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Fairtrade and Illycaffè

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Global Trade in the Era of the Anthropocene

Global trade is the exchange of capital, goods, and services across international borders or territories. Today, such trade represents a significant share of Gross Domestic Product (GDP) in most counties. However, while international trade produces substantial benefits for various groups of stakeholders, especially in developed countries, it creates huge ecological and social burdens for many people in less developed countries.

The twenty-first-century global economy has created massive market-driven social changes, and big corporations are taking the lead in a form of development often characterized as a ‘race to the bottom’ in which

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the latter often exploit low-cost countries. The results include a loss of biodiversity and millions of poor producers and their families becoming caught in a poverty trap.

Ecological economists refute the commonly held view that global economic integration via free trade is good because it contributes to competition, cheaper products, world peace, and economic growth.

Herman E. Daly (1996) states that undifferentiated policies for increasing global trade are reducing the capacity of the Earth to support life, thereby literally killing the world. He summarizes the case against global economic integration based on free trade and free capital mobility as follows.

- (i) Transport is energy-intensive, and if energy is subsidized, as it frequently is today, then so is trade. However, charging full-cost energy prices would reduce the initial gains from long-distance trade.
- (ii) The loss of independence resulting from specialization weakens the control of communities over their livelihood.
- (iii) Firms in a competitive global economy have the incentive to externalize costs to the extent
- (iv) that they can get away with this. As a result, global competition tends to lower standards and destroys higher-quality community life.
- (v) Transnational corporations have escaped national community obligations by becoming international and have escaped community obligations altogether.
- (vi) Countries in which natural capital has become the limiting factor seek to appropriate whatever natural capital remains in the international commons and to trade for natural capital with those less developed countries still willing and able to supply it.
- (vii) Global trade is inducing greater geographical separation between the production benefits and the environmental costs of throughput growth. As a result, countries face tightening environmental constraints globally.
- (viii) Global trade makes the supplies of natural resources and absorption capacity of natural ecosystems simultaneously available to

meet demand everywhere and tends to increase the rate of environmental degradation. Moreover, it reduces local communities' control over their natural environments and livelihoods.

If humanity wants to cope with the problems of the Anthropocene, including climate change, biodiversity loss, ecosystems collapse, growing international inequalities, and wellbeing deficiencies, the trend to increasing global trade should be reversed, and alternative forms of international economic cooperation should be developed.

The Fairtrade Model

The business models of the Bottom of the Pyramid (BoP) approach (Hart & London, 2005; Prahalad, 2004) have received worldwide recognition. BoP refers to developing innovative businesses to serve the world's largest but poorest socio-economic groups. In global terms, this includes about four billion people who live on less than USD 2.50 per day. However, we can predict that if materialistic BoP businesses do not transcend mainstream logic, they will fail. Therefore, sensitivity to local cultural needs and an ethos that involves serving the common good appear to be the preconditions of any successful and lasting social innovation by business.

The British organization Oxfam started as a relief organization during the Second World War and broadened its objectives in the 1960s. It promoted the idea that poor people in the 'Third World' should not be considered passive victims but human beings with dignity, and the root causes of poverty were the connections between the North and South. The focus of the activity was on developing models of self-help. In the 1970s and 1980s, a partnership model emerged between non-profit importers and retailers in the North and small-scale producers in the South (Nicholls & Opal, 2005). The idea was that local producers need a fair income, and by bypassing intermediaries, they could directly access markets in developed countries. In 1988, a Dutch NGO named Solidaridad developed an innovative way to increase the sales of the small local producers of the South. The story is that a couple of members

of Solidaridad met directly with poor Mexican farmers employed in the coffee industry. During the dialogue, the latter obtained a clearer understanding of the main problem of the latter: namely, obtaining direct access to the international market. The farmers said: “Our hands are created for work, not for begging.” As a result, Solidaridad created an innovative business model named “Max Havelaar”, guaranteeing that goods sold under this label met specific environmental and labor standards.

