This is to certify that the
thesis entitled

ASSESSING THE POTENTIALS OF MARKETING FAIR TRADE BEANS OF CENTRAL AMERICAN ORIGIN IN THE UNITED STATES

presented by

LARA MARIE MENDOZA DE VILLA

has been accepted towards fulfillment
of the requirements for the

M.S. degree in Agricultural, Food, and Resource Economics

Richard N. Boisvert
Major Professor's Signature

April 6, 2008
Date

ASSESSING THE POTENTIALS OF MARKETING FAIR TRADE BEANS OF CENTRAL AMERICAN ORIGIN IN THE UNITED STATES

By

Lara Marie Mendoza de Villa

A THESIS

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

MASTER OF SCIENCE

Department of Agricultural, Food, and Resource Economics

2008

ABSTRACT

ASSESSING THE POTENTIALS OF MARKETING FAIR TRADE BEANS OF CENTRAL AMERICAN ORIGIN IN THE UNITED STATES

By

Lara Marie Mendoza de Villa

Smallholder bean producers in Central America face innumerable challenges with the implementation of CAFTA-DR and with the rise of supermarkets as buyers in the region. To minimize threats faced by smallholder producers and to capitalize on the ever-changing consumer demand in developed countries, one of the best options for smallholder bean producers is to pursue niche marketing via fair trade -- a rapidly growing market in the US (i.e. offering fair trade beans in the US market). However, beans are currently not marketed as a fair trade product. Hence, this study aimed to assess the potentials of marketing fair trade beans of Central American origin in the US market.

This study employed a modified ROA approach to assess the market opportunities of fair trade beans, using market research techniques (i.e. literature review, trend analysis, and rapid market appraisal) and business analysis tools (i.e. identification of strategic factors and formulation of market recommendations). Results of the study indicate that there is a potential market for fair trade beans among the natural product industry agents. Offering fair trade beans can also capitalize on the growing demand for ethical products, globalization of tastes, and increasing health consciousness of consumers. Success in marketing fair trade beans will require matching the product needs of target buyers with the cluster of benefits that fair trade beans offer, identifying a strategic channel for marketing fair trade beans, creating effective point of sale materials, and developing strategic partnerships with fair trade networks, ftos, and support organizations.

ACKNOWLEDGEMENTS

I would like to express my sincere thanks and appreciation to all those who helped me finish my degree at Michigan State University (MSU). I am most especially grateful to my major professor and thesis adviser, Dr. Richard Bernsten, for the academic and research guidance, and for the time he willingly devoted to help me complete my degree. I would also like to thank the members of my academic committee, Dr. Christopher Peterson and Dr. Irvin Widders, for their valuable comments and suggestions, and for their patience and time spent reviewing my thesis over the Christmas break.

I am thankful to the Department of Agricultural, Food, and Resource Economics (AFRE) for funding my study in MSU, as well as the Bean/Cowpea Collaborative Research Support Program (B/C CRSP) for funding my research. Special thanks to the Office of International Students and Scholars (OISS) for financing my study during my last semester and the Council of Graduate Students (COGS) for awarding me a degree completion grant. I would also like to thank my respondents – the health food stores and cooperatives, Alter Eco Americas, Equal Exchange, Global Exchange, SERRV International, United Natural Foods Eastern Region, Whole Foods Market, and Sam's Club.

My sincere thanks also goes to those people who shared their time and valuable suggestions in conceptualizing the preliminary stages of my research, as well as during the conduct of the study – Dave Finet, Bob Green, Anne Ottaway, Miguel Zamora, Caren Holzman, Tom Defouw, Maria Paz Gonzalez, Erin Gorman, Joelle Novey, Enid Cuellar,

Orlando Mejia, Kara Gust, Jon Solomon, Dr. James Kelly, Dr. Jack Allen, and Luis Flores.

I am truly grateful to the faculty members and staff of the Department of AFRE for helping me complete my degree in MSU; my colleagues in the Department, most especially Kudzai Mukumbi, Tomokazu Nagai, Domenico Dentoni, Byron Reyes, Wolfgang Pejuan, Nicole Mason, Nicole Olynk, Laura Donnet, and Thasanee Satimanon; Dr. Jan Bernsten, Faye Aquino, Anna Medrano, Christine Jolejole, Catherine Ragasa, Ernalyn Lising, and Nelissa Jamora; the Supangco, Mijares, Javier, and Damian families; and to my friends in the MSU Filipino Club, PACGL, and Fatima Group, for their encouragement and for making my stay at MSU memorable!

To Geny, I thank you for your unwavering love, support, and encouragement.

To my family and relatives back in the Philippines, especially to Tatay, Nanay, Ate Rona, Gale, and Cyril, I thank you for your support, encouragement, and prayers.

And last but not the least, I thank the Lord for giving me the strength and wisdom to persevere and finish what I started at MSU.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

AFRE	MSU Department of Agricultural, Food, and Resource Economics
AMS	USDA Agricultural Marketing Service
ARS	USDA Agricultural Research Service
ATO	Alternative Trade Organization
CA	Central America
CAFTA-DR	Central America-Dominican Republic-United States Free Trade Agreement
CBI	Caribbean Basin Initiative
cfr	cost and freight
CIAT	International Center for Tropical Agriculture/Centro Internacional de Agricultura Tropical
cif	Cost, insurance, and freight
CM	Certification Mark (logo)
COO	Chief Operating Officer
CORECA	Consejo Regional de Cooperación Agrícola
CSR	Corporate Social Responsibility
CV	Coefficient of variation
EFTA	European Fair Trade Association
ELFCO	East Lansing Food Co-op
ERS	USDA Economic Research Service
ETI	Ethical Trading Initiative
FAS	USDA Foreign Agricultural Service
FAO	Food and Agriculture Organization
FGIS	Federal Grain Inspection Service
FINE	forum of *F*LO, *I*FAT, *N*EWS!, and *E*FTA
FLO	Fair Trade Labeling Organizations, International
FMI	Food Marketing Institute
fob	free on board
FTA200	Fair Trade Audit 200
FTF	Fair Trade Federation
fto	fair trade organization
FTO Mark	Fair Trade Organization Mark (logo)
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
ha	hectare
IEC	Information, Education, and Communication
IFAT	International Fair Trade Association
IFOAM	International Federation of Organic Agriculture Movements
IHMA	Instituto Hondureno de Mercadeo Agricola/Honduran Agricultural Market Institute
ILO	International Labour Organization

kg	kilogram
lb	pound
MBC	Michigan Bean Commission
MSA	Metropolitan Statistical Area
MSU	Michigan State University
mt	metric ton
NEWS!	Network of European Worldshops
NGO	Non-government Organization
OCA	Organic Consumers Association
ODAN	WFP Emergency Needs and Assessment Branch
OGS	IFOAM Organic Guarantee System
POS	Point of sale
RAFI-USA	The Rural Advancement Foundation International USA
RTD	Ready to drink
SAI	Social Accountability International
SEC	SIECA Central American Specialized Trade Statistics System
SIECA	Central American Regional Integration Office
SIMPAH	Honduran Market Information System for Agricultural Products
UK	United Kingdom
UN	United Nations
UNCHR	United Nations Commission on Human Rights
UNCTAD	United Nations Conference on Trade and Development
UNFI	United Natural Foods, Inc.
US	United States
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USITC	United States International Trade Commission
USTR	United States Trade Representative
WFM	Whole Foods Market, Inc.
WFP	World Food Programme
WTO	World Trade Organization

CHAPTER 1
INTRODUCTION

The agrifood system has rapidly evolved with globalization. Enhanced communication and transportation systems, as well as liberalized market policies, have increased the flow of capital and goods between countries. As these trends progress, agents in the agrifood system are faced with both opportunities and challenges. The degree on which these changes impact agents in the agrifood system depends on the nature of their product and market, and their relative size and position in the commodity supply chain.

Noticeable trends that have occurred in a globalizing agrifood system include changes in the nature of products and the structure of food markets. In terms of product nature, there has been a movement away from trading raw commodities or homogenous products towards high value-added or differentiated products (Staatz 2006; Goodhue & Rausser 2003). This change has been facilitated by: (1) a decline in world prices for commodities relative to that of manufactured goods (Ransom 2001); and (2) rising incomes and changing consumer tastes and preferences in developed or 'target markets'.

Besides marked transformation in the nature of products, food markets are also restructuring. There is an observed increase in international integration -- both horizontally, through mergers and acquisitions, and vertically, towards more contracting of manufacturers and retailers. This has occurred in both "industrialized target markets and emerging region markets over the globalization period" (Reardon and Flores 2006, 2). Likewise, the rise of supermarkets in emerging markets (i.e. Central America, Asia, and Africa) and associated technologies (e.g. modernized procurement systems, which

require inputs to be sourced from a more centralized and controlled mechanism), have driven the restructuring of the agrifood system chain (Reardon and Flores 2006). The implications of these changes vary, depending on the agents in the agrifood system.

This study focuses on small agents in the agrifood system, specifically smallholder bean producers. As globalization entails liberalizing trade, there are concerns that smallholders in developing countries will be adversely affected[1]. A critical issue is international trade's impact on the smallholder producers, particularly their market access. Threats to smallholder producers' market access emerge due to their inability to meet the quality and quantity standards of the increasingly consolidated retail and manufacturing sectors. In cases where smallholders are able to participate in the market, they often only act as price takers and are subject to the mercy of large buyers -- reducing smallholders' incentive to invest in productivity- and quality-enhancing technologies. Additional factors which constrain market participation of smallholders include limited access to technology, property rights, market information, infrastructure, and credit. Without reforms and the introduction of enabling policies to relax these barriers, smallholder producers in developing countries will increasingly find it difficult to achieve an acceptable living standard.

One way to lessen the threats to smallholders posed by globalization is to cater to the ever-changing and diverse consumer demand in target markets while capitalizing on the opportunities presented by globalization. A potential strategy is to pursue niche markets, which "uses product differentiation to appeal to a focused group of customers"

[1] Since globalization is a "multidimensional phenomenon," it impacts smallholders in complex, varied ways -- both indirectly and directly -- largely due to global drivers (e.g. trade liberalization, food quality and safety standards, concentration in the agrofood industry) and meta-trends (e.g. rising incomes, environmental degradation, shifts in product nature) (Narayanan and Gulati 2002).

(Peterson and Phillips 2001, 1). This strategy will widen prospects for smallholder producers and developing country exporters; thus allowing them to benefit from international trade.

Agents in the agrifood system view specialty niche markets (e.g. traceability, place of origin branding/labeling, organic, and fair trade) as opportunities to cater to the increasing demand for more highly-processed products and niche products such as specialty coffees and organic cotton among others. Through these strategies, producers try to distinguish their products by distinct origin, defined processes, or exceptional quality (Lewin, Giovannucci, and Varangis 2004). Such differentiated products can be traded through more profitable channels than commodities that flow in the conventional supply chain. Fair trade[2] is considered as one of these differentiated product markets that could help smallholder producers achieve market access.

1.1 Problem Statement

Smallholder bean producers in Central America (CA) face innumerable challenges as a consequence of the implementation of the Central America-Dominican Republic-United States Free Trade Agreement[3] (CAFTA-DR). Under CAFTA-DR, CA countries are required to gradually eliminate import tariffs on sensitive agriculture products (e.g. beans, rice, and corn) over a 15 to 20 year implementation period. These staple products provide livelihood to 5.5 million small and medium scale producers in the region (CIAT). With increased US bean imports under CAFTA-DR, CA smallholder bean producers will have to contend with declining bean prices, which result in lower

[2] Fair trade ensures smallholder producers receive a minimum price and an assured market for their produce. It also guarantees compliance to several environmental and social criteria.
[3] CAFTA-DR envisions to phase out subsidies, tariffs, and quotas among the US, DR, and CA member countries.

farm incomes[4]. Furthermore, the rapid consolidation of retail and processing sectors in the region threatens smallholder bean producers' access to local markets (Martinez 2003). These trends might displace farm workers and laborers and thereby encourage further migration to the US.

The "United States Agency for International Development (USAID) [estimates that] over 52 percent of the CA's inhabitants (approximately 14 million people) are poor and chronically food insecure" (Martinez 2003, 1). Since beans are one of the most important crops in CA, development of this subsector is critical to ensuring food security among the poor in the region.

However, despite reforms targeting the development of the CA bean subsector (e.g. gradual elimination of marketing parastatals, and progressive movement towards an integrated CA free zone), most CA countries remained uncompetitive due to low productivity (Martel, Bernsten, and Weber 2000). Low productivity has been a persistent problem of the subsector since beans are almost entirely produced by smallholder producers "who have limited access to production technology, credit, and extension services" (Martinez 2003, 4).

Marketing beans as a fair trade product, which is an alternative mode of selling beans, would help mitigate threats faced by smallholder bean producers under the implementation of CAFTA-DR. Offering fair trade beans ensures smallholders higher prices, via addition of the fair trade quality attribute in the bean product, and direct market access in target markets. However, as beans are not currently marketed as a fair trade product, there is a need to assess the prospects of marketing fair trade beans,

[4] Since most sensitive agricultural commodities are highly protected before CAFTA-DR, the reduction or elimination of protection in these products may potentially result in "short-term employment and income losses" to the producers growing these commodities (Jaramillo and Lederman 2006, 153).

specifically the small red and black beans[5] produced in the region. This effort is ultimately geared towards improving smallholder producers' welfare.

1.2 Objectives

The general objective of this study is to assess the potentials of marketing fair trade beans from CA in the US. Specifically, this study:

(1) documents (a) the history of the fair trade movement, (b) its difference and similarities with ethical trade and organic initiatives, and (c) the demand for ethical products, with emphasis on the US fair trade market;

(2) provides an overview of the CA bean subsector;

(3) describes US demand trends for beans;

(4) evaluates preferences and product needs of potential buyers of fair trade beans;

(5) identifies key opportunities and potential constraints to marketing fair trade beans; and

(6) develops recommendations for successfully marketing fair trade beans in the US.

1. 3 Research Questions

This study attempts to answer the following questions:

(1) What is fair trade and how does it work?

- What are the origins of fair trade and who are its major players?
- How are fair trade products marketed and what standards should be followed?

[5] Small red and black beans are the dominant market classes produced in CA (Martinez 2003). Also, black beans are mostly consumed by high-income US consumers (Lucier et al. 2000).

- How different or similar is fair trade, compared to other ethical endeavors such as ethical trade and organic initiatives?
- What are the demand trends for ethical products, particularly fair trade food products in the US?

(2) What are the characteristics of the CA bean subsector?

- What are the supply trends and marketing chain of the CA bean subsector?
- What are the current trends in the region's bean exports and imports?
- How competitive is the CA bean subsector with respect to the US?
- What are the major challenges facing the CA bean subsector and how can fair trade help mitigate these challenges?

(3) What is the nature of the demand for beans in the US?

- What are the trends in per capita consumption?
- What are the trends in imports?
- What are the bean consumption patterns of US consumers?
- What are the driving forces affecting the demand for beans?

(2) Is there a potential market in the US for fair trade beans from Central America?

<u>At the retail level</u>

- What types of retail firms would be willing to sell fair trade beans (e.g. health food stores and cooperatives or natural supermarkets)?

- What product attributes or specifications do potential retailers/consumers prefer (e.g. small reds or black, bagged or canned, fair trade only or fair trade and organic certified)?

At the distributor/wholesale level

- What types of firms would be willing to distribute fair trade beans (e.g. alternative trade organizations [ATOs], natural distributors)?
- What product attributes or specifications do potential distributors require?

(3) What are the opportunities and potential constraints to marketing fair trade beans in the US?

(4) Based on the identified opportunities and potential constraints, what market recommendations can be proposed for marketing fair trade beans from CA in the US?

1.4 Organization of the Thesis

This thesis is organized into seven chapters. **Chapter Two** describes the methodology employed in the study, as well as the data collection methods.

Chapter Three presents an overview of the fair trade movement, fair trade's similarities and differences compared to other ethical initiatives, and consumer demand for ethical products, focusing on demand for fair trade products in the US.

Chapter Four provides background information on the CA bean subsector, including existing supply trends, marketing chain, international trade, competitiveness, and opportunities for smallholder bean producers to venture into fair trade bean production and marketing.

Chapter Five documents US consumers' demand for beans and the driving forces affecting this demand.

Chapter Six evaluates preferences and product needs of potential buyers of fair trade beans, discusses the opportunities and potential constraints to marketing fair trade beans in the US, and presents market recommendations that would relax the constraints and enable smallholder bean farmers to seize market opportunities.

Finally, **Chapter Seven** summarizes the results of the study and proposes recommendations for marketing fair trade beans in the US, which ultimately intends to expand market opportunities for smallholder bean producers in CA.

CHAPTER 2
METHODOLOGY

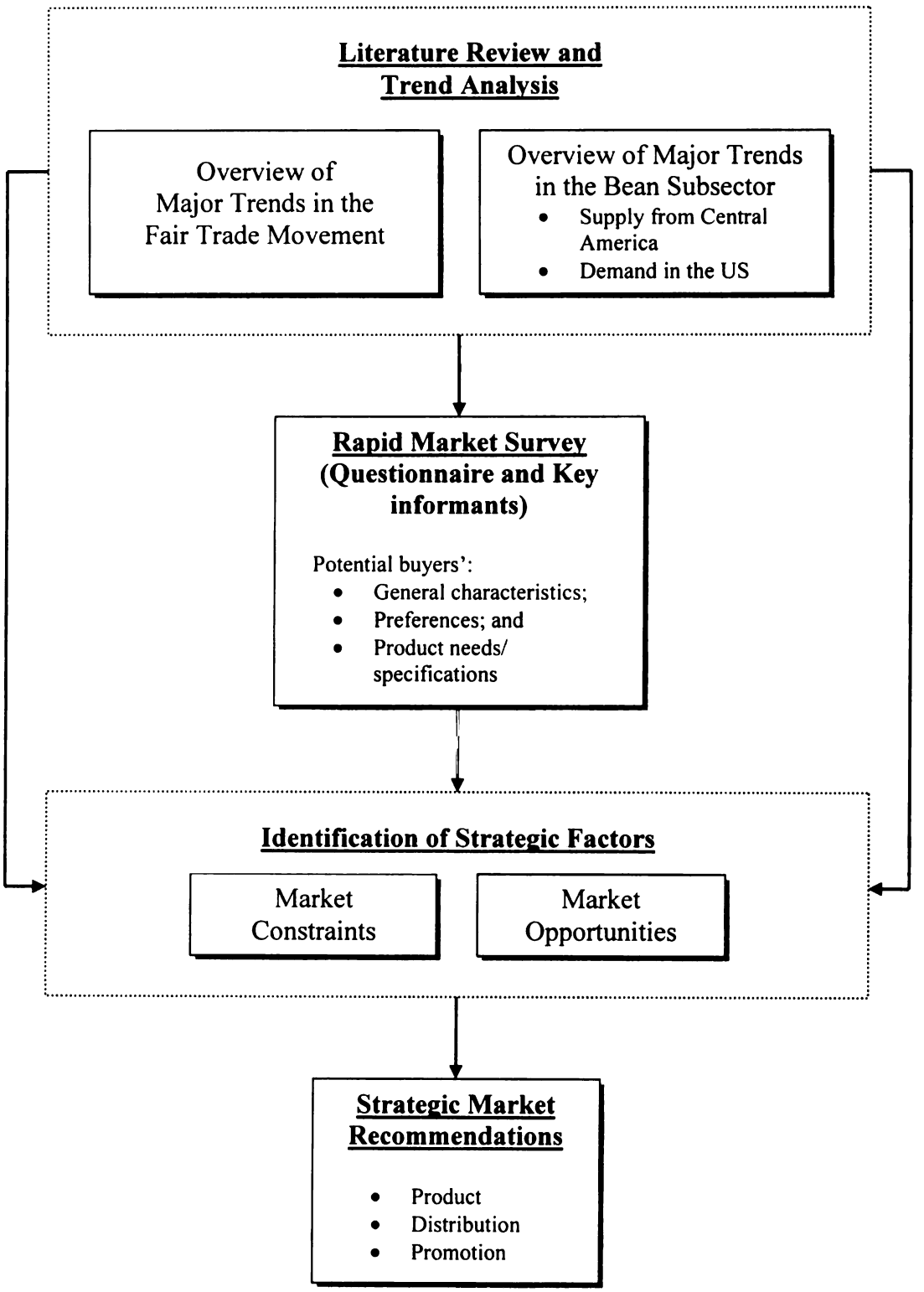
2.1 Approach

This study utilized a "modified rapid opportunity assessment (ROA) approach" to assess the potential of marketing fair trade beans of Central American (CA) origin in the US. This approach, which was used by Knudson and Peterson (2005) to assess the business and product development opportunities for various agricultural products in the US (e.g. dairy, fruits, and specialty crops), focuses on first, identifying the major driving forces or trends (i.e. wellness, convenience, ethnicity, value, and indulgence) in the agrifood system. Then, these key trends are matched to specific product categories in order to identify market opportunities for existing and potential products. This study attempted to extend the methodology employed by Knudson and Peterson (2005).

The "modified ROA approach" combined various market research techniques and business analysis tools to assess market opportunities for fair trade beans, including: (1) a synthesis of past literature and trend analysis; (2) a rapid market survey of potential buyers; (3) the identification of strategic factors[6] (i.e. opportunities and constraints); and (4) the formulation of strategic market recommendations, based on the major findings of the study (**Figure 2.1**).

[6] As defined by Hunger and Wheelen (2002), strategic factors are factors which considerably impact a firm's or a business' future.

Figure 2.1. Research Approach in Assessing the Potentials of Marketing Fair Trade Beans



First, a review of the literature related to the global fair trade movement and the CA bean subsector was carried out to provide a background on the two subjects and gain insights, regarding issues the study needed to address and data that needed to be collected to address these issues. Secondary data and academic literature on demand trends in the US bean subsector were also analyzed to determine driving forces that are influencing the US demand for beans.

The literature suggests that ethical consumers, who shop at stores that sell ethical products or who purchase any type of ethical product (e.g. organic beans), are likely to be most willing to buy and pay a premium price for fair trade beans. Thus, to assess the potential demand for fair trade beans, potential buyers (health food stores and cooperatives, a major natural supermarket, a key natural distributor, major alternative trade organizations[7] [ATOs], and a major conventional warehouse club) were contacted. The potential buyers of fair trade beans were either sent a questionnaire (e-mail/mail survey) or interviewed personally.

The questionnaire that was sent to health food stores and cooperatives solicited information regarding: (1) the retail stores' general characteristics; (2) the types of beans that they sold; (3) their interest in selling fair trade beans; (4) their perceptions regarding constraints to marketing fair trade beans; and (5) their opinions and comments about the potential to market fair trade beans in the US. The personal interviews, which were either done by phone or face-to-face, were conducted with staff employed by a natural supermarket, a conventional warehouse club store, ATOs, and a natural distributor to solicit information regarding the firms': (1) current fair trade offerings and bean sales; (2)

[7] ATOs are fair trade organizations with the fair trade principles as their main mandate.

interest in marketing fair trade beans; (3) requirements for new products/suppliers; (4) constraints to marketing fair trade beans; and (5) general comments regarding the study.

The information gathered through the rapid market survey (i.e. self-administered questionnaires for health food stores and cooperatives and key informant interviews with major supply chain agents) was analyzed to identify characteristics of potential buyers, their preference for fair trade beans, and their product needs/specifications. The collected information further aided in the identification of potential constraints and opportunities, and formulation of strategic recommendations in marketing fair trade beans in the US.

Finally, this information was used to identify strategic factors (i.e. constraints and opportunities) influencing the potential market for fair trade beans. Based on this opportunity assessment, strategic market recommendations on product, distribution, and promotion of fair trade beans were identified.

2.2 Data Collection

The study used multiple-data gathering methods, including a literature review, analysis of secondary data, internet searches, an e-mail/mail survey, and personal interviews with key informants. First, information on the fair trade movement was sourced from the websites of the major fair trade networks/organizations (Fairtrade Labeling Organization, Inc. [FLO], TransFair USA[8], and Fair Trade Federation [FTF]), as well as the academic literatures. Likewise, data on trends in US bean imports from CA and demand trends were collected from the United States International Trade Commission (USITC) Interactive Tariff and Trade Database and the United States Department of Agriculture's (USDA) Economic Research Service (ERS), respectively. Additional secondary data on the CA bean subsector's supply and price data were

[8] The only third party certifier of fair trade certified products in the US.

collected from: the Food and Agriculture Organization (FAO) Statistical Database; Consejo Regional de Cooperación Agrícola (CORECA); Michigan State University (MSU) Department of Agricultural, Food, and Resource Economics (AFRE) Common Bean Atlas of the Americas; the Central American Regional Integration Office (SIECA); Honduran Market Information System for Agricultural Products (SIMPAH); the United Nations (UN) Comtrade Database; and the USDA Agricultural Marketing Service (AMS).

Second, informal stakeholder consultations were conducted with key industry agents to solicit their opinions regarding the possibility of marketing fair trade beans from CA in the US, including (1) the Director of the Michigan Bean Commission (MBC); (2) the Manager of the East Lansing Food Co-op (ELFCO); (3) the Director for Certification and staff of TransFair USA; and (4) a board of director of FTF.

Third, information collected through this preliminary assessment indicated that health food stores and cooperatives[9] were a promising market for fair trade beans. Thus, a listing of these stores was obtained from the Organic Consumers Association's (OCA) directory. A total of 1,086 US health food stores and cooperatives were listed in OCA's directory, as of April 2007. This list was used as the sampling frame for selecting health food stores and cooperatives to be surveyed. Out of this total, 217 stores were randomly selected, using simple random sampling[10] (**Table 2.1**). These potential respondents (stores) were then phoned to obtain their e-mail addresses or mailing addresses (if the former was not available) to facilitate the distribution of the self-administered survey questionnaire. The survey was conducted from May 2007 to August 2007.

[9] In the US, health food stores and cooperatives are types of natural product retail formats (Mintel 2006).
[10] This sample size corresponds to a 5.95 percent margin of error under a confidence level of 95 percent.

Table 2.1. Distribution of the Surveyed Health Foods Stores and Cooperatives, US, 2007

Region /State	Total Samples	Response Rate	
		No.	%
Region			
Northeast	52	8	15%
Midwest	54	19	35%
West	56	18	32%
South	55	13	24%
Total	**217**	**58**	**27%**
State			
Alabama	2	0	0%
Arizona	4	1	25%
Arkansas	2	0	0%
California	18	5	28%
Colorado	3	2	67%
Connecticut	4	1	25%
Delaware	2	0	0%
District of Columbia	1	0	0%
Florida	12	3	25%
Georgia	3	1	33%
Idaho	3	0	0%
Illinois	7	2	29%
Indiana	4	2	50%
Iowa	5	2	40%
Kansas	2	0	0%
Kentucky	2	1	50%
Louisiana	2	0	0%
Maine	5	3	60%
Maryland	4	1	25%
Massachu-setts	7	2	29%
Michigan	6	2	33%
Minnesota	11	6	55%
Mississippi	1	0	0%
Missouri	3	0	0%
Montana	4	1	25%
Nevada	1	0	0%
New Hampshire	4	0	0%
New Jersey	5	0	0%
New Mexico	1	1	100%
New York	13	1	8%
North Carolina	6	1	17%
North Dakota	2	0	0%
Ohio	4	1	25%
Oklahoma	3	0	0%
Oregon	8	2	25%
Pennsylvania	7	0	0%
Rhode Island	2	0	0%
South Carolina	3	1	33%
South Dakota	2	0	0%
Tennessee	2	1	50%
Texas	4	2	50%
Utah	3	1	33%
Vermont	5	1	20%
Virginia	5	2	40%
Washing-ton	10	5	50%
West Virginia	1	0	0%
Wisconsin	8	4	50%
Wyoming	1	0	0%
Total	**217**	**58**	**27%**

Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

In cases where the sampled respondent declined (over the phone) to participate in the study, a replacement was drawn from the same state to replace these respondents. Sample respondents were contacted twice, using e-mail or by phone, to remind them to submit their completed questionnaires. A total of 27 percent (58 respondents) of the respondents who agreed to complete the survey actually returned the questionnaire[11].

Fourth, key informant interviews were conducted with potential buyers, including a natural supermarket, a warehouse club store, four ATOs, and a natural distributor to determine other possible distribution channels for marketing fair trade beans in the US. Prior to conducting the key informant interviews, the respective companies were phoned to obtain the name and contact information of the person in the company responsible for making decisions about introducing new products and purchasing from new suppliers. Then, the contact persons were e-mailed to set an appointment for the phone interview. Key informant interviews were conducted with top-level managers at one major natural supermarket (Whole Foods Market, Inc.), one major conventional warehouse club (Sam's Club) that sold fair trade products, four major ATOs (i.e. Alter Eco Americas, Equal Exchange, Global Exchange, and SERRV International), and a major natural distributor (United Natural Foods, Inc.) that was identified through the health food stores and cooperatives survey (**Figure 2.2**). The key informant interviews were conducted from June 2007 to October 2007.

[11] Due to the low response rate, which is expected for organizational surveys (Tomaskovic-Devey, Leiter, and Thompson 1994), this study conducted a follow-up approach (Rogelberg and Stanton 2007) of non-respondents to verify the generalizability of results from the health food store and cooperative survey. A total of 159 respondents, who did not respond to the initial survey (May to August 2007), were contacted through e-mail or by phone to gather information on: (1) whether they sell fair trade products; (2) if they sell dry beans; (3) their general interest in selling fair trade beans; and (4) the reason for their non-response. Of the 159 non-respondents to the initial survey, 34 percent (54 respondents) answered the follow-up survey.

Figure 2.2. Respondents of the Study entitled, *Assessing the Potentials of Marketing Fair Trade Beans from CA in the US*

NATURAL PRODUCT RETAILER

Health Food Stores/Cooperatives 58 independent retail stores	**Natural Supermarket** Whole Foods Market, Inc. (WFM)

CONVENTIONAL WAREHOUSE CLUB[12]

Conventional Warehouse Club Sam's Club

FAIR TRADE IMPORTER/WHOLESALER/RETAILER

Alternative Trade Organizations (ATOs)
• Alter Eco Americas
• Equal Exchange
• Global Exchange
• SERRV International

NATURAL PRODUCT DISTRIBUTOR

Natural Distributor United Natural Foods, Inc. (UNFI)

[12] Retails fair trade certified products and other ethical products (e.g. organic cotton, fair trade certified coffee).

CHAPTER 3
OVERVIEW OF FAIR TRADE AND OTHER ETHICAL INITIATIVES

This chapter provides an overview of ethical initiatives in the agrifood system. The first part of the chapter traces the evolution of the fair trade movement, including the origins, key actors, standards, and labeling system of fair trade. The second part of the chapter clarifies points of convergence and differences between fair trade and other prominent ethical labels (i.e. ethical trade and organic). A synthesis of existing consumer preferences studies for ethical products is also presented, as well as the trends that will likely persist in the near future for these niche markets. Finally, fair trade market trends are characterized to determine prospects for growth in the fair trade market of the US.

3.1 Overview of the Fair Trade Movement

Fair trade is "a trading partnership which is based on dialogue, transparency, and respect, that seeks greater equity in international trade" (FINE 2001, as cited by Krier 2005, 21). Its main contribution to sustainable development is "offering better trading conditions to, and securing rights of, marginalized producers and workers" (FINE 2001, as cited by Krier 2005, 21). Equity in trading relations between Northern buyers and Southern producers is the key principle of fair trade. Through this, smallholder producers from poor countries can gain market access in Northern markets.

Fair trade empowers smallholders by providing them access to markets and assistance for improving their production and marketing operations. By complying with the fair trade quality criteria[13], smallholder producers are entitled to receive several benefits, including access to credit, market information, training, knowledge and skills building, and a price premium for their products.

[13] Discussed in detail in the section on international fair trade standards.

3.1.1 *Origins*

The origin of the fair trade movement can be traced to projects initiated by North American and European churches, designed to provide relief efforts to refugees and indigent communities by selling their handicrafts in developed countries' markets (TransFair USAc). In the US, the origins of fair trade can be traced to Ten Thousand Villages and SERVV International, which both began selling products from poor/developing countries in the 1940s (IFATa). In Europe, the earliest traces of fair trade date back in the late 1950s, when Oxfam UK started selling handicrafts made by Chinese refugees (IFATa), and in 1964 created the first ATO.

The development of fair trade (or alternative trade, as it was called in earlier days) stemmed from the belief that capitalism, free market, and the rise of multinational corporations lead to the exclusion and exploitation of the poor (Redfern and Snedker 2002). Thus, fair trade seeks to "create a more equitable balance between the world's biggest companies and world's poorest economically active workers" (Redfern and Snedker 2002, 4).

Guided by the principle of redistributing the balance of power in trade, ATOs targeted retail markets in developed countries in an effort to raise consumer awareness about fair trade products. In countries in Asia, Africa, and Latin America, non-government organizations (NGOs) have established fair marketing organizations which provide advice to Southern producers and link them to Northern markets (IFATa).

In 1968, at the second United Nations Conference on Trade and Development (UNCTAD), fair trade was identified as an approach to combat poverty, communicating the message "Trade not Aid" (IFATa). Since then, it has evolved as a model for long-

term development assistance (Low and Davenport 2005) for moving the poor out of poverty by awarding them a fair return for their work and guaranteeing decent working and living conditions for their families (Barrientos and Dolan 2006).

In the late 1980s, fair trade advocates recognized that because fair trade products have credence[14] attributes, a quality label was needed to differentiate fair trade products from other products. This label also signifies fair trade and good quality (Tallontire 2006). Hence, in 1988, the Max Havelaar Foundation, a certifying organization based in Netherlands, pioneered the labeling initiative for fair trade products by standardizing the fair trade criteria for coffee. The labeling initiative also emerged to support smallholder coffee producers as coffee prices began to fall in the 1980s. After one year, coffee with the fair trade label achieved a market share of approximately three percent in the Netherlands (IFATa).

In the ensuing years, similar non-profit certifying organizations were established in Europe and North America (IFATa), which resulted in the proliferation of fair trade labels. In order to not confuse producers, importers, retailers and consumers of these multiple labels, the Fairtrade Labeling Organization International (FLO) -- a fair trade network -- was created in 1997 and given the mandate to govern the fair trade certification and product labeling system.

3.1.2 *Key Actors*

Key actors in the fair trade movement are: (1) FINE, which coordinates four fair trade networks (i.e. FLO, IFAT, NEWS, and EFTA); (2) the fair trade networks, (i.e. FLO, International Fair Trade Association [IFAT], Network of European World Shops

[14] An attribute which consumers cannot verify before or even after purchase.

[NEWS!], European Fair Trade Association [EFTA] and FTF[15]); (3) national labeling initiatives and producer networks; and (4) other fair trade organizations (ftos). **Figure 3.1** illustrates the major players in the global fair trade movement.

3.1.2.1 *FINE*

FINE is a forum of the four fair trade networks enumerated below. Established in 1998, it seeks to foster cooperation on strategies that critically affect the fair trade movement including "developing an integrated monitoring system" and conducting international advocacy and awareness campaigns for the whole fair trade movement (FLOc; RAFI-USA 2003).

However, FINE, is an informal working group with no formal structure and decision-making power. Hence, decisions are made by the boards of the FINE members (RAFI-USA 2003).

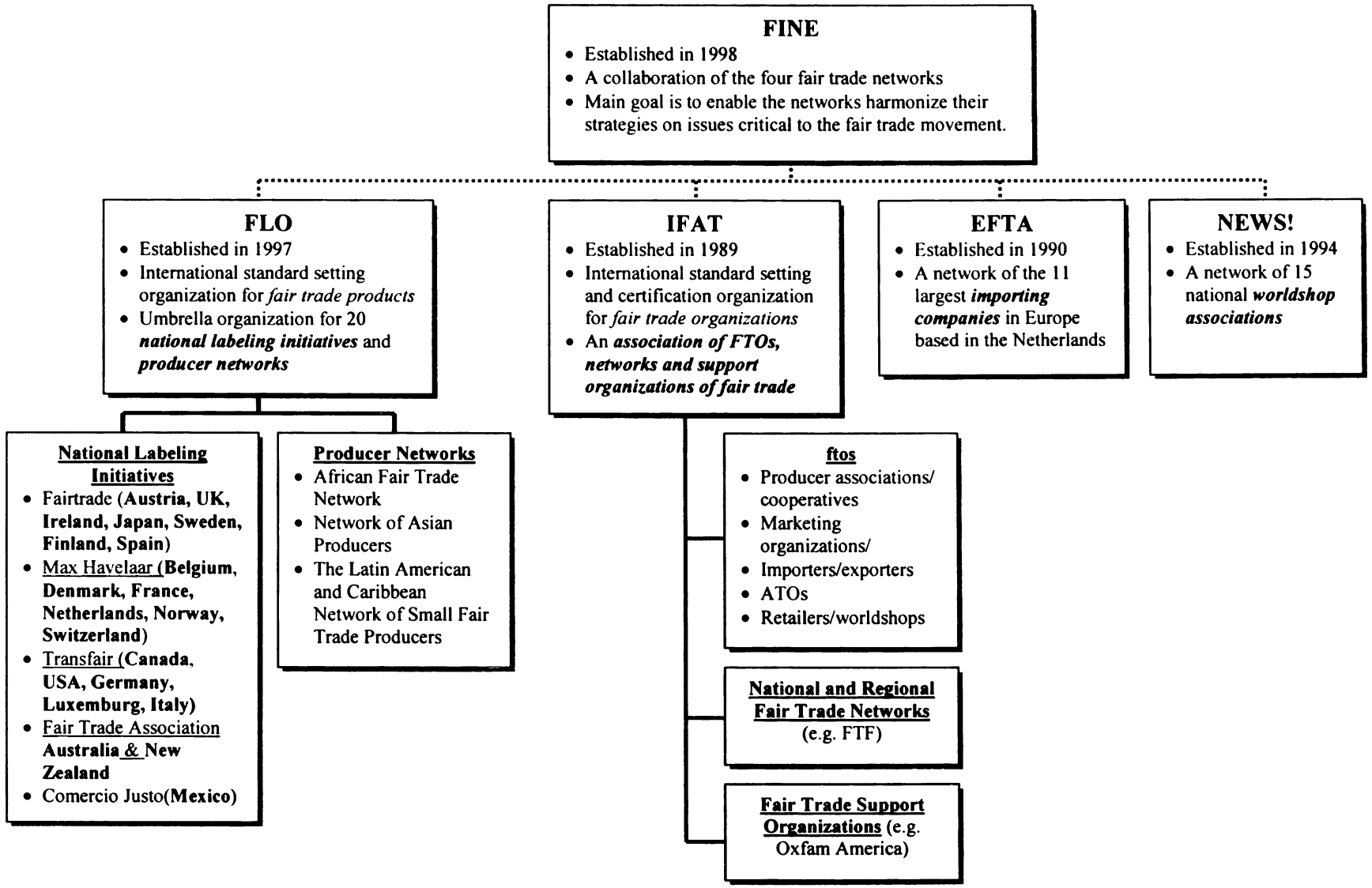
3.1.2.2 *Fair Trade Networks*

(1) *FLO*, established in 1997, is the leading fair trade standard setting body for fair trade labeled products (IFAT 2007). To this end, it maintains the fair trade register (a list of certified producer cooperatives and associations, and marketers) and acts as the umbrella organization for 20 national labeling initiatives and producer networks (FLOa). Specifically, it seeks to:

- coordinate the work of the national labeling initiatives and unite them with producer networks (i.e. producer associations in Latin America, Asia, and Africa);

[15] FTF is the main organization in the US, which issues memberships to potential fair trade producers and marketers of products not certified by TransFair USA. It is also a member of IFAT.

Figure 3.1. Key Actors in the Global Fair Trade Movement



- develop fair trade standards benefiting smallholder producers and waged workers/hired laborers while promoting environmental sustainability; and
- facilitate producer support to local ftos by providing training (to insure their compliance with fair trade standards) and information about new market opportunities (FLO 2007).

In order to facilitate its task of promoting producer support, FLO has established 25 liaison offices in 16 different countries in Asia, Africa, and Latin America[16]. Also, FLO's affiliated company -- FLO-CERT[17] -- assists FLO by inspecting and certifying producer organizations and fair trade traders to insure that they meet the fair trade product standards that FLO has developed.

(2) *IFAT*, founded in 1989, was originally known as the International Federation for Alternative Trade. Made up of a global network of 300 organizations, it seeks to improve the livelihood of the poor through market development, fair trade monitoring, and advocacy initiatives (IFAT 2007).

Members of IFAT include cooperatives or producer associations, exporters, importers, and worldshops, who may also be FLO-certified producers, FLO-registered traders, or FLO licensees. Membership in IFAT is also open to other entities that provide services (technical or financial) to the movement, such as national and regional fair trade networks (e.g. FTF) and support organizations. One of its greatest contributions is the linkage that it facilitates between producers from developing countries and importers, manufacturers, and retailers from developed countries.

---

[16] For instance, liaison offices in Central America are located in El Salvador, Honduras, Nicaragua, Costa Rica, and Guatemala. They also "relay product and regional information on market interests to FLO, in an effort to better anticipate demand and producer needs" (FLOb).

[17] Established in 2004, FLO-CERT, although wholly owned by FLO, is an autonomous organization which coordinates fair trade inspections of producers and traders of fair trade certified products (FLO-CERT).

IFAT also issues an FTO Mark[18] (logo) to registered IFAT members, who have complied with the requirements of the IFAT Standards and Monitoring System (**Figure 3.2a**). The FTO Mark is not regarded as a product label. Rather, it is a logo designed to build trust within the movement, which identifies ftos[19] that support the fair trade principles (IFATc). IFAT-registered ftos[20] are able to use the FTO Mark on headed paper, websites, posters and other promotional materials.

