

Papers
Theme 2
Trade and Market Linkages

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Impacts of Fair Trade

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Abstract

The decline of commodity prices has had a dramatic impact on the lives of millions of small-scale producers in developing countries. The price index of commodities declined 47% between 1982 and 2001, and the real prices for key agricultural commodities are near a 30-year low (Vorley, 2003). Fair Trade (FT) seeks to address this problem by directly linking producers with consumers. Between 1997 and 2003, the general sales of fair trade products increased 221 percent (FLO). While the FT movement has grown substantially, with labelling initiatives in over 20 countries as of 2004, limited work has been done to study the effectiveness of the scheme. This literature review found the impacts of FT on different stakeholders to be varied. While impacts are tangible and generally favourable at the producer and producer organization level, they are more difficult to discern for other stakeholders (i.e. business, governments, EU, WTO).

Impact on Producers

The impacts of FT at the producer level are predominately positive. Beneficial impacts can be grouped into two main categories: decreased financial vulnerability and empowerment. Through the minimum price guarantee and social premium, producers are awarded a degree of financial stability. This is particularly important when the market prices fall below production costs. Long-term contracts with buyers further ensure a stable income flow. Also, through the pre-financing requirement of FT buyers, producers are able to survive the season without relying on moneylenders or premature selling to middlemen at below market prices. Together, these help alleviate significant financial pressures for the producers.

In addition to reducing financial vulnerabilities, FT has helped to empower individual producers and their families by enhancing human and social capital. In many cases, the social premium that is collected is used to fund training programs for producers. Alternative Trading Organisations (ATOs) as well as Non-Governmental Organisations (NGOs) also provide assistance and training to FT producers to help them successfully influence and access the market. In addition, increased income of producers has assisted them in covering education and health expenses, and the social premium has helped to improve the general availability of health and education services. The combined effects of training and better access to health and education have had demonstrable effects in improving producer confidence and self-esteem.

While FT has important positive impacts at the producer level, impacts are limited by the movement's size and narrow scope. FT only benefits a small number of producers – it currently represents only 0.01% of global trade. In addition, it does not necessarily target the poorest members of society, as most beneficiaries are existing landowners.

Impact on Producer Organizations

FT's impact at the producer organizational level has generally been positive. Impacts can be separated into two main categories: economic impacts and impacts on institutional capacity building. The primary economic impact is the new working capital that producer organizations gain from the pooling of social premiums. Uses of the social premium include producer training, infrastructure development, and creating capital funds for credit. Likewise, the social premium guaranteed the initial viability of some organizations. Benefits of the social premium, however, are dependent on the competency of the individual organization and the interests represented when making investment decisions.

Furthermore, FT has strengthened the organisational and technical capabilities of producer organisations. In some cases, FT is responsible for the creation of producer cooperatives; in others, it strengthens existing organisations. FT also helps empower producer organisations by developing linkages and building social capital. For example, some producer organisations, with the aid of their partner FT organisation, have established subsidiary organizations for development purposes or pursued new business opportunities. In addition to organisational capacity building, FT has helped producer organisations gain important business and technical skills.

Despite this capacity building, a potential negative impact of FT is increased dependency among producers and producer organisations. There is little reporting of producer groups negotiating favourable contracts in the mainstream commercial market; improved market access is restricted, for the most part, to alternate trade markets. This is truer for handicraft cooperatives than commodity based cooperatives.

Impact on Business

The impact of FT on business is difficult to assess and quantify. However, some general observations and trends have been noted. A causal link between FT and beneficial effects on business is not well established. In contrast, the reverse linkage looking at business' effect on FT shows a possible negative impact on the movement as a whole. To further explore these findings, impact on business can be broken down into financial impact, marketing impact, and impact upon Corporate Social Responsibility (CSR).

Financially businesses may benefit from FT through increased sales revenues, greater access to credit and the attraction of investors. FT is increasingly important as many investors and creditors now have ethical funding requirements. Impacts on marketing are seen in both traditional FT companies (e.g. Day Chocolate, Café Campesino) as well as mainstream businesses with FT products (e.g. Starbucks, Tesco). As the movement has become more mainstream, the marketing focus of traditional companies has shifted from extolling the ethical principles of FT to product quality. For mainstream companies, FT marketing has enabled them to enhance their public image. This is strongly associated with FT's link to CSR. FT "has been a significant catalyst in the development of ethical issues within mainstream trade and business practices" (Redfern and Snedker, 2002).

One potential reverse impact of business on FT is the jeopardy of FT's movement primary focus on improving producer livelihoods. An abundance of logos, labels, certifications and regulating authorities can confuse consumers and may dilute the intended benefits to the producers.

Impact on Governments, the EU and the WTO

Impacts of FT on governments, the EU, and the WTO are negligible. The literature is limited, and the issue is further confused with overlapping usage of the term: fair trade as improved relationships between consumers and producers and fair trade as changes in trade policy to make trade *fairer* as it relates to tariffs and openness. While the majority of the activity of FT organisations is involved with aiding producer groups and marketing FT products, they also lobby for policy changes for *fairer* trade. Thus, engagement with governments, the EU and WTO entails both issues.

Advocacy for the changes in trade policy to make trade *fairer* have had limited success. While FT organisations have increased their visibility through lobbying efforts, they have had limited to no impact on policy. Advocacy for the promotion of FT products and projects have resulted in more tangible effects. Financial contributions, though nominal, were made by the EU, as well as by European governments including the UK, Germany, and France.

Methodologies and Assessment of Impact

Part of the challenge in assessing the impact of FT is the lack of clear methodologies and FT specific indicators. While Ronchi (2002), Mayoux (2001a) and Hopkins (2000) attempted to develop a methodology for FT, the result was a slight alteration of traditional methodologies. Impact assessment of FT is further complicated by problems of attribution. Establishing a causal link between FT and the well being of producers and producer organisations is challenging. Many variables affect the vitality of producers and producer organisations.

Of the studies that examined impact at the producer and producer organisation level, which followed a formal methodology, the livelihood and participatory approaches were most common. In most of these cases, however, the framework was not strictly adhered to or defined. Many studies identified no methodology at all. Moreover, the few reports of impact on other stakeholders did not identify a formal methodology.

It is undeniable that an inequality in trade relations exists and FT was developed to address this issue. Given that FT has significant positive impacts at many levels, there is an argument for increasing the overall size of the movement. There are significant issues, however, that are associated with scaling up the movement: increasing influence of big business; limited political support; marginal market demand. In spite of these issues, FT's success to date, particularly in its impact on producers and producer organisations, is a testimony to the successful role of market mechanisms in development processes.

Introduction

The decline of commodity prices and unjust market relations has dramatically impacted the lives of millions of small-scale producers in developing countries. The price index of commodities declined 47% between 1982 and 2001, and real prices for key agricultural commodities are near a 30-year low (Vorley, 2003). Concurrently, the prices of fertilisers, pesticides and machinery have been on the rise. As a result, market prices frequently drop below the cost of production, negatively affecting producer livelihoods. The paradox is that while the food chain as a whole is profitable, the gap between the price producers receive and retail prices has grown (Vorley, 2003). Fair Trade (FT) seeks to address this problem by changing the unequal relations of trade between producers and consumers. The Fair Trade Foundation defines FT as:

“...an alternative approach to conventional international trade. It is a trading partnership which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning (FTF).”

FT has experienced substantial growth since its foundation. In 1989, only the Netherlands had a FT consumer guarantee; today, there are labelling initiatives in 20 countries. The range of FT products has also increased and includes coffee, chocolate, orange juice, tea, honey, sugar, bananas, handicrafts and soccer balls, among others. The increase in sales has also been considerable. Between 1997 and 2003, general sales of FT labelled products increased 221 percent (FLO_1). Despite the impressive growth of FT, little is known about its impact. The goal of this paper is to examine the impact of FT on different stakeholders. To achieve this goal, a review of academic and grey literature was conducted.

Chapter One uses the livelihoods framework to analyse the impact of FT on producers and their families, as well as the spillover effects of FT on the community. Chapter Two looks at the economic and institutional impact of FT at the producer organization level. Chapter Three examines the impact of FT on business from a financial and marketing perspective, and analyses issues of corporate social responsibility. Chapter Four evaluates the impact of FT on three different political entities: national governments, the European Union, and the World Trade Organization. Chapter Five explores different methodologies available for monitoring and evaluating the impacts of FT. It also discusses major challenges for effective impact assessment, and reviews the methodologies used in the case studies examined in previous chapters. The sixth and final chapter concludes with a summary and the major findings.

