

An Introduction to Fair Trade and Cooperatives: A Methodology



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Background on Cooperative and Fair Trade

Fair Trade vs. Ethical Trade

Products bearing the Fair Trade label are guaranteed as produced, traded, processed, and retailed according to international Fair Trade standards. Fair Trade Organizations (FTOs) establish standards to eliminate unnecessary middlemen and overhead costs in order to maximize profits returned to artisans and farmers and promote more equitable trade.¹ Standards apply to all workers in the supply/production chain (see appendix for complete listing of Fair Trade standards).

Goals of Fair Trade include improving the livelihood of producers, promoting sustainable development opportunities, and creating partnerships in trade between producers and market retailers.² These are accomplished through satisfying established criteria: decent wages (market price + premium); housing, health and safety; right to join trade unions; no child or forced labor; environmental sustainability; and democratic structure.³ In regards to coffee specifically, “up to sixty-percent of the contract value [is] available as credit”. When feasible, some FTOs develop processing and packaging activities in the developing world, creating more jobs and increasing more incomes in country.⁴

The term ‘ethical trade’ is often coined as an umbrella term for socially and/or environmentally responsible business practices. Ethical trade is sometimes used in a much narrower sense, referring specifically to the labor practices in a company’s supply chain.⁵ These companies are still commercial oriented and there is no set of standards for ethical companies to follow.

History of Fair Trade

The roots of alternative trade can be traced to North American churches that began providing relief for refugees and other poverty stricken groups by selling handicrafts.⁶ It can also be traced to 1960s alternative trade organizations and cultures with both political and ethical agendas. The pioneers in alternative trade organizations offered higher or guaranteed returns to producers.

In 1998, world coffee prices began a sharp decline that triggered the start of the Fair Trade movement. The movement began in the Netherlands and was branded “Max Havelaar” after a fictional Dutch character.⁷ The Max Havelaar Foundation joined with TransFair International in Germany in 1998 as the Fairtrade Labeling Organizations International (FLO).⁸

In 1986, Equal Exchange, a workers cooperative in Boston, was formed for fair trade coffee. Major clients of Equal Exchange are the Lutherans and other religious groups. Equal Exchange coffees are now distributed by major grocery chains in the U.S. including Kroger, Safeway and Albertson’s in some 1,800 mainstream stores.

Fair Trade Organizations have helped many farmers maintain a subsistence level of living when the commodity prices have plummeted since the insurrection of FLOs and the rise of Fair Trade awareness. Currently, Fair Trade accounts for only 0.01 percent of all international trade.⁹ Despite this low number, fair trade has positively impacted the lives of many farmers and their families.

Cooperatives in Fair Trade

Cooperatives are a fundamental part of the Fair Trade movement in that the majority of Fair Trade producers are members of various cooperatives. Cooperatives provide a support network for small farmers because they exist for their members by being democratically run, return profits to the producers, and provide technical training. These goals are very similar to the goals and standards of Fair Trade.

Cooperatives provide a structure for farmers seeking to become Fair Trade certified through their support to farmers and collective power. As well, several cooperative principles meet Fair Trade standards, mainly, “freedom of association for farmers and workers, and democratic decision-making processes; [and] ... removal of unnecessary middlemen that decrease producer income.”¹⁰ Cooperatives in Northern countries often work with cooperatives in the South. One example is Equal Exchange, a cooperative importing coffee and tea from cooperative producers in ten different countries, for example La Siembra (Can).¹¹

History of Cooperatives

The idea of working together for mutual benefit is as old as work itself. While cooperatives exist for nearly every industry, agriculture based cooperatives remain the

dominant form in the US.¹² The earliest known and recorded cooperatives were formed in England during the 18th century as a reaction to industrialization. The International Co-operative Alliance (ICA) was founded in 1895 with the purpose of uniting, representing and serving co-operatives worldwide. Today its member organizations number more than 230 representing over 750 million individual members from over 100 countries involved in all sectors of activity including agriculture, banking, energy, industry, insurance, fisheries, housing, tourism and consumer co-operatives.¹³ Many cooperatives in the world are not members of the ICA. It does, however, serve many cooperatives.

Cooperatives began to flourish in the late 19th and early 20th centuries across Europe and the U.S.¹⁴ At that time farmers suffered from little legal protection, no countervailing power, market failure, and extreme fluctuations in demand and supply due to the two world wars. Farmers viewed working collectively as a defensive method for ensuring their livelihood against the uncertainties of agri-business.¹⁵ One such example derives from Jamestown, North Dakota, in the U.S. where farmers formed the Farmers Exchange Petroleum Association to collectively purchase petroleum. The day after the official formation, prices dropped from 17 cents per gallon to 7 cents per gallon.¹⁶

Cooperatives are constantly changing their tactics and services to adjust to changing markets. One example stems from the U.S. Cooperatives who moved from highly defensive to offensive in the mid-1980s. The shift reflected a larger understanding of the market. Farmers began to diversify their produce, increase their profit margins, and look toward international markets.¹⁷ Again, there was a major shift in the 1990s for agriculture based cooperatives to become even more competitive. The restructuring included changes such as a defined and sometimes restricted members (based on sector), a pooling and market agreement and upfront equity capital.¹⁸

