A fair share for smallholders

A value chain analysis of the coffee sector

2006

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Introduction

The International Fair Trade Association (IFAT), the European Fair Trade Association (EFTA) and Fair Trade Labelling Organisations International (FLO) want to improve the understanding of Fair Trade's social and economic context and give recommendations on how the economic and social situation of low-income producers can be improved. The coffee value chain analysis that is presented in this report is part of a larger project that further includes value chain analyses of rice, handicrafts, cotton and textiles. The overall aim of the project is to use value chain analysis to clarify the relative merits of Fair Trade relationships with coffee farmers compared with other ethical schemes. Most coffee producers engaged in Fair Trade are only able to sell a low percentage of their crop in the Fair Trade market. This research seeks to identify the special benefits that derive from this.

The project aims to answer the following questions:

- How can the economic and social situation of low-income producers engaged in Fair Trade be improved?
- Which type of trading relationship brings most economic and social benefits to coffee farmers?

This report intends to answer these questions for the coffee sector. It focuses mainly on Fair Trade and compares the Fair Trade value chain to mainstream value chains. In the first section of the report, the international coffee market is analysed, as well as current trends and important regulations and standards in the coffee sector. The specific markets for organic, Fair Trade and other sorts of labelled coffees are also discussed. In the second section of the report, we take a closer look at the value chains of mainstream coffee and Fair Trade coffee, and we demonstrate how added value is distributed along these value chains. Finally, we try to point out some possibilities for the Fair Trade movement to improve market access and market development, especially to the benefit of small-scale producers. The report concludes with a set of recommendations on how the economic and social situation of low-income and small-scale coffee producers[1] may be improved.

The author would like to thank all the stakeholders and experts who were interviewed or consulted otherwise for this research project. Special thanks to Carol Wills, for her patience and insightful feedback.

1. The international coffee market

1.1. Overview of the market

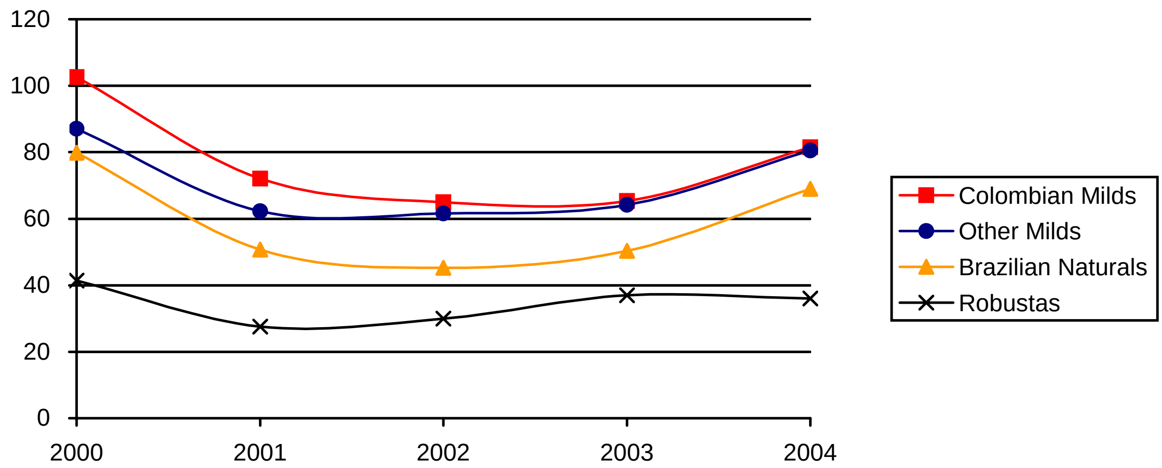
Several studies agree that the prices of the major agricultural commodities fell between 50 and 86 per cent during the last 20 years, with coffee showing the greatest fall. In the late 1980s and part of the 1990s, earnings of coffee producing countries in terms of export free on board (FOB) were around US$ 10 – 13 billion per year. By 2004, they 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. The depressed coffee prices were caused by five consecutive years (1998 / 1999 to 2002 / 2003) in which total coffee production exceeded demand.[2] There were many reasons for this trend towards oversupply. According to May, Mascarenhas and Potts, some of the principal causes included:

1. Technological innovation permitting increased production on existing coffee farms and plantations;
2. Increased plantings, particularly in Brazil and Vietnam, and
3. Low rates of global growth in coffee consumption.[3]

In 2004, however, the international coffee market showed some signs of recovery. The upward trend started in the last months of 2003, and seems to be continuing through 2005.[4] It was only in February 2005 that prices actually reached the same level they averaged in 1999 of more than US$ 85 cents per pound. The challenge for the coffee industry is how to sustain better market conditions in order to avoid a return to cycles of boom and bust. Structural changes have occurred in the coffee market as a result of depressed conditions including the exit from the industry of higher cost producers and several major developments in the retail sector, with auctions of gourmet beans and increasing quantities of Fair Traded coffee beans being sold.[5]

Not all four coffee types, as defined by the ICO, have experienced an increase in prices.[6] It was only in the first three months of 2005 that there seemed to be a slight upward trend in the prices for the Robustas Group.[7] Before that, in 2004, prices were generally lower than in 2003. It is therefore too early to tell whether one can speak of a lasting upward trend for the Robustas Group as well. Figure 1 shows indicative coffee prices over the past five years.

Figure 1: Indicator prices (US$ cents / lb)[8]



1.1.1 Market size and trends

Over 90 per cent of coffee production takes place in developing countries, while coffee is consumed mainly 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.[9]

Figure 2: Production in selected countries (in thousand bags)[10]

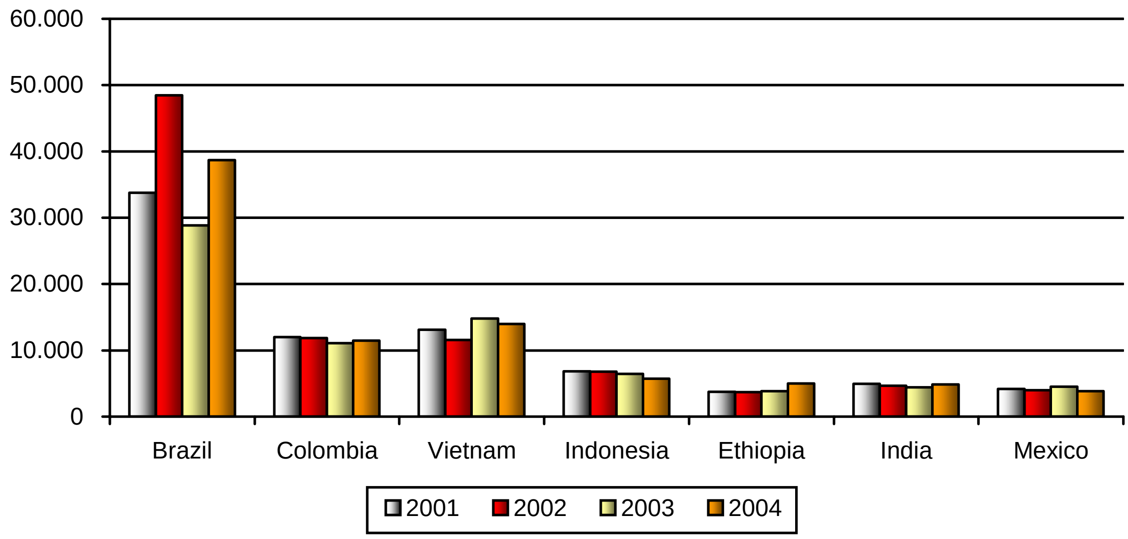
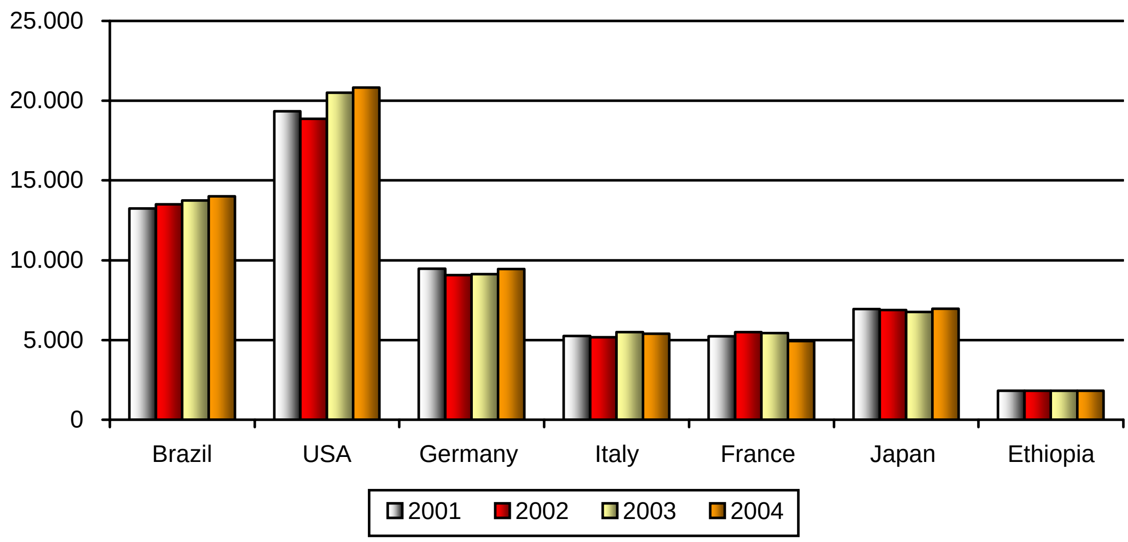


Figure 3: Consumption in selected countries (in thousand bags)[11]



Demand exceeds supply in 2005

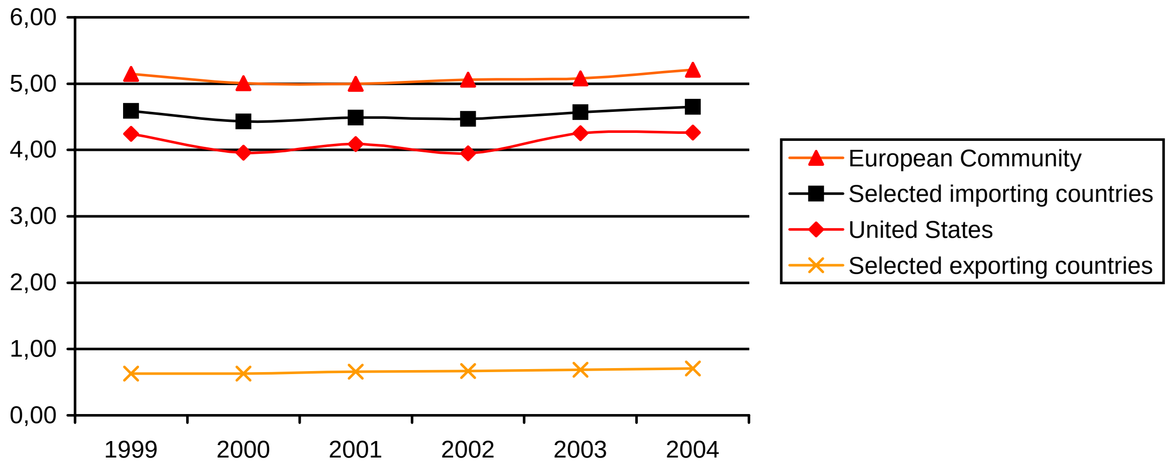
Domestic consumption in coffee exporting countries during 2004 was 28.4 million bags, compared to 28.1 million in 2003. With 14 million bags consumed in 2004, Brazil remains an exporting country with a very high level of domestic consumption. About 85.3 million bags of coffee were consumed in importing countries. Total production in crop year 2004 / 2005 is estimated to be 113.38 million bags.

For 2005 / 2006, the ICO estimates world production at around 105 million bags (due to low estimates of the Brazilian production), compared with world demand of 114 million bags.[12] This means that coffee prices will increase further in the next few years.

Per capita coffee consumption stagnates

Despite the ongoing efforts of the International Coffee Organisation (ICO) to increase coffee consumption in coffee-producing countries, emerging markets such as Russia and China and traditional markets, neither per capita domestic consumption in exporting countries nor consumption in importing countries have grown considerably in the past four years.[13] It is likely, however, that worldwide coffee consumption will grow significantly in the next few years, because of the long-expected expansion of the Chinese coffee market. The Chinese coffee market is expected to grow by 70% in total volume sales between 2003 and 2008 to reach 11,073 tonnes.[14]

Figure 4: Per capita consumption of coffee in selected regions (in kilograms)[15]



Price volatility and concentration of ownership

Over the long term, the coffee sector has suffered from a disastrous decline in prices, a process that speeded up during the 1990s. According to Kaplinsky, the sustained fall in prices can be explained by the low barriers to entry which characterise the coffee sector in particular, and many commodities in general, and which result in oversupply. Key barriers to entry for many years were the International Coffee Agreements, which limited supplies to the global market. Furthermore, Kaplinsky thinks that the increasing concentration of ownership and power at the downstream end of the coffee value chain has led to processes of price formation which explain the growing asymmetry of incomes in the coffee chain.[16] This affects small-scale producer organisations in particular. In two decades, the producers' share of total value has declined considerably: from approximately 30 per cent to less than 10 per cent.[17] The decrease in producer value is clearly linked to the increase of roaster profit margins. In paragraph 2.2. the power of roasters in the mainstream coffee value chain is discussed.