Impacts on Producers

Introduction

FT is concerned with the well-being of disadvantaged producers and seeks to contribute to the alleviation of poverty. Further, FT tries to build on the producers' skills to enable them to play an active role in their development. In this section, the sustainable livelihoods framework is used to assess the impact of FT on producers and their families. The criticisms and limitations of FT at the producer level will also be discussed.

Financial Capital

The most direct benefit of FT is the minimum price guarantee and social premium offered to producers. The magnitude of the benefit is dependent on the price differential of the FT price and the market price. Over the last decade, when coffee prices have been below the FLO minimum price, the benefits have been substantial (Raynolds et al, 2004). For instance, in Northern Nicaragua, the market price for coffee was US\$0.40 per pound while the production costs of Nicaraguan farmers were between US\$0.49 and US\$0.79 per pound (Bacon, 2005). The FT minimum price of US\$1.26 had a significant impact in helping farmers recover their costs of production and retain a reasonable surplus.

Coffee producers are not the only beneficiaries of FT minimum prices. In 2000, producers of organic rice in Thailand had a gross margin twice that of conventional farmers (Udomkit and Winett, 2002), and banana producers in Ecuador received three times more for their product than the market price (Chambron, 2001). Littrell and Dickson found that the financial return to artisan producers involved in FT averaged 40% of the retail price as compared to 10% from mainstream suppliers (Moore, 2004). In some circumstances, producers in conventional markets have also benefited from FT, as minimum prices forced middlemen to offer higher prices in order to remain competitive (Robins et al, 1999).

FT has also increased farmers' access to credit. Small farmers are often forced to borrow from moneylenders at high interest rates or sell their products prematurely to middlemen at low prices. In accordance to FLO regulations, FT buyers provide 60% pre-financing of the contract value when the harvest begins, allowing producers to survive the season without going to moneylenders. An additional source of financing is the capital funds some producer organizations have created with which to provide loans to their producers (Ronchi, 2002; Murray et al, 2003).

Human Capital

FT has contributed to the improvement of the skills, knowledge, technical abilities, education, and health of producers and their families. Several case studies demonstrate how cooperatives have used the FT social premium to provide various training services to their members: organic farming techniques for cotton in Uganda (Malins and Nelson); agricultural extension services in coffee cooperatives in Mexico (Murray et al, 2003); and technical services and organic certification in coffee cooperatives (Raynolds et al, 2004). Alternative Trading Organizations (ATO) and NGOs involved in FT have also provided assistance and training to producers to help them develop the skills they need to succeed in the market. An Oxfam study (Hopkins, 2000) illustrates how ATOs have helped artisans to develop new market-oriented designs. In Costa Rica, members of Coocafé recognized that they have been able to improve the quality of their coffee as a result of the support received from different ATOs (Ronchi, 2002).

The increased income of producers has also improved the ability of parents to pay for education and health expenses. Furthermore, some organizations have used the FT social premium to create social funds to provide scholarships, and support local schools, hospitals and health programs (Raynolds, 2004; Murray et al, 2003; Ronchi, 2002). In addition, FT has contributed to increased employment opportunities in the community and has helped individuals to diversify their activities. Coffee cooperatives have provided training and marketing assistance for families to develop alternative

income sources through artisanary, community stores, bakeries, and production of basic grains (Murray et al, 2003). FT producers involved in organic production have enhanced employment opportunities for other community members due to the increased labour demands of organic production (Ronchi, 2002; Raynolds, 2004; Murray et al, 2003).

Natural Capital

Although organic production is not mandatory for FT labelling, it has been encouraged by some NGOs and ATOs involved in FT. It is the only impact on natural capital that can be attributed, though loosely, with FT. Organic production can improve soil fertility, reduce deforestation, prevent pollution and conserve water; and it can also improve working conditions related to the health and safety of individuals (Robins et al, 1999). Coocafé in Costa Rica is one group of producers who has been concerned with environmental issues. Over the 10 years of their operation, Coocafé has invested US\$3,500,000 in environmental protection and development programs. Through their investment, they have encouraged 1,200 producers to adopt more sustainable agricultural practices and have converted more than 500 hectares to certified organic production (Ronchi, 2002).

Physical Capital

Some producer organizations have used the FT social premium to invest in infrastructure projects, which often benefit not only the FT producers but also their entire community. In Ecuador, a banana cooperative invested in radio communication systems to connect three remote communities (Chambron, 2001). In Ghana, the Kuapa Kokoo Union used the social premium to install water plumbing in six villages (Oxford Policy Management, 2000). In Mexico, coffee cooperatives invested in storage facilities, processing plants and transport systems (Raynolds et al., 2004). Without FT, producers would have had difficulty in raising the necessary financing for these projects.

Social Capital

One of the most significant impacts of FT at the producer level is the empowerment of individuals. As Moore (2004) mentions: “empowerment has become a fundamental element of Fair Trade not only in its own right, but also as a means of enabling producers to deal directly with mainstream buyers.” In Thailand, rice producers have significantly more bargaining power than those in conventional trade networks, and have gained confidence and self-respect (Udomkit and Winnett, 2002). Women working with handicrafts have seen a general improvement in their self-esteem as they are able to pay for their children’s education and purchase better food for their family (Mayoux and Williams, 2001).

The Handicrafts FT market has contributed to preserve traditional products of the developing world, and has helped women increase their independence. For Leclair (2002) “the preservation of indigenous cultures and products is regarded as one of the most significant benefits of alternative trade, since artisans were being forced to abandon the production of such items, and focus on goods with a higher rate of return.” Handicrafts production also allows women to earn income while being able to stay close to home.

Vulnerability

FT has had an important impact in reducing the vulnerability of producers to market and non-market crises. The minimum price offered by FT secures producers against the volatility of market prices, and the long-term contracts ensures that they will be able to sell their products. Moore (2004) notes that for many producers, long-term relations, advance payment and the certainty of price are more important than the FT price itself. For FT organic coffee producers in Uganda, the guarantee of cash on delivery has been essential – in the past they sold to private traders on credit and were not paid (Malins and Nelson, 2000). Furthermore, a stable income flow enables farmers to plan and invest in social and environmental improvements, and to better anticipate personal and family needs (Chambron, 2001; Ronchi, 2002).

Limitations and Criticisms of FT

One of the major limits of FT is that it represents just 0.01% of global trade (Fair Trade Federation), and only benefits a handful of producers in the developing world. According to Leclair (2002), FT has a minute market share because it depends on the goodwill of individuals in the industrialized world. Mendoza and Bastiaensen (2003) state: “one main reason for limited volume is the high price mark-up, applied to a product that apart from its fair trade attribute has nothing more to offer to the consumer”. As a result of these constraints on the market, many FT producers are only able to sell a small share of their products to the FT market: 8% for cocoa producers in Ghana (Oxford Policy Management, 2000); 10% for coffee producers in Tanzania (Oxford Policy Management, 2000); 30% in Northern Nicaragua (Bacon, 2005); and 50% in the Prodecoop coffee cooperative in Nicaragua (Mendoza and Bastiaensen, 2003).

FT has also been criticized for not being able to target the poorest people in society due to their remoteness, and lack of skills and resources (Tallantire, 2002). As a result, the increasing economic and social gap between individuals involved in FT and those involved in regular markets has been blamed on FT. Malinis and Nelson (2000) explain how only wealthier families have been able to benefit from the FT organic cotton scheme in Uganda, and Leclair (2002) mentions that ATOs are creating advantages for particular groups due to the impossibility of helping all artisans.

A final criticism is that FT is increasing the dependency of producers. Tallantire (2002) argues that in some circumstances, FT is subsidizing otherwise inefficient producers, and only a limited number of producers appear to graduate to conventional markets. Furthermore, the artificial increase in the price of handicrafts, textiles and commodities provides incentives for individuals to continue marketing products that have a poor economic prospect in the long-term (Leclair, 2002).