Figure 3.2. Fair Trade Logos/Labels

Source: IFAT

a. IFAT FTO Mark

Source: FTF

b. FTF Logo

Source: FLOe

c. International Certification Mark

(3) *NEWS!*, established in 1994, is an umbrella organization of 15 worldshop associations that operate in 13 countries in Europe. It represents 2,500 worldshops and 100,000 volunteers working in these shops (NEWS!). Its principal aim is to promote fair trade, particularly in worldshops based in developed countries. In collaboration with other FINE- members, NEWS! seeks to define common fair trade criteria, and promotes monitoring and awareness-raising strategies (NEWS!).

[18] The FTO Mark indicates that the organization meets fair trade standards "regarding working conditions, wages, child labor, and the environment" (IFATc).
[19] Fair trade organizations (ftos) include producer organizations, ATOs, and worldshops.
[20] IFAT-registered ftos are organizations which have complied with the first tier of the IFAT monitoring system (i.e. an approved self-assessment) (IFAT 2007).

(4) *EFTA*, established in 1990, is a network of the 11 largest importing organizations in Europe (EFTA). It seeks to make fair trade importing more effective and efficient. It also actively participates in advocacy and awareness campaigns, as well as in harmonizing and coordinating fair trade activities. Its member organizations import fair trade products from 400 smallholder producer associations in Asia, Africa, and Latin America (EFTA).

(5) *FTF*, based in Washington D.C., is a trade association of fair trade importers, wholesalers, retailers, and producers whose members are committed to providing fair wages and employment to marginalized producers worldwide. Established as a partnership between buyers from North America and producers in Asia, Africa, and Latin America, FTF acts as a clearinghouse for information on fair trade and provides resources and networking opportunities for its members (FTFa).

FTF awards memberships to ftos, who have complied with their established fair trade criteria. Membership in FTF entitles ftos to use the FTF logo (**Figure 3.2b**) on their promotional materials and include the words "Member of the Fair Trade Federation" on the packaging of their products (FTFc). Producers from developing countries and other ftos, which would like to market potential fair trade products with no established FLO-standards, can utilize this route to market their products in the US.

3.1.2.3 *National Labeling Initiatives and Producer Networks*

National labeling initiatives and producer networks are also major actors in the fair trade movement. National labeling initiatives such as TransFair, Max Havelaar, Fairtrade Foundation promote fair trade in their respective countries and license fair trade

sellers in developed countries to display the International Certification Mark[21] (CM) on their fair trade products (**Figure 3.2c**).

In May 2007, producer networks gained membership in FLO via a change in its constitution, which FLO's members approved to make FLO a truly multi-stakeholder organization (FLO 2007). Producer networks include FLO-certified producer organizations as members, which the networks also represent within FLO.

3.1.2.4 *Fair Trade Organizations*

Fair trade organizations (ftos) are groups and associations (i.e. producer cooperatives, ATOs, worldshops), which directly participate in fair trade through their production, marketing, and trading activities. These organizations include producer groups from developing countries, and importers and retailers in developed countries. Most ftos are either certified by IFAT, are members of the FTF, or both.

3.1.3 *International Fair Trade Standards*

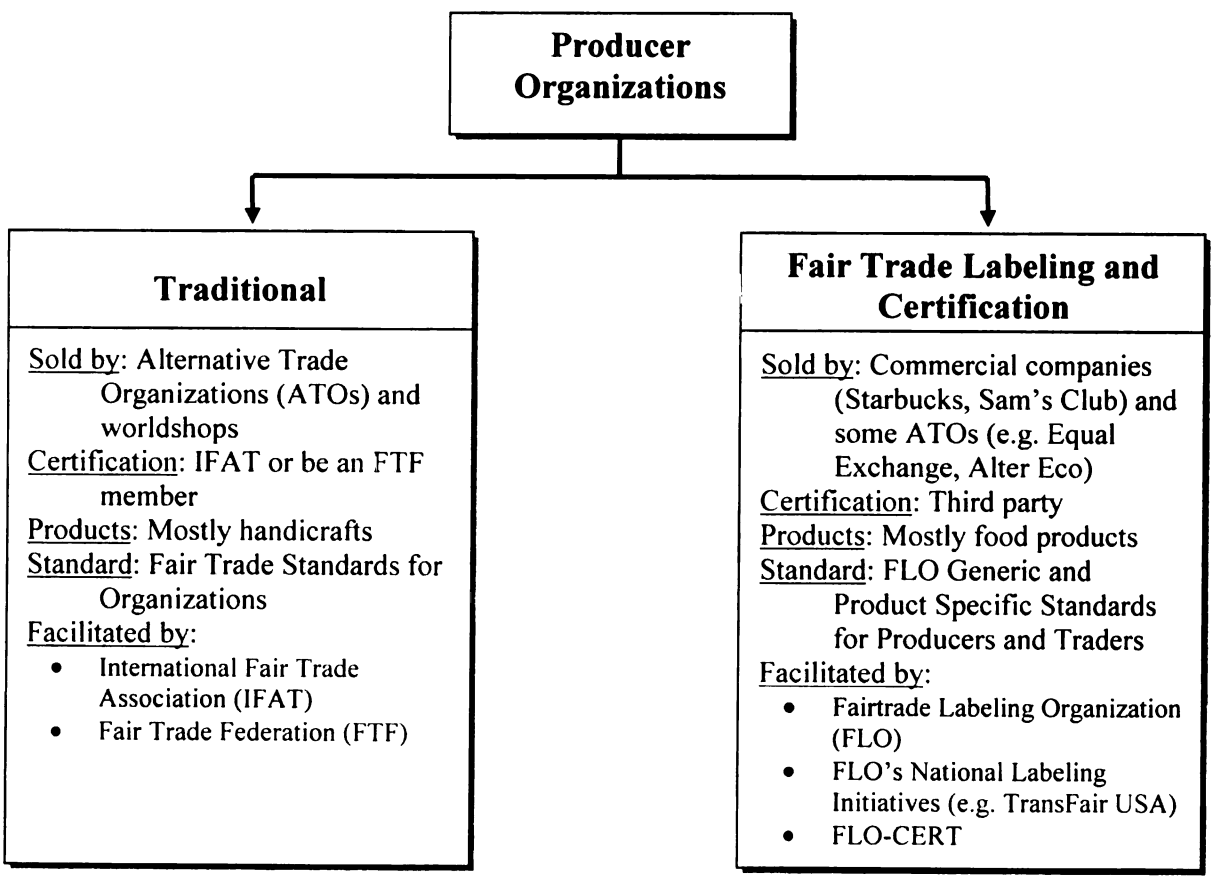
Producing and marketing fair trade products is based on voluntary compliance and certification that the products meet a set of fair trade standards. However, to establish consumer confidence and to expand the market, major players in the industry (fair trade networks, labeling initiatives, etc.) encourage potential fair trade producers and market participants to comply with a set of criteria created by one of the three international fair trade networks (i.e. FLO, IFAT, and FTF). Furthermore, most retailers require certification that a product meets fair trade standards, before they will agree to source it from a supplier.

---

[21] The International fair trade CM is the label issued by FLO's national labeling initiatives guaranteeing a "rigorous process of certifying products... with [FLO's] international fair trade standards" (FLOe). It is "only awarded to products and does not make any statement about companies or organizations selling them" (FLOe). Currently, only TransFair USA and Canada and MaxHavelaar in Switzerland do not use this label. Instead, they issue their own fair trade certified mark.

Currently, fair trade products are marketed through two different routes (**Figure 3.3**) (IFAT 2007). First, under the 'traditional route', products are produced and marketed (i.e. imported, distributed, and retailed) by organizations (e.g. ATOs, worldshops) that have fair trade as their main mandate and are certified by IFAT or are members of FTF. Second, under the 'fair trade labeling and certification route', third party certification is required to verify that the supply chains of market participants adhere to fair trade standards established by FLO. Fair trade labeling and certification is the typical way to market fair trade food products and also the usual route used by commercial companies interested in marketing fair trade products (IFAT 2007).

Figure 3.3. Two Routes in Marketing Fair Trade Products



The existing fair trade standards reflect the needs of both routes/approaches to market fair trade products (IFAT 2007). IFAT established the *international fair trade standards for organizations*, while FLO developed the *international fair trade standards for labeled products*. Both standards are based on the fair trade definition and principles stipulated by FINE.

3.1.3.1 *Fair Trade Standards for Organizations*

IFAT and FTF issue membership to ftos, which comply with the respective organizations' fair trade standards and principles. Membership allows the ftos to use the networks' mark/logo in selling fair trade products. However, although both fair trade networks issue memberships to ftos, FTF only provides memberships to prospective applicants, but does not certify organizations[22]. In contrast, IFAT certifies ftos if they comply with its international fair trade standards for organizations.

(1) *Fair trade standards developed by IFAT*. Fair trade organizations (ftos) seeking membership to IFAT must comply with its fair trade standards for:

> "creating opportunities for economically disadvantaged producers; transparency and accountability; trading practices; payment of a fair price; child labor and forced labor; non discrimination, gender equity, and freedom of association; working conditions; capacity building; promotion of fair trade; and environment" (IFAT 2007, 2).

Each of the standards has a set of indicators and compliance measures, which differs between 'entry' and 'progress' levels (IFAT 2007, 2). Also, IFAT has developed a three-tier monitoring system which includes: (a) bi-annual self assessments conducted by individual members; (b) peer reviews by trading partners; and (c) random external

[22] Although FTF does not certify organizations, it requires prospective applicants to submit a detailed membership application regarding their business practices for review and approval of the FTF Screening Committee.

verification of five to ten percent of registered ftos in a year, to ensure adherence of its members to IFAT established fair trade standards (IFAT 2007).

IFAT offers two membership stages -- provisional and registered membership. Provisional membership is awarded to an fto that has passed all the requirements to become a member (**Appendix A**) and has been approved by the IFAT Board of Directors. On the other hand, registered membership is awarded to ftos that have complied with at least the first tier of the IFAT monitoring system (i.e. bi-annual self assessment). Only registered members are allowed to use the FTO Mark on their promotional materials.

(2) *Fair trade criteria developed by the FTF*. An fto seeking membership to the FTF must adhere to its fair trade criteria, which include:

> "paying fair wages in local context; supporting participatory workplaces; ensuring environmental sustainability; supplying financial and technical support; respecting cultural identity; offering public accountability; and educating consumers" (FTFd).

Membership requirements of FTF are detailed in **Appendix B**. An organization's application for membership is subject to approval of the FTF Screening Committee and must be renewed annually.

3.1.3.2 *Fair Trade Standards for Labeled Products*

In order to market a product as fair trade certified (e.g. use the FLO's International CM), smallholder producers and their trading partners have to comply with both the applicable generic and product-specific fair trade standards[23] developed by the FLO Standards Committee (FLOd). Generic standards have been developed for both

[23]For a complete listing of FLO fair trade standards visit: http://www.fairtrade.net/fileadmin/user_upload/content/LIST_OF_FLO_Standards_August_2007.pdf. Currently, FLO has established product-specific standards for several food products, including coffee, banana, cocoa, and rice.

producers (i.e. small farmer organizations and hired labor) and traders[24]. Generic standards embody the minimum requirements for fair trade certification. In contrast, the product-specific standards, which vary by product, "include fair trade minimum prices and premiums" and integrate the standards for producers and traders (FLOd).

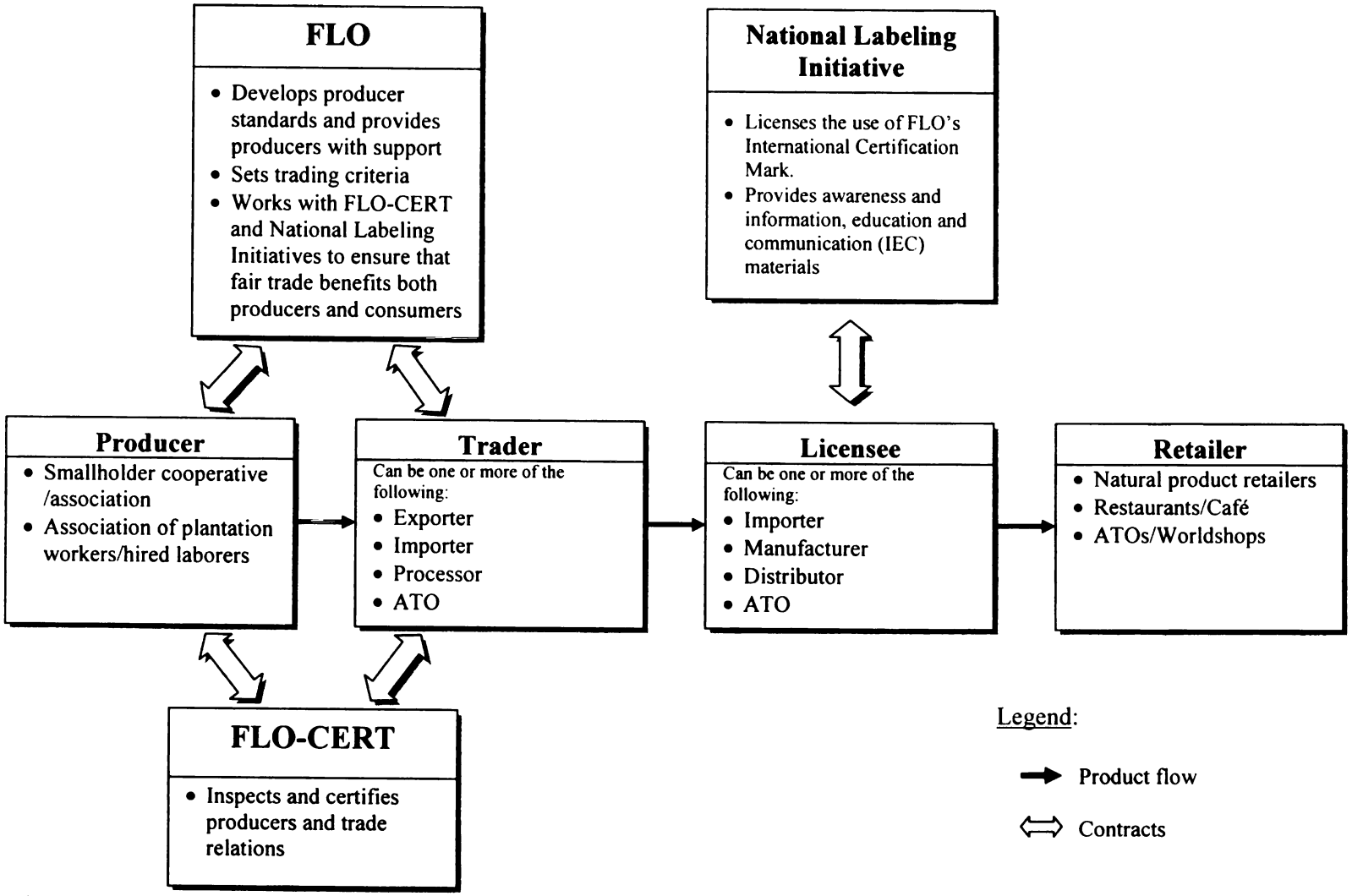
Although standards are developed separately for each product, they are all based on a common underlying set of principles (Redfern and Snedker 2002). The fair trade principles embodied in FLO standards:

> "guarantee a minimum price considered as fair to producers;... provide a fair trade premium[25] that the producer must invest in projects enhancing its social, economic and environmental development;... strive for mutually beneficial long term trading relationships;... set clear minimum and developmental criteria and objectives for social, economic and environmental sustainability" (FLOd).

Figure 3.4 illustrates how a product is certified fair trade. To participate in the fair trade certified supply chain, both the producers and buyers of the products must be certified. For producers, the process begins with a producer organization that wishes to produce and trade a product under fair trade terms. Producer organizations seeking fair trade certification should conduct a self-assessment to determine: (a) if they are able to meet FLO's fair trade standards for their product; and (b) if they have prospective buyers in the developed country where they wish to sell their product under fair trade terms[26]. In the course of the carrying out this assessment, the interested organization may seek advice from the nearest FLO liaison officer. If the producer organization decides to apply for fair trade certification, it must submit a written application to FLO-CERT. Then, FLO-CERT responds by notifying the producer organization whether or not it meets

[24] Trader standards are currently under revision.
[25] Fair trade premium is paid to producers on top of the minimum price, which usually ranges from 5 to 30 percent of the farm gate or free on board (fob) price (FLO 2006).
[26] FLO cannot guarantee producer organizations a buyer, even if they are certified (FLO 2006).

Figure 3.4. Fair Trade Certification and Labeling Process



Source of basic information: Redfern and Snedker (2002)

FLO's fair trade generic and product-specific standards and then conducts an initial site inspection visit, if the organization appears to be qualified. Next, the FLO-CERT Certification Committee[27] reviews the inspection report generated from the site visit and judges if the organization is eligible for certification. Finally, fair trade certification is awarded to the producer association or cooperative, if its application is approved by the Certification Committee. Certification for a specific fair trade product can be renewed, subject to a yearly inspection[28]. The newly certified producer organization is "able to sell their product under fair trade terms, as long as they have a buyer who wants to buy under those terms" (FLO 2006, 7).

For buyers, in order to market a fair trade certified product purchased from a certified producer, the buyer must apply to FLO-CERT or FLO's national labeling initiatives for trade certification. Also, interested buyers from the developed countries -- importers, distributors, manufacturers, and ATOs -- who would like to be FLO-licensees[29] must register with the national labeling initiative in the country where they wish to sell fair trade certified products. Contracts or agreements between fair trade market participants and FLO-CERT and FLO's national labeling initiatives "track the chain of custody from crop to cup" (TransFair USAa).

The fair trade labeling system and certification process, as described above, seeks to help smallholder producers' access developed countries' markets by expanding their market reach and thus, increasing the benefits that they derive from fair trade.

---

[27] The Certification Committee is composed of FLO stakeholders (i.e. national labeling initiatives, producer associations, traders, etc.)

[28] For details regarding producer inspection and certification fees, see **Appendix C**.

[29] Market participants authorized to use the International fair trade CM and market the final fair trade certified products to worldshops, conventional retailers, or both in developed countries.

3.2 Fair Trade and Other Ethical Initiatives

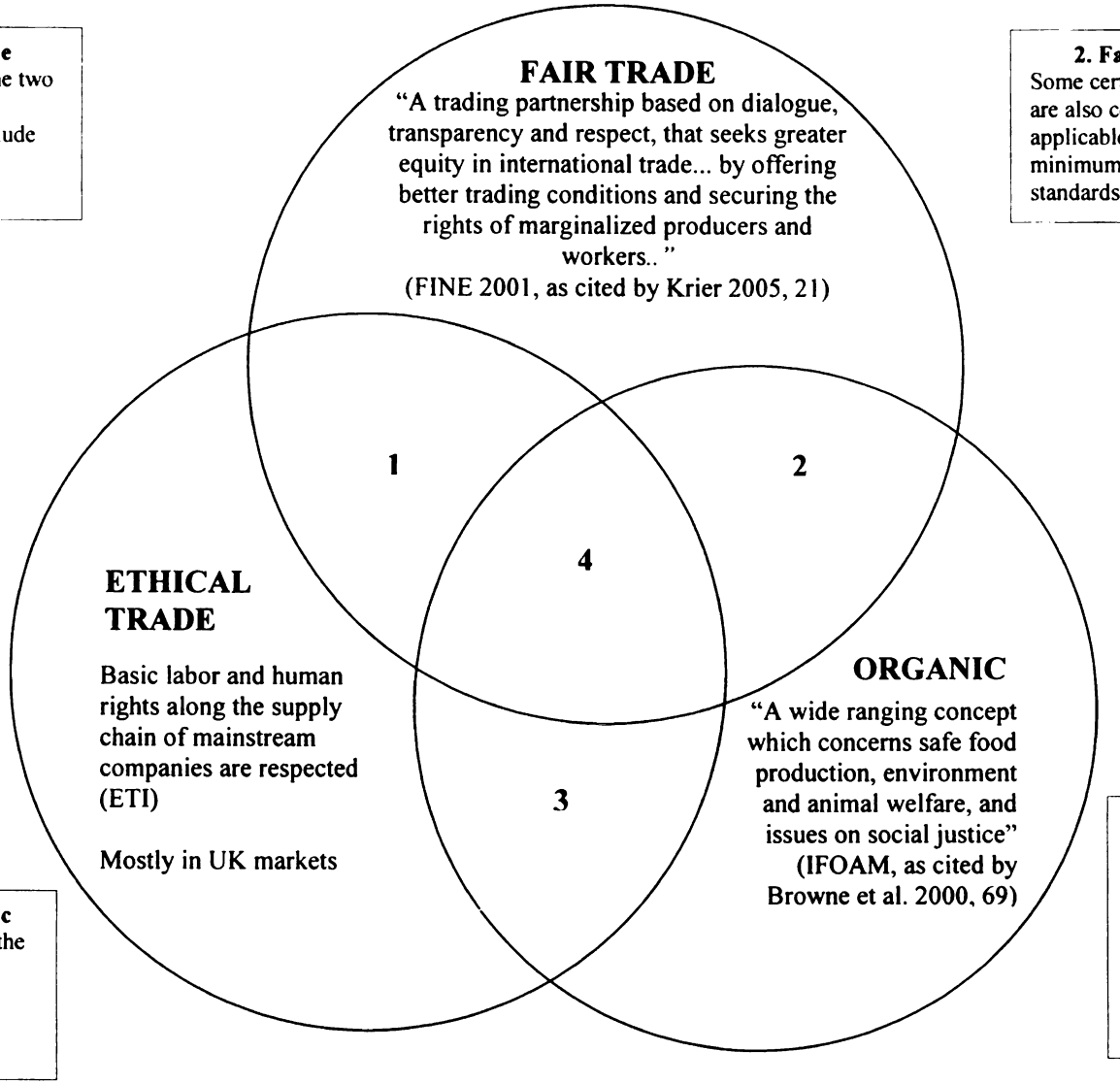
Fair trade and other prominent ethical initiatives -- such as ethical trade and organic agriculture -- are increasingly evident in today's marketplace (Smith and Barrientos 2005). This trend has several sources. First, civil society groups have been campaigning to increase consumers' awareness of the plight of smallholder producers and workers along the global supply chains. Second, consumers are concerned about food safety and quality, as well as environmental issues (Barrientos and Dolan 2006; Smith and Barrientos 2005; Raynolds 2006). These factors have pressured firms to adopt social justice and environmental standards as part of their corporate social responsibility[30] (CSR) and require firms along their global supply chains to meet these standards. Consequently, there has been a marked increase in the production and marketing of ethical goods and services since the early 1990s -- a trend which responds not only to the rising demand for ethical products, but also to the need of corporate firms to build a 'positive' or humanitarian image (Von Braun 2004; Barrientos and Dolan 2006). Most of these ethical labeling and certification processes rely on voluntary standards and codes of conduct (Traidcraft 2004).

This section reviews past studies of fair trade, ethical trade, and organic initiatives, and highlights their evolution, differences, and points of convergence (**Figure 3.5** and **Table 3.1**).

[30]The principles of corporate social responsibility (CSR) state that "businesses should recognize, understand and seek to improve their environmental, economic and social impacts" (Traidcraft 2004, 1).

Figure 3.5. Conceptual Points of Convergence among Fair Trade, Ethical Trade, and Organic Initiatives

1. Ethical + Fair Trade
Emerging overlap between the two concepts mainly due to the expansion of fair trade to include mainstream players



2. Fair Trade + Organic
Some certified fair trade products are also certified organic, if applicable, since fair trade adopts minimum environmental standards.

3. Ethical Trade +Organic
Conceptual overlap between the two initiatives due to the expansion of organic certification to include social justice standards

4. Fair Trade+Ethical Trade+Organic
Firms or their products may be certified **Organic, Fair trade, & Ethical trade** (e.g. coffee roasters and retailers in UK markets).

Table 3.1. Characteristics of Predominant Ethical Initiatives

Item	Fair Trade	Ethical Trade	Organic
Definition/Scope	Focuses on equity in trading relations between developing country producers and developed countries' buyers (Barrientos and Dolan 2006)	Covers employment conditions of workers and implementation of codes of labor practices in the conventional supply chain (Barrientos and Dolan 2006)	Focuses on agricultural production systems that utilize biological rather than chemical inputs (Browne et al. 2000)
Origins	Late 1940s	Late 1980s and 1990s (Smith and Barrientos 2005)	1930s in UK markets (Browne et al. 2000)
Certification, Accreditation, and Monitoring	FLO-CERT IFAT	Ethical Trading Initiative (ETI) Social Accountability International (SAI)	International Federation of Organic Agriculture Movements (IFOAM) United States Department of Agriculture-Agricultural Marketing Service (USDA-AMS)
• Costs	Producer fees introduction in early 2004, small farmer organizations unable to pay the fees may apply for assistance from FLO's Producer Certification Fund	Certification costs borne by companies or businesses seeking certification	Certification costs borne by producers (Raynolds 2006) or the party seeking certification
Standards	FLO Generic and Product Specific Standards for Producers and Traders IFAT Standards for ftos	ETI Base Code Social Accountability 8000 (SA 8000)	IFOAM Organic Guarantee System (OGS) USDA National Organic Program (NOP)
• Producers	Democratically organized producer associations/cooperatives of smallholder growers or plantation workers (Raynolds 2000; Raynolds 2006)	Medium to large scale firms (Smith and Barrientos 2005)	Unspecified

Note: FLO-CERT and IFAT certify organizations while SAI, IFOAM, and USDA serve as accreditation bodies. Drawn heavily from Raynolds (2000) and Raynolds (2006).

Table 3.1 (cont'd).

Item	Fair Trade	Ethical Trade	Organic
• Agro-ecological conditions	Non use of genetically modified organisms (GMOs) and prohibited pesticides and chemicals; protection of the natural environment through dealing with problems of erosion and waste management (Raynolds 2000); encourages producers to move towards organic certification	Unspecified	Non use of GMOs and chemically treated planting materials; basis for fertilization must be organic, hence prohibits use of synthetic or chemical pesticides, fungicides and pesticides (with a few exceptions); regulation of land clearing (Raynolds 2000; Raynolds 2006)
• Labor conditions	Upholds basic human rights as stipulated in the International Labour Organization (ILO) conventions (no forced or child labor, freedom of association and collective bargaining, equal remuneration, and elimination of discrimination) (FLO 2007)	Upholds core conventions of ILO and the United Nations Commission on Human Rights (UNCHR) in commercial companies' supply chains (i.e. freedom of association and collective bargaining, elimination of forced or compulsory labor, elimination of discrimination in respect of employment and occupation, abolition of child labor, and occupational safety and health, hours of work) (ILO; Redfern and Snedker 2002)	Recommends that attempts be made to insure social justice, protection of indigenous rights, adequate wages, and upholding of basic human rights (Raynolds 2000)
• Producer Prices and Credit	Guaranteed minimum above the world price (includes premium for social and environmental investment); additional premium is added for organics; pre-payment (if requested) up to 60 percent of harvested value (Raynolds 2000; Raynolds 2006)	Unspecified	Unspecified
• Trade relations	Encourages direct trading and a long term trading relationship among sellers and buyers (Raynolds 2000; Raynolds 2006)	Unspecified	Unspecified

Note: Drawn heavily from Raynolds (2000) and Raynolds (2006).

3.2.1 *Fair Trade vs. Ethical Trade*

Ethical trade is defined in different ways. Some view it as "a 'catch-all' concept that includes a range of ethical considerations" (Browne, Harris, Hofny-Colins, Pasiecznik, and Wallace 2000, 69), including producer and worker welfare, animal welfare, and sustainable or environment-friendly production. Others define it as ethical sourcing, which is most often compared to fair trade (Tallontire 2002); while some view it specifically in terms of labor conditions along a company's supply chain such as the Ethical Trading Initiative (ETI). This study adopts ETI's definition -- an alliance of NGOs, companies and trade unions, which have developed the *Base Code*[31] to improve the working conditions of corporate supply chains. *ETI Base Code* "focuses on the minimum labor standards set by the *International Labor Orgnization's (ILO) Declaration on Fundamental Principles and Rights at Work"* (Traidcraft 2004, 2). Similar to ETI, Social Accountability International (SAI) has also developed the *Social Accountability 8000* (SA 8000), a certifiable standard based on the international workplace norms of the ILO Conventions, the *Universal Declaration of Human Rights*, and the *UN Convention on the Rights of the Child* for which suppliers can be audited (SAI; Barrientos and Dolan 2006, 16). Both standards -- the *ETI Base Code* and *SA 8000* -- are multi-stakeholder codes, which specify ethical trade (i.e. codes of labor practice) along the global supply chains of corporate buyers and retailers (Barrientos and Dolan 2006; ETIa). These two ethical trade standards are "voluntary approaches to enhancing labor standards in global production systems where key corporate buyers are often beyond the control of national

[31] The ETI Base Code states that:"employment is freely chosen, freedom of association and the right to collective bargaining are respected, working conditions are safe and hygienic, living wages are paid, working hours are not excessive, working hours are not excessive, no discrimination is practiced, regular employment is provided, and no harsh or inhumane treatment is allowed" (ETIa).

regulation in countries from which they source" (Barrientos and Dolan 2006, 4). Compliance with the *ETI Base Code* and other codes of labor practice is verified by third party certifiers[32].

Ethical trade (codes of labor practice) gained momentum during the late-1980s to 1990s, in response to activists concerns regarding the need to address poor working conditions and worker's rights along the global supply chains of companies engaged in the garment, footwear, and agrifood industries (Barrientos and Dolan 2006). Ethical trade is also driven by concerns of brand image in the market destination, due to pressure exerted by civil society groups and organizations (Redfern & Snedker 2002). As such, it has been adopted mainly by medium to large-scale firms (Smith and Barrientos 2005).

Several comparative studies have focused on aspects of fair trade and ethical trade. These studies used different frameworks in analyzing the difference and convergence of the two concepts. Although both initiatives are largely the result of "actions of social movements" seeking to achieve economic and social justice in international trade (Renard 2003; Jenkins et al. 2002 as cited by Smith & Barrientos 2005); they adopt "different aims and methods" (Barrientos & Dolan 2006, 4). Since each of these initiatives arose for different reasons, "their principles and scope vary, with fair trade's principal focus on terms of trade and ethical trade on labor practices" (Smith & Barrientos 2005, 190).

However, as both ethical and fair trade movements have matured and widened their scope, the delineation between the two initiatives has become unclear. For instance, this has been observed in supermarkets in the United Kingdom (UK) adding fair trade

[32] For a listing of third party certifiers for the *ETI Base Code*, visit: http://www.eti2.org.uk/Z/ethtrd /factsheets/ETI_factsheet_suppliers.pdf. For *SA 8000* certifiers, visit: http://www.sa-intl.org/index.cfm ?fuseaction=Page.viewPage&pageID=702.

products to their own-label brand goods while also applying the principles of ethical trade (e.g. Tesco) (Smith & Barrientos 2005).

To distinguish the concepts' differences and points where they meet, some studies used global value chain analysis and the convention theory[33] concept of quality in the context of supermarket retailing in the UK (Smith and Barrientos 2005). Using this method, they characterize 'traditional fair trade' as having a relational value chain, which is governed by civic and domestic coordination, and 'traditional ethical trade' as a buyer-driven or modular value chain, which is governed by market and industrial coordination.

The emerging overlap between the two initiatives becomes more visible, as the fair trade movement expands to include fair trade products from plantations and commercial farms, and markets them through corporate buyers and retailers (Smith and Barrientos 2005). The implementation of minimum labor standards among waged workers and hired laborers and the inclusion of fair trade in corporate buyers and retailers own-label brand product lines bring fair trade into the terrain of ethical trade. On the other hand, ethical trade has evolved towards including relational commitment along the agents of the supply chain, which overlaps with some fair trade principles (Smith and Barrientos 2005).

Still, some view ethical trade and fair trade as "points on an ethical continuum" (Redfern and Snedker 2002). Contrary to ethical trade, fair trade moves beyond

[33] Convention theory deals with "non-price means of coordination that complement the price system" (Montpellier 1994, as cited by Staatz 2003). Conventions are ways to coordinate the economy or industries through norms and value, standards of uniformity, and rules and institutions to apply these standards (Flora undated). Four coordination mechanisms, which define product quality based on convention theory are: (1) "industrial coordination, [based] on standards, norms, objectivized rules and testing procedures; (2) domestic coordination, based on face-to-face relations, and trust of people, places or brand names; (3) civic coordination, [based] on adherence of a group of actors to a set of collective principles, its structures and economic relations; and (4) market coordination, market laws, or mechanism based on prices" (Renard 2003, as cited by Smith and Barrientos 2005, 192).

compliance to minimum labor standards and works to empower the smallholder producers and waged workers. Fair trade also seeks to insure equity in trading relations, while ethical trade does not consider this (Redfern and Snedker 2002). Furthermore, from a business perspective, fair trade and ethical trade differ in terms of "marketing strategies" (i.e. ethical trade does not allow ETI membership to be used as a tool for product promotions, while fair trade allows firms to use a fair trade label to promote their products) (Redfern and Snedker 2002, 14).

As fair trade continuously expands into mainstream markets, which include corporate buyers (e.g. Sam's Club and Starbucks in the US), and as ethical trade strives to broaden its initiative to include small scale agents in its supply chain, these two initiatives will increasingly overlap. Fair trade and ethical trade may merge in some value chains (e.g. UK supermarkets), while "in others they will continue as inherently different [initiatives] -- depending on the values, culture and strategies of the companies involved" (Smith and Barrientos 2005, 197).

3.2.2 *Fair Trade vs. Organic Movement*

The organic agriculture movement stemmed from diverse initiatives in the US and Europe, which were critical of the "unsustainable and unhealthy nature of industrial agriculture and agro-industrial foods," respectively (Raynolds 2006, 49). Currently, the global organic movement promotes and encourages "trade in agricultural commodities produced under certified organic conditions and processed goods derived from these commodities" (Raynolds 2006, 49). Principles of organic agriculture focus on concerns about "safe food production, environment, animal welfare and issues on social justice" (Browne et al. 2000, 69). Due to this wide-ranging scope of organic agriculture, it is

defined in many different ways. However, general agreement exists "that it represents a system of farm management based on natural methods of enhancing soil fertility and resisting disease, rejection of synthetic fertilizers and pesticides, and minimization of damage to the environment" (Raynolds 2006, 51)

Compared to fair trade and ethical trade, there has been considerable progress in terms of the institutionalization and harmonization of organic standards and certification procedures in North America, Europe and other leading organic markets (Raynolds 2000). The creation of the International Federation of Organic Agriculture Movements (IFOAM) in 1972 -- the umbrella organization of organic agriculture organizations and institutions worldwide -- has contributed significantly to the progress that the organic movement has achieved. IFOAM has developed and implemented a harmonized set of criteria -- the Organic Guarantee System[34] -- to ensure integrity of organic products globally (IFOAMa).

On the other hand, in the US, the production and marketing of organic products in both domestic and international markets is regulated by the US Department of Agriculture-National Organic Program (USDA-NOP) (Busch, Thiagarajan, Hatanaka, Bain, Flores, and Frahm 2005). Only those firms which have been certified by accredited USDA certifying organizations[35] are able to label and market organic products in the US (Busch et al. 2005).

[34] The "OGS unites the organic world through a common system of standards, verification, and market identity" (IFOAMa).

[35] For a listing of the USDA accredited organic certifying agents, visit: http://www.ams.usda.gov/NOP/CertifyingAgents/Accredited.html

Since the early 1990s, organic certification and labeling has grown more popular and widespread, as consumers become increasingly concerned about the link between production conditions and the health and safety of food products (Raynolds 2006). Hence, "although organic certification started as a voluntary activity, the market began to demand it for sales transactions, and now it is required by the regulations of many governments for any kind of an 'organic' claim on a product label" (IFOAMb).

Increasingly, the organic initiative is associated with other ethical initiatives such as fair trade and ethical trade, suggesting a synergy between organic and other ethical initiatives (Bell and Valentine 1997, as cited by Browne et al. 2000). For instance, the use of organic certification in marketing fair trade products is increasingly gaining importance in developed markets. Although fair trade does not require organic certification, it is expected that in the future organic and fair trade initiatives will converge as fair trade moves towards organic compliance. Some evidence suggests that "the fair trade premium has been the catalyst for conversion to organic [among producer groups]" (Robins and Roberts 1997, as cited by Browne et al. 2000, 83). To date, although both the organic and fair trade initiatives function separately, certain products can be both certified organic and fair trade (Raynolds 2006). However, in the US, the majority of fair trade certified products are also certified organic.

Also, the recent inclusion of codes of conduct (basic human rights criteria) in IFOAM's organic standards places the organic initiative into the terrain of fair trade and ethical trade. However, these social criteria embodied in IFOAM's organic standards are not yet reflected in international law (Raynolds 2006).

The main players in the organic and fair trade movements propose that the synergy between these initiatives be intensified[36], since fostering the convergence of these two movements would bring a holistic approach to sustainable development (Cierpka 2000). However, the convergence of organic and other ethical initiatives (i.e. fair trade and ethical trade) has implications on the volume of trade, and producers' ability to meet demand requirements, as well as producers' livelihood and welfare (Browne et al. 2000), which should be systematically investigated in the future.

3.3 Consumer Demand for Ethical Products

This section examines the nature of demand for fair trade and other ethical products, and provides a synthesis of past consumer behavior and preference studies that have focused on these types of products.

The growing interest in and proliferation of ethical products in current market has been both consumer and trade driven (Browne et al. 2000). Consumers' heightened interest in ethical sourcing puts pressure on corporate buyers and retailers to incorporate ethical policies in their operations. Conversely, these corporate buyers also realize "the commercial value of an ethical policy and are positioning themselves as socially responsible companies" (Barrientos and Dolan 2006, 180).

Lifestyle changes among consumers in developed countries have also influenced demand for ethical (sustainable) products. Rising incomes in developed countries "make it possible to adopt a lifestyle which does not focus on basic needs, but also on needs of higher order, such as self-respect and self-fulfillment" (Meulenberg and Viaene 2005,

[36] According to IFOAM, cooperation between the two initiatives will be further intensified due to: (1) the producers' perspective that since organic and fair trade initiatives use similar questionnaires for inspection, by working closely together saves labor; and (2) the consumers' perception that when they buy a fair trade product, it will automatically be organic or vice versa (Cierpka 2000).

27). Affluence, in this sense, creates greater diversity of food eaten, such as a rise in ethnic food consumption and other specialty products (Schaffner, Schroder, and Earle 1998). Also, in developed countries, most consumers are "increasingly concerned [about] the safety of foods, its nutritional value, its long-term effects (mostly in regard to illness and their health), and its social and environmental effects" (Schaffner et al. 1998, 99). However, some academicians' argue that "ethical food is not limited to a class or sector of society... and has a cross-class appeal" (Rice-Oxley 2007). This is contrary to the point of view of food marketers who consider ethical food as a "status symbol" of the affluent in the society (Rice-Oxley 2007).

3.3.1 *Fair Trade and Other Ethical Initiatives as Product Attributes*

Quality attributes play a crucial role in product development and marketing (Senauer, Asp, and Kinsey 1991). This idea is highlighted in the extension of demand theory developed by Lancaster (i.e. people demand attributes and not the good per se, thereby driving the dynamics in the food system).

Fair trade, organic, and ethical trade can be considered quality attributes, which have increasingly gained acceptance among consumers in developed countries. The growing recognition of fair trade and other ethical qualities in the agrifood system is in "response to evolving forms of consumption, in which product demand is tied to shared, socially constructed values such as environmental conservation, food safety or regional character" (Renard 2005, 421). This quality is oriented towards the ethical (i.e. socially conscious) segment of the market that might be willing to pay higher prices, if guaranteed that a price premium will be provided to producers (Renard 2005), or if improvements on the environment and labor conditions are insured.

However, consumers' willingness to buy and pay[37] for ethical products at premium prices may not necessarily translate into actual purchases (Bougherara and Grolleau 2004; Strong 1997, as cited by Nicholls 2004). A probable reason for the discrepancy between "what consumers say they do and what they actually do is that 'green' [ethical] products might not meet the consumer criteria of price, performance and quality" (Hurtado 1998, as cited by Galarraga and Markandya 2004, 1).

Since fair trade and other ethical qualities (e.g. organic and ethical trade) are attributes that consumers cannot verify even after purchase, they are termed as credence goods. Producers or suppliers, in this case, have more knowledge on the quality of their products than consumers, implying information asymmetry. Hence, although fair trade products, for instance, claim to have respect for the environment and equity in trading relations, the value attached to these products depends on the consumers' confidence on fair trade as a quality attribute (Renard 2005). In turn, consumer confidence is subject to the information that reaches them and the confidence that they have in the truthfulness of that information (Carimentrand and Ballet 2004, as cited by Renard 2005). Thus, demand for ethical products, such as fair trade, organic, or ethical trade, is dependent on their credibility as a fair trade, ethical, or organic product and the value that consumers attach to these products.

3.3.2 *Market for Ethical Products*

A study of UK-based organizations and firms engaged and committed to ethical sourcing, analyzed how these firms characterize an ethical consumer (Browne et al. 2000). The study revealed that there is widespread agreement among ATOs regarding the

[37] For a summary previous literature on consumers' willingness to pay for ethical products, see **Appendix D**.

"hierarchy of ethicalness" among consumers. This ethical hierarchy of consumers, as defined by ATOs, is as follows: (1) *true ethical* , roughly two percent of consumers, "who will go out of their way to buy on a cause-related basis"; (2) *semi-ethical or armchair ethical*, 20 to 30 percent of consumers, who shop at supermarkets but will occasionally buy fair trade certified coffee or organic produce "because they are convinced of its claims and are prepared to pay a modest premium"; and (3) the *would be ethical*, about 80 percent of consumers, who will buy ethical products "if there was no price premium and no special effort was required to buy ethically" (Browne et al. 2000, 79). ATO respondents of the study were aware that "they cater to the fully ethical '2%' and that [mainstream] supermarkets are capable of supplying, the latent demand of the 80 percent [of the population]" (Browne et al. 2000, 79).