Due to the imbalance of power in the mainstream coffee value chain, farmers and their families face a whole series of obstacles, starting with the fluctuating prices for coffee on the international market. Farmers often have to accept the price offered by traders and have very little, if any, power to negotiate. Although traders squeeze extra margins for themselves out of farmers, the highest margins in the market are made, after export, by the roaster companies. Even in the worst years of the coffee crisis, roaster companies in the United States and Europe made extraordinary profits on their retail coffee business, while farmers and exporters in coffee-exporting countries made losses or at best tiny margins. This unequal distribution of value has had a disastrous effect on farmers, millers, and even exporters in developing countries. In 2002, Oxfam interviewed Peter and Salome Kafuluzi, who live on a farm in Kituntu in Uganda with 13 of their children and grandchildren. Peter told Oxfam that he could not support his family anymore, because coffee prices were the lowest he had ever seen. Salome said: “We are failing in everything. We can’t have any meat, fish, rice, just sweet potatoes, beans and matoke [cooking bananas]… We can’t send the children to school.”[18] While this was happening in many coffee-producing countries, the four main roaster companies were very profitable. Analysts estimated that at that time the operating profit margins for the beverages units of these roasters varied from 17 to 30 per cent. Roasters gain from the volumes they buy, from the strength of their brands and products, from cost control, from their ability to mix and match blends and from the use of financial tools that give them even more buying flexibility.[19]

For small-scale farmer organisations, it is often very difficult to achieve economies of scale when they have to compete with large exporters with consolidated processing and established relationships with international buyers. Oxfam has expressed its concern about direct coffee buying by multinational companies in developing countries. Rather than bringing increased benefits to producers, roasting companies buy coffee directly to sidestep intermediaries and cut their own costs by paying the same price as the local buyers. This sort of “market access” is not beneficial to smallholders.[20]

Specialty coffees

One of the most important trends in the coffee market has been the growing demand for specialty coffees. Sellers distinguish these coffees by highlighting their country of origin, by emphasizing their particular characteristics, or by showing a commitment to organic, shade-grown or Fair Trade practises. Some producer countries have benefited from the specialty market by branding local quality coffee and successfully developing a name and niche market. Examples are Colombia, with its Juan Valdez and Café de Colombia brand names, Jamaica, with its Blue Mountain brand of coffee and India, with Monsooned Malabar.[21]

Traceability

Traceability has become an important issue in the coffee industry. Increasingly, the coffee sector has begun producing goods and services tailored to the tastes and preferences of various segments of the consumer population. Consumers easily detect new product attributes. However, other innovations involve so-called "credence" attributes - characteristics that consumers cannot discern even after consuming the product. Consumers cannot, for example, taste or otherwise distinguish between oil made from genetically engineered (GE) corn and conventional corn oil. Credence attributes can be content or process:

- **Content attributes** affect the physical properties of a product, although they can be difficult for consumers to perceive. For example, consumers are unable to determine the amount of isoflavones in a glass of soy milk or the amount of calcium in a glass of enriched orange juice by drinking these beverages.
- **Process attributes** do not affect final product content but refer to characteristics of the production process. Process attributes include country-of-origin, organic, free-range, dolphin-safe, shade-grown, earth-friendly, and Fair Trade. In general, neither consumers nor specialised testing equipment can detect process attributes.

Traceability is an indispensable part of any market for process credence attributes - or content attributes that are difficult or costly to measure. The only way to verify the existence of these attributes is through a book-keeping system that establishes their creation and preservation. For example, tuna caught with dolphin-safe nets can be distinguished from tuna caught using other methods only through a book-keeping system that links the dolphin-safe tuna to the observer on the boat from which the tuna was caught. Without traceability as evidence of value, no viable market could exist for dolphin-safe tuna, Fair Trade coffee, non-biotech corn oil, country-of-origin, or any other process credence attribute. Traceability systems help create markets for foods with and without these attributes.[22]

The proliferation of standards

Standards communicate information about the credence attributes mentioned above. According to Ponte, standards systems can be classified in three broad categories: mandatory, voluntary and private. Stefano Ponte states:

> "Standards are mandatory when they are set by governments in the form of regulation. These may affect trade flows by placing technical requirements, testing, certification and labelling procedures on imported goods. Governments can rely on standard enforcement through ex post liability rules that allow punitive damages to be awarded to the buyer in case of non-compliance, or they can adopt ex ante measures - such as requiring information or banning a product not matching technical standards from being imported. In the US, ex post liability is more common, while in Europe ex ante measures are the backbone of regulation. Voluntary standards arise from a formal coordinated process in which key participants in a market or sector seek consensus. The International Standardization Organisation (ISO) has established over 7,000 voluntary standards. Some of these are also introduced as a response to consumer request (such as eco-labels), or as a result of NGO-initiatives (such as Fair Trade labelling). Sectoral organisations can also establish voluntary standards that apply to their members. Voluntary standards are usually verified through third-party auditing. Private standards are developed and monitored internally by individual enterprises. What often distinguishes them from mandatory and voluntary standards is their lack of third party verification, and a lower degree of transparency and participation by the affected stakeholders."[23]

The proliferation of standards in the coffee sector is a consequence of the need for measuring and qualifying credence attributes. Many consumers in high-income economies demand complete information on a product in order to make individual choices in relation to personal beliefs and taste preferences. As Ponte believes, "the management of standards may been seen as a question of competition and/or cooperation between the actors of a value chain, each one having only partial access to – and control of – information on the product and its related production and process methods."[24]

1.1.2 Sales channels

Most ground coffee and instant coffee is sold to end-consumers by large retailers. Retail sales of coffee (both roasted and instant) in the main importing countries are channelled through a combination of retail shops owned by the roasters themselves, their own direct sales force supplying supermarkets and hypermarkets, and wholesalers and food brokers. Supermarkets today play a much larger role in the retailing of coffee than they ever did before and brands owned by supermarkets now account for a sizeable proportion of retail coffee sales. Roasted coffee is sold in ground form or as whole bean and is packaged in various types and sizes of cans and packets. Soluble coffee is generally sold in jars, although sachets are becoming increasingly popular especially in emerging markets and in particular for the '3 in 1' products where instant coffee is pre-mixed with sugar and a creamer. There is also a strongly growing, although still small, market for ready-to-drink (RTD) liquid coffee beverages sold in cans or bottles.

Roasters have two distinct market segments:

- The retail (grocery) market, where coffee is purchased largely but not exclusively for consumption in the home;
- The institutional (catering) market, where coffee is destined for the out-of-home market e.g. restaurants, coffee shops and bars, hospitals, offices, and vending machines.

The percentage share of each segment varies from country to country, but in most retail sales for in-home consumption generally account for 70 to 80 per cent of the overall market. There are exceptions, especially in countries where there is a well-established catering trade and where eating in restaurants, bistros and cafés is part of the country's traditions i.e. Italy, Spain and Greece.

Each segment accepts a wide range of products, the quality and taste of which depend largely upon the types of coffee that make up the blends, the degree to which they have been roasted, the level of grinding, and so on. Most small roasters tend to specialise in one segment, while larger and in particular multinational roasters usually service both. The major part of the retail market is, however, controlled by a handful of large multinational roasters and the degree of concentration is increasing. Although this trend was temporarily halted by the growth in the speciality trade, it is once again accelerating with the rapid acquisition of small specialty roasters by the multinationals.[25]

1.1.3 Regulation, standards and requirements

Tariff barriers

Import tariffs on green coffee are becoming lower and less common. However, as a rule, progressive tariffs are levied on coffee that has been processed. The difference between the normal tariff rates (MFN rates – Most Favoured Nations) and the preferential tariff rates (GSP rates – Generalized System of Preferences) is often sufficient to provide some benefit. In addition, African, Caribbean and Pacific (ACP) countries which have acceded to the Cotonou Agreement with the European Union are exempt from EU import tariffs.[26] This exemption is also granted to some developing countries outside the ACP group. Of interest to coffee are Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Laos, Nicaragua, Panama, Peru, Venezuela and Yemen. The table below provides an overview of the tariff barriers currently in place.[27]

Table 1: World tariffs on processed coffee[28]

Country / area	Roasted	Decaffeinated, roasted	Soluble
United States	0	0	0
European Union	7.5% MFN	9.0% MFN	9.0% MFN
	2.6% GSP	3.1% GSP	3.1% GSP
Canada	4.15 cents / kg MFN	4.15 cents / kg MFN	14.32 cents / kg MFN
	0 GSP	0 GSP	0 GSP
Japan	20% General	20% General	12.3% General
	16% WTO	16% WTO	13.2% WTO
	10% GSP	10% GSP	9.0% GSP
Switzerland	0.69 SFr / kg MFN	0.69 SFr / kg MFN	2.13 SFr / kg MFN
	0.69 SFr / kg GSP	0.69 SFr / kg GSP	2.13 SFr / kg GSP

Quality requirements

In many producing countries the liberalisation of the coffee industry in the 1980s and 1990s meant considerable change in the way coffee was collected, processed and marketed. In some countries the situation went from total control of all aspects of the collection and marketing chain, to virtually no controls at all, referred to by some as anarchy. This is not to say that all had been well in those tightly controlled coffee industries, but quality did initially suffer in some countries. In recent years the pendulum has swung back and the need for quality standards is once again being recognized.

Quality control at the primary (farm gate) level can assume different forms:

- Government or coffee authorities attempt to 'police' harvesting, on-farm processing and drying. This is costly in terms of qualified staff and does not have a good track record.
- Penalties are imposed for lower than average quality. This is *passive* quality control: it does nothing to encourage better than minimal or average quality.
- Premiums are offered for better than average quality. This is *active* quality control: it rewards and encourages the production of better quality. It can be combined with a refusal to purchase inferior quality but this leaves open the question of what will happen to such coffee.

Different producing countries have differing quality control systems and attach differing values to certain aspects of quality. When setting quality limits one should recognise that without active quality control, such as paying premiums for better quality, the maximum permissible limit (on defects, for instance) quickly becomes the new standard. In setting export taxes care should be taken not to penalise producers of better quality who manage to obtain premium prices as a result of their effort.

Internationally, the very low coffee prices that resulted from surplus production in the late 1990s and early 2000s have brought calls for the lowest qualities to be eliminated from the market altogether, and the ICO Council passed a resolution to this effect.

Resolution 407 introduced mandatory minimum standards for coffee exports in February 2002, but this proved to be unenforceable so it was subsequently amended by Resolution 420 (May 2004) which recommends voluntary targets for the minimum quality export standards for both Arabica and Robusta. The objective remains that of halting the export of substandard beans and thereby tightening supply lines in the expectation this will help lift prices.[29]

Food safety

Safety concerns in coffee consuming countries are reflected by rules and regulations created by governments and major buyers of coffee. The most common possible health and hygiene-related hazards are described below:

→ Mycotoxins

Mycotoxins are caused by contamination by some naturally occurring moulds. Not every type of mould produces mycotoxins. Mycotoxins are 'selective' in the sense that a given type of mycotoxin occurs in specific foodstuffs: aflatoxins in peanuts, grains and milk; patulin in apple juice; ochratoxin A (OTA) in grains, grapes and derived products, beans and pulses, cocoa, coffee and others. For coffee OTA is the most relevant mycotoxin. The initial contamination of coffee with OTA takes place through spores in the air and in the ground. These spores may produce a mould but only if the right circumstances (humidity and temperature) prevail. The importance of proper moisture management throughout the entire processing and supply chain cannot be overemphasized. Farmers, middlemen and exporters have to be aware that in a shipment of coffee OTA contamination (mould) may be very localized, making sampling extremely complex. Careful inspection of visual appearance and any mouldy or earthy smells can be a useful tool for checking.

→ Pesticide residues

It is essential that coffee growers maintain chemical registers that detail, in chronological order, the type and quantities of all chemicals used and the timing of their application. Obviously only chemicals that have been approved for use on coffee may be used and then only within the withholding limits specified by the manufacturers. Exporters and shipping lines must ensure only clean containers are used, thus avoiding cross-contamination by previous cargoes.

→ Hydrocarbon contamination

This is usually caused by jute coffee bags because of the ‘batching oil’ used to soften the jute fibres before spinning. There have been instances of contaminated oil being used (old engine oil for example). The International Jute Organisation has established specifications (IJO Standard 98/01) for the manufacture of jute bags to be used in the food industry.

Standards

As mentioned before, standards communicate information about the attributes of a product. Stefano Ponte classifies standard systems in three broad categories: mandatory, voluntary and private. The distinction between these sorts of standards is somewhat arbitrary, because some voluntary standards have become mandatory in practise, which means that they are required if economic agents want to complete globally.[30] An example of a voluntary standard that is now “required” for many economic agents are the ISO 9000 standards on quality management. It is also a bit unproductive to distinguish between private and voluntary standards, considering the fact that many private enterprises borrow parts of voluntary standards. According to Ponte, “adherence to voluntary and / or private standards is often a pre-condition for the acceptability of products by consumers and / or distributors.”[31]

The following paragraphs contain basic information on three important voluntary standards for the coffee sector. Fair Trade is discussed in paragraph 1.2 and chapter 2.