Impacts on Producer Organisations

Introduction

Just like the minimum price guarantee and social premium, formal organization of producers is a key requirement of Fair Trade (FT) as stipulated by the Fair Trade Labelling Organizations (FLO), the worldwide organization responsible for FT standards and labelling (Generic Fair Trade Standards, FLO 2003). Producer cooperatives promote democratic decision-making and the active participation of

producers in the trade process – consistent with FT’s attempt to break hierarchical trade relationships. In some cases, FT is responsible for the creation of the producer cooperatives; in others, FT helps strengthen already existing organizations. FT’s impact on cooperatives can be separated into two main categories: economic and institutional capacity building. This chapter highlights impacts in both categories and also reports on the issue of dependency that some believe FT causes among its producer organizations.

Economic Impact

In addition to the guaranteed minimum price (discussed in more detail in the previous chapter), there are many secondary economic benefits of FT. These benefits are particularly relevant at the level of producer organisations, though they vary depending on the organisations’ stage of development.

In many cases, engaging in FT has been indispensable to the survival/initial viability of producer cooperatives. Some, like Las Colinas in El Salvador, used the social premium collected to service debts that would have otherwise caused the cooperative to go bankrupt (Méndez, 2002). For others, like the Tzotzilotic Tzobolotic Coffee Cooperative (TTCC) in Mexico, engaging in FT helped to revitalize a constituency that was disheartened with poor coffee sales and bad relationships with commercial buyers (Martinez, 2002). For those in good financial health, the FT price differential has had significant effects in empowering producer organizations by allowing them to become less risk-averse and engage in constructive long-term investments and diversification (Ronchi, 2002b, Garza and Trejo, 2002).

As evident above, the social premium (part of the FT price differential) is not necessarily distributed directly to the producers. Often, it is pooled at the organizational level and provides cooperatives with a new source of working capital (OPM, 2000; Bacon, 2002; Hopkins, 2000 in Raynolds 2002; Garza and Trejo, 2002). In many cases these funds are used for infrastructure and training purposes (Ronchi, 2002b; Garza and Trejo, 2002). Cooperatives, however, have had creative uses for the money to serve their own specific development needs. Coocafé uses the social premium to create capital funds that are the “source of financial intermediation and interest revenue” (Ronchi, 2002b). Volta River Estates, a commercial FT banana plantation company in Ghana, uses its social premium to cover the costs of European import licenses (Blowfield and Gallet, 2001).

While impacts of this social premium are generally positive, results are not always comparable between organizations. The impact of the funds is directly related to the “effectiveness of producer control over the use of the premium (i.e. the strength of the governance structures) and the extent to which the interest of relatively poor and marginalised producers are reflected in decisions about social investment” (IIED, 2000 in Raynolds, 2002).

In addition to the minimum price guarantee and social premium, producer organizations also benefit from increased access to funds through FT. Credit is often difficult to come by and/or very expensive for many of the producer groups. Through FT, cooperatives have access to lower interest financing (see previous chapter for more details). Moreover, even when producer organizations do not use all of the credit available through FT, it is an important way of hedging their risks given the volatile credit situation in some developing countries (Garza and Trejo, 2002). In addition to credit,

partnerships with various NGOs and other development agencies has helped producer cooperatives gain access to important development funds for various projects such as training centres and out grower schemes (Blowfield and Gallet, 2001; Garza and Trejo, 2002).

Increased market access for producer organizations is yet another economic benefit of FT. The recognition derived from FT certification and association with international FT organizations has opened new channels of trade. Volta River Estates, for example, would not have been able to access the European banana market had it not been for the help of Solidaridad, a Dutch NGO, and Max Havelaar Foundation, in lobbying the EU (Blowfield and Gallet, 2001). Through FT, some small producers at AMKA, an organization of crafts and food producers in Tanzania, were able to access the export market for the first time; those producers with AMKA who were already exporting were able to breakthrough to bigger orders (OPM and IIED, 2000). While increased market access is a common FT benefit (Hopkins 2000; OPM and IIED, 2000), some criticize that new market access for producer organizations is restricted to alternate trade markets and may lead to dependency (see 'Dependency' section below).

The economic benefits of FT for producer organizations are many, though the impacts vary by individual producer organizations. It is important to recognize, however, that even though a producer organization may be FT certified, benefits are only realised after successfully landing a contract. While this may be an all too obvious point, it is important not to underestimate the challenge of obtaining a FT order. TTCC in Mexico had been registered with several FT labels since 1992, but only obtained its first FT contract in 2001. Years of trying to win a contract led the former technical advisor to conclude that there was a bias in the market that led buyers to prefer certain producers to others.

Institutional Capacity Building

In spite of the numerous economics benefits, many believe that the true strength of FT comes from its capacity building (Hopkins, 2000; OPM and IIED, 2000). Capacity building of the cooperatives can occur in two main ways: technical capacity building and organisational capacity building.

Technical Capacity Building

The elimination of middlemen, and the monopoly they hold on trade information, forces producer groups to learn more about trade processes and how to effectively engage with them (Raynolds, 2002). Through involvement with FT, producers learn about international markets, strategic planning, quality control, and hone their business and technical skills (OPM, 2000; Garza and Trejo, 2002; Hopkins 2000). Information does not come from only the FT organisations; numerous parties are involved including buyers, other FT-certified cooperatives, alternate trade organisations, and the consumers themselves. Barangay Anunans Multi-Purpose Cooperative (BAMPCI) in the Philippines receives regular feedback on their customers' reactions from OXFAM FT (Hopkins, 2000). Quality control information for coffee cooperatives can come from both the buyers, who give producers feedback about the quality of each lot of coffee that is cupped (tested) (Garza and Trejo, 2002), and from FT representatives at organisations such as FLO (Ronchi, 2002b). Even the certification process itself can be a source of instruction (Martinez, 2002).

Impacts of this technical assistance include: new product design to meet the changing tastes of clientele (Hopkins, 2000); the establishment of a local producer training centre (Garza and Trejo, 2002); and the creation of an export department to gain autonomy from the major national coffee exporter (Ronchi, 2002b).

Organisational Capacity Building

In addition to building a knowledge and technical skills base, FT has also helped producer groups build social capital and improve organizational structure. In some cases, involvement with FT was the key to the establishment of producer organizations (Hopkins, 2000). In cases where the worker organization was already present, FT helped to reinforce the ideals of cooperation and participation (Blowfield and Gallet, 2001). For Raynolds (2002), determining the use of the social premium itself has the important benefit of strengthening democratic decision-making.

FT has also helped organizations develop linkages with each other and important external parties like export boards and regulatory offices. Within larger FT consortia – organizations of producer cooperatives – there is considerable exchange of information and skills between individual producer cooperatives. For example, TTCC would not have gained its first FT contract had it not received the help of Unión Majomut (Martinez, 2002). Many of the groups are also involved in the creation of subsidiary organizations that fulfil some sort of development role and/or focus on livelihoods improvement (Ronchi, 2002b; Garza and Trejo, 2002; Ronchi, 2002a; Blowfield and Gallet, 2001).

These linkages not only serve a practical purpose but have also shown to empower producer cooperatives. Cooperatives recognize they are partners in a much larger international trading structure, and learn to harness those international resources to define themselves in new ways. The establishment of subsidiary groups described above is one important example. Another is the new FT retail coffee chain, Progreso. Progreso was the idea of the Honduran cooperative La Central to establish FT outlets that sell their coffee in the UK (Geoghegan, 2004). Teaming up with OXFAM, Scottish roaster Matthew Algie, and a few other cooperatives, La Central has been looking to open several stores in the London and Glasgow area (Progreso). If successful, the cooperative wins three times over: they sell their coffee at FT prices, share in the retail profits, and are able to showcase their coffee in the UK (Geoghegan, 2004). However, whether they are successful or not, attempting to establish a UK retail arm is an important testimonial to the empowering effects that FT has had for La Central.

Dependency

Despite the empowerment and institutional capacity building of FT organisations, there have been few reports of producer groups negotiating favourable contracts in mainstream commercial export markets (exceptions include Kuapa Kookoo and Coocafé). This is truer for handicraft cooperatives than commodity based cooperatives: for the handicraft cooperatives considered in the OXFAM study, 75% of sales are exported to FT organizations and only 4% to mainstream buyers (Hopkins, 2000). The paradox is that despite capacity building, the problem of dependency continues (Hopkins, 2000). If the goal of FT is to encourage development, producers should be aided to access general markets on better terms, and not just alternative trade markets (Tallontire, 2002).