Furthermore, the respondents (i.e. UK-based organizations) classified the concerns of the ethical consumers that influence their buying behavior as related to: (1) health -- "what is in the food"; (2) the environment -- "how the food is produced"; (3) animal welfare -- "humane treatment of animals"; and (4) the working and living conditions of producers in poor countries -- "not exploiting the people who produce the food" (Browne et al. 2000, 79). The balance (i.e. the relative importance to consumers) among these four sets of motives depends on the type of retailer the consumer is patronizing (e.g. worldshops or mainstream supermarkets) (Browne et al. 2000).

Another study on ethical markets, which drew on Mintel Reports (1994), classified consumers into three main clusters -- the *ethical* (23%), *semi-ethical* (56%), and *selfish* (17%) consumers (Bird and Hughes 1997, as cited by Moore 2004). The study also revealed that over the four year period since the previous Mintel study in 1990, the

proportion of *ethical* and *semi-ethical* consumers had increased at the expense of the *selfish* consumers (Moore 2004). Furthermore, a number of surveys on ethical consumption done by the Co-operative Group (2000) found that ethical consumers were no longer a minor pressure group; "one-third of the public now see themselves as *strongly ethical*" (Nicholls 2002, as cited by Moore 2004, 81). And contrary to the main ethical concern of the 1980s (i.e. environment friendly practices), issues being tackled currently focus on supply chain operations in the global agrifood system, emphasizing human and social factors (Nicholls 2002, as cited by Moore 2004).

Looking further at willingness-to-pay, Galarraga and Markandya (2004) found that consumers are willing to pay a price premium of approximately 5 to 15 percent for ethical products. Based on UK-Studies, consumers who were most willing to pay a premium for ethical products were women, individuals in the middle-to-high brackets, and consumers under 35 years of age (Mintel 1994, as cited by Moore 2004).

In terms of consumer preference for different ethical products, several UK-based ethical organizations (i.e. ATOs, activist, and consumer groups) claimed that "the same sorts of people are interested in both" (i.e. ethical and organic) (Browne et al. 2000, 83). Further, a study that used contingent valuation techniques to compare consumers' willingness-to-pay for fair trade, organic, and shade grown coffee products revealed that fair trade coffee carried the highest premium, about $0.22 per pound over the original price, followed by shade grown ($0.20/lb), and organic ($0.16/lb) coffees (Loureiro and Lotade 2005).

Consumer interest in ethical products also varies geographically. In general, "Europe leads on ethical consumption (i.e. labor and working conditions), whereas in the US environmental interests are more prominent" (Murray and Raynolds 2000, as cited by Moore 2004, 81). This attitude is further reflected in supermarket retailing. "Supermarkets in the US stress food safety, while European supermarkets tend to emphasize workers' welfare and environmental protection as well as food safety" (FAO 2004, as cited by Barrientos and Dolan 2006, 7).

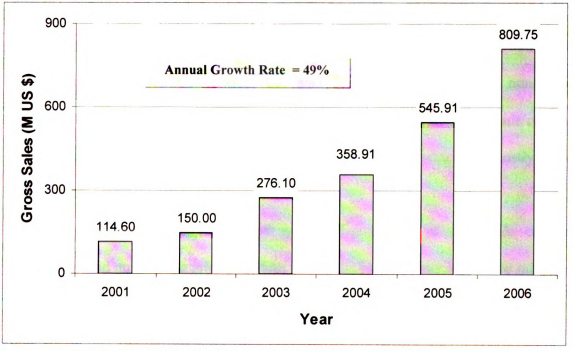
From 2005 to 2006, global sales of fair trade certified products increased by 42 percent, totaling €1.6 billion (US$ 2.4 billion) in 2006, albeit constituting a small fraction of the total market (FLO 2007). And although Europe dominates fair trade sales, accounting for approximately €1 billion in 2006, the strong market growth in the US (45 percent increase in fair trade certified coffee sales from previous year) offers the greatest potential for expanding the fair trade market in the ensuing years (Barrientos and Dolan 2006). On the other hand, growth in the global organic market is much slower than for fair trade, with demand expanding at roughly 20 percent annually, albeit constituting a much greater share of the total retail market than fair trade (Sahota 2004, as cited by Raynolds 2006).

Much of the future increase in ethical products' sales will be driven by the continuous mainstreaming of these products in major supermarkets in Europe and the US (Barrientos and Dolan 2006; Raynolds 2006). Also, as civil society groups increasingly demand some form of ethical practices or initiatives in global agrifood system supply chains, demand for ethical products will continuously expand, moving beyond niche marketing in the near future.

3.4 Overview of the Fair Trade Market in the US

As discussed earlier, the US fair trade market is seen to have the greatest potential for expanding fair trade sales, due to the magnitude of this market and its untapped potential for fair trade products. Compared to the European and Pacific Rim (i.e. Japan, New Zealand, and Australia) markets, the rate of growth in North Americas' fair trade market (i.e. US, Canada, and Mexico) is higher than the global average for fair trade certified product retail sales. From 2001 to 2006, sales of fair trade products in the North American market increased by an average of 49 percent annually (**Figure 3.6**), which is slightly above the 42 percent increase for the global fair trade market (2005-2006).

Figure 3.6. Gross Sales of the Fair Trade Industry[38], North America, 2001-2006



Sources of basic data: FTF (2005); TransFair Canada (2007); TransFair USA (2007)

For several years, the US has led the rest of the developed world in terms of its market share of global fair trade retail sales. For instance, in 2006, US sales of coffee alone

[38] Detailed gross sales data shown in **Appendix E**.

accounted for 31 percent in global fair trade sales, with a fair trade turnover of US$ 730 million (€499 million) (FLO 2007).

3.4.1 *Product Characteristics*

Table 3.2 shows the fair trade certified products (i.e. certified by TransFair USA) offered in the US, as well as their key characteristics. Most of these fair trade certified products are food products, some of which are highly perishable. Due to their perishable nature, whenever possible, TransFair USA recommends that small producer organizations minimally process (i.e. bag/pack, roast) their products. This also has the potential to improve the income of producers, due to the value-added captured from processing and packaging.

Most fair trade certified products (mostly food) sold in the US are sourced from CA (FTF 2005). In terms of fair trade certified coffee, approximately one-half of the suppliers are from CA and Mexico. CA also accounts for the largest number of organizations certified for fresh fruit and cocoa (FTF 2005). Generally, fair trade certified products are supplied by small family farms, except for bananas which are mostly grown in plantations, employing farm workers.

Compared to conventional food products, producers of fair trade certified products are paid an average price premium of 5 to 10 percent over and above minimum cost (i.e. based on local conditions). This premium is intended to compensate smallholder producers for meeting fair trade quality standards.

Table 3.2. Fair Trade Food Products Certified by TransFair USA and Offered in the US, 2007

Fair Trade Product	Form[1]		Product Type[2]	Scale of Production	Price		Introduced[3]	No. of Licensees[4]
	Wholesale Level	Retail Level			Fair Trade (FT)(US$)	Organic+ FT (US$)		
Coffee	Mostly unprocessed green beans	Processed: roasted whole beans/ground coffee/beverage	Approximately 79% organic	Over 50% grown on small family farms	1.26/lb	1.41/lb	1998	477 [5]
Cocoa / Chocolate	Unprocessed: cocoa beans	Processed: chocolate, cocoa powder	77% organic	90% grown on small family farms	1,750/mt	1,950/mt	2002	49
Tea	Processed	Processed: bottled ready-to-drink (RTD) tea, loose and bagged teas, green tea mints, and nutritional bars containing tea extract	92% organic	n.a.	n.a.	n.a.	2001	85 [6]
Fruits							2004	7
Banana	Fresh	Fresh	82% organic	Mostly grown on plantations employing farm laborers	n.a.	n.a.	2004	n.a.
Mango	Fresh	Fresh	Approximately 70% organic	n.a.	n.a.	n.a.	2004	n.a.
Pineapple	Fresh	Fresh	n.a.	n.a.	n.a.	n.a.	2004	n.a.
Grapes	Fresh	Fresh	n.a.	n.a.	n.a.	n.a.	2004	n.a.

Table 3.2 (cont'd).

Fair Trade Product	Form[1]		Product Type[2]	Scale of Production	Price		Introduced[3]	No. of Licensees[4]
	Wholesale Level	Retail Level			Fair Trade (US$)	Organic+ FT (US$)		
Sugar	Processed: bagged	Processed: bagged	Approximately 70% organically certified	n.a.	n.a.	n.a.	2005	4
Rice	Processed: bagged	Processed: bagged	50% organic	90% harvested by small-scale farmers	n.a.	n.a.	2005	3
Vanilla	Unprocessed/ Processed: whole beans, powders and extracts	Processed: used for food flavorings; and used in industrial applications/products.	n.a.	Mostly grown by small-scale family farms	n.a.	n.a.	2006	5

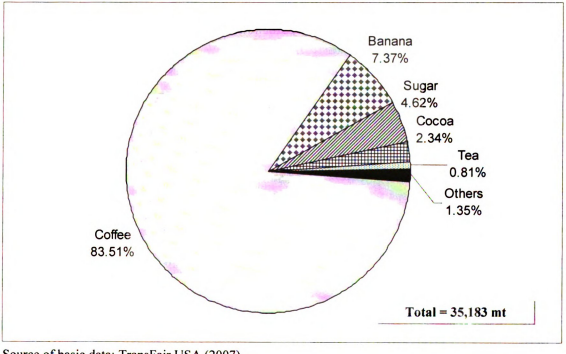
[1]Form: Processed/unprocessed; Wholesale level - form bought by importers/distributors/licensees from developing countries; Retail - form sold to buyers/consumers in the US.
[2]Product type: Conventional/organic
[3]Year that the Fair Trade Certified product was introduced in the US market.
[4]Licensees are those traders (may be wholesalers, manufacturers, importers, retailers/worldshops) who are authorized to use the TransFair USA label.
[5]88 percent of coffee licensees are roasters, while the remaining are importers.
[6]67 percent of tea licensees are blenders, while the rest are importers.
n.a.- not available

Source of basic data: TransFair USAa; TransFair USA (2007)

3.4.2 *Market Trends*

In terms of market shares among fair trade certified products in the US in 2006, fair trade certified coffee accounted for approximately 84 percent (**Figure 3.7**), albeit constituting only three percent of overall coffee sales. Fair trade coffee was followed by banana (7%), sugar (5%), cocoa (2%), and tea (1%) of the total volume of fair trade certified imports. Certified products, which accounted for the other 1.35 percent of imports, were mango, rice, vanilla, and pineapple.

Figure 3.7. Percent Share of Fair Trade Certified Products to Total Volume of Products Certified by TransFair USA, 2006



Source of basic data: TransFair USA (2007)

The total volume of imports of fair trade certified products increased by 67 percent annually from 2001 to 2006 (**Table 3.3**). Most of the increase can be attributed to coffee and fresh fruit imports. Although fresh fruits were the second most important fair trade products, since 2004, imports have declined by 16 percent annually. A key reason for the decline in fresh fruit imports was the 31 percent reduction in banana imports from

2004 to 2006 (TransFair USA 2007). On the other hand, during the period 2001 to 2006 imports of coffee rose by 59 percent yearly. Imports of fair trade coffee, tea, and cocoa are projected to increase further in the future. These trends indicate growing consumer awareness and a widening market for these fair trade certified products in the US. For example, TransFair USA (2007) reported that from 2005 to 2006 awareness of fair trade coffee among US coffee drinkers increased from 15 to 20 percent. Among the aware population, 56 percent made a fair trade purchase (TransFair USA 2007).

Table 3.3. Total Volume of Imports (mt) of Fair Trade Certified Products, US, 2001-2006

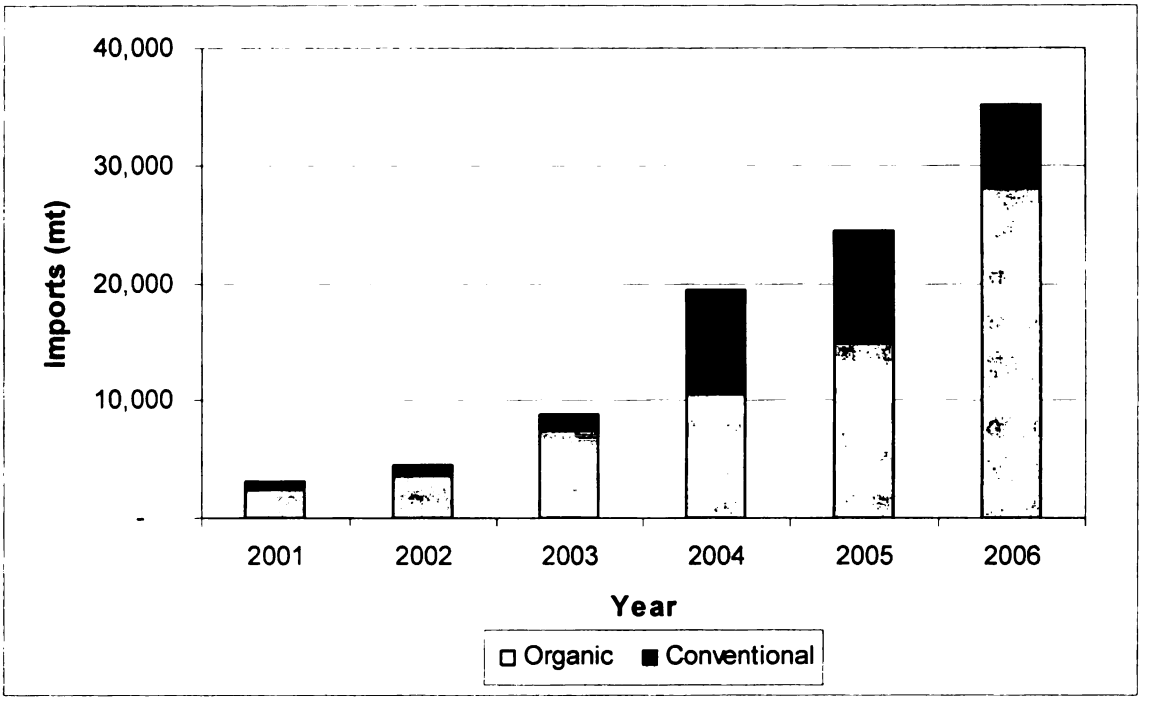
Year	Coffee	Tea	Cocoa	Rice	Sugar	Fresh Fruit	Vanilla	Total
2001	3,025.18	29.60	0	0	0	0	0	3,054.78
2002	4,421.47	39.33	6.37	0	0	0	0	4,467.17
2003	8,726.76	43.40	81.14	0	0	0	0	8,851.30
2004	14,957.09	81.79	330.03	0	0	3,998.08	0	19,366.99
2005	20,223.77	234.74	470.24	33.49	123.23	3,349.45	0	24,434.92
2006	29,381.49	285.76	823.00	177.29	1,624.59	2,801.83	89.43	35,183.38
Average	**13,455.96**	**119.10**	**285.13**	**35.13**	**291.30**	**1,691.56**	**14.90**	**15,893.09**
SD	10,143.65	111.93	324.41	70.92	655.03	1,891.32	36.51	12,665.76
CV	75%	94%	114%	202%	225%	112%	245%	80%
Annual Growth Rate								
2001-2006	59%	68%	399%	429%	1218%	-16%	n.a.	67%

Note: n.a. - not applicable
Years with zero values mean the product has not yet been introduced.

Source of basic data: TransFair USA (2007)

Furthermore, growing interest among US consumers in organic fair trade certified products is also driving the increasing demand for fair trade certified products (**Figure 3.8**). From 2001 to 2006, organic fair trade certified products accounted for a 73 percent share of the total volume of fair trade certified imports and registered an average annual increase of 66 percent.

Figure 3.8. Total Volume of Fair Trade Certified Imports by Product Type, US, 2001-2006



Source of basic data: TransFair USA (2007)

3.5 Chapter Summary

The fair trade movement, which began in 1940s, has become a worldwide movement that has raised global consciousness regarding the plight of smallholder producers and farm workers in poor countries. Governed by several fair trade networks (i.e. FLO, IFAT, and FTF), fair trade envisions alleviating global poverty through promoting equitable trade and expanding market access of the poor. These fair trade networks have established standards for both products and organizations, which focus on social justice and environmental sustainability.

Fair trade and organic standards are expected to converge, as the fair trade movement incorporates organic certification into most of its products and organic initiatives integrate social justice standards into its criteria. On the other hand, the demarcation between fair trade and ethical trade is fading, as large corporate buyers

increasingly market fair trade products and ethical trade initiatives tailor their codes of conduct to include small agents of the agrifood system.

Trends in the demand for ethical food products (fair trade, ethical trade, and organic) indicate bright prospects in the US market. Growing interest among US consumers for these types of products has been driven by their growing consciousness and concern about global issues, including food safety and health concerns, persistent global poverty, and environmental degradation. Continuous mainstreaming of ethical products in supermarkets and other retail outlets, as well as the extension of product breadth, especially for fair trade, will further stimulate demand and increase the consumption of these types of products.

As a major player in global fair trade market, the US market has a strong growth potential. Expansion of fair trade to include additional food products and untapped markets provides the possibility to further boost demand for fair trade products in the US. In turn, this will offer increased opportunities for smallholder producers and farm workers to improve their production and marketing operations, and ultimately their welfare.

CHAPTER 4
THE CENTRAL AMERICAN BEAN SUBSECTOR AND ITS OPPORTUNITIES WITH FAIR TRADE

This chapter provides background on the agricultural sector of the Central American (CA) region. Specifically, it details the supply, marketing, and international trade of the CA bean subsector. This section also evaluates the competitiveness of CA beans[39], specifically with respect to US beans of similar market classes imported by the region, and provides a brief description of international trade rules affecting the region's bean trade. Lastly, it identifies current threats to smallholder bean producers and assesses opportunities for them to exploit niche marketing, particularly exporting fair trade beans to the US market.

4.1 **Agriculture and the CA Region**

CA includes seven countries (i.e. Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama) with a total land area of 511,000 km^2 (**Figure 4.1**). In 2006, agriculture contributed 14 percent of the total Gross Domestic Product (GDP) (World Bank Key Development Data and Statistics) and employed approximately 25 percent of the region's total labor force[40] (ILO Database of Labour and Statistics).

In CA, beans are the second most important "basic grain" for human consumption after maize, accounting for 12 percent of the region's total harvested crop area (Martinez

[39] Dry beans mainly include species of common beans (*p. vulgaris*, e.g. black, navy, pinto, kidney, small red). However, some countries also include *vigna* species (e.g. cowpeas, mung beans, adzuki) when reporting data for dry beans. Thus, FAO data for dry beans typically includes data for both *p. vulgaris* and *vigna* species. While *vigna* species are not commonly grown in CA, FAO import and export data may include small quantities of *vigna* species. In this chapter, while beans refer to common beans, the data may include small quantities of *vigna* species.

[40] Varies by CA country (e.g. 39% of labor force in Honduras are engaged in agriculture, 29% in Nicaragua, 50% in Guatemala).

2003). Most smallholder producers grow corn and beans for both home consumption and as a major source of income.

Figure 4.1. Map of Central America

4.2 Supply Characteristics

Similar to other basic grains, beans are a semi-subsistence[41] crop (Martinez 2003). They are generally produced in hillside areas (about 80 percent of the planted area) and mostly on marginal land (CIAT). Beans are primarily grown on fragmented and dispersed

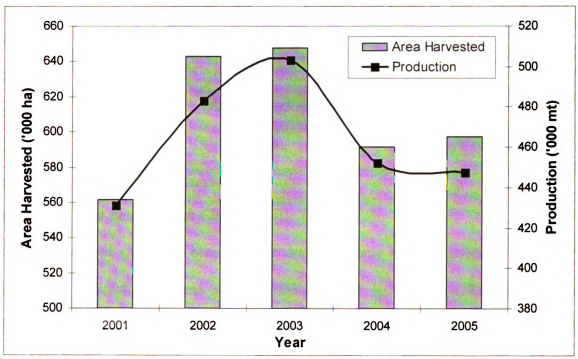
[41] Semi-subsistence means "agricultural holdings which produce primarily for their own consumption and also market a proportion of their output" (European Commission Agriculture and Rural Development 2005).

farms by smallholder producers who have limited access to productivity-enhancing technologies, credit, and extension services (CIAT). As the growing season varies by country, varying quantities are supplied to the market each month.

4.2.1 *Area Harvested and Production*

Over the 2001 to 2005 period, the harvested bean area increased by an average of two percent per annum, while production rose by one percent per year (**Figure 4.2**). On average, the area planted to beans in the region totaled 608,000 ha. Nicaragua accounted for approximately 42 percent of the harvested area, followed by Guatemala (22%), Honduras (16%), El Salvador (14%), Costa Rica (3%), Panama (2%), and Belize (1%).

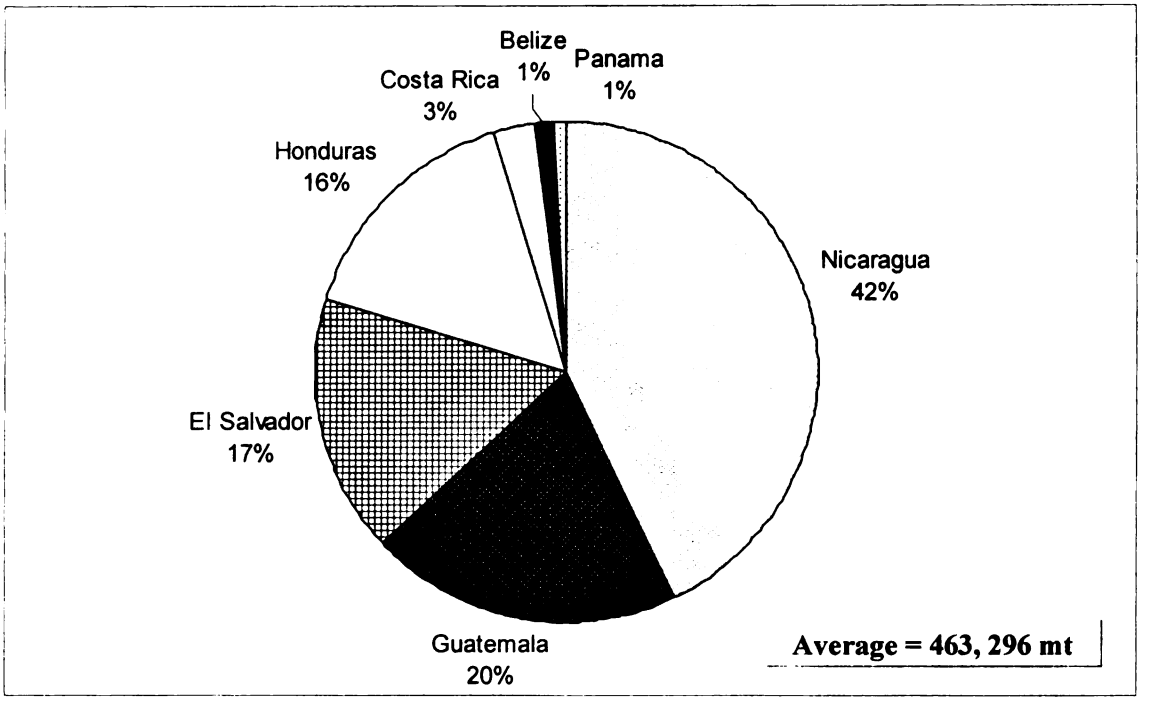
Figure 4.2. Total Bean Harvested Area and Production, CA, 2001-2005



Source of basic data: FAOSTAT Database

On the other hand, the region's production averaged 463,296 mt per year (**Figure 4.3**). Of this total, Nicaragua accounted for approximately 42 percent, followed by Guatemala (20%), El Salvador (17%), Honduras (16%), Costa Rica (3%), and Belize and Panama -- each with one percent shares.

Figure 4.3. Share on Average Bean Production by Country, CA, 2001-2005



Source of basic data: FAOSTAT Database

4.2.2 *Dominant Bean Market Classes*

Small red and black beans are the dominant bean market classes grown in CA (**Figure 4.4**). Small red beans are produced primarily in Nicaragua, El Salvador, and Honduras, while black beans are grown mostly in Guatemala and Costa Rica (**Table 4.1**). This production pattern reflects differences in consumer preferences among countries in the region.

Figure 4.4. Dominant Market Classes of Beans, CA

CA-Small Red Beans

Black Beans

Source: MSU AFRE Common Bean Atlas of the Americas

Differences in consumer preferences among countries affect the extent to which each country is vulnerable to imports (Martinez 2003). Since black beans produced in CA have similar characteristics as black beans from the US, Canada, and Argentina, imports from these major exporting countries threaten domestic production in Guatemala and Costa Rica (Martinez 2003). On the other hand, since there is no close substitute for small red beans, imports are limited unless there is a large deficit in the region (CORECA 1999, as cited by Martinez 2003).

Table 4.1. Bean Production by Market Class, CA

Country	Small Red	Black	Others
Nicaragua	85%	15%	0
Guatemala	2%	97%	1% [1]
El Salvador	90%	10%	0
Honduras	80%	20%	0
Costa Rica	20%	80%	0
Belize	0	15%	85% [2]
Panama	n.a.	n.a.	n.a.

[1]White
[2]Dark Red Kidney
n.a. – not available

Source: MSU AFRE Common Bean Atlas of the Americas

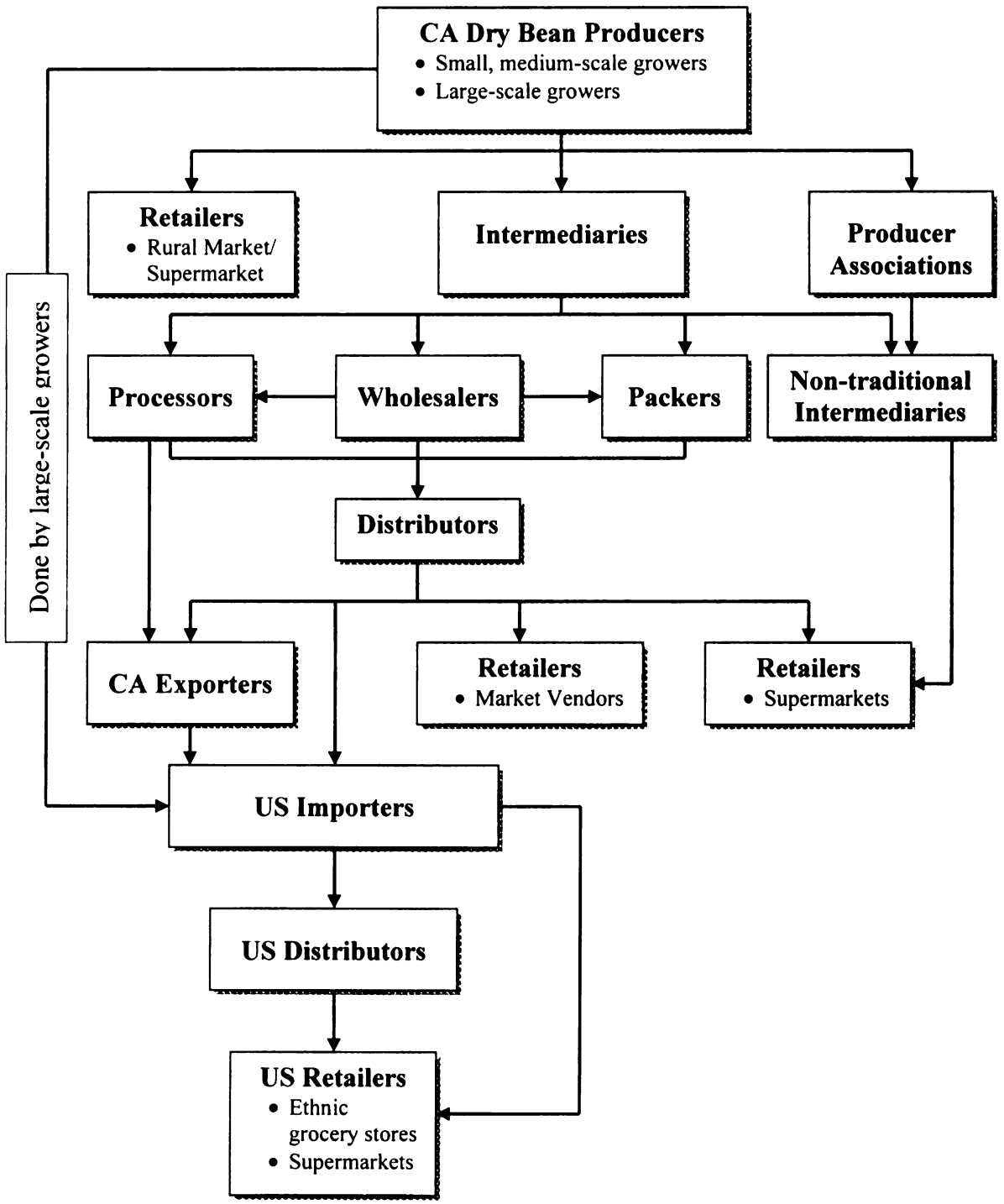
4.3 Bean Marketing Channel in CA

Figure 4.5 characterizes the marketing chain for beans in CA, including exports to the US. Bean marketing channels are similar among countries in the region (Martinez 2003). Marketing begins with producers, mostly smallholders, who own or rent land on the hillsides -- although some large-scale producers grow beans in valleys. Since most bean producers are semi-subsistence growers, they keep some of their production for home consumption and sell the rest at rural markets, or to intermediaries (traders) who transport the beans to urban markets.

4.3.1 *Intermediaries (Traders)*

In the CA region, there are two types of intermediaries who purchase beans from producers -- traditional and non-traditional (Martinez 2003). Traditional intermediaries are traders who purchase beans from producers and sell to wholesalers, packers, and processors. They perform key tasks in marketing beans, including assembling production from remote areas and delivering these to rural and urban markets. Sometimes, traditional intermediaries also provide credit (i.e. cash advance before harvest) to smallholder producers (Martinez 2003). However, since traders do not require producers to grade and clean their beans, they pay producers -- especially smallholders -- low prices. On the other hand, because traders add value to beans (i.e. sorting, grading, cleaning, and bagging), they obtain higher prices when selling to processors and packers (Martinez 2003).

Figure 4.5. Bean Marketing Chain in CA to the US



Source: Adapted from Martinez (2003) and Zamora (2005).

On the other hand, non-traditional intermediaries are individuals or firms representing supermarkets or big processing firms, which "work closely with retailers to assure a sufficient, high quality, and constant supply of beans during the year" (Martinez 2003, 66). While these traders usually source their beans domestically from large-scale farms or producer associations; they may also source beans from outside the region. These traders follow rigid grades and standards to supply the needs of the increasingly consolidated processing and retail sectors[42].

4.3.2 *Bean Packers*

Packers source most of their beans from local intermediaries. However, packers may also source directly from large-scale bean producers or producer associations (Martinez 2003). For instance, some producer associations (e.g. Costa Rica, Nicaragua) having at least 100 producer-members, collect beans from association members in different producing areas of the country. After assemblage, the beans are transported to urban markets where value-adding activities take place (e.g. cleaning, grading, and packing) (Martinez 2003).

Increasingly, packers in the region are sourcing beans from companies that import beans from major exporting countries (e.g. US, Argentina, Canada) (Martinez 2003). Also, packers bag beans for supermarket chains, which they sell under their own label brand. Some packers also sell directly to local bean exporters or US importers.

[42] Studies in the retail sector of Latin America (Reardon and Berdegue 2002), specifically Costa Rica (Alvarado et al. 2002, as cited by Martinez 2003), suggest that this type of marketing might prevail in the future.

4.3.3 *Bean Processors*

Sources of beans for processors vary by market class. For example, some Guatemalan processors of black beans source from US exporters due to price and quality considerations (Martinez 2003), while others source their black beans from domestic intermediaries. In contrast, processors of small red beans buy beans from the domestic market, since there is no comparable substitute for this market class from abroad.

As of 2002, approximately 10 large processing firms operated in CA. Seven of these processors were based in Guatemala while the rest were located in Costa Rica (2) and Honduras (1) (Martinez 2003). Hence, most canned beans sold in the region are Guatemalan brands.

Although some processors export canned beans (e.g. "*Ducal*", a Guatemalan brand), firms that want to export to countries like the US, Argentina, and Canada face high barriers to entry due to the presence of numerous brands (Martinez 2003). However, in the US, a niche market exists for beans of CA origin in urban areas with high concentration of residents from the region (e.g. cities in California, Florida, and Texas) -- people who have strong preference for beans of CA origin (Zamora 2005).

4.2.4 *Supermarkets*

In the past, most CA consumers purchased bagged or canned beans from traditional markets or small stores, which are mostly independent businesses (Martinez 2003; Reardon and Berdegue 2002). However, supermarkets are capturing a greater market share, not only in bean retailing, but in the food retail sector as a whole. Supermarkets gain competitive advantage using their solid supply chain (i.e. ability to

purchase centrally quality products and make them readily available to consumers at reasonable prices).

In 2000, the market share of supermarkets in food retailing (among CA countries) ranged from 35 to 54 percent (Reardon and Berdegue 2002). These data, which are close to a decade old, document the growing consolidation of the retail sector in CA and the decreasing market share held by other types of stores (Reardon and Berdegue 2002; Martinez 2003).

4.3.5 *US Importers*

Importers of beans from CA are usually US-based firms, which are owned by people of CA origin and based in US cities with a large population of ethnic Central Americans (Zamora 2005). They buy directly from their representatives in CA, mostly relatives or CA wholesalers, who procure beans for them. Some importers also source directly from large-scale CA bean producers. US importers import beans in bulk (100 lb bags) or bagged (e.g. 1 lb), which they sell either directly to retailers or through specialty product distributors (Zamora 2005).

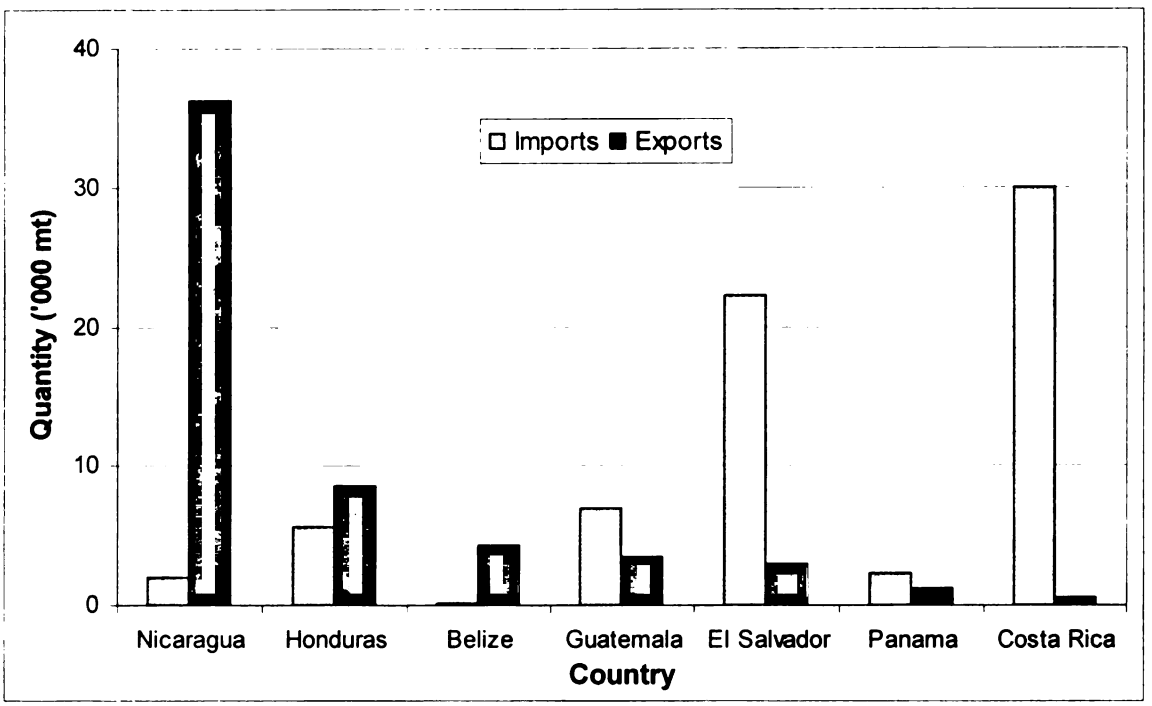
4.3.6 *US Ethnic Grocery Stores/US Supermarkets*

Most beans imported from CA are sold in Hispanic grocery stores in US cities with a high population of Hispanics (Zamora 2005). Hispanics of CA descent usually shop at these stores, due to the availability of products which they previously used in their country of origin (Zamora 2005). However, US supermarkets within the vicinity of US cities with a high population of Hispanics also sell beans of CA origin.

4.4 Bean International Trade

Over the 2001 to 2005 period, CA bean imports exceeded exports -- primarily due to imports by Costa Rica and El Salvador (**Figure 4.6**). Imports averaged 69,042 mt, (CV=10%), while exports averaged 57,234 mt (CV=16%) (**Appendix F**).

Figure 4.6. International Trade in Beans, CA, 2001-2005



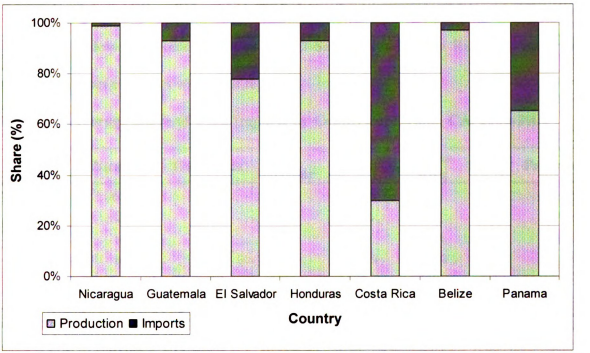
Source of basic data: FAOSTAT Database

4.4.1 *Imports*

Over the five-year period (2001-2005), imports accounted for an average of 13 percent of the region's total bean supply. However, the average import share of total supply ranged from a high of 70 percent in the case of Costa Rica to a low of one percent for Nicaragua -- the largest bean-producing country in the region (**Figure 4.7**).

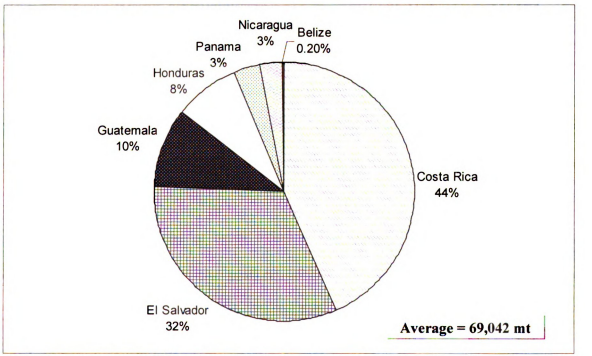
Costa Rica accounted for close to one-half of the region's imports, largely due to a secular decline in the harvested area, followed by El Salvador (32%), Guatemala (10%), Honduras (8%), Panama (3%), and Nicaragua (3%) (**Figure 4.8**).

Figure 4.7. Average Share of Imports in Total Supply of Beans, CA, 2001-2005



Source of basic data: FAOSTAT Database

Figure 4.8. Average Share of Bean Imports by Country, CA, 2001-2005



Source of basic data: FAOSTAT Database

The majority of CA's imports were sourced from the US, Canada, and Argentina due to the "availability of cheaper beans" from these countries (Martinez 2003, 76) (**Table 4.2**). However, some countries like El Salvador and Costa Rica also imported beans from other countries within the region,

Table 4.2. Average Share of Bean Imports by Country of Origin, CA, 2000-2004

Country of Origin	Nicaragua	Guatemala	El Salvador	Honduras[1]	Costa Rica	Belize[1]	Panama[2]
USA	65%	68%	n.a.	63%	n.a.	64%	66%
Canada	2%	21%	n.a.	3%	n.a.	33%	28%
Argentina	n.a.	8%	n.a.	n.a.	26%	n.a.	1%
Nicaragua	n.a.	1%	60%	27%	44%	n.a.	n.a.
Guatemala	n.a.	n.a.	2%	n.a.	11%	n.a.	n.a.
El Salvador	19%	n.a.	n.a.	6%	n.a.	n.a.	n.a.
Honduras	3%	n.a.	36%	n.a.	10%	n.a.	n.a.
Costa Rica	n.a.	n.a.	<1%	n.a.	n.a.	n.a.	n.a.
Others	11%	<3%	<1%	1%	9%	3%	5%

[1]Data: 1999-2003
[2]Data: 1998-2002
n.a. – not available

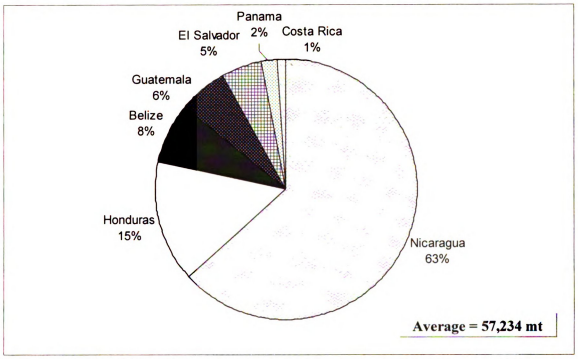
Source of basic data: DESA/UNSD, as cited by MSU AFRE Common Bean Atlas of the Americas

4.4.2 *Exports*

During 2001 to 2005, CA countries exported approximately 57,000 mt of beans per year (**Figure 4.9**). Nicaragua accounted for most of these exports (63%), followed by Honduras (15%), Belize (8%), Guatemala (6%), El Salvador (5%), Panama (2%), and Costa Rica (1%).

