



Comment on Fair Trade USA's Independent Smallholder Standard

1.0 INTRODUCTION

In September 2011, Fair Trade USA (FTUSA) issued twin announcements that would fundamentally reshape the Fair Trade landscape: its decision to resign its membership in Fairtrade International (FLO), the worldwide federation of Fair Trade Certification organizations, and its Fair Trade for All (FT4All) initiative, which would rewrite the rules for the U.S. Fair Trade marketplace.

FT4All represents an ambitious effort to expand the impact of Fair Trade Certification through three complementary initiatives. The first, Coop Link, channels more reinvestment to Fair Trade Certified smallholder cooperatives. The second expands participation in the Fair Trade marketplace by inviting coffee estates and independent smallholder coffee farmers – two groups that have not participated in the Fair Trade marketplace in the past – to participate in the U.S. market for Fair Trade Certified coffee. A third critical element of the strategy – igniting consumer involvement – builds on the strategies that the North American Fair Trade movement has employed for more than 60 years to increase consumption of certified products.

FTUSA's announcements generated expressions of concern from a range of Fair Trade stakeholders – smallholder farmer networks, Fair Trade Organizations, certifiers, NGO allies of Fair Trade, activists, etc. – who feared that the new direction of Fair Trade Certification in the United States would harm the pioneering smallholder cooperatives who helped to build the Fair Trade marketplace by exposing them to the kinds of unfair competition from which the Fair Trade market was designed to protect them. They also objected to the process by which the twin decisions were made, which they believed did not reflect a commitment to the core Fair Trade values of dialogue, transparency and respect for stakeholders.

CRS joined its voice to that chorus of concern, while also expressing support in broad terms for FTUSA's proposal to bring independent smallholder farmers into the Fair Trade fold.

In February 2012, FTUSA released its draft Independent Smallholder (ISH) Standard, initiating a period of public review scheduled to end on 31 March 2012. CRS publishes this comment in response to FTUSA's invitation for feedback. The present comment draws on insights provided by CRS experts from diverse subject areas including Fair Trade, smallholder trade, coffee, labor rights and environmental sustainability. In some cases, reviewers did not have significant prior experience with Fair Trade Certification. We consider this appropriate, since the exercise involves benchmarking the proposed Standard against current best practices in the fields of international development, labor rights and environmental stewardship, and not a comparative analysis involving related FT standards.

This document complements previous public comment on the FTUSA ISH Standard on the CRS Fair Trade blog (crsfairtrade.org) and the CRS Coffeelands Blog (coffeelands.crs.org).



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2.0 GENERAL COMMENT

2.1 Summary

As the official international humanitarian agency of the U.S. Catholic community, Catholic Relief Services (CRS) has been working at origin since 2003 to help smallholder coffee farmers build market relationships that are fair and sustainable. Support for direct, Fair Trade relationships – both certified and uncertified – has been an important part of that work from the outset. In some cases, this has meant helping form new cooperatives among farmers who sought and earned Fair Trade Certification. In others, it has meant helping existing cooperatives seeking certification. And in others, it has involved additional investments in Fair Trade Certified cooperatives to help them compete more effectively in specialty coffee markets.

ACORDAR, an ongoing value-chain project in Nicaragua, and CAFE Livelihoods, a recently completed four-country coffee value chain project in Mexico and Central America, are two leading examples of how our project support and Fair Trade Certification combined to expand market opportunities for hard-working smallholder farmers. Both projects involved partnerships with smallholder cooperatives with relatively high levels of capacity.

But in other parts of the world, smallholder farmers are not as well or widely served by cooperatives. Consider this excerpt from a report on a CRS project in Ethiopia funded by the Gates Foundation:

Smallholder development projects tend to work through organized cooperatives. In the case of Ethiopian beans, however, most farmers must sell through informal trade channels because farmer cooperative management is weak, and because cooperatives have insufficient capital to buy the crop. In Africa, and in much of the developing world, poor farmers similarly do not have access to effective cooperatives.

Our experience has shown us that in some cases, investments to improve cooperative management or expand access to trade finance can help coops overcome barriers to competitiveness like those mentioned here. In some cases, however, cooperatives simply fail to thrive. The reasons may vary. The bottom line, however, is that coops don't work when farmers perceive that the costs of formal organization – either in terms of cash contributions, time, risk in contexts where organization is a politically freighted endeavor, etc. – exceed the expected value – as measured by increased incomes, access to services, information and markets, etc.

In these contexts, CRS often finds itself working with smallholder farmers to co-create alternative forms of organization for the marketplace. The report cited above goes on to describe the project's efforts to organize smallholder bean farmers in Ethiopia into “virtual cooperatives” – farmer organizations with a lighter footprint and lower organizational burden than formal associations or cooperatives that still deliver tangible benefits to smallholder farmers.