Conclusion

FT has numerous economic and institutional strengthening impacts on producer cooperatives. From the improvement of financial health and provision of social development funds to networking opportunities and technical assistance, FT has had positive impacts on producer cooperatives. Few other trade initiatives allow for such widespread capacity building or allow their members to network and search for other trading partners (Tallontire, 2002). Impacts, however, do vary depending on the development stage of the cooperative before the advent of FT. In addition, despite the positive benefits, dependency of producer organizations is a real concern. Improving access of small producers to mainstream markets on better terms is a central strategy of FT organisations; however, the extent to which this has occurred has yet to be fully explored (Tallontire, 2002). Initial findings from handicraft FT groups show that this is not occurring (Hopkins, 2000). While the FT price differential and social premium may be important to institutional capacity building, the long-term sustainability of the cooperatives is contingent on their successful entry into the mainstream market.

Impacts on Business

Introduction

The FT movement has increasingly been adopted by mainstream businesses in Western countries as they respond to changes in consumer demand and social pressures. Attesting to this rise in influence is the dominance of the UK coffee market by FT pioneer, Cafedirect- the sixth largest brand in 2004- and its issuance of publicly traded shares (The Grocer, 2004a). As the movement becomes more mainstream, changes within strictly FT business as well as more conventional business ensue. The following assesses the impact of the FT movement on business. First, this will be examined from a financial and marketing perspective. Next, the impact of FT on corporate social responsibility (CSR) will be addressed, followed by a discussion on how the adoption of FT practices by mainstream businesses is impacting the FT movement.

Financial Impact

There are three primary mechanisms through which FT financially impacts business. FT boost sales, attracts investment and creates greater access to credit. Two avenues exist through which FT increases sales. With FT, businesses maintain existing customers that would have switched to other brands had the company not adopted FT policies. According to Stuart Palmer, marketing director at Traidcraft, by carrying FT products companies have the opportunity to increase brand loyalty and it gives them more manoeuvrability since their existing brands are being increasingly squeezed at the margin (The Grocer, 2004a). Businesses also use FT to tap underdeveloped markets and attract new customers (Global Corporate Citizenship Initiative, 2005). A Somerfield representative told *The Grocer*, that by having its own FT label, they are able to expand their customer base by attracting ethically motivated customers (The Grocer, 2004b). “For savvy retailers, socially conscious issues such as Fair Trade are becoming a lucrative hot button. Fair Trade tends to appeal to the same shoppers who deeply care about health qualities and often buy pricey, organic food” (Horowitz, 2004). A meta-analysis supports this assertion, finding a positive, simultaneous and bi-directional relationship between corporate social responsibility and financial performance (Ortitzky, Schmidt and Rynes, 2003). According to Ortitzky, Schmidt and Rynes (2003), “corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off.”

Procter and Gamble's move to sell FT coffee is not entirely driven by altruism. Firstly, the coffee industry as a whole has been stagnant except for the specialty sectors. The FT sector, while making up only a \$100 million of the US market, is nonetheless the fastest growing, and thus a sector in which Procter and Gamble can grow (Horowitz, 2003). Furthermore, in exchange for marketing a FT brand, activists suspended a campaign against Procter and Gamble and withdrew a shareholder resolution demanding that the company buy FT coffee (Lobe, 2003). Hence, in this manner, FT facilitates investor relations and promotes a positive public image. This is important as ethically motivated investors and bankers increasingly base their decisions on ethical business practices and some even have ethical funding requirements in place (Global Corporate Citizenship Initiative, 2005). FT, therefore, becomes an essential medium for accessing capital, maintaining customer loyalty, and attracting new business and investment.

Marketing Impact

It is valuable to differentiate between the marketing impact upon traditional FT companies whose focus is entirely FT, and the impact on mainstream business. Adjustment of strategies by both has been required as the movement gains momentum. With mainstream companies, there has been increased emphasis on the promotion of ethical guidelines in an attempt to attract ethically minded consumers (McLaughlin, 2004). As mainstream businesses focus more on this niche market, competition becomes more intense and differentiation more difficult to achieve, yet more crucial for success. In this environment, the focus of purely FT companies has shifted from emphasis on FT, to emphasis on product quality. For example, in a newspaper ad for Cafedirect, there were few phrases legitimizing FT on ethical grounds. Instead, "...the principle rationale presented to the consumer for engaging in Fair Trade is that of the 'better' product" (Wright, 2004). This ideology is best displayed in a quote from P. Newman, Cafedirect's Managing Director in 2001, "We've really made ourselves look as good, taste as good and be as good at marketing as the biggest brands such as Nescafe or Kenco...and by the way it's Fair Trade" (qtd. in Wright, 2004).

This shift could be attributed to the influence of the more mainstream companies with which they compete. Procter and Gamble spokesperson, Tonia Hyatt, asserts that their "focus is selling what the consumer wants, which is an excellent product with excellent taste. And secondarily, we help them understand that the choice they are making is helping [coffee producers]" (qtd. in Sparshott, 2003). It is this approach to FT that marketing director at Traidcraft, Stuart Palmer, criticizes. He alleges that Tesco's FT marketing is amoral in its lack of consumer education around the importance of the FT movement. Palmer claims that Tesco carries FT products for no other reason than to meet consumer demand. Tesco may not be the only company driven by this motive. Jonathan Horrell of Kraft stated, "We are looking at it because we are a demand-driven business. If there is consumer demand for sustainable coffee, then it would be logical for us to meet it" (Wall, 2005). The fear in this approach is that uninformed consumers will shift demand away from FT products when the next trend comes along, and Tesco or Kraft will no longer support FT due to the shift in demand (The Grocer, 2005). Hence, the primary focus on quality with little education about FT has potential to harm the movement's long-run viability; yet without such a focus, it is likely a company could not survive in the short-run.

With the adoption of FT labelling by the larger brands such as Starbucks, Procter and Gamble, and Dunkin' Donuts, smaller brands are feeling cornered. Often committing a majority of their business to FT, smaller businesses accuse the larger companies of encroaching on their market niche. They criticize the mainstream brands for adopting FT as a marketing ploy rather than out of genuine concern for farmers. As a result, a number of smaller coffee roasters (Larry's Beans, Just Coffee, Dean's Beans and Café Campesino) have split off from the TransFair label in April 2004. Declaring that the TransFair label has become too corporate friendly, these roasters feel they can increase consumer awareness better on their own than under the label. While important to acknowledge that many mainstream companies claiming to be FT devote less than one percent of their business to FT (i.e. Starbucks), they nonetheless make up a significant portion of the FT market (Mekay, 2004). "If a corporate giant roasts a million pounds of Fair Trade coffee in one year, they are still doing far more than some of the smaller 100% roasters will in their entire history" (Rogers, 2004).

Impact on Corporate Social Responsibility

"[FT] has been a significant catalyst in the development of ethical issues within mainstream trade and business practices, influencing the development of CSR" (Redfern and Snedker, 2002). There is a continuum between FT and ethical trade, with ethical trade being most impacted as companies increasingly claim ethical values and competition for ethical products stiffens (Tallontire, 2002). This impact is witnessed by the adoption of new codes of conduct, such as the Standard for Social Accountability 8000 in the US and the Ethical Trading Initiative in the UK. Although these codes tend to be less comprehensive than FT guidelines, this is nonetheless positive for FT as it becomes more widely accepted (Auroi, 2003). However, much of the motive behind the adoption of FT, or ethical trade, is corporate and brand reputation (World Economic Forum, 2005).

Ethical trade usually implies a focus on managing risks to brand reputation as opposed to focus on supply chain partnerships. But even FT is often adopted with the motive of portraying a positive corporate image. A case in point, Starbucks became the focus of an anti-globalisation movement. After eight thousand consumers responded that Starbucks was "arrogant, intrusive and self-centered", the company hired a new PR firm and launched an ad campaign emphasizing FT and Starbucks' relationship with coffee farming co-operatives (Born, 2005). Similar actions were taken by Nestle after receiving negative publicity. Some assert that Nestle's recent commitment to "fair trade" practices is simply to redeem its poor image (Wall, 2005). Important to note, an independent FT label does not certify Nestle.

As mentioned above, some companies' decisions to adopt FT products are not driven by corporate citizenship or corporate reputation, but rather, they are simply meeting consumer demand. Regardless of the motive, the recent boom in the FT sector has been accompanied by a substantial shift in mainstream business practices and in the undertaking of CSR policies (Redfern and Snedker, 2002). Even if companies are merely responding to demand or to protect their reputation, there is nonetheless an increase in FT and ethical marketing. Increases in marketing bring about a more socially conscious society with further rises in demand. This puts additional pressure on companies to adopt new social policies and to deliver socially responsible products.

