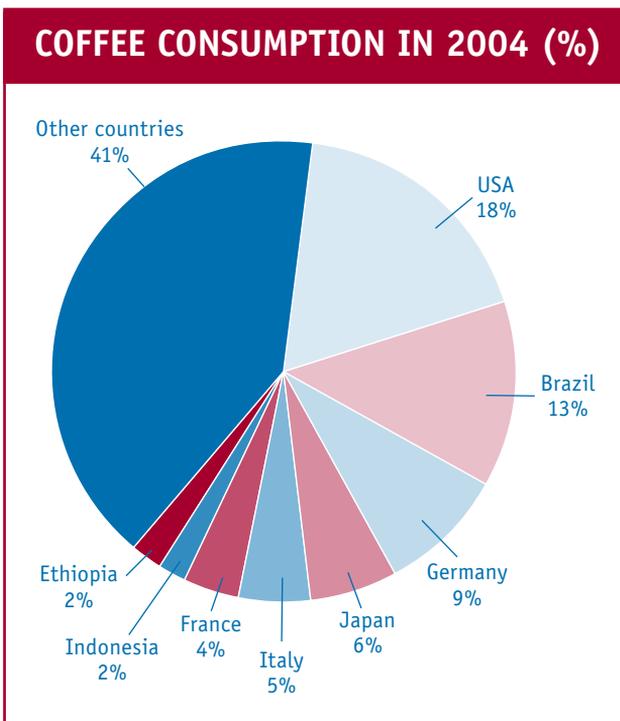


A fair share for coffee producers

Bart Slob

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In September 2005, the British newspaper *The Guardian* published an article in which Benjamin Joffe-Walt and Oliver Burkeman described how a coffee bean from the Ethiopian village Choche reached a coffee shop in south London.¹ Although very few people have heard of Choche, it is actually the village where the stimulant qualities of caffeine were first discovered. Khalid, a goatherd from the Arab world, was following the East African Trade route through Zanzibar, and whilst he was trying to sleep, some of his goats ate some mysterious cherries and began to bleat and make a lot of noise. The goats were restless all night and Khalid wondered why they were so disturbed. He decided to taste the cherries for himself and suddenly his tiredness faded. There was something magical about the cherries and the goatherd took them back with him to the Middle East.



Since its discovery, coffee has experienced an extraordinary success: world consumption for 2005 totalled 117 million bags.² Coffee is now the lifeblood of Ethiopia, providing 67 percent of its foreign-currency earnings and the Choche region remains one of the most important production areas for Arabica coffee. But the inhabitants of Choche have not been able to convert their village's historical value into prosperity. Most of them are still desperately poor and their lives are dominated by crisis and uncertainty. They know nothing of international pricing mechanisms, of trade barriers or export subsidies, about Starbucks or Nestlé or about the Fair Trade alternative. Currently,

Mekonum Awakker, a 45-year-old coffee farmer from Choche, makes about US\$ 0.85 for each kilogram of coffee. In the mid-1990s, he was selling his produce for around US\$ 3.47 per kilo. The collapse in coffee prices has had a severe impact on the livelihood of Mekonum's family. His children can't go to school and his family can't afford medical treatment. Butter, oil and sugar have been eliminated from his family's diet. He had to sell all of his animals – cows, goats and sheep, one by one.

1. JOFFE-WALT B. & BURKEMAN O., "Coffee Trail" in *The Guardian*, London, 16 September 2005.
 2. INTERNATIONAL COFFEE ORGANISATION, *Coffee market report (ICO, June 2006)*.

In the meantime, Nestlé, one of the four major multinational roasters that dominate the global trade in coffee, enjoyed profit margins of up to 26 percent on some coffee brands.³ It is apparent that not all actors in the coffee supply chain are equally affected by the slump in coffee prices. While small-scale producers are forced to sell their coffee for a song, large multinational roasters continue to make a lot of money. What is wrong with the distribution of value along the coffee chain?

THE INTERNATIONAL COFFEE MARKET

During the last 20 years, the prices of the major agricultural commodities fell between 50 and 86 percent with coffee experiencing the greatest fall. In the late 1980s and part of the 1990s, earnings of coffee producing countries in terms of export free on board (FOB) were around US\$ 10 – 13 billion per year. By 2004, these earnings had dropped to around US\$ 5.5 billion. In the same period, the value of retail sales in consuming countries increased from around US\$ 30 billion (in the 1980s) to around US\$ 80 billion.

Total coffee production exceeded demand in five consecutive years, from 1998 to 2003.⁴ There were many reasons for the oversupply, including technological innovation which permitted increased production on existing coffee farms and plantations, increased plantings and low growth rates in coffee consumption.⁵ In some cases, countries were advised by the International Monetary Fund (IMF) and the World Bank to grow coffee in order to increase income from exports. In Vietnam, for example, the World Bank has helped promote a massive expansion of coffee growing. Within a decade, Vietnam has risen from being an insignificant coffee producing country to becoming the second largest coffee exporter in the world. By the end of the year 2000, Vietnam's coffee production surpassed that of Columbia, by then the second largest coffee producer after Brazil. This enormous increase of coffee production in Vietnam has led to oversupply and a sharp decline of coffee export prices.⁶

In 2004, the international coffee market showed some signs of recovery. It was only in February 2005 that prices actually reached the same level that they averaged in 1999 (more than US\$ 0.85 per pound) It is, however, too early to tell whether there is a lasting upward trend for all coffee types.

3. JOFFE-WALT B. & BURKEMAN O., *Op. cit.*

4. INTERNATIONAL COFFEE ORGANISATION, *Lessons from the world coffee crisis: a serious problem for sustainable development*, ICO, June 2004, p. 2.