The modernization of cooperatives led to the development of several Commercial Producer Strategies in the 1980s and 1990s. Cooperatives saw opportunities in expanding horizontally by adding more members, increasing economies of scale and being very production oriented. Other cooperatives adopted the strategy of developing vertically and focusing on niche markets to increase their income.¹⁹

Internationally, cooperatives are developing their own strategies and enhancing the lives of members by addressing the priorities they identify. Organizations such as The World Council of Credit Unions (WOCCU), an international organization of credit unions, provides financial services through educational and technical assistance in areas where there is a demand, but little supply. Nearly one quarter of ICA's individual members work in the agriculture and fisheries sectors.²⁰

At the 1995 Centennial meeting, ICA noted the importance of cooperatives in the developing world by stating that sixty percent of ICA membership draws from the Southern developing world. Fifty-three percent of Southern cooperatives are active in agriculture and twenty-nine percent in the credit and savings sectors.²¹

Well established cooperatives in developed nations often provide assistance to cooperatives in developing nations. WOCCU links U.S. based credit unions with credit unions in developing nations to transfer knowledge and provide general support. Land O' Lakes, a large U.S. based farmer cooperative, sends voluntary agribusiness experts to share their knowledge with cooperatives in the former Soviet states. The ICA itself runs training programs and provides education out of their regional offices regarding technical and financial capacity of agricultural cooperatives in Asia, Africa and Latin America.²²

Cooperative Principles and Structure

ICA defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly-owned and democratically-controlled enterprise.”²³

A cooperative differs from a non-profit in that a cooperative makes a profit, unlike a not-for-profit organization. It differs from businesses, because a cooperative does not return the profit to the investors in the form of a dividend based on equity stake. Instead, cooperatives return the profit to its members. Usually member benefits and profit are relative to the amount that a member utilizes the cooperative services. Benefits from membership depend on the type and structure of the cooperative. Some benefits include quality supplies at discount/bulk rates; increased marketing power; a share of the earnings relative to the percent of business performed with the cooperative; and increased economic activity within the local community.²⁴

ICA identifies values which cooperatives also assume, such as self-help, self-responsibility, democracy, equality, equity, and solidarity, as well as ethical values, honesty, openness, social reasonability and caring for others. These values underlie the principles for cooperatives, which are seen as essential to the cooperative spirit:

- *Voluntary and open membership*
- *Democratic member control*
- *Member economic participation* – members contribute equitably to, and democratically control the capital of their cooperative
- *Autonomy and independence* – agreements made with other organizations must ensure democratic control is retained by members and co-operative autonomy must also be maintained
- *Education, training and information*
- *Co-operation among cooperatives*
- *Concern for the community* – members approve work that enhances the sustainable development of their communities²⁵

The ICA provides one set of principles. Many cooperatives base their practices on similar, but slightly different philosophies. For example, the Overseas Cooperative Development Council (OCDC), a voluntary cooperative of the eight cooperative development organizations have also included the following shared values and programmatic approaches in addition to the ICA values and principles: local control and

ownership of assets; transparent processes; private sector-based, business approaches; linkages to U.S. and overseas cooperatives; and profound belief in the capability of individuals to provide the energy and drive for their own advancement.²⁶

OCDC created a checklist to assess cooperatives, especially those characteristics that should be in the cooperative by-laws and practices based on case study experiences in the field. Items on the list include details of governance, finance, business activities, and general measurements (e.g. transparency, member satisfaction). A complete list can be found in Appendix 4.

Since cooperatives are formed by individuals for collective gain, services should meet the needs of the members. In some cooperatives, members pool their resources for collective purchasing of inputs, resulting in lower overhead costs. Other services include sharing knowledge or bringing in outside experts to teach about improving technology and quality of produce. The cooperative itself often needs training. In Ethiopia, the US Agency for International Development (USAID) and ACDI/VOCA provide business oriented training so that cooperatives can better utilize sound business practices. Other services include providing transportation to market, knowledge about the market and access to premium buyers through trade shows.

Cooperatives, despite all of their benefits, are not, however, without their problems. Successful cooperatives must be aware of free riders; being too heterogeneous which creates problems in attempting to service too diverse a group; and corrupt or weak managerial styles.²⁷ Cooperatives, when run efficiently, can truly serve their members.

Making the Link: Methodologies of Connecting Cooperatives in the Developing World with Markets in the Developed World

Barriers to market participation

Finding buyers in the developed world is vital to a cooperative's sustained success. Various barriers to the market must be overcome by the producers, with which the cooperatives can assist. One demand of developing country purchasers is "quality, quantity, and continuity."²⁸ These factors of market participation can enhance a farmer's revenue. Having consistently high quality produce in large quantities will sustain a long-term business relationship with a buyer. Cooperatives are helpful in overcoming this barrier, as noted above, by bringing farmers together to increase their quantity and hence bargaining power with potential buyers. As well, cooperatives provide assistance and workshops on improving quality and improving yields. This education follows the principles identified by the ICA.