Although a shortage of beans exists in the region, CA countries export beans within the region and to niche markets in the US and other developed countries (CORECA 1999, as cited by Martinez 2003) (**Table 4.3**).

Figure 4.9. Average Share of Bean Exports by Country, CA, 2001-2005



Source of basic data: FAOSTAT Database

Table 4.3. Average Share of Bean Exports by Country of Destination, CA, 2000-2004

Country of Destination	Nicaragua	Guatemala	El Salvador	Honduras[1]	Costa Rica	Belize[1]	Panama[2]
USA	3%	2%	75%	n.a.	22%	2%	n.a.
Canada	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany	n.a.	n.a.	n.a.	1%	n.a.	n.a.	n.a.
Caribbean	n.a.	n.a.	n.a.	n.a.	n.a.	81%	n.a.
Nicaragua	n.a.	<1%	16%	6%	42%	n.a.	n.a.
Guatemala	n.a.	n.a.	4%	n.a.	n.a.	n.a.	n.a.
El Salvador	43%	29%	n.a.	85%	15%	n.a.	n.a.
Honduras	9%	n.a.	4%	n.a.	n.a.	n.a.	41%
Costa Rica	42%	69%	n.a.	8%	n.a.	n.a.	6%
Panama	n.a.	n.a.	n.a.	n.a.	12%	n.a.	n.a.
Others	3%	<1%	1%	<1%	9%	17%	53%

[1]Data: 1999-2003
[2]Data: 1998-2002
n.a. – not available

Source of basic data: DESA/UNSD, as cited by MSU AFRE Common Bean Atlas of the Americas

The rise in ethnic food restaurants in developed countries (Martinez 2003) and the strong preference of consumers of CA origin for beans produced in their home country have contributed to the growing demand for CA beans in the international market (Zamora 2005; Batres-Marquez et al. 2001, as cited by Martinez 2003). For instance, in the US, beans from CA are priced 25 to 50 percent higher than US beans of similar market classes (Zamora 2005). This suggests a likely potential to boost exports to developed countries by targeting this niche market. However, beans for export to Hispanic communities abroad are most likely sourced from large-scale producers or growers who are members of a producer association, thereby limiting access of smallholder bean producers to this niche market.

4.5 Competitiveness of the CA Bean Subsector

Competitiveness is defined as "a set of institutions, policies, and factors that determine the level of productivity of a country" (Sala-I-Martin, Blanke, Hanouz, Geiger, Mia, and Paua 2007, 3). Thus, it indicates the degree to which a country is able to produce goods and services while generally improving its people's welfare (Castells 1996, as cited by Muendo, Tshirley, and Weber 2004).

The competitiveness of the CA bean subsector is evaluated using an analysis of price trends (i.e. seasonality, marketing margins, and domestic bean prices), which is based on the assumption that price trends are influenced by factors that may be determinants of competitiveness[43] (Martinez 2003). Also, competitiveness of the CA bean subsector was partly assessed by measuring the price competitiveness of beans from relevant countries of the region versus US bean imports of each market class.

[43] The determinants of competitiveness are diverse and complex, including infrastructure, technology/ innovation, and institutions (Sala-I-Martin et al. 2007).

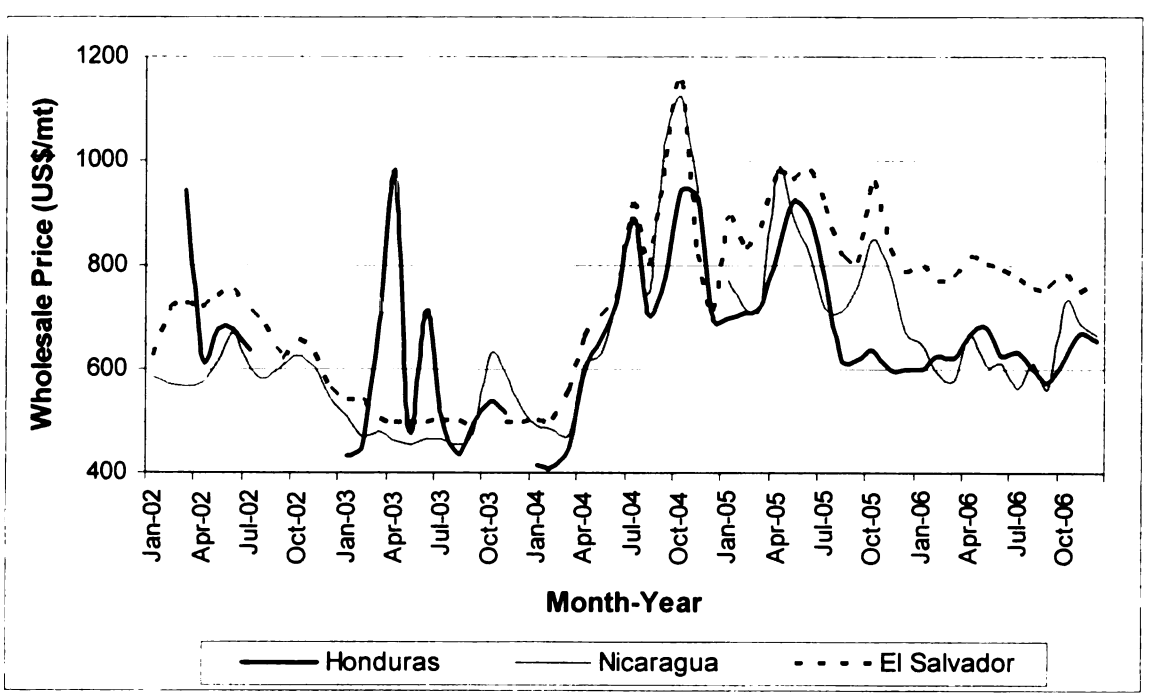
Furthermore, international trade rules that affect the level of competitiveness of the CA bean subsector are identified.

4.5.1 *Domestic Competitiveness*

Trends in the region's wholesale bean prices were analyzed. As suggested by Martinez (2003), the relevant prices for El Salvador, Honduras, and Nicaragua are the prices of small red beans, while for Costa Rica and Guatemala it is the prices of black beans.

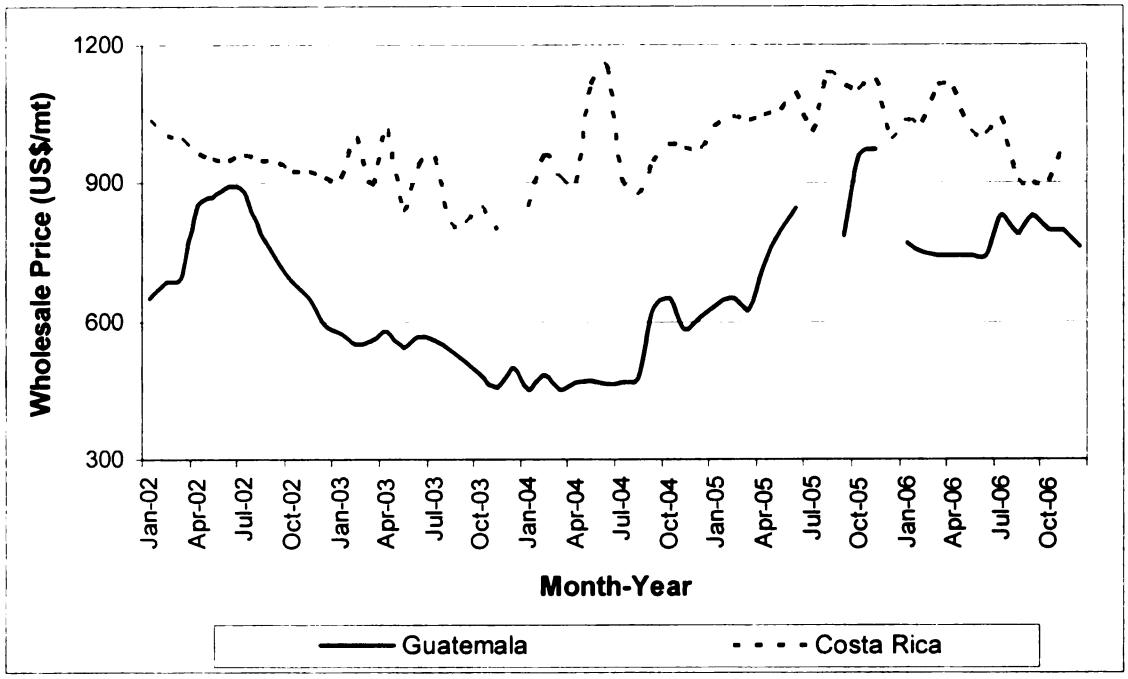
During the period 2002 to 2006, bean wholesale prices in CA were highly erratic (on average, CV=22%), with the exception of black bean prices in Costa Rica (CV=9%) (**Figures 4.10 and 4.11**). This trend is primarily due to seasonality in bean production, which is further discussed in this section, and irregular factors (e.g. natural disasters) (Martinez 2003).

Figure 4.10. Monthly Wholesale Prices (nominal) of Small Red Beans in Honduras, Nicaragua, and El Salvador, 2002-2006



Sources of basic data: CORECA, except for Honduras' prices in 2004-2006 (sourced from SIMPAH).

Figure 4.11. Monthly Wholesale Prices (nominal) of Black Beans in Guatemala and Costa Rica, 2002-2006



Source of basic data: CORECA

During the period, monthly wholesale prices of small red beans ranged from $411-$978 per mt in Honduras, $456-$1,123 per mt in Nicaragua, and $485-$1,155 per mt in El Salvador. Prices among CA countries were generally highest from the third quarter of 2004 to the third quarter of the following year (2005). However, in 2006, small red bean prices among CA countries were more or less stable.

On the other hand, black bean prices in Guatemala ranged from $451-$972 per mt, compared to $799-$1,151 per mt in Costa Rica. In general, wholesale prices in Guatemala were lowest during the years 2003 to 2004 and highest in last quarter of 2005. While Costa Rica's prices were the least volatile among CA countries, on average, it registered the highest average bean price in the region (i.e. not considering difference in market class).

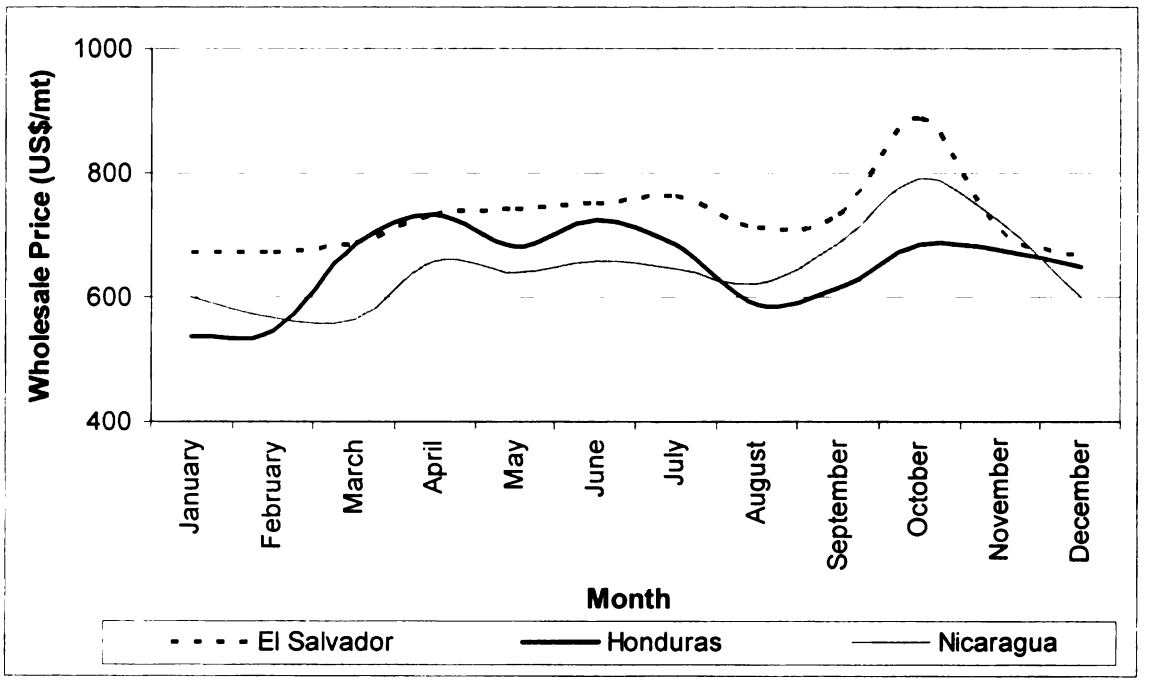
4.5.1.1 *Seasonality*

Seasonality in production affects the domestic competitiveness of CA beans with respect to imports. Seasonality gives rise to problems which are aggravated by limited or lack of storage facilities and high storage costs among smallholder producers (Martinez 2003). In turn, these problems limit the flexibility of smallholder producers to market their crop throughout the whole year, making them less competitive.

Over the period 2002 to 2006, prices of CA beans reflected a pronounced seasonality (**Figures 4.12 and 4.13**). These trends persist since smallholders usually sell their surpluses in the first few months following the harvest season (WFP ODAN), which varies by country in the region. Typically, the largest share of the bean crop is produced during the *postrera* season in Honduras (i.e. November to December); the *apante* in Nicaragua (i.e. February to April); the *postrera* in El Salvador (i.e. November to December); the *primera* in Guatemala (i.e. August to September); and the *postrera* in Costa Rica (i.e. January to April) (Martinez 2003).

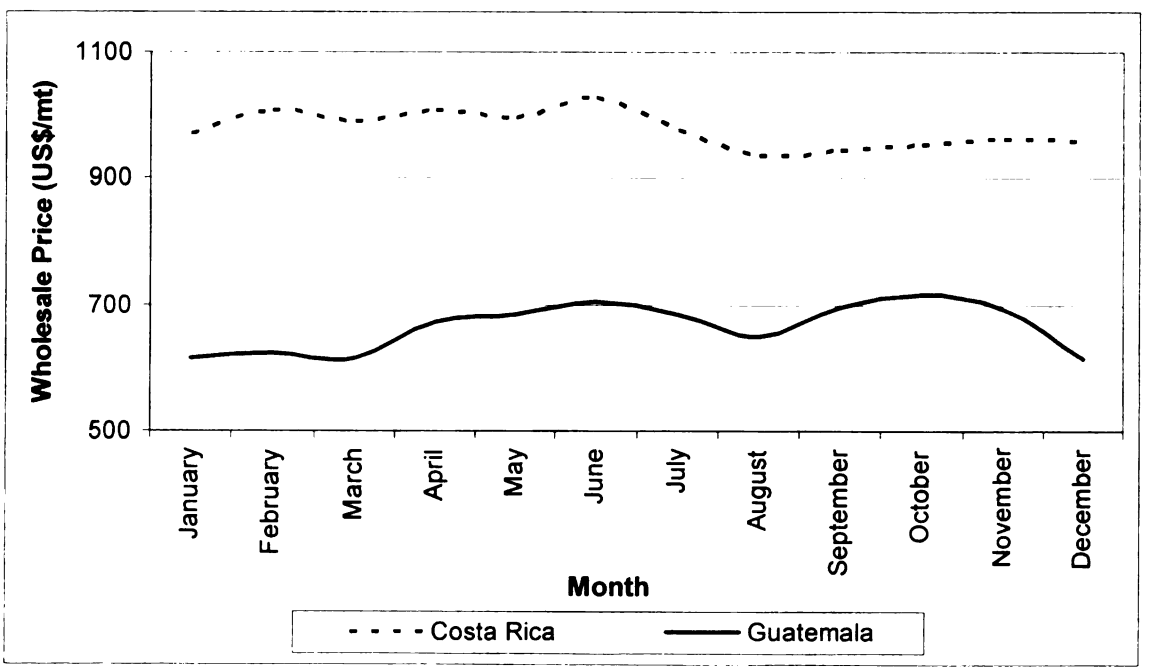
Generally, for small red beans, prices were highest during the last quarter of the year, while for black beans, prices were generally highest during the latter part of the second quarter and a few months following the primary harvest season.

Figure 4.12. Average Monthly Wholesale Prices (nominal) of Small Red Beans in El Salvador, Honduras, and Nicaragua 2002-2006



Sources of basic data: CORECA, except for Honduras' prices in 2004-2006 (sourced from SIMPAH).

Figure 4.13. Average Monthly Wholesale Prices (nominal) of Black Beans in Costa Rica and Guatemala, 2002-2006



Source of basic data: CORECA

4.5.1.2 *Marketing Margins*

Marketing margins (i.e. an index of price spread from farm gate to retail level) reflect the market performance of a particular subsector. This index can be used to measure pricing efficiency in marketing a product, given that it reflects both costs and profits at each level of the marketing chain. Margins may also be positively influenced by the degree of concentration and the level of marketing costs in the industry (Armah 2007), as well as factors that determine the level of competitiveness of the bean subsector (e.g. infrastructure, such as storage and processing facilities, and road conditions).

Using available secondary data for beans, price spreads from farm gate to wholesale level, and wholesale to retail level were estimated. In 2006, for small red beans, higher margins were generally observed at the retail level than at the wholesale level throughout the region. In contrast, results for black beans varied by country (i.e. in Costa Rica, higher margins were registered at the wholesale level, while in Guatemala margins were slightly higher at the retail level) (**Table 4.4**). The relatively low margins for CA beans mirror the low perishability of beans.

Table 4.4. Marketing Margins for Small Red and Black Beans, CA, 2006

Country/ Market Class	Farm Gate	Wholesale Level		Retail Level		Total Margin
	Price ($/kg)	Price ($/kg)	Margin	Price ($/kg)	Margin	
Small Red Beans						
El Salvador	0.74	0.78	5%	1.10	29%	35%
Honduras	0.58	0.63	8%	n.a.	n.a.	n.a.
Nicaragua	0.50	0.63	20%	0.82	24%	44%
Black Beans						
Costa Rica	0.59	1.00	41%	1.06	5%	46%
Guatemala	0.63	0.77	19%	0.97	20%	39%

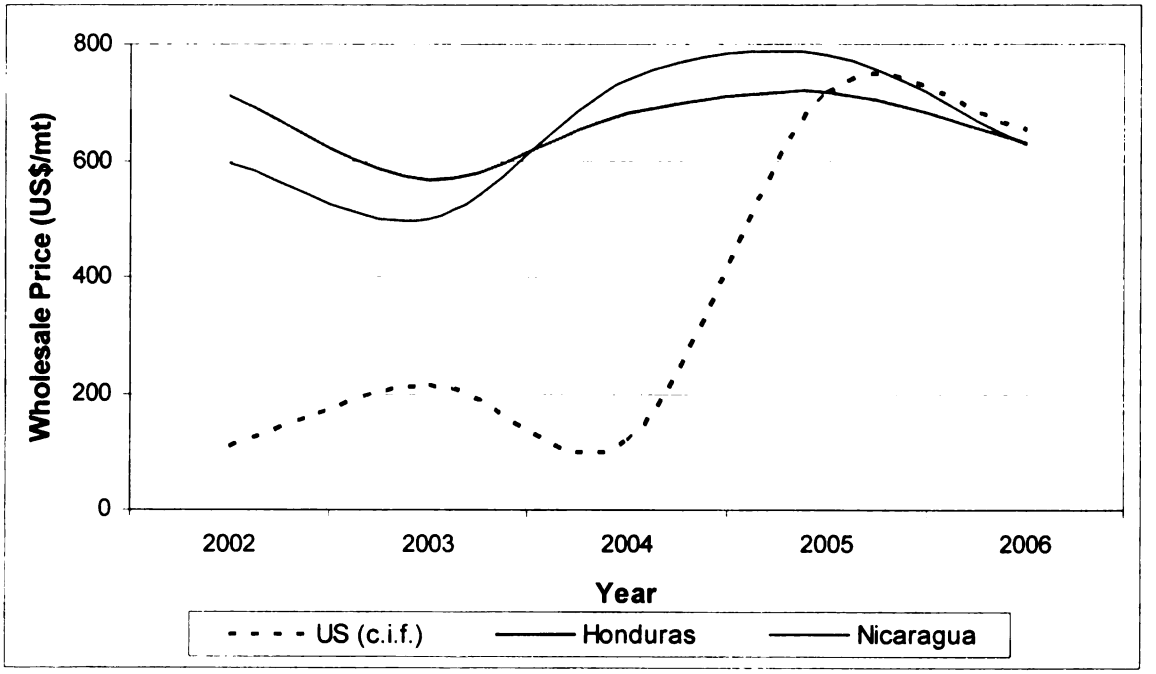
n.a. – not available

Source of basic data: CORECA, except for Honduras' farm gate and wholesale prices, which were sourced from a key informant based on a farm survey and SIMPAH, respectively.

4.5.1.3 *Competitiveness Relative to US Imports*

The price competitiveness of CA beans with respect to imports from the US -- a major trading partner of CA -- was evaluated. Over the five-year period (2002-2006), c.i.f. prices (cost, insurance, and freight) of US bean imports were compared with wholesale prices of beans in selected CA countries (**Figure 4.14 and 4.15**). According to Martinez (2003), while black beans produced in CA are close substitutes for beans imported from the US, no close substitute exist for small red beans. However, since local supply could not meet existing local demand, CA countries still import small red beans (Martinez 2003).

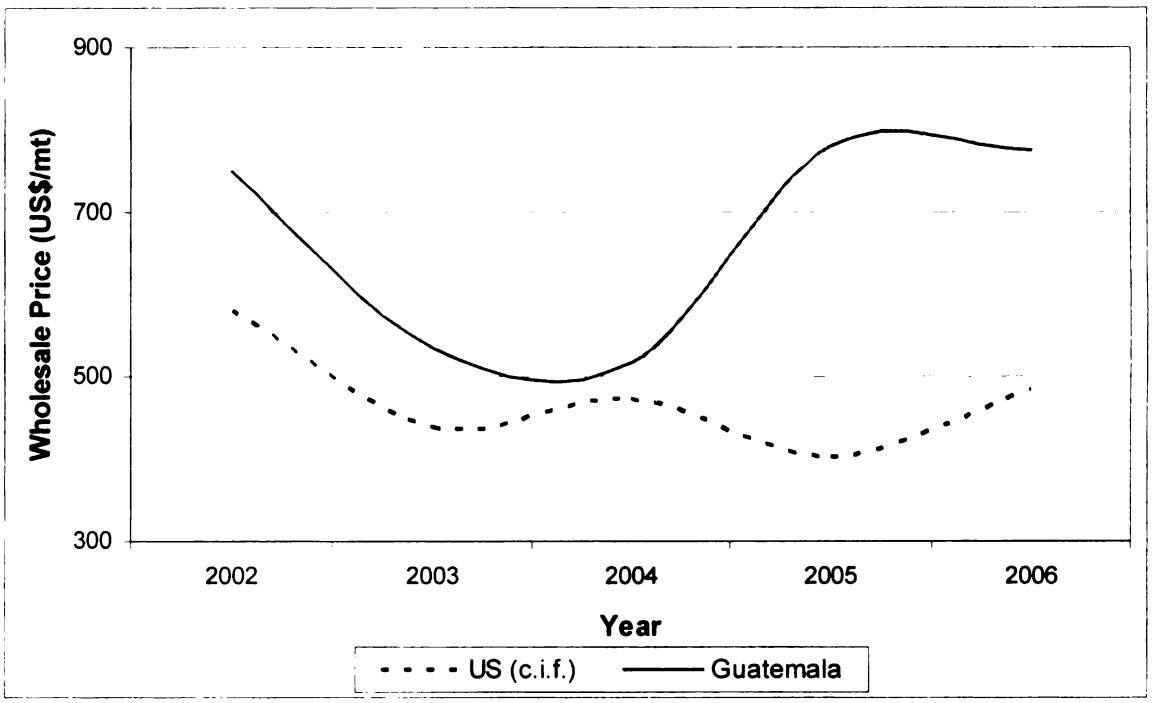
Figure 4.14. Annual Wholesale Prices (nominal) of Small Red Beans in Honduras and Nicaragua, 2002-2006



Note: US' c.i.f. prices quoted at Honduras; Wholesale prices quoted at Tegucigalpa and San Pedro Sula, Honduras; and Managua, Nicaragua

Sources of basic data: CORECA for Honduras (2002-2003) and Nicaragua's wholesale prices
SIMPAH for 2004 to 2006 wholesale prices of Honduras
UN Comtrade Database for c.i.f. prices of US imports

Figure 4.15. Annual Wholesale Prices (nominal) of Black Beans in Guatemala, 2002-2006



Note: US' c.i.f. prices quoted at Guatemala; Wholesale price quoted at Guatemala City, Guatemala.

Sources of basic data: CORECA for Guatemala's wholesale price
SIECA SEC for c.i.f. prices of US imports

Results show that without tariffs[44], US imports were generally more price competitive than local production for both small red and black beans. Trends on import prices also reveal that c.i.f. prices of small red beans were highly unstable (CV=82%), while import prices of black beans were less variable (CV=14%).

On average, during the period (2002-2006), domestic wholesale prices of small red beans were 45 percent higher than US import prices -- although during the last two consecutive years (2005-2006), small red beans produced in Honduras were more competitive than US imports. Alternatively, wholesale prices of black beans produced

[44] Before 2006, CA countries charged a 20 to 40 percent tariff on bean imports from outside the region.

locally (i.e. Guatemala) were 27 percent higher than US imports, implying price non-competitiveness of black beans produced in CA.

4.5.2 *International Trade Rules Affecting the CA Bean Subsector's Competitiveness*

Typically, international trade agreements seek to reduce barriers to trade in order to achieve a liberalized trading system (i.e. conversion of non-tariff barriers to tariffs, elimination of tariff over a time period) among countries. However, since a trade agreement increases access to member countries' markets, sectors that export their products support these agreements, but sectors that face competition from imports normally are opposed to them (Smith, Sumner, Rosson 2002).

The two major trade agreements, which regulate trade in CA and generally affect the agriculture sector, are the World Trade Organization (WTO) and the CAFTA-DR. This section describes these two trade agreements and provides an overview of import regulations/policies of the US, CA's main bean export market.

4.5.2.1 *WTO*[45]

Created on January 1995, the WTO superseded the General Agreement on Tariffs and Trade (GATT). The WTO is mandated to deal "with the rules of trade at a global level" (WTO). It is also a forum for settling trade disputes and the body which enforces the WTO agreements.

WTO agreements, which directly impact international and regional trading in agricultural commodities among CA countries, include: (1) the *Agreement on Agriculture* (AoA), which details rules and commitments on market access, domestic support, and export subsidies; and (2) the *Sanitary and Phytosanitary Measures Agreement* (SPS), which specifies food safety, and animal and plant health standards (WTO).

[45] All of CA countries are members of WTO.

The *AoA* also establishes agricultural tariff commitments and their gradual elimination among member countries over a six-year period (1995-2000) for developed countries and over 10 years (1995-2004) for developing countries. On the other hand, *SPS* measures allow countries to use different standards and different methods for inspecting products (WTO). Hence, the respective governments of countries planning to export to other WTO-member countries must assist their manufacturers and exporters to keep abreast of the latest standards in their prospective markets (WTO).

4.5.2.2 *CAFTA-DR*

The CAFTA-DR is a regional trading agreement between CA countries (i.e. Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), Dominican Republic (DR), and the US. Upon ratification, the trade agreement immediately removed tariffs on more than 80 percent of US exports (i.e. consumer and industrial products) to CA countries and the DR (USTR). It also consolidates and expands the "preferential market access that CA countries have enjoyed in US markets through the Caribbean Basin Initiative[46] (CBI) program" (Jaramillo and Lederman 2006, 1). While ratified in the US in 2005, it took effect in CA countries as follows: El Salvador on March 1, 2006; Honduras on April 1, 2006; Nicaragua on April 1, 2006; and Guatemala on June 1, 2006. Costa Rica is the sole signatory, which has not yet implemented the free trade agreement.

CAFTA-DR also attempts to "assure free interregional trade [among member countries], institute a common external tariff, and coordinate external [trade] negotiations" among CA member countries (Martinez 2003, 95). It is implemented and regulated in CA by the Central American Regional Integration Office (SIECA), which

[46] Eighty percent of CAFTA-DR imports already enter the US duty free under the CBI (USTR). For instance, CA beans enter the US market duty-free through this program.

also establishes common trading procedures among CA countries. However, each CA member country also has its own specific regulations for importing and exporting, which sometimes create confusion and result in additional costs to importers and exporters[47] (Gonzales-Velasquez et al. 2000, as cited by Martinez 2003).

Provisions of CAFTA-DR specify the gradual elimination of tariffs on basic grains, such as rice, beans, and corn. As such, a criticism of the trade agreement is its potential negative impact on smallholder producers of CA countries, who can not compete with agricultural imports. For instance, before CAFTA-DR, the levied tariffs on beans -- a highly protected subsector -- ranged from 20 to 40 percent (Martinez 2003). As of January 2008, all CA countries levied a 30 percent tariff on small red beans, while the tariff level on black beans vary by country, ranging from 15 percent (Honduras) to 30 percent (Costa Rica, El Salvador, Costa Rica) (SIECA Database). The removal of tariffs on beans may potentially disadvantage bean producers -- a majority of whom are smallholders. Thus, implications of CAFTA-DR and its success critically depend on "the ability of the CA countries to pursue a complimentary policy agenda" via enabling policies, which will facilitate trade (e.g. infrastructure, market information) (Jaramillo and Lederman 2006, 2).

4.5.2.3 *US Import Regulations*

This section identifies major import regulations of the US, the main export market for CA beans. Although agricultural imports of the US are normally subjected to low import duties/tariffs, the US imposes non-tariff barriers in the form of strict standards and

[47] For more information on government and commercial websites detailing country specific agricultural export procedures, visit the following websites: Costa Rica: http://www.cnp.go.cr/index.php; El Salvador: http://www.elsalvadortrade.com.sv/?cat=3; Guatemala: http://portal.maga.gob.gt/portal/page/portal/uc_upie /agronegocios; Honduras: http://www.hondurassiexporta.hn/export_pre_.php?pagp_id=67&orden_ id=13; Nicaragua: http://www.cetrex.com.ni/.

regulations on quality and grade, and "restrictions necessary to protect human, animal, and plant health" (USDA FAS 1999). General policies affecting agricultural and food imports mostly focus on food safety standards and labeling requirements for imported food. For instance, compliance with the provisions of the *Federal Food, Drug, and Cosmetic* (FD&C) *Act* (1938) and *Fair Packaging and Labeling Act* (1966) generally "require that the food product be safe, clean and wholesome, and its labeling[48] be honest and informative" (USDA FAS 1999). The *FD&C Act* also embodies provisions on "standards of identity and quality...for a variety of products...[to] give consumers some guarantee of the kind and major ingredients in these products" (USDA FAS 1999).

In addition to these policies, government agencies[49] guarantee "safety and wholesomeness of US food products... through pre-market clearances, mandatory production practices, inspections, and random, ongoing sampling" (USDA FAS 1999). This also implies that food safety standards implemented domestically also apply to imported food. For beans, US quality standards are developed by the Federal Grain Inspection Service[50] (FGIS). Also, a separate US standard applies for processed beans[51].

4.6 The CA Bean Subsector and Fair Trade

The CA bean subsector faces innumerable challenges with the advent of CAFTA-DR. The availability of cheap imports from the US threatens the region's domestic bean subsector. Since many smallholder producers depend on bean production as a source of income and food for home consumption, it is crucial for CA countries' governments to

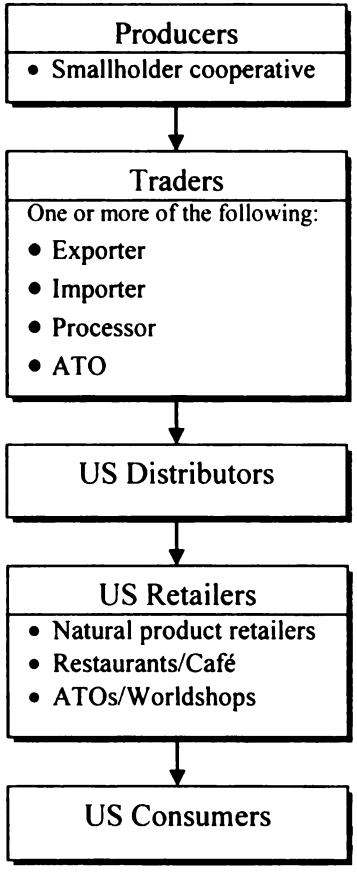
[48] For detailed labeling requirements on imported agricultural and food products, refer to http://www.fas.usda.gov/itp/ofsts/us.html.
[49] For focal agencies involved in implementing and regulating policies on agricultural and food imports, refer to http://www.fas.usda.gov/itp/ofsts/us.html.
[50] US Standards for beans are available at http://archive.gipsa.usda.gov/reference-library/standards/Bean-Standards.pdf (i.e. amount of brokens, moisture content, etc.).
[51] US Standards for canned dried beans, canned pork and beans, and canned baked beans are available at http://www.ams.usda.gov/standards/BEANBAKD.PDF.

implement policies which make bean production more competitive and thereby complement CAFTA-DR. However, in the short run, CA countries will find it difficult to implement complementary policies required to increase productivity such as investments to strengthen market infrastructure (e.g. roads, market information), provide greater access to credit, strengthen research capacity, and expand access to extension services.

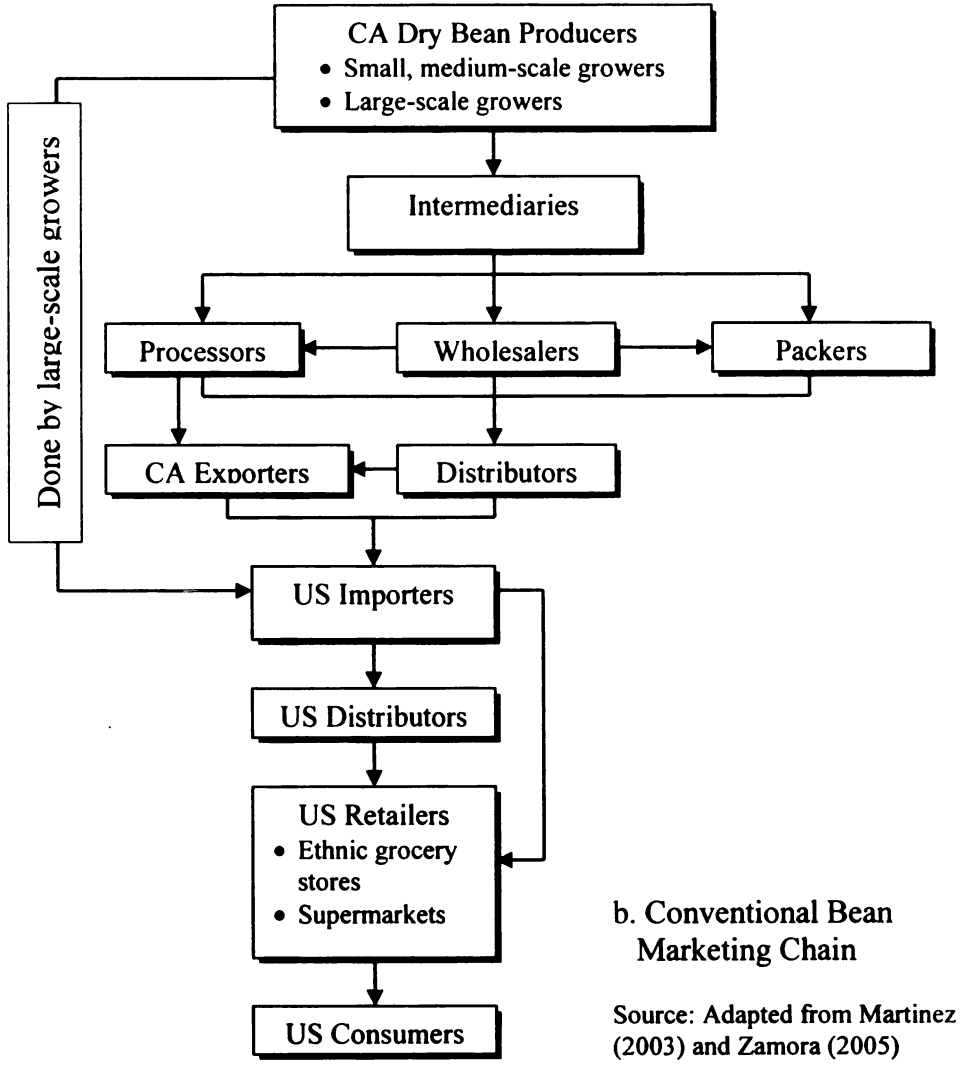
Another major challenge facing smallholder bean producers in the region is their exclusion from local markets, due to the increasing dominance of supermarkets as buyers. Supermarkets normally have stringent quality and quantity standards that most small producers can not meet, due to limited access to productivity- and quality-enhancing technologies. Thus, pursuing a strategy that would enable smallholder producers to seize opportunities and minimize threats brought about by globalization, such as marketing fair trade beans, may potentially help the region's smallholder bean producers.

Developing a market in the US for fair trade beans has the potential to increase farm incomes of smallholder bean producers of the region, mainly through expanding market access and capacity building (e.g. networking, training). First and foremost, since fair trade facilitates direct and long term relationship between smallholder producers and buyers from developed countries, it provides smallholders direct access to target markets via a shortened marketing chain. Thus, the route for marketing fair trade beans to US consumers would be shorter (i.e. involves fewer agents) than the typical way of marketing conventional beans of CA origin in the US (**Figure 4.16**).

Figure 4.16. Fair Trade vs. Conventional Bean Marketing Chain



a. Potential Fair Trade Bean Marketing Chain



b. Conventional Bean Marketing Chain

Source: Adapted from Martinez (2003) and Zamora (2005)

Secondly, fair trade may also provide incentives for producers to improve on bean quality (e.g. content of foreign matter, humidity, amount of brokens) and add value to their products by paying producers a fair price[52], awarding them social and organic premiums, and providing them with pre-financing.

As fair trade requires smallholders to be democratically organized into associations or cooperatives, it would allow smallholder bean producers to add value by jointly grading, sorting, and packaging their products to maintain consistent quality. Also, capacity building of the organization (i.e. the ability to network and seek new opportunities from previous linkages) is a strong advantage of fair trade, as experienced by small producers marketing fair trade coffee (Murray, Raynolds, and Taylor 2003). Capacity building is also enhanced through the social premium awarded to associations, which they can invest in trainings and skills building of smallholder bean producers. Thus, fair trade offers bright prospects to help smallholder bean producers improve their competitiveness and thereby capitalize on the opportunities presented by globalization.

4.7 Chapter Summary

Beans are the second most important basic grain in CA -- a major staple among the CA population and a main source of income for smallholder producers. Beans are a semi-subsistence crop, grown in hillside areas (80% of planted area). Also, typical bean farms are fragmented and dispersed, which makes it difficult for producers to market their beans.

The dominant bean market classes grown in the region are small red and black beans. Small red beans are primarily produced in El Salvador, Honduras, and Nicaragua,

[52] A fair price must produce both an adequate remuneration for the amount and type of work performed (Tarabella and Santoprete 2000). It must cover at least the cost of production for beans. For an analysis of small red bean prices in the US, using the case of Honduras as exporter, refer to **Appendix G.**

while black beans are mainly grown in Guatemala and Costa Rica. This production pattern reflects differences in consumer preferences among countries in the region. Furthermore, growth in production and harvested area for beans in the region was sluggish, averaging one percent and two percent per annum (2001-2005), respectively.

Bean marketing channels are similar across countries in the region. Since most bean producers are semi-subsistence producers, they keep some of their production for home consumption and sell the rest at rural markets, or to traditional, or non-traditional intermediaries. Non-traditional intermediaries follow rigid quality standards and supply the needs of the increasingly consolidated processing and retail sectors. In recent years, supermarkets have also become increasingly important in the retail sector as buyers and suppliers of the agrifood industry.

Over the period (2001-2005), imports averaged 13 percent of the region's total bean supply, with Costa Rica and El Salvador accounting for most of the region's bean imports. On the other hand, Nicaragua accounted for more than one-half of CA's exports, followed by Honduras. Although during the period, the region's bean imports outstripped exports, in recent years, bean exports to the US have been increasing. Exports are facilitated by US-based importers with representatives in CA who procure beans for them. These importers generally distribute beans to ethnic grocery stores and some US supermarkets in cities with a high concentration of Hispanic population. A major driver of this growing demand for CA beans is the rise of ethnic food restaurants and Hispanics of CA descent living in the US. However, exports of beans are constrained by strict quality standards in US markets and the inability of CA bean suppliers to meet other demand requirements of US buyers (i.e. quantity). Although there is still unmet demand

in this niche market, smallholder bean producers' participation is limited or lacking in the supply chain.

The domestic competitiveness of CA beans was assessed using an analysis of price trends and an evaluation of their price competitiveness with US imports. Results show that there is a pronounced seasonality present in CA bean production, which can be tied to factors that lessen competitiveness of the bean subsector (e.g. lack of storage facilities, high storage costs). Furthermore, marketing margins from farm gate to retail level for small red and black beans ranged from 35 percent (El Salvador) to 46 percent (Costa Rica) in 2006. These two factors (seasonality and marketing margin) reflect the level of competitiveness of the CA bean subsector.

In general, CA beans were not price competitive with US imports over the period 2002 to 2006. Domestic prices for small red beans were 45 percent higher than the prices of beans imported from the US, while local black bean prices were higher by 27 percent. However, in the last two years (2005-2006), CA small red beans (particularly Honduras) appeared to be price competitive with US imports, thereby showing prospects for the subsector.

