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Some Historical Context for the Institutional History of Equal Exchange

Marx wrote that one of the defining features of capitalism was what he called the “fetishism of the commodity.” According to this idea, human labor produces things, and these things acquire value in direct proportion to the amount of human labor which was used to produce them. When people exchange the things as commodities, however, this value is mystified as an objective property of the things themselves. Therefore, the exchange of human labor for human labor, which would ordinarily be recognized as a social relationship between people, is mystified by being disguised as a transaction between objects.

This part of Marx’s writings would probably ring true for most people involved in the alternative trade movement, or what is increasingly today being called “Fair Trade.” The goals of this movement are to pay producers in the global south a living wage by paying a predetermined price determined by a judgment of what is “fair,” not by the world market price. These goods are then sold to northern consumers at a price comparable, if not identical, with market prices for similar goods. Fair traders attempt to shorten the distance between consumers and producers, both materially, by “cutting out the middlemen,” and ideologically, by bridging the gap with images and words.¹ Most fair trade literature is full of close-up pictures of producers, descriptions of the production process, and quotes and personal narratives from producers. A typical quote, accompanied by a picture of the speaker, reads: “We have seen achievements. Now I have money to buy clothes for my children and to build my house. Day to day things are improving because of the better price [that we receive by participating in fair

¹ All this evidence is about the images which come *from* the producers *to* the consumers. I don’t yet know whether or what type of images of consumers are brought to producers—this is an issue for further investigation.

trade]”.² Consumers are confronted with the faces and stories of the people whose labor produced the products they buy—for consumers, their relationship to the producers of their coffee is de-mystified.

Although fair trade has been around since World War II, and some trace its origins to the late 19th century (Ericson 2002: 8), during most of this time it was operating on a small scale within a non-profit charity paradigm. But just in the last decade or so, several 100% fair trade businesses in the U.S. and Europe have had success operating as for-profit companies. In addition, numerous traditional corporations have introduced lines of fair-trade products. The Fair Trade Federation writes that the fair trade sector in North America grew by 37.2% just between 2001 and 2002 (in dollar values), and is projecting that these trends will continue. Industrial capitalism has a more than 200 year history, and market exchange with its attendant fetishism of commodities has been around for millennia. To understand this recent success of fair trade businesses, we cannot limit ourselves to looking only at the companies or the individuals involved. We also need to ask why now? What broader economic, social, and even ideological trends can we point to which encourage this success? In this paper I will take the history of one company, Equal Exchange, as an example. While some aspects of its structure and history are unique, the time and place where it has developed will hopefully shed light on the historical circumstances of the fair trade sector in general.

Equal Exchange

Equal Exchange is a company with headquarters outside of Boston, Massachusetts whose activity consists principally of the trade and distribution of gourmet coffee according to the principles of fair trade outlined by the Fairtrade Labeling Organization (FLO) (see appendix for a

² The speaker is Mario Hernandez, who lives and grows coffee in Nicaragua. Quote taken from website of Café Direct: http://www.cafedirect.co.uk/growers/c_america.php, accessed December 17, 2003.

description of fair trade principles). In recent years the company has also added product lines of tea, cocoa, and baking chocolate. The coffee is sold to consumers at prices comparable to that paid for other gourmet coffee varieties—this is made possible both because there are fewer intermediaries in the chain between producer and consumer and because Equal Exchange is willing to accept a smaller margin of profit than non fair-trade coffee distributors.

Although under the current certification regulations the traders themselves do not have to meet any organizational criteria, Equal Exchange's structure is innovative. Equal Exchange's mission statement reads in part that they will “demonstrate, through our success, the viability of worker cooperatives”—the company sees itself as an experiment in and model of an ethical business structure which can operate successfully within the for-profit business world. While it has been a for-profit company since its founding in 1986, in the course of its 18 year history it has changed from a cooperative model to a more traditional hierarchical ownership structure and back again. These changes reflect the leaders' attempts to strike a balance between democratic participation and encouragement of risk-taking and innovation. Today, the company has a traditional hierarchical management structure but a cooperative ownership structure—it is owned by both worker-owners and private shareholders. As part of the governance structure, there is a provision that the salaries of the highest paid-employees cannot exceed 300% of the lowest-paid employees.