Mainstream Business Impact on Fair Trade

There is a complex, bi-directional relationship between FT and mainstream business practices. According to the Fair Trade Federation (2003), “there is a general agreement that fair trade certification, especially of coffee, is profoundly affecting the industry as a whole. However, opinions vary as to whether all of the changes are good for the movement as a whole.” For example, a blurring of the lines between FT and ethical trade may confuse consumers. With an abundance of competing logos, certifications and no single regulating authority, it is difficult to distinguish between Nestlé’s fairly traded, Cafedirect’s fair trade and Kraft’s sustainable business practices (McLaughlin, 2004). Tallontire (2002) appreciates that these other labels also serve just causes and may lead to just as great, if not greater reduction in poverty; and consumers may find these labels to be equally valid. Still, the World Bank acknowledges that the lack of standardization in certifying and labelling, threatens the FT movement (Sparshott, 2003).

As a result of this confusion, the real fear is a “watering down” of the FT movement. Matt Earley, co-founder of Just Coffee stated, “Without people outside the increasingly corporate-friendly TransFair system pushing for the original vision of a better model, [the movement] will be watered down into nothingness” (Rogers, 2004). Furthermore, as mainstream companies espouse ethical brands, there is the risk that some may behave unscrupulously, merely cashing in on the benefits, with the overall effect devaluing the entire movement (Grocer, 2004a).

Conclusion

The rise in popularity of FT unquestioningly affects the way in which corporations practice business and market their products. With greater awareness of FT, more companies turn their focus to CSR and ethics. Yet, as FT is mainstreamed, the movement itself is threatened as other ethical products may be confused with FT. Overall, the movement may grow at the expense of being diluted and transformed. As, “most businesses still see taking an ethical approach in the context of reputation management...Fair Trade then as a model still has some way to go before it can prove itself as a mainstream business approach” (Redfern and Snedker, 2002).

Impacts on the Macro Level

Introduction

This chapter analyses the impact of FT on three different political levels: multilateral organisations, supranational institutions and on national governments. There are two distinct notions of FT: lobbying for changes in the international trading system, and promoting FT products to guarantee higher prices to support farmers. From the latter notion also derives the two main mechanisms through which FT advocacy groups¹ can impact these three political levels: firstly, through the promotion of FT products and the stimulation of public demand; and secondly through the lobbying for changes in trade policies such as product labelling and quotas (DFID, 2000; ILO, 2002). It will be shown that FT advocacy groups do receive political recognition and financial support for promoting FT products, but that the influence on changes in trade policies remains very limited. Due to the limited scope of the chapter, only impacts on the World Trade

¹ mostly consisting of NGOs, FT umbrella organisations as well as think tanks

Organisation (WTO), the European Union (EU) and the British government will be considered.

Impact on the WTO – International Level

Given the WTO's importance as "the central decision point for trade rules" (ILO, 2002), it became an essential venue for FT advocacy. At the last WTO Ministerial talks in Cancun 2003, the FT movement launched two successful initiatives. One initiative was an open letter lead by the International Federation of Alternative Trade (IFAT) and signed by 60 other international FT advocacy groups (Cancun letter). The letter was handed out to all participating governments at the WTO meeting. It asserted that "trade policies should not promote and enforce liberalisation as an economic solution where 'one size fits all'", but rather should create an "environment for Fair Trade that upholds the right of producers and consumers to take part in Fair Trading without restrictions" (Cancun letter). The second remarkable event was the "first-ever" International FT Fair at a WTO Ministerial meeting organised by the Institute for Agriculture and Trade Policy (IATP), which enjoyed high-level dignitary attendance (OCA; FT Expo).

These initiatives demonstrate the ability of FT organisations to participate at the highest level of trade diplomacy. Not only is there an emphasis on changes in trade regulations, but also on the promotion of livelihood support for farmers and the concept of FT; this goes beyond a symbolic gesture and intends to portray FT as an alternative option to "the rules and practice of conventional international trade" (Traidcraft, 2004a). When trying to evaluate the impact of FT on the WTO trade rules, direct impacts are not found. Although there are guidelines on how NGOs and civil society interact with the WTO (WTO_1), the problem is that the available data is inconclusive to what extent FT advocacy groups are able to directly engage with policy makers and have an impact on the policies made. If trade issues are only discussed between governments and regional representatives, and if there is no institutional platform for NGOs to participate, the only channel through which FT organisations can have an influence is through lobbying the participating bodies in advance. Consequently, lobbying at the sidelines of WTO meetings could at best reinforce advocacy, which has been done already on the supranational or the national level. Nevertheless, the key point is, that even if there is no visible impact, FT advocacy groups have found a voice and developed methods of professional lobbyism allowing them to engage with the institution. Similar achievements have been made at the last UNCTAD conference in Sao Paolo in 2004, which further underline the FT organisations' effort to lobby multilateral institutions (FT Soc).

Impact on the EU – Supranational Level

While real impacts on the WTO remain difficult to quantify, impacts on the EU are more tangible. Besides achieving symbolic accomplishments, such as introducing FT products in all Commission canteens and cafes (EFTA, 2003), FT networks also engage regularly with the European Commission and the European Parliament. Most notably, on March 23, 2004, European Fair Trade Association (EFTA) co-organised a panel discussion in the European Parliament with former EU trade commissioner Pascal Lamy on 'What role for fair trade in EU Policies?' (EFTA, 2004). Events like these do underline the FT advocacy groups' capability to communicate directly with the EU's highest policy makers, and advocacy seemingly has had an impact in the past: the EU grants financial support to Fair Trade initiatives (30 million Euros for 66 projects between 1997 and 2002), and the Directorate General Trade supports the work of the

‘Sustainable Trade and innovation Centre’ (STIC) which aims at creating markets for sustainable products (EuropeWorld). Additionally, the EU’s general commitment to FT is laid out in the Cotonou Agreement, which emphasises the support for “sustainable policy... including the promotion of fair trade” (EFTA_1). These are clear indications of the financial and also political support for FT initiatives made by the EU.

Nevertheless, the EU’s overall political devotion to FT appears to be limited. “Fair trade is not the only player in the field” and an increasing number of other private companies develop their own codes of conduct, which could be, against certain benchmarks, even more effective than FT (EuropeWorld). As a result, the EU cannot treat FT as the only alternative for sustainable trade. Moreover, promoting FT would mean the promotion of certain brands, which would violate competition laws within the EU (EuropeWorld).

A more pressing issue constitutes the trade policies of the EU, in particular the Common Agricultural Policy (CAP) and the Economic Partnership Agreements (EPAs)². While the CAP has been a contentious point for decades and therefore already subject to several reforms (EU_1), the EPAs represent, according to Traidcraft, a more serious threat to sustainable trade (Traidcraft_1). Traidcraft’s campaign against the EPAs does show that especially on the European level, FT organisations resort to both mechanisms pointed out above: lobbying for the promotion of FT goods and changes in trade policies. As far as changes in trade policies are concerned, there has been no notable impact thus far. Nevertheless, even if the impact remains limited and the political devotion restricted, FT has found recognition among EU policy makers as a tool for poverty reduction and does receive financial support. Furthermore, fundamental issues such as EU trade policies are discussed and lobbied against by FT advocacy groups.

Impact on Governments – National Level

In terms of winning financial and political backing, FT advocacy groups have certainly found most support on the national level, especially in the case of the UK. The Department for International Development (DFID) is committed to support UK lead FT initiatives around the world. FT initiatives will have received £1 million between 2002 and 2007 (DFID_1). According to the Secretary of State Hilary Ben, “DFID has been a major supporter of the Fairtrade Foundation over many years. Today, our support has helped sales of Fairtrade achieve phenomenal growth year on year, reaching a value of 140 million pounds in the UK in 2004” (DFID_1). This has enabled Britain to become the largest Fairtrade market in the world (DFID). Furthermore, since 1992, DFID has been actively involved in supporting and setting up the ‘Day Chocolate Company’ and the Kuapa Kokoo co-operatives in Ghana (DFID_2). Besides supporting FT organisations financially, the British government also backs FT politically by publicly acknowledging its importance: Gordon Brown launched the FT fortnight at HM Treasury (DFID_2).