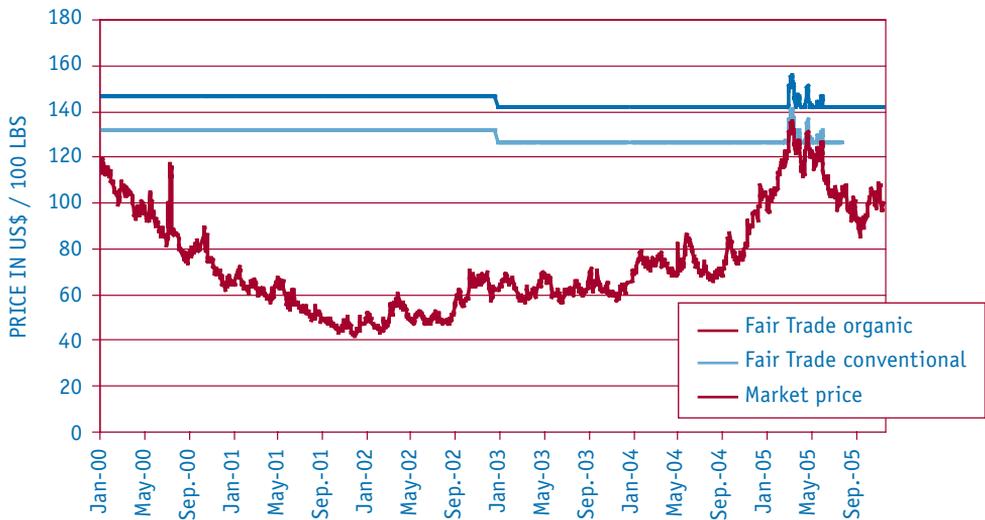
5. MAY P.H., MASCARENHAS G.C.C. & POTTS J., *Sustainable coffee trade: the role of coffee contracts*, Winnipeg, Canada: International Institute for Sustainable Development, 2004, p. 4.

6. HARDSTAFF P., *Treacherous conditions: how IMF and World Bank tied to debt are undermining development*, London: World Development Movement, 2003, p. 13.

WORLD COFFEE PRICES: LOW AND VOLATILE

Coffee prices are extremely volatile. Price volatility makes the life of coffee farmers difficult since they never know in advance what the international price will be when the harvest comes, and so cannot plan their production accordingly. Coffee price volatility is not a recent phenomenon. As coffee yields are vulnerable to temperature or precipitation changes as well as disease, the volume of production can vary widely from one year to the other, which causes prices to peak. The vulnerability is enhanced by the relatively high degree of dependence the world coffee supply has on Brazil.⁷

PRICE VOLATILITY: MARKET PRICES VERSUS FAIR TRADE PRICES FOR ARABICA COFFEE, 2000A



Source: gepa Fair Handelshaus

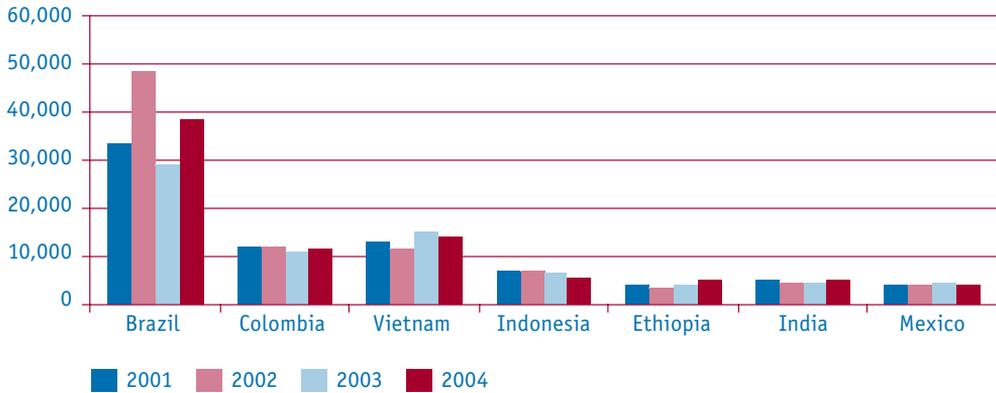
STAGNATION IN THE CONSUMPTION OF COFFEE

Over 90 percent of coffee production takes place in developing countries, yet coffee is mainly consumed in industrialised economies. The major exception is Brazil, which is the top producer and also one of the main consuming countries in the world. Ethiopia also consumes a large proportion of the coffee it produces: about 36 per cent of the country's total coffee production is consumed in Ethiopia.⁸

7. BROWN, O., CHARVERIAT, C., & EAGLETON D., The coffee market: a background study, *Oxfam: no date*, p. 6.

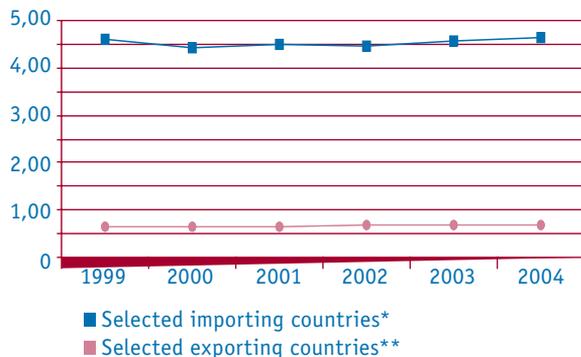
8. PONTE S., Standards and sustainability in the coffee sector: a global value chain approach, *Winnipeg, Canada: International Institute for Sustainable Development, 2004*, p. 2-3.

IMPORTANT COFFEE PRODUCING COUNTRIES (PRODUCTION IN THOUSAND BAGS)



Despite the continuing efforts of the International Coffee Organisation (ICO), coffee consumption has stagnated over the last years.⁹ The demand for high quality coffee – or speciality coffee – has increased considerably, but in 2004 still only about 8 percent of the annual coffee production went to the speciality market.¹⁰ It is likely that worldwide coffee consumption will grow significantly in the next few years, because of the long-expected expansion of the Chinese coffee market which is estimated to grow by 70 per cent in total volume sales between 2003 and 2008 to reach 11,073 tonnes.¹¹

PER CAPITA CONSUMPTION OF COFFEE IN SELECTED COUNTRIES (IN KG)



* Selected importing countries: All EU countries, Japan, Norway, Switzerland and the United States.