Equal Exchange is a successful business from an economic perspective³: it has shown consistent growth in sales and number of employees, it has been consistently profitable and has returned dividends to its private investors every year since 1989. However, this success did not

³ To evaluate its success in fulfilling its social mission is a more difficult question and falls beyond the scope of the current paper. Very recent work evaluating the success of fair trade relationships has been conducted out of the University of Colorado by the Fair Trade Research Group, led by Douglas Murray, Laura T. Reynolds and Pete Taylor: <http://www.colostate.edu/Depts/Sociology/FairTradeResearchGroup/>

occur in a historical vacuum. First, although the structure of the company was innovative, and has indeed been a work in progress throughout the short history of the company, the idea of fair trade had a thirty-five year history at the time of EE's founding, beginning with faith-based charities which bought handicrafts from European war victims after World War II and later shifting to producers of crafts and food in the third world. Second, the convergence of several historical trends at the place and time in which the company was founded provided some advantages to the company which aided its economic success. These include the specialty coffee boom, the environmental and organic food movements, and opposition to U.S. neocolonial foreign policy. To this list we might add the general trend in social activism towards consumption observed by some theorists. In addition, more recently the company has created partnerships with religious groups taking advantage of a rise in political activism among churches in the United States on both sides of the political spectrum. In the rest of this paper, I intend to explore some of these converging strands to demonstrate the ways in which Equal Exchange's financial success is related to the historical context in which it was founded and developed.

The International Coffee Market

First, it is significant that Equal Exchange and other fair traders started trading in coffee as opposed to any other commodity. Coffee is a tremendously important import to the United States. However, coffee prices on the world market are notoriously volatile, for example being subject to spikes when there are frosts which ruin crops in large coffee export regions such as Brazil. The coffee tree is a perennial and takes several years after being planted to produce its first salable crop—therefore, oversupply is constantly a problem because as trees planted during price spikes come into production, the investment of energy in each one is too great to abandon

the crop, even if it must be sold at a loss. In 1963, coffee producing and consuming nations formed an International Coffee Agreement. The objective of this agreement was to stabilize prices within a given range by setting export quotas on producing countries as long as the price remained below a given target. However, the agreement had holes from the beginning due to the non-participation of some consumption countries which allowed coffee to be produced above the quotas. Additionally, with World Bank encouragement, vast new regions, most notably in Vietnam, have been put into coffee production with government subsidies during the time of high prices during the Agreement. Perhaps for these reasons, the agreement lost all regulatory power when in 1989 the U.S., the world's largest coffee-consuming nation, pulled out of the agreement. The market price was devastated and has only twice briefly reached the levels it achieved under the agreement following the 1995 and 1997 frosts in Brazil. Today, the market price is less than half the floor price under the ICA. Starting in 1993, an attempt was made to regulate supply through an agreement called the ACPC, which was made only among coffee producing countries, in much the same way as OPEC regulates oil production. However, even this agreement, never strong without the cooperation of consuming countries, fell apart in 2001 (Gresser and Tickell 2002).

On the consumer end, per capita coffee consumption has been steadily dropping. According to Oxfam's 2002 report on the crisis in coffee prices, while in 1970 Americans drank an average of 36 gallons apiece per year, in 2000 this number was only 17 gallons. At the same time, the specialty coffee sector, or what William Roseberry refers to as "yuppie coffee" was taking off in the United States (1996). The coffee market, which had previously been largely undifferentiated, with coffee being sold principally based on price, was newly segmented—gourmet coffee offered an array of roasts, grinds, and even flavors, and alternate methods of