Despite the sincere support of FT, only the importance of ‘fairer trade’ was pointed out in the recent report issued by the ‘Commission for Africa’. Among other things, the

² The CAP is the EU’s agricultural policy, which supports the EU’s agricultural sector. The EPAs are bilateral trade agreements between the EU and the ACP countries, which are part of the Cotonou agreement.

report emphasises that only “more and fairer trade” can pull Africa out of the poverty trap, whereby fairer trade refers to an end of excessive tariff and non-tariff barriers in developed countries (Bridges Weekly Trade News Digest, 2005). This could be due to the fact that DFID’s criticisms of potential shortcomings of FT hinder it from becoming a feasible government policy on a larger scale. Especially the “insistence on formula-based price premiums or minimum prices is unlikely to be a generalisable approach” (DFID, 2000). Similar problems have been discussed in the case of the EU, but again it is important to look at the relative achievements. Although FT is facing certain limitations at the moment, it does not mean that they cannot be overcome in the future. The fact that FT is recognised as an alternative option and is given suggestions for improvement by DFID testifies that the FT has gained considerable support by the British government.

It is clear that by looking solely at the UK no general trend can be identified. Yet, FT initiatives seem to be equally supported by other European national governments. In 2002, the French Ministry of foreign affairs contributed 3.8 million Euros to the FT initiative (France_1) and in the 2003, the FT movement was given the special status of a “general interest campaign”, an honour normally only organisations such as UNICEF are given (France_2); in Germany FT initiatives were granted 3.3 million Euros by the German Government for a marketing campaign (Germany_1). These two examples demonstrate the effectiveness of FT advocacy on the national level.

Conclusion

This section has attempted to depict the impact of FT on different levels of policy making, nationally and internationally. Two important conclusions can be drawn: firstly, FT organisations have increased their presence through professional lobbying and communicate their objectives to the political bodies concerned with trade; both multilateral and regional organisations investigated, the WTO and the EU, are responsive to and at the very least included FT as a theme in their agenda. Concerning public and financial support for FT, the national level seems to play the greatest role. It is interesting to note that the more representative the institutions are, the more support FT organisations appear to gain. This perhaps is an indication that national governments support FT in order to win more public support. Secondly, FT advocacy groups appear to be more effective promoting FT products rather than changes in trade policies. Advocacy against trade rules and regulations is certainly more demanding, as the political economy of the international trading system has to be confronted. It is important to see that recognition of FT as a tool for poverty reduction has gained worldwide recognition and that even development agencies such as the World Bank regard FT as a vital initiative (World Bank_1).

Methodologies for Monitoring and Evaluating Impacts of FairTrade

Introduction

This chapter discusses methodologies for the monitoring and evaluation (M&E) of the impacts of FT. M&E is important to assess the impact of any intervention in order to improve the effectiveness of current and future activities. This chapter presents available methodologies and indicators, and discusses major challenges for effective impact assessment of FT initiatives. Methodologies used in the case studies examined in previous chapters will be analysed. These findings will be used to recommend improvements for the M&E of FT.

Available Methodologies

Different methodologies of impact assessment are used to identify direct and indirect effects on various stakeholders. In general, the impact assessment of FT draws upon a range of M&E methodologies used for development programmes and projects. Hussein (2000) distinguishes between three broad categories for M&E: conventional, participatory and livelihood approaches.

Conventional impact assessment is based on indicators reflecting quantitative or qualitative data (Hussein, 2000). Because it is often not context specific and involves minimal interaction with beneficiaries, it is criticized for not fully capturing the complexity of households and the local economy (White, 2001). Alternatively, participatory approaches emphasize the involvement, consultation or partnership of all primary stakeholders in the process. Participation is defined as both an end and a mean of empowerment (Mc Allister, 1999). Livelihood approaches combine conventional and participatory M&E with a special focus on people's lives and their vulnerabilities. They focus on five main assets of the intended beneficiaries: financial, social, human, physical and natural capital (Ashley and Hussein, 2000). Livelihood frameworks consider a wide range of stakeholders³, and allow one to identify and assess holistic and multi-level interaction (Pasteur, 2000).

Using the livelihood framework as a base, Ronchi (2002), Mayoux (2001a) and Hopkins (2000) attempted to develop a methodology for M&E that was more specific to FT. Their efforts consisted of minor alterations to traditional methodologies and involved tracing avenues of impact by reviewing the FT organisation's activities and their utilisation of FT monetary benefits. The objective of a sustainable participatory M&E system is to build capacity across all stakeholders for impact assessment. Those adoptions add to the unspecified repertory of available methodologies this section has shown, indicating the challenge of incorporating all impacts of FT in the assessment process.

Available Indicators

Indicators are central to the M&E processes as they provide a way of identifying and measuring change. Similar to methodologies there are no specific indicators that have been established for FT.

³ The stakeholders generally include beneficiary population, programme/project managers, donors, government representative, NGOs and representatives of the private sector. ((Hussein, 2001).

Mayoux (2000a) uses a range of quantitative and qualitative indicators for the various categories of impact. Quantitative indicators for direct and linear impacts at the level of producers may include economic criteria such as income, employment and price effects. Other impacts are obscured, indirect or invisible and involve complex processes of change in the wider economy, culture and political system (Farrington and Hussein, 2000 in Hussein, 2000). They require qualitative indicators. These may include: perceptions of vulnerability and power, improvement of education and health, change in local institutions or access to infrastructure, adjustments in national or international policies as well as changes in transparency or marketing strategies of conventional businesses (Mayoux, 2001a). M&E under the livelihoods approach utilises participatory methods and analyses quantitative and qualitative indicators to cover the cross-sectoral impacts. There is a need to design additional indicators to determine linkages between different aspects of change (Pasteur, 2000).

Challenges of Measuring and Evaluating Impacts

This section describes problematic issues and the main challenges for impact assessment of FT.

As mentioned above, various definitions of FT exist. Ronchi (2002) notes that although the basic premise of FT⁴ is shared by all initiatives, the practised models are extremely diverse. Because there is no fixed model of FT, the design of impact assessment requires a high degree of flexibility (Ronchi, 2002). The variety of different methods for M&E applied, adds to the diversity of FT impact assessments. It is important to recognise that no methodology is neutral or value-free and needs, therefore, to be treated cautiously (Bartlett, 1989).

A critical issue remains whether the provided codes or regulation of FT reflect the priorities of producers and other participants. It has been acknowledged that most M&E of FT focuses on compliance with standards instead of impacts on individual lives. The understanding of how compliance is related to the improvement of individual welfare has often been overlooked (DFID, 2002). Broader impacts on a variety of non-FT producers and neighbours are rarely captured (DFID, 2002). A full impact assessment needs to include unintentionally affected stakeholders as well as potential impacts on policies, legislation, local institutions or governance structure.

Another crucial issue for impact assessment is the problem of attribution and endogeneity. It is difficult to identify the exact causal linkages through which FT has an impact on poverty. The change in the well being of a producer can be caused by many factors and is therefore difficult to ascribe solely to FT. A change in the economic conditions of producers involved in FT is likely to cause spillovers, which indirectly affect the whole community. Ronchi (2002) argues that the problem of attribution is further complicated by the problem in differentiating between the effects of the significant financial contributions that FT makes to producer organisations and other interventions sponsored by NGOs. In addition, although FT premiums are only a small part of the revenues of those organisations, Ronchi (2002) argues that FT premiums and support play an important role in the start-up and organisational development of some of those initiatives. Where FT was essential for the start-up of producer organisations, it can be argued that the various activities it carries out are all indirect effects of FT.

⁴ The basic premise of FT, as a development tool, is its explicit use of the market to provide assistance and support to producers in developing countries (Ronchi, 2002).

Therefore, tracing impacts of FT must consider impacts directly attributable to FT and indirect impacts through spillover effects and the organisation FT has helped to build.

A further concern is whether FT organisations, civil society or the public sector should take responsibility for the assessment process (DFID, 2002). It is necessary to consider the incentives for different organisations when carrying out or financing M&E activities. Most traditional FT companies undertake impact assessment with a focus on producer livelihoods. Businesses dealing with FT products commonly use internal codes of compliance or rely on labelling standards (e.g. Tesco). Those companies that have recently adopted FT are often more concerned with the positive reputation that accompanies the label than impact assessment.