** Selected exporting countries: Brazil, Costa Rica, Dominican Republic, Haiti, Nicaragua, Colombia, Honduras, Ethiopia, Venezuela, Guatemala, Madagascar, El Salvador, Panama, Cuba, Côte d'Ivoire, Mexico, Ecuador, Philippines, Trinidad and Tobago and Indonesia.

9. See for example: INTERNATIONAL COFFEE ORGANISATION, Step-by-step guide to promoting coffee consumption, December 2004, <www.ico.org/documents/guide/prn-all.swf> (9 August 2005).

10. LINTON A., CHIAYUAN LIU C. & SHAW K.A., "A taste of trade justice: marketing global social responsibility via Fair Trade coffee", Globalizations, December 2004, Vol. 1, No. 2, p. 223 – 246, p. 238.

11. LEE H., Coffee brews a future in China? in Euromonitor International, 13 September 2004, <www.franchiseek.com/Market_Trends_Coffee_China_1004.htm> (9 August 2005).

THE INTERNATIONAL COFFEE ORGANISATION (ICO)

The International Coffee Organisation was established in 1963, after the first International Coffee Agreement (ICA) came into force in 1962 for a period of five years. The first ICA was based on a negotiation process between coffee-producing and consuming countries. Coffee-producing countries sought to improve their market position vis-à-vis consuming countries. Consumer countries essentially followed the logic behind the Marshall Plan: as economic deprivation was supposed to provide fertile ground for communist agitation, deprivation caused by excessively low coffee prices should be prevented in developing countries.¹²

From 1962 to 1989, the international coffee market was regulated by ICAs. During this period, quotas were distributed to ICO's members (both producing and consuming countries) in order to keep coffee prices stable. Prices were kept relatively high for many years to suit the economical and political interest of the largest producer and consumer members. By the end of the 1980s, support for the ICA had eroded to the point that the agreement could not be renewed. The ICO had failed to adapt its rigid quota system to changing consumer tastes. The demand and prices for certain types of coffee had grown but these new challenges could not be met under the ICO system, leading to over-quota production and illegal trading.

By 1994, many members had left the ICO and the organisation was restructured into a promotional trade group. Today, the ICO analyses the world coffee market and addresses problems related to the importance of coffee for economic and social development. The ICO has identified a number of ways to address the coffee crisis and to create a healthier balance between supply and demand.¹³



12. LINTON A., CHIAYUAN LIOU C. & SHAW K.A., *Op. cit.*, p. 226.

13. *Ibid.*

IMPORT TARIFFS FOR COFFEE

Import tariffs on coffee are regulated through the World Trade Organisation (WTO). Tariffs on green coffee are becoming lower and less common. For decaffeinated green coffee, the EU still levies a tariff of 8.3 per cent. Tariffs become higher, however, as the coffee is being processed. Many importing countries levy lower tariffs for developing countries than for industrialised countries.

The European Union (EU) applies a reduced tariff to developing countries under the Generalised System of Preferences (GSP). African, Caribbean and Pacific (ACP) countries which have acceded to the Cotonou Agreement¹⁴ have duty free access to the EU. This exemption is also granted to some developing countries outside the ACP group, such as Colombia, Bolivia, Costa Rica and Laos.

WORLD TARIFFS ON PROCESSED COFFEE, 2005

Country/area	Roasted	Decaffeinated, roasted	Soluble
United States	0	0	0
European Union	7.5%	9.0%	9.0%
	2.6% GSP	3.1% GSP	3.1% GSP
	0 ACP	0 ACP	0 ACP
Canada	4.15 cents/kg	4.15 cents/kg	14.32 cents/kg
	0 GSP	0 GSP	0 GSP

*GSP: Generalised System of Preferences
ACP: 79 African, Caribbean and Pacific countries*

Coffee processing explained

Wet processing is a relatively new method of removing the four layers surrounding the coffee bean. This process results in a coffee that is cleaner, brighter, and fruitier. Most countries with coffee valued for its perceived acidity, process their coffee using the wet process.

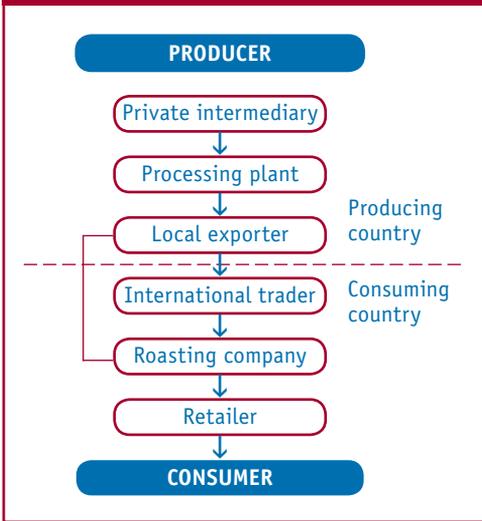
The **dry** process, on the other hand, produces coffee that is heavy in body, sweet, smooth, and complex. This process is often used in countries where rainfall is scarce and long periods of sunshine are available to dry the coffee properly. Most coffees from Indonesia, Ethiopia, Brazil and Yemen are dry-processed.

FROM THE COFFEE FARM TO THE CONSUMER: THE COFFEE VALUE CHAIN

The coffee chain breaks down into a number of major stages. After the coffee cherries are harvested, they can enter one of the two main processing routes – the wet or the dry process. Both processes are invariably performed on or near the farm itself.

¹⁴ The Cotonou Agreement is a partnership agreement between the EU and the ACP Countries signed in June 2000 in Cotonou, Benin, replacing the Lomé Convention.