This can be lonely work. Many private-sector firms are interested in expanding their smallholder sourcing operations – Walmart has famously committed to source \$1 billion in food from 1 million



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smallholder farmers by 2015 – but relatively few are willing to assume the costs and risks associated with the innovations in smallholder organization necessary to help achieve such scale.

To the Church, the purpose of an economy is to promote development and to meet the needs of all in ways that respect human dignity and work. In this regard, part of CRS's work in the United States involves the promotion of Fair Trade purchasing as a tangible and effective way for Catholics institutions and individuals to live out their faith in solidarity with the poor. In 2011, approximately \$2.7 million worth of Fair Trade products were sold to tens of thousands of Catholic individuals and institutions through CRS's network of 15 fully committed Fair Trade partners.

Against this backdrop, and in the context of our ongoing work with smallholder coffee farmers overseas and Catholic consumers in the marketplace, we greeted the FT4All vision with a mix of concern for its potential to undermine the well-being of smallholder cooperatives already Fair Trade Certified, and optimism for its potential to create new market opportunities for smallholder farmers that have not been served by cooperatives and remain excluded from the Fair Trade marketplace. With the draft Independent Smallholder Standard in hand, we are able to more accurately assess its likely impacts.

2.2 What looks good.

- *Innovations in the fair trade certification system.*
We applaud FTUSA's creativity and an ethos of expanding the benefits of Fair Trade.
- *An organizational roadmap for independent smallholders.*
The Standard creates clear steps toward effective smallholder organization as part of the certification process for farmers who don't belong to associations or cooperatives. This includes the creation of democratically elected representatives to leadership positions as well as an Internal Control System – a body that is necessary to ensure compliance with the terms of certification but can also serve other important functions within smallholder organizations.
- *Incentives for organization.*
The ISH Standard, like the organic certification process, refers to an initial three-year compliance interval. Unlike the organic certification process, in which farmers must fully adopt organic practices on the farm from day one but don't qualify for certification premiums in the marketplace until three years of audits have been successfully completed, the ISS promises premiums from day one. Once a farmer passes the initial audit, her coffee is eligible to be sold under the Fair Trade Certified mark. More importantly, she and the other Registered Farmers in her community earn both the Fair Trade Price and Fair Trade Premium on the sale of that certified coffee. In areas where cooperatives are scarce and farmers have not had sufficient incentives to organize for the market, the financial incentives provided under the ISS may help farmers overcome their reluctance to act collectively.



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2.3 Sources of concern.

- *Market demand.*

More of an observation about the FT4All strategy than the Standard, we are concerned about the level of U.S. market demand for Fair Trade Certified coffee. The success of FT4All in expanding the developmental impacts of Fair Trade to new farmer groups and farmworkers while protecting coops already in the market depends on a significant increase in market demand. FTUSA has faith that a rising tide will lift all boats, but we have not seen any market studies documenting a spike in demand, nor have there been any significant new public commitments to source large volumes of Fair Trade Certified coffee since FTUSA split from FLO. The third pillar of FT4All – igniting consumer involvement – presumes increased market demand. But FTUSA's withdrawal from FLO and the unveiling of FT4All have fractured the movement and will likely contribute to increased consumer confusion – effects that may undermine FTUSA's growth objectives.

- *Protection for cooperatives.*

The Standard offers no protection for Fair Trade Certified smallholder cooperatives. A previous draft of the Standard CRS reviewed included a clause prohibiting Market Access Partners from purchasing coffee from Registered Smallholders who are also part of a Fair Trade Certified cooperative. This clause was suppressed in this version, giving smallholder coops no protection against Market Access Partners that are positioned to poach coffee from their members.

If the ISH Standard helps farmers to migrate from cooperatives to private-sector Market Access Partners, CRS suspects the net result will be negative from a developmental perspective, undermining the cooperative structures that have contributed so mightily in places to social and economic development in many parts of the coffeelands.

- *Assessing impact.*

To date, no compelling plan has been presented for independent assessment of the impact of Independent Smallholder pilot projects. Ideally, these pilots would be evaluated as part of a system-wide assessment of the impact of FT4All innovations on each of the three groups of vulnerable farmers and farmworkers who are now eligible to participate in the U.S. Fair Trade market: smallholder cooperatives, independent smallholders and coffee estate workers.

- *Role of the Market Access Partners.*

We are struck by the amount of investment required of the Market Access Partners. Funding for this work has to come from somewhere. Who pays for the training? Who conducts the training? Market Access Partners would need to recover through higher margins the capital they need to reinvest, or the model may create a structural dependency on grant-based funding to bring smallholders into compliance with the Standard.



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2.4 Recommendations.