→ Utz Kapeh

Utz Kapeh is a package of farm-level, brand-level and financial tools to bring social and environmental performance to the mainstream coffee market. The main instruments being used by Utz Kapeh is the Utz Kapeh Code of Conduct. Utz Kapeh (‘good coffee’ in Mayan) was developed in 1997 by a consortium of Guatemalan coffee producers and exporters and the Dutch roaster Ahold Coffee Company. The Utz Kapeh programme was based on the EurepGAP Protocol for Fruits and Vegetables. This Protocol was developed by the leading European retailers to provide basic assurance for food safety and environmentally and socially appropriate growing practices. Utz Kapeh translated the EurepGAP Protocol into a specific framework for the production of coffee. Relevant chapters and criteria from the ILO (International Labour Organisation) Conventions and the Universal Declaration of Human Rights were added later.[32]

The 2004 version of the Utz Kapeh Code of Conduct includes the following social, cultural, environmental, managerial and economical issues:

▪ Traceability	▪ Harvesting
▪ Record keeping	▪ Post harvest produce handling
▪ Varieties and rootstock	▪ Waste and pollution management
▪ Site history and site management	▪ Recycling and re-use
▪ Soil and substrate management	▪ Worker health, safety and welfare
▪ Fertilizer use	▪ Environment and conservation
▪ Irrigation / fertigation[33]	▪ Complaint form
▪ Crop protection	

In order to be recognised as an Utz Kapeh-certified producer, a coffee farmer has to comply with all the 'major musts' and with 95% of the 'minor musts' stated in the code. Minor musts are requirements of minor importance and major musts are requirements of major importance.[34]

The price of Utz Kapeh-certified coffee is determined during the negotiation process between buyer and seller. Utz Kapeh does not set coffee prices but used to encourage buyers to pay a "sustainability differential" on top of the market price and normal quality differential. The added value for brands and the real costs of compliance by farmers should lead to this Sustainability Differential.[35] An internet database provides the weekly Utz Kapeh coffee price averages, specified for every country according to demand and quality. This system provides information about the developments in the world market, the quality premium and the added value of Utz Kapeh.[36]

Brands and roasters are authorised to use the Utz Kapeh-certified responsible coffee' label if 90 per cent of the coffee in a pack is certified by the Utz Kapeh foundation. Audits are carried out annually by a third-party auditor, which reviews all the relevant data and information present at the farm or plantation.[37]

In 2004 21,300 tons were purchased as Utz Kapeh coffee.[38] In June 2005, there were 77 Utz Kapeh certified producers and producer groups.[39]

→ Rainforest Alliance

The Rainforest Alliance is the Secretariat for the Sustainable Action Network (SAN), a coalition of Latin American conservation organisations dedicated to the principles of sustainable agriculture. Together, Rainforest Alliance and SAN seek to impact tropical agriculture, producer communities, and the ecosystems that surround them through the development of certification standards that promote the needs of producer communities in tandem with the ideals of conservation. Producer groups who meet the SAN standards may be certified and use Rainforest Alliance's label in marketing their products. Throughout its certification program, the Rainforest Alliance seeks to "reverse the intensive management systems required by industrial coffee hybrids and encourage the sustainable production and harvesting of beans." Its sustainable coffee program guides and rewards continual improvements on farms, and connects responsible producers and traders with conscientious buyers and better markets. Farms that meet the comprehensive generic standards for coffee production established by the Rainforest Alliance along with its partners in the Sustainable Agriculture Network receive the

Rainforest Alliance Certified seal of approval, which farmers can use to distinguish their product in the marketplace.[40]

The standards set by SAN are designed to promote tropical conservation and steer commercial agriculture practices in the tropics. Rainforest Alliance Certified growers follow the criteria and standards designed by SAN. Rainforest Alliance verifies that certified products have been grown using environmentally responsible management practices, including integrated pest and disease management practices, soil and water conservation, some labour treatment practices and community relations. The Rainforest Alliance Certified label standards have been tailored to crops in specific regions. There are nine main criteria areas for each crop and corresponding standards that must be met. Within pest and disease management, there is also a list of pesticides that are prohibited for use and includes the Pesticide Action Network's "dirty dozen" and the red lists of the United States Environmental Protection Agency. Within water resource standards, waterways must be protected with buffer zones and monitored for contamination. Workers must be paid minimum wage and have the right to organise.

The Rainforest Alliance often accredits local organisations within the Sustainable Agriculture Network to certify according to the Rainforest Alliance Certified label program. All farm evaluations are forwarded to Rainforest Alliance for final certification approval. In cases where there are no local certifying organisations, RA will perform the certification directly.[41]

Since 1991, SAN has developed guidelines for the responsible management of export agriculture, certifying bananas, coffee, cocoa, citrus, and flowers and foliage according to environmental and social standards. Farms that meet the Sustainable Agriculture Network standards are "certified" and may use the Rainforest Alliance-certified label in marketing their products.

For coffee producers, SAN has developed generic standards for coffee farm evaluation. These standards include the following issues:

Ecosystem conservation	▪ Conserve ecosystems on and near the farm; ▪ Protect forests and reforest where possible; ▪ Prevent and control fires.
Wildlife conservation	▪ Protect and enrich habitat; ▪ Protection strategies regarding biodiversity and endangered species; ▪ Proper location of farms.
Fair treatment and good conditions for workers	▪ Employment policies should improve the standard of living for workers and their families (compliance with the relevant national legislation, ILO Conventions, other international conventions ratified by the national government and the SAN Standards); ▪ Contracting labour: no discrimination, direct hiring, minimum wages, no child labour and prohibition of forced labour; ▪ Freedom to organise, freedom of opinion; ▪ Occupational health and safety; ▪ Housing and basic services.
Community relations	▪ Consultation of communities; ▪ Respect for community resources;

	▪ Community development; ▪ Possession and use of land: obligation to prove ownership or long-term right to use the land; ▪ Shared resources and responsibilities; ▪ Environmental education.
Integrated crop management	▪ Integrated pest management; ▪ Permitted and prohibited agrochemicals; ▪ Transport, storage and application of agrochemicals.
Complete, integrated management of wastes	▪ Reduction, reuse; ▪ Recycle; ▪ Appearance; ▪ Final disposition of wastes.
Conservation of water resources	▪ Protect waterways, rational use, contamination in bodies of water; ▪ Treatment of residual waters, monitoring, aquifer protection.
Soil conservation	▪ New farms: agriculture must be located on suitable lands; ▪ Erosion control, soil management.
Planning and monitoring	▪ Planning: the producer must present a plan of objectives, goals, responsibilities and a calendar of activities.
Monitoring	▪ Implementation of a monitoring system.

Until February 2005, the Rainforest Alliance had certified 2,608 operations and 129,097 hectares in Brazil, Costa Rica, Colombia, Ecuador, Guatemala, Honduras, Nicaragua, Panama, The United States (Hawaii), Mexico and El Salvador. In total, RAN had certified 54,130 hectares of coffee.[42] Producers ranging from large agribusinesses to smallholder cooperatives can join the initiative, although it seems as if RAN currently only certifies farms in South, Central and North America.

No premium price is paid for Rainforest Alliance certified coffee. While Fair Trade is an alternative marketing system designed to give disadvantaged farmers a guaranteed price for their products and focuses on the ways in which small farmers are organised and on how agricultural products are traded, Rainforest Alliance standards promote sustainable farm management. The Rainforest Alliance states that: “The certification process benefits farmers by increasing efficiency, reducing costly inputs and improving farm management. Farm workers benefit from a cleaner, safer, more dignified workplace where their rights are respected. Certified farmers have better access to specialty buyers, contract stability, favourable credit options, publicity, technical assistance and premium markets. The Rainforest Alliance and SAN members are not directly involved in the negotiations between farmers and their product buyers. Most farmers are able to utilize their certification to receive a price premium.”[43]

All standards on fair treatment and good conditions for workers are in accordance with the relevant ILO Conventions. However, no reference is made to the payment of living wages. The environmental standards in the SAN Generic Standards for Coffee are high and focus on sustainable coffee production. The environmental impact of the production process is controlled by standards on community relations and ecosystem conservation.

The whole certification process is carried out by SAN members. In view of the fact that the Rainforest Alliance is also a member of the Sustainability Agriculture Network, the certification process is not executed by an independent third party.

→ Organic

Organic agriculture is a production management system that promotes and enhances biodiversity and soil activity. It is a system that relies on ecosystem management rather than external agricultural inputs. This system excludes the use of synthetic inputs, such as synthetic fertilizers and pesticides, veterinary drugs, genetically modified organisms (GMOs), preservatives, additives and irradiation. Though methods of organic farming may vary slightly, they largely follow the standards set forth in the IFOAM Basic Standards for Organic Production and Processing (IBS). National regulations, the European Union regulation for organic farming and the Codex Alimentarius Guidelines for organic production are very similar to the IBS. Within this framework, farmers develop their own organic production system, determined by factors like climate, crop selection, local regulations, and the preferences of the individual farmer.

In general, a grower or processor of organic coffee may be certified by a public or private certification company if, among others, the following standards and procedures are met:

- Coffee is grown without the use of synthetic agro-chemicals for three years prior to certification;
- Farmers and processors keep detailed records of methods and materials used in coffee production and management plans;
- A third-party certifier annually inspects all methods and materials.[44]

The organic coffee market has experienced sustained growth rates in the last ten years in many high-income countries. Many supermarket chains have used organic coffee as a marketing tool to attract new customers. Since organic products are sold at a premium at the retail level, it has been possible to generate higher margins for all those involved in the marketing chain. However, not all participants in the marketing chain obtain premia on an equal basis. In most European countries, organic coffee is sold mainly in natural food stores and world shops. In some countries, such as Germany, Switzerland, The Netherlands and Denmark, organic coffee is also sold in supermarkets.[45]

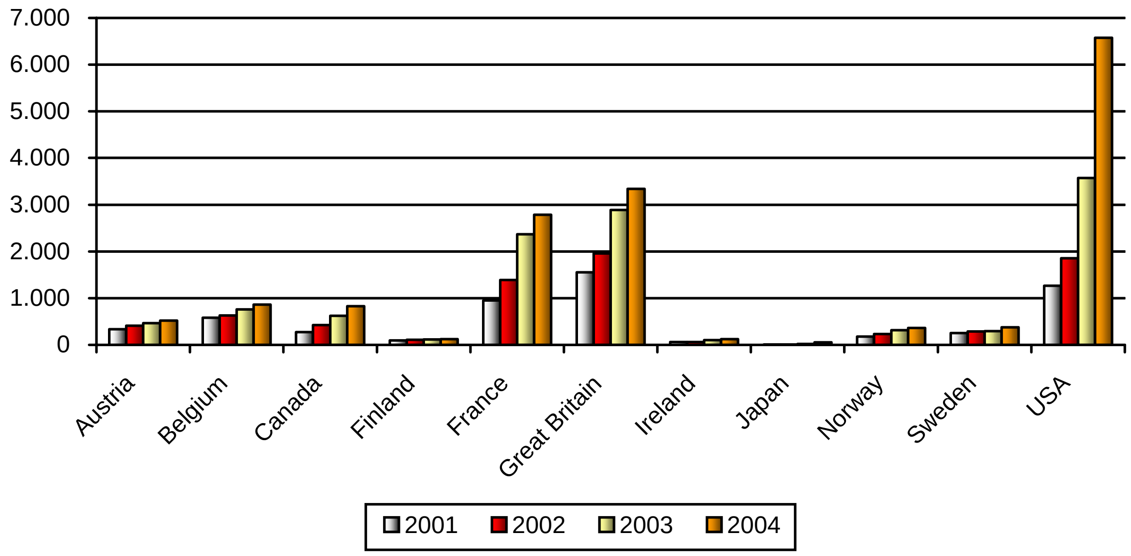
There seems to be no sound data on the consumption of organic coffee. Existing estimates are outdated and tend to vary enormously.[46] Scholars and researchers agree that the market for organic coffee has grown, but most are unable to back up this assumption with empirical evidence. According to estimates of the International Trade Centre, the worldwide consumption of organic coffee in 2002 / 2003 was about 38,820 tons or 720,000 bags.[47] Another estimate of the organic coffee sales in selected European countries for the year of 2001 shows a market of 10,400 tons.[48] Ponte extrapolates the latter estimate and concludes that the organic coffee market in 2004 “should be around 26,000 tons, of which 2,100 tons will be Robusta.”[49] One thing that can be said with certainty is that the quality of organic coffee has improved enormously in the last few years. At the same time, according to Ponte, increased supply has led to low premia.[50] Stefano Ponte believes that some of the larger roasters may move into organic coffee because of this. At the same time, organic farmers may be less committed and motivated to comply with the high standards for organic coffee as price premia keep decreasing.[51]

1.2. Fair Trade Market

Since the 1970s, the Fair Trade market has achieved widespread acceptance. In the last three decades, it has provided considerable support to hundreds of thousands of small-scale producers in many coffee-producing countries. Fair Trade can be defined as "a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers - especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade".[52]