Methodologies Utilized

The previous chapters show a range of FT impacts on various stakeholders. These impacts were assessed using various methodologies, and in some cases, with no formal methodology at all.

At the level of producers and producer organisations, the methodologies used in the literature reviewed are diverse. Some M&E are simply based on qualitative observations and do not discuss their methodology (e.g. Martinez, 2002; Malins and Nelson, 2000; Reynolds et al. 2004). Other studies employ participatory impact assessment through guided interviews (Ronchi, 2002b) or informal discussions and observations (Mendez, 2002) with a limited number of producers themselves. In order to identify direct and indirect impacts of FT, the interviewers strive for producer identified quality of life indicators. More conventional interviews were conducted by Udomkit and Winnett (2002). Likewise, Garza and Trejo (2002) supplemented their conventional data with interviews.

Some authors (Hopkins, 2000; Blowfield and Gallet, 2001) do not apply the livelihood framework per se but consider the livelihood of producer's. Others do apply the formal livelihood framework (Malins and Blowfield (2000), Malins and Nelson (2000), OPM (2000) and Mayoux (2001)). These studies use qualitative and quantitative tools to analyse the impact of FT in different areas. When assessing impact at the producer level, these tools were used in a more participatory manner with informal discussions and interviews. The effects on livelihoods are identified through assessment of change in income and increases in physical, natural, social and human capital of members of the household and members of the community. In general, the impacts can be further distinguished by categories of people (poverty, gender, age or ethnic groups). Potential impacts through capacity building are based on the assessment of whether new knowledge and skills have been generated. Those impacts are measured by quantitative tabulation of different activities like product development, marketing activities or networking (Hopkins, 2000). Furthermore, increases in market access and changes within the nature of the organization are assessed.

No particular methodology was used in the impact assessment of FT on multilateral organisations, national governments and businesses. The ILO publication (Redfern and Snedker, 2002) dedicates a small and very general section on the impact of FT at the macro level. The sources used for the impact analysis are primarily accounts of the activities of respective FT organisations and national and multilateral institutions. Assessment of impact on businesses was derived from publications, which were based primarily on qualitative observations of the marketplace.

Conclusion

For the assessment of impacts, the broad categories of conventional, livelihood and participatory methodologies have been introduced. Regarding FT, there are, despite early innovative attempts, few specific methodologies available. Depending on the stakeholder that is the focus of the assessment and the methodology used, there are different indicators.

M&E according to the livelihoods framework considers direct and indirect impacts at different levels and to various stakeholders. As the livelihood framework is rarely employed, the M&E of FT, is restricted and focuses mainly on the impacts on producers. At this level, various combinations of methodologies are employed which complicate the comparability of the studies.

The livelihood framework is seen as an appropriate tool to assess the diverse impact of FT. Qualitative approaches used in addition to quantitative approaches can be beneficial for the quality of M&E in combination with participation for the selection of indicators, data collection and analysis (Hussein, 2000). Livelihood improvements are context specific and need to be identified on a case-by-case basis. A main challenge hereby is too include diverse data and analytical methods but also to maintain an M&E system, which is cost-efficient, sustainable and relevant. As Hussein (2000) pointed out, this requires the establishment of a small core set of reliable proxy indicators for poverty reduction and livelihood improvement. Although a certain degree of flexibility is necessary, it has been shown that the assessment of FT lacks a standardized system that includes various stakeholders and the broader impacts of the movement.

Conclusion

This report examines the impact of FT on various stakeholders. At the micro level, impacts on producers, producer organizations and their local environment were examined. Macro level impacts were also assessed and included behavioural changes of mainstream businesses and engagements with national and international political bodies. The most direct effects of FT are seen at the producer level where livelihoods are bettered due to enhanced skills, improved access to credit, increased income and secured income flows. These effects are accompanied with increased producer confidence and empowerment. Among the indirect effects of the FT premium is the establishment and development of producer organizations. Through the financial support of producer organisations, FT supports the building of democratic structures and the local capacity for business, trade and administration.

Criticisms of FT include its limited size, and the consequential exclusion of many disadvantaged producers, which may contribute to rising inequality at the local level. In addition, the limited ability of FT to aid producer cooperatives to graduate into conventional markets can create dependencies of producers and producer organisations.

The predominance of positive benefits highlights the potential of FT as a tool for significant poverty reduction, if applied on a wider scale. This requires increased recognition and presence of FT at different political levels, which is already found to be occurring. While FT advocacy has developed professional lobbying capacities, no impact on legal frameworks has been identified, despite considerable public and

financial support of FT. As policies could be crucial for widening the scale of FT, so too could the increased application of FT in mainstream business.

Analysis of the impacts of FT on large commercial retailers in northern countries revealed that FT helped to increase sales and attract ethical investment. It has also created changes in the marketing and PR strategies of large firms. Moreover, FT is influenced by, and is part of, CSR strategies. While one perspective claims that business involvement in FT is a positive step toward creating ethically responsible companies, critics claim this may lead to diluting the FT movement's focus on improving the lives of producers. One potential problem, as FT is further accepted in the mainstream market, is the lack of impact assessment by mainstream businesses.

While this report discussed various methodologies for the assessment of impacts of FT, no approach specific to FT was identified, despite attempts to modify existing methodologies. Moreover, the livelihoods framework, which in part considers the impacts on different stakeholders, was rarely employed. Thus, impact assessment remains limited, and focuses mainly on the impacts on producers.

These findings highlight important issues for the future of FT, which now faces the dilemma of becoming a mainstream business approach while trying to maintain its development priorities.

While scaling up the FT movement may help bring benefits to a greater number of producers, there are several issues to be considered. One issue is the increased role of large businesses and the commercialization of FT products. As the FT movement gains in popularity, the growing dominance of large corporations and subsequent multiplicity of labelling standards threatens the ethical foundations of the movement. Resultant problems of accountability, standardization and lack of transparency in the supply-chain remain present. Sustaining and increasing market demand is also an important concern. Another issue is the lack of political support for FT at national and international levels. Finally, M&E methodologies that are specific to FT need to be developed in order to provide effective feedback and impact assessment. In spite of these issues, FT's success to date, particularly in its impact on producers and producer organizations, is a testimony to the successful role of market mechanisms in development processes.

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Organic Olive-oil Production in Greece

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Abstract

This paper presents cons and pros of the organic olive oil production in Greece. Also, the paper explores the factors that make producers to continue or not the production of organic olive oil. It was found that producers ignore the most recent methods for organic production, also there are no organized centers for distribution and because there is no advertisement, consumers are not aware of the organic olive oil existence. The analysis of a generalised linear model showed that only the "Seminars' Attendance" and "Human Labour" were significant in explaining the variation of organic olive oil productivity.

Introduction

During the last years there is an increasing interest of producers and consumers for organic farming. The model of industrial farming, which uses high chemical inputs, has disorganised and destroyed the biosystems, harming the means that supply food (De Haen, 1999).

Organic food production is one of the proposed solutions to increase agricultural income, as well as to protect the environment (Morgan, 2000). Public concern over food safety issues, particularly pesticide residues on food, has been well documented in consumer research studies (Lampkin & Padel, 1994) and especially on fruits and vegetables, which are consumed usually raw. This observation is of great importance for Greece, since the largest proportion of Greek dietary is based on that group of foods.

The Organic Farming (or sustainable or ecological) includes all the systems that promote environmentally, socially and economically healthy production of food. In addition, it reduces significantly the inputs in farming uses environmentally friendly technology, facilitate optimum use of productive resources and generally approaches agricultural production in an holistic way. Organic farming is a system of sustainable production, with limited degrees of freedom, in terms of choice of fertilizers and plant protection compounds compared to conventional systems of production (Beharrel & Macfie, 1991).

Organic farming is based on the usage of alternative methods in agricultural production that get into practice from the beginning of this century mainly in North Europe. Although, in the most European countries has began to grow significantly in the decade of '80 and especially in 1986, after the nuclear accident of "Chernobyl" (Coombes & Campell, 1998). In Greece the sector of organic farming has already completed its second decade. Nowadays, only the 0,09% of agricultural soil is biological fertile, although it has been observed that there is a constant progress. From the number of 7000 ha that there were in 1993, in 1999 it came up to the number of 200.000 ha. This rapid raise is connected to the application in Greece of the European Union (E.U.) Law

(2092/91) and especially after 1995, when subsidies were given to organic farmers according to E.U. Law 2078/92 (Theodoropoulos et al, 2002).