- *Reinstate smallholder cooperative protections.*
Reinstate the prohibition on Market Access Partners from purchasing coffee from members of smallholder cooperatives that are Fair Trade Certified. Involve cooperatives in development of mechanisms to prevent the erosion of their social organization.
- *Support independent impact assessment.*
Collaborate with credible, independent actors to support a comprehensive, system-wide assessment of the impact of FT4All innovations on smallholder cooperatives, independent smallholders and coffee estate workers. Commit to total transparency in the communication of the results of those assessments.

3.0 EMPOWERMENT (EM - SECTION 1)

3.1 Sources of concern

- *What constitutes empowerment?*
The 11 clauses under the section EM to empowerment read as a list of activities demanded of the Market Access Partner or the Registered Smallholders. Is one to believe that if these activities are completed the independent smallholders will have become empowered? If that is the intention, then there needs to be a clearer definition of what FTUSA means by empowerment for “independent smallholders” and what indicators can be used to measure whether these actors have been empowered. So far, our reading suggests that the Standard’s vision of empowerment consists of the ability of Administrative Organizations to negotiate the sale of their coffee freely and effectively administer the Fair Trade Premium.
- *The role of NGOs.*
The Standard suggests that NGOs are eligible to serve as Market Access Partners. If an NGO takes up the role of Market Access Partner, however, CRS sees the possibility that the NGO will be drawn into a role of value chain actor rather than a facilitator. If this is a means of the NGO transitioning to a private sector player this could be positive. But if the NGO’s participation has to be withdrawn because its actions are supported by time-bound external resources, then we are not achieving anything positive and rather fostering a culture of dependency. For that reason, further clarification on the nature and role of the Market Access Partner needs to be provided, and in particular the benefits that will accrue to this actor by taking on this role.
- *How light is the footprint?*
The idea that this is an independent smallholder standard seems to be a euphemism. With a Fair Trade Committee, an Administrative Organization, a bank account, an accounting system, democratic elections, a Fair Trade Plan (which to all intents and purposes must be similar to a business plan), general assembly, etc., what differentiates this model from a smallholder organization or coop model?



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- Has FTUSA developed any protocols and or online registration forms or methods, to standardize the creation of the new administrative organizations?
- Are there examples of these types of groups that can be researched on-line by other would be market access organizations?

3.2 Recommendations

- Insert a glossary of terms before launching into the clauses of the Standard:
 - Independent smallholder;
 - Registered smallholder;
 - Market Access Partner;
 - Administrative Organization;
 - Fair Trade Committee;
 - Fair Trade Plan;
 - Empowerment (and what are the indicators of Empowerment in an 'independent smallholder');
 - Fair Trade Premium;
 - Small Producer Organization Standard;
 - subcontracted entities.
- Articulate more explicitly what empowerment looks like, with specific performance targets and results-based metrics to measure progress against those targets.
- In EM-DM-1, provide more specificity in relation to the term "Fair Trade Standards," which seems here to be too generic.



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4.0 ECONOMIC DEVELOPMENT (ED - SECTION 2)

4.1 Conditions of Employment (CE – Section 2.3)

4.1.1 Summary comment.

This section needs clearer language surrounding conditions for “temporary/casual workers [time-limited contracts of employment].” They need the same clarity regarding written, binding contracts with clear job descriptions, wage statements and possibility of medical coverage [in case of workplace injury, illness, etc.]

4.1.2 What looks good.

The general provisions are an attempt to keep abreast of international labour laws. CRS appreciates the commitment to get to ‘living wages’ since this is critical to breaking cycles of poverty. And ethically, this needs to be the labour movements overall standard, not just what is the minimum wage in a given country.

4.1.3 Causes for concern.

So much is “progress” and thus, it is difficult to gauge when this must be accomplished. As noted above, particularly worrying is that the provisions regarding protections for temporary workers are not clearly stated [only permanent workers are mentioned, in terms of a written contract of employment]. If temporary workers don’t have something more than a “verbal agreement” as to working conditions [quality of the environment; wages, etc.], then they are more vulnerable to exploitation. And it does set the stage to “casualize” labour, no matter how well intentioned. The commitment to get to a living wage is only for permanent workers; again, this sets up a hierarchy or class system within the fair-trade response, with preferential employment commitments only to permanent workers and no sliding scale provision of the same to temporary workers.

Also, much of what is written under “corporate responsibility” needs to be woven into this section. Occupational health and safety issues are factors impinging “conditions of employment,” especially if you then look at specifics like safe handling of machinery, use of pesticides/chemicals, labour of children, etc.

4.1.4 Recommendations.

Seriously consider incorporation of articles from Chapter 3 into “conditions of employment” and add additional language to tighten the gap surrounding protection of temporary or seasonal workers. The Fair Trade community cannot and should not reify employment class differences in a way that implies promotion of structural inequality.