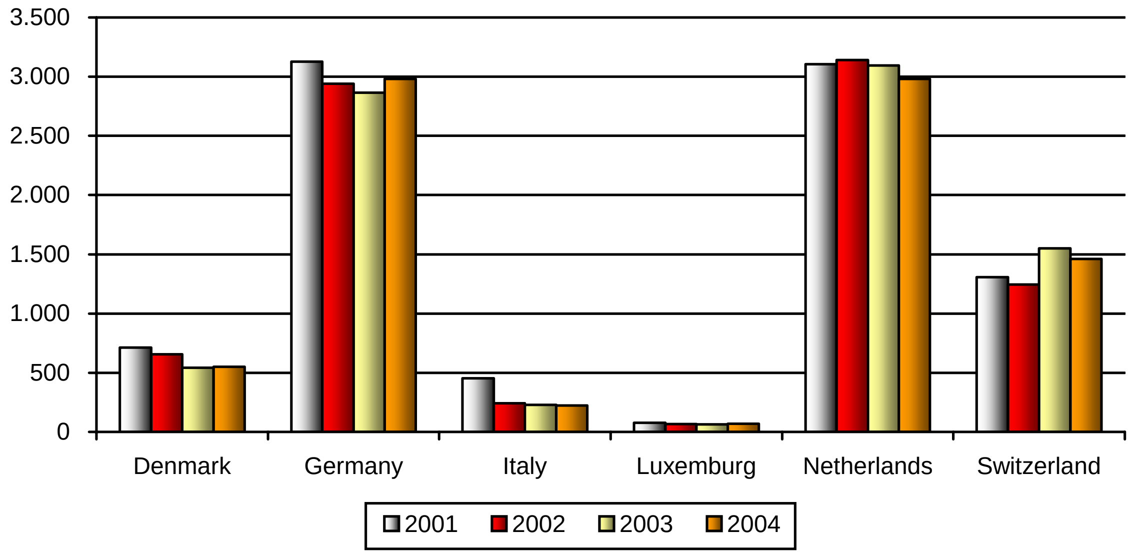
In the late 1980s after the collapse of the International Coffee Agreement, when coffee prices went into steep decline, a group of Alternative Trade Organisations (ATOs) and Non Governmental Organisations (NGOs) in the Netherlands founded the world's first Fairtrade labelling initiative. It was called "Max Havelaar" after the fictional Dutch character who opposed the exploitation of workers on coffee plantations in the Dutch colonies. In 1997, Max Havelaar (which by then had foundations in Switzerland, France, Belgium and Luxembourg as well as in the Netherlands) joined with the Fair Trade Foundation in the UK and Transfair (Canada, United States, Italy, Luxemburg and Germany) to form Fair Trade Labelling Organisations International as the international umbrella organisation for Fairtrade labelling. The purpose of Fairtrade labelling is to get small producers a better price for their coffee and greater opportunities for their communities. Policies, labelling, certification and inspection have been harmonised under the Fairtrade Labelling Organisation International (FLO).[53] At present, FLO-International represents 17 Fairtrade Labelling Initiatives. There are Fairtrade Labels on dozens of different products, based on FLO's standards for coffee, tea, rice, bananas, mangoes, cocoa, sugar, honey, fruit juices and footballs. FLO is constantly expanding its product standards and should soon include other fresh fruit, wines, nuts, oils and in the years to come more non-food products as well.[54]

Figure 5: Growing markets for Fair Trade coffee: total sales volume of roasted coffee in metric tons[55]



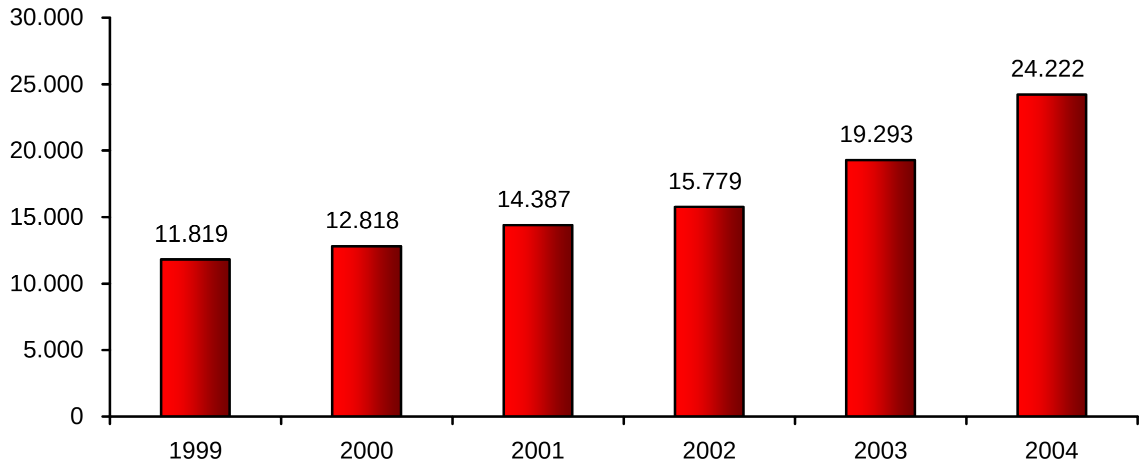
Fairtrade labelled coffee is sold in all FLO member countries.[56] Coffee is the best known Fairtrade labelled product among consumers in Europe, North America and Japan. It was also the first product to carry the Fairtrade label.[57] While some national markets have grown considerably in the last few years, other traditional Fair Trade markets for coffee show signs of stagnation and decline.

Figure 6: Stagnating and declining markets for Fair Trade coffee: total sales volume of roasted coffee in metric tons[58]



According to estimates from the Department of Certification of TransFair USA, the market share of Fair Trade coffee in Europe and the United States have not been higher than 3.7 per cent in 2002 and 2003. In 2002, 3.7 per cent of all coffee sold in The Netherlands was Fair Trade coffee. Max Havelaar in Switzerland attained a market share of 3.4 per cent for Fair Trade coffee in 2003.[59] Despite stagnating or declining sales in some former strongholds for Fair Trade coffee, the overall sales of Fair Trade coffee worldwide have increased in the period from 1998 to 2004. Booming sales in France, Great Britain and the United States helped to achieve a considerable increase in the overall result over the past three years.

Figure 7: Fairtrade coffee sales volume of roasted coffee in metric tons, 1999 - 2004[60]



FLO International works with 197 coffee producer partners in Africa, Asia and Latin America. Many of these producer partners export directly themselves. An additional 33 export partners are FLO registered. More than a hundred importers, manufacturers, roasters, distributors and 402 licensees in the 17 national member countries are included in the FLO Fairtrade system.

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. FLO guidelines also require that producers follow some basic guidelines in terms of minimal use of agro-chemicals and environmental protection. So far, these guidelines have not been strictly enforced, although they are likely to become more prominent.

Fair Trade requirements for producer organisations are divided into two parts: (1) minimum requirements, which all producer organisations must meet if they want to join the register (or that they have to meet within a specified period); and (2) process requirements, on which producer organisations must show continuous improvement. Minimum standards are meant to ensure that Fair Trade benefits reach small-scale farmers and/or workers; that the farmer organisation has potential for development; and that the Fair Trade instruments can take effect and lead to a development which cannot be achieved otherwise. The degree of progress which FLO requires from each producer organisation depends on the level of economic benefits it receives from Fairtrade and on its specific context. Producers' organisations are regularly inspected for compliance with these requirements.

Fair Trade *importers* have to comply with a set of FLO standards as well: (1) they must buy directly from the FLO-registered producer association on the basis of multi-annual contracts; (2) they must pay an FLO determined minimum price and a social premium to the producer organisation, plus an extra premium for organic coffee; (3) they must offer pre-financing for 60 per cent of the contract value on the request of the producer organisation.[61]

The labelled Fair Trade farmers are guaranteed a premium over the coffee price on the world market. The idea behind the payment of premium prices is that smallholder farmers should be able to afford basic healthcare, education and housing improvements for their families and further sustainable business development of their farms.[62]

Fairtrade's fixed minimum prices vary according to the type and origin of the coffee. The minimum prices in the following table include quality differentials, the fixed FLO-international premium of US$ 0.05 per lb (pound) and an organic premium of US$ 0/15 per lb. All prices are in US dollar per pound FOB port of origin.[63]

Table 2: Fair Trade minimum prices (US$ / lb, green coffee)

	Conventional		Certified organic		Fairtrade premium
Type of coffee	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
Unwashed Robusta	US$ 1.06	US$ 1.06	US$ 1.21	US$ 1.21	US$ 0.05

If the market price is higher than the Fairtrade minimum price, the market price applies. The Fairtrade premium is paid on top of the market price.

In addition to the requirements mentioned above, Fair Trade importers also provide technical support to producer organisations and play an advocacy role for producers in national and international fora. Producer organisations are regularly assessed against a set of standards by FLO inspectors. One of the main criticisms that used to be levied against the Fair Trade system was that FLO was both the custodian and the certifier of the standard, while in other systems the two functions are kept separate. This has now changed as the former FLO Certification Unit, now FLO-Cert Ltd, has become a limited company to make certification and trade auditing operations more transparent. A major difference between Fair Trade and other sustainability certifications is that Fair Trade attempts to address power relations in trading, rather than putting the responsibility for matching a set of standards on the shoulders of producers, as often happens in other kinds of environmental and social certification.[64]

2. Value chain analysis

2.1. Introduction

Coffee producers are locked into production chains: their produce reaches consumers in different countries having passed through the hands of intermediaries. Each of these intermediaries adds value to the final product. The concept of the value chain describes input and output relationships and identifies key actors who play a critical role in coordinating production in the chain. Through value chain analysis, researchers try to define who is to perform what role, what standards are to be met in participating in the chain and who influences the distribution of returns among the various parties participating in the chain.[65] Many actors in the Fair Trade movement believes strongly that “value” and “returns” are not just the cash price or wage received by the farmers and processors or, indeed, the profits made by the companies controlling the processes or the price paid by consumers at the end of the chain.

Most global chains are characterised by the participation of many intermediaries and the use of undue power by one or more actors. These actors are called “chain governors”. According to Raphael Kaplinsky, it is precisely the idea of chain governance that distinguishes value chain analysis from supply chain research.[66] Gary Gereffi identifies two major types of governance structures in global commodity chains: producer-driven and buyer-driven chains. A third type, that began to develop in the mid-1990s, is oriented around the internet.[67] In general, developing countries producing for global markets sell into buyer-driven chains.

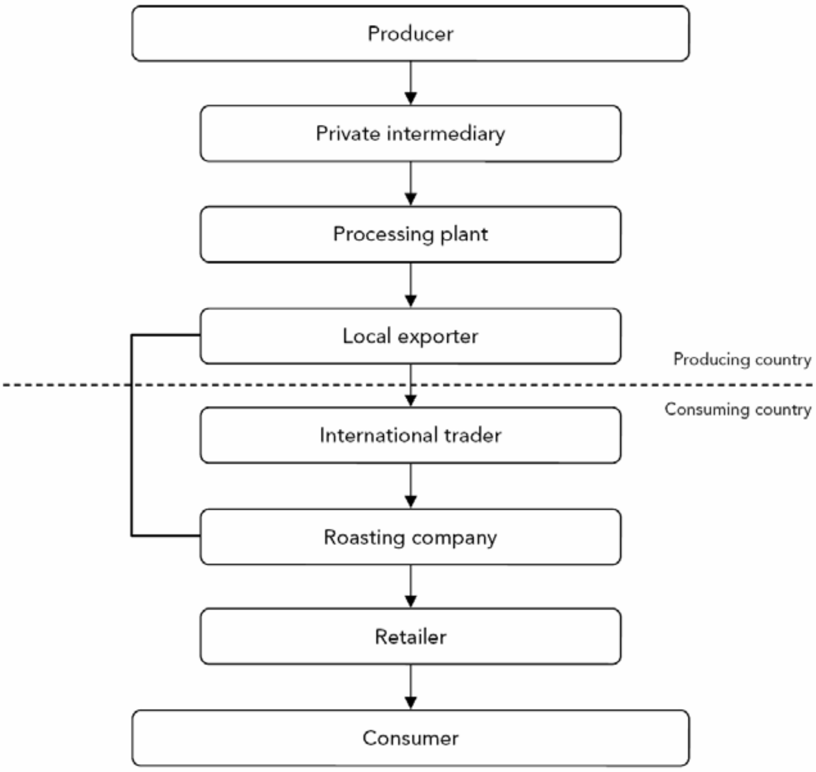
Standards are increasingly important in global value chains. Producers that participate in these chains are increasingly required to conform to an ever-growing number of standards. Some of these standards govern production processes and are set by international organisations, such as ISO. Other process standards reflect the specific requirements of the chain governors, such as those which enable traceability (see 1.1.1. Market size and trends) or which determine delivery and quality schedules.[68]

2.2. Mainstream coffee value chains

The coffee chain breaks down into a number of major stages. After the coffee cherries are harvested, they can enter one of two basic processing routes – the wet or the dry process. This is invariably performed on or near the farm itself. The resulting parchment coffee then has to be milled. Here 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 green coffee 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 economy, roasted ground coffee is by necessity almost always located near the final consuming market.[69]

The supply chain for mainstream coffee can contain many linkages. According to Milford, it is said that a coffee bean may change hands as many as 150 times from producer to consumer.[70] In a simplified mainstream coffee supply chain, primary 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 purchase the coffee from the international traders, and sell it on to retailers, such as supermarkets, restaurants and hotels. This how the coffee finally reaches the consumers.