A TYPICAL COFFEE CHAIN



After the wet process, the resulting parchment coffee has to be milled. Parched coffee is just dried coffee with the seed covering still on it. In this stage of the value chain there are more economies of scale, and **milling** tends to occur in the rural areas where coffee is grown, but on a more centralised basis. Both parchment and the green coffee cherries can be stored and location is thus technically possible anywhere after this stage. However, green coffee is less bulky and lighter than parchment, so milling tends to be undertaken in the growing country.

The green beans are then **roasted**, and reach the market either as instant coffee (predominantly in the Anglo-Saxon countries and in many developing countries), or in roasted ground form.

While instant coffee has a shelf life of six months or longer and production for export is feasible either in the producing or consuming country, roasted ground coffee is by necessity almost always located near the final consuming market.¹⁵

The supply chain for mainstream coffee can contain many linkages. A coffee bean may change hands as many as 150 times from producer to consumer.¹⁶ In a simplified mainstream coffee supply chain, producers sell their unprocessed coffee to private intermediaries, who transport the coffee to a processing plant. After being processed, the coffee is sold by a local transporter to an international trader. Roasting companies usually buy the coffee from the international traders, and sell it on to retailers, such as supermarkets, restaurants and hotels. This is how the coffee finally reaches the consumers.

The increased consolidation in the coffee industry has led to a bottleneck in the global market. It is clearly a buyer-driver chain, i.e. a small number of large multinational traders and roasters dominate the supply chain and can set requirements for the other actors in the chain. Roasters can prescribe, for example, criteria for minimum quantities needed from any particular origin to be included in a major blend.

15. KAPLINSKY R., Competitions policy and the global coffee and cocoa value chains, *Sussex / Brighton: Institute of Development Studies, University of Sussex & Centre for Research in Innovation Management, University of Brighton, 2004, p. 8.*

16. MILFORD A., Coffee, co-operatives and competition: the impact of Fair Trade, *Bergen, Norway: Chr. Michelsen Institute, 2004, p. 5.*

WHO IS WHO IN THE COFFEE INDUSTRY?

Historically, four major parties have played key roles in the coffee industry. The **farmers** have obviously been central to the chain, and most of them are smallholders. In most producing countries, various types of **marketing boards and producer associations** are responsible for many of the non-farm activities in the producing countries – milling, buying, exporting and so on. Thirdly, there are the **global traders**, sourcing coffee from a variety of origins, and selling them on to the fourth major party in the chain, the **roasters**, who brand and sell the coffee on to retailers.¹⁷

Similar to many global supply chains, the coffee sector is characterised by the participation of many intermediaries and an unequal distribution of power. Until the mid-1990s, the only real signs of chain governance, i.e. control over the supply chain, in the coffee sector were the various forms of state-owned **marketing boards**, which bought coffee from producer cooperatives and sold it for export or domestic consumption.¹⁸ The price was fixed on a monthly or yearly basis. In years of low prices, many countries, such as Tanzania, sheltered producers by fixing a much higher internal price. While these schemes protected producers from volatility, they also reduced their share of the export price. Many national marketing boards were particularly inefficient and high export taxes were often levied. Under pressure from the World Bank and the IMF, in the 1980s and early 1990s, most marketing boards were dissolved and export taxes were abolished.¹⁹ As a consequence of the liberalisation of the coffee sector, green coffee is now mostly bought from farmers by private traders and exporters. Sometimes co-operatives export coffee themselves. Following the dissolution of the marketing boards in most countries, new, private forms of chain governance emerged and have since dominated and controlled the international coffee market.

INTERNATIONAL COFFEE TRADE: DOMINATED BY FOUR COMPANIES

Four companies control almost 40 percent of global trade in coffee:

- *Neumann Kaffee Gruppe AG*: The German NK Group has commercial operations in 17 coffee producing countries in Latin America, Africa and Asia (Honduras, Nicaragua, Costa Rica, Peru, Mexico, El Salvador, Brazil, Colombia, Guatemala, Rwanda, Burundi, Kenya, Uganda, Tanzania, Vietnam, Papua New Guinea and Indonesia).
- *Volcafe Holdings Ltd.*: The Swiss Volcafe Group has export operations in 12 coffee producing countries in Latin America, Africa and Asia (Mexico, Guatemala, Honduras, Costa Rica, Colombia, Peru, Brazil, Kenya, Tanzania, Uganda, Indonesia, Papua New Guinea).

17. KAPLINSKY R., *Op. cit.*, p. 9.

18. *Ibid.*, p. 10.

19. BROWN, O., CHARVERIAT, C., & EAGLETON D., *Op. cit.*, p. 8.

- *Ecom Agroindustrial Corp Ltd.*: The Swiss / Spanish Ecom Coffee Group has commercial operations in 13 coffee exporting countries in Latin America, West Africa and Asia. The Group is involved in milling, warehousing, exporting and trading coffee (Colombia, Guatemala, Costa Rica, Brazil, Mexico, Honduras, Nicaragua, Peru, Ivory Coast, India, Papua New Guinea, Vietnam and Indonesia).
- *Dreyfus*: The global conglomerate Louis Dreyfus Group has operations in more than 53 countries and is engaged in processing, trading and merchandising a range of agricultural commodities. The company trades about four million 60-kg bags of coffee a year. It sources from numerous countries in Central and South America, Africa and the Far East.²⁰

COFFEE ROASTING: BIG BUSINESS FOR QUITE A FEW

The roasting stage of the coffee chain also presents a high level of concentration. The high promotional costs in brand development and marketing have led to the rise of a small number of omnipotent multinational roasting and marketing companies. These firms manufacture instant and ground coffee, and compete with each other on the basis of branding backed by large expenditure on advertising in the coffee consuming countries. There are four roasters that together control about 45 percent of the global market:

- *Nestle SA (Switzerland)*: The main brands of Swiss multinational Nestlé are Nescafé, Bonka and Ricore.
- *Kraft Foods Inc (USA)*: In the United States, Kraft's key brands are Maxwell House, Yuba and Starbucks. In Europe, important Kraft brands are Maxwell House, Carte Noire, Maxim, Blendy, Gevalia, Jacques Vable, Kenco, Hag and Saimaza. Kraft Foods is part of the Altria Group Inc., formally Philip Morris.
- *Procter & Gamble (USA)*: The key brands of Procter & Gamble are Folgers (ground and instant) and Millstone.
- *Sara Lee Corporation (USA)*: In Europe, Sara Lee's key brands are Douwe Egberts, Maison du Café, Marcilla, Merrild, Van Nelle and Senseo. In the United States, the most important brands are Hills Bros and Superior (food service industry). In Brazil, Sara Lee owns the Café do Ponto and Pilão brands.²¹

Value chain research discloses how the imbalance of power (“the bottleneck”) in the coffee value chain puts producers at a great disadvantage.²² Through the construction of an indicative value chain, researcher Karen St Jean-Kufuor found that farmers who did no processing on their coffee cherries got just 6.5 percent of the final retail value.²³ Research carried out by other experts result in a similar percentage. In a report published on the fifteenth birthday of Max

20. KAPLINSKY R., *Op. cit.*, p. 15; VORLEY B., *Food, Inc.: corporate concentration from farm to consumer*, London: IIED, 2003, p. 48.

21. KAPLINSKY R., *Op. cit.*, p. 16.

22. VORLEY B., *Op. cit.*, p. 47.

23. GRESSER C. & TICKELL S., *Mugged: poverty in your coffee cup*, Oxfam International, 2002, p. 21.

Havelaar in the Netherlands, researchers demonstrated that in 2002 the gross income of a producer (farmer) was €0.10 per package of mainstream coffee (250 grams) sold in the Netherlands, compared to a retail value of €1.57 for the same package of coffee, i.e. 6.37 percent of the retail value.²⁴ It must be stressed that these data do not represent any specific coffee value chain. Farmers that produce for niche markets will obtain higher percentages than smallholders that produce commodity coffee.

THE FAIR TRADE MARKET

Coffee is the best known Fair Trade product among consumers in Europe, North America and Japan. Fair Trade coffee was the first fairly traded food product. It was also the first product to carry the Fairtrade label and is now sold in all FLO member countries.²⁵

The overall sales of Fair Trade coffee worldwide have increased radically over the last years. However, the situation varies greatly between different countries: While some national markets have grown considerably in the last few years, other traditional Fair Trade markets for coffee show signs of stagnation. The market share of Fair Trade coffee remains below 3 percent in almost all countries. But there are some noteworthy exceptions, such as Switzerland with 6 percent and the United Kingdom where one out of five cups of ground coffee was produced and traded under fair conditions in 2004.²⁶

FAIR TRADE COFFEE PRODUCERS

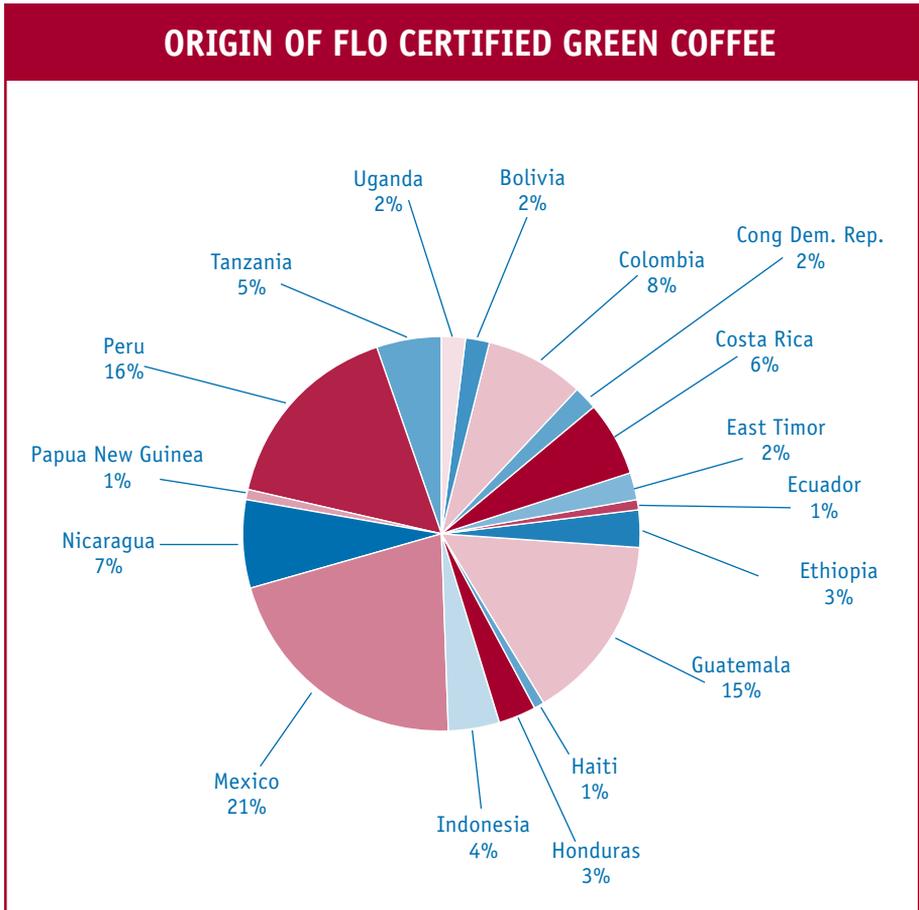
Most Fair Trade coffee is certified by FLO. Most Fair Trade coffee is also certified organic.

In early 2006, FLO International worked with 243 coffee producer partners in Africa, Asia and Latin America. Many of these producer partners export directly themselves. An additional 38 export partners are FLO registered. More than a hundred importers, manufacturers, roasters, distributors and 548 registered traders in the 21 national member countries are included in the FLO Fair Trade system. Most FLO certified coffee comes from Latin America but more and more African coffee producers are being certified.