ICA Europe has addressed development issues facing Southern cooperatives. In 1994 Bjorn Genberg, coordinator of ICA Europe development projects, identified several characteristics limiting the cooperatives ability to compete against private traders in the market economy, such as low business efficiency and limited credit worthiness.²⁹

Another common problem faced by many producers in rural areas is exemplified by Ethiopia's case. Ethiopia suffers from poor transportation infrastructure, resulting in poorly merged markets. These isolated markets cause large regional and seasonal price differences. Without proper knowledge of the various markets, farmers are unable to determine the best market price and farmers far from the market must bear the increased costs of transportation. Through Coffee Cooperative Unions, coffee cooperatives have been able to formulate business relationships with specialty buyers in Europe, Japan and the U.S.³⁰

Price fluctuations, poor transportation and lack market knowledge are not limited to Ethiopia. Many farmers in the developing world report such problems.³¹ Various methodologies of overcoming these market barriers exist. Most notably, extremely remote cooperative groups collectively transport their product and use their profits to lobby the government for better infrastructure or build it themselves. One of the newest

Fair Trade Chocolate in England

One cooperative, Kuapa Kokoo, integrated all levels of production vertically by forming its own commercial branch and a company in England. Ghanaian farmers, worried about government liberalization of the cocoa trade in 1992, formed a cooperative to enhance their means called Kuapa Kokoo. Through innovation and grants from English NGOs, Kuapa Kokoo not only provides credit union services, women's empowerment programs, and a farmer's trust fund, but they also own one-third of the company that sells their chocolate in the European market (Day Chocolate Company), which sells Divine Fair Trade Milk Chocolate and Dubble Fair Trade Chocolate.¹

means of finding the best price is utilizing cellular phones. The number of cellular phones in developing nations is increasing rapidly and their reach is much broader than land lines. These phones allow farmers to call various markets to find out where their produce will catch the highest price, eliminating useless trips and potentially lowering differences in regional markets.³²

Barriers to the markets of the developed world are not always caused by or solvable by the developing nations alone. The European Union, for example, does not place a tariff on imported green coffee beans, but does on processed coffee - thus reducing the incentive for producing countries to process beans in country.³³ Perhaps it would be beneficial for producer groups to follow the Kuapa Kokoo example (see first text box) and invest in a roasting and processing company in Europe.

Fair Trade certification is viewed as an investment by the farmers and thus fits with the Fair Trade and cooperative goal of farmer's empowerment and investment in their farms and livelihood. Certification can, however, be a barrier to the specialized market in that the farmer must pay for the certification. Previously, the Fair Labor Organization (FLO) required producers to have a buyer before certification. The recent shift to a flat fee for certification opens the process up and encourages farmer investment.³⁴

A flat fee, however, could pose a barrier for many. Jon Hellin and Sophie Higman's report in their book *Feeding the Market: South American Farmers, Trade and*

Globalization, state that many small-holder farmers, processors and exporters are restricted from expanding and economic security by a lack of access to credit. Strapped for cash, many sell early to intermediaries. These same farmers will find it difficult to pay the Fair Trade Certification fee. Simultaneously, this barrier protects certified farmers by securing a niche market for them. The concern is that too many Fair Trade Certified farmers will flood the small fair trade market.

Credit can be utilized for more than payment of Fair Trade Certification. Credit allows farmers to expand or diversify production and increase yields through adopting new technologies. The Fairtrade Foundation cites the lack of credit as “one of the key factors undermining the position of small farmers.”³⁵ An example of a group overcoming the credit problem is Central de Co-operativas Agrarias Cafetaleras (COCLA). This cooperative has focused on ensuring the credit worthiness of its member farmers. As a result, COCLA has enough credit and reserves to pay its farmers most of the final sale upon delivery to the main warehouse.³⁶

The World Council of Credit Unions (WOCCU) in conjunction with USAID/Rwanda, has been assisting a number of *banques populaires* (credit unions) and a second tier credit union, *Union des Banques Populaires du Rwanda* (UBPR). Most notably, they assisted *Abahuzamugambi de Maraba* coffee cooperative by a) building a coffee washing station, b) contract a technical consultant to supervise coffee washing, and c) hire a marketing consultant to present the coffee at international trade shows. This practice has expanded to other coffee cooperatives. In these cases, all members must join the local *banques populaire* by opening a savings account. The cooperative utilizes a large loan from UBPR to deposit payments to the farmers directly into their savings accounts. At the time of the deposit, the UBPR automatically deducts the loan repayment, limiting the risk of default. Through membership of the credit union, the farmer has greater access to savings and credit opportunities.³⁷

Though many farmers have found increased earnings through greater credit access and Fair Trade, there is a potential hazard. Producing for the niche market of Fair Trade leads a demand for higher quality and quantity, which forces the farmer and farmer groups to specialize in only one crop. Specialization limits the bio-diversity and makes the crop more susceptible to disease and insects. Market over-exposure and responsiveness are also heightened. As the farmer invests in improved infrastructure particular for a certain product, he is less able to quickly respond to market changes. On the flip side, as the farmer improves the utilized technology and infrastructure, he potentially secures his hold on the niche market. In the specialty coffee market, this can be extremely lucrative for successful farmers. For details, please see the following section.