Figure 8: The mainstream coffee chain[71]



In the period from 1962 to 1989, the international coffee market was regulated by the International Coffee Agreement (ICA). In accordance with this agreement, quotas were distributed to members of the International Coffee Organisation (ICO) in order to maintain prices stable. Stefano Ponte argues that the collapse of the ICA regime and increased consolidation in the coffee industry have affected the distribution of total income generated along the coffee chain. It is estimated that in the 1970s an average of 20 per cent of total income was retained by producers, while the average proportion retained in consuming countries was almost 53 per cent. In the period from 1980 / 1981 to 1994 / 1995, producers still controlled almost 20 per cent of total income; 55 per cent was retained in consuming countries. After the breakdown of the ICA regime in 1989, the situation changed drastically. Between 1989 / 1990 and 1994 / 1995, the proportion of total income gained by producers dropped to 13 per cent; the proportion retained in consuming countries increased to 78 per cent.[72] If these estimates are correct, one must conclude that there has been a substantial transfer of resources from producing to consuming countries, irrespectively of price levels. It is very likely that the share of income retained by producers has diminished further in the period from 2001 to 2003, in view of the situation of oversupply and extremely low prices for green coffee, and the ability of roasters to maintain retail prices at relatively stable levels.[73]

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. Ponte argues that this kind of barrier used to be set by governments on the basis of political negotiation under the ICA regime.[74]

Historically, four major parties have played key roles in the coffee industry. The farmers have obviously been central to the chain, and most of these growers have been operating at a small or medium scale of operations. In most producing countries, the second party of significance has been one of a number of forms of marketing boards and producer associations, who have been responsible for many of the non-farm activities in the producing countries – milling, buying, exporting, and so on. Thirdly, there have been 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 have branded and sold the coffee on to retailers.[75]

Until the mid-1990s, the only real signs of chain governance were the various forms of marketing boards. In contrast to the marketing boards, global traders and roaster seldom got involved in chain governance and preferred to "operate on an arms-length basis in global markets".[76] Following the dissolution of the marketing boards, new forms of chain governance emerged. In the 1990s, five traders together controlled the majority of imports into the key coffee consuming countries. Currently, the trading stage of the chain is even more concentrated, with just three companies dominating:

- *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).
- *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).[77]

The roasting stage of the coffee chain also presents a high level of concentration. The high promotional costs in brand development and marketing have originated 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 dominate the coffee 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 Brasil, Sara Lee owns the Café do Ponto and Pilão brands.[78]

Value chain research undertaken by Karen St Jean-Kufuor in 2002 for Oxfam and research by Bill Vorley for the UK Food Group disclosed how the imbalance of power ("the bottleneck") in the coffee value chain put producers at a disadvantage.[79] For coffee which left the farm or plantation as "fresh cherry" valued at US$ 0.06 / kg and retailed at US$ 3.57 / kg, the margins per kilogram along the chain were calculated as follows:

Wet processor, incl. costs	US$ 0.04
Trader	US$ 0.0005
Processor (hulling), incl. costs	US$ 0.04
Dealer	US$ 0.02
Roaster, incl. costs	US$ 1.217
Retailer, incl. administration	US$ 1.10

Through the construction of a indicative value chain, St Jean-Kufuor found that farmers who did no processing to their coffee cherries got just 6.5 per cent of the final retail value. Research carried out by other experts result in a similar percentage. In a report published on the occasion of the fifteenth birthday of Max Havelaar, Fenny Eshuis and Jos Harmsen demonstrate 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.[80] This means that the producer would obtain 6.37 per cent of the retail value. Eshuis and Harmsen presented the following distribution of value along the mainstream coffee chain:

	Mainstream coffee	Percentage
Retail price	**€ 1.57**	**100 %**
VAT (6% in the Netherlands)	€ 0.09	5,73 %
Margin distribution, costs of roasting, storage, (sea-)transport, financing, margin roaster and importer	€ 1.20	76.43 %
FOB price	**€ 0.28**	**17.84 %**
Structure purchasing price coffee (FOB):		
Export taxes and other fees	€ 0.01	0.64 %
Costs of processing, financing, transport, bags and other trading expenditures, including trade margin	€ 0.17	10.83 %
(Gross) income producer organisation	**€ 0.10**	**6.37 %**

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.

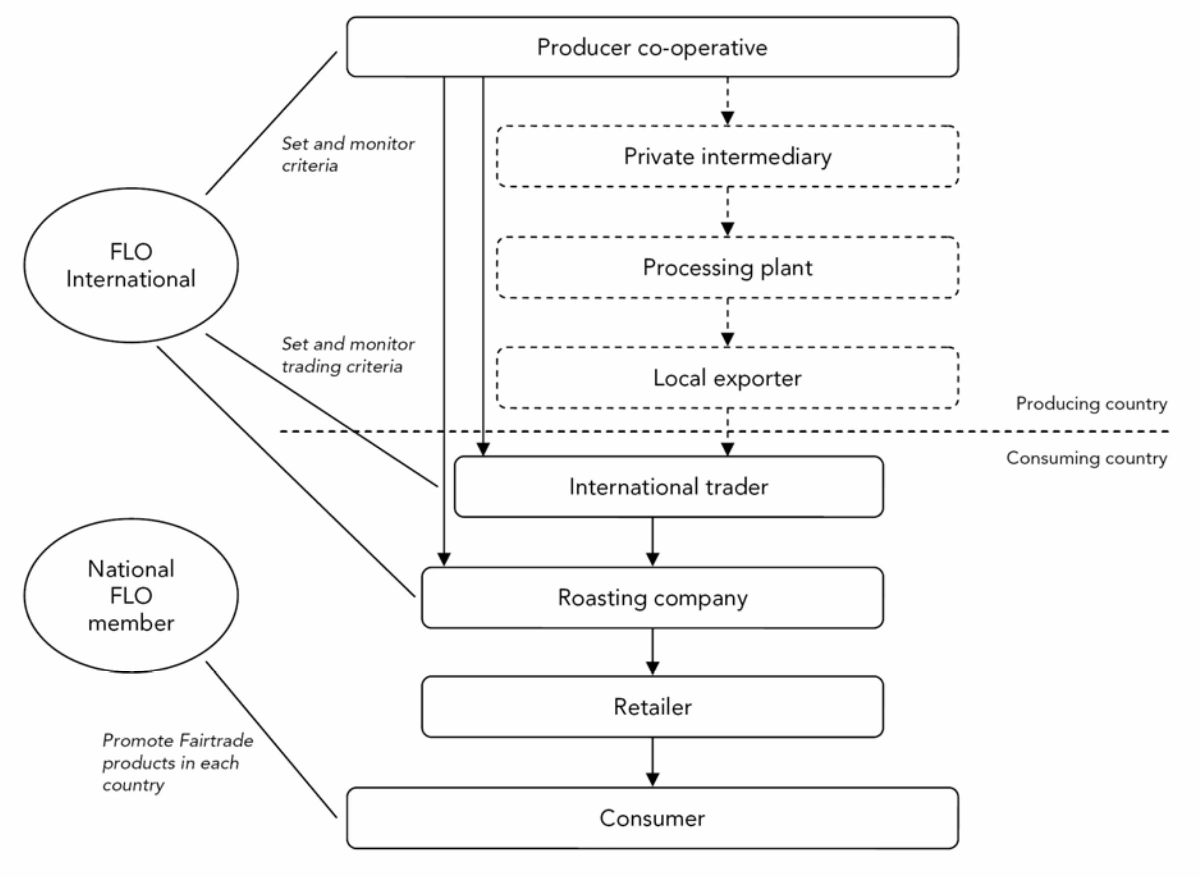
2.3. Fair Trade coffee value chain

The Fair Trade system is based on partnerships between alternative trade organisations, such as Twin Trading, GEPA and Equal Exchange, and producer organisations. Producer organisations registered with Fair Trade Labelling Organisations International (FLO) sell their coffee directly to a licensed international trader or roasting company based in a consuming country. In the late 1980s, the alternative trade organisations started to label Fair Trade products (mainly coffee at that time) through Fair Trade labelling organisations – such as Max Havelaar and the Fairtrade Foundation). Labelling organisations are national-level initiatives which licence the use of Fair Trade labels by importers. These organisations promote Fair Trade products to retailers and consumers. They are not involved in trading products. Fair trade labels are now used both by conventional companies and alternative trade organisations licensed by one of the national initiatives. Labelling is meant to guarantee that the product has been produced and traded according to pre-defined social, contractual and environmental standards, including the payment of the agreed FLO-determined minimum price. This price is not only intended to provide a better return to the producer, but includes a "social premium" to be used by producer groups for social development activities.[81]

To ensure the dedicated portion of the price paid by consumers for a Fairtrade Product effectively reaches the producer, FLO and the national Fair Trade initiatives exercise control over the whole Fair Trade value chain by only licensing trading companies willing to respect the Fairtrade Trading Standards. These standards regulate the relationship between traders and producers (payment of a minimum price covering costs of sustainable production and living, payment in advance if necessary, signing of long-term contracts). One of the key actors in the Fair Trade chain is the licensee, defined as a company - usually a retailer - that has entered into a License Contract with a FLO National Member for the use of a Fairtrade Label on the product for final sale to consumers. FLO sets initial certification fees to be paid by producers, according to their size (in terms of employees) and their nature (plantations or co-operatives). The fee ranges from € 2,000 to € 5,200. The fee for certification renewal depends on the volume sold in the previous year and the kind of product.[82]

The Fair Trade coffee supply chain is characterised by the absence of 'superfluous' linkages. The following chart depicts an indicative Fair Trade supply chain for coffee.

Figure 9: The Fair Trade coffee chain[83]



Producer co-operatives obtain a fair minimum price for their produce, which covers the costs of sustainable production and a proper standard of living (see table 2). These minimum prices are virtually the same for all regions in the world. No distinction is made between countries like Colombia and Brazil (both in the category South America and Caribbean) or Guatemala and Mexico (both in the category Central America, Mexico and Asia). When international coffee prices exceed the Fair Trade minimum prices, all producer organisations receive a fixed premium of US$ 0.05 per pound on top of the market price. Besides abiding by established 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. Traders also have to provide the exporting producer organisations with a pre-payment of up to 60 per cent of the contract value.

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. According to Eshuis and Harmsen, in 2002 the price structure of a package of 250 grams of Fair Trade coffee sold in the Netherlands was as follows[84]:

	Max Havelaar (Fair Trade)	Percentage
Retail price	**€ 1.99**	**100 %**
VAT (6% in the Netherlands)	€ 0.11	5.53 %
Licence fees	€ 0.05	2.51 %
Margin distribution, costs of roasting, storage, (sea-)transport, financing, margin roaster and importer	€ 1.04	52.26 %
FOB price	**€ 0.79**	**39.70 %**
Structure purchasing price coffee (FOB):		
Export taxes and other fees	€ 0.04	2.01 %
Costs of processing, financing, transport, bags and other trading expenditures, including trade margin	€ 0.17	8.54 %
(Gross) income producer organisation	**€ 0.58**	**29.15 %**

Some costs still have to be deducted from the gross income of the producer organisation. Co-operatives can decide autonomously how to distribute the income they receive. Usually organised smallholders pay membership fees to the co-operative. Investments are often made collectively.

The precise amount of direct extra additional income a farmer receives through Fair Trade is difficult to calculate. Payments to smallholder farmers vary according to the co-operatives' handling of debt servicing, co-operative expenses, distribution of Fair Trade social premiums etc. Moreover, most co-operatives are unable to sell all their members' coffee through Fair Trade channels and have to sell the remainder at regular prices.

According to the Fair Trade Research Group of the Colorado State University, revenues for Fair Trade coffee are roughly twice the street price for conventional coffee, even after subtracting costs for co-operative management and other expenses. The members of the Majomut Co-operative in Mexico, for example, harvest an average of 1,500 pounds, for which farmers earned US$ 1,700 for organic certified coffee, compared to the local price of US$ 550 (for coffee sold to local intermediaries nicknamed *coyotes*).[85] The Majomut Co-operative annually sells about 60 per cent of its coffee through Fair Trade.[86]

There are many non-financial returns for small-scale farmers in Fair Trade. Although these returns usually are not mentioned in conventional value chain research, it is important to mention these non-financial benefits in this study. In the next chapter, key aspects of the intrinsic value of Fair Trade will be discussed.

2.4. Important aspects of the Fair Trade coffee value chain

2.4.1 Role of co-operatives in the Fair Trade system

The organisational form of a co-operative is considered ideal by many people in the Fair Trade movement. "Co-operatives bring people together for economies of scale", says Martin Malila from the Machakos District Co-operative Union in Kenya.[87] The economies of scale can add significant value to the producer level. According to Guillermo Denaux Jr., from FLO International, several Mexican co-operatives have come together to export their produce jointly. This can reduce significantly the costs of exporting to consuming countries.[88]

Coocafé in Costa Rica

Founded in 1988, Coocafé is one of the most established Fair Trade co-operatives in the world, with exports to Europe, Canada and the United States is Coocafé in Costa Rica. Through a variety of social programmes and entrepreneurial opportunities, Coocafé is committed to improving the lives of its 3,500 members and their families.[89] Coocafé is a second level organisation of nine co-operatives and produces 263 containers of coffee each year.

When Coocafé started to sell coffee through the Fair Trade system, it decided to pass 70 per cent of the additional benefits to the nine member co-operatives. The remainder was deposited in a development fund and a social fund, which increased rapidly year after year. With the resources from these funds, Coocafé was able to:

- Invest in education: Through its *Hijos del Campo* (Children of the Countryside) foundation, the co-operative has provided about 1,500 direct scholarships for students and funded 224 local schools.
- Encourage democratic participation: Coocafé has representatives on all of Costa Rica's coffee boards. In addition, it represents the small-scale farmer perspective before the International Coffee Organisation.
- Promote environmental initiatives: Through its environmental programs, the co-operative has converted approximately 1,200 acres of coffee to organic production and reforested nearly 14,000 acres of land. Café Forestal, a co-operative-sponsored non-profit organisation, has funded the construction of water tanks and natural erosion barriers.

In 1994 Coocafé started to stimulate its members to diversify. Coopesarapiqui, one of the nine coffee co-operatives, got the idea to make chips out of cassava and bananas. For this purpose it founded a new co-operative called Coopesanjuan. Traditionally, cassava was only planted for the producers' own consumption. Coocafé encouraged the farmers to plant more cassava. The surplus production is now used to make chips. Oxfam – Wereldwinkels in Belgium helped the co-operative to develop the product and to gain experience in exporting.[90]

Currently, Coocafé produces excellent specialty coffee. In 2003, a Coocafé blend earned a second place at the Costa Rican cupping pavilion of the annual conference of the Specialty Coffee Association of America (SCAA).