24. ESHUIS F. & HARMSEN J., Max Havelaar, Utrecht: Stichting Max Havelaar, 2003, p. 14.

25. FLO member countries: United States, Canada, Japan, Mexico, New Zealand, Australia, Denmark, Norway, Sweden, Finland, Germany, Belgium, Luxemburg, Austria, Italy, Switzerland, France, The Netherlands, Ireland and Great Britain. FLO website, FAQ, "FLO coffee markets", no date, <www.fairtrade.net/sites/products/coffee/markets.html> (8 August 2005).

26. KRIER, Jean-Marie, Fair Trade in Europe 2005. Facts and figures on Fair Trade in 25 European countries, Brussels, Fair Trade Advocacy Office, 2006.



Source: FLO 2003

In the case of coffee, a group of *producers* (co-operatives or farmer associations) may be registered with FLO if: (1) its members are smallholders; and (2) the group is democratically run and politically independent. So far, no coffee plantation has been certified by FLO. FLO also requires that producers follow some basic guidelines in terms of minimal use of agro-chemicals and environmental protection.²⁷ The FLO certification fees vary from €350 (for a Desk Top Review) to more than €10,000.00 depending on the inspections needs. The calculation is based on the structure of the producer organisation, the existence of processing installations, the number of workers and the number of products to be certified.

The certified co-operatives receive guaranteed minimum prices that cover the costs of sustainable production and a proper standard of living. These minimum prices vary slightly among the different regions of the world to reflect the real production and living costs. When international coffee prices exceed the Fair

²⁷ Adapted from PONTE S., Op. cit., p. 22.

Trade minimum prices (which rarely occurs), all producer organisations receive the market price. Additionally, Fair Trade producers get a fixed premium of US\$ 0.05 per pound. How to use the benefits of the price premium is decided through a democratic procedure. Producer organisations are regularly assessed against a set of standards by FLO inspectors.

PROCESSING IN COFFEE-PRODUCING COUNTRIES

Small-scale producer organisations earn more if they control other stages of the value chain as each step in the processing of the coffee bean increases the value of the product.²⁸ With a centralised infrastructure, organised farmers can process coffee jointly. Centralised processing allows smallholders to maintain a high standard and consistent quality. Capacity building and technical assistance are key to progress in this area. John Kanjagaile, of the *Kagera Co-operative Union (KCU)* in Tanzania, believes that coffee co-operatives end up with higher returns when they process green beans themselves: *“Small producer organisations should seriously think of reducing the green beans they deliver to the conventional market by processing them into finished products – they need assistance for this. Finished products might not be easy to ship to foreign customers, but local consumption for most of us has a lot of potential.”* KCU owns stock (about 51 percent) in the processing plant Tanica in Bukoba, where the coffee the co-operative produces is processed. Tanica produces instant coffee for the local market and for export. It is the only processor of instant coffee in Eastern Africa.²⁹ KCU is also able to assess the quality of its coffee and the flavour profile (cupping). Since 1991, KCU has had its own direct export department, selling first to Fair Trade markets, and building on this experience to establish markets among conventional buyers. The knowledge and experience gained in Fair Trade networks has helped KCU to influence coffee prices at auction: *“With our participation at Tanzania auctions, supported by our partnership with Fair Trade customers, we are able to influence prices by an average of US \$2-3 per 50 kilograms sold.”* The farmers themselves decide collectively how the Fair Trade premiums that KCU receives are spent. In the past, part of the social premium was used to buy shares for farmers in the Tanica Instant Coffee factory. KCU also uses the premiums to improve education, and currently supports three secondary schools. Other uses of the social premium include healthcare, clothing and shelter construction.³⁰ The elements of the value chain that have been taken over by KCU (processing, cupping and exporting) have traditionally been dominated by other actors in the chain.

28. WORKSHOP “Coffee: a closer look at the value chain”, at the IFAT Quito Conference, 4 may 2005.

29. KANJAGAILE J., KCU Ltd., 6 September, interviewed by the author.

30. Cafedirect website, “Tanzania – coffee”, no date, <www.cafedirect.co.uk/growers/tanzania_coffee.php> (9 September 2005).

COFFEE TRADERS IN THE FAIR TRADE SYSTEM

Besides abiding by the Fair Trade principles, coffee traders have to establish a long-term and stable relationship with the producer organisation, in which the rights and interest of both parties are mutually respected. Fair Trade importers also provide technical support to producer organisations and play an advocacy role for producers in national and international fora.

BENEFITS OF FAIR TRADE FOR SMALL-SCALE PRODUCERS

When comparing “conventional coffee” with Fair Trade, there are significant differences in the distribution of value among the actors in the value chain. The percentage of the final retail value that is retained by the producers is much higher in the Fair Trade system than in the mainstream market. Revenues for Fair Trade coffee are roughly twice the street price for conventional coffee. In 2003, the farmers of the *Majomut Co-operative* in Mexico, for example, earned US \$1,700 for 1,500 pounds organic certified coffee, compared to the local price of US \$550 (for coffee sold to local intermediaries nicknamed *coyotes*).³¹ The Majomut Co-operative annually sells about 60 percent of its coffee through Fair Trade.³²

FAIR TRADE MINIMUM PRICES (US\$ / LB, GREEN COFFEE), 2005

Type of coffee	Conventional		Certified organic		Fair Trade premium
	Central America, Mexico, Africa, Asia	South America, Caribbean Area	Central America, Mexico, Africa, Asia	South America, Caribbean Area	Conventional and organic
Washed Arabica	US\$ 1,26	US\$ 1,24	US\$ 1,41	US\$ 1,39	US\$ 0,05
Unwashed Arabica	US\$ 1,20	US\$ 1,20	US\$ 1,35	US\$ 1,35	US\$ 0,05
Washed Robusta	US\$ 1,10	US\$ 1,10	US\$ 1,25	US\$ 1,25	US\$ 0,05

It is extremely difficult to define with precision the **financial benefits** of Fair Trade for small-scale farmers, mainly because co-operatives themselves decide on how to distribute the amounts received among their members. Coffee-producing co-operatives often sell only part of their produce under Fair Trade conditions, but the high and stable price they receive for their produce and the additional premium have a notable impact on the livelihoods of their members. Fair Trade’s price premium enables coffee co-operatives to build up a small working capital and to invest in quality improvements, differentiation and technical support.