Models of Export Methodology

Often, the domestic market does not provide an adequate demand, encouraging the cooperatives to look toward export markets. Many producer cooperatives are establishing long-term beneficial relations with cooperatives and businesses in the developed world. A few methods, such as Kuapa Kokoo discussed previously, moved directly into the

developed world market by creating an independent company. This next section outlines other methods for exporting foods and goods from the developing to the developed world.

Cup of Excellence provides specialty coffee buyers access to top coffees through competitions and internet bidding. Alliance for Coffee Excellence, INC, a U.S. based NGO, trademarks and manages Cup of Excellence. It was established to recognize the best and often unknown coffee producers in a particular country, and then auction the premium coffees to specialty coffee buyers internationally. The first two competitions were held in Brazil, and have since expanded to five more countries: Colombia, Bolivia, Nicaragua, El Salvador, and Honduras. The coffees are rigorously tested in three rounds over four or five days against other coffees from their respective countries. Each round of jurors (or judges) consecutively increases with difficulty - from regional, national to international judges. They judge a coffee based on its sweetness (uniformity of beans, not number of spoonfuls of sugar in the cup), acidity, mouth feel, flavor, and aftertaste, among others. Winning coffees are auctioned on the internet, often reaping a premium price of \$4.00 per pound. Buyers are invited to be judges or to simply attend the competition. Personal relationships develop and often, buyers will visit the region of winners to explore continued relations with farmers and cooperatives from the same region.³⁸

Cup of Excellence benefits only a limited number of producers. More commonly, but similar, are connections made at trade shows, international conferences and meetings. Many cooperatives in Ethiopia created business contacts with cooperatives and businesses in the developed world, such as Green Mountain, Royale California, Elan Organic, and Cooperative Coffee at the Specialty Coffee Association of America (SCAA) annual exhibition.³⁹ Transfair benefits fair trade farmers and cooperatives by organizing sales tours, providing booth space at trade shows and informing importers of new producers.⁴⁰ The key to sustained export relations is consistent high quality produce. A producer group with high superior produce year after year will have buyers seeking them, instead of settling for a low price.

NCBA, recognizing the importance of high quality and quantity producer groups, has worked to make producer groups more efficient and effective. In 1998 *NCBA* assisted in forming and organizing 260 small coffee producer groups. Specifically, their work in El Salvador to assist cooperatives in improving their methodology can be used as a model for new groups.

Center to the *NCBA/El Salvador* model is trust. Stanley Kuehn, Director of the *NCBA/El Salvador* project recalls, "We found in the first few months of the project that the transfer of technology and ideas would not be enough. What was most needed was trust. The kind of trust that is fostered through successful business relationships... The local exporters were exploiting the farmers and grower groups and getting away with it... We set out to ensure the growers would be paid their fair share of the market price."⁴¹

This goal of preventing farmer exploitation by exporters led to the development of training programs, as well as trusting business relationships between farmers, credit unions, cooperatives, and brokers through an independent exporting firm. First, NCBA decided it was most important to generate income as quickly as possible and necessary to design activities that were market driven. To do this, NCBA built a team of the best agronomy and agribusiness technicians in the country, also including agricultural economists, computer systems analysts, training specialists and business administrators. They thought of growers “as their partners in a joint business venture.”⁴² It is important to note that all members of the team are El Salvadorian, except for the director, Stanley Kuehn.

NCBA identifies three aspects which ensures success and trust over the long-term: 1) “bring profitable market to the producers, 2) understand costs of production, and 3) share the profits.” These factors are best achieved through a well designed “*market driven, highly focused, hands on, small farmer oriented, learn-by-doing* approach to technology transfer and training.”⁴³ The NCBA program seeks to inform the farmers about producing for export markets and helping them develop the managerial capability needed to operate their farm and related agribusinesses profitably.

The NCBA team started by choosing quality partners; visited fifty cooperatives, and chose only twelve. The NCBA team considered current and future production plans, overall financial management (including debt), and general business practices. In addition to the agro-economic conditions, the NCBA team also considered the social costs and benefits before shifting into a new area or crop.

The new non-traditional crops, in this case melons and other not commonly produced foods, were allowed a trial period on a small plot of land after the cooperative voted to allow a test. The NCBA team provided technical assistance and assisted in preparing credit applications. The cooperatives were granted loans, and once they serviced them in full, a more positive business relationship between cooperatives and banks developed. Each cooperative received assistance detailed to its specific needs according to a ‘customized action plan,’ whether it entailed crop production marketing, organizational development, accounting, and finance or farm management.

NCBA took its services beyond production to working as the ‘honest broker,’ facilitating transactions between buyers and producers. They formed a new export company, EXFRUSA to facilitate exporting melons and finding reliable brokers who could assist in finding the best market price. This aspect was especially important as large supermarket chains typically purchase their produce from large brokers. NCBA filled a vital role in facilitating a transition from domestic broker to international broker to business between the cooperatives and international brokers directly.