With regard to the impact of the Fair Trade co-operatives in the mainstream coffee value chain, evidence can be found that the premium paid by FLO to the producer co-operatives has a positive impact on the general price level for all coffee-producing farmers. Recent research undertaken by Anna Milford demonstrates that the characteristics that can lead to oligopsony or monopsony are present in many coffee producing countries. Oligopsony is a market situation in which each of a limited number of buyers is strong enough to influence the market but not strong enough to ignore the reaction to such influence by his competitors. Monopsony is a market situation in which there is a single buyer for a given product or service from a large number of sellers. As a consequence, one or a very small amount of omnipotent buyers can determine price levels and trading conditions. The co-operative Fair Trade price level is much higher and obstructs the situation of oligopsony or monopsony. Based on the outcomes of a case study in Chiapas, Mexico, Milford states that "the coffee co-operatives seem to have a pro-competitive effect, as price levels offered by private purchasers are higher in areas with co-operative presence than in areas where there are no co-operatives."[91] Furthermore, the co-operatives that engage in Fair Trade represent a "barometer of exploitation" for non-members. It shows them the extent to which they are exploited by intermediaries and stimulates them to create new co-operatives. In order to avoid this degree of organisation, private purchasers may eventually decide to offer better prices.

Several common factors contribute to the success of Fair Trade co-operatives: a well-defined sense of identity, a long process of establishment and development, and a capacity to innovate individually and as an organisation. In many successful producer organisations, there has been a strong leadership, full of vision and energy, able to pull together the individual contributions of producer group members.[92]

2.4.2 Smallholders versus large-scale producers

Fair Trade remains the only sustainability initiative in the coffee sector that clearly benefits small-scale producers. Most of the standards that have been raised do not deal with the problem of inequality between producer groups. In general, higher standards are not rewarded with higher prices to producers. Estate owners might be able to invest in certification or labelling processes, but most small-scale producers simply do not have the financial resources to pay for this. Utz Kapeh started off with the idea of paying a low guaranteed premium at times of very low market prices, but seems to have abandoned it. On its website, Utz Kapeh states: "The Utz Kapeh premium is explicitly determined in a negotiation process between the buyer and seller. Utz Kapeh does not interfere in these price negotiations."[93] The added value for the producer in the Utz Kapeh system is the difference between the agreed price and the price that same coffee would have received if it were not certified. This means that a producer has to invest in the Utz Kapeh certification process without the certainty that his investment will render any return in the future. It is not very likely that smallholders at subsistence level are able to make such investments.

In most sustainability schemes for coffee, one group of producers is disproportionately rewarded in comparison to another. Smallholders emerge as main beneficiaries only in Fair Trade and, to some extent, in organic certification. In the case of Utz Kapeh and shade-grown coffee, estates seem to have benefited far more than small-scale farmers and smallholder organisations.[94] Therefore, it is essential that Fair Trade continues to empower small-scale producers. For this group of producers, access to other sustainability initiatives tends to be arduous.

Within the Fair Trade movement, there are basically two distinct views on what Fair Trade is or should be: (1) Fair trade should be a development model and (2) Fair trade should be a general market standard. Of the two views, the former represents the idea that small-scale farmers should be empowered and given access to the market. The latter represents the perspective of some relatively new actors in the Fair Trade movement, such as multinationals and other labels. According to these new actors, Fair Trade should be open to all producers and traders. For the future of the genuine Fair Trade movement, with the clear objective of fighting poverty, it seems essential to continue to see Fair Trade as a development model for small-scale producers rather than a market standard amongst many other sustainability and quality standards.[95]

Prodecoop in Nicaragua

The experience of Prodecoop, a group of 40 co-operatives and 2,318 families, shows the importance of Fair Trade's focus on small-scale farmers. The members of Prodecoop are former landless farmers. Most of these farmers do not own more than two hectares of land. After the elections of 1990, the Nicaraguan state monopoly on the export of coffee was lifted, which allowed co-operatives to export coffee themselves. In 1993 several small co-operative organisations, often with less than 30 members, founded Prodecoop. In 2003, Prodecoop sold almost four millions kilos of coffee under Fair Trade conditions, which yielded about US$ 2,000,000 more than coffee sold on the mainstream market. The revenue from Fair Trade sales enables Prodecoop to support many social and quality control programs, including:

- A scholarship program that has provided dozens of scholarships to members' children so that they can attend primary and secondary school. Prodecoop has provided books and backpacks to over 2,000 students;
- An organic production program;
- The establishment of 13 maintenance facilities for de-pulping machines, a dry mill, and three storage facilities;
- A revolving social fund for building and improving members' homes, disaster relief, healthcare, and necessary infrastructure projects;
- Creation of a quality control centre and cupping lab.

The words of Alexa Marin Colindres, one of Prodecoop's members, demonstrate how Fair Trade has improved the lives of the small-scale farmers of the small-scale farmers that participate in this co-operative: "With Fair Trade income we have made improvements to our community. Before we slept on the ground and did not have basic amenities. Now some of us have floors, some furniture, sanitary services, and potable water. If we sold all of our production at Fair Trade prices our dreams would come true."[96]

The co-operative now produces coffee of the highest quality, of which 45 per cent is organic. In 2004, its members participated in the Nicaraguan cupping competition, "The Cup of Excellence", in which Prodecoop was awarded five of the top ten quality awards.

2.4.3 Access to finance and lasting liquidity

The core demand of small-scale farmers is to receive a price for their coffee that covers production costs and some level of investment and savings. Farmers stress that they need to be compensated for the added costs of compliance with sustainability certification programs like organic, Rainforest Alliance, shade-grown, Utz Kapeh and others.

Jeronimo Bollen, President of Manos Campesinas.

The price premium is a very important aspect of Fair Trade. 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."[97]

Fair Trade importers are required to offer pre-financing for 60 per cent of the contract value upon request from the producer organisation. For the co-operatives, this is very important because it sometimes allows them to build up a small working capital to invest in quality improvements, differentiation, technical support etc. Co-operatives do not always manage to do this with the price premium they receive. The main reason for this is that the majority of co-operatives only sell part of their produce to Fair Trade registered buyers. The rest is sold under normal market conditions, for regular market prices. Guillermo Denaux Jr., from FLO International, estimates that most of the Fair Trade producer organisations can only sell 10 to 20 per cent of their total produce under Fair Trade conditions.[98] Pre-financing is a vital instrument for the co-operatives that can only sell a small part of their produce under Fair Trade conditions, because it provides them with greater access to credit. In El Salvador, the Las Colinas co-operative received up to 60 per cent pre-financing for its Fair Trade coffee in 2002, at half the interest rates of national banks.[99]

Many smallholders in the mainstream market are unable to bear the immense price fluctuations that characterise the international coffee market.[100] It is important that mechanisms be created for these smallholders to survive in times of extremely low coffee prices. Once again, organised farmers stand a better chance than their unorganised peers. Co-operatives can create and manage emergency or community funds in lean years. In the Fair Trade system, they can decide to use part of the price premium for this purpose. Research shows that Fair Trade farmers have greater access to traditional credit sources. Fair Trade lends producer organisations a certain prestige since it is assumed that the organisation is subject to external monitoring. It also demonstrates initiative and a capacity to enter new market niches.[101]

Small-scale farmers call for short and long-term credit facilities that enable them to invest. In the words of Dagoberto Suazo, from La Central, Honduras: “The principal challenge of the coffee producers of La Central is access to financing. This includes short term credit for farm maintenance, purchase of fertilisers, and harvest; medium and long term financing for investment in productive and commercial infrastructure, diversification projects, and land purchases.”[102] Most producer co-operatives that produce for the mainstream market are too large to qualify for micro-credit and are overlooked by commercial lenders. The creation of revolving funds might cater to the need of co-operatives to attain financial sustainability.

The combination of the Fair Trade price minimum, price premia, pre-financing and increased access to credit has contributed to greater economic and social stability of small-scale coffee producers. Farmers are able to better plan for their coffee production, as well as for personal, family and community needs.

2.4.4 Multiple certifications

According to Stefano Ponte, multiple coffee certifications can lead to economies of scale and market advantages. For Fair Trade he points out two certification combinations with future potential:

- *Fair Trade + organic:* A large proportion of Fair Trade coffee available in consuming countries is also organic certified, especially in the United States.[103] Joint Fair Trade and organic certification probably has a very good market potential and seems to be the ideal type of ethically produced coffee. Many Fair Trade producers that currently produce coffee that is not organic certified would qualify almost immediately for this type of certification, since most small-scale farmers do not have sufficient financial resources to pay for agro-chemicals and have practises that are very close to organic agriculture. Therefore, the additional investments needed to achieve organic as well as Fairtrade certification would be relatively low and could be paid for by the Fair Trade premium.

- *Fair Trade + organic + shade grown:* If producers qualify for any of the shade grown certifications, then a triple certification with Fair Trade may also be desirable. Although it is not likely to achieve a higher premium than a joint organic and Fair Trade certification on their own, it could make organic coffee more marketable, especially in the United States. An example of this combination is El Triunfo coffee from Chiapas, which is triple-certified Fair Trade + organic + Rainforest Alliance. Since agronomic and social standards are already met by Fair Trade and organic certifications, Rainforest Alliance certification in this case is mainly used for shade.[104]


Women process organic beans at La Selva in Chiapas.

Many co-operatives in Central America and Mexico are pursuing multiple certifications, including Fair Trade, organic, shade grown, bird-friendly and Eco labels. There seems to be a worldwide tendency amongst Fair Trade co-operatives toward organic production. Some co-operatives stimulate organic production by setting requirements for new members and providing incentives for current members. In some cases, participation in Fair Trade networks opens door to obtain financial support and donations to make possible organic certification. In order to maintain the long-term relationships some co-operatives have developed with their buyers, it is sometimes necessary to improve coffee quality. The rigors of satisfying organic certification requirements can strengthen a producer organisation, as it promotes stronger, more sophisticated administrative systems. According to the staff of the La Selva co-operative in Chiapas, Mexico, organic certification requires greater internal control and helps develop a culture of respect among members for written agreements. Fair Trade co-operative members involved in organic production generally have a better understanding of and participation in co-operative activities.

The production, monitoring and inspection requirements of organic, Fair Trade and shade-grown coffee are compatible and often overlapping. Organic certification based on international norms such as those of the IFOAM (International Federation of Organic Agricultural Movements) includes a chapter on social justice. Many farmers interviewed for the Fair Trade Coffee research project of the Colorado State University suggested a move toward convergence of certification procedures to save time and expense.[105] A unification of norms, inspections and certification procedures would make it easier to promote a sustainable product to end consumers, as well as it would save costs and time.

2.4.5 Empowerment

Capacity building, training and access to information are key aspects of Fair Trade.[106] Training enables 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. Some Fair Trade co-operatives, for instance, regularly check the New York “C” market price for green coffee.[107]

Communication is a very important element of success for many smallholders. In order to avoid incompatibility between supply and demand, producers, importers and roasters should exchange information about the latest market trends, quality standards, market requirements, profitable retail outlets etc. In the Fair Trade movement, the contact between producers, importers and roasters bears resemblance to a joint venture: both profits and risks are shared. In this joint venture, all kinds of information have to be shared. A good example of sharing information is the TwinCafé Bulletin, a two-weekly review of activity in the Arabica and Robusta coffee markets, with an outlook for prices, and news from the coffee world. Published in three languages by Twin Trading in the United Kingdom, the bulletin is sent to farmers that subscribe to this service.[108]

Many mainstream coffee producers do not have access to training and rarely understand what consumers in the North expect of them. Very often, smallholders do not know how their coffee should taste or what production and mill factors contribute to the quality of coffee. The members of Fair Trade co-operatives learn about coffee tree management, soil fertility and conservation, pest management, harvesting techniques and other quality-related issues. The long-term relationships between co-operatives and buyers encouraged by Fair Trade improve quality by providing feedback to farmers. The inspections and other interactions with FLO and IFAT have also contributed to better understanding by farmers of what coffee consumers expect.

The Peruvian co-operative Cepicafé is a good example of the importance of technical assistance and training. Cepicafé is an association of 35 small-scale coffee co-operatives in north-western Peru. Since its formation in 1995, exports have increased strongly. This has been possible because the Cepicafé has dedicated a considerable amount of financial resources to technical and quality improvements. In 2003 the co-operative started to apply an internal quality control system. Training and workshops are given to improve efficiency and to develop management skills within the co-operative. The sales of coffee contribute to the construction of a sound organisation: for every 45 kilograms of coffee sold, US$ 4 is destined for organisational costs. The success of Cepicafé has led to significant growth. The number of members has doubled since 2001.[109]

Fair Trade facilitates the development of networks of contacts among participants. The members of the La Voz co-operative in Guatemala, for example, participate in exchanges of visits with other producer groups that bring new information and provide incentives to undertake similar efforts.[110] The coffee of the La Voz co-operative is certified organic and certified shade grown. As the first co-operative to make a successfully transition to organic coffee production in Guatemala and one of the first to capture a strong long-term Fair Trade market, La Voz is an inspiration to co-operatives in the early stages of organizing or organic conversion. The co-operative receives frequent visits from various groups seeking to learn from La Voz's experiences. Many managers of new co-operatives see La Voz's success with organic production as an incentive for their own work. In addition, many co-operative members believe that they are influencing community members to return to the organic production methods of their ancestors (chemical fertilizers were not introduced to San Juan until the 1960's).[111] Bejamin Cholotio, general manager of La Voz, says: "With the extra income earned from coffee sales to the Fair Trade market we are working on improving coffee quality and providing credit, training, and education. We are very fortunate. The Fair Trade price has given us hope."[112]

Participation in the Fair Trade system generally leads to an increase in the self-esteem of farmers and their families. Case studies prove that farmer's sense of their importance within their communities is often undermined by the increasing degradation of traditional lifestyles and the growth of rural poverty in many parts of the world. Fair Trade strengthens the position of these farmers by showing that it really matters how coffee is produced and by whom it is produced. Fair Trade activists and farmers agree that the attention to the farmers' produce – including the visits of FLO Cert. and organic inspectors, buyers and even visiting Northern consumers – has promoted renewed pride in coffee farming among small-scale farmers.[113]

Capacity building and empowerment is often extended to the farmers' families and communities. 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, in part 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 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.[114] 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."[115]

Empowerment does also lead to the involvement of some producer organisations in politics. In many producing countries, coffee is one of the most important export products. Therefore, it is important that small-scale farmers organise and endeavour to reach a certain degree of influence in local and national politics. The direct impact of this sort of empowerment on the value chain of coffee is probably very limited, but in the long term organised lobbying and advocacy activities from producer organisations in the South may influence the global coffee market. According to Daniele Giovannucci, senior consultant to the United Nations and the World Bank, small-scale farmers need to participate in the international debate on coffee: "Building a representative organisation for farmers is not a priority, it is the priority. There is nothing else that is more important for small-holders who want to be part of the market economy. The only way they achieve anything, at a market level, even at a social level, is when they gather together and make their voice heard. It is not just at the government or policy levels, it is also in negotiating with a buyer or broker. The ability for them to work together responsibly, be coherent, and get a message across effectively is what they need. Everything else follows from that. This should be the first priority of everyone working in development."[116]

In 1998 the directors of the four international Fair Trade associations (FLO, IFAT, NEWS! and EFTA) began to meet regularly. They describe this informal collaboration by their acronym "FINE". At the end of 2001, they agreed a co-operation document which committed them to working together on:

- The development of harmonised core standards and guidelines for Fair Trade;
- Harmonisation, and increase in the quality and efficiency of, the monitoring system for Fair Trade;
- Advocacy and campaigning work;
- Harmonisation of their information and communication systems.