Generally, organic farming is ideal for countries like Greece due to mild weather conditions and small-scale farming. Moreover, since consumers' awareness for organic products is increasing, thus organic farming has good perspectives of development. Therefore, producers try to meet this increased demand for organic products by using alternate methods of production, more friendly to the environment. In Greece, however, the increased demand and production of organic foods has not been followed by a proportional increase of their trade due to problems that there were in the canals of distribution. The result is that consumers cannot always find organic foods at the market place (Semos, 2002).

For all the above reasons and because olive oil is a very important and traditional product for Greece, organic olive oil production have grown significantly since 1999 in Greece. Almost 57% of the total number of olives ha is organically grown. Most of the organic olive oil production is exported and only a small amount is consumed domestically. The low domestic consumption occurs mainly because consumers are concerned that they cannot distinguish organic food from conventional and they don not really trust the labels. Also, consumers' ecological concern is not high enough in order to have the basic motive for buying the higher priced organic products. During the last decade, studies have shown that higher prices of organic foods are a restricted factor for the consumers. Furthermore, nowadays that people has much less free time for exercise needs at least to establish good and healthy nutritional habits. Therefore, it is important consumers to be convinced that organically grown foods are safer and provide greater health benefits than conventional counterparts. Many, studies have shown a significant correlation between organic food preference and the educational level. The attitude of this kind obviously shows the skepticism of the most educated people for the advantages that organic foods have. The age doesn't play the most basic role in the demand of organic foods except from the case where young consumers are more willing in paying organic foods than the oldest ones. The higher - income households have the ability to buy the expensive organic food. Similarly, when the cost of food presents a significant amount in the monthly household income, it is commonplace that will be a reduction in the budgets may stop the willingness of the consumer in buying organic foods (Sandalidou, et al, 2002; Papageorgiou, 2002; Righy & Caceres, 2001; Kaltof, 1999; Lin et al, 1996;).

As a conclusion, the fact that organic foods are friendly to the environment with good result to the public health it seem to play the basic role to buying affects (Tregear et al, 1994). The objective of the present study was to examine the organic olive oil production in Greece and the economic and social perspectives of this sector.

Materials and Methods

The statistical frame of the study was based on a randomly selected sample of 200 people in 6 agricultural regions, which concerned to be representative for olive oil production in the whole. Data on the characteristics of organic olive oil producers' in Greece along with their farm management were collected through a questionnaire survey during the spring of 2003. Investigators on location completed the questionnaires by visiting producers registered with the Greek Federation of Organic

Olive Oil Producers Associations and directly interviewing the owners in order to avoid misunderstanding in the completion of the questionnaires. The questionnaire included a request for general information concerning age, sex, education, main occupation and family income. Participants were asked a series of questions concerning their activities and practice toward production.

The data collected were analysed by using descriptive statistics for calculating the means and standard deviations of continuous variables and the frequencies and percentages of discrete variables. Specifically, using cross-tabulation statistical methods was tested whether the chi-square statistic was significant at the 0,05 level (variables measured on a nominal scale). Finally, a generalised linear model was used to show which variables were significant in explaining the variation of organic olive oil productivity.

Results

The analysis of the data revealed the following:

Organic-oil Producers' characteristics: Table 1 presents data on producers by education, occupation and income. The consumers ranged from 25 to 80 years old. Their mean age was 50 years old. Most producers were men (84%). The most individuals were married (82%) and the prevalent number of children was two (57%). The educational level of the consumers was mostly high school (26%), while for 22% was elementary school. The main occupation for the 53,5% of the sample was farming. Most of the producers (28%) had yearly family income from €10,270 up to €14,670.

Most of the producers (24,5%) answered that they were involved with organic oil production more than four years and they worked on average 30 hours per week, 16 days per month and 6 months per year. Also, most of the producers (61%) answered that their family members (spouse and children) are involved with their industry and they worked on average 108 days per year. Furthermore, the main reason that most of the producers (46%) are involved with the organic oil production is for ideological reasons. In addition, only nineteen percent of the producers had attended vocational courses about organic farming the last year financed by E.U.. Vocational training is related positively to education, the more educated were the producers the more they reported had attended vocational training courses ($p < 0.01$).

Furthermore, the organic-oil enterprises were family operated (97%). Most of the producers (40,5%) reported that they are a little satisfied from their occupation because of the low organic olive oil productivity. While 33,5% of the producers answered that they are very satisfied from their occupation mainly because organic olive oil production is sustainable farming, which support humans health and clean environment. Most of those enterprises (93,5%) have employed on average 1 to 5 employees of which 1 as administrative personnel.

It was found that most of the producers (35,5%) ignored the most recent methods for organic production, also most of the producers (50%) believe that there are no organized centers for distribution. Also, most of the producers (77%) believe that because there is no advertisement, consumers are not aware of the organic olive oil existence and those consumers that are aware they are not convinced that organic olive oil provides greater health benefits than conventional. In addition, 70,5% of the producers believe that organic olive oil demand can be increased, from those producers

36% answered that the demand will increase if the farmers receive subsidies to boost and to improve their production and 26% answered that demand will increase if producers and consumers will be informed with the organic food consumption benefits. Nevertheless, 98% of the producers answered that organic oil production promotes the local community development and 86,5% answered that they will continue to be involved with organic oil production even without subsidies.

The analysis of the generalised linear model showed that of all the continuous variables examined only the “Seminars’ Attendance” and “Human Labour” were significant in explaining the variation of organic olive oil productivity. Specifically, the organic olive oil productivity increased as both variables, the seminars’ attendance ($p=0.017$) and the intense of human labour increased ($p=0.009$). These two variables were able to explain 43.6% of the variation of organic olive oil productivity ($R^2 =0.436$). Farmers, who get informed through seminars for all the recent innovation for organic farming and they own human labour intense enterprises their production is better.

Conclusion

Nowadays, pesticide residues on food and genetic modified products make consumers to feel concerned over food issues safety, with the result their ecological conscience to be increasing. Since, consumers feel that their health is threaded, they try to buy safer and better quality products. On the other hand, many producers started to be aware on consumers’ fears and they have started to reduce chemical inputs by using alternate types of production more friendly to the environment.

Organic olive oil farming prospects could be optimistic if some measures will be taken. First of all, the producers population occupied with organic olive oil farming is ageing, therefore the new generation must be encouraged by their parents to take over. In order for the new generation to take over must be given some economic and societal pros.

Two other important observations made in the present study were first that overall, most of the farmers had low educational level and ignored the most recent methods for organic production and second that most of the producers believed that there are no organized centers for distribution. Apparently, “seminars attendance” of the farmers for the organic farming benefits could improve their production and family income. On the other hand, wise investments should be directed for an infrastructure that will ensure the growth of trade due to problems that there were in the canals of distribution. These two factors are ominous for the future, since farmers will not be able to adapt their enterprises to the future demands of globalisation in the market of organic farming, while the people of the new generation are not willing to become the entrepreneurs of the future.

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Table 1: General characteristics of organic-oil producers (n=200)

Characteristics		Producers	
		(n=200)	
		No.	(%)
<i>Education</i>			
	No school	4	(2)
	Elementary school	45	(22,5)
	Middle school	17	(8,5)
	Technical school	24	(12)
	High school	52	(26)
	College	3	(1,5)
	University	46	(23)
	Graduate studies	9	(4,5)
	Total	200	(100)
<i>Type of main Occupation</i>			
	Farmer	107	(53,5)
	Technicians	3	(1,5)
	Constructional Worker	6	(3)
	Employee in the private sector	7	(3,5)
	Employee in the public sector	20	(10)
	Personal Business	28	(14)
	Retirees	21	(10,5)
	Other	8	(4)
	Total	200	(100)
<i>Yearly income (€)</i>			
	<4,400	2	(1)
	4,401 - 7,340	13	(6,5)
	7,341 - 10,270	38	(19)
	10,271 - 14,670	56	(28)
	14,671 - 19,000	34	(17)
	19,001 - 25,000	31	(15,5)
	25,001 - 34,000	10	(5)
	34,001 - 42,560	10	(5)
	> 42,561	6	(3)
	Total	200	(100)
<i>Number of Years in production</i>			
	2	21	(10,5)
	3	44	(22)
	4	49	(24,5)
	5	37	(18,5)
	6-7	25	(12,5)
	>7	24	(12)
	Total	200	(100)