Max Havelaar is only one of a number of Western initiatives for promoting fairer trade. Other examples include Oxfam, Christian Aid, Tradecraft, Gepa, and TransFair USA. However, Max Havelaar became one of the most successful innovations in this field. In 1997, the Fairtrade Labelling Organization International (FLO) was established. The organization was renamed Fairtrade International in recent years and now functions as a global multiple-stakeholder network organization (Fig. 7.1).

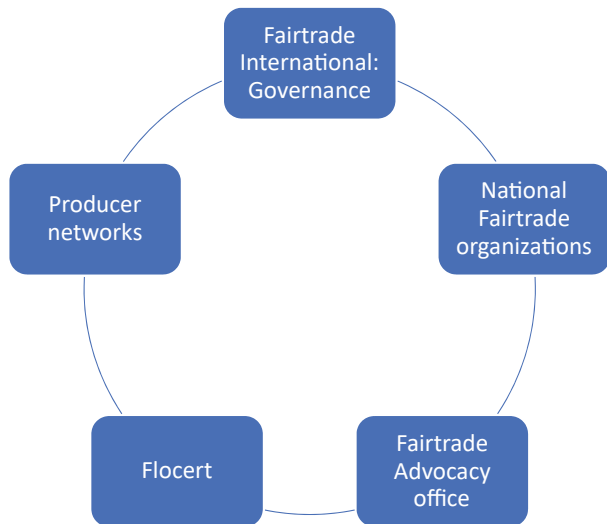


Fig. 7.1 Fairtrade International: A global multiple-stakeholder network organization (Source Authors' construction)

Fairtrade International connects workers and farmers from developing countries with consumers and businesses across the world. It is a multiple-stakeholder network designed to foster responsible purchasing practices, support a living wage, and ensure that the affected rights holders are protected by universal human rights and international labor standards.

As Fig. 7.1 illustrates the governance structure presupposes equality in the power of producer networks and national Fairtrade organizations. Three producer networks consist of 1.8 million workers and farmers and 1930 farmer cooperatives/producer organizations from Latin America, Asia, and Africa, and on the consumer side, more than twenty national Fairtrade organizations in Europe, North America, Asia, and the Pacific (all data refer to 2019).

Flocert is the independent Fairtrade certification body that audits and certifies operations by regularly making on-the-ground farm visits. Their task is to review whether the respective social and environmental conditions comply with the standards defined by the governing body located in Bonn, Germany. The Board of Directors and the General Assembly represent all three Producer Networks, National Fairtrade Organizations, and independent collaborating partners, define standards, and decide on strategy. The standards are revised regularly.

The Fairtrade Advocacy Office promotes fairer laws and business practices at the global, regional, and national levels, actively encouraging states and businesses to fulfill their human rights and environmental duties (Rocha et al., 2021). In 2022, the Fairtrade Advocacy office launched a new learning academy for young and engaged citizens across Europe who share an interest in fair trade and sustainability, supported by the European Climate Foundation and the Erasmus Plus project. One of the goals of the Fairtrade Advocacy office projects is to “build civic and environmental awareness” and empower youth, especially those with fewer opportunities. Furthermore, the Fairtrade Advocacy office has launched different pan-European projects.

Some of the building blocks of the Fairtrade network system are paying a Minimum Price and distributing the Fairtrade Premium, which requires that recipients co-invest in human rights and environmental projects on farms and in local communities. Standards are designed to

protect human rights and the environment throughout supply chains, particularly suppliers located downstream. Fairtrade staff in Africa, Asia, and Latin America offer training to farmers and workers, advise them on their rights and agricultural practices, and help them develop action plans. In addition, Fairtrade staff in Europe, North America, and Asia–Pacific also work to increase consumer awareness and encourage more responsible buying behaviors. These initiatives are funded through contributions from companies that use Fairtrade standards and auditing, as well as public funding for specific development projects (Rocha et al., 2021). Fairtrade certification labels are used on a number of products, including coffee, tea, rice, bananas, mangoes, cocoa, sugar, honey, fruit juices, nuts, fresh fruits, herbs, spices, and wines.