brewing and serving such as cappuccino and espresso were introduced. In retrospect, some coffee industry specialists attribute this new importance of the high end of the coffee market to a 1975 Brazil frost, when high-end Arabica bean coffee was suddenly much closer in price to low-end coffee, causing consumers to see quality as less of a sacrifice (c.f. Roseberry 1996: 766). Others have pointed out that this trend gained momentum at the same time as a restructuring of the economic stratification in the industrialized world and the coalescing of new social groups. One of the new groups being formed is described by Jane Schneider as “a new American gentry of young professionals and technicians with annual incomes of \$40,000 or more” (1994: 9). The members of this class are in general “Attracted to ‘old money status, professional success, “refined” taste, and body cultivation” (Schneider 1994: 9). It is among members of this group that Schneider finds the origins of the backlash against polyester in favor of natural fibers, and it is this same group that Roseberry sees as being the main protagonists of the shift towards specialty coffees.

This high-end coffee boom has continued gaining momentum through the eighties and the volatile nineties, and does not appear to be slacking off today. This part of the coffee market is characterized by extremely high profit margins—this is recognized by the leaders of Equal Exchange as having given them a certain amount of breathing room. Their management has been able to be less conservative and to take risks which they would not have been able to afford were the margins smaller.

Broader Fields of Activism

Marc Edelman writes that “evidence abounds of activist continuities from one era to another and across movements” (2001: 297). While fair traders disagree over whether to define themselves principally as activists performing disinterested service or as members of the ethical

business community, committed to operating within a for-profit framework, it is probably safe to say that the marketing of fair trade products is generally aimed at consumers who are expected to be socially conscious and probably socially active. Therefore, we can expect that fair trade as a whole will have relationships to other social movements. It is no coincidence that two of the major institutions through which Equal Exchange markets its products are universities and church networks, traditional sites of activism. In this section I will discuss a number of relevant social movements which may contribute to a portrait of the broader fields of activism in which Equal Exchange was founded and developed.

The earliest alternative and fair trade organizations founded during or just after World War II all had affiliations with churches. Notably, Self Help Crafts, which was founded by the Mennonite Central Committee, used the community of American Mennonite churches to build a nation-wide distribution network for the handicrafts it imported. Two other groups, Oxfam International and SERRV, have since broken their ties to the religious groups which founded them. However, Equal Exchange has traveled in the other direction. This company was founded in 1985 without religious affiliation, but in 1997 a program called the Interfaith Initiative was founded. Through this program, Equal Exchange forms partnerships with the national service committees of religious groups. Churches serve fairly traded coffee at their coffee hours and also provide avenues of distribution for parishioners to purchase coffee beans. Currently Equal Exchange has partnerships with six national religious service organizations: Lutheran World Relief, the Unitarian Universalist Service Committee, the American Friends Service Committee, the Presbyterian Church (USA), the United Methodist Committee on Relief, and the Church of the Brethren, and has just begun a new partnership with the Catholic church.

Therefore, religious activism is very relevant to the history of fair trade. Several authors have noted an upswing in religious-based activism in the United States beginning in the 1970s and 80s and continuing on through the present. The religious activism on the right side of the political spectrum has perhaps received the most attention. Susan Harding, for example, describes the rise and continuing strength of Jerry Falwell's Moral Majority group and the new authority with which fundamentalist Christian groups speak in the political realm on social issues such as abortion and gay marriage (2000). Authors such as Hilary Cunningham have noted that some religious groups on the left side of the political spectrum have also been more active during the same time frame: protesting some Cold War foreign policies; calling for a freeze on nuclear weapons; and protesting apartheid, among other things. Cunningham writes about the Sanctuary Movement—the group of activists based in several different religious communities near Tucson, AZ who practiced civil disobedience by assisting refugees from the political violence in Central America to cross the Mexican border into the United States. This group took the political stand that their actions in opposing the INS were legal, because the INS was acting illegally by breaking the treaties that the United States had signed to offer asylum to victims of political violence.