The NCBA team identifies several lessons learned from the El Salvador model:

- A program must be market driven;
- Immediately put more money in the producers pockets to demonstrate program impact;

- Make the initial focus on the strengths of the local producers and exporters;
- Make sure good partners are selected; and
- A project must work with people where they are.

The NCBA model provides a solid methodology of providing training and access to the international market for small-farmer cooperatives. Ethiopia, the birthplace of coffee, depends on coffee exports for its livelihood, as the export of coffee accounts for 60 percent of Ethiopia's exports.⁴⁴ Ethiopia is distinct in that it offers nine varieties of high quality Arabica coffee, 34 percent of which is grown on small 'garden' or smallholder plots requiring little fertilizer or inputs.⁴⁵ Coffee production is ingrained in its culture and dominates its agriculture sector.⁴⁶ For these reasons, cooperatives have had a rather prosperous history in Ethiopia.

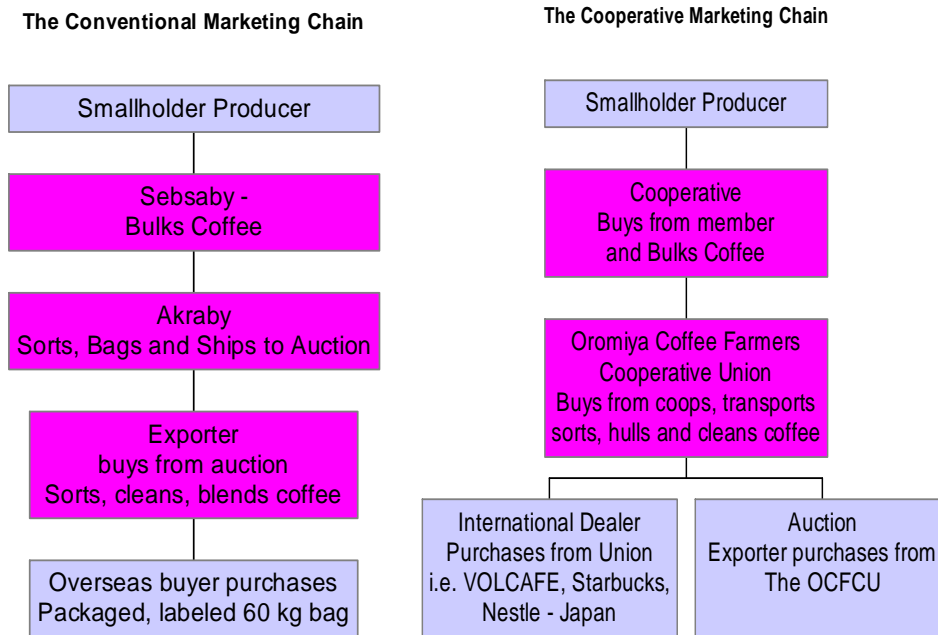
The Ethiopian government, USAID, and organizations such as ACDI/VOCA have developed programs to facilitate the services that the 4,052 cooperatives offer their 4.5 million registered farmer members.⁴⁷ There are several different levels of cooperatives. At the primary level coffee cooperatives, members are individual farmers usually geographically close to one another. The cooperatives typically provide services such as collection points for farmers' cherries, maintaining quality control, completing pulping and washing of the coffee, supply transportation services to the union and distributing information from the Ethiopia Coffee and Tea Authority on policy, planting, and processing. They often expand and provide telephone and postal services as well as credit services.⁴⁸

Unions are usually formed from two or more cooperatives providing similar services. Currently, 31 unions or secondary cooperatives exist in Ethiopia. These groups are run by elected members and usually hire full time staff for day-to-day administration tasks. Their work usually consists of warehousing, selling, and shipping coffee directly overseas for their members.⁴⁹ Both USAID and ACDI/VOCA report that sales to the international market by cooperatives have increased substantially with the increase in cooperative membership and formation.

One Ethiopian coffee cooperative provides an example of the benefits from cooperative membership. When Ethiopia relaxed regulations on coffee exports by dropping a requirement that all coffee be sold in one of two auction centers and a requirement that restricted international buyers purchase from farmers directly, Oromiya Coffee Farmer Cooperative Union (OCFCU) stepped up to facilitate a streamlined marketing chain. OCFCU, founded in 1999 as a second tier cooperative, assists with the exporting process by providing warehousing, market information, processing, transport, inputs, credit, and actual exportation. Below are the marketing chains of both the conventional method and the cooperative method.

Utilizing the new export methodology, as well as the addition of Fair Trade and organic certification, now nearly 70 percent of the export price is returned to the individual farmers, opposed to only 27 – 54 percent before.⁵⁰ The primary cooperatives return this increased share as dividends to its member farmers.

Figure : Changes in the coffee marketing chain⁵¹



Exporting to the international market helps bring farmers out of poverty by providing a larger market for their goods. The international market is demanding of high quality and quantity. Cooperatives bring farmers together, providing services which increase quality and quantity, as well as offer a collective bargaining voice in the mired market.