The Fairtrade model implies partnerships based on dialogue, transparency, and respect that seek greater international trade equity. Backed by conscious and responsible Western consumers, national Fairtrade organizations support small producers and their communities. They campaign for changes in the rules and practices of international trade and contribute to sustainable development.

The conditions for becoming part of a Fairtrade organization are as follows (Hira & Ferrie, 2006).

- (i) Producers should receive a price for their products that at least covers the cost of production.
- (ii) The local community should get a social premium to be used for development projects.
- (iii) Partial payment should be made in advance to avoid small producers or their organizations falling into debt.
- (iv) Producers should have contracts that allow for long-term planning.
- (v) Producers and importers should develop long-term trade relations that promote sustainable production practices.
- (vi) Producers must be part of democratically managed cooperatives.
- (vii) Sustainable environmental practices should be promoted.

Notably, one of the preconditions is that a part of the profit the producers make should be shared with the communities in which they live. In this way, individual farmers contribute to important community

projects, thereby increasing the self-determination of the latter and the quality of life of the members of their communities.

Schumacher's (1999) emphasis on intermediate technology and local production fits well with this model of Fairtrade. Local resources are mobilized, and the talents of ordinary human beings are cultivated. When poor people receive even lesser amounts of money to help realize their projects, they can identify appropriate solutions that advance their communities and cultures.

Table 7.1 shows the difference between the Bottom of Pyramid model and the Fairtrade model. The underlying principle of the Bottom of the Pyramid model is creating a form of market exchange that improves the living conditions of the poor. This involves organizing new markets, employing business skills, and activating financial resources. The Fairtrade model goes beyond the logic of the market. It is based on solidarity between the rich and the poor and seeks to empower local producers and their communities in developing countries. Fairtrade provides producers in developing countries with access to the markets of rich countries and helps them to develop cooperative forms of production (Table 7.1).

Table 7.1 Bottom of Pyramid versus Fair Trade

	Organizing principle	Goals	Means	Skills and resources
Bottom of the Pyramid	market exchange	improving the living conditions of the poor	organize markets to satisfy the needs of the poor	business skills and financial resources
Fair Trade	solidarity	empowerment of local producers and their communities	providing access to markets for developing countries	establishing cooperatives for production

Source Authors' construction

Beyond Fairtrade: Illycaffè

Illycaffè is an Italian coffee roasting company that promotes coffee making and coffee drinking as an art. Francesco Illy founded the company in 1933. The company was later expanded by his son Ernesto Illy. Ernesto was a perfectionist and coffee evangelist and was recognized as a world authority in the espresso coffee business (Andriani & Detoni, 2008). Today, Andrea Illy is President and CEO, representing the third generation of family leadership.

Today illycaffè is an international company that sells its coffee-related products in more than 130 countries. Since the late 1980s, illycaffè has been purchasing green coffee directly, not from international commodity markets. illycaffè is known for its sustainability practices and community engagement. The company has developed a genuine partnership with local coffee producers using knowledge transfer and quality-oriented innovation. The coffee producers have become responsible for their operations throughout the supply chain and are committed to producing coffee of exceptional quality, akin to a Ferrari among all coffees (Perrini & Russo, 2008).

illycaffè's practices go beyond the principles of Fair Trade. As Andrea Illy emphasized,

The well-known growth of the Fair Trade movement is only the first step toward sustainability since [...] fair trade will continue no matter what the quality of [the] product. My triple concern is, first, that higher prices do not always mean higher value and quality; second, that producers looking for ad hoc certifications have to manage higher costs that spread throughout the supply chain; [and] third, that sustainability does not always last, so that, in the long run, if the fair trade requirements are not met, the market (i.e., producers) might go back to the previous business model very quickly. (Perrini & Russo, 2008: 143)

illycaffè's guiding operational principles are based on a cult of quality. The primary goal of illycaffè is to provide customers with complete satisfaction, similar to that of an artist who seeks perfection. The company feels total responsibility for the finished product as a moral duty of care:

an espresso must always be perfect. To achieve this end, illycaffè makes an effort to improve every aspect of its quality standards, production, business processes, and customer service.