The founding of Equal Exchange is also rooted in the protests against the United States' Cold War/Neocolonial Foreign Policies. The first coffee which was imported by Equal Exchange in 1986 was from Nicaragua, in defiance of the U.S. embargo on that country. However, the coffee was not smuggled—the green beans had first been shipped to the Netherlands, where they were roasted. This was considered enough of a modification of the product that its import to the U.S. was ultimately determined to be legal. However, the packages, which were labeled “Café Nica, Nicaraguan Coffee, product of Holland,” caused enough

confusion among customs officials in Boston that the container was held in port for over a month. Equal Exchange's Café Nica was not the only Nicaraguan solidarity coffee available in the U.S. market during the Reagan embargo, and there were a number of groups involved in other forms of activism against these policies, including the Sanctuary movement mentioned above and Witness for Peace, a religiously affiliated organization which sent North Americans to Nicaragua to practice moral witnessing of conditions and the U.S. involvement. This initial Equal Exchange product line therefore tapped into a pre-existing solidarity movement.

Equal Exchange's second line of coffee, bought from a Peruvian cooperative producing 100% organic coffee, also tapped into a pre-existing market. Many environmental activists point to the publication of Rachel Carson's book *Silent Spring* in 1962 as the catalyst for today's environmental movement. However, this movement certainly did not spring out of nowhere—we can look to the preservationist work done by John Muir in the early 20th century, the conservationist policies of the Theodore Roosevelt administration, and even the depression-era Civilian Conservation Corps. Richard Judd pushes back further still to the early 19th century in Northern New England. Arguing against a history of environmentalism which, focusing on these government-sponsored programs, sees it as a concern of elites only, he looks at the village-level collective management of common lands after what he calls the “earlier pulse of pioneering activity” (1997: 40). Nevertheless, it should be recognized that popular concern for environmental issues did experience an upsurge in the 1960s as part of the intense wave of social movements around other issues.

One of the many issues taken up by the environmental movement was trying to eliminate the use of pesticides, artificial fertilizers and generally unsustainable or unethical agricultural techniques in the production of food. In response to these concerns, some food distributors

began to use the term “organic” to advertise that their products do not contain pesticides or were otherwise grown using sustainable practices. A number of non-governmental certification boards were instituted to attempt to regularize the use of this term, and in 2002, after a decade of research and lobbying, the USDA instituted a federal program which regulates the use of the term and provides certification standards. Although quantitative data regarding fair trade consumers has not been collected, Rodney North of Equal Exchange speculates that of the many reasons why people buy coffee from Equal Exchange, the largest percentage of people buy the coffee because it is organic (personal communication). Equal Exchange is the largest distributor of organic coffee in the United States, and before the introduction of their first organic line in 1989 it was difficult to find organic coffee. Therefore, the environmental movement has also been very important to the growth of Equal Exchange.

Later, the fair trade model also fit in with what Naomi Klein (1999) has described as a rising tide of anti-corporate consumption-based activism. A new kind of social movement sprang into the world’s consciousness after the large-scale 1999 protests against the Seattle meeting of the WTO. Described as an “anti-globalization” movement, it was nevertheless recognized that this characterization obscures a wide diversity of issues, political orientations and goals, ranging from the very broad to the very specific: from indigenous land rights to human rights in Tibet, from protests against the use of sweatshop labor to rights for animals. It was also realized that the internet-based organization of the protests through coalition-forming between different local organizations constituted a departure from the organizations of the 1960s. While the large-scale demonstrations of Seattle was a tactic brought from these earlier protest repertoires, other forms of activism centering around consumption, such as boycotts, “ad-busting” (altering advertisements to send a different message from their original intent) and

brand-centered media antics exposing unethical practices (Klein 2002). In this context, the purchase of ethical products as a form of political action makes as much sense as the boycotting of unethical ones.