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5.0 SOCIAL RESPONSIBILITY (SR - SECTION 3)

5.1 *Summary comment.*

The framing of the non-discrimination section is helpful but the challenge is found in missing aspects of “social responsibility.” As noted previously, this section needs to be read in tandem with Conditions of Employment as much of what is outlined here are the “quality standards” for good employment conditions.

5.2 *What looks good.*

The non-discrimination standard is comprehensive and leaves much room to ensure that in any given context, a group that is at a disadvantage might benefit from a systematically applied “affirmative action” approach. This “positive discrimination” – preferencing those furthest from the top – fits ethics around responsible conduct that looks to improve social conditions. The challenge, of course, is in monitoring and benchmarking progress on this standard.

The Freedom of Labour and Free Association standards also appropriately draw from classical provisions of international labour law, albeit in far simpler language that sometimes feels like oversimplification of a critical issue.

5.3 *Causes for concern.*

SR-ND 4 and SR-ND 5 leave out references to harassment of any sort [sexual or otherwise] as strictly prohibited acts which will not be tolerated or accepted.

SR-ND6 lists prohibited acts in the recruitment process but does not mention prohibitions against literacy/numeracy tests, as means used to discriminate against groups.

Regarding child labour, since family household child labour is permitted, the Standard cannot simultaneously have a standard prohibiting child labour. Moreover, the child labour focused standards do not address setting where someone between 15 and 18, who is legally a child, may have to engage in gainful employment to either support him/herself or the household that she/he heads up. Right now, the Standard provides no safeguards for such a child.

SR-FA4 replicates the problem identified in the Conditions of Employment section; namely, only focusing on permanent employees. Modern trade union movements allow for some collective bargaining protections for some groups of temporary workers.

5.4 *Recommendations.*

- Incorporate “harassment” (sexual or otherwise) as a prohibited act in SR-ND4 and ND5
- If appropriate to FTUSA concerns, insert the prohibition on recruitment screening that use literacy/numeracy testing.



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- Amend SR-FL1 to reference trafficked labour if that is not understood as being incorporated into “bonded labour” (people who are trafficked and are then expected to “pay off” their transportation costs with free labour)
- Amend SR-FL3 to now read “Exploitative child labour does not occur”
- Expand standard SR-FA4 to include provision of associational protection for casual/temporary workers

6.0 ENVIRONMENTAL STEWARDSHIP (ES – SECTION 4)

6.1 Summary comment.

The content of the environmental section covers all the major components relevant to environmental protection and management at origin. The content is much briefer than what is used in the FLO guidelines, and may require further detail to flesh out to farmers and farmer groups (examples, etc).

6.2 What looks good.

The focus on water management is critical, as is the new focus on climate change.

6.3 Causes for concern.

Given the general nature of the minimum requirements, how does Fair Trade USA ensure compliance? The requirements read more like guidelines than a more strict set of good practices to which farmers must adhere. Interpretation of the requirements could vary, as well as compliance monitoring.

6.4 Recommendations.

Given the seriousness of climate change, agroforestry systems should be defined and promoted more in the standards than they currently are now. Also, include case studies of farmers carrying out good practices in adherence with the standards to complement overall roll out and communication.

7.0 TRADE REQUIREMENTS (TR – SECTION 5)

7.1 What looks good.

- *Traceability for competitiveness.*
Given the rising standards for supply chain transparency in the food and beverage sector in general, and the specialty coffee industry in particular, the requirements for physical product traceability and the paper trails to document product flow are critically important to the competitiveness of farmer organizations well beyond Fair Trade Certification.



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7.2 Causes for concern.

- Does FTUSA intend to support or introduce some web-based / GPS supported technology to give suppliers unique numbers that they can use to verify their supply chain offer?
- Is FTUSA supporting a process of defining not just the traceability protocol, but also the technology to help MAP's in providing an electronic tagging system, i.e., an audit trail of their own.

8.0 CONCLUSION

CRS wishes to thank FTUSA for the opportunity to provide feedback on its draft ISH Standard. We believe that commitment to transparency and dialogue will increase the likelihood that the FT4All innovations will succeed.

The concerns voiced and recommendations offered here are broad-ranging. We remain both concerned about the pace and process of the changes FT4All is ushering in, and optimistic about the possibility they will contribute to improved livelihoods outcomes for vulnerable smallholder farmers and farmworkers.

We look forward to the next version of the Standard, and would welcome the opportunity to collaborate with FTUSA and other Fair Trade stakeholders to contribute to its continued refinement. Meantime, we will continue to seek opportunities at origin to engage with Fair Trade innovation processes to contribute to the responsible expansion of the Fair Trade system, and to actively engage with our allies in the U.S. Fair Trade movement in service of our mission.

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