The policy of collaboration is based on the need to nurture self-fulfillment and team happiness by respecting the dignity of local farmers and company co-workers, as respect is a core shared value for all. Furthermore, the company recognizes that its success depends on the skill and contribution of all collaborators and adopts a holistic 'big-picture' view of all its stakeholders, making it evident that success is subject to the commitment and expertise of each collaborator. illycaffè focuses on developing these stakeholders' competencies through technical training in all sectors while providing the necessary resources. Moreover, the company believes in creating a pleasant, stimulating, and safe working environment.

illycaffè emphasizes creating mutual benefits shared with suppliers. The company fosters long-term collaboration and believes that only a trust-based reciprocal relationship can guarantee quality. In addition, illycaffè provides the producers of green coffee with its acquired knowledge and expertise regarding ways to create better quality coffee, for which it offers a higher market price.

Successful collaboration only works if a long-term, mutually beneficial relationship is established (Tencati & Zsolnai, 2009). For illycaffè, this means finding growers willing to join them in a virtuous cycle of sustainability based on an interdependent working approach.

For illycaffè, sustainable development and quality are inseparable. To make the best coffee, one needs to use the best coffee beans. illycaffè quality begins at the source with its cooperative relationship with cultivators based on the principle of respect, helping to increase cohesion (Walker et al., 2010).

The company knows each and every one of its suppliers, and educates and trains them to produce quality products while protecting the environment, and purchases the high-quality material that the suppliers produce, always paying a price that ensures they make a profit.

illycaffè suppliers are carefully selected. The transfer of knowledge begins once the cultivators are selected. The company's agronomists

make every effort to transfer knowledge about the techniques of cultivation, harvesting, and processing. This enables growers to meet the high-quality standards required by illycaffè. Moreover, illycaffè, in conjunction with the University of Sao Paolo, has created the University of Coffee in Brazil, which offers both practical and theoretical courses to producers.

The concept of 'kalokagathia' is at the heart of illycaffè's functioning. This ancient Greek ideal refers to the "union of beauty and goodness in human perfection; an integration of the ethical and the aesthetic" (illycaffè, 2015). For illycaffè, which pursues excellence in every facet of its operations, the search for beauty is not merely a nice and useful marketing exercise but a cornerstone of corporate culture and decision-making.

illycaffè wants to make the company 100% sustainable by 2033, the 100th anniversary of the company's founding. This is a huge challenge. The 'One Makes The Difference' program of illycaffè aims not only to achieve carbon neutrality but to make the company regenerative. Aspects of illycaffè's sustainable transformation include the following (Voyles, 2021):

- (i) Introducing more efficient coffee machines. In addition, the introduction of recyclable to-go cups can eliminate the use of 175 tons of plastic every year.
- (ii) Other aspects of the plan deal with the beans because about two-thirds of the coffee industry's carbon footprint is generated from the growing of the beans. illycaffè believes that a number of things can be done to reduce greenhouse gas production on farms.
- (iii) One approach illycaffè favors is processing excess carbon into fertilizer to encourage plant growth. When soil is enriched with carbon, this not only sequesters carbon from the air but also stimulates the growth of microorganisms that help plants grow faster and with fewer pathogens.
- (iv) illycaffè advocates carbon offsetting by planting trees near crops. The more forest that grows around plantations, the more biodiversity there is, and the more resilient—and productive and high quality—agricultural production can be.

Conclusions

Illycaffè is an exemplary business organization that can inspire other companies to improve their own businesses. illycaffè illustrates that a genuine focus on sustainability, long-term ethical relationships with producers, and creating the best quality products can be profitable. Businesses licensed to sell Fairtrade products have much to learn from illycaffè's dedicated work and principles.