With the advent of CAFTA-DR and other liberalization policies, as well as the impacts of globalization trends, the CA bean subsector faces innumerable challenges. CAFTA-DR poses a threat to local bean producers, who may not be able to compete with US imports. The increasing importance of supermarkets as buyers also threatens to exclude smallholder bean producers from local markets. Hence, exploring a niche market in developed countries may present an opportunity for small producers to raise their farm incomes and generally improve the competitiveness of the region's bean subsector.

Specifically, developing a market for fair trade beans in the US offers great prospects and benefits for the region's smallholder bean producers, primarily through providing access to a new market (via a differentiated bean product) and capacity building among the region's smallholder bean producers.

CHAPTER 5
DEMAND TRENDS IN THE US DRY BEAN SUBSECTOR

This chapter characterizes US demand trends for dry beans, specifically per capita disappearance[53], and import demand for beans of Central American (CA) origin. It also documents general consumption patterns for cooked dry beans[54] among US consumers based on past studies. Furthermore, an analysis of the driving forces, which determine current and future demand for dry beans, are presented to help assess potential market for new bean products, particularly fair trade beans in the US.

5.1 Demand Trends

Approximately 70 percent of US dry bean production is consumed domestically, while the rest is exported (Punjabi 2005). Most of the dry beans produced in the US are sold to processors, except for pinto beans for which only 10 percent of production is processed. Industry sources estimate that around 70 percent of the bean supply is consumed in processed/canned form, while 30 percent are bought as bagged beans (Punjabi 2005). For processed beans, "most are sold as canned beans, while the rest are processed as dry bean soup, chili, and other products" (Punjabi 2005, 30).

While a majority of US consumers buy their beans in supermarkets, bean sales at restaurants are an increasingly important marketing channel[55] (Punjabi 2005). Various bean products are sold in supermarkets, including branded canned beans, bagged beans, soup mixes, chili, baked beans, organic bean products, and supermarkets' own-label

---

[53] Per capita disappearance corresponds to the net available domestic supply for consumption (i.e. it reflects domestic production, net trade, and change in stocks).

[54] Dry beans include species of common beans (e.g. pinto, small reds, black beans, navy) and other species including lima, garbanzo, mung, adzuki beans. In this chapter, beans refer to dry beans.

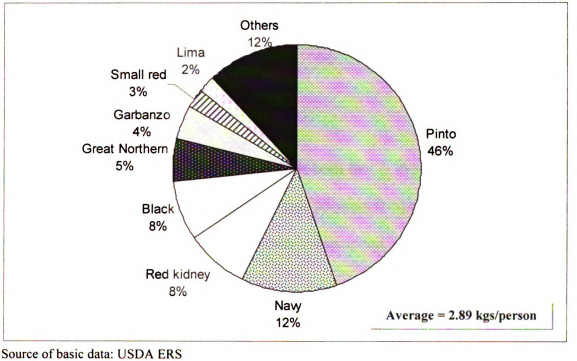
[55] "Both supermarket sales and restaurant use of dry edible beans has increased in the past decade" (Punjabi 2005, 27).

brands. On the other hand, restaurant sales mostly feature beans as an ingredient in burritos, soups, dips, and tacos.

5.1.1 *Annual Per Capita Disappearance*

Over the period 2002 to 2006, total dry beans available for consumption averaged 2.89 kilograms per person per annum[56]. The market classes that accounted for the bulk of consumption were pinto beans (46%), followed by navy (12%), red kidney (8%), and black (8%) beans (**Figure 5.1**).

Figure 5.1. Share on Average Dry Bean Per Capita Disappearance by Market Class, US, 2002-2006



Source of basic data: USDA ERS

Although per capita disappearance for all beans decreased by one percent per annum (2002-2006) due to a declining supply of pinto, great northern, and lima beans; consumption of other bean market classes has increased. Small red bean consumption

[56] Interpretation of data on per capita disappearance should be taken with caution since these data include "spoilage/waste accumulated through the marketing system and in the home,[hence], the data typically overstate actual consumption" (Lucier et al. 2000, 28).

registered the highest increase (29%), followed by garbanzo (19%), black beans (5%), navy beans (4%), and red kidney beans (3%) (**Table 5.1**).

Table 5.1. Dry Bean Per Capita Disappearance by Market Class, US, 2002-2006

Year	Market Class (kgs/person)							
	Pinto	Navy	Red Kidney	Black	Great Northern	Small Red	Garbanzo	Lima
2002	1.47	0.41	0.22	0.21	0.16	0.04	0.13	0.07
2003	1.38	0.39	0.27	0.21	0.19	0.08	0.08	0.07
2004	1.25	0.25	0.22	0.24	0.15	0.07	0.11	0.06
2005	1.16	0.33	0.28	0.22	0.13	0.11	0.13	0.06
2006	1.21	0.41	0.23	0.25	0.14	0.09	0.20	0.05
Average (kgs/capita)	1.29	0.36	0.24	0.23	0.16	0.08	0.13	0.06
SD	0.13	0.07	0.03	0.02	0.02	0.03	0.04	0.01
CV	10%	19%	11%	8%	15%	33%	34%	12%
Annual Growth Rate	-5%	4%	3%	5%	-3%	29%	19%	-7%

Source of basic data: USDA ERS

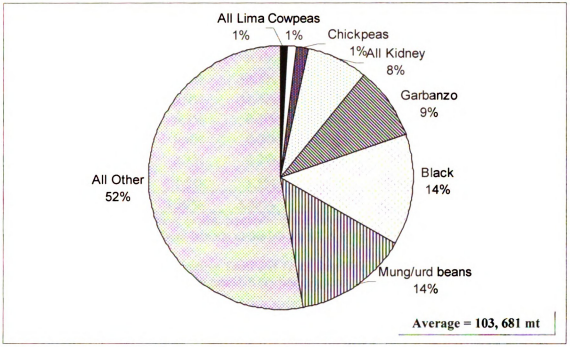
5.1.2 *Import Demand*

Historically, US dry bean imports have been low -- averaging about four to six percent of domestic consumption over the past 20 years (USDA ERS). Currently, bean imports average about 10 percent of dry bean consumption, although this varies by bean market class[57] (USDA ERS).

Over the period 2002 to 2006, total US bean imports averaged 103,681 mt. Close to a one-half of these imports were mung (14%), black (14%), garbanzo (9%), kidney (8%), and chickpeas, cowpeas, and lima beans -- each with a one percent share (**Figure 5.2**).

[57] For instance, a high of 20 percent for black beans while 12 percent for garbanzo beans (USDA ERS).

Figure 5.2. Average Volume of Imports by Market Class, US, 2002-2006



Note: All other include navy, black, great northern, pinto, small red, other white, and miscellaneous beans.

Source of basic data: USDA ERS

Although most US bean imports come from Canada, China, and Mexico, imports from CA countries have been growing. On average, imports from CA have increased by 21 percent (CV=28%) per year since 2001[58], due to a strong demand among consumers of CA origin for beans produced in their home country, as well as the rise in ethnic food restaurants in the US.

Over the period 2001 to 2005, CA countries accounted for approximately five percent of total US bean imports, which grew at an annual rate of 28 percent[59] (**Table 5.2**).

[58] Detailed dry bean imports of the US from CA are shown in **Appendix H**.

[59] As reported in Chapter 4, almost all beans produced in CA are of two market classes -- small reds and black beans. Hence, US bean imports from CA were clearly misclassified at the US port of entry.

Table 5.2. Imports from CA as a Share of Total US Dry Bean Imports by Market Class, 2001-2005

Market Class	2001	2002	2003	2004	2005	Average
Black	1.7%	0.1%	1.6%	1.1%	1.8%	1.3%
Dark red kidney	48.9%	30.2%	22.5%	24.9%	22.8%	29.9%
Light red kidney	42.9%	41.4%	59.3%	41.5%	53.0%	47.6%
Other lima	6.3%	0.2%	0.0%	0.0%	0.0%	1.3%
Cowpeas	0.0%	0.0%	2.3%	0.0%	0.0%	0.5%
Mung/urd beans	2.1%	3.2%	3.9%	4.5%	6.5%	4.0%
All other[1]	1.5%	1.5%	2.5%	1.6%	3.6%	2.1%
Total[2]	**3.30%**	**3.08%**	**5.76%**	**4.52%**	**6.84%**	**4.70%**

[1]All other include small red, navy or pea, cranberry, pinto, other red kidney, etc.
[2]Percentage share of total dry bean imports of the US from CA to total dry bean imports of the US.

Sources of basic data: USITC Interactive Tariff and Trade DataWeb for imports from CA
USDA ERS for total US dry bean imports

Table 5.3 details US bean imports from CA by market class during the period 2001 to 2005. According to these data, on average, imports of kidney beans (i.e. light red, dark red, and other kidney) constituted the bulk (62%) of the total US imports from the CA region. Trends in imports of beans from CA also indicate that demand for small red, black, kidney, and mung beans from the region has been growing in the US. However, as reported in Chapter 4, almost all beans produced in CA are of two market classes -- small reds and black beans. Thus, it is clear that market classes of US bean imports from CA were incorrectly identified at the port of entry. For example, it is likely that light red kidney and dark red kidney are actually small red beans.

Table 5.3. US Dry Bean Imports (mt) from CA, 2001-2005

Market Class	2001	2002	2003	2004	2005	Ave.	SD	CV	Annual GR[2]
Light red kidney	859.2	1,361.4	2,119.9	1,617.8	2,262.2	1,644.1	571.2	35%	33%
Dark red kidney	1,067.0	976.2	757.7	922.4	1,170.5	978.8	155.4	16%	4%
Other kidney	207.8	170.2	430.8	304.7	479.9	318.7	135.2	42%	41%
Mung bean	268.8	458.4	539.6	622.9	873.1	552.6	222.1	40%	36%
Small red	534.9	551.5	340.3	223.0	957.1	521.3	279.6	54%	65%
Pinto	130.0	115.0	143.8	125.6	123.2	127.5	10.6	8%	0%
Black	190.2	19.2	144.8	102.5	156.3	122.6	65.8	54%	147%
All other[1]	397.0	274.2	513.4	340.1	965.5	498.0	275.7	55%	52%
Total	**3,655.0**	**3,926.0**	**4,990.3**	**4,259.0**	**6,987.9**	**4,763.6**	**1,340.1**	**28%**	**21%**

[1]All other include navy or pea, cowpea, cranberry, other white, other lima, etc.
[2]For the average annual growth rate (GR), the formula used is (Year 2 – Year 1)/Year 1)*100%.
Note: Summarized based on **Appendix H**.

Source of basic data: USITC Interactive Tariff and Trade DataWeb

5.2 Dry Bean Consumption Patterns

A limited number of studies have analyzed US dry bean consumption patterns. Consumption estimates are usually based on the per capita disappearance data compiled by USDA ERS, which reflects trends in domestic availability of bean market classes. These data indicate that dry bean consumption increased in the 1990s (3.41 kgs/person/year, from 2.91 kgs/person/year in the 1980s), but declined during the 2000s (3 kgs/person/year) -- a reduction of 12 percent from the previous decade.

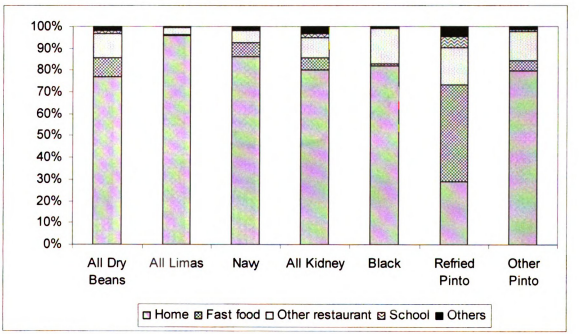
On the other hand, household level consumption survey done by the USDA Agricultural Research Service (ARS) in 1994 to 1996 revealed that "nearly 14 percent of Americans consumed at least one food containing cooked dry beans" on any given day (Lucier, Lin, Allshouse, and Kantor 2000, 27). These survey data was also used by Lucier et al. (2000) to determine factors affecting cooked dry bean consumption in the US,

which include several socio-demographic factors such as location, region, urbanization, ethnicity, age and gender, and income (**Appendix I**). Results of Lucier et al.'s (2000) analysis are detailed in this section.

5.2.1 *Location: At Home vs. Away from Home Consumption*

Cooked dry beans were mostly (77%) consumed "at home" (i.e. prepared at home) or "obtained at retail stores" with the exception of refried pintos, which are mostly eaten away from home (71%) (Lucier et al. 2000). However, a growing segment of the cooked dry bean market eats "away from home" (i.e. restaurants, fast food chains, schools). For instance, dry beans eaten at restaurants accounted for 11 percent of the total cooked bean market, while fast food chains (e.g. Taco Bell, KFC, Chipotle) accounted for nine percent (**Figure 5.3**).

Figure 5.3. Average Share on Cooked Dry Bean Consumption by Market Class and Location, US, 1994-1996



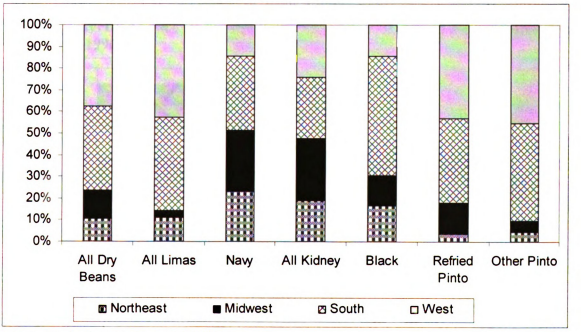
Source: Lucier et al. (2000)

An interesting finding by Lucier et al. (2000) suggests that the majority of cooked black beans consumed away from home were eaten at restaurants (16%) other than fast foods and at schools. This finding "reflects the dual nature of black beans as both an upscale [and] trendy bean, [as well as] a basic food" (Lucier et al. 2000).

5.2.2 *Regional*

Consumption of cooked dry beans was concentrated in the South (39%) and the West (38%) (**Figure 5.4**). Consumers in the South dominated consumption of cooked black beans (55%), all limas (43%), and navy beans (34%). On the other hand, consumers from the West primarily consumed cooked pinto beans (45%), as well as refried pintos (43%). This trend was mainly attributed to concentration of the Hispanic population in cities of these regions (i.e. California, Florida, and Texas).

Figure 5.4. Average Share on Cooked Dry Bean Consumption by Market Class and Region, US, 1994-1996



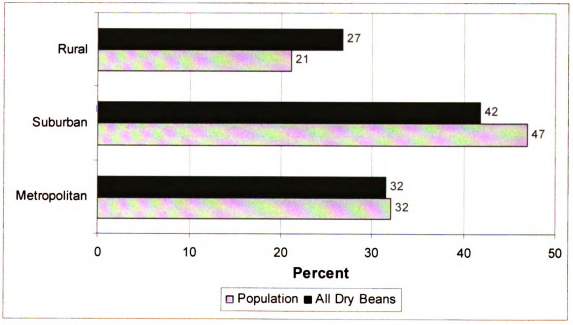
Source of basic data: Lucier et al. (2000)

Although 43 percent of the US population resided in the Midwest and Northeast, these regions accounted for only 13 percent and 11 percent of the total cooked dry bean market, respectively. Despite this, the Midwest was the main market of cooked kidney beans (29%), while consumers in the Northeast were the second largest consumer of cooked black beans (17%).

5.2.3 *Urbanization*

Although "bean consumption is proportionately stronger in rural areas," (Lucier et al. 2000, 31), consumers residing in suburban areas accounted for the greatest share (42%) in the total consumption of cooked dry beans during the survey period (1994-1996) (**Figure 5.5**). They were followed by consumers in the metropolitan/urban areas (32%), and lastly by rural consumers (27%). Furthermore, it is interesting to note that most of the cooked black (42%) and navy (39%) beans were consumed in metropolitan/urban areas.

Figure 5.5. Average Share on Cooked Dry Bean Consumption by Urbanization, US, 1994-1996



Source of basic data: Lucier et al. (2000)

5.2.4 *Race/Ethnicity*

The US Census Bureau data projects that the Hispanic population will increase by 34 percent during the period 2000 to 2010 (from 36 million to 48 million), compared to an estimated 10 percent increase in the total US population. It is assumed by many that the rapid increase in the Hispanic population stimulated the growth in demand for dry beans in the US, although they only represent 13 percent of total US population (based on the 2000 census).

Although the Hispanic population constituted only 11 percent of the respondents during the period of the ARS survey, this market segment accounted for 33 percent of the cooked dry bean market (Lucier et al. 2000). Hispanics originating from Mexico consumed the most cooked dry beans (21% of the total volume of cooked dry beans in the US), approximately four times the proportion of their population (5% of total US population) (Lucier et al. 2000).

Consumption of cooked dry beans by market class differed by ethnicity. Non-Hispanic, white consumers consumed most of the refried pintos (74% of total cooked refried pintos), black beans (71% of total cooked black beans), and kidney beans (69% of total cooked kidney beans). In contrast, Hispanics mainly consumed pinto beans (48% of total cooked pintos). However, Hispanics were a significant market for dry beans of all market classes, except cowpeas and garbanzo beans (Lucier et al. 2000). Hispanics of Mexican origin were the most important consumers of cooked pinto and lima beans (Lucier et al. 2000), while Hispanics of CA and Caribbean origin preferred black and small red beans (Lucier et al. 2000; Zamora 2005).

Ethnicity also affects preferences of US consumers for dry beans from a specific country of origin (i.e. other than the US). For instance, a study by Zamora (2005) revealed that approximately 69 percent of the total volume of dry beans consumed by consumers of CA origin come from their home country, specifically small red beans (80% of their total small red bean consumption) (**Table 5.4**).

Table 5.4. Average Dry Bean Consumption by Country of Origin of US Consumers of CA Descent, US, 2004

Market Class	CA		US		Total Volume (kgs/person/yr)
	volume (kgs/person/yr)	share	volume (kgs/person/yr)	share	
Small Red	16.81	79.5%	4.33	20.5%	21.14
Black	4.50	42.5%	6.08	57.5%	10.58
Red Silk	7.81	100.0%	0	0%	7.81
Others	0.27	9.7%	2.51	90.3%	2.78
Total	**29.39**	**69.5%**	**12.92**	**30.5%**	**42.31**

Source of basic data: Zamora (2005)

5.2.5 *Gender and Age*

The consumption of cooked dry beans differed by age and gender (Lucier et al. 2000). A majority (61%) of cooked dry beans were consumed by the male population, with males in the age bracket 20 to 59 years old consuming the greatest volume (41% of total cooked dry bean volume). This is largely attributed to their greater caloric needs than females (Lucier et al. 2000).

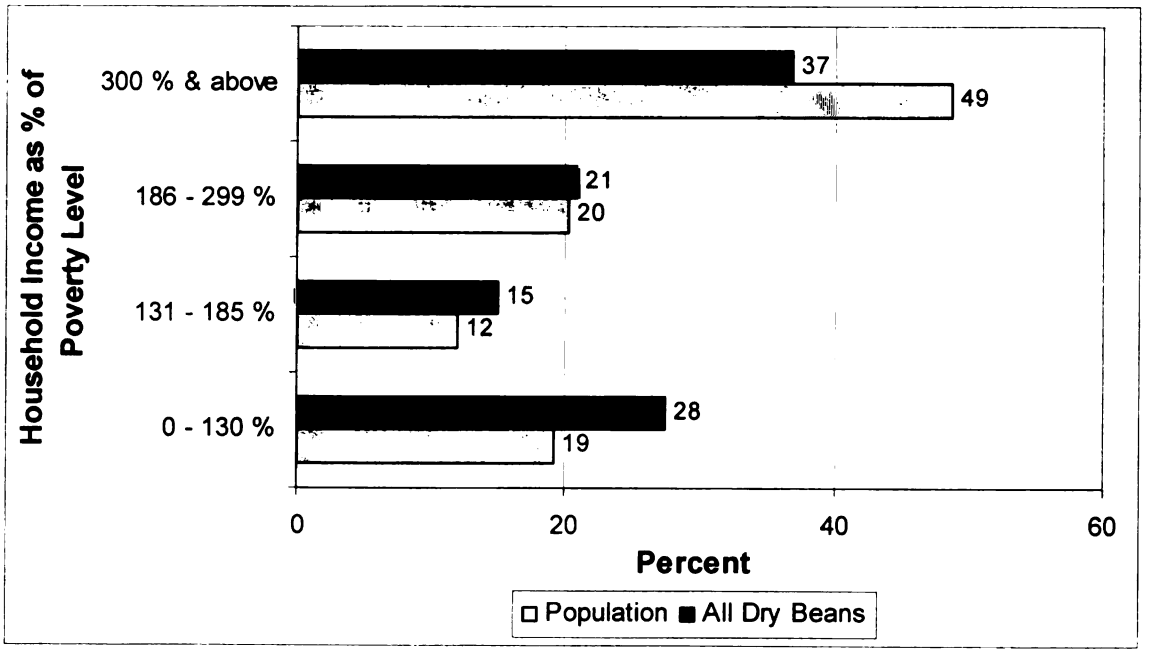
5.2.6 *Income*

Consumers' level of income is inversely related to the consumption of dry beans (Lucier et al. 2000). Consumers in the lowest income bracket (i.e. with income less than 130% of the poverty level) consumed 27 percent of the total volume of cooked dry beans, although they constituted only 19 percent of the total population (**Figure 5.6**). This implies that low-income consumers perceive beans as a cheap source of protein. This

trend may also be influenced by the fact that the incidence of poverty is highest among consumers of Hispanic descent -- the major consumers of dry beans (Lucier et al. 2000).

In contrast, high income consumers (i.e. with income above 300% of the poverty level), which equaled 49 percent of the population, accounted for 37 percent of the total consumption of cooked dry beans. Although in general, high income consumers' cooked dry bean consumption was the least in terms of proportion (i.e. ratio of cooked dry beans' market share to the proportion of population), their consumption of black beans was the highest in terms of market share and proportion. Likewise, garbanzo beans, which are a popular ingredient in salad beans, were mostly consumed by high end consumers in the West (Lucier et al. 2000).

Figure 5.6. Average Share on Cooked Dry Bean Consumption by Income as a Percentage of Poverty Level, US, 1994-1996



Source of basic data: Lucier et al. (2000)

5.3 Major Demand Drivers

Identifying the major drivers, which affect the demand for dry beans, provides a quick assessment of the unmet consumer needs in the dry bean subsector. According to an industry study by Knudson and Peterson (2005), there are five major demand drivers, which affect the agrifood system. These demand drivers -- convenience, value, ethnicity, wellness, and indulgence -- aid in assessing the marketability of an existing product, as well as the potentials of new ones.

Using this approach, Knudson and Peterson (2005) assessed market opportunities for dry beans. Their study suggests that the greatest opportunity to increase dry bean product sales is to focus on meeting the wellness and ethnicity components -- wellness, in terms of offering low sodium but good tasting soups, as well as improvement in product labeling (e.g. stressing the health benefits of dry beans in bagged and canned products); and ethnicity by capitalizing on the rising Hispanic market. This section evaluates the additional potentials for increasing sales by offering a new dry bean product, specifically fair trade beans in the US market using the major demand drivers identified by Knudson and Peterson (2005).

5.3.1 *Convenience*

Knudson and Peterson (2005, 23) define convenience as "anything that makes life easier for the consumer", including ready-to-eat or partially prepared foods. Convenience also reflects ease of buying (availability) and ease of product preparation (time and steps/processes required). This demand driver is becoming increasingly important in today's marketplace, due to the time constraints of households brought about by a declining household size and rising participation of women in the labor force (Knudson

and Peterson 2005). Most US households which have income of $75,000 or more are willing to sacrifice money to save time -- implying that they are willing to pay a premium for conveniently prepared food products (Knudson and Peterson 2005).

Dry beans are considered an inconvenient food product in terms of ease of preparation and time required to prepare them. This puts dry beans at a slight disadvantage, especially bagged beans, since not everyone knows how to prepare them and it takes a relatively long time to cook them. However, beans as an ingredient in soups and chilis have an attribute of convenience (e.g. microwaveable soups) (Knudson and Peterson 2005). Also, including recipes and instructions for preparation with the bean product (bagged or canned) can mitigate the inconvenience feature of dry beans. Options to combine the convenience appeal with other demand drivers such as wellness, offers opportunities to expand to other dry bean products (Knudson and Peterson 2005).

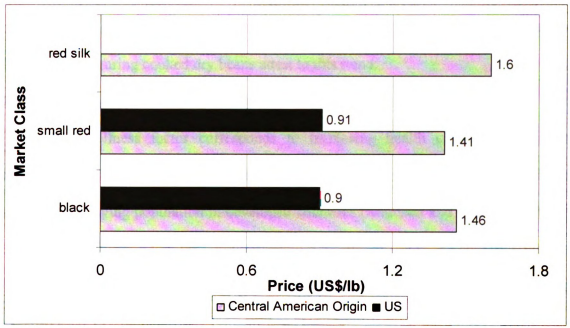
5.3.2 *Value*

Value reflects the ability of a product to meet consumers' needs at a low price "coupled with a basic level of performance" (Knudson and Peterson 2005, 25). This demand driver is especially important for price-sensitive consumers, such as those belonging to the low-income bracket.

In the case of dry beans, which are considered as a commodity/undifferentiated product, price is of utmost importance for consumers (Knudson and Peterson 2005). However, a study of the buying behavior of US consumers of CA origin revealed that they are willing to pay a premium of 25 to 50 percent for beans from their home country (**Figure 5.7**). This implies that although dry beans are relatively inexpensive products and that most consumers do not differentiate among dry bean products; some consumers still

look for the quality attributes that they desire in dry beans and are willing to pay more for these attributes. Since the major goal of this study is to market fair trade beans grown by CA producers, selling this product to US consumers would require them to be willing to pay a premium for the quality attributes embedded in the product (e.g. fair trade, organic). Hence, the ability of fair trade beans to appeal to value as a demand driver is very limited.

Figure 5.7. Average Retail Price of Dry Beans by Market Class and Country of Origin, US, 2004



Source of basic data: Zamora (2005)

5.3.3 *Ethnicity*

Ethnicity is another major driver affecting the demand for dry beans. Ethnic diversity and "globalization of tastes" greatly contribute to the increasing demand for ethnic foods such as dry beans in developed countries (Knudson and Peterson 2005; Punjabi 2005). For instance, the growing ethnic diversity, specifically of Hispanics in the US, is assumed to be a major driver of the US' dry bean demand (Lucier et al. 2000).

Currently, there is an increasing trend among ethnic consumers to purchase beans imported from their country of origin (e.g. beans of CA origin), as mentioned in the previous sections of this chapter.

Increasing affluence also contributes to the globalization of US consumers' tastes. As affluent consumers travel and eat specialty foods abroad, awareness and interest on these types of food increases. Hence, consumers in developed countries, increasingly demand ethnic foods. For instance, there has been a growing interest among US consumers in Mexican and CA cuisines, which mostly use "pinto, black and other colored beans" (Punjabi 2005, 19). The rising acceptance of gourmet restaurants and fast food chains featuring cooked dry beans attest to this trend.

5.3.4 *Wellness*

The wellness factor corresponds to increasing health consciousness among consumers, their food safety concerns (Knudson and Peterson 2005; Punjabi 2005), and the growth of aging population in developed countries (Knudson and Peterson 2005). As dry beans are an important part of a healthy diet recommended in the *Dietary Guidelines for Americans*[60], they easily satisfy the wellness demand driver. Aside from this, beans are also rich in "dietary fiber [which] has numerous proven health benefits, such as reducing the risk of heart disease and some cancers, [as well as] promoting regularity and helping with weight maintenance" (Beans for Health).

Market trends showing the importance of wellness as a demand driver are exhibited in the growth of the organic market, which is driven more by the desire of

[60] The Dietary Guidelines for Americans recommends US consumers to consume "at least three cups of beans per week... for a 2000 calorie diet and may vary depending on higher or lower calorie levels" (Beans for Health).

consumers to eat safe foods[61], than environmental concerns (Mintel, as cited by Knudson and Peterson 2005). Also, in today's marketplace, there is a proliferation of food products with "food minus" (e.g. low fat, low sugar, low sodium, low cholesterol) and "food plus" (e.g. all natural, organic, added fiber) claims, which reflects changing consumer attitudes toward healthy food (Knudson and Peterson 2005). If fair trade beans include organic attributes, which implies non-use of synthetic chemicals in farming; this may further strengthen their appeal to wellness as a demand driver.

5.3.5 *Indulgence*

Indulgence as a demand driver reflects the ability of a product to appeal to values held by consumers (Knudson and Peterson 2005). A major driving force of indulgence is affluence. Affluence promotes consumption of upscale and trendy products. Also, "affluent, less price conscious consumers look for products that satisfy more than their [basic] needs" (Knudson and Peterson 2005, 23). In this case, consumers -- especially affluent ones -- want to consume foods, which enhance their lifestyle, values, and beliefs (Knudson and Peterson 2005, 23). For instance, the rising consumption of ethical foods (e.g. fair trade, organic, animal-safe) in the US reflects consumers heightened awareness of and concern on their environment and the social conditions of the people who produce their food.

Dry beans can be positioned in the market to appeal to consumers' "indulgences", if they are positioned as a gourmet or trendy product (Knudson and Peterson 2005; Sam's Club's Sr. Vice President of Marketing, Research and Insights, pers. comm. June 29, 2007; Global Exchange's Buyer and Project Manager, pers. comm. September 4, 2007).

[61] Also discussed in Chapter 3.2.2.

For example, Knudson and Peterson (2005) argue that companies can incorporate indulgence and convenience, as part of the product attributes of beans in soups.

In terms of fair trade beans, they have the greatest potential to appeal to indulgence as a demand driver, which enhances consumers' lifestyle, belief, and values (i.e. for a socially-conscious/ethical consumer). Market development for fair trade beans could also explore combining the indulgence and wellness demand drivers to broaden their appeal in the market. However, the greatest market potential lies in combining the three demand drivers -- convenience, indulgence, and wellness.

5.4 Chapter Summary

Trends in US demand for dry beans suggest that although there is a gradual decline in per capita consumption of all dry beans (i.e. total of all market classes), per capita consumption has increased for some market classes (e.g. small red, black, and garbanzo beans), implying their greater market acceptance in the US. This trend is likely attributed to the growing Hispanic population in the US, particularly people of Mexican and CA origins and the globalization of tastes of US consumers. Rising import demand for dry beans of CA origin also suggest this trend.

Although few studies have analyzed the dry bean consumption habits of US consumers, data from ARS (1994-1996), as analyzed by Lucier et al. (2000), indicate that while a majority of cooked dry beans were consumed at home, close to one-quarter of total cooked dry beans were consumed at restaurants and fast foods. Consumption of cooked dry beans was highest in the West and the South, where a majority of Hispanics are concentrated.

Bean preference of US consumers also varied by market class. Non-Hispanic, white consumers preferred black, refried pintos, kidney, and garbanzo beans, while Hispanics of Mexican descent had a strong preference for pinto and lima beans. On the other hand, Hispanics of CA or Caribbean origin, had a strong preference for black and small red beans.

Among all income groups, low income consumers' cooked dry bean consumption was highest in proportion (i.e. market share over population). However, when disaggregated by market class, the high income group was the major consumer of black and garbanzo beans. This reflects the appeal of black beans to the upscale and trendy market.

Five major drivers of demand identified by Knudson and Peterson (2005) -- convenience, value, ethnicity, wellness, and indulgence -- influence the agrifood system. Using the major demand drivers, Knudson and Peterson (2005) evaluated market opportunities for existing and potential dry bean products, which suggested that the greatest potential for expanding dry bean consumption in the US lies in appealing to the wellness and ethnicity components. However, for fair trade beans, which are targeted at the ethical consumers, the greatest market opportunity lies in combining the convenience, indulgence, and wellness demand drivers.

CHAPTER 6
THE POTENTIAL OF 'FAIR TRADE' BEANS FROM CENTRAL AMERICA IN THE US MARKET

This chapter, which analyzes the potential of marketing fair trade beans in the US, focuses on evaluating the general characteristics of target markets (based on a store survey and key informants), the types of beans they currently sell, their interest in fair trade beans, their general product preferences and requirements, and their general comments and suggestions for marketing fair trade beans. Based on these information, as well as the industry trends that were presented in Chapters Three to Five, key constraints to and opportunities for marketing fair trade beans in the US are identified. Finally, strategic market recommendations are proposed, based on the results of this analysis.

6.1 Target Markets for Fair Trade Beans

A target market is defined as "a group of potential customers the seller thinks are most likely to want [their] product and at whom the seller directs the marketing program" (Schaffner et al. 1998, 475). The identified target markets for fair trade beans are considered at two levels: (1) the target buyers (i.e. the natural product industry[62] agents or supply chain agents catering to the needs of the ethical consumers); and (2) the ethical (socially-conscious) consumers in the US. This study assesses the target buyers' preferences and product specifications through a rapid market survey of agents of the natural products' channel (i.e. health food stores and cooperatives, a natural product supermarket, a natural product distributor, and ATOs/worldshops), as well as an agent of the conventional supply chain (warehouse club store), which is a major retailer of fair trade products.

[62] "The natural products industry is the intersection of natural, organic, and specialty food and beverage, sustainable (e.g. fair trade) products, and vitamins and supplements" (SPINS).

6.2 Results of the Survey on Health Food Stores and Cooperatives

Health food stores and cooperatives are natural product retailers/outlets, which "have annual retail sales [of] less than US$ 2 million" (Mintel 2006). In 2005, sales from these outlets amounted to US$ 9.2 billion or 36 percent of the total sales of natural product retailers (Mintel 2006).

6.2.1 *General Characteristics of Survey Respondents*

Of the total population of the 1,086 health food stores and cooperatives listed in the Organic Consumers Association's (OCA) directory (http://organicconsumers.org /state/greenbiz.cfm?all=NaturalFood), a random sample of 217 retail outlets were selected and sent an e-mail/mail survey. Of this total, 58 respondents (27%) returned the survey[63]. Almost all of the survey respondents (88%) were owners and/or managers of the retail outlets, which implies that most were the major decision-makers in the store in terms of new product introductions (**Table 6.1**). Most of the retail outlets were located in the Midwest (33%) and the West (31%), while the South and the Northeast regions accounted for 22 percent and 14 percent of the total respondents, respectively. The majority of the retail outlets were cooperatively owned (53%), followed by corporation (29%), sole proprietorship (10%), partnership, and others -- each with a three percent share.

[63] A one-page follow-up survey was sent to the 159 non-respondents to determine if the businesses managed by these individuals were similar to or different from the businesses managed by the initial respondents. Analysis of the information provided by the respondents to the follow-up survey (54 respondents, 34 percent) confirmed that their business operations were similar to those managed by the initial respondents: (1) 46 percent of the stores were definitely interested but failed to return the initial survey, 43 percent expressed possible interest, and 11 percent had no interest in selling fair trade beans; (2) close to 100 percent of the non-respondents were aware of fair trade; (3) 93 percent sold fair trade products; and (4) 94 percent sold dry beans. Also, using the Wilcoxon-Mann-Whitney test (a nonparametric test for independence of means), it was revealed that there was no significant difference between the respondents' interest to sell fair trade beans for the initial and follow-up surveys. These results indicate that the initial survey respondents were representative of the population of health food stores and cooperatives.

Health food stores and cooperatives are major players in the natural products' industry. While all of the surveyed respondents (100%) sold fair trade and natural[64] food products, more than one-half also sold conventional/mainstream food products.

Table 6.1. General Characteristics of Surveyed Health Food Stores and Cooperatives, US, 2007

Item	Number	Percentage
Total Respondents	58	100%
Position of Respondent		
Owner	14	24%
Manager	32	55%
Purchasing officer	3	5%
Owner-Manager	5	9%
Others	4	7%
Region		
Northeast	8	14%
Midwest	19	33%
West	18	31%
South	13	22%
Ownership		
Cooperative	31	53%
Sole-proprietorship	6	10%
Partnership	2	3%
Corporation	17	29%
Others	2	3%
Products Offered[1]		
Conventional	32	55%
Fair trade	58	100%
Locally grown	56	97%
Natural	58	100%
Organic	57	98%
Specialty	49	84%

[1]Most respondents have multiple answers.

Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

[64] Natural products are products which do not contain "artificial preservatives, artificial colors, chemical additives, artificial flavors, artificial sweeteners, hydrogenated oils, etc." (SPINS).

6.2.2 *Current Beans Sold*

Almost all of these retail outlets sold beans of the major market classes: small red (93%), navy (93%), kidney (98%), pinto (98%), and black beans (100%) (**Table 6.2**).

Table 6.2. Dry Beans Sold by Market Class and by Form of Product, US, 2007

Item	Market Class									
	Small Red		Black		Kidney		Navy		Pinto	
	no.	%	no.	%	no.	%	no.	%	no.	%
Number of Sellers	54	93%	58	100%	57	98%	54	93%	57	98%
Form										
Bulk	36	62%	43	74%	42	72%	39	67%	43	74%
Bagged	11	19%	14	24%	8	14%	9	16%	11	19%
Canned	36	62%	45	78%	44	76%	37	64%	44	76%
No response	1	2%	1	2%	2	3%	2	3%	1	2%
Not Applicable[1]	4	7%	0	0%	1	2%	4	7%	1	2%

[1]Refers to non-sellers of the bean market class among the 58 respondents.

Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

While the form of beans offered varied by market class, about two-thirds of the retail outlets sold both bulk and canned beans. In contrast, only approximately one-fifth of the outlets sold bagged beans. It was evident from these data that bagged beans were not popular in these stores. Also, the retail outlets had a strong preference for organic bulk and organic canned beans, since almost all of the stores only offered organic bulk and organic canned beans (**Table 6.3**). Of the few stores that sold bagged beans, more than one-half of these stores only sold organic bagged beans.

Table 6.3. Beans Sold by Market Class, Type, and Form of Product, US, 2007

Market Class/Type	Total No. of Sellers	Form					
		Bulk		Bagged		Canned	
		no.	%	no.	%	no.	%
Small Red	**54**						
Conventional		0	0%	3	27%	0	0%
Organic		34	94%	7	64%	33	92%
Organic & conventional		2	6%	1	9%	3	8%
Sub-total		**36**	**100%**	**11**	**100%**	**36**	**100%**
Black	**58**						
Conventional		0	0%	5	36%	0	0%
Organic		39	91%	8	57%	41	91%
Organic & conventional		4	9%	1	7%	4	9%
Sub-total		**43**	**100%**	**14**	**100%**	**45**	**100%**
Kidney	**57**						
Conventional		0	0%	2	25%	0	0%
Organic		40	95%	5	63%	39	89%
Organic & conventional		2	5%	1	13%	4	9%
No response		0	0%	0	0%	1	2%
Sub-total		**42**	**100%**	**8**	**100%**	**44**	**100%**
Navy	**54**						
Conventional		0	0%	3	33%	0	0%
Organic		37	95%	5	56%	33	89%
Organic & conventional		2	5%	1	11%	3	8%
No response		0	0%	0	0%	1	3%
Sub-total		**39**	**100%**	**9**	**100%**	**37**	**100%**
Pinto	**57**						
Conventional		0	0%	4	36%	0	0%
Organic		39	91%	6	55%	40	91%
Organic & conventional		4	9%	1	9%	4	9%
Sub-total		**43**	**100%**	**11**	**100%**	**44**	**100%**

Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

6.2.3 *Current Bean Suppliers*

About 40 percent of the retail stores purchased their beans from United Natural Foods, Inc. (UNFI), the major natural product distributor in the US (**Table 6.4**). In all regions, UNFI was the major supplier of beans. However, other key suppliers were Nature's Best (Western Region), Co-op Partners and Eden Foods (Midwest), and Associated Buyers (Northeast).

Table 6.4. Major Dry Bean Suppliers of Health Food Stores and Cooperatives, US, 2007

Supplier[1]	Northeast		Midwest		West		South		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
UNFI	3	38%	9	47%	6	33%	5	38%	23	40%
Nature's Best	0	0%	0	0%	4	22%	0	0%	4	7%
Eden Foods	0	0%	2	11%	1	6%	0	0%	3	5%
Associated Buyers	3	38%	0	0%	0	0%	0	0%	3	5%
Co-op Partners	0	0%	3	16%	0	0%	0	0%	3	5%
Falcon Trading	0	0%	1	5%	1	6%	0	0%	2	3%
GloryBee Foods	0	0%	0	0%	2	11%	0	0%	2	3%
Tree of Life, Inc.	0	0%	1	5%	0	0%	1	8%	2	3%
Total Respondents	**8**		**19**		**18**		**13**		**58**	

Note: Columns do not total to 100%. Some respondents gave multiple answers, while others did not answer the question.

Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

6.2.4 *Interest in Fair Trade Beans*

While slightly less than one-half of the surveyed health food stores and cooperative -- 38 percent for small red and 41 percent for black beans -- were definitely interested in selling fair trade beans in their stores, most of the respondents expressed potential interest ('maybe') -- depending on the promotion of the fair trade bean product (e.g. labels, story behind the product, promotional discounts, awareness campaigns about the product) (**Table 6.5**).

Table 6.5. Interest in Fair Trade Small Red and Black Beans, US, 2007

Interest in Fair Trade Beans	Small Red Beans		Black Beans	
	No.	Percent	No.	Percent
Yes	22	38%	24	41%
Maybe	34	59%	32	55%
No	2	3%	1	2%
No response	0	0%	1	2%
Total	**58**	**100%**	**58**	**100%**

Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

Interest in selling fair trade beans varied by region (**Table 6.6**). Close to one-half of the stores in the Midwest and the West expressed an interest ('yes') in selling fair trade beans. In contrast, most of the respondents in the South (85%) expressed possible interest ('maybe') in marketing fair trade beans. Furthermore, the retailers' interest in selling fair trade beans did not vary by market class.