31. MURRAY D., RAYNOLDS L. T. & TAYLOR P.L., One cup at a time: poverty alleviation and Fair Trade coffee in Latin America, Fort Collins: Colorado State University, 2003, p. 7.

32. UNIÓN MAJOMUT website, “Comercio Justo”, no date <www.majomut.org/comercio%20justo/comjusto.html> (7 September 2005).

Pre-financing is also an important feature of Fair Trade, especially for those co-operatives that can only sell a small part of their produce under Fair Trade conditions, because it provides producer organisations with **greater access to credit**. Some co-operatives have created **emergency or community funds**, for which they use part of the price premium. In addition, Fair Trade co-operatives have better access to traditional credit sources. The combination of the guaranteed minimum price, the premium, pre-financing and increased access to credit has contributed to greater economic and social stability of small-scale coffee producers.



Jeronimo Bollen, manager at the *Manos Campesinas* co-operative in Guatemala, states that one notes the difference between Fair Trade farmers and non-Fair Trade farmers: *“Fair Trade farmers have enough income to keep working in the fields and feed and clothe their families. You can see the difference with non-Fair Trade farmers: they have to abandon their production, they cannot maintain their coffee trees and there is significant migration to Mexico City. The major benefit of Fair Trade here is the virtual elimination of migration.”*³³

The impact of Fair Trade goes far beyond the economic benefits; there are many **non-financial returns** for small-scale farmers in the value chain of Fair Trade coffee. Capacity building, training and access to information are key aspects here. **Training and technical assistance** enable farmers to improve the quality of their coffee, while **access to information** helps co-operatives to take adequate decisions about how to produce, market and sell coffee. **Empowerment** of producer organisations can strengthen their position in the coffee value chain. Through the use of new technologies, producers are able to access up-to-date information about their products. Communication is a very important element of success for many smallholders. In the Fair Trade movement, information of all kinds is shared through networking. The long-term relationships between coffee-producing co-operatives and buyers encouraged by Fair Trade have improved the quality of the coffee by providing feedback to farmers.

Because of the stability of their organisations, their knowledge of the coffee market and their growing awareness of the environmental aspects of their agricultural activities, Fair Trade co-operatives are generally in a better position to **diversify** vertically and horizontally than small-scale farmers that produce coffee exclusively for the conventional market.

33. TRANSFAIR USA website, *Producer profiles, “Manos Campesinas”*, <www.transfairusa.org/pdfs/profiles/ManosCampesinas-Guat.PDF> (6 September 2005).

Fair Trade participation provides families with access to a diverse range of projects sponsored by their co-operatives. Many families participate in organic gardening and subsistence supply projects, partly supported by Fair Trade returns. Some co-operatives have created revolving funds or small credit programmes that helps pay for a variety of family emergencies. In Mexico and El Salvador, Fair Trade co-operatives have provided training and marketing assistance to families in order to develop alternative income sources. This includes the production and marketing of handicrafts, the establishment of community stores and bakeries, improved production of basic grains, and other enterprises.³⁵ Many co-operative members believe that Fair Trade has contributed to the education of their children. Sabino Montero Brenes, president of a member co-operative of *Coocafé* in Costa Rica, affirms this: *“Ten years ago, our children couldn’t study past the age of eight because there was no bus to the school and we had no money. Now, with Fair Trade, we have fixed the road and we have bus service. Our kids can go to school with the help of scholarships provided by the cooperative’s fund. One of my children is currently earning a business degree at the university and the other is in high school.”* Juan Zacarias, member of the Las Colinas co-operative in El Salvador, is quite brief about the benefits of Fair Trade for his family: *“By earning a Fair Trade price, I was able to send my children to high school and improve my home by adding electricity and potable water.”*³⁶

Many of these producers lack the market information they need to make informed decisions about production. This includes information about global production trends as well as nuanced and accurate information about consumer demand for organic and speciality quality coffee. Without such information and the understanding of how to employ it, farmers and farmer organisations are unable to plan for price volatility.³⁴ Moreover, small-scale producers in the mainstream market often do not have access to commercial credit. It is important to make financial services (loans with no or very low interest rates, revolving funds, micro-credits) available to producer organisations for the creation of working capital, pre-harvest credit, centralised and on-farm infrastructure, diversification, debts caused by the coffee crisis and risk management.

PERSPECTIVES AND CHALLENGES OF FAIR TRADE IN THE COFFEE SECTOR

The key challenge for Fair Trade coffee is to expand markets. Very often, co-operatives sell only 10 to 15 percent of their coffee under Fair Trade conditions, while the rest (85 to 90 percent) has to be sold to intermediaries, exporters or traders in common mainstream value chains. The oversupply of Fair Trade coffee can only be addressed thoroughly by increasing the demand for Fair Trade coffee worldwide. While some national markets have grown significantly, other traditional Fair Trade markets for coffee have shown signs of stagnation in the last few years. New and innovative ways to expand the existing markets and to explore new markets need to be found.

