. Divine Chocolate has used grant money it received with a nonprofit partner to set up a Web site named after its "Dubble" chocolate bar, where 50,000 young people have signed up as "a Dubble agent" to change the world "chunk by chunk." Another Web site provides teaching materials teachers can download.

More than 260 towns in the U.K. have passed resolutions declaring themselves Fair Trade Towns, a designation that requires the town's governing body to commit to serve fair trade products at town functions and to encourage local business to sell the products. Some activists think the designation helps explain the movement's rapid growth and high level of public recognition. Inspired by the British example, Media, Pa., dubbed itself the first U.S. Fair Trade Town. (*See sidebar, p. 444.*)

On Valentine's Day, Divine Chocolate introduced its brand to the United States. It set up headquarters in Washington, D.C., because "Divine Chocolate's mission is to be a highly visible and vocal advocate for better conditions in the chocolate industry," according to Erin Gorman, U.S. CEO. At a briefing on Capitol Hill, "there was clear interest on the part of Hill staffers about how the U.S. government might follow the example of the U.K. in supporting fair trade companies such as Divine," Gorman says.

However, some leaders of the movement say they're leery of government involvement, particularly since, in their view, interest-group lobbying has watered down the organic food standards set by the U.S. Agriculture Department. "I don't think we would look for legislation or even necessarily standardization," says TransFair's Himes. "It introduces complexity and politicking."

Coming in for criticism was a recent $8.6 million grant from the U.S. Agency for International Development (AID) to the Rainforest Alliance, an international environmental group based in New York, to certify products from more than 300,000 acres of forest and farmland as well-managed environmentally. The Rainforest Alliance label, which also pledges good working conditions, would apply to 90 million boxes of certified bananas and 30,000 tons of certified coffee through partners including Chiquita and Kraft Foods.

But the certification project could lead to an "undermining" of fair trade standards, according to Colorado State University researchers, because the Rainforest label is focused primarily on environmental management, and brings fewer benefits to small farmers and less reliability in monitoring them than TransFair's certification.[49]

Proliferating Labels

Competition from the Rainforest Alliance and other labels pledging good working conditions poses a challenge to the fair trade movement. Some advocates worry proliferating labels could lead to consumer confusion or distrust, especially if they dilute the TransFair standards. The Rainforest label, for example, avoids Transfair's fees since the organization doesn't have to pay for such extensive monitoring, critics say.

But some proponents of alternative labels say TransFair doesn't have a moral monopoly on judging labor standards. The Organic Consumers Association has campaigned against Starbucks, charging that by buying only a small percentage of its coffee from farmers certified by TransFair, the company has not made a good-faith effort to help farmers in developing nations. According to Starbucks' annual report, 6 percent of the coffee beans it purchased in 2006, some 18 million pounds, were certified by TransFair. [50]

Cooperative Coffees, a group of 21 small coffee companies committed to selling only fair trade beans, uses a different label — the insignia of the Fair Trade Federation — to distinguish themselves from competitors that sell only a minority of fair trade coffee. "Many companies use a few token Fair Trade items as a marketing tool to give the impression of being a fair trade company," says the group on its Web site. By contrast, each of the 21 companies claims to sell 100 percent fair-traded coffee, although not all of it has been certified by FLO. [51]

"The argument of the '100 percenters' is that someone like Green Mountain Coffee Roasters takes your customer account away by offering cheaper prices. And the reason they can do that is that most of their purchases are much cheaper coffee, because they're not paying the fair trade price on 100 percent of their products," says Organic Consumers Association National Director Ronnie Cummins. Fair trade products are about one-quarter of Green Mountain's total sales.

In an e-mail, TransFair's Himes responds that for growers, Starbucks' purchase of 18 million pounds at fair trade prices is "extremely significant." TransFair just certifies the product being sold, not the company, he stressed. "If we took the company-certification approach," he adds, "we'd have very few partners, and very few people would have heard of or been able to buy fair trade products."

Some activists also have expressed impatience with the slowness of TransFair to certify manufactured goods like organic cotton clothing, a market that is booming. TransFair has decided not to certify cotton now because it is not yet capable of ensuring no sweatshops are involved in production, according to Himes.

The Organic Consumers Association has joined some 80 groups and companies participating in the Domestic Fair Trade Working Group, which is developing a new label that would certify products as both organic and fair trade.

"If we want consumers to be able to tell that the garment was not made in an exploitative factory, we need a label," says Cummins. "And we can't wait around for TransFair to decide it's a priority." Although TransFair encourages its growers to farm organically and guarantees a premium for organically grown products, not all of its products have government-certified organic status.