The Coffee: It Starts With the Bean

Two kinds of coffee, *arabica* and *robusta*, are produced and sold on the international market. Arabica has a milder flavor, is more expensive, and is more temperamental about climate and altitude than robusta coffee, which is more durable, and thus easier to grow. The difference is shown in their taste. Arabica is commonly used in specialty coffees requiring stronger roasts. Robusta coffee, on the other hand, is most often used in soluble coffees, with a dash of Arabica for flavor by the big four, Nestle, Kraft, Procter & Gamble, and Sara Lee.

Coffee Plant Fact: “Each hectare of coffee produces 86 lbs of oxygen a day, which is about half the production of the same area in a rain forest”
(source: Coffee Research Institute)

Nearly 75 percent of all coffee produced in the world is Arabica, but the amount of robusta has greatly increased in the past few years with the introduction of Thailand to the world coffee market.⁵²

Arabica coffee thrives in two optimal growing climates - subtropical and equatorial regions. The prime temperature is 15-14 degrees Celsius (59-75 degrees Fahrenheit) with distinct variations between night and day temperatures. The Coffee Research Institute found that extreme differences in daytime and nighttime temperatures improve taste of fruits.⁵³

In subtropical regions, Arabica coffee grows best at altitudes of 1,800 – 3,600 feet with distinct rainy and dry seasons, resulting in one growing season and one maturation season. Mexico, Jamaica, and Zimbabwe house such conditions.

Equatorial regions such as Kenya, Colombia and Ethiopia, provide frequent rainfall, optimum temperature, and higher altitudes of around 3,600-6,300 feet. These areas have two harvesting seasons because of the near constant rainfall, which also forces producers to use mechanical dryers.

The Arabica plant flowers every three to four years with nurturing. The Arabica plant is self pollinating, whereas the robusta plant relies on cross-pollination. The root system of the coffee plant usually absorbs about 400 – 500 meters square utilizing vertical, tap, and lateral roots. The roots thrive in soil abundant with nitrogen, calcium and magnesium. While germinating, farmers often use soil that is divided into three parts - one part soil, one part coarse sand and one part cattle manure.⁵⁴

Once the plant matures it bears a red, glossy, firm berry. The coffee beans develop inside the berries, which is harvested in one of three manners: selectively, stripping or mechanical. The selective manner is the least time efficient as the harvesters must pick berries from the same plant several times as the berries become ripe, but maximizes the yield from a single tree. In the stripping method, once approximately 75 percent of the berries are ripe, the coffee tree is stripped of all berries that are ripe, unripe and overripe. They fall onto a plastic sheet and are then sorted. The mechanical method is basically the same as the stripping method, but done with a machine as opposed to by hand.

The next step involves removing the bean from the fruit by either the dry or wet method. Usually this process is done collectively by a cooperative or by a private processor. The wet method involves using water and pressure to remove the bean from the cherry, which then must be fermented for a day or two. The wet method is relatively new to the coffee world, but connoisseurs claim that wet processed coffee is cleaner, brighter and fruitier - adding to its acidity.

Coffee Plant Fact:
“About 12-20 kg of export ready coffee will be produced from every 100 kg of coffee cherries harvested.”

(source: The Coffee Research Institute)

If the dry method (also known as the natural method) is used, the cherries dry naturally in the shade or by mechanical dryers and then are de-hulled for the next processing step. If only mechanical dryers are used, the dryer should be set above 40-45 degrees Celsius, because the higher temperature damages the taste. The natural process is known for adding a heavy body, sweet, smooth, and complex taste.

Unfortunately, the cherry pulp, the fruit without the bean, creates a by-product known as coffee pulp, which constitutes about 43 percent of the coffee weight.⁵⁵ Coffee pulp can be fermented and added to organic fertilizer, but is sometimes thrown in a river, adding to environmental pollution.

All beans must be dried to 11–12 percent moisture content. Typically the beans are basked in the sun for one to two weeks on sunny cement patios in long rows no more than 5 cm high. These rows are shifted every thirty minutes for the first few days to prevent fermentation and moldy beans from developing and less often as the beans become dryer.

Coffee and Fair Trade

Coffee keeps Americans going with more than 300 million cups a day. It is second only to oil in terms of dollars of trade worldwide, yet many coffee producers struggle to maintain a subsistence level of living.⁵⁶

While coffee connoisseurs will pay a premium for Arabica and it accounts for the majority of coffee produced in the world, its prices are still falling. This is due to increased robusta production because of large quantities of robusta coffee and their depressed prices.