In April 2004, the four networks established a lobby and advocacy office in Brussels. This office supports and organises several lobby activities and campaigns. A very important one is the campaign for trade justice and against Economic Partnership Agreements (EPAs). These trade agreements are currently negotiated between the European Union and 77 of the world's poorest countries, and have come under fire from African and European NGOs because of their expected disastrous effects in poor African countries. The campaign had its first success in March 2005, when the Government of the United Kingdom published a position paper on the negotiations, stating its agreement with one of the key concerns raised by Stop EPA campaigners – that issues rejected by African, Caribbean and Pacific countries at the Cancun WTO Ministerial meeting should not be resurrected in EPAs. IFAT has joined the campaign and IFAT members around the world are encouraged to find out more and get involved in this important issue that will affect the lives of millions of small producers around the world.[117]

Another important issue for the Fair Trade lobby and advocacy office in Brussels is to increase support provided by European institutions for Fair Trade. Some European Member States have set up Fair Trade programmes and policies and both the European Commission and the European Parliament have issued statements and resolutions that recognise the positive role of Fair Trade. Nevertheless, there is no comprehensive EU-wide programme to support Fair Trade yet. The Fair Trade movement therefore wants the European Institutions to close this gap and to step up their efforts to support Fair Trade in practice.

Although the basic framework for international lobbying and advocacy is in place, it is often difficult to involve southern Fair Trade organisations actively in these activities and to co-ordinate lobbying in coffee-producing countries. According to Stefan Durwael, executive director of IFAT, many activities on a local political level are developed in coffee-producing countries, especially in Mexico, but this knowledge is not always shared and gathered due to a lack of financial resources. It is expensive to organise meetings to exchange and systematise experiences in this field.[118] One of the long-term goals of FINE is to have a Fair Trade advocacy co-ordinator in every region.[119]

2.4.6 Gender

Fair Trade means that women's work is properly valued and rewarded. Women are always paid for their contribution to the production process and are empowered in their organisations. Women are the majority of producers and consumers of fairly traded goods. In many parts of the world, women work 18-20 hour days with the double burden of working inside and outside of the home to care for their families. Women work longer hours than men in every country of the world, yet their contributions at the home and at the workplace are often invisible. To identify and to target women through alternative trade organisations is to work towards poverty eradication on a global scale.

Coffee-sorters in the Prodecoop dry-mill facility in Nicaragua.

Since the Fourth UN Conference on Women in Beijing, policies to offer credit and employment to women have been praised as a means to promote sustainable development. The Beijing Platform for Action calls on financial intermediaries, national training institutes, credit institutions, non-governmental organisations and the private sector to foster commercial links and to establish joint ventures among women entrepreneurs at the national, regional and international levels. This type of interaction not only supports community-based activity, but promotes gender equity and empowerment by giving women recognition and financial support for the work they have always done and continue to do. It allows women's small businesses to have a niche in the world market, enabling women to ensure their families' survival. Helping women as well as men in Fair Trade campaigns is key to family survival and to sustainable development as a whole.[120]

Women play a key role in many Fair Trade co-operatives. Prodecoop in Nicaragua became a professional company, despite suffering a major setback as a result of hurricane Mitch in 1998, under the leadership of a female manager. Moreover, about 25 per cent of this Fair Trade co-operative's members are women. The Guatemalan co-operative Manos Campesinas was founded in 1995 and consists of eight co-operatives of small-scale farmers. In all of these co-operatives, women formed their own groups. The main activity of these groups is to roast and sell coffee to local markets. In addition, women started discussion groups to talk about their own specific problems.[121]

The role of women is not equally valued in all Fair Trade co-operatives. Research carried out in 2002 for the Fair Trade Coffee research project, which included seven case studies of co-operatives in Mexico, Guatemala and El Salvador, found that the commitment to gender issues in these co-operatives emerged largely because of the explicit interest expressed by international donors and certifiers. At the time when the research project was undertaken (2002), there was no clear indication that gender was an important internal issue. In no case women played an important role in governance of the organisation. Men appeared to dominate in decision making around coffee production. In none of the cases there any evidence that the role of women in co-operative governance represented an important internal issue, although most of the co-operatives studied had organised development projects for women members.[122] One of the recommendations of the report that concluded the Fair Trade research project reads:

> "the gender dimensions of Fair Trade and in co-operatives more generally are focused on support for activities outside the coffee sector. Women are actual coffee producers in only a few co-operatives, although many women are employed as labourers in the harvest. Their sporadic participation within the co-operative at times appears to re-create, rather than overcome, the traditional gender biases within economic activities. This condition […] cannot be attributed directly to Fair Trade. On the contrary, Fair Trade has been one of the dynamic forces in overcoming the isolation of women in co-operatives. However, <u>there needs to be greater clarification of what gender issues Fair Trade hopes to address</u>. Traditional cultures in this part of the world [Latin America] have relegated women to a limited range of income generating activities that typically do not include commercial farming. This profile is changing, particularly as families and communities in the region disintegrate, but it remains a challenge for Fair Trade to foster new opportunities for women."

It should be stressed that this statement is based on research undertaken in seven co-operatives in Latin America and might not be representative of the situation in many other Fair Trade co-operatives. The recommendation seems, however, useful to further improve the empowerment of women in Fair Trade co-operatives.

2.4.7 Vertical integration of the value chain and diversification

Adding value in coffee products (such as roasting and grinding) in the countries of origin is quite difficult. The process of developing supply chain linkages and promotion strategies is a considerable challenge for smallholder organisations. It presents new and often more complex challenges for smallholder organisations than exporting.[123]

Small-scale producer organisations can earn more if they control other segments of the value chain and capture upstream margins. 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 is 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 better be assisted in this direction. 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 34 per cent) 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.[124] 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.[125] 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.

Production diversification in Fair Trade certified co-operatives has been a primary goal. Farmers with organic and / or Fair Trade certification have a commercial advantage to other small-scale farmers in that their other crops can also be sold under these terms. Exclusive dependence on coffee can have disastrous effects on the rural economies of coffee-producing countries. Many Fair Trade co-operatives in Central America and Mexico have used coffee profits to encourage diversification into alternative commercial crops, improving production of basic grains, improving processing and related agro-industrial activities, and developing non-agricultural activities such as handicrafts.[126] Jeronimo Bollen, president of the Guatemalan co-operative Manos Campesinas, says: "Our second priority [after increasing price through quality] is diversification of production. At Manos Campesinas we understand the concept of diversification to be the amplification of the range of products grown in association with coffee. It is not the change of one monoculture (coffee) to another. Through diversification, producers continue working their coffee and at the same time cultivate other products, such as avocado, citrus, and local fruits. Diversification in association with coffee is able to partially alleviate the crisis caused by low prices, improve the family diet and provide possibilities of generating new and better sources of income for rural families."[127]

A comprehensive review conducted in Central America by the World Bank in 2003 found that the process of diversification must be demand-driven, because the major bottleneck is not usually supply constraints. Instead the process of diversification depends on linked activities in processing and adding value through quality improvements, improving financing and marketing arrangements, and post-harvest practices. The researchers involved in this research project identified three elements of successful diversification: market orientation, organisational development and environmental awareness.[128] The first element is increasingly important and key to the continuous success of Fair Trade. IFAT is making an effort to develop the market for Fair Trade by producing training materials and encouraging its members to participate in trade fairs. In 2004, Traidcraft was contracted by IFAT to produce a manual on "Into the Market" and "How to Make the Most of Trade Fair Participation". The

IFAT secretariat also prepared a “Virtual Library” and a report on e-commerce.[129] The second element, organisational development, has been one of the main features of Fair Trade and adds great value to Fair Trade business relationships. The third element mentioned in the World Bank study, environmental awareness, is one of ever increasing significance. Many Fair Trade co-operatives, notably in Latin America, already produce coffee with joint Fair Trade and organic certification. On the basis of these considerations, one must conclude that Fair Trade co-operatives are generally in a better position to diversify than small-scale farmers that produce coffee exclusively for the mainstream market.

3. Summary of findings

When comparing mainstream coffee value chains with the Fair Trade value chain, it is evident that there are significant differences in the distribution of value among the actors in the chains. For Fair Trade certified coffee, smallholder producer organisations receive more income than they do for coffee sold to intermediaries, exporters, traders or roasters in a mainstream coffee value chain. It is extremely difficult to define with precision the financial benefits of Fair Trade for small-scale farmers, mainly because co-operatives decide on how to distribute the amounts received among its members. It is safe to say, nevertheless, that revenues for Fair Trade coffee are roughly twice the street price for conventional coffee, even after subtracting costs for co-operative management and other expenses. Coffee-producing co-operatives often sell only part of their produce under Fair Trade conditions, but the price premium they receive for it has 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.

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 Fair Trade price minimum, price premia, pre-financing and increased access to credit has contributed to greater economic and social stability of small-scale coffee producers. The minimum price and the price premia are less effective when Fair Trade co-operatives sell only a small fraction of their produce under Fair Trade conditions. Very often, co-operatives sell 10 to 15 per cent of their coffee to FLO registered traders, while the rest (85 to 90 per cent) has to be sold to intermediaries, exporters or traders in common mainstream value chains. This means overcapacity is structural. The issue of 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 and decline in the last few years. However, in spite of stagnating or declining sales in some former strongholds for Fair Trade coffee, the overall sales of Fair Trade coffee worldwide have increased in the period from 1998 to 2004. Fair Trade coffee sales in the United States, Great Britain and France have been booming in the last four years. In some European countries Fair Trade could expand considerably, notably in Spain, Portugal, Greece and the Eastern European countries. The Fair Trade movement can expand its market share in Europe and North America, and will have to explore new markets, particularly those of the coffee-producing countries and emerging economies, such as China and India.

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, all kinds of information are 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.

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 mainstream market, 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.

Capacity building and empowerment is often extended to the farmers' families and communities. Co-operatives frequently provide scholarships and financial support to schools, while some of the larger co-operatives even set up schools in the areas where their members live. Many Fair Trade co-operatives in Central America also provide training and marketing assistance to families 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. In general, one can say that participation in Fair Trade generally leads to an increase in self-esteem of farmers and their families.

The organisational form of a co-operative is considered ideal by many people in the Fair Trade movement. Several common factors contribute to the success of Fair Trade co-operatives: a well-defined sense of identity, a long process of establishment and development, and a capacity to innovate individually and as an organisation. In many successful producer organisations, there has been a strong leadership, full of vision and energy, able to pull together the individual contributions of producer group members. Strong leadership and decisiveness must not hinder participatory processes in the co-operatives. Therefore, mechanisms are necessary to ensure democratic decision making and to guarantee participation to all members of the co-operatives. Women should always be involved in decision making, considering the fact that they are the majority of producers of fairly traded goods. Although women play a key role in many Fair Trade co-operatives, their role is not equally valued in all producer organisations. For that reason, there needs to be greater clarification of what gender issues Fair Trade hopes to address.

The empowerment of coffee-producing Fair Trade co-operatives can lead to the involvement of producer organisations in politics. It is important that small-scale farmers organise and try to reach a certain degree of influence in local and national politics, in order to change business structures in the coffee sector in their countries. The Fair Trade Advocacy Office in Brussels has set up campaigns for trade justice and against Economic Partnership Agreements (EPAs) and to increase support provided by European institutions for Fair Trade. Advocacy in coffee-producing countries will be an important issue for the Fair Trade movement in the next few years.

4. Recommendations

The recommendations in this chapter derive from both from research of secondary sources as well as from inputs by area specialists and coffee producers. Some recommendations apply to the whole coffee sector and others are specifically directed to the Fair Trade system.

Forms of organisation

The Fair Trade model has shown that organisation of small-scale producers is fundamental and has many advantages, which have been mentioned before in this report. However, many small-scale producers are still unorganised and may need help to get organised. Existing producer organisations need more long-term financial and institutional resources for basic organisational formation and strengthening.[130]

- *Recommendation:* The Fair Trade organisations working in the coffee and financial sectors should identify and target unorganised, small-scale producers for assistance. Producer organisations in general (not only Fair Trade co-operatives) need better access to long-term financial and institutional resources for the development of their organisations.