As for the proliferation of labels, some observers see it as a positive sign — that the marketplace is increasingly recognizing consumer demand for fair working conditions. ■

OUTLOOK

Growth Potential

How much further can the fair trade market grow? The American fair trade market is now only about one-fortieth the size of the organic market, which attracts similar consumers. If fair trade sales continue growing at their current rate, by 2012 they should match today's $15 billion-plus organic market, predicts Harvard political economist Hiscox. [52]

A major factor in determining how big the market grows will be whether large coffee farms, some owned by multinationals, will be allowed to enter the fair trade scheme. It currently bars them from FLO certification on grounds that the movement is trying to help the most disadvantaged growers. But some observers think big producers eventually will be included, as banana growers already are.

Market growth could also be held back by limited demand for fair trade products. Fair trade cocoa producers in Ghana, for example, could sell only 8 percent of their crop to fair trade, and fair trade coffee producers in Tanzania sold only 10 percent, one study found. [53]

By emphasizing high-quality products, however, the market will have a better chance of attracting new consumers, some observers believe. Fair trade-certified coffee is now the fastest-growing segment of the $11 billion U.S. specialty coffee market. [54] Yet as small farmers grow savvier about the market, they may take different avenues to capturing more of the final retail value of their gourmet coffees and chocolates.

Ugandan coffee farmer Magona says his cooperative would like to capture more of the profit margin taken by wholesalers and retailers for his prized high-altitude Mt. Elgon coffee — by processing the beans in Uganda instead of abroad. The Ethiopian government, meanwhile, has been trying to obtain trademark status from the U.S. Patent Office for three specialty coffees, an alternative approach that would allow Ethiopian farmers to keep more of the profit margin now charged by Starbucks, says Oxfam's Rusu.

But trade barriers blocking the importation of processed goods, opposition by established companies in consuming countries and the practical difficulties of developing a new industry in a poor country could hinder those kinds of efforts. If fair trade makes consumers more aware of trading inequities between countries, it might increase pressure for more equitable trading agreements, removing barriers to growers' efforts to do more of the processing and branding themselves.

As fair trade grows, another challenge for certifying organizations will be keeping up with the need to monitor more farms. Reports last year in Peru of some farmers selling non-fair-trade beans at fair trade prices might be a sign of the movement's growing pains. [55]

If fair trade is to make a major dent in the consumer market, some observers say, it will have to start including manufactured products, like cotton clothing, as Britain has already done. But experts inside and outside the movement agree it will be much harder to monitor sweatshops in the apparel industry, which often employs numerous subcontractors in a variety of countries before finishing a garment.

As savvy growers learn more about the value of their products, they may be lured into selling to high-end companies that aren't necessarily part of the fair trade system.

Would that necessarily be a bad thing? It might be if those companies abandoned growers during cycles of excess supply and plummeting prices — just the time fair trade helps them most.

On the other hand, some advocates say, the ultimate goal for the fair trade movement is to put itself out of business: When all products become fairly traded. ■

Notes

[1] In Britain, the label promoted by the lead certifying organization, The Fairtrade Foundation, spells the term as one word. In the United States the equivalent label, with a black-and-white symbol, approved by TransFair, is two words: "fair trade."

[2] Fairtrade Foundation press release, "Boost for Farmers," Feb. 26, 2007; www.fairtrade.org.uk.

[3] *Ibid.* The full range of Fairtrade products is: coffee, tea, chocolate, cocoa, sugar, bananas, pineapples, mangoes, oranges, satsumas, clementines, lemons, avocados, lychees, grapes, apples, pears, plums, fruit juices, smoothies, quinoa, peppers, green beans, coconuts, dried fruit (apricots, mango, raisins, dates), herbal teas, rooibos tea, green tea, ice-cream, cakes, biscuits, honey, muesli, cereal bars, jams, chutney, sauces, herbs, spices (vanilla pods, cinnamon sticks, ground ginger, ground turmeric, black pepper, cloves, nutmeg), nuts (brazils, cashews, peanuts), nut oil, wine, beer, rum, rice, yoghurt, baby food, flowers, sports balls, sugar body scrub, cotton wool and other cotton products.

[4] Michael J. Hiscox, "Fair Trade as an Approach to Managing Globalization," memo prepared for the Conference on Europe and the Management of Globalization, Princeton University, Feb. 23, 2007, p. 7. Between 2001 and 2005, the average annual growth rate was around 50 percent; between 2005 and 2006 the market grew by over 60 percent.