Table 6.6. Interest in Fair Trade Small Red and Black Beans by Market Class and Region, US, 2007

Interest in Fair Trade Beans	Northeast		Midwest		West		South		Total
	No.	Percent	No.	Percent	No.	Percent	No.	Percent	
Small Red									
Yes	4	50%	9	47%	8	44%	1	8%	22
Maybe	4	50%	9	47%	10	56%	11	85%	34
No	0	0%	1	5%	0	0%	1	8%	2
Total	**8**	**100%**	**19**	**100%**	**18**	**100%**	**13**	**100%**	**58**
Black									
Yes	6	75%	9	47%	8	44%	1	8%	24
Maybe	2	25%	10	53%	9	50%	11	85%	32
No	0	0%	0	0%	0	0%	1	8%	1
No response	0	0%	0	0%	1	6%	0	0%	1
Total	**8**	**100%**	**19**	**100%**	**18**	**100%**	**13**	**100%**	**58**

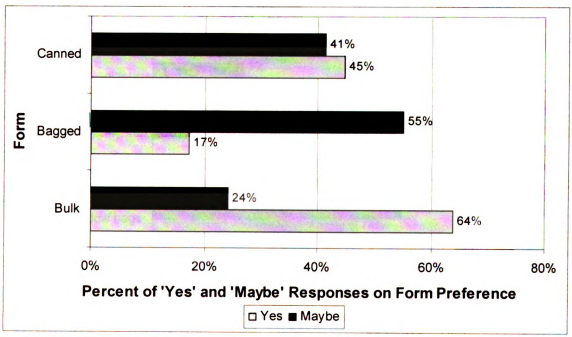
Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

6.2.4.1 *Form of Fair Trade Beans*

About two-thirds of the respondents (64%) reported that their customers would be most interested ('yes') in purchasing bulk fair trade beans[65], followed by canned fair trade beans (45%) (**Figure 6.1**). In contrast, bagged beans were considered by the respondents to be the least popular form (17%) among their customers.

However, about one-half of the retail stores expressed possible interest ('maybe') in selling bagged beans (55%). This suggests that it might be possible to expand the market for bagged beans by improving the product's attributes (e.g. improved packaging, reducing the amount of brokens, including instructions for preparation, and providing recipes).

Figure 6.1. Preferred Form for Fair Trade Beans, US, 2007



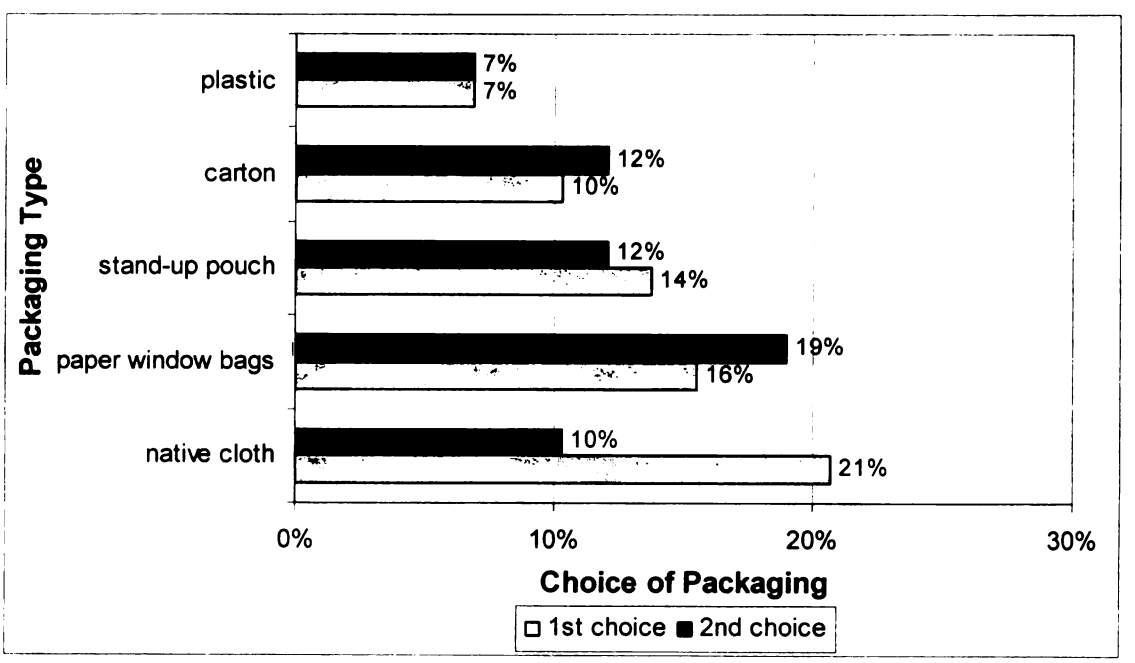
Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

[65]Most customers of health food stores and cooperatives prefer minimally processed foods. This may imply that some of them would like to cook food from scratch or 'get back into the kitchen'.

6.2.4.2 *Packaging Type for Fair Trade Beans*

According to Schaffner et al. (1998, 345), "the package is an integral part of the consumer product" because it gives an indication of the products' quality. In this study, respondents were asked what type of packaging (first and second choice) their customers would prefer for an unprocessed fair trade bean product. Among the five choices (**Figure 6.2**), the store owners ranked native cloth bag as their first choice (21%), followed by a paper window bag (16%), a stand-up re-sealable pouch (14%), and a carton box with window (10%). Plastic bags, the usual packaging type for conventional bean products, were least preferred (7%). These results indicate a potential to expand the market for bagged/packaged bean products by using an unconventional type of packaging to differentiate the new bean product.

Figure 6.2. Preference for Packaging Type for Fair Trade Beans, US, 2007[1]



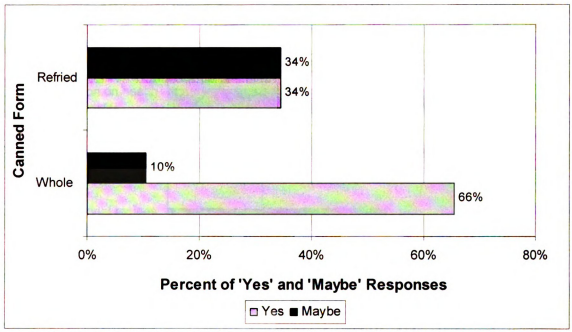
[1]Percentages per choice do not add up to 100% due non-response and some stores' lack of interest in marketing bagged fair trade beans.

Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

6.2.4.3 *Form for Canned Fair Trade Beans*

Two-thirds of the respondents (66%) thought that their customers would prefer canned whole fair trade beans, compared to refried fair trade beans (34%) (**Figure 6.3**). Preference for canned products is highly influenced by consumers' desire to eat convenient foods due to time constraints in most households, as well as declining household sizes.

Figure 6.3. Preferred Form for Canned Fair Trade Beans, US, 2007



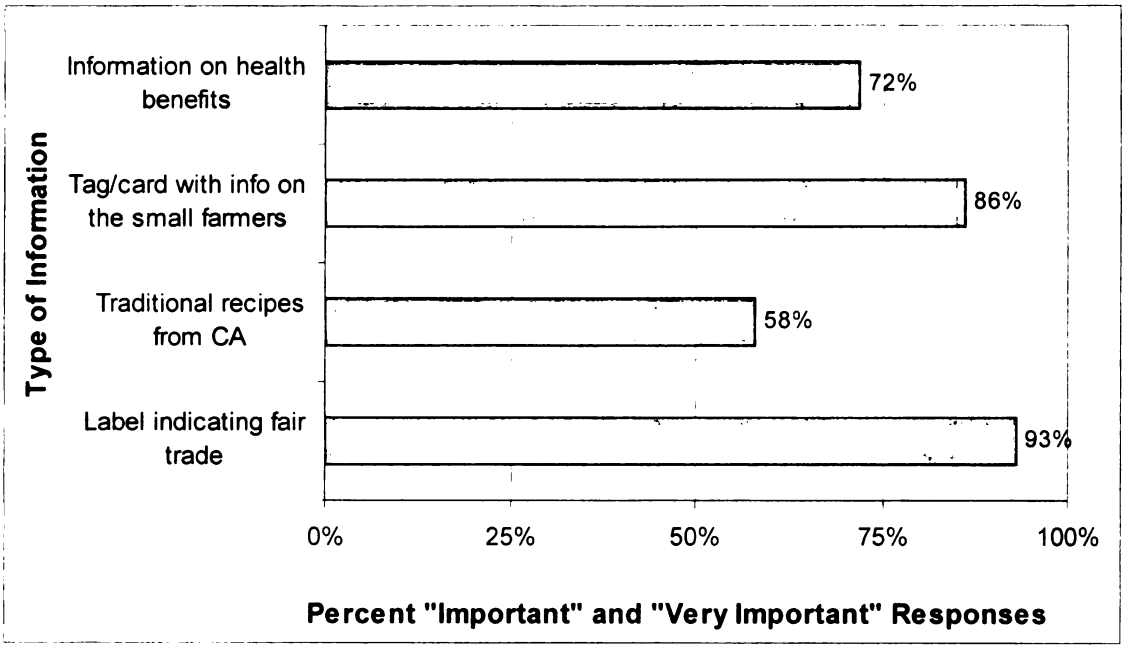
Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

6.2.4.4 *Type of Information with the Fair Trade Bean Product*

Information placed on food packages (e.g. product labels, health benefits, recipes) conveys the attributes and benefits of the contained product (Storlie and Brody 2000). This information may add to convenience (e.g. recipes for ease of preparation) or may appeal to wellness-related demand drivers (e.g. health benefits, product labels such as organic).

The respondents were asked what type of information their customers would prefer to be included with a fair trade bean product. Almost all of the respondents (93%) highlighted the importance of a label, which indicates that the product is fair trade (**Figure 6.4**). However, most respondents also recommended including a tag/card with information about who produced the beans (86%), information on health benefits (72%), and traditional recipes from CA (58%). A few respondents also mentioned that the bean product should also include an organic, as well as a country of origin label.

Figure 6.4 Information that Buyers Like Included with the Fair Trade Bean Product, US, 2007



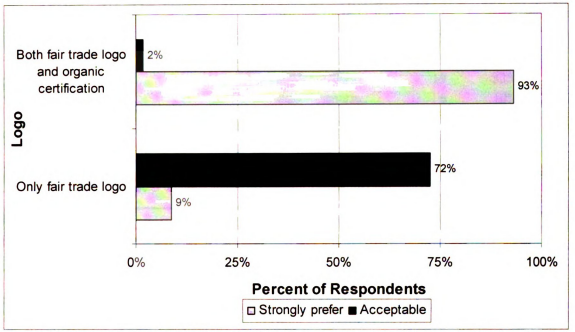
Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

6.2.4.5 *Logo*

Respondents were asked what type of logo should be displayed with the fair trade bean product. Most of the respondents (72%) reported that a fair trade logo alone was

acceptable and did not express a preference for a specific fair trade logo[66] (**Figure 6.5**). However, almost all of the respondents (93%) preferred including both the fair trade and organic certification labels which implies that customers in these retail outlets increasingly associate fair trade with organic products.

Figure 6.5. Preferred Type of Logo for Fair Trade Beans, US, 2007



Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

6.2.4.6 *Premium*

A majority of the respondents who were interested in selling fair trade beans in their stores were willing to pay a five to ten percent premium for only the fair trade attribute (50%) and a ten to 20 percent premium for a combination of the fair trade and organic attributes (63%, on average) (**Table 6.7**). Also, although the respondents were willing to pay a similar premium for small red and black beans, respondents were slightly more willing to pay a higher premium for black beans than for small reds. Since the

[66] Fair trade logos/labels in the US include: TransFair USA label, International Fair Trade Association's (IFAT) FTO Mark, and Fair Trade Federation's (FTF) logo.

majority of the retail stores cater to white, non-Hispanic consumers, this may indicate that their customers' prefer black beans.

Table 6.7. Willingness to Pay a Premium for Fair Trade Beans by Market Class, US, 2007

Attribute/Premium	Small Red		Black	
	No.	Percent	No.	Percent
Fair Trade				
None	5	9%	3	5%
<5%	2	3%	2	3%
5%	11	19%	10	17%
10%	18	31%	19	33%
15%	4	7%	6	10%
20%	2	3%	1	2%
25%	0	0%	0	0%
>25%	0	0%	0	0%
No response	13	22%	14	24%
Not applicable[1]	3	5%	3	5%
Total	**58**	**100%**	**58**	**100%**
Fair Trade and Organic				
None	3	5%	2	3%
<5%	3	5%	3	5%
5%	4	7%	4	7%
10%	16	28%	16	28%
15%	10	17%	10	17%
20%	10	17%	11	19%
25%	3	5%	3	5%
>25%	2	3%	2	3%
No response	6	10%	6	10%
Not applicable[1]	1	2%	1	2%
Total	**58**	**100%**	**58**	**100%**

[1]Reflects respondents who were not interested selling fair trade beans in their stores.

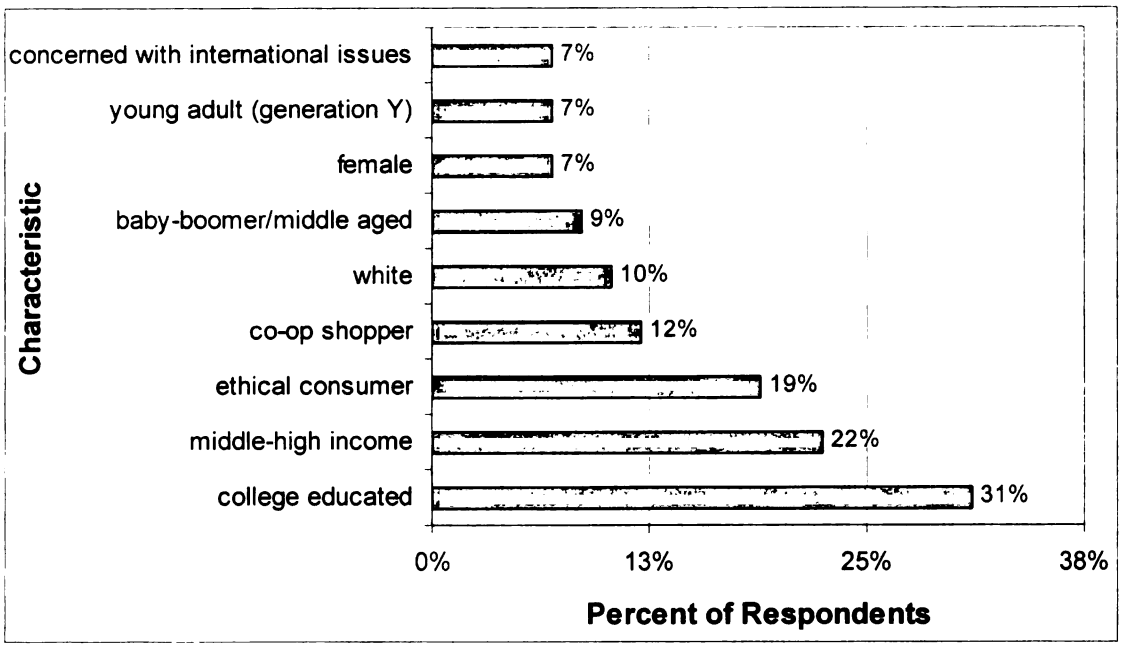
Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

6.2.4.7 *The Potential Fair Trade Bean Consumer*

Respondents were asked to characterize the type of consumers who they thought would be most likely to buy fair trade beans. As this was asked as an open question, some

respondents gave multiple answers. **Figure 6.6** summarizes the most frequently mentioned characteristics of potential fair trade bean consumers.

Figure 6.6. Characteristics of Potential Fair Trade Bean Consumers, US, 2007



Note: Respondents may have multiple answers.

Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

The respondents perceived that potential buyers would most likely be college educated (31%), middle-to-high income (22%), ethical consumers (i.e. consumes fair trade and organic, and other ethical products) (19%), frequent co-op shoppers[67] (12%), white (10%), and middle-aged (9%). In addition, respondents also felt that fair trade beans also have a potential market among the educated, young adults, especially females who are informed and concerned about international issues.

[67] Co-op shoppers, as defined by the respondents, were generally white, educated, middle-aged customers, within the middle to high income brackets.

6.3 Results of the Key Informants Interviews

Key informants interviews were conducted with top-level managers of: (1) Whole Foods Market, Inc., a major natural product retailer; (2) Sam's Club, a major conventional warehouse club store which sells fair trade products, specifically fair trade certified coffee; (3) four ATOs (Alter Eco Americas, Equal Exchange, Inc., Global Exchange, and SERRV International), which imports, wholesales, and retails fair trade products; and (4) UNFI, the major natural product distributor in the US. **Tables 6.8a-d** summarize the personal interviews.

6.3.1 *Natural Supermarket: Whole Foods Market, Inc.*

Established in Austin, Texas in 1980, Whole Foods Market, Inc. (WFM) retails natural products in North America and the United Kingdom. To date, it is the largest retailer of natural and organic food products with 276 stores (as of September 2007), organized into 11 geographic regions[68] (WFM 2008). Its mission emphasizes "stringent quality standards and commitment to sustainable agriculture" (WFMa).

Classified as a natural supermarket[69], Whole Foods Market's retail sales in 2005 amounted to US$ 4.7 billion -- approximately 20 percent of the total retail sales of natural product retailers in the US (Mintel 2006). From 2005 to 2006, the company's sales were up by 19 percent, amounting to US$ 5.6 billion (WFM 2007). Thus, Whole Foods Market is a significant market player in the natural product industry.

[68] Each region has its own leadership team and is autonomous (WFM 2007).
[69] Natural supermarkets are natural product retailers, which "have annual retail sales of $2 million or more and collect sales data through scanning" (Mintel 2006).

Table 6.8a. General Characteristics of Key Informant's Company, US, 2007

Item	Natural Supermarket	Conventional Warehouse	ATO				Natural Distributor
	Whole Foods Market	Sam's Club	Alter Eco	Equal Exchange	Global Exchange	SERRV Int'l.[1]	UNFI Eastern Region
Ownership							
Cooperative				✓			
Corporation	✓	✓	✓				✓
Non-profit					✓	✓	
Type of Agent							
Importer	✓[3]		✓	✓	✓	✓	
Distributor							✓
Wholesaler			✓	✓		✓	
Processor/Manufacturer			✓	✓			
Retailer	✓	✓		✓	✓	✓	
Online		✓	✓	✓	✓	✓	
Store	✓	✓		✓[5]	✓	✓	
Fair Trade Certified Licensee	✓		✓	✓		✓	✓[6]
Type of Products							
Fair Trade	✓[4]	✓	✓	✓	✓	✓	✓
Organic	✓	✓	✓	✓	✓	✓	✓
Conventional[2]		✓					

[1]While a key informant was not interviewed due to SERRV's limited experience in handling fair trade food products, the key informant sent information about SERRV's business operations through email.
[2]Neither fair trade nor organic. Products without any ethical/natural attribute.
[3]Imports, if strongly interested in the product.
[4] Whole Trade™ Guarantee
[5]Equal Exchange Espresso Bar/Café
[6]Its subsidiary -- Albert's Organics is a Fair Trade Certified Licensee.

Source: B/C CRSP Personal Interviews with Top-Level Managers of Supply Chain Agents (2007) and company websites.

Table 6.8b. Fair Trade Products Sold by Company, US, 2007

Item	Natural Supermarket	Conventional Warehouse	ATO				Natural Distributor
	Whole Foods Market	Sam's Club	Alter Eco	Equal Exchange	Global Exchange	SERRV Int'l.[1]	UNFI Eastern Region
Markets Fair Trade Products	✓	✓	✓	✓	✓	✓	✓
TransFair USA Certified	✓	✓	✓	✓	✓	✓	✓
Coffee	✓	✓	✓	✓	✓	✓	✓
Tea	✓		✓	✓	✓	✓	✓
Cocoa	✓		✓	✓		✓	
Chocolate	✓		✓	✓	✓	✓	✓
Sugar	✓		✓	✓			✓
Rice	✓		✓				✓
Vanilla	✓						
Non-TransFair USA Certified	✓	n.a.	✓	✓	✓	✓	✓
Quinoa			✓				✓
Handicrafts					✓	✓	
Others	jams, orange juice, spices, pineapple, mango		Hearts of palm	nuts and fruits (pecans, almonds, and cranberries)	cashews, sauces, jams, and chili mix	syrup, wild rice, soup and salsa mixes, olive oil chutney, and jam	
Suppliers	UNFI, other natural product distributors	Exporter/Roaster (Café Bom Dia)	Small producer cooperatives /associations	85% directly with producer organizations	Artisan organizations (25%), FTF wholesalers, Fair trade certified licensees (e.g. Equal Exchange), and Natural product distributors	Small producer organizations (artisans and producers)	ATOs (e.g. Alter Eco, Equal Exchange)

[1]While a key informant was not interviewed due to SERRV's limited experience in handling fair trade food products, the key informant sent information about SERRV's business operations through email.
n.a. - not available

Table 6.8b (cont'd).

Item	Natural Supermarket	Conventional Warehouse	ATO				Natural Distributor
	Whole Foods Market	Sam's Club	Alter Eco	Equal Exchange	Global Exchange	SERRV Int'l.[1]	UNFI Eastern Region
Buyers	Consumers	Consumers	(1) Natural product distributors (e.g. UNFI, Nature's Best), (2) Consumers	(1) Natural product distributors, (2) Churches /religious organizations, (3) Café /restaurants, (4) Consumers	(1) Consumers	(1) Retailers, (2) Consumers	(1) Natural product supermarkets (e.g. WFM), (2) Independent natural product retailers (e.g. health food stores and co-ops), (3) Conventional supermarkets
Warehousing	9 distribution centers	n.a.	Contracted	2 Warehouses (MA and NY)	None	n.a.	7 Warehouses
Supplier Requirements for Fair Trade Products	Whole Trade™ Guarantee System	n.a.	Questionnaire Sourcing Alter Eco	n.a.	Potential Vendor Information/ Vendor Questionnaire	Supplier Information Form and Producer Partner Guidelines	Eastern Region's Supplier Packet

[1]While a key informant was not interviewed due to SERRV's limited experience in handling fair trade food products, the key informant sent information about SERRV's business operations through email.
n.a. - not available

Source: B/C CRSP Personal Interviews with Top-Level Managers of Supply Chain Agents (2007) and company websites.

Table 6.8c. Companies Engaged in Dry Bean Marketing, US, 2007

Item	Natural Supermarket	Conventional Warehouse	ATO				Natural Distributor
	Whole Foods Market	Sam's Club	Alter Eco	Equal Exchange	Global Exchange	SERRV Int'l.[1]	UNFI Eastern Region
Markets Dry Beans	✓	✓			✓	✓	✓
Suppliers	Private label brand (365 Organic Everyday Value)	n.a.	not applicable	not applicable	Women's Bean Project	Women's Bean Project	(1) Branded vendors (e.g. Bob's Red Mill, Eden Foods, Hain), (2) Handler/broker (e.g. Mountain High Organic), (3) Natural product importer (e.g. Multiple Organics)
Buyers	Consumers	Consumers	not applicable	not applicable	Consumers	Consumers	(1) Natural product supermarkets (e.g. WFM), (2) Independent natural product retailers (e.g. health food stores and co-ops, (3) Conventional supermarkets

[1]While a key informant was not interviewed due to SERRV's limited experience in handling fair trade food products, the key informant sent information about SERRV's business operations through email.
n.a. - not available

Source: B/C CRSP Personal Interviews with Top-Level Managers of Supply Chain Agents (2007) and company websites.

Table 6.8d. Interest in Fair Trade Beans by Company, US, 2007

Item	Natural Supermarket	Conventional Warehouse	ATO				Natural Distributor
	Whole Foods Market	Sam's Club	Alter Eco	Equal Exchange	Global Exchange	SERRV Int'l.[1]	UNFI Eastern Region
Preference for Fair Trade Beans							
Interest	Strong interest	Possible interest	Strong interest	Minimal interest	Minimal interest	Minimal interest	Possible interest
Form preference	Bulk (25 lb bag)	Unspecified	Bulk	Bulk (5lb bags) and canned	Gourmet type (e.g. chili gift pack)	n.a.	Bulk (25 lb and 50 lb bags) and canned
Information	(1) Tell the story behind the product, (2) Logo indicating that it is produced sustainably	(1) Logo indicating fair trade, (2) Information on the dry bean producers	(1) Tell the story behind the product, (2) Information on health benefits, (3) Traditional recipes, (4) Logo indicating fair trade	(1) Tell the story behind the product -- how it was produced and who produced it	(1) Tell the story behind the product -- how it was produced and who produce it, (2) Traditional recipes	n.a.	(1) Tell the story behind the product

[1]While a key informant was not interviewed due to SERRV's limited experience in handling fair trade food products, the key informant sent information about SERRV's business operations through email.
n.a. - not available

Source: B/C CRSP Personal Interviews with Top-Level Managers of Supply Chain Agents (2007)

6.3.1.1 *Fair Trade Products*

In March 2007, Whole Foods Market launched the Whole Trade™ Guarantee, a program which commits the company to source products from suppliers in developing countries who follow ethical standards (i.e. criteria on quality, environment, better wages and working conditions, and premium prices for producers). Through the Whole Trade™ Guarantee program, Whole Foods Market partners with TransFair USA and the Rainforest Alliance[70] to certify the production process, workers' conditions, and prices paid to producers in developing countries from whom the company sources their products (WFMc). The Whole Trade™ Guarantee program assures customers that: (1) suppliers meet Whole Foods' high quality standards; (2) producers are paid better prices; (3) agricultural workers are guaranteed better wages and working conditions; (4) suppliers follow environmentally sustainable practices; and (5) Whole Foods Market gives a donation of one percent of sales to the Whole Planet Foundation[71] (WFMc).

Whole Foods Market is licensed to use the TransFair USA label on Whole Trade™ Guarantee products, which are certified by TransFair USA, including coffee, tea, cocoa/chocolate, sugar, rice, and vanilla (Global Commodities Coordinator, pers. comm. October 12, 2007). In addition, the company sells several Whole Trade™ Guarantee products certified by the Rainforest Alliance, including jams, juices, pineapple, mango, and spices. Currently, approximately one percent of the products sold at Whole Foods bear the Whole Trade™ label (Global Commodities Coordinator, pers. comm. October

[70] Rainforest Alliance certifies producers of coffee, tea, banana, cocoa, citrus, cut flower and fern, who have complied with its criteria -- including conservation of biodiversity, sustainable livelihoods, fair treatment and good working conditions of producers (Rainforest Alliance). For companies who wish to use the Rainforest Alliance Certified seal of approval on their packaged products, at least 30 percent of the contents must be Rainforest Alliance certified (TransFair USA 2007, Ethical Corporation 2005).

[71] Whole Planet Foundation's mission is "to create economic partnerships with the poor in those developing-world communities that supply our stores with products" (WFMc).

12, 2007). The key informant also expressed a preference for natural and organic products.

6.3.1.2 *Current Dry Beans Sold*

Whole Foods Market sells an assortment of dry bean market classes, ranging from widely available market classes (e.g. adzuki, black, red, kidney beans) to less common market classes (e.g. scarlet runner) and heirloom common bean varieties (e.g. eye of the goat) (WFMb). While this company primarily markets beans in bulk, it also offers some market classes in cans and laydown bags (WFMb). Whole Foods Market also sells canned and packaged beans under its own private label (i.e. 365 Organic Everyday Value).

6.3.1.3 *Interest in Fair Trade Beans*

As noted previously, Whole Foods Market supports fair trade initiatives through its Whole Trade™ Guarantee program. During a personal interview, the Global Commodities Coordinator of Whole Foods Market expressed the opinion that there exists a potential market for fair trade beans (small red, black, and other less common dry bean market classes) among its customers and that Whole Foods Market is strongly interested in marketing fair trade beans.

However, Whole Foods Market would require fair trade bean suppliers to be certified (Whole Trade™ Guaranteed) by TransFair USA or the Rainforest Alliance. The key informant noted that if the producer acquires Whole Trade™ certification, Whole Foods Market would possibly be interested in purchasing an initial requirement of one container (20 mt), packaged in 25 lb bags, and delivered to Whole Foods Market in Austin, Texas. The shipment would be examined by Whole Foods Market to ensure that

it meets the company's quality standards. If the product meets the quality requirements for Whole Trade™ Guarantee, the key informant indicated that the beans would be test marketed in 1 to 2 regions over a period of approximately 30 to 60 days.

The key informant emphasized that the company prefers bulk beans and that it would like the suppliers to provide images/pictures and documents, which Whole Foods Market would use to create all the necessary promotional materials. According to the key informant, the key to capturing a segment of the ethical market (i.e. convincing potential buyers to purchase the product) is the story behind the product -- who are the producers and what production processes do they use. In the case of fair trade beans from CA, the fact that the product would benefit smallholder producers would be an incentive for ethical consumers to purchase it.

6.3.2 *Conventional Warehouse Club: Sam's Club*

Sam's Club is a business segment of Wal-Mart Stores, Inc. (Wal-Mart), which operates as a warehouse club store[72]. The first Sam's Club store opened in Oklahoma in 1983. To date, Sam's Club operates more than 580 stores and serves approximately 47 million members in the US (Sam's Club). The warehouse club focuses on providing "exceptional value on brand-name merchandise at members-only prices for both business and personal use" (Wal-Mart 2007, 28).

Based on retail industry sales data in 2006, Sam's Club ranked 6th among retail industry players and was the second largest warehouse club (after Costco) in the US (FMI 2007). Furthermore, in fiscal year 2007, Sam's Club accounted for 12 percent of Wal-

[72] A warehouse club store (also called wholesale club) is a retail store, usually 100,000 square feet or more, "that sells only to members who pay an annual membership fee, and has a grocery line dedicated to large sizes and bulk sales" (FMIb).

Mart's net sales (US$ 41.7 billion), which were generated both from its club stores and its online retail format (Wal-Mart 2007).

Although Sam's Club is a conventional retail store, it also sells natural/ethical products, including organic, dolphin safe, kosher, locally grown, fair trade certified, and rainforest alliance certified food products (Senior Vice President of Marketing, Research, and Insights, pers. comm. June 29, 2007) in order to cater to the changing demands of US consumers.

6.3.2.1 *Fair Trade Products*

Among its fair trade products, coffee is considered the most important. Sam's Club, in partnership with Café Bom Dia[73], sells a private label brand (Member's Mark™) of fair trade certified coffee at all of its outlets. In the near future, Sam's Club plans to sell additional fair trade certified products such as tea, cocoa, chocolate, and sugar to further its goals of providing healthy and environmentally sound products at reasonable prices (Senior Vice President of Marketing, Research, and Insights, pers. comm. June 29, 2007).

6.3.2.2 *Current Dry Beans Sold*

Currently, Sam's Club sells several market classes of beans which are only available through in-store purchase (e.g. pinto, kidney, black, and great northern beans) (Sam's Club 2007). These bean products are usually packaged in bulk (6 pack@12 oz.; 10 lb, 25 lb, 50 lb, and 100 lb bags). The company also sells an assortment of canned bean products, including pork and beans, bean soups, and chili, which are offered under various brands (e.g. Van Camps, Bush's Best, Hormel) and are also sold in bulk (pack of 8 cans) at the warehouse club store.

[73] A Brazilian-based coffee exporter/roaster and a fair trade certified licensee.

6.3.2.3 *Interest in Fair Trade Beans*

The key informant expressed possible interest in introducing fair trade beans in their warehouse club stores. However, in assessing whether or not to offer a new ethical product, such as fair trade beans, the key informant indicated that Sam's Club would consider the following criteria: (1) margin; (2) quality consistency; (3) reliability of supply; (4) ease of delivering the product to the warehouse club; and (5) other logistics and supply chain concerns. According to the key informant, with respect to fair trade beans, key questions that the store would consider in deciding whether or not to offer fair trade beans include: (1) how much would the product cost; (2) what existing product would fair trade beans replace on the shelf; and (3) would the revenue from selling fair trade beans be higher than the income derived from the products that it replaces?

Since no established standard exists for fair trade beans, Sam's Club would require a guarantee that the product meets the fair trade criteria[74]. While the key informant noted that organic certification is not required, Sam's Club has a strong preference for organic fair trade certified products. However, because it is difficult to obtain a consistent supply of organic products, the key informant indicated that Sam's Club would consider purchasing conventional fair trade products.

In addition to fair trade certified and organic labels, the key informant noted that Sam's Club would require a tag or card that describes who grew the beans and how the beans were grown. In terms of offering suppliers a premium for fair trade beans, the key informant indicated that consumers may not be willing to pay more for fair trade beans than they are currently paying for conventional beans, since beans are an undifferentiated commodity. However, by purchasing directly from suppliers in developing countries (e.g.

[74] Although based on the interview, the key informant preferred a fair trade certified label.

fair trade certified coffee), Sam's Club has been able to offer producers a premium without increasing the retail price. Furthermore, according to the key informant, fair trade beans may have a market potential if positioned correctly in the market, that is, (1) regionally -- marketing the product where there exists a strong ethnic demand for beans (e.g. Hispanic markets); (2) partnering with a bean supplier/distributor[75]; and (3) targeting the right segment of the market -- for non-Hispanic Americans, offering upscale, gourmet, higher quality fair trade bean products may have potential. Thus, if a supply of fair trade beans becomes available, the key informant indicated that Sam's Club would be interested in further exploring the possibility of offering fair trade beans in their warehouse club stores.

6.3.3 *ATOs*

ATOs are fair trade organizations with fair trade as their main mandate. These organizations import, wholesale, and/or retail fair trade products in developed countries. ATOs may be fair trade certified licensees and/or members of fair trade networks (i.e. IFAT and FTF).

6.3.3.1 *Alter Eco Americas*

Established in 1998, Alter Eco is a French-based importer and wholesaler of fair trade products. It is an established fair trade brand name in France, where it sells more than 130 fair trade products in supermarkets (Chief Operating Officer, pers. comm. August 3, 2007). In 2005, Alter Eco established a subsidiary in the US and currently markets fair trade rice, sugar, coffee, tea, quinoa, chocolate, and hearts of palm in the US. As of fiscal year 2007, Alter Eco Americas generated total sales of US $ 1.3 million

[75] Either request the distributor to convert a portion of its bean supply to fair trade beans or offer a new product category -- an upscale/high quality bean product.

(Alter Eco Americas), while its parent company in France generated US $ 21.4 million in sales (Hoover's Inc. 2007).

Alter Eco maintains a rigid monitoring and auditing mechanism -- the *Fair Trade Audit 200*[76] (FTA200) -- which its cooperative suppliers must follow. Through this mechanism, as well as Alter Eco's other reporting tools (e.g. *Fair Trade Value Reporting*[77]), the company maintains and encourages transparency and traceability along its supply chain. Hence, Alter Eco does not require TransFair USA certification of its products for which no established FLO standards exist (Chief Operating Officer, pers. comm. August 3, 2007). While Alter Eco also prefers fair trade products that have organic certification, if this is not possible (i.e. producers are not yet knowledgeable of this technology), the company would still accept the product, as long as the producer establishes a plan for moving towards organic production in three to five years (Chief Operating Officer, pers. comm. August 3, 2007). Furthermore, for products that are not certified by TransFair USA or another labeling initiative, Alter Eco determines the 'fair price', based on Fair Trade Value Reporting information submitted by the small producer cooperatives and verified by Alter Eco through its monitoring system.

(1) *Supply information*

Alter Eco America's suppliers are small producer cooperatives and associations in developing countries[78]. According to the key informant, the company imports directly from its suppliers, channels the fair trade products to brokers, and warehouses its imports

[76] FTA200 uses quantitative analysis "to evaluate the risk factors and global performance of production centers based on social, economic and environmental criteria" (Alter Eco Americas).
[77] "Alter Eco's Fair Trade Value Reporting is a cost-breakdown of the final product, beginning with the producer and ending with the consumer and... is applied to all of Alter Eco's products" (Alter Eco Americas).
[78] Alter Eco purchases products from small producer suppliers in Bolivia, Peru, Thailand, Ethiopia, Philippines, India, South Africa, Mexico, and Sri Lanka.

at a public warehouse in Oakland, California. Alter Eco guarantees their suppliers a minimum price, a fair trade premium, and pre-financing. Depending on the request of the cooperative, the company provides its suppliers an advance equal to 20 to 60 percent of the expected output value as pre-financing (Chief Operating Officer, pers. comm. August 3, 2007). Conversely, Alter Eco requires these cooperatives and associations to comply with the minimum standards set for fair trade (e.g. non-use of prohibited chemicals in farming, democratic organization of the cooperative). Finally, Alter Eco also requires its potential small producer suppliers to fill out the company's sourcing form[79].

According to the key informant, Alter Eco encourages producers to minimally process and/or pack their products, whenever possible. Fair trade certified rice, for instance, is milled and packed in the producing country before it is exported to a developed country (e.g. France, US). The same is done for fair trade certified sugar and tea. In contrast, Alter Eco purchases fair trade certified coffee, cashews, cocoa, and dried fruits in bulk from the producing country and transports them to France for processing and packaging before distribution to the US and major retail outlets in Europe (Chief Operating Officer, pers. comm. August 3, 2007).

In France, Alter Eco directly markets its products to supermarkets. However, in the US, the company channels its products to natural product distributors (e.g. UNFI, Nature's Best), who sell the fair trade products to Whole Foods Market and other natural product retailers (e.g. health food stores and cooperatives). In addition, Alter Eco maintains an online retail format (http://www.worldpantry.com/cgi-bin/ncommerce /ExecMacro/altereco/allproducts.d2w/report).

[79] To access the form, visit http://www.altereco-usa.com/main.php?section=alternet&subsection=main and click on the "Farmers click here" icon.

(2) *Interest in fair trade beans*

Alter Eco's Chief Operating Officer (COO) indicated a strong interest in adding fair trade beans to their fair trade product line. The company sees fair trade beans as a new opportunity to expand its current fair trade product offerings and explore new partnerships with the small bean producer associations.

In terms of preference for product form, Alter Eco would be interested in buying bulk fair trade beans, since it sees the potential markets to be in the food service sector (e.g. gourmet and specialty restaurants). The key informant advised that the packaged fair trade bean product should contain: (a) a trusted logo/label indicating that the product is fair trade; (b) traditional recipes from CA; (c) information on who produced the beans; and (d) health benefits associated with consuming beans.

Based on Alter Eco's experience in pioneering the market for fair trade rice in developed countries, the key informant projected that it would take 1 to 4 years to establish (train smallholders, obtain export license, etc.) the market for fair trade beans in the US. If fair trade beans become available, Alter Eco expressed potential interest of an initial delivery of 1 container (20 mt) to test market the product in targeted regional markets.

6.3.3.2 *Equal Exchange, Inc.*

Equal Exchange is an employee-owned cooperative, which imports, processes (coffee roasting), wholesales, and retails fair trade products. Founded in 1986 with the goal of paying better prices to smallholder coffee producers in developing countries, Equal Exchange pioneered the introduction of fair trade in food products in the US (Equal Exchange[a]). To date, the company focuses on marketing fair trade certified

coffee, which accounts for approximately 85 percent of its total sales (Director of Purchasing and Producer Relations, pers. comm. August 23, 2007). As of fiscal year 2007, the company's sales totaled US$ 18.4 million (Hoover's Inc.).

In addition to coffee, Equal Exchange sells fair trade certified tea, baking cocoa, hot cocoa mix, chocolate, and sugar, as well as other fair trade products which are not certified by TransFair USA, such as pecans, almonds, and cranberries, which it sources from producers in the US[80].

(1) *Supply information*

Equal Exchange transacts directly with its major suppliers, who are smallholder producer cooperatives[81] (Director of Purchasing and Producer Relations, pers. comm. August 23, 2007). The company assists the cooperatives by providing pre-harvest financing, a guaranteed minimum price, and a social premium (for the fair trade and organic attributes). In return, the cooperative suppliers must adhere to fair trade quality standards (e.g. democratically run and transparent association, non-use of prohibited chemicals in farming and movement towards organic farming in the future).

While Equal Exchange primarily operates as a fair trade coffee roaster and wholesaler of fair trade products, it also maintains an online retail format (http://shop .equalexchange.com/) and operates a café/espresso bar at Seattle, Washington. Its major buyers are natural product distributors, who distribute Equal Exchange's fair trade products to natural retailers, and institutional buyers (e.g. churches/religious organizations, cafés and restaurants).

---

[80] Equal Exchange, as well as other ATOs in the US, has introduced variations into the fair trade model, including (1) incorporating small producers in developed countries as fair traders and (2) selling fair trade products in developing countries.

[81] Equal Exchange partners with 32 small producer associations/organizations in 18 developing countries (Equal Exchange[b]).

(2) *Interest in fair trade beans*

The key informant expressed minimal interest in marketing fair trade beans, since Equal Exchange only sells TransFair USA certified products from developing countries -- products with established FLO standards. The key informant also commented that their market research on potential fair trade products has never identified beans as a potential new product. A possible reason that its market research did not identify beans as a potential fair trade product is due to a lack of awareness among US consumers regarding the plight of smallholder bean producers in developing countries. Thus, the key informant suggested that to increase the marketability of beans as a fair trade product, the product should include information about who produced the beans and how they were produced.

6.3.3.3 *Global Exchange*

Global Exchange is a non-profit organization involved in human rights advocacy and the promotion of global "social, economic, and environmental justice" (Global Exchange[a]). The organization is also known for its fair trade retail outlets (three retail outlets in California and Oregon), its online retail format (http://store.gxonlinestore.org/), and its fair trade coffee and chocolate campaigns.

Global Exchange sells branded fair trade certified coffee, tea, and chocolate (e.g. Equal Exchange, Thanksgiving Coffee Co., Peace Coffee), which are certified by TransFair USA. It also sells its own label brand of organic fair trade certified chocolates[82] and offers an assortment of non-certified fair trade specialty food products (e.g. Honduran organic cashews, Women's Bean Project's chili mix, jams), which it procures from US importers or distributors (Buyer and Project Manager, pers. comm. September 4,

[82] The organization partnered with a chocolate company -- Sjaak's Organic Chocolates, which is a fair trade certified licensee.