Fairtrade products and fair working conditions are still a small part of the global economy. In 2020 they benefited six million people from more than seventy countries. One promising characteristic of Fairtrade International is that it is much more than a 'business organization.' It is driven by a social and environmental mission and led by a long-term vision to make the world a better place. In Europe, 100,000 volunteers are involved in either Fairtrade International or one of the national Fairtrade organizations. The Fairtrade Advocacy Office, located in Brussels, has expert groups that advise and collaborate with members of the EU Parliament. Their work has made Brussels a Fairtrade city, like 2,000 other Fairtrade towns worldwide. The Fairtrade Advocacy Office has launched several projects which are inspiring and educating young people to develop more responsible business models and is pressing for the introduction of new laws that will transform the economy into a fairer and more circular system.

Fairtrade International declares that its new global strategy is to protect people and the planet throughout the supply chain. This requires a comprehensive approach. Certification alone cannot assure that human rights and environmental violations will not occur. In this context, the Norwegian Transparency Act is a new and essential tool. The Act ensures comprehensive and mandatory due diligence assessments, a shared right to information, and companies' corresponding duty to respond. This Act is a supplementary tool that may contribute to addressing human rights and environmental violations in global supply chains.

The former minister of environmental protection in Norway, Ola Elvestuen, has referred to the case of Denmark, where public procurement has been a driving force for increasing ecological consumption. Public procurement by Fairtrade-committed municipalities sends

a strong signal to businesses. This collaboration within national municipalities is promising, and there is excellent potential for building a space where large buyers can collaborate and learn from each other. Public buying and conscious consumerism can serve as a catalyzing force for transforming business organizations into operations that care about ecology and poor people in developing countries.

illycaffè's relentless drive for high quality has transformed the coffee business in Brazil and contributed to the new trend of specialty coffee drinking throughout the Western world. One manifestation of this is that the number of outlets devoted to specialty coffee has significantly increased. illycaffè's purposeful drive for quality has also transformed coffee production and the coffee trade (Ims et al., 2022). While coffee was sold as an ordinary commodity until the 1990s, today, consumers can trace the coffee beans they are buying back to single growers and farms.

In effect, we have seen a change from a transactional regime of atomistic suppliers selling commodities via intermediaries to a de-commoditized regime consisting of collaborating farmers that disseminate best practice solutions to other farmers and share their micro-innovations with other producers (Andriani & Herrmann-Pillath, 2011: 23). The new de-commoditized regime consists of a larger diversity of coffee beans, higher quality, a variety of intermediary organizations and the emergence of a 'geography of food.' Instead of mixing coffee beans of all grades from different producers and selling them via intermediaries to roasting companies, the new supply chain has become more transparent. The former value chain has been simplified with more direct contact between growers and consumers. In this way, growers learn about consumers' preferences for specialty coffee. illycaffè's knowledge management and award programs are important means of increasing the capabilities of coffee growers.

illycaffè has generated the most aspirational visions for its coffee business. However, are there natural limits to the coffee business that we should accept and come to terms with? Can coffee growing and the trade become 100% carbon neutral and even regenerative in 2033, in line with illycaffè's declared vision? Quality is the essence of illycaffè's business model, and illycaffè's concept of quality means excellence and

the highest possible level of performance in every sphere of operation. We can acknowledge illycaffè's pioneering role and immense impact on the coffee business in general and in Brazil in particular that is contributing to the revolution in the coffee business through the de-commodification of coffee and de-standardization of the international coffee trade and the activation of the hidden quality potential involved in the variety of consumer tastes (Andriani & Herrmann-Pillath, 2011: 23).

According to illycaffè, the most significant area of potential for reducing the company's carbon footprint is in the hands of local coffee growers. Decio Zylbersztajn et al. (2018) discuss the phenomenon of micro-innovation and cost-efficiency, which is a response to prices or institutional changes and an 'open innovation' attitude among Brazilian coffee growers. Through such collaborative practices in local communities, growers share their practical knowledge and empower each other. We believe that local growers' dedication and spirit of improving their coffee-growing processes and products represent a decisive force for minimizing the ecological footprint of illycaffè in the future.

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