[5] More than 50 percent of adults in the U.K. recognize the Fairtrade mark. See Elisa Arond, "The Fairtrade Towns Initiative: Lessons From Across the Ocean," Oxfam America, May 2006, p. 40. Twenty percent in the U.S. recognized the Fair Trade Certified label in 2006. See Transfair USA, *Fair Trade Almanac*, 1998-2006, p. 18.

[6] Sam Kornell, "The Pros and Cons of Fair Trade Coffee: Bean Counting," *Santa Barbara Independent*, April 5, 2007.

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[8] This is the world price for Arabica, the type of beans TransFair USA imports to the United States. The $1.21 fair trade floor price is for Arabica.

[9] Douglas L. Murray, *et al.*, "The Future of Fair Trade Coffee: Dilemmas Facing Latin America's Small-Scale Producers," *Development in Practice*, April 2006, pp. 179-192.

[10] TransFair USA, *op. cit.*, pp. 4, 7.

[11] Murray, *et al.*, *op. cit.*, p. 182.

[12] Tim Harford, *The Undercover Economist* (2007), pp. 33-34. At the end of 2004, following Harford's questioning, Costa began to offer fair trade coffee for no extra cost. The 40 British pence additional cost reported by Harford has been converted to U.S. currency using current exchange rates.

[13] Hiscox, *op. cit.*, p. 5.

[14] Harford, *op. cit.*, p. 33.

[15] "Good Food? Ethical Food," *The Economist*, Dec. 9, 2006.

[16] "Special Report: Voting with Your Trolley-Food Politics," *The Economist*, Dec. 9, 2006.

About the Author

Sarah Glazer, a London-based freelancer, is a regular contributor to the *CQ Researcher*. Her articles on health, education and social-policy issues have appeared in *The New York Times*, *The Washington Post*, *The Public Interest* and *Gender and Work*, a book of essays. Her recent *CQ Researcher* reports include "Increase in Autism" and "Gender and Learning." She graduated from the University of Chicago with a B.A. in American history.

[17] In 2006, fair trade coffee accounted for 3.31 percent of all coffee sold in the United States. See TransFair USA, *op. cit.*, p. 15.
[18] Philip Booth and Linda Whetstone, "Half a Cheer for Fair Trade," *Economic Affairs* (forthcoming) June 2007.
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[20] Harford, *op. cit.*, p. 232.
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[27] Alex Nicholls and Charlotte Opal, *Fair Trade: Market-Driven Ethical Consumption* (2005), p. 21.
[28] Hiscox, *op. cit.*, p. 8.
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[30] Hiscox, *op. cit.*, p. 4.
[31] Murray, *et al.*, *op. cit.*, p 181.
[32] Hiscox, *op. cit.*, p. 8. Total U.S. retail sales figures for 2006 were not available at press time, but according to TransFair, total U.S. fair trade coffee sales reached $730 million in 2006.
[33] Hiscox, *op. cit.*, p. 8.
[34] *Ibid.*
[35] *Ibid.*
[36] TransFair USA, *op. cit.*, p. 18. Statistics are from National Coffee Association.
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FOR MORE INFORMATION

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Cooperative Coffees, 302 W. Lamar St., Suite C, Americus, GA 31709; (229) 924-3035; http://coopcoffees.com. A group of 20 small U.S. and Canadian coffee roasters committed to selling 100 percent of their coffee fair trade.

Fairtrade Foundation, Room 204, 16 Baldwin's Gardens, London EC1N 7RJ, United Kingdom; +44-(0)20-7405-5942; www.fairtrade.org.uk. The leading labeler of fair trade goods in the United Kingdom.

Fairtrade Labelling Organizations International, Bonner Talweg 177, 53129 Bonn, Germany; +49-228-949230; www.fairtrade.net. FLO is an umbrella organization for 20 fair trade-labeling organizations around the world that sets prices and monitors transactions for fair trade-certified products.

Institute of Economic Affairs, 2 Lord North St., Westminster, London SW1P 3LB, United Kingdom; +44-(0)20 7799 8900; www.iea.org.uk. A free-market think tank that has been critical of the fair trade movement.

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Starbucks, 2401 Utah Ave. South, S-NV1, Seattle, WA 98134; 1-800-235-2883; www.starbucks.com. Perhaps the largest purchaser of fair trade coffee, although it has been criticized for its level of commitment.

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Youth
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