Empowerment and capacity building

Producer organisations need financial and organisational management capacity to operate as successful businesses. Particularly in the mainstream coffee market, there is a need to reduce high operational costs, maximise efficiency and achieve economies of scale. Management skills should be developed and enhanced in each producer organisation. Knowledge and skills can be transferred through exchange programs for producer organisations. In Brazil, several small-scale project funding organisations have worked with the principle of *transferência solidária*: this means that a group that receives training or funding for capacity building is expected to pass on its know-how to other groups. In the context of coffee producer organisations, one should start by giving training to one particular management team of small-scale producers. This management team will then organise a workshop for another co-operative, which will pass on its new skills to another co-operative, etc.

- *Recommendation:* In order to spread know-how more quickly, commit co-operatives receiving training directly from Fair Trade organisations to pass on their newly acquired skills to at least one other co-operative. A monitoring system has to be in place to assess the quality of training among co-operatives.

Vertical integration in the value chain

Small-scale producer organisations earn more if they control other stages of the value chain and capture upstream margins.[131] 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 is key to progress in this area. Three elements are particularly important: market orientation, organisational development and environmental awareness.

- *Recommendation:* Fair Trade organisations should provide more capacity building and technical assistance to small-scale producer organisations specifically aimed at enabling them to take control of more stages of the value chain.

Access to adequate information

Most small-scale coffee 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 specialty quality coffee. Without such information and the understanding of how to employ it, farmers and farmer organisations are unable to plan for price volatility."[132] Information systems in the coffee sector must be standardised to aid supply management and market stabilisation.

- *Recommendation:* The Fair Trade movement should continue to facilitate access to information for small-scale producer organisations.

Credit facilities

Small-scale producers 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 following items:

- Working capital / pre-harvest credit
- Centralised and on-farm infrastructure
- Diversification
- Debts caused by the coffee crisis
- Risk management (price insurance and hedging[133]).

- *Recommendation:* The Fair Trade movement should support lobbying and advocacy efforts to improve the availability of credit facilities to small-scale coffee producers.

Multiple certifications

Smallholders who currently produce Fair Trade or organic certified coffee can benefit from combining certifications. The most common and successful of all possible combinations has been the organic + Fair Trade double label. Scholars agree that fears of confusion in the marketplace due to label proliferation are unfounded.[134] Convergence between sustainability labels and the creation of a *sustainability umbrella label*, as Stefano Pontes proposes, might be a bridge too far in the near future, in view of the polarisation in the debate on sustainability in the coffee sector. Coordination between the "stricter" labels (Fair Trade, organic and bird-friendly) however, might benefit small-scale farmers.

- *Recommendation:* The Fair Trade movement and other labelling initiatives (organic and bird-friendly in particular) should co-operate in an effort to combine certification, create joint marketing strategies and, more importantly, produce economies of scale and market advantages for producer organisations.

Involvement in lobbying and advocacy

Small-scale farmers should try to reach a certain degree of influence in local, national and international politics, regardless of the difficulties. Northern Fair Trade organisations can help their peers in the South in achieving active participation in international debates. Joint lobbying and advocacy activities on a regional level can, for instance, be coordinated by the Fair Trade Advocacy Office in Brussels or by IFAT.

- *Recommendation:* Fair Trade organisations should engage in joint lobbing and advocacy initiatives in order to achieve influence in local, national and regional politics.

Prepare local markets for Fair Trade

As some traditional market for Fair Trade coffee seem to be saturated, new markets must be developed. The International Fair Trade Association (IFAT) has already begun to explore new markets by participating in international trade fairs.[135] The so-called emerging countries, such as Brazil, China, Russia and India can be promising future markets for Fair Trade. In these countries, national Fair Trade initiatives should be set up. Mexico already has a national Fair Trade initiative. Organisations that are already a member of IFAT could engage in the foundation of these new national initiatives. There are also quite a few European countries where Fair Trade is not active yet. These markets may also offer perspectives for growth.

- *Recommendation:* The Fair Trade movement should continue to explore and develop new markets. National Fair Trade initiatives should be set up in countries with high potential for market development, particularly in emerging economies such as Brazil, China, Russia and India.

Focus on sustainable 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 in the United States have done much to help students groups raise awareness of Fair Trade issues on 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.[136]

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. In Europe, Max Havelaar organisations have already been very active in targeting political institutions. Fair Trade coffee is served in many city halls, national parliaments and the European Union Parliament. Sustainable procurement can be a great opportunity for Fair Trade to augment its market share (for example with regard to coffee) in European countries by serving large institutional clients. Further research should be undertaken to evaluate the possibilities for the Fair Trade movement in this context.

- *Recommendation:* The Fair Trade movement can increase its market share in Europe by serving large institutional clients and should, therefore, invest in raising awareness about the link between sustainable procurement or responsible purchasing and Fair Trade.

Increase the supply of Fair Trade coffee available to consumers

The Fair Trade movement has undertaken campaigns to encourage companies to act in a socially responsible manner (by embracing Fair Trade certification) and to strongly discourage businesses from neglecting their social responsibilities (by not offering Fair Trade certified products). The results of these efforts have been remarkable in some parts of the world. In the United States, for example, Starbucks, Peet's, Seattle's Best Coffee, Dunkin' Donuts and Tully's have added Fair Trade-certified coffee to their product lines.[137] In Great Britain, supermarket chains Sainsbury's and Tesco PLC sell several Fair Trade products. There are no formal guidelines about 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 among their customers.[138] The attitude of the Fair Trade movement toward the involvement of large roasters and retailers is somewhat ambivalent. On the one hand, these large companies are able to promote Fair Trade products massively and thereby increase the sales of Fair Trade coffee considerably. As a consequence, small-scale farmers are be able to sell more of their produce under Fair Trade conditions. On the other hand, coffee retailers do not aim to single out Fair Trade coffee as the only socially responsible coffee, but allow the consumer to identify a whole line of branded products that have been produced and obtained through "socially responsible" means. Starbucks' tactic has been to convince customers to buy Fair Trade coffee as part of their overall "Starbucks Experience" - as one choice in a line-up of "socially responsible" products. Starbucks ultimate goal is to have consumers identify all Starbucks products as socially responsible. This could pose a treat to the uniqueness of Fair Trade coffee, as corporate marketing strategies blur the distinction between Fair Trade and other "sustainability" initiatives.

For mainstream companies that sell Fair Trade coffee as a (small) percentage of their total coffee sales, a draft model code of conduct could be developed by the Fair Trade movement, with minimum and process requirements (IFAT already has developed standards for Fair Trade organisations, Fair Trade support organisations and Fair Trade networks). Adherence to a model code of conduct would prove the commitment of mainstream companies involved in Fair Trade to improving sustainability in the whole coffee sector. This draft model code could be based on the Common Code for the Coffee Community – which is not operational yet -, but should be more ambitious in its scope. The draft model code could include the following elements:

1. **Labour norms in accordance with the ILO conventions**
   - No forced labour (ILO conventions 29 and 105)
   - No discrimination, for example with reference to the sexes (ILO conventions 100 and 111)
   - No child labour (ILO conventions 138 and 182)
   - Freedom of association and collective bargaining (ILO conventions 87, 98 and 135)
   - A living wage that covers basic needs (ILO conventions 26 and 131)
   - No excessive overtime (ILO convention 1)
   - Healthy and safe working conditions (ILO convention 115)
   - Legal labour contracts (ILO Tripartite Declaration of Principles Concerning Enterprises and Social Policy)

   National legislation should always be preferred if it establishes higher standards.

2. **Environmental aspects**
   The draft model code should specify how environmental requirements and recommendations can contribute to sustainable development. Clear links should be established between a healthy and clean environment and the welfare of all stakeholders involved. The Aarhus Convention (1998) was the first to link human rights with environmental rights. This Convention includes important clauses on stakeholder participation, transparency and access to justice. A number of general principles have been stated in the EC treaty and the Rio Declaration, designed to prevent adverse effects on safety and the environment:

- The principle of preventive action (Art. 174 (130 R, section 2) EC Treaty)
- The precautionary principle (Rio Declaration, Art.15 and Art. 174 (130 R, section 2) EC Treaty)
- Tackling environmental damage at the source (Art. 174 (130 R, section 2) EC Treaty)
- ‘The polluter pays’ principle (Rio Declaration, Art. 16, Art. 174 (130 R, section 2) EC Treaty)

3. **Implementation and monitoring**
   A code of conduct does not only exist in theory, it also has to be executed. An internal system is required to make sure that suppliers follow the draft model code and to be able to assess the progress of this process.

4. **Multi-stakeholder influence**
   The backing of civil society is essential to the credibility of a code of conduct. The draft model code of conduct should be based on the interaction between the stakeholders: companies, labour unions and non-governmental organisations (NGOs). This is relevant to the actual development of the code and to its elaboration on a local level, i.e. when a local community has to decide to which concrete improvements should be given priority.

5. **External control**
   An independent organisation has to verify whether a company actually follows the model code of conduct. This is to make sure that stakeholders get an objective guarantee of the company’s actions regarding the code of conduct. Codes of conduct can only be effective if they include solid rules for implementation. This means that the draft model code has to be integrated into the company’s management system and has to be verified externally and independently.

6. **Reasonable commercial conditions**
   A company has to give its suppliers the opportunity to implement the model code of conduct without obliging them to make excessive financial sacrifices. This can be done by offering suppliers long-term contracts and fair prices.

In addition, it might be necessary to fix generic criteria on the use and positioning of Fair Trade products in the marketing strategies of mainstream companies involved in Fair Trade. This would avoid confusion amongst consumers about ethical claims from roasters and retailers. Criteria for fair pricing could also be developed, considering the fact that some retailers sell Fair Trade products at unjustified prices, earning exorbitant margins.[139]

For 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 has to establish clear boundaries by setting criteria for the involvement of large mainstream companies in Fair Trade.

- *Recommendation:* The Fair Trade movement should continue to allow large market players to engage in Fair Trade. For mainstream companies that sell Fair Trade coffee as a (small) percentage of their total coffee sales, a draft model code of conduct should be developed. Adherence to this model code will prove the commitment of mainstream companies to improving sustainability in the whole coffee sector.

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Input from specialists and Fair Trade organisations' representatives

Note: many of the following persons participated in a workshop held on the 4th of May, 2005, at the IFAT Quito Conference

- Raul Araúz Osorio, COCPE, Ecuador
- Jens Baagoe, Sackeus AB, Sweden
- Chitra Bahadur, Fair Trade Group Nepal
- Véronique Bisaillon, Université du Québec à Montréal, Canada
- Bob Chase, SERRV International, USA
- Povi Dalsgaard, Fair Trade Import, Denmark
- Mary Ellen Fiedeger, coffee farmer, Ecuador
- Walter Koenig, El Puente, Germany
- Stefano Martini, Commercio Alternativo, Italy
- Gerd Nickoleit, GEPA, Germany
- David Sanchez Ponce, UNOCPHSA, Ecuador
- Albert Tucker, Managing Director, Twin/ Twin Trading UK, United Kingdom
- Martin Malila, Machakos District Co-operative Union, Kenya
- Guillermo Denaux Jr., FLO International, Germany
- Rudi Dalvai, CTM-Altromercato, Italy
- Jos Harmsen, Max Havelaar, the Netherlands
- Charly Poppe, Fair Trade Advocacy Office, Belgium
- John Kanjagaile, Kagera Co-operative Union Ltd (KCU) – Moshi, Tanzania
- Stefan Durwael, IFAT, the Netherlands
- Irina Danada, Consumers International, United Kingdom
- Carol Wills, IFAT Honorary Member, United Kingdom

Notes

[1] Small-scale producers or smallholders are farmers who have a few hectares or a very small plot of land where they grow tea, coffee or other crops. Throughout Latin America and Africa there are many smallholders. They own a small plot of land and their family members often work on the land. Seeds, fertilisers and pesticides are typically bought against credit, leaving smallholders no capital to invest in order to improve efficiency. Squeezed by low world-market prices on the one hand and big estates employing dozens of workers on the other hand, most smallholders are only barely able to make a living. A year of bad crops can bring them to the brink of poverty. Cf. K. Hockerts, *Trading up Cafédirect: From charity spin-off to gourmet coffee* (Fontainebleau: INSEAD, 2002), p. 3.

[2] International Coffee Organisation, *Lessons from the world coffee crisis: a serious problem for sustainable development* (ICO, June 2004), p. 2.

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[13] 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).

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[56] 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.
[57] FLO website, FAQ, "FLO coffee markets", no date, <www.fairtrade.net/sites/products/coffee/markets.html> (8 August 2005).

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[59] Transfair USA, 2005 *Fair trade coffee: facts and figures* (Transfair USA, July 2005), p. 3.

[60] Data provided by FLO's financial department.

[61] Adapted from S. Ponte, *Standards and sustainability in the coffee sector: a global value chain approach* (Winnipeg, Canada: International Institute for Sustainable Development, 2004), p. 22.

[62] SOMO, *Info pack on the coffee world market, the international coffee supply chain and codes of conduct* (Amsterdam: SOMO, 2001). p. 23.

[63] Fairtrade Labelling Organisations International*. Fairtrade Standards for Coffee*. Version June 2004, p. 11. FOB (Free on Board) means that the seller is responsible for delivering the goods from his place of business and loading them onto the vessel of at the port of export as well as clearing customs in the country of export. As soon as the goods cross the "ships-rails" (the ship's threshold) the risk of loss transfers to the buyer (importer). The buyer must pay for all transportation and insurance costs from that point, and must clear customs in the country of import.

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