34. WORKSHOP “Coffee: a closer look at the value chain”, at the IFAT Quito Conference, 4 may 2005.

35. MURRAY D., RAYNOLDS L. T. & TAYLOR P.L., *Op. cit.*, p. 9.

36. TRANSFAIR USA website, *Producer profiles, “Apecafé”, no date <www.transfairusa.org/pdfs/profiles/Apecafe-ElSalvador.PDF> (5 September 2005).*

DEVELOPING NEW MARKETS

In some European countries Fair Trade could expand considerably, notably in Spain, Portugal, Greece and the Central and Eastern European countries. The market share in North America is also set to increase further. Nevertheless, new markets should also be explored, particularly those of the coffee-producing countries and emerging economies, such as Brazil, China and India. IFAT has already begun to explore this field by participating in international trade fairs in emerging economies and coffee-producing countries.³⁷ National Fair Trade initiatives could be set up in coffee-producing countries, following the example of Mexico, which founded a national labelling initiative in 1999 and sold 45,000 pounds of green coffee in 2004.

FAIR PROCUREMENT

Another way of expanding the market for Fair Trade coffee is to promote fair procurement. The Fair Trade movement in the North should invest in raising awareness about the link between sustainable procurement or responsible purchasing and Fair Trade. *Global exchange*, *Oxfam*, *Transfair Canada* and *Transfair USA* have done a lot to help student groups raise awareness of Fair Trade issues on their campus and convince their institutions to offer Fair Trade certified coffee. At least 90 colleges and universities in the United States now make the coffee available in their food service establishments, with some serving it exclusively.³⁸

Government bodies, especially in Europe, have increasingly expressed their interest and commitment to sustainable procurement. Under the current European procurement Directives, governments can decide to include social and environmental criteria in purchasing procedures. European Fair Trade organisations have already been very active and successful in targeting political institutions. Fair Trade coffee is served in many city halls, national parliaments, in the European Parliament and in the buildings of the European Commission. Public tenders for coffee products and catering services should always include a reference to Fair Trade.

CONVENTIONAL COMPANIES AND FAIR TRADE COFFEE

Not least because of intense campaigning and awareness raising on trade injustice and irresponsible business practices, more and more large multinational companies are now reacting to the growing interest of consumers in ethical products. Some companies are working with ethical schemes like Rainforest Alliance and Utz Kapeh (for details see chapter on private companies). Other companies, such as Starbucks, Peet's, Seattle's Best Coffee, Dunkin' Donuts and Tully's, have added Fair Trade-certified coffee to their product lines.³⁹ In Great Britain, several supermarket chains sell Fair Trade products.

37. DAVID C., *Market access and initiatives in the South*, presentation at the IFAT Conference in Quito, 4 may 2005.

38. LINTON A., CHIAYUAN LIOU C. & SHAW K.A., *Op. cit.*, p. 233.

39. *Ibid.*, p. 232.

There are no formal guidelines regarding the responsibility of companies that sell Fair Trade coffee to educate consumers about it and promote its consumption. Retailers may encounter difficulties in advertising Fair Trade to their customers, such as confusion with other sustainable or “responsible” coffees, saturated markets and increasing brand competition. Notwithstanding these obstacles, large retailers have been able to set up cause-related marketing campaigns to promote Fair Trade products amongst their customers.

The attitude of the Fair Trade movement towards the involvement of conventional companies is somewhat ambivalent. On the one hand, large roasters and retailers are able to increase the sales of Fair Trade coffee considerably. As a consequence, small-scale farmers can sell more of their produce under Fair Trade conditions. On the other hand, big companies tend to use their involvement with Fair Trade for public relations – while not committing to responsible business practices in their overall company policy. This inconsistency poses a major challenge to the Fair Trade movement, which sees it as its mission to improve the living and working conditions for all poor and marginalised producers and to work towards overall trade justice.

To address this problem, the Fair Trade movement could develop a model code of conduct for conventional companies that sell Fair Trade coffee as a (small) percentage of their total coffee sales, with minimum and process requirements. Adherence to a model code of conduct would prove the commitment of conventional companies involved in Fair Trade to improving sustainability in the whole coffee sector. In terms of the growth of the Fair Trade coffee market, it seems essential that large market players continue to engage in Fair Trade. Small-scale producer organisations will eventually benefit from this, as they will be able to sell a larger part of their produce under Fair Trade conditions. However, the Fair Trade movement should establish clear boundaries by setting criteria for the involvement of large conventional companies in Fair Trade.

PRODUCER ORGANISATION, EMPOWERMENT AND CAPACITY BUILDING

The Fair Trade model has shown that the organisation (into unions for example) of small-scale producers is fundamental and has many advantages. Despite this, many small-scale producers are still unorganised and need help to get organised. Existing producer organisations need more long-term financial and institutional resources for basic organisational formation and strengthening.⁴⁰

Producer organisations need financial and organisational management capacity to operate as successful businesses. Necessary management skills should be developed and enhanced in each producer organisation. Knowledge and skills can be transferred through exchange programs for producer organisations.

40. DANIELS S. & PETCHERS S., The coffee crisis continues: situation assessment and policy recommendations for reducing poverty in the coffee sector, *Oxfam America*, 2005, p. 16.

ENCOURAGE PROCESSING IN COFFEE-PRODUCING COUNTRIES

Building on existing successful examples, Fair Trade producers should be encouraged and supported to process green coffee beans. This would not only increase their income, but also create additional knowledge and skills. Fair Trade producers who control other stages of the value chain are empowered and may even be able to influence coffee prices positively. They are also in a better position to sell their coffee on local markets in their own countries.

Let us now go back to the farmer from the Choche region, in Ethiopia, whose poignant story was mentioned in the introduction of this chapter. How can Fair Trade contribute to improving the livelihood of Mekonum Awakker and his family? This certainly poses an enormous challenge and will depend on the possibilities for future expansion of the market for Fair Trade coffee. As demonstrated in this chapter, Fair Trade is a feasible alternative to the unfair distribution of value that characterises today's mainstream coffee market. The more consumers, retailers, roasters and traders believe in this idea and invest in Fair Trade relations, the more likely it is that in the near future the farmers from Choche will also be able to sell their produce under fair conditions and improve their livelihoods.

This chapter is based on a value chain analysis carried out on behalf of the IFAT, EFTA and FLO.