2007). However, the organization focuses on selling non-food fair trade products such as handicrafts and accessories from developing countries.

(1) *Supply information*

Since Global Exchange focuses on retailing fair trade products through its three independent retail stores and its online retail format[83], most of its fair trade product suppliers (mostly crafts) are FTF wholesalers who import crafts from artisans in developing countries. On the other hand, most of the fair trade food products that it sells are procured from fair trade certified licensees (e.g. Equal Exchange, Peace Coffee, Dean's Beans, Sjaak's Organic Chocolates), which may also be ATOs.

Potential suppliers must be certified organic, and must meet the fair trade quality criteria outlined by FTF (Global Exchange[b]). Potential fair trade suppliers, who are non-members of FTF or non-certified by TransFair USA, are required to fill out the Global Exchange's vendor form[84]. After reviewing this information, Global Exchange assesses the prospective demand for the fair trade product (i.e. marketability, desirability, and availability). Since Global Exchange does not have the capacity to interact directly with small producers (except for those with whom they are already working), the organization recommends prospective producer groups from developing countries to identify a wholesaler or distributor in the US who would supply Global Exchange with the fair trade product (Buyer and Project Manager, pers. comm. September 4, 2007).

[83] Global Exchange's retail outlets do their own buying, which implies that decisions on new fair trade product introductions and new suppliers are done independently (Buyer and Project Manager, pers. comm. September 4, 2007).

[84] For Global Exchange's potential vendor information visit http://store.gxonlinestore.org/vendorinfo.html.

(2) *Interest in fair trade beans*

Although the key informant expressed the opinion that Global Exchange would have minimal interest in marketing fair trade beans, the key informant identified several product characteristics that would make fair trade beans appealing to consumers. The key informant suggested that a gourmet type fair trade bean product, packaged in an innovative packaging may have a potential market. In addition, the key informant stressed the importance of packaging, which can add value to the fair trade bean product. Similar to other retailers in the natural products' industry, the key informant noted that the packaged fair trade bean product should include pictures of the producers and written information about their story. Finally, the key informant suggested that providing traditional recipes from CA would also help to market fair trade beans to US consumers.

6.3.3.4 *SERRV International*

SERRV International, a non-profit organization, is one of the pioneers in the global fair trade movement with its fair trade efforts dating back to 1949. SERRV imports, wholesales and retails fair trade products (mostly crafts) from its developing country partners. Also, it is a Fair Trade Certified licensee for cocoa, coffee and tea (TransFair USAe). As of fiscal year 2007, its fair trade product sales amounted to US$ 9.6 million (Hoover's Inc.).

Although contacted, the key informant declined to be interviewed since SERRV has limited experience in marketing fair trade food products, other than coffee, tea, and chocolate. However, the key informant provided a copy of SERRV's Food Sourcing Guidelines and Producer Guidelines through e-mail. As outlined in its food sourcing guidelines, SERRV primarily handles food products which have 'gift appeal', since it

markets these items as gifts or as part of a gift basket. Hence, SERRV utilizes attractive packaging as a tool for marketing its fair trade food products. Also, it has a preference for food products, which cannot be produced or grown in the US. Since SERRV does not package or process their products, it requires potential suppliers to package the product in the country of origin before exporting it to the US. The organization also requires suppliers, who may be cooperative organizations, associations, or non-profit organizations, to meet its rigid fair trade quality criteria and be certified organic (if possible).

To date, most of SERRV's products are handicrafts, which are produced by artisans in developing countries. However, it also offers its own label brand (EQUO) of fair trade certified tea and coffee, and other fair trade certified brands (e.g. Just Coffee). SERRV also sells fair trade certified chocolate and markets several non-TransFair USA certified specialty food products, including jams from a producer group in Swaziland, organic cashews from Honduras, and soup mixes from the US. However, suppliers of these non-certified products must demonstrate that their operations are compatible with SERRV's ideals and the fair trade criteria.

6.3.4 *Natural Distributor: UNFI*

Established in 1978, UNFI is a publicly traded company, which distributes over 40,000 natural products to retail stores throughout the US (UNFI 2007). The company's distribution operations are divided into four units -- UNFI Eastern Region, UNFI Western Region, Albert's Organics, and Select Nutrition. As of fiscal year 2007, its sales totaled US$ 2.8 billion of which approximately 28 percent were to Whole Foods Market (Hoover's Inc.; UNFI 2007).

UNFI operates 12 retail stores through its subsidiary, the Natural Retail Group; and also imports, roasts, and packs nuts, seeds, dried fruits and other products through its subsidiary -- the Hershey Import Company.

Decisions about marketing new products and sourcing from new suppliers are made independently by each region. Hence, most new products are introduced at the regional level with the aid of regional buyers who are employed by the company (UNFI 2007). In most cases, new products are test-marketed in retail stores owned by the company, prior to being sold nationally (UNFI 2007).

For this study, only the Director of Purchasing of UNFI's Eastern Region was interviewed. Thus, the information provided by the key informant may not hold true for all the other units or regions of UNFI.

UNFI Eastern Region has seven distribution centers, which carry approximately 25,000 natural products (Director of Purchasing, pers. comm. September 25, 2007). According to the key informant, of its total products, approximately 40 to 50 percent are organic, while two to three percent are fair trade certified.

6.3.4.1 *Fair Trade Products*

Currently, UNFI Eastern Region distributes fair trade certified coffee, tea, chocolate, sugar, rice, and quinoa (i.e. an edible seed from the Andes). UNFI's major suppliers of these products are ATOs, including Alter Eco Americas and Equal Exchange. According to the key informant, in addition to fair trade certified coffee, tea, and chocolate, fair trade quinoa is faring well at the market. While UNFI distributes products to natural product retailers, particularly Whole Foods Market and health foods

stores and cooperatives, it also sells fair trade products to conventional supermarkets (UNFI 2007).

6.3.4.2 *Current Dry Beans Sold*

UNFI, which purchases dry beans and other grains centrally, is the "largest purchaser of organically grown bulk products in the natural product industry" (UNFI 2007, 6). UNFI Eastern Region carries an assortment of canned and packed (1 lb and 2 lb packs) dry bean products, which it sources from branded suppliers such as Bob's Red Mill, Eden Foods, and Health Valley (Director of Purchasing, pers. comm. September 25, 2007). In addition, it sources bulk beans from importers and packers of dry beans (e.g. Multiple Organics).

UNFI Eastern Region distributes dry beans, which are either natural or organic, to independent health food stores and cooperatives (45%), Whole Foods Market (25%), and other natural and conventional supermarkets (Director of Purchasing, pers. comm. September 25, 2007).

6.3.4.3 *Interest in Fair Trade Bean*

While the key informant expressed possible interest, he did not guarantee that the UNFI Eastern Region would be interested in distributing fair trade beans. However, if it were to purchase fair trade beans, UNFI Eastern region prefers organic or natural fair trade beans. The key informant also commented that UNFI's customers would prefer bulk beans, packaged in a 25 lb and 50 lb bags. Since UNFI does not package its products, suppliers are required to deliver their products ready for distribution. Thus, the key informant recommended that the producer organizations (CA bean growers) partner with a dry bean supplier (importer, packer, broker), who would supply UNFI with the fair

trade bean product. Detailed guidelines for new products and prospective suppliers are described in the UNFI Eastern Region's 2008 Supplier Packet.

6.4 Opportunities and Potential Constraints to Marketing Fair Trade Beans in the US

This section identifies strategic factors (i.e. opportunities and constraints) which have potential impact on marketing fair trade beans of CA origin in the US. Also, this section presents the proposed market recommendations, which were deduced from the identified strategic factors.

6.4.1 *Opportunities*

Trends in demand for ethical products indicate bright prospects for expanding sales in the US market. For instance, fair trade coffee sales in the US alone constituted 31 percent of the global sales in fair trade certified products. US consumers' growing interest for ethical products has been driven largely by their consciousness and concern about global issues, which include food safety, poverty, and environmental sustainability. Hence, creating new fair trade products can capitalize on the rising demand for ethical products among US consumers.

Fair trade beans should also capitalize on the increasing US consumption of black and small red beans, compared to the declining consumption of other dry bean market classes. This trend is likely attributed to increasing health consciousness of consumers, globalization of their tastes (i.e. increasing interest of US consumers for Mexican and CA cuisines), and growth in the Hispanic population. Also, since the target buyers cater to ethical consumers -- mostly educated, non-Hispanic, white consumers, belonging to the

middle to high income groups -- this study sees the greatest demand for fair trade black beans[85].

This study showed that there is a potential demand for fair trade beans of CA origin in the US. A niche market exists among natural product retailers interested in supporting fair trade by widening the fair trade products that they sell. Approximately 40 percent of the health food store and cooperative respondents expressed strong interest in selling fair trade beans in their stores. Likewise, a leading natural product retailer and an ATO selling branded fair trade products expressed strong interest in carrying fair trade beans.

While most of the target buyers (i.e. potentially interested retailers and distributors) do not immediately require fair trade beans to be certified organic, there is greater opportunity to market an organic fair trade bean product. This is because a high proportion of US ethical consumers are concerned about food safety, as it relates to their health. Further, since beans are considered to be a healthy food (good source of protein and may lower risks on certain illnesses), their wellness appeal to consumers can be emphasized. Thus, product attributes should be embedded in the potential fair trade bean product, in order to take advantage of the main drivers of fair trade bean demand -- wellness, indulgence, and convenience. Results of the study emphasize that the greatest market potential for fair trade beans lies in combining these three demand drivers (i.e. to cater to a wider group of ethical consumers). For instance, most ethical consumers have a

[85] Discussed in detail in Chapter 5.2.4. Although demand for small red beans is greatest among Hispanics of CA descent, they may not be willing to buy fair trade small red beans, if their price exceeds that of conventional small red beans of CA origin. However, it may be possible to stimulate demand for fair trade small red beans among ethical consumers, as long as the potential product exhibits (1) desirable quality characteristics (e.g. taste, color, and health benefits), (2) a trendy and gourmet appeal, and (3) inclusion of recipes using the bean market class.

high opportunity cost of time and are increasingly health-conscious. Hence, they might prefer conveniently packed fair trade beans (e.g. microwaveable soups/chili) with less sodium or added fiber.

6.4.2 *Potential Constraints*

The survey respondents and key informants identified potential constraints that might hinder marketing fair trade beans from CA in the US. The major constraints were related to supply, demand, and institutional issues.

6.4.2.1 *Supply Constraints*

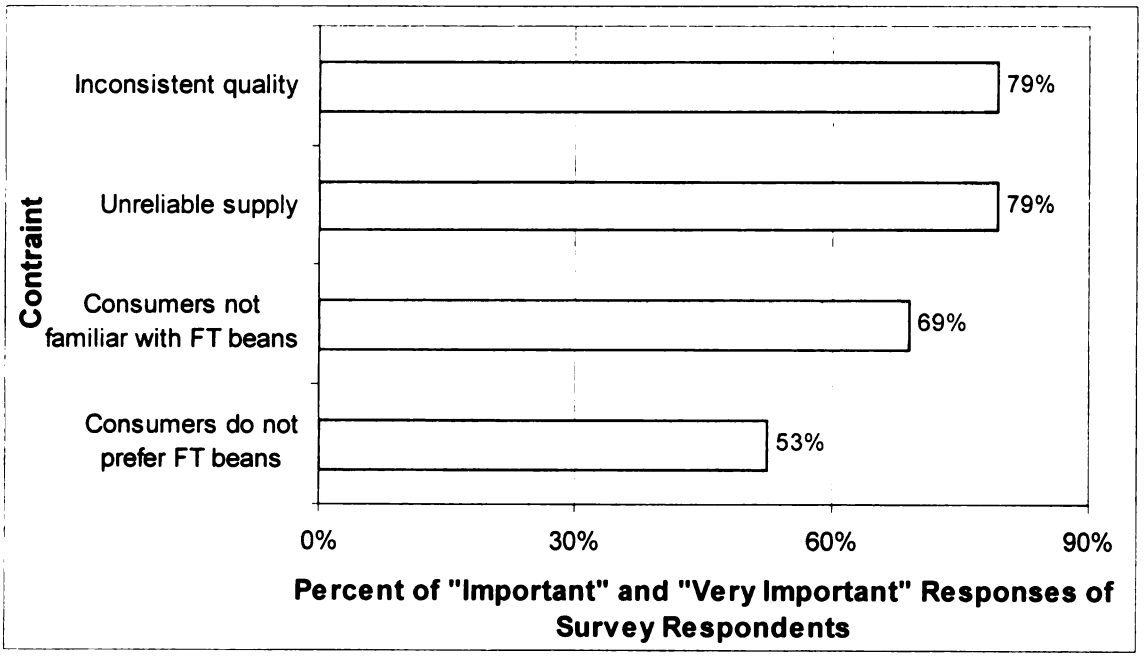
More than three-quarters (79%) of the total health food stores and cooperative respondents identified inconsistent quality and an unreliable supply (i.e. timeliness of delivery and product availability) as major constraints to marketing fair trade beans (**Figure 6.7**). Respondents also identified other potential supply constraints, including the quality reputation of the exporting country, seasonality of production, and suppliers' ability to meet quality preferences of US consumers (e.g. preference for both organic and fair trade beans, interest in purchasing less common market classes). Likewise, key informants noted that the lack of product representation in the US (i.e. a US-based distributor), low margins on staples, and other logistics and supply chain concerns (ease of acquiring/delivering the product) would likely hinder the successful marketing of fair trade beans in US markets.

6.4.2.2 *Demand Constraints*

The primary demand constraint seen by health food stores and cooperatives were unfamiliarity of US consumers with fair trade beans, since fair trade beans are a new product (**Figure 6.7**). This can be tied to a lack of awareness among US consumers and

natural product industry agents, regarding CA small bean producers' low income and the threat they face due to the introduction of CAFTA-DR. The potential demand for fair trade beans may also be constrained by the inability of suppliers to signal product quality, as well as consumer doubts regarding the credibility of the information included with the fair trade bean product (i.e. ethical consumers may not believe that the beans are indeed traded under fair trade terms). Moreover, since beans are considered commodities, the potentially high price of fair trade beans may also constrain the demand for fair trade beans -- consumers may not be willing to pay a higher price than what they pay for organic beans produced in the US or conventional beans offered at a lower price.

Figure 6.7. Constraints to Marketing Fair Trade Beans, US, 2007



Source: B/C CRSP Survey of Health Food Stores and Co-ops (2007)

Some respondents also identified growing competition between the fair trade and the locavore (also known as localvore or the *buy local*) movement[86] in the US. Thus,

[86] Most natural product retailers market organic beans which are produced in the US.

campaigns by natural product stores to offer locally-produced foods to their customers may also constrain their commitment to market and promote fair trade beans. These trends suggest that fair trade beans may face strong competition in the US bean market.

6.4.2.3 *Institutional Constraints*

Although bean exports from CA enter the US market duty free, the US market imposes constraints on dry bean imports in the form of strict food safety regulations and quality standards (e.g. organic, moisture content, and defects, including foreign matter content, and damaged/split beans). Also, additional standards apply for processed beans (e.g. canned), which make it even more difficult to export a processed fair trade bean product. On the supply side, the lack of established fair trade criteria specifically for dry beans may also delay possible introduction of fair trade beans in the US market.

6.4.3 *Market Recommendations*

Recommendations to successfully market fair trade beans focus on: (1) the product, which specifies desired tangible and intangible attributes such as form, packaging information, and certification/labeling of the product; (2) distribution, which identifies the appropriate and most strategic marketing channel to use; and (3) promotion, which details the most strategic promotional activity to use in marketing fair trade beans to potential markets.

6.4.3.1 *Product*

The study identified possible product characteristics that appeal to target buyers. Based on the results of the study, recommendations are proposed, which reflect the main drivers of demand -- wellness, convenience, and indulgence.

A majority of the respondents contacted (i.e. health food stores and cooperatives, Whole Foods Market, UNFI, Alter Eco) perceived that their buyers would prefer to purchase bulk fair trade beans. For UNFI and Alter Eco, which are distributor and wholesaler-importer, respectively, bulk refers to fair trade beans packed in 25 lb and 50 lb bags. For retailers (i.e. health food stores and cooperatives and Whole Foods Market), bulk refers to beans sold in bins located in the bulk section of retail stores. Some respondents[87] suggested that processed beans (i.e. canned beans, microwaveable soups, etc.) marketed as a gourmet type, trendy and convenient bean product would have a greater appeal to ethical consumers. However, supplying processed fair trade beans is more complicated than supplying bulk beans (i.e. in terms of standards that must be followed, partnerships that must be established with a processor/canner). Nevertheless, marketing processed fair trade bean products should be further explored in the future, after assessing the demand for bulk fair trade beans (i.e. after test marketing the bulk fair trade bean product).

Furthermore, most respondents (both survey and key informants) stressed the importance of packaging the product with information regarding who the producers are and what production processes they employ. This information will serve to educate consumers about the plight of small bean producers in CA, thereby appealing to their indulgences (e.g. the desire to be a better person by helping poor producers while promoting sustainable practices). Similarly, the respondents highlighted the need to place

[87] Global Exchange, SERRV International, Sam's Club, Equal Exchange, and some health food stores and cooperatives.

a fair trade logo[88] on the package and include promotional materials with the product (e.g. brochures, pamphlets). This logo conveys to potential fair trade bean consumers that: (1) the suppliers' have met the fair trade criteria and (2) that purchasing fair trade beans will directly benefit smallholder producers. Also, many respondents noted that information that highlights wellness and improves the convenience feature of fair trade beans are vital to successfully marketing of the product (i.e. health benefits/nutritional claims and traditional recipes for small red and black beans) and should be included with the potential product.

The fact that most fair trade products are also certified organic indicates a growing demand for organic fair trade products. Currently, no beans of CA origin are marketed in the US as fair trade or organic. Furthermore, several of the target buyers do not immediately require organic certification for fair trade beans. However, the fair trade premium can serve as an incentive for CA producers to move towards organic production in the future. Thus, as soon as possible, bean producers in CA should adopt organic production practices. This will enable the producers to eventually use both the fair trade and the organic logos to differentiate their beans and thereby capitalize on US consumers' growing demand for both attributes.

6.4.3.2 *Distribution*

The distribution function of marketing focuses on making products available to consumers at the right time, place, and form with the objective of "maximizing access to target groups [markets] and minimizing distribution costs" (Meulenberg 1997, 354). This

[88] Since there are no established standards for fair trade beans, smallholder bean producers interested in producing and marketing fair trade beans should: first, look for a buyer-partner from a developed country; and secondly, register and acquire membership from FTF or IFAT in order to use their promotional materials, which include a fair trade logo.

section proposes a strategy for distributing fair trade beans, which is designed to make the product available to ethical consumers in the US and also shorten the distribution chain.

The study identified the most promising retailers of fair trade beans as: (1) health food stores and cooperatives; and (2) a leading natural product supermarket. However, since fair trade beans are a new product, fair trade bean suppliers should first target health food stores and cooperatives as potential retailers. This strategy would provide an opportunity to test market the product in independent stores, which have relatively lenient standards compared to natural product supermarkets. However, in the long run, suppliers should target mainstream outlets (e.g. natural product supermarkets), in order to expand the market and therefore widen fair trade's impact on the quality of life of smallholders.

First, a distributor must be identified, who will market fair trade beans to independent natural product retailers nationwide. Based on the findings of this study, UNFI -- the leading natural product distributor -- appears to be the most promising distributor of fair trade beans because it: (1) has a wide distribution network in the West, Northeast, and Midwest regions; and (2) is the main distributor of the independent natural product retailers surveyed in this study[89].

Second, an importer must be identified, who can supply the bean product to a US distributor. Since fair trade principles are rooted in the empowerment of smallholders, the producers should partner with an ATO interested in marketing (i.e. importing and wholesaling) fair trade beans. ATOs, which have fair trade as their core mandate, have the experience required to assist a new fair trade endeavor by maintaining a direct

[89] The key informant suggested that UNFI would be willing to market fair trade beans, if their buyers are willing to sell it.

relationship with smallholder producer associations and helping them to comply with the fair trade criteria. Based on the findings of this study, Alter Eco is the most promising importer/wholesaler because it: (1) expressed interest in marketing fair trade beans[90]; and (2) distributes its fair trade products through UNFI.

6.4.3.3 *Promotion*

Success in selling a fair trade product requires matching the buyers' needs with the cluster of benefits that the fair trade product offers (Thompson 1985), which may be communicated through product promotions. Promotion (i.e. advertising, sales promotion, public relation, and sales force) directly influences consumer awareness of a product (Luther 2001), and thereby translate into actual purchases. Hence, to stimulate demand for fair trade beans, there is a need to increase awareness in the target markets (i.e. natural product industry agents and the ethical consumers) of the plight of smallholder bean producers in CA and the quality attributes of their fair trade bean product.

First, a promotional message should be developed that highlights the advantages of fair trade beans, compared to competing products (e.g. conventional beans, organic beans). To successfully convey this message to target markets, it must be consistent across all promotional materials (e.g. brochures, pamphlets, print advertisements, posters, co-op bulletins) and sales/marketing presentations (Luther 2001).

Second, on-site point of sale[91] (POS) promotional materials should be developed and used to promote the product to both the target buyers (i.e. natural product industry agents) and the ethical consumers. These materials should be designed to encourage

[90] Through Alter Eco's rigid monitoring and reporting tools for fair trade (discussed in 6.3.3.1), the company maintains and encourages transparency and traceability along its supply chain.

[91] If used strategically, POS promotion is less expensive than media advertising since the target buyers can actually see the product and the "selling proposition" (Feig 1999).

buyers to think about their need for the fair trade bean product (Feig 1999). POS promotions might include creative (eye-catching) and persuasive print materials, a motivating and inviting sales presentation, and a high quality product display. The goal is to encourage consumers to buy the product and thereby, convince the retailer or distributor that selling fair trade beans would generate income for their firms.

Finally, strategic partnerships should be developed with key fair trade networks (e.g. FTF, IFAT), ftos, and fair trade support organizations (e.g. United Students for Fair Trade, Organic Consumers Association) to solicit their assistance in promoting the new fair trade product in the US market.

6.5 Synthesis

This study found that there is a potential market for fair trade beans of CA origin in the US, given that a niche market exists among natural product industry agents. Offering fair trade beans capitalizes on existing trends and drivers of ethical consumption among US consumers -- rising health consciousness, growing concerns about global issues (e.g. food safety, poverty, environmental sustainability), and the globalization of tastes (i.e. increasing interest in Mexican and CA cuisines).

However, marketing fair trade beans in the US is also beset by potential threats and challenges. Major challenges include: (1) limited capacity of fair trade bean suppliers to meet the quality and quantity requirements of target buyers in the US market; (2) lack of awareness among ethical consumers and natural product industry agents, regarding the plight of smallholder bean producers in CA; and (3) the potential competition with the growing locavore movement (i.e. buy local movement).

In order to successfully market fair trade beans, it will be necessary to: (1) match the target buyers' needs with the cluster of benefits that fair trade beans offer; (2) develop strategic partnerships with buyers regarding the distribution of fair trade beans in the US market; (3) increase awareness in the target markets by creating effective POS promotional materials; and (4) establish alliances with key fair trade networks, ftos, and fair trade support organizations. These efforts should be geared toward stimulating demand for fair trade beans in the US, which in the long run will improve the welfare of smallholder bean producers of the CA region.

CHAPTER 7
SUMMARY AND CONCLUSION

Smallholder bean producers in Central America (CA), who depend on bean production as a main source of income, face innumerable challenges. First, CAFTA-DR requires CA countries to gradually eliminate import tariffs on sensitive agricultural products, including beans. This threatens the livelihood of small producers, who will be unable to compete with the less expensive bean imports. In addition, throughout the region, supermarkets are becoming dominant buyers of agricultural commodities. This trend threatens access of small producers to local markets, since smallholders are unable to meet the stringent quality standards and quantity requirements of supermarkets.

One way to minimize these threats to smallholders is to capitalize on opportunities that globalization presents, such as catering to the ever-changing and diverse consumer demand in target markets. This study analyzes the potential for smallholder producers to pursue niche marketing, a strategy which differentiates a product that is produced, using a defined process or exceptional characteristic. Fair trade products are considered a differentiated product that can be traded through more lucrative channels than commodities that flow through the conventional supply chain. As beans are not currently marketed as a fair trade product, this study assessed the prospects of marketing fair trade beans in the US -- specifically the small red and black beans, which are the dominant market classes produced in CA.

This study employed a modified ROA approach (i.e. market research techniques and business analysis tools) to assess market opportunities for fair trade beans in the US. First, a literature review was conducted. In addition, trends in the fair trade industry, the

CA bean subsector, and US demand for dry beans were analyzed. Second, a rapid market appraisal was carried out. Managers of health food stores and cooperatives were surveyed and key informants employed by major players in the natural products industry were interviewed. Finally, a modified strategic analysis was performed to identify key constraints to and opportunities for marketing fair trade beans in the US, and to formulate marketing recommendations.

7.1 **Fair Trade and the US Market**

Fair trade is a trading partnership that is based on transparency, equity, and respect. Governed by several fair trade networks (i.e. FLO, IFAT, and FTF), fair trade is envisioned as a strategy for alleviating global poverty through equitable trade, especially by providing producers in developing countries with access to markets in developed countries. These fair trade networks have established the fair trade standards for products and organizations, which focus on social justice and environmental sustainability.

Fair trade products have gained acceptance in developed countries' markets. The demand for these products is projected to grow the most in the US. Among US consumers, the demand for fair trade products has been driven by increasing awareness and concerns about food safety, health, persistent global poverty, and environmental degradation. For instance, over the past six years, demand for fair trade coffee and tea rose by 59 and 68 percent, respectively. The introduction of new fair trade food products and continuous mainstreaming of current fair trade certified products (e.g. chocolate/cocoa) are expected to further boost demand for fair trade products in US markets.

7.2 **The CA Bean Subsector**

Beans, the second most important basic grain in CA, are a major staple and a main source of income for smallholder producers. Beans are typically grown on hillside farms, which are fragmented and dispersed.

Variations in consumer preferences among countries in the region reflect the market classes grown in each CA country. Small red beans are primarily produced in Nicaragua, El Salvador, and Honduras, while black beans are mainly grown in Guatemala and Costa Rica. The region's trend production is characterized by sluggish growth, averaging one percent per annum, while the region's harvested area increased at an annual rate of two percent (2001-2005).

Marketing channels for beans are similar across countries in the region. After harvest, smallholder producers sell their surplus production at rural markets, or to traditional or non-traditional intermediaries (traders). Non-traditional intermediaries, who follow rigid quality standards, supply the needs of the increasingly consolidated processing and retail sectors. Although, beans are still marketed in small stores and traditional markets, supermarkets are becoming increasingly important sellers, not only for beans but for the whole food sector.

CA bean imports outstripped exports over the period (2001-2005). Imports averaged 13 percent of the region's total bean supply with Costa Rica (44%) and El Salvador (32%) accounting for most of the region's bean imports. On the other hand, Nicaragua accounted for more than one-half of CA's exports, followed by Honduras (15%). Although a shortage of beans exists in the region, CA countries still export to niche markets in developed countries, particularly the US -- the region's main trading

partner. In recent years, bean exports to the US have been rising, which can be attributed to the rise of ethnic food restaurants and Hispanics of CA descent living in the US. Although bean exports to the US enter duty free, exports have been constrained by non-tariff barriers, including sanitary and phytosanitary requirements, and applicable grades and standards for beans.

Price trends were analyzed to evaluate the competitiveness of domestically produced beans with US imports. This analysis revealed a pronounced seasonality in production and a relatively narrow price spread from the farm gate to the retail level for small red and black beans. Over the period 2002 to 2006, beans imported from the US were generally less expensive than beans produced domestically. However, small red beans appeared to be price competitive with US imports during the last two years (2005-2006).

Given the rapidly changing market environment, it is crucial for countries in CA to implement policies which will enable smallholder bean producers to adapt to globalization. However, in the short run, CA countries will find it difficult to implement complementary policies required to increase productivity, such as making investments to improve market infrastructure (e.g. roads, market information), expand access to credit, and strengthen research and extension services.

Thus, developing a market for fair trade beans has the potential to increase the income of bean producers by providing smallholders direct market access to target markets, and through capacity building (i.e. networking, training and skills building).

7.3 **US Demand for Beans**

Trends in US demand for dry beans indicate a gradual decline in per capita consumption for all dry beans. However, when disaggregated by market class, per capita consumption has increased for some market classes (e.g. small red, black, and garbanzo beans), implying their greater market acceptance in the US. This trend is likely attributed to an increase in the Hispanic population, particularly people of Mexican and CA origin, the globalization of tastes, and increasing health consciousness among US consumers.

A study of the bean consumption habits of US consumers (1994-1996) indicated that cooked dry bean consumption (by market class) varied by location, region, urbanization, ethnicity, age and gender, and income. Although cooked dry beans were mostly consumed at home, dry bean consumption at restaurant and fast food venues has been increasing. Bean preferences of US consumers also varied by market class. Non-Hispanic, white consumers preferred black, refried pintos, kidney, and garbanzo beans, while Hispanics of Mexican descent had a strong preference for pinto and lima beans. On the other hand, Hispanics of CA or Caribbean origin had a strong preference for black and small red beans.

Cooked dry bean consumption was highest among low income consumers in terms of proportion (ratio of market share to population). However, when disaggregated by market class, high income groups were the major consumers of black beans, which reflects their appeal to the upscale/trendy market.

Five major drivers influence consumers' demand in the agrifood system -- convenience, value, ethnicity, wellness, and indulgence. A study that applied this approach to dry beans, found that the greatest potential for expanding dry bean

consumption lies in appealing to the wellness and ethnicity components. However, for fair trade beans, which are targeted at ethical (i.e. socially-conscious) consumers, the greatest market opportunity lies in tailoring product attributes to respond to the indulgence, wellness, and convenience demand drivers.

7.4 **The Potential of Fair Trade Beans from CA in the US**

This study found that there is a potential niche market for fair trade beans of CA origin in the US. Natural product industry agents expressed an interest in purchasing/selling fair trade beans and observed that the availability of fair trade beans would enable them to expand their fair trade offerings. Approximately 40 percent of the health food store and cooperative respondents were definitely interested in selling fair trade beans in their stores. Also, a leading natural product retailer and an ATO expressed strong interest in carrying the potential bean product.

This study has also identified the target buyers' preferences, regarding the attributes of fair trade beans. Most of the respondents (i.e. health food stores and cooperatives, and other natural product industry agents) perceived that their buyers would prefer to purchase bulk fair trade beans. Although some respondents suggested that processed beans (marketed as a gourmet, trendy and convenient bean product) would have greater appeal to ethical consumers, this option should be pursued in the future, after the market demand for bulk fair trade beans has been assessed.

Furthermore, this study recommends that information should be included with the fair trade bean product, which enhances its indulgence, wellness, and convenience appeals (i.e. to capitalize on the major drivers of demand in the US market). To enhance the indulgence appeal, the product should display a trusted logo (indicating that the

product is fair trade), and include information about the producers who grew the beans. To enhance the wellness appeal, the product should display information on beans' health benefits and nutritional claims. Lastly, to appeal to the convenience driver, the product should include traditional CA recipes and instructions for preparation.

The target buyers do not immediately require organic certification for the fair trade bean product. However, as soon as possible, smallholder bean producers should move towards organic production in order to capitalize on the growing demand for both initiatives, as well as the rising health consciousness and food safety concerns of US consumers.

The fair trade bean market may be constrained by several factors, which were classified in the study as a supply, demand, and institutional constraint. On the supply side, major constraints include inconsistent quality and unreliable supply (timeliness of delivery and product availability), as well as the inability of smallholder producers to meet the preferences of US buyers. On demand side, major constraints include a lack of awareness among consumers regarding the plight of smallholders in CA, and growing competition with locally produced organic beans due to the locavore (i.e. buy local) movement. Institutional constraints include strict US food safety regulations and quality standards for unprocessed and processed dry beans, and the lack of established fair trade criteria for beans, which may possibly delay the introduction of fair trade beans in the US market.

Thus, this study highlights the need to: (1) carefully match the product needs of target buyers with the potential benefits that fair trade beans offer (i.e. to signal product quality based on an identifiable product attribute); (2) identify strategic channels for

marketing fair trade beans, such as an ATO interested in importing and wholesaling fair trade beans, a natural product distributor, and/or health food stores and cooperatives; (3) educate target buyers (e.g. natural product retailers) about the attributes of fair trade beans through an effective POS display/promotional materials; and (4) develop strategic partnerships with fair trade networks, ftos, and other fair trade support organizations to gain the support required to successfully market fair trade beans of CA origin in the US.

7.5 **Limitations of the Study and Future Research**

First, the response rate for the survey of health food stores and cooperatives was relatively low (27%). However, a one-page follow-up survey (sent to non-respondents) revealed that these stores were similar to the stores managed by the initial respondents.

Second, due to inconsistencies in the available secondary data on bean prices in the CA region, it was not possible to estimate the supply price of fair trade beans produced in CA and delivered at a US port. Future research should focus on collecting farm gate prices and data on the costs of cleaning, transporting, and shipping beans from CA to a US port.

Finally, this study only focused on the demand side of assessing the potentials of fair trade beans. Future research should focus on evaluating the ability of CA bean producers' to meet the target buyers demand requirements specified in this study (i.e. general quality attributes and quantity requirements).

Appendix A. International Fair Trade Association (IFAT) Membership Requirements

IFAT is one of the global umbrella organizations of the fair trade movement engaged in certifying and monitoring its member organizations against established IFAT fair trade standards for ftos.

Currently, the provisions for IFAT membership are under review. Hence, IFAT has temporarily ceased to accept new applications for provisional membership. For the latest information about membership applications, please refer to IFAT's webpage at *http://www.ifat.org* (IFATb).

1. Who can apply?

Membership is open to established ftos, fair trade networks/associations, organizations that support fair trade, and applications from individuals (as associates) in their capacity as researchers, writers, consultants and specialists in their field who can contribute solid skills, knowledge and expertise to the other members of the network (IFATb).

2. Process of application for provisional membership in IFAT

To apply for provisional membership, the interested organization must:

1. fill out an application;
2. sign IFAT's fair trade standards (Code of Practice); and
3. send an annual report and a sample marketing material.

The interested organization must also present the following: at least two-year documents on trading history, accompanying accounts and legal standing; a mission statement; and three references with contact information with at least one reference as an existing IFAT member from the interested organization's own country (IFATb). IFAT stresses the importance of choosing willing referees since this will substantially speed up the process of application.

3. Membership fees as of May 2007

Annual IFAT membership fees are based on two components: membership type[92] and a monitoring fee payable by all members. The following tables detail IFAT membership fees by membership type and business turnover.

3.1 *Trading members*

Turnover (US $)	Annual Membership fee (€)
Under 100,000	€200 + monitoring fee
$100,000 - $1,000,000	€0.002 x turnover + monitoring fee
over $1,000,000	€2,500 + €100 for every extra million turnover + monitoring fee

Note: For members in Africa, Latin America and Asia the maximum fee is € 2,500

3.2 *Fair trade networks*

Annual Membership fee: €250 + monitoring fee

[92] IFAT membership types: trading members (producer organizations and ATOs), fair trade networks, fair trade support organizations, and associates

3.3 ***Fair trade support organizations***

Turnover in (US $)	Annual Membership fee (€)
Under $250,000	€750 + monitoring fee
$250,000 and up	€1,250 + monitoring fee

3.4 ***Associates***

Turnover (US $)	Annual Membership fee (€)
Associate organizations with incomes up to $250,000	€750
Associate organizations with incomes of $250,000 and up	€1,250
Individual associates	€100
Students and the unwaged	€35

3.5 ***Monitoring fees***

Monitoring fees are paid annually by all members, except associates. Fees for monitoring are given below.

Turnover (US $)	Annual Monitoring fee (€)
< 100,000	25
100,001 – 500,000	50
500,001 – 1,000,000	100
1,000,001 – 4,000,000	350
4,000,001 – 8,000,000	600
8,000,001 – 16,000,000	800
> 16,000,000	1,000

Source: IFATb

Appendix B. Fair Trade Federation (FTF) Membership Requirements

FTF is a network of fair trade organizations (ftos) in Asia, Africa, and Latin America based in Washington DC.

1. Who can apply?

FTF awards a renewable annual membership to any producer, importer, wholesaler or retailer who:

> "strives to carry 100% of goods that meet the fair trade principles and practices outlined by FTF; has been in operation for at least 180 days in their country of incorporation; and passes the FTF's screening process based on its principles of fair trade" (FTFc).

FTF also encourages application of non-profits who are not involved in fair trade trading as fair trade associates. Interested individuals should contact FTF regarding how to be involved.

Unlike IFAT, membership to FTF is not a certification. However, by submitting the application materials, the interested organization puts forward its business practices for review and approval by FTF's screening committee on membership (FTFc). The interested organization seeking membership also "maintains its right to appeal through established Federation channels" (FTFc) if denied membership.

2. Process of application to FTF

Interested organizations seeking membership to FTF are required to submit an application form which varies by type (i.e. wholesaler, retailer, retailer working directly with producers, and producer[93]).

Organizations seeking membership are also required to pass at least three references with contact information that are able to confirm the trading practices of the applicant. "An applicant is best served by recommendations from current members of FTF or other fair trade organizations, artisans, NGO partners, or contacts who are well versed in the principles of fair trade" (FTFc).

3. Membership Fees

The interested organizations seeking membership are required to submit a non-refundable $ 50 screening fee together with the application form. If admitted, organizations' membership dues are assessed based on sales during the most recent accounting period, as given on the table below.

Gross Sales (US $)	Membership Fee (US $)
up to 74,999	150
75,000 – 124,999	250
125,000 – 199,999	400
200,000 – 399,999	500
400,000 – 999,999	1,000
1 million – 4,999,999	2,000
5 million - 9,999,999	2,500
10 million-29,999,999	3,000
30 million+	4,000

Source: FTFc

[93] Currently, FTF has temporarily ceased to accept producer applications. Please visit FTF's webpage for further information at *http://www.fairtradefederation.org/*.

Appendix C. Producer Certification Fees for Fair Trade Certified Products

FLO develops fair trade product specific and generic standards for producer organizations and traders. It also maintains the fair trade register (i.e. listing of current certified producer organizations) and acts as the umbrella organization of 20 national labeling initiatives.

Prior to 2004, for a producer organization to be certified it has to have a buyer from developed countries that would pay for the certification fees. However, starting in early 2004, a producer fee system was put in place to support the growth of the fair trade industry. The producer certification fees are based on the kind of organization (e.g. 1st grade, 2nd grade, or 3rd grade organizations), number of farm workers or cooperative members, number of fair trade products to be sold, and whether the producer organization owns a processing facility for their product (Brinkschneider 2006).

In the same year, FLO-CERT was created to ensure that producers and traders comply with the fair trade standards by certifying producers and auditing trading relations (FLO 2007).

1. Initial Inspection Fees for Small Farmer Organizations (effective January 2004)

1.1 *Initial inspection fees for 1st grade small farmer organization*

1st grades are organizations which are democratically controlled by their members and have majority of members as small farmers.

Category	1st Grade Organization			
	Number of Members[94]	Basic Fee (EUR)	Number of Workers[95]	Processing Installation Fee (€)
A	<50	1,400	<10	200
B	50-100	2,000	10-100	400
C	101-250	2,200	>100	600
D	251-500	2,400		
E	501-1000	3,000		
F	>1000	3,400		

Source: Brinkschneider (2006)

An application fee of € 250 is charged to the interested organization seeking certification. Per additional product sold under fair trade terms, a fee of € 200 is charged to the 1st grade applicant.

1.2 *Initial inspection fees for 2nd and 3rd grade small farmer organizations*

2nd grades are those organizations with 1st grade organizations as members and are democratically controlled by their direct members while 3rd grades are organizations legally formed by their affiliated 2nd grades (FLO-CERT).

For the initial application of the organization, a minimum of 3 to a high of 20 member organizations are inspected depending on the total number of member organizations. Given below is the initial fee for a sampled member organization.

[94] Members include all active legal members of the organization.

[95] Workers include all permanent, seasonal, and casual workers employed in the processing installation.

Category	2nd / 3rd Grade Organization			
	Number of Members[96]	Basic Fee (€)	Number of Workers[97]	Processing Installation Fee (€)
A	<50	900	<10	200
B	50-100	1,000	10-100	400
C	101-250	1,100	>100	600
D	251-500	1,200		
E	501-1000	1,500		
F	>1000	1,700		

Source: Brinkschneider (2006)

An initial central structure fee[98] is also charged to the applicant seeking certification amounting to € 1,500. Additional product fee also applies to the applicant amounting to € 200 per additional product traded in fair trade terms.

2. **Renewal Certification Fee for Small Farmer Organizations**

"Fair trade certified producers are inspected at least once a year as part of a three year certification cycle" (Brinkschneider 2006). The certification performance of the organization for the last two years greatly dictates whether FLO-CERT will conduct a: (1) full inspection (i.e. focus on all aspects of the fair trade standards); or (2) surveillance inspection (i.e. focus on major parts of the fair trade standards).