Qualifications

In this paper I have been focusing on either the global economic trends or the trends in northern countries which have affected fair trade consumption or trading. However, it is worth quickly pointing out that the story in producing countries is equally complex. For example, the obstacles to obtaining certification and building trading relationships with fair traders are often considerable, and the value of participating in all aspects of fair trade may not always be immediately evident to producers. At least in Nicaragua, also, the current right-wing government is suspicious of cooperatives, many of which are direct descendants of the Sandinistas. In this environment, producers are forced to move cautiously, and often claim that their cooperatives are not political (Dickinson 2003a). However, there are likewise trends supporting fair trade beyond the obvious price advantage. For example, Central America is a region where large amounts of high-quality Arabica coffee is grown—Equal Exchange imported its first coffee from Nicaragua. The organizational form of the cooperative has a long history in this region, and many small farmers are already members of a cooperative. Therefore, the infrastructure is already in place for many small farmers to participate in fair trade. The influence of liberation theology may also be beneficial to the fair trade movement with its ideas of the base communities and the preferential option for the poor. However, I have much still to learn about the historical dynamics on the producers' end of the fair trade network and these issues I have just pointed out are only suggestions.

Additionally, although it is true that Equal Exchange has been fortunate in many of the historical conditions present during its founding and early years, it has also dealt with externally-generated challenges. In pointing out the historical trends which have aided Equal Exchange, I do not intend in the least to take away from the effort and achievement represented by the success of this company. And although this paper is not principally about the struggles and successes of the founders of this company or those of their employees and trading partners, these make a more compelling story. This paper is intended to be principally the background context for that story and the story of the larger fair trade movement over the last 15 years.

We can briefly note some of the following social and political currents which this company has had to struggle against. First, of course, the company dealt with the U.S. embargo on Nicaragua and opposition from the customs officials, who held their first shipment of coffee in port for over a month. Second, the economic climate has not always been favorable. On the consumption end of the chain, the economic downturns of the early 1990s and the more recent burst of the technology bubble both led to rising unemployment and less disposable income in all but the most privileged class sectors. In the most recent downturn, unemployment has hit groups very likely to be disposed to buy fair trade: the young, highly-educated technicians who benefited the most from the technology boom are much more likely to lean to the political left than the population in general. Additionally, although the specialty coffee market continues to grow, the general trend of a decrease of total coffee consumption as soft drinks, energy drinks, and other beverages encroach upon the market is also continuing.

Next, certain currents within the antiglobalization movement go further than calling for a more human relationship with third world producers—some antiglobalization activists oppose market transactions in general, or advocate self-sufficiency for each region and want people to

consume only food grown in their local areas. To these activists, fair trade might seem hopelessly compromised or main-stream. Within the fair trade movement itself, these ideas have caused some misgivings—Equal Exchange for a short time carried fairly traded honey produced in Mexico, but ended this line after objections that honey was also produced in Massachusetts and the company should not compete with local industries. There are also discussions and disagreements among the various actors about the degree to which fair traders should be oriented towards the market, whether the for-profit paradigm is appropriate, or whether a non-profit organization is best suited to conduct fair trade. Equal Exchange embraces this contradiction, calling itself a “for profit business with a non-profit mission.” Finally, the founders of Equal Exchange had several inspirations for their organizational model but no direct precedents—the company has faced the challenges of pioneering a new organizational model, as mentioned above, and has made major reorganizations twice. The nature of fair trade between groups separated by cultural, linguistic, geographical and economic distances, too, necessarily causes communication challenges. Equal Exchange has had its share of difficulties in this respect—its first coffee was imported through another import company in the Netherlands and the company originally had no direct contact with the grower cooperatives—but overall they have been moving towards closer and more direct relationships.

Conclusions

Bill Roseberry writes that consumers of specialty coffee and various other “gourmet” products can be seen as making “an attempt to re-create, through consumption, a time before mass society and mass consumption. It could be seen, then, as a symbolic inversion of the very economic and political forces through which this particular class segment came into existence” (1996: 774). He writes that the class of people interested in the specialty coffee identify with a

time before coffee became a cheap “proletarian hunger-killer” (Mintz 1985) and back to when it was a luxury dessert food attainable only by the aristocratic class of Europe. If this is the case for specialty coffee, it doubly applies to consumers of fair trade. In this case the inversion is somewhat more than symbolic—consumers, and especially employees of the fair trade sector, are taking a small material step towards the redressing of the global inequalities of which they are the beneficiaries.