Speculation on the New York and London commodity stock exchanges affect the price of coffee. In 2001 this system contributed to coffee prices plummeting to a 30-year low in 2001; the annual average ICO composite price was 46 U.S. cents per pound.⁵⁷ Prices such as these barely cover production costs for the 10 million-smallholder coffee dependent farmers, who produce approximately 70 percent of the world's supply. Most cultivate less than 10 hectares in 80 countries in Africa, Asia and Latin American.⁵⁸

Fair Trade Organizations bought coffee from Fair Trade certified farmers at prices that covered production, approximately \$1.26 / pound for Fair Trade and \$1.41 /pound for Fair Trade Organic. Today the price of coffee is much higher, around \$1.10/pound. With some specialty coffees higher than the Fair Trade Organic price.⁵⁹

Even with the increased price of coffee on the commodity market, Fair Trade certified coffee is the fastest growing segment of the specialty coffee market and makes up about 2 percent of the world market. Specialty coffee comprises \$1.7 billion of the \$5 billion U.S. coffee market (35%).⁶⁰ In 2003, 18.5 million pounds of green coffee was Fair Trade certified with a value of \$208 million in retail sales. This growth represented a 90% increase in one year.⁶¹

In 2003, U.S. coffee roasters selling Fair Trade certified coffee for at least two years saw an average of 125% increase in sales. For example, Green Mountain Coffee Roasters saw its Fair Trade sales grow by 92% in 2003. Currently, more than 300 US coffee roasters and importers are licensed to sell Fair Trade coffee in some 20,000 outlets.

Despite the increased market share and exceptionally positive outlook of the Fair Trade market niche, not all fair trade certified farmers will be able to penetrate the market. Fair Trade retailers and consumers demand consistent quality and have flavor preferences. Several certified cooperatives have been unable to sell their coffee at Fair Trade prices, causing FLO to only certify a cooperative as Fair Trade if it can prove it has the ability to

sell at Fair Trade prices.⁶² When drafting and developing a Fair Trade certification application, one must consider: will the farmers be able to consistently produce quality coffee and will there be a buyer?

Bananas and Fair Trade

The banana is possibly the world's most popular fruit, considering it has a market of nearly \$5 billion a year, which makes it the most important food crop after rice, wheat and maize.⁶³ Despite there being 200 varieties of bananas in the world, the most popular variety worldwide is Cavendish. Brazil and India are the largest producers of bananas, but Ecuador is the world's largest exporter.⁶⁴

Tea and Fair Trade

China and India lead the world in tea exports, though Asia and Africa lead in tea fair trade exports.⁶⁵ The World Bank, IMF and other global institutions push developing nations, mostly India and Central American nations, to increase tea exports at the risk of oversupplying the world demand for tea.⁶⁶ Fortunately, in 2003 FLO reported a 53 percent increase in Fair Trade tea with the largest importers being Great Britain and Germany.⁶⁷

Typically, Fair Trade tea is produced by smallholders or cooperatives who receive a 50 cent to USD \$1 premium per kilo depending on the processing method, in addition to the Fair Trade price. According to Equiterre Canada, there are only 48 registered producer groups in eight countries, China, India, Nepal, Sri Lanka, Tanzania, Uganda, Vietnam, and Zimbabwe. These groups are constrained by a low demand for fairly traded tea. They are able to sell only a limited amount of tea on the Fair Trade market.⁶⁸

Nearly 39 percent of fair trade tea is certified organic. Organic tea benefits not only the consumers, but also the farmers and the environment. Equiterre reports that in Sri Lanka, a cooperative changed seven tea gardens to organic and as result have also improved the equality of tea being produced and increased jobs in the region.

In the shift from fertilizer dependent tea to using natural compost from local livestock, farmers can experience negative short-term effects. In the case of the Sri Lankan cooperative, the tea bushes were so dependent upon fertilizers that during the initial cut back in fertilizers, a drop in production was realized. This was reversed once sound organic sustainable practices were established however.⁶⁹

Important Links:

- <http://www.fao.org/es/ESC/en/20953/21035/index.html>

Appendix 1: Organic Certification Requirements and Process

For a complete list of USDA Accredited Certifying Agents, go to the following website:

<http://www.ams.usda.gov/nop/CertifyingAgents/Accredited.html>

Organic Trade Association (OTA): www.ota.com

Appendix 2: For more information regarding Fair Trade and Cooperatives

Aid to Artisans: www.aidtoartisans.org

The Craft Center: www.craftcenter.org

Coffee Kids www.coffeekids.org

Café Campesino www.cafecampesino.com

Committee for the Promotion and Advancement of Cooperatives www.copacva.org

FairTrade Federation: www.fairtradefederation.com

International Fair Trade Association www.ifat.org

Rainforest Alliance: www.rainforest-alliance.org

Appendix 3: Information regarding the plants

Bananas:

www.bananalink.org.uk

International Network for the Improvement of Banana and Plantation: www.inibap.org

Coffee:

The Coffee Research Institute: www.coffeeresearch.org

Alternative horticulture crops:

FAO: www.fao.org/ag/AGP/AGPC/doc/hort/hcpubl.htm

Plants/Crops General

Plant Database: www.plants.usda.gov

Appendix 4: Cooperative Checklist

Framework for Cooperative Development:

<http://www.coopdevelopmentcenter.coop/publications/frameworkrevized9-03.pdf>

Framework modified by Land O'Lakes:

<http://www.coopdevelopmentcenter.coop/publications/frameworkrevizedbyLOL.pdf>

ENDNOTES

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- ² Develtere, Patrick. "Cooperatives and Fair Trade" COPAC Open Forum, Berlin 2005.
- ³ *ibid*
- ⁴ Taken from Fair Trade Federation's website: www.fairtradefederation.com
- ⁵ Taken from Ethical Trade's website: www.ethicaltrade.org
- ⁶ One of these organizations, the Craft Center is now affiliated with CHF International and Ten Thousand Villages came out of early Mennonite projects.
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- ⁸ Ford Foundation. *Sustainable Solutions*, "Using Markets to Build Natural Assets and Financial Assets."
- ⁹ Correspondence with Sam Filiacci
- ¹⁰ TransFair USA.
- ¹¹ Equal Exchange's website: www.equalexchange.coop
- ¹² Fredrick, Donald A. *Co-ops 101: An Introduction to Cooperatives* USDA Cooperative Information Report 55
- ¹³ ICA website: <http://www.ica.coop/ica/ica/ica-intro.html>
- ¹⁴ *ibid*
- ¹⁵ *Cooperative Evolution, Phase I*
- ¹⁶ *Cooperative Evolution, Phase II*
- ¹⁷ *Ibid*
- ¹⁸ *Cooperative Evolution, Phase V*
- ¹⁹ *Cooperative Evolution, Phase IV*
- ²⁰ ICA, "The ICA: A Community of Co-operators"
- ²¹ Graham Melmoth, "ICA Centennial"
- ²² ICA, "The ICA: A Community of Co-operators."
- ²³ ICA, "What is a co-operative." (8 January 1996).
- ²⁴ *Ibid*
- ²⁵ ICA, "What is a co-operative." (8 January 1996).
- ²⁶ *Analysis of U.S. Cooperative Development Experience*
- ²⁷ *Cooperative Evolution, Phase III*
- ²⁸ Jon Hellin and Sophie Higman. *Feeding the Market: South American Farmers, Trade and Globalization*. Kumarian Press (2003).
- ²⁹ Graham Melmoth. "ICA Centennial."
- ³⁰ *Agricultural Cooperatives in Ethiopia (ACE) Year 2003 Annual Programmatic and Financial Report*. p.5
- ³¹ Hellin, p. 197.
- ³² *The Economist*. "Calling across the divide." (March 10, 2005).
- ³³ The Fairtrade Foundation. "Spilling the Beans on the coffee trade" (2002).
- ³⁴ Correspondence with Mike Keeton, Transfair USA, March 8, 2005.
- ³⁵ The Fairtrade Foundation. *Spilling the Beans on the Coffee Trade*. (March 2002).
- ³⁶ Hellin and Higman, 203, p. 205.
- ³⁷ WOCCU "A Technical Guide to Rural Finance, Exploring Products," WOCCU Technical Guide #3. (3 December 2003).
- ³⁸ www.cupofexcellence.org
- ³⁹ *Agricultural Cooperatives in Ethiopia (ACE) Year 2003 Annual Programmatic and Financial Report*.
- ⁴⁰ Correspondence with Mike Keeton, Transfair USA, March 8, 2005.
- ⁴¹ *NCBA*, p. 4.
- ⁴² *Ibid*, p. 4
- ⁴³ Correspondence with Stanley Kuehn, December 16, 2004.
- ⁴⁴ Ethiopian Coffee and Tea Authority (2004).
- ⁴⁵ Alisha Myers (2004) "Old Concepts Revisited: Are Cooperatives the Way Forward for Smallholder Farmers to Engage in International Trade?" London School of Economics and Political Science, University of London. unpublished dissertation.
- ⁴⁶ Myers (2004).

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- ⁴⁷ Myers (2004).
⁴⁸ www.cafecampesino.com
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⁵⁰ Myers (2004).
⁵¹ Myers (2004).
⁵² www.coffeeresearch.org, Oxfam
⁵³ www.coffeeresearch.org
⁵⁴ www.coffeeresearch.org
⁵⁵ Ricardo Bressani, "Coffea Arabica" <www.fao.org/ag/aga/agap/frg/afri/ch/data/540.htm>
⁵⁶ Specialty Coffee Association of America: www.scaa.org/press_resources.asp
⁵⁷ Food and Agriculture of the United Nations, Commodities and Trade, Economic and Social Department
⁵⁸ Oxfam: International Commodity Research – Coffee
⁵⁹ Correspondence with Sam Filiaci
⁶⁰ Specialty Coffee Association of America 2003 Report
⁶¹ TransFair USA
⁶² Correspondence with Sam Filiaci
⁶³ Rainforest-Alliance: www.rainforest-alliance.org
⁶⁴ Hellin, Jon and Sophie Higman. *Feeding the Market: South American Farmers, Trade and Globalization*. Kumarian P (2003).
⁶⁵ FLO
⁶⁶ Jushua Kurlantzick, "How Americans' bad taste in coffee is putting Juan Valdez out of business." *Washington Monthly* 31 July 2003.
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⁶⁸ <www.equiterre.qc.ca>
⁶⁹ <www.equiterre.qc.ca>