2.1 ***Renewal certification fees for 1st grade small farmer organization***

Category	1st Grade Organization					
	Number of Members[99]	Renewal Basic Fee (€)		Number of Workers[100]	Renewal Processing Installation Fee (€)	
		full inspection	surveillance inspection		full inspection	surveillance inspection
A	<50	1,137.00	875.00	<10	87.50	87.50
B	50-100	1,575.00	962.50	10-100	175.00	175.00
C	101-250	1,750.00	1,050.00	>100	350.00	350.00
D	251-500	1,925.00	1,137.50			
E	501-1000	2,362.50	1,487.50			
F	>1000	2,712.50	1,575.00			
Additional Product Fee						
Full inspection		175.00				
Surveillance Inspection		87.50				

Source: Brinkschneider (2006)

[96] Members per affiliated member organization.
[97] Workers include all permanent, seasonal, and casual workers employed in the processing installation.
[98] Fee charged to the umbrella organization of a 2nd or 3rd grade small farmer organization.
[99] Members include all active legal members of the organization.
[100] Workers include all permanent, seasonal, and casual workers employed in the processing installation.

2.2 ***Renewal certification fees of sampled members of 2nd and 3rd grade small farmer organizations***

Category	2nd/3rd Grade Organization					
	Number of Members[101]	Renewal Basic Fee (€)		Number of Workers[102]	Renewal Processing Installation Fee (€)	
		full inspection	surveillance inspection		full inspection	surveillance inspection
A	<50	700.00	700.00	<10	87.50	87.50
B	50-100	700.00	700.00	10-100	175.00	175.00
C	101-250	787.50	700.00	>100	350.00	350.00
D	251-500	875.00	787.50			
E	501-1000	1,050.00	875.00			
F	>1000	1,225.00	962.50			
Additional Product Fee				Central Structure Fee		
Full inspection		175.00		Full inspection	1,137.50	
Surveillance Inspection		87.50		Surveillance Inspection	787.50	

Source: Brinkschneider (2006)

[101] Members per affiliated member organization.
[102] Workers include all permanent, seasonal, and casual workers employed in the processing installation.

Appendix D. Consumers' Willingness to Pay for Ethical Food Products

Product	Designation/Label	Segment Size/ Willingness to pay a price premium	Country	Source (Date)	Cited by
Fresh vegetables	Environment friendly vegetables	70% willing to pay 5% more	Netherlands	Wandel and Bugge (1997)	Bougherara and Grolleau (2004)
Apples	Ecolabeled products	With a premium of $0.40 over 40% would still buy	US	Blend and Ravensawaay (1999)	
Coffee	Shade grown coffee	42% willing to pay at least $1 more per pound	Canada	CEC (1999)	
Coffee	Shade grown coffee	36% willing to pay at least $1 more per pound	Mexico	CEC (1999)	
Coffee	Shade grown coffee	28% willing to pay at least $1 more per pound	US	CEC (1999)	
Coffee	Fair Trade and Organic	Willing to pay a price premium of 11.26%	UK	Galarraga and Markandya (2004)	
Coffee	Fair Trade, shade grown, and organic	Consumers are willing to pay $0.22/lb premium for fair trade, $0.20/lb for shade grown, and $0.16/lb for organic	Colorado and Wyoming, US	Loureiro and Lotade (2005)	
Banana	Fair Trade	93% of respondents who already bought fair trade goods would be prepared to buy fair trade bananas at equal price 70% are willing to pay a premium of 10%	Europe	European Commission (1997)	Loureiro and Lotade (2005)
Unspecified	Environmental/Health Attributes	Willingness to pay between 5-7%	US	Ravensway and Hoehn (1991)	Galarraga and Markandya (2004)
Unspecified	'Green' attribute	60% of consumers willing to pay 10% (or higher) premium	US	Morris (1997)	

Note: Estimates may be based on empirical studies (contingent valuation methods) or "from casual empiricism."
Sources: Bougherara and Grolleau (2004)
Galarraga and Markandya (2004)
Loureiro and Lotade (2005)

Appendix E. Gross Sales (US $ million) of the Fair Trade Industry, North America, 2001-2006

INSTITUTION/ PRODUCT	2001	2002	2003	2004	2005	2006	Average
FTF & IFAT members	48.20	56.20	65.73	75.81	n.a.	n.a.	61.49
TransFair USA[1]	75.00	110.00	208.00	369.00	499.00	730.00	331.83
TransFair Canada[2]	5.40	0.10	17.46	27.14	46.91	79.75	29.46
Comercio Justo (Mexico)	n.a.	n.a.	0.22	0.30	n.a.	n.a.	0.26
Sub-total	**128.60**	**166.30**	**291.41**	**472.25**	**545.91**	**809.75**	**402.37**
Less FTF/IFAT Coffee Sales[3]	14.0	16.3	15.3	113.3	n.a.	n.a.	39.72
Less Canada Tea, Sugar, & Cocoa sales[3]	n.a.	n.a.	0.02	0.04	n.a.	n.a.	0.03
Total North America	**114.60**	**150.00**	**276.10**	**358.91**	**545.91**	**809.75**	**375.88**
Annual Growth Rate		**31%**	**84%**	**30%**	**52%**	**48%**	**49%**

[1]Accounts for Coffee Sales

[2]Accounts for Cocoa, Coffee, Sugar and Tea for 2001-2004 using 1$ US= 0.78 $Can, while for 2005-2006 aside from the four products mentioned earlier, data includes sports balls, fresh fruit, cereals, and flowers using an exchange rate of 1 $US = 0.998 $Can.

[3]Coffee, tea, and sugar sales were deducted in order to avoid double-counting since these tend to be items that are certified by the Fairtrade Labelling Organization's national labeling initiatives (i.e. Transfair USA, Transfair Canada, and Comercio Justo).

n.a.- not available

Sources: FTF (2005), TransFair USA (2007), TransFair Canada (2007)

Appendix F. Quantity of Imports and Exports of Beans by Country, CA, 2001-2005

Country	Imports ('000 mt)					Ave.	SD	CV	Exports ('000 mt)					Ave.	SD	CV
	2001	2002	2003	2004	2005				2001	2002	2003	2004	2005			
Nicaragua	3.25	1.33	1.52	1.83	1.96	1.98	0.75	38%	22.86	39.85	42.33	36.00	40.07	36.22	7.81	22%
Honduras	7.05	7.58	3.96	3.29	5.9	5.56	1.88	34%	5.68	11.17	10.52	7.09	8.39	8.57	2.30	27%
Belize	0.18	0.28	0.18	0.05	0.01	0.14	0.11	78%	4.83	3.93	4.32	3.87	4.61	4.31	0.42	10%
Guatemala	6.19	7.32	7.06	6.3	8.15	7.00	0.80	11%	4.92	1.65	0.61	6.52	3.86	3.51	2.40	68%
El Salvador	18.37	27.81	20.61	16.41	27.62	22.16	5.28	24%	2.74	2.88	2.82	2.74	3.38	2.91	0.27	9%
Panama	1.9	2.58	3.66	1.8	1.24	2.24	0.93	41%	0.04	0.36	2.92	1.17	1.25	1.15	1.12	97%
Costa Rica	25.57	28.29	28.97	33.61	33.38	29.96	3.47	12%	0.54	0.34	0.53	0.70	0.68	0.56	0.14	26%
Total	**62.51**	**75.19**	**65.96**	**63.29**	**78.26**	**69.04**	**7.21**	**10%**	**41.61**	**60.18**	**64.05**	**58.09**	**62.24**	**57.23**	**9.01**	**16%**
Annual Growth Rate		**20%**	**-12%**	**-4%**	**24%**	**7%**				**45%**	**6%**	**-9%**	**7%**	**12%**		

Source: FAOSTAT Database

Appendix G. An Analysis of International Prices for Types (organic and conventional) of Small Red Beans, Honduras and US, October 2007[103]

Item	Unit Cost		Price per Container
Conventional Small Red Beans			
Wholesale Price, San Pedro Sula, Honduras (Lps)	950.00	Lps/qq	418,871.25
+Transportation to Port of Cortes, Honduras (Lps)[1]	9.00	Lps/qq	3,968.25
Wholesale Price at Port of Cortes, Honduras (Lps)			422,839.51
÷ Exchange Rate (1 US$ = 18.8951 Lps)	18.90	Lps/$	22,378.26
+Commission (10% of wholesale price-Port of Cortes) ($)	111.89	$/mt	2,237.83
+Handling Fees ($)	17.50	$/mt	350.00
+Storage Fees ($)	24.00	$/mt	480.00
+Customs Broker ($)	3.40	$/mt	68.00
f.o.b. Price at Port of Cortes, Honduras ($)	1,275.70	$/mt	25,514.09
+Ocean Freight to Miami, Florida[2] ($)	119.55	$/mt	2,391.00
+Fuel Surcharge ($)	10.75	$/mt	215.00
+Inspection Fees ($)	17.80	$/mt	356.00
c.f.r. Price at Miami, Florida ($)	1,423.80	$/mt	28,476.09
Per unit c.f.r. price (Miami, Florida)	0.65	$/lb	
f.o.b. Price Idaho/Washington (Conventional Small Red Beans) ($)	846.57	$/mt	16,931.33
Per unit f.o.b. price	0.38	$/lb	
Organic Small Red Beans			
+Organic Premium (based on price paid by an organic bean manufacturer)	0.08	$/lb	3,350.99
f.o.b. Price Organic Small Red Beans ($)	1,014.12	$/mt	20,282.32
Per unit f.o.b. price[3]	0.46	$/lb	

[1]Industry estimate from the Honduran Agricultural Market Institute (IHMA).
[2]Shipment for a dry good container; freight rate from Seaboard Marine.
[3] For fair trade small red beans to be competitive in the US market, it has to be at least competitively priced with organic small red beans

Note: 1 container = 20 mt; 1 qq = 45.36 kgs; 1 mt = 2,204.6 lbs; c.f.r. = cost and freight (not including insurance)

Source of basic data: SIMPAH (2007) for wholesale price in San Pedro Sula, Honduras and exchange rate; Crowley Liner Services and Seaboard Marine for freight, and other charges; USDA AMS Bean Market News for f.o.b. prices at Idaho/Washington; Eden Foods, Inc. for f.o.b. price of organic small red bean

[103] While SIMPAH reported a wholesale price of Lps 950 per qq, a key informant reported that in 2006 producers typically were paid Lps 499 per qq for beans (farm gate price). Thus, it is likely that producers' participation in a fair trade initiative could supply beans for export at a substantially lower price than Lps 950 per qq.

Appendix H. US Dry Bean Imports (mt) from CA, 2001-2005

Country	Market Class	Notes	2001	2002	2003	2004	2005	Average	SD	CV
Honduras	Small Red	a	0.00	0.00	16.46	0.00	0.00			
	Dark Red Kidney	b	0.00	5.17	22.68	40.96	28.04			
	Light Red Kidney	b	0.00	243.31	430.78	93.24	223.23			
	Other Kidney incl Other White Pea	b	3.61	23.50	0.00	0.00	10.82			
	Black	b	0.00	0.00	19.14	0.00	39.25			
	Pinto	c	0.00	0.00	9.53	0.00	0.00			
	Other Beans	c	0.00	0.00	0.00	0.00	33.19			
	Sub-total		**3.61**	**271.99**	**498.59**	**134.20**	**334.53**	**248.58**	**189.43**	**76%**
Nicaragua	Mung bean	b	0.00	0.00	0.00	0.00	124.04			
	Small Red	a,e	75.30	93.82	196.32	78.01	343.21			
	Other Kidney	b,e	39.60	95.72	90.06	72.13	160.79			
	Dark Red Kidney	b	19.95	141.21	297.90	386.63	533.76			
	Light Red Kidney	b	0.00	139.16	721.39	1,090.69	1,189.85			
	Black	b	0.00	0.00	54.06	45.16	31.69			
	Pinto	b	10.50	10.00	10.20	10.83	4.27			
	Other White	b	0.00	0.00	8.73	2.61	0.00			
	Other Beans	b	0.00	79.79	166.64	121.11	719.83			
	Sub-total		**145.35**	**559.70**	**1,545.31**	**1,807.17**	**3,107.43**	**1,432.99**	**1159.42**	**81%**
El Salvador	Mung bean	b	268.77	451.15	521.32	621.18	749.06			
	Small Red	a,e	422.13	431.22	122.12	132.65	418.04			
	Navy or Pea	d,e	0.00	0.00	111.98	0.00	1.85			
	Dark Red Kidney	b	880.41	645.13	340.47	425.17	592.60			
	Light Red Kidney	b	859.19	922.84	886.96	369.54	587.50			
	Other Kidney incl Other White Pea	b	151.51	29.24	124.86	193.36	253.00			
	Cranberry	e	0.00	0.00	0.00	12.11	0.00			
	Black	b	7.00	15.70	62.83	49.07	80.02			
	Other Lima	b	20.00	0.30	0.00	0.00	0.00			
	Pinto	b	119.52	105.01	124.03	114.73	118.97			
	Other White	b	6.80	10.45	18.09	6.51	9.08			

Source of basic data: USITC Interactive Tariff and Trade DataWeb

Appendix H (cont'd).

Country	Market Class	Notes	2001	2002	2003	2004	2005	Average	SD	CV
	Other Beans	b	213.41	127.55	135.57	108.22	193.66			
	Sub-total		**2,948.74**	**2,738.59**	**2,448.22**	**2,032.53**	**3,003.78**	**2,634.37**	**400.94**	**15%**
Guatemala	Mung bean	b	0.00	7.26	18.28	1.76	0.00			
	Small Red	a	37.52	26.46	5.39	12.30	97.77			
	Other Kidney	b,e	13.07	1.31	28.08	39.18	55.32			
	Navy or Pea	d	0.00	0.00	1.52	0.00	0.00			
	Dark Red Kidney	b	47.05	42.17	57.82	69.64	16.11			
	Light Red Kidney	b	0.00	56.06	80.79	61.33	94.41			
	Other Beans	b,e	155.46	55.79	54.48	89.57	7.86			
	Black	b	0.00	3.49	8.79	8.29	5.35			
	Other Lima	c	0.00	0.28	0.00	0.00	0.00			
	Sub-total		**253.10**	**192.80**	**255.16**	**282.07**	**276.82**	**251.99**	**35.48**	**14%**
Costa Rica	Other Kidney	e	0.00	20.41	0.00	0.00	0.00			
	Dark Red Kidney	b	119.58	142.52	38.82	0.00	0.00			
	Light Red Kidney	b	0.00	0.00	0.00	3.01	167.26			
	Sub-total		**119.58**	**162.93**	**38.82**	**3.01**	**167.26**	**98.32**	**74.17**	**75%**
Panama	Other Beans	c	1.35	0.00	0.00	0.00	0.00			
Belize	Small Red	a	0.00	0.00	0.00	0.00	98.04			
	Other Kidney incl Other White Pea	d	0.00	0.00	187.79	0.00	0.00			
	Cowpeas	a	0.00	0.00	16.40	0.00	0.00			
	Black	b	183.23	0.00	0.00	0.00	0.00			
	Sub-total		**183.23**	**0.00**	**204.18**	**0.00**	**98.04**	**97.09**	**97.14**	**100%**
Total			**3,654.96**	**3,926.00**	**4,990.28**	**4,258.97**	**6,987.85**	**4,763.61**	**1340.15**	**28%**
Annual Growth Rate				**7%**	**27%**	**-15%**	**64%**	**21%**		

[a]Except seed, dried, shelled.
[b]Except seed, entered for consumption during the period from May 1 - Aug 31, inclusive in any year and entered/withdrawn for consumption Sept 1-Apr 30, dried, shelled.
[c]Except seed, entered/withdrawn for consumption Sept 1-Apr 30, dried, shelled.
[d]Except seed, entered for consumption during the period from May 1 - Aug 31, inclusive in any year, dried, shelled.
[e]Seeds of a kind used for sowing, dried.
Source of basic data: USITC Interactive Tariff and Trade DataWeb

Appendix I. Dry Bean Consumption Patterns by Market Class, US, 1994-1996

Item	Popula-tion	All Dry Beans	All Limas	Navy	All Kidney	Black	Refried Pinto	Other Pinto
Source/Location								
Home	97.6	76.8	96	86.2	80.4	81.9	29.2	80
Away from home	54.8	23.2	4	13.8	19.6	18.1	70.8	20
Fast food	30.8	9	0.4	6.6	5.2	1	44.1	4.6
Other restaurant	17.3	10.9	3.2	5.3	9.4	16.3	16.8	13.4
School	6.7	1.3	0.1	0.4	1.9	0.3	5.4	0.7
Others	12.9	2	0.4	1.5	3.1	0.5	4.5	1.4
Region								
Northeast	19.6	10.8	11	23	19.1	16.8	3.9	4.5
Midwest	23.5	12.9	3.3	28.6	28.6	13.8	14.2	5.4
South	34.9	38.8	43.2	34	28.1	54.8	38.7	44.7
West	22	37.6	42.5	14.4	24.2	14.5	43.2	45.4
MSA Status								
Metropolitan	32	31.5	33.3	39	27.8	41.5	31.2	30.9
Suburban	46.9	41.7	43.6	37.6	50.8	28.6	38.1	39.7
Rural	21.1	26.8	23.1	23.4	21.4	29.9	30.7	29.4
Race/Ethnic Origin								
White, non-Hispanic	72.6	54.1	55.7	58.2	69.2	70.5	73.6	42.7
Black, non-Hispanic	12.5	9.5	12.6	19.3	10.7	4.1	5.4	7.9
Hispanic	10.5	33.2	30	20	18.5	19.8	17.1	47.5
Mexican	4.9	21	26	5.6	4	2.5	8.2	35.8
Puerto Rican	1	3.1	0.7	4	5.8	0.7	0.5	1.3
Other Hispanic	4.6	9.2	3.4	10.4	8.8	16.6	8.3	10.4
Others	4.4	3.2	1.7	2.5	1.6	5.6	3.9	1.9
Asian	2.9	1.8	1.7	2.2	0.6	2.6	2	0.8
Gender and Age								
Total Male	48.9	60.8	53.9	57.7	61.4	59.8	58.3	63.4
2 - 5	4.8	2.2	0.9	1.9	1.7	2	2.5	2.7
6 - 11	4.6	2.9	1.2	2.8	2.7	1.5	4.8	2.7
12 - 19	5.8	7.7	4.8	5.6	6.7	3	12.6	7.1
20 - 59	27	41.3	36	36.7	41.6	46.4	37.7	43.5
60 & over	6.8	6.7	11.1	10.7	8.8	6.9	0.7	7.4
Total Female	51.1	39.2	46.1	42.3	38.6	40.2	41.7	36.6
2 - 5	4.6	1.9	1.6	1.7	0.9	1.5	1.7	2.5
6 - 11	4.4	2.4	8.1	1.3	2.3	2.7	3	2.2
12 - 19	5.6	4.6	5.3	6.3	4.6	4.2	10.1	3
20 - 59	27.7	25.1	21.3	23.4	24.4	24.2	26.3	24
60 & over	8.9	5.1	9.8	6.4	6.4	7.6	0.6	4.9
HH Income as a % of Poverty								
0 - 130 %	19.2	27.5	29.7	25.7	20.9	15.2	18.6	33
131 - 185 %	11.9	14.9	16.7	11.4	15	9.1	12.1	15.9
186 - 299 %	20.3	20.8	24.8	23.4	17.1	18.5	26.8	22.6
300 % & above	48.7	36.9	28.9	39.4	46.9	57.1	42.4	28.5

Source: Lucier et al. (2000)

References

Alter Eco Americas. 2005. Company snapshot. http://www.altereco-usa.com/media/pdf/AlterEcoPK-Snapshot.pdf.

-------. About us. http://www.altereco-usa.com/main.php?section=aboutus&subsection=main.

Armah, S. 2007. An empirical analysis of recent changes in US beef marketing margins. Paper presented at the annual meeting of the American Agricultural Economics Association, Oregon. http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=26025&ftype=.pdf.

Bank of Canada. Currency converter. http://www.bankofcanada.ca/cgi-bin/famecgi_fdps (accessed October 17, 2007).

Barrientos, S., and C. Dolan. 2006. Transformation of the global food: Opportunities and challenges for fair and ethical trade. In *Ethical sourcing in the global food system,* ed. S. Barrientos and C. Dolan, 1-33. Sterling,VA: Earthscan.

Beans for Health. US dietary guidelines 2005. http://www.beansforhealth.org/dietary_guidelines.html.

Bougherara, D., and G. Grolleau. 2004. Could ecolabeling mitigate market failures? An analysis applied to agrofood products. Working Paper, CESARE. http://www.dijon.inra.fr/esr/documents/WP2004_3.pdf.

Brinkschneider, F. 2006. FLO-CERT Producer certification initial fees: Small farmers.

Browne, A. W., P. J. C. Harris, A. H. Hofny-Colins, N. Pasiecznik, and R. R. Wallace. 2000. Organic production and ethical trade: Definition, practice and links. *Food Policy* 25: 69-89. http://www.sciencedirect.com/science/article/B6VCB-3XWJK96-5/2/9351d1c055f48755de6bf2cca2662e77.

Busch, L., D. Thiagarajan, M. Hatanaka, C. Bain, L. Flores, and M. Frahm 2005. The relationship of third party certification to sanitary/phytosanitary measures and the international agri-food trade: Final report. *USAID RAISE SPS Global Analytical Report No. 9.*

CIAT. Bean improvement strategy 2000: A background document. http://www.ciat.cgiar.org/beans/strategy_2000.htm (accessed March 13, 2006).

Cierpka, Thomas. 2000. Organic agriculture and fair trade two concepts based on the same holistic principal. http://www.ifoam.org/organic_facts/justice/pdfs/Organic_Agriculture_and_Fair_Trade_web.pdf.

CORECA. Information systems: Prices of agricultural products and inputs. http://www.coreca.org/sistema_informacion/precios/ (accessed November 2, 2007).

Equal Exchange(a). Our story. http://www.equalexchange.com/story.

-------b. Farmer partners. http://www.equalexchange.com/farmer-partners.

Ethical Corporation. 2005. Bean wars: Coffee producers fall out over who's the most ethical. *Ethical Corporation Magazine*, January 12. http://www.fta.org.au/files/20052145553_Bean_Wars.pdf?PHPSESSID=f802b493d3ceecc38ad1622ee6f77d56.

ETIa. Ethical trade: What it means for supplier companies. *ETI Factsheet.* http://www.eti2.org.uk/Z/ethtrd/factsheets/ETI_ factsheet_suppliers.pdf

-------b. The base code: Ethical trading initiative. http://www.ethicaltrade.org/Z/lib/base/code_en.shtml.

-------c. What is ethical trade? http://www.ethicaltrade.org/Z/ethtrd/aboutet/index.shtml.

European Commission Agriculture and Rural Development. 2005. EU rural development policy 2007-2013. http://ec.europa.eu/agriculture/rurdev/index_en.htm.

EFTA. EFTA joining fair trade forces. http://www.european-fair-tradeassociation.org/Efta/Doc/What.pdf.

FAOSTAT Database. Data on dry bean production, area harvested, yield, and trade. http://faostat.fao.org/site/291/default.aspx (accessed October 20 and 26, 2007).

Feig, B. 1999. *Winning marketing strategies: Hundreds of proven-effective marketing and sales strategies for every business situation.* Paramus, NJ: Prentice Hall.

FLO. 2006. Explanatory document: Introducing fair-trade and its organizations. http://www.fairtrade.net/explanatory_docs.html

-------. 2007. Annual report 2006/2007: Shaping global partnerships. http://www.fairtrade.net/uploads/ media /Final_FLO_AR_2007_01.pdf.

-------a. About us. http://www.fairtrade.net/about_us.html.

-------b. Liaison Officers. http://www.fairtrade.net/liaison_officers.html.

-------c. Partner organizations. http://www.fairtrade.net/partners.html.

-------d. Standards. http://www.fairtrade.net/standards.html.

-------e. The fair-trade certification mark (CM). http://www.fairtrade.net/certification_mark.html.

FLO-CERT. Certification in fairtrade. http://www.flo-cert.net/flo-cert/main.php?lg=en (accessed September 5, 2007).

Flora, C. B. n.d. Convention theory and change in socio-technical food regime. http://www.ncrcrd.iastate.edu/pubs/conventionstheory.pdf (accessed September 17, 2007).

FMI. 2007. Top US supermarket and grocery chains. http://www.fmi.org/docs/facts_figs/top_retailers.pdf.

-------a. Food industry facts and figures. http://www.fmi.org/ facts_ figs/.

-------b. Glossary of supermarket terms. http://www.fmi.org/glossary/.

FTF. 2005. Fair trade trends in North America and the Pacific Rim. http://www.fairtradefederation.org/ht/a/GetDocumentAction/ i/278.

-------a. About us. http://www.fairtradefederation.org/ht/d/sp/i/177/pid/177.

-------b. Frequently asked questions. http://www.fairtradefederation.org/ht/display/Faqs/faqcat_id/1737.

-------c. Application process. http://www.fairtradefederation.org/ht/d/sp/i/1725/pid/1725.

-------d. About fair trade. http://www.fairtradefederation.org/ht/d/sp/i/2733/pid/2733.

Galarraga, I., and A. Markandya. 2004. Economic techniques to estimate the demand for sustainable products: A case study for fair trade and organic coffee in the United Kingdom. *Economía Agraria y Recursos Naturales* 4, no. 7: 109-134.

Global Exchange[a]. About Global Exchange. http://www.globalexchange.org/about/.

-------b. About us. http://store.gxonlinestore.org/aboutus.html.

-------c. Global Exchange chocolate assortments. http://store.gxonlinestore.org/gxchocolate.html

Goodhue, R. E., and G. C. Rausser. 2003. Value differentiation. *Journal of Agricultural and Resource Economics* 28, no. 3: 375-395. http://ageconsearch.umn.edu /bitstream/123456789/4195/1/28030375.pdf (accessed August 28, 2007).

Hoover's Inc. Hoover's Online Pro Plus: Business information. http://premium.hoovers. com.proxy1.cl.msu.edu:2047/subscribe/ (accessed December 7, 2007).

Hunger, J. D., and T. L. Wheelen. 2003. *Essentials of strategic management.* Upper Saddle River, New Jersey: Pearson Education, Inc.

IFAT. 2007. Fair trade standards and their verification in brief. www.ifat.org/index.php ?option=com_docman&task=doc_download&gid=612.

-------a. Fair trade history. http://www.ifat.org/fthistory/history1.shtml.

-------b. Join IFAT. http://www.ifat.org/index.php?option=com_content&task =blogcategory&id=25&Itemid=183.

-------c. The FTO mark. http://www.ifat.org/index.php?option=com_content&task=view &id=3&Itemid=16.

IFOAM. 2000. Organic agriculture and fair trade two concepts based on the same holistic principal. http://www.ifoam.org/organic_facts/justice/pdfs/Organic_Agriculture _nd_Fair_Trade_web.pdf.

-------a. The IFOAM organic guarantee system. http://www.ifoam.org/about_ifoam /standards/ogs.html.

-------b. Organic standards and certification. http://www.ifoam.org/about_ifoam/standards /index.html.

-------c. Social justice. http://www.ifoam.org/organic_facts/justice/index.html.

ILO Database of Labour and Statistics. http://laborsta.ilo.org/ (December 15, 2007).

Jaramillo, C. F., and D. Lederman. 2006. *Challenges of CAFTA: Maximizing the benefits for Central America.* Washington D.C.: The World Bank.

Knudson, W.A., and H.C. Peterson. 2005. Rapid opportunity assessment: Dry beans, sugar and potatoes. Market Report, Product Center for Agriculture and Natural Resources, MSU. http://www.productcenter.msu.edu/strategic .htm.

Krier, J. M. 2005. Fair trade in Europe: Facts and figures on fair trade in 25 European countries.http://www.european-fair-trade-association.org/Efta/Doc/FT-E-2006.pdf

Lewin, B., D. Giovannucci, and P. Varangis. 2004. Coffee markets: New paradigms in global supply and demand. *Agriculture and Rural Development Discussion Paper 3*. Washington, DC: The International Bank for Reconstruction and Development.

Loureiro, M. L., and J. Lotade. 2005. Do fair trade and eco-labels in coffee wake up the consumer conscience? *Ecological Economics* 53, no. 1: 129-138. http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VDY-4F8TK9K-2&_user=10&_rdoc=1&_fmt=&_orig=search&_sort=d&view=c&_acct=C000050221&_version=1&_urlVersion=0&_userid=10&md5=0acc4ef2d6435d842616f9238686fa23.

Low, W., and E. Davenport. 2005. Postcards from the edge: Maintaining the alternative character of fair trade. *Journal of Sustainable Development* 13: 143-153.

Lucier, G., B. Lin, J. Allshouse, and L. S. Kantor. 2000. Factors affecting dry bean consumption in the United States. *ERS Vegetable and Specialties S&O* 280 (April). http://www.ers.usda.gov/briefing/Consumption/gallery/DryBeanConsumption.pdf.

Luther, W. M. 2001. *The marketing plan: How to prepare and implement it*. New York, NY: AMACOM.

Martel, P. V., R. H. Bernsten, and M. T. Weber. 2000. Food markets, policy and technology: The case of Honduran dry beans. International Development Working Paper 78, College of Agriculture and Natural Resources, MSU. http://www.aec.msu.edu/fs2/papers/idwp78.pdf.

Martinez, L. 2003. An integrated assessment of the dry bean subsector in Central America. Master's thesis, Michigan State University.

Meulenberg, M. T. G. 1997. Distribution. In *Agro-Food Marketing*, ed. D.I. Padberg, C. Ritson, and L. M. Albisu, 351-372. Oxon, UK: CAB International.

Meulenberg, M. T. G. and J. Viaene. 2005. Changing agri-food systems in Western countries: A marketing approach. In *Innovation in agri-food systems: Product quality and consumer acceptance*, ed. W. M. F. Jongen and M. T. G. Meulenberg. The Netherlands: Wageningen Academic Publishers.

Mintel. 2006. Natural products marketplace 2006 report: The US. *Mintel Market Reports*. http://academic.mintel.com/.

Moore, G. 2004. The fair trade movement: Parameters, issues and future research. *Journal of Business Ethics* 53, no. 1-2: 73-86.

MSU AFRE Common Bean Atlas of the Americas. (forthcoming) http://msu.edu/user/bernsten/beanatlas/ (accessed October 26, 2007).

Muendo, K. M., D. Tshirley, and M. T. Weber. 2004. Improving Kenya's domestic horticultural production and marketing system: Current competitiveness, forces of change, and challenges for the future. Working Paper 8/2004, Tegemeo Institute of Agricultural Policy and Development. http://www.aec.msu.edu/fs2/Kenya/wp8a.pdf.

Murray, D., L. T. Raynolds, and P. L. Taylor. 2003. One cup at a time: Poverty alleviation and fair trade coffee in Latin America. http://www.colostate.edu/Depts/Sociology/FairTradeResearchGroup/doc/fairtrad.pdf.

Narayanan, S., and A. Gulati. 2002. Globalization and the smallholders: A review of issues, approaches, and implications. *Markets and Structural Studies Division Discussion Paper* 50. http://ageconsearch.umn.edu/bitstream/123456789/19797/1/ms020050.pdf.

NEWS. Brief history of NEWS. http://www.worldshops.org/.

Nicholls, A. 2004. Fair trade new product development. *Service Industries Journal* 24, no. 2: 102-117.

Peterson, H. C. and J. C. Phillips. 2001. Segmentation and differentiation of agri-food niche markets: Examples from the literature. Staff Paper 2001-05, College of Agriculture and Natural Resources, MSU. http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=2437&ftype=.pdf

Punjabi, M. 2005. Integrating econometric analysis with scenario analysis for forecasting in a rapidly changing environment: Case study of the US dry bean industry. PhD diss., Michigan State University.

RAFI-USA. 2003. What is FINE? http://www.rafiusa.org/programs/Bangkok%20proceedings/12What%20is%20FINE.pdf.

Rainforest Alliance. Sustainable agriculture. http://www.rainforest-alliance.org/programs/agriculture/certified-crops/index.html.

Ransom, D. 2001. *The no-nonsense guide to fair trade*. Oxford, UK: New Internationalist Publications Ltd.

Raynolds, L. T. 2000. Re-embedding global agriculture: The international organic and fair trade movements. *Journal of Agriculture and Human Values* 17: 297-309. http://www.springerlink.com/media/nntr48qxqp4txgg4wr8x/contributions/v/1/5/v/v15v162kp6623279.pdf.

-------. 2006. Organic and fair trade movements in global food networks. In *Ethical Sourcing in the Global Food System,* ed. S. Barrientos and C. Dolan, 49-61. Sterling,VA: Earthscan.

Reardon, T., and J. A. Berdegue. 2002. The rapid rise of supermarkets in Latin America: Challenges and opportunities for development. *Development Policy Review* 20, no. 4. http://www.blackwell-synergy.com.proxy2.cl.msu.edu:2047/doi/pdf/10.1111/1467-7679.00178 Accessed October 30, 2007.

Reardon, T., and L. Flores. 2006. Market opportunities and challenges for Central American exporters: Strategies for customized competitiveness in the CAFTA era. Paper presented at the SIDA-IADB Conference, Guatemala City.

Redfern, A., and P. Snedker. 2002. Creating market opportunities for small enterprises: Experiences of the fair trade movement. Working Paper 30, SEED. http://www.ilo.org/dyn/empent/docs/F1057768373/WP30-2002.pdf.

Renard, M. C. 2003. Fair trade: Quality, market and conventions. *Journal of Rural Studies* 19: 87–96. www.elsevier.com/locate/jrurstud.

-------. 2005. Quality certification, regulation, and power in fair trade. *Journal of Rural Studies* 21: 419–431. www.elsevier.com/locate/jrurstud.

Rice-Oxley, M. 2007. 'Fair trade' food booming in Britain. *The Christian Science Monitor,* March 13. http://www.csmonitor.com/2007/0313/p01s03-woeu.html.

Rogelberg, S. G. and J. M. Stanton. 2007. Introduction: Understanding and dealing with organizational survey nonresponse. *Organizational Research Methods* 10, no. 2: 195-209. http://orm.sagepub.com/.

SAI. SA 8000 certification. http://www.saintl.org/index.cfm?fuseaction=Page.viewPage&pageId=617&parentID=473.

Sala-I-Martin, X., J. Blanke, M. D. Hanouz, T. Geiger, I. Mia, and F. Paua. 2007. The global competitiveness index: Measuring the Productive Potential of Nations. In *The Global Competitiveness Report 2007-2008*, 3-40. http://www.gcr.weforum.org/.

Sam's Club. About Sam's Club. http://pressroom.samsclub.com/ content/?id=3&atg=524 (accessed December 7, 2007).

Schaffner, D. J., W. R. Schroder, and M. D. Earle. 1998. *Food marketing: An international perspective*. USA: The McGraw-Hill Companies, Inc.

Senauer, B., E. Asp, and J. Kinsey. 1991. *Food trends and the changing consumer*. St Paul, Minnesota: Eagan Press.

SERRV International's International Development Project Coordinator, e-mail message to the author, August 2, 2007.

SIECA Database. General rules: Section II, Plant Products. http://www.sieca.org.gt /SIECA.htm&sa=X&oi=translate&resnum=2&ct=result&prev=/search%3Fq %3DSIECA%252BCentroAmericana%26hl%3Den%26client%3Dfirefox -a%26rls%3Dorg.mozilla:en-US:official%26hs%3D2U8%26sa%3DG (accessed March 18, 2008).

SIECA SEC. Product analysis: Group. http://www.sieca.org.gt/SIECA.htm (accessed March 18, 2008).

SIMPAH. Reporte diario de precios de productos agricolas de Honduras. http://www.fhia.org.hn/simpah/PDF/Deta_Honduras.pdf (accessed October 27, 2007).

Smith, S., and S. Barrientos. 2005. Fair trade and ethical trade: Are there moves towards convergence? *Journal of Sustainable Development* 13, no. 3: 190-198. http://www3.interscience.wiley.com.proxy2.cl.msu.edu:2047/cgibin/fulltext /110550175/PDFSTART.

Smith, V. H., D. A. Sumner, and C. P. Rosson. 2002. Bilateral and multilateral trade agreements. http://www.farmfoundation.org/2002_farm_bill/vsmith.pdf (accessed December 19, 2007).

SPINS. Natural products industry definition. http://www.spins.com/services/definitions .php.

Staatz, J. 2003. *Convention Theory.* Lecture notes on AEC 932: Information economics and institutions in agriculture and natural resources, College of Agriculture and Natural Resources, MSU, Fall Semester 2003.

-------. 2006. Lecture notes on AEC 841: Analysis of food system organization and performance, College of Agriculture and Natural Resources Spring Semester 2006, MSU.

Storlie, J., and A. L. Brody. 2000. Mandatory food package labeling in the United States. In *Developing new food products for a changing marketplace*, 409-464. PA: Technomic Publishing Company, Inc.

Tallontire, A. 2002. Challenges facing fair trade: Which way now? *Journal of Small Enterprise Development* 13: 12-24. http://topics.developmentgateway.org/trade/rc /ItemDetail.do~1011195.

-------. 2006. The development of alternative and fair trade: Moving into the mainstream. In *Ethical sourcing in the global food system,* ed. S. Barrientos and C. Dolan, 35-48. Sterling,VA: Earthscan.

Tarabella, A. and G. Santoprete. 2000. Some comments on the meaning and the role of fair trade in the current economic and social context. *Journal of Commodity Science* 39: 141-157.

The Washington Times. 2000. Honduras boasts top-ranked seaport in Central America. http://www.internationalspecialreports.com/theamericas/00/honduras/15.html.

Thomas, R. J. 1987. Forecasting new product market potential: Combining multiple methods. *Journal of Product Innovation Management* 4, no. 2: 109-119. http://www.blackwell-synergy.com/toc/jpim/4/2.

Thompson, J. W. 1985. *Strategic selling*. Michigan State University.

Tomaskovic-Devey, D., J. Leiter, and S. Thompson. 1994. Organizational survey nonreponse. *Administrative Science Quarterly* 39, no. 3: 439-457. http://findarticles.com/p/articles/mi_m4035/is_n3_v39/ai_16564990.

TransFair Canada. Statistics for fair trade certified product sales in Canada. http://www .transfair.ca/en/mediaresearchers/stats/ (accessed October 2, 2007).

TransFair USA. 2007. Fair trade almanac 1998-2006. http://www.transfairusa.org/pdfs /2007FairTradeAlmanac.pdf (accessed October 2, 2007).

-------a. Fair trade certification overview. http://transfairusa.org/content/certification/ overview.php (accessed March 3, 2007).

-------b. Frequently asked questions – advanced. http://transfairusa.org/content /resources/faq-advanced.php.

-------c. History. http://transfairusa.org/content/about/history.php

-------d. Producer certification. http://transfairusa.org/content/certification/producer _certification.php (accessed June 21, 2006).

-------e. TransFair USA licensed partners. http://transfairusa.org/content/certification /licensees.php.

Traidcraft. 2004. Corporate social responsibility: Does it make any difference. *Fair trade tool kit*. http://www.traidcraft.co.uk/NR/rdonlyres/190D98C5-62A4-4238-B143B61067009690/0/campaigns_CSR_difference.pdfhttp://www.traidcraft.co.uk/international_development/policy_work/policy_resources/fair_trade_toolkit.htm.

UN Comtrade Database. http://comtrade.un.org/db/ (accessed March 20, 2008).

UNFI. 2007. Annual report 2007: A deeper shade of green: Investing in a sustainable future. http://library.corporateir.net/library/93/932/93228/items/272336/2007 Annual_Report.pdf.

UNFI Eastern Region. 2007. 2008 Supplier packet: Policies, guidelines, and forms.

USDA AMS. USDA bean market news. http://www.ams.usda.gov/mnreports/GL _GR851.txt (accessed December 13, 2007).

USDA ERS. Briefing room: Dry beans. http://www.ers.usda.gov/Briefing/DryBeans/ (accessed October 22, 2007).

USDA FAS. 1999. Food and agricultural import regulations and standards report. http://www.fas.usda.gov/itp/ofsts/ us.html (accessed October 22, 2007).

USDA FAS US Trade Internet System. http://www.fas.usda.gov/ustrade /USTEXHS10.asp?QI= (accessed March 17, 2008).

USITC Interactive Tariff and Trade DataWeb. http://dataweb.usitc.gov/scripts /user_set.asp (accessed December 22, 2006).

USTR. CAFTA-DR final text. http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA /CAFTA-DR_Final_Texts/Section_Index. html (accessed December 23, 2007).

Von Braun, J. 2004. Commentary: Ethics and the global food system. Paper presented at the International Workshop on 'Ethics, Globalization and Hunger', New York. http://www.ifpri.org/pubs/newsletters/ifpriforum /200412/ if09Commentary.htm.

Wal-Mart. 2007. Wal-Mart 2007 annual report. http://walmartstores.com/Files/2007 _annual_report.pdf (accessed December 7, 2007).

WFP ODAN. 2005. Honduras: Market profile for emergency food security assessments. http://documents.wfp.org/stellent/groups/public/documents/ena/wfp086535.pdf.

WFM. 2007. Annual stakeholders' report 2006. http://www.wholefoodsmarket.com /investor/ar06.pdf (accessed December 5, 2007).

-------. 2008. Annual stakeholders' report 2007. http://www.wholefoodsmarket.com /investor/ar07.pdf (accessed February 20, 2008).

-------a. Company. http://www.wholefoodsmarket.com/company/.

-------b. Products. http://www.wholefoodsmarket.com/products/beans/index.html.

-------c. The Whole Trade™ program. http://www.wholefoodsmarket.com/products/ wholetrade/index.html (accessed December 5, 2007).

World Bank Key Development Data and Statistics. http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20535285~menuPK:1192694~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html (accessed December 15, 2007).

WTO. Understanding the WTO. http://www.wto.org/english/thewto_e/whatis_e/tif_e/tif_e.htm (accessed December 18, 2007).

Young, W. and K. Utting. 2005. Fair trade business and sustainable development. *Journal of Sustainable Development* 13:139-142.

Zamora, M. A. 2005. A rapid appraisal assessment of markets for dry beans of Central American origin in US ethnic communities. Master's thesis, Michigan State University.