However, Rink Dickinson, co-founder and current co-executive director of Equal Exchange, acknowledges that fair trade in its current form is quite non-threatening to consumers (2003b). Although if taken to its logical conclusion fair trade would constitute a fundamental revolution of the current international market, on its current scale fair trade involves practically no sacrifice for those consumers who would be buying gourmet coffee regardless while it provides them with a sense that they are “making a difference.” Equal Exchange as a company has been very successful, but its continued growth is by no means assured. The phenomena of fair trade may be self-limiting—such a challenge to the system may ultimately require a base of support which is more closely committed to the movement through sacrifice of time, money, or identity.

According to Antonio Gramsci’s analysis of power, the dominance of a given government and social system is based on hegemony, which is often glossed as the “consent” of the dominated to the current regime (1999[1971]). But in this context, consent does not mean a free and willing choice made by the people from a number of alternatives. Rather, hegemony is based on the success a given dominant ideological and political model has in making any alternative to itself unimaginable. Therefore an important aspect of the process of change is the imagining of alternatives, which according to Gramsci is both impossible without changing

practices to ground these imaginings and an important prerequisite for any change. What the fair trade movement may provide is such a space, partially sheltered from the hegemonic paradigm of the market, where, through discussion and practical experimentation, new analyses which encompass real alternatives may be developed.

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Appendix: Fair Trade Principles

There are a number of sets of guidelines for fair trade, despite recent attempts at standardization. For more details about principles used by the Fairtrade Labeling Organization to certify coffee, see: < <http://www.fairtrade.net/sites/standards/general.htm>>. However, some traders such as CTM of Italy do not participate in labeling, preferring to rely on their own judgment for decision-making and their own brand name for legitimacy with consumers. Other traders will supplement the FLO standards with additional criteria. Finally, FLO was only formed in 1997. Most traders still articulate the principles in their own language. Equal Exchange's principles are described at < <http://www.equalexchange.com/intro/eeintro5.html>>.

The most common sets of guidelines include the following principles:

- A fair price. Fair traders guarantee the producers that they will pay the higher of either a minimum price for the coffee (calculated based on what is a living wage for producers, not based on considerations of profitability for the trader), or ten cents above the world market price. In this way, producers are insured against the destructive plunges in the world market price, and also guaranteed to still benefit if the market price climbs above the fair trade minimum. In addition, traders usually pay a social premium, allowing producers to invest in community projects and infrastructure, and a premium if the coffee is organically grown.
- Long-term relationships between producers and traders. Before a trader and producer cooperative enter into a trading agreement, it is common for there to be a period of negotiations in which each party expresses their expectations and needs. There will often be visits back and forth which may continue once trade is begun. However, some worry that the relationships may be less important and visiting less common with the beginning of certification.
- Democratically operated cooperatives of small farmers. In order to be eligible to participate in a fair trade relationship, the producers need to be organized into a democratically operated organization, and most members need to be small farmers, defined as not being dependent on year-round hired labor. There are also requirements about transparency of financial operations.
- Advance credit. One major potential obstacle to fair trade relationships is that growers will run out of money and not be able to wait to sell their coffee to the fair traders, but will rather sell it to "coyotes" who offer immediate cash, especially if the world market price rises. Therefore, fair traders arrange to offer some combination of low-interest credit or advance payment for the coming year's harvest.
- Sustainable agriculture practices. A large percentage of fair trade coffee is also certified organic. However, even that coffee which is not organic is required to be produced using sustainable practices, and producers are usually encouraged to work towards organic certification.

Under the current certification regulations the traders themselves do not have to meet any organizational criteria.