MAKING TRADE WORK FOR THE PRODUCERS

15 years of Fairtrade Labelled Coffee in the Netherlands

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November 2003

The Max Havelaar Foundation is the Dutch member of Fairtrade Labelling Organisations International, www.fairtrade.net

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Introduction

This year, Max Havelaar is celebrating its 15th anniversary, something to sit back and think about. The aroma that greets you is one of coffee, the only product that is, in fact, turning 15. Its brothers and sisters are all quite a bit younger.

Other, unfortunately less pleasant, circumstances also give us good reason to focus special attention on coffee. The crisis on the coffee market is now entering its fifth year. Price levels are at historically low levels, with disastrous consequences for many developing nations and regions that are largely dependent on income from coffee. National economies are bleeding, government budgets are shrivelling and millions of small farmers and plantation workers have been cast back to the lowest levels of subsistence. Families have no money for schooling and medical aid, some unemployed coffee pickers no longer have a roof over their head, and famine has returned to some coffee regions. At the same time, cynically, figures show that more money than ever before is being earned from the sale of coffee products in the western consumer market.

The world has not solved its commodity problem. This all too familiar problem for the poorest countries has raised its ugly head once again at the start of this new century. Max Havelaar was set up to offer support to groups of producers who wish to create prospects for themselves, and to show that coffee trade can also be approached fairly. In this report, we will review what has become of these aims over the course of 15 years.

Firstly, we will briefly examine the way how the Max Havelaar initiative has developed since its inception. In the second chapter, we examine the certification mark against the background of the developments in the world coffee market. Thereafter, we will look at the effects on the farmers' organisations that could supply the Fairtrade market. Fifteen years is also a reasonable period to enable us to ascertain whether their development plans have taken root and, indeed, brought concrete benefits. For this purpose, we profile several organisations. Finally, a number of main points are listed.

1. Fifteen years in a nutshell

Max Havelaar: mobilizing consumer power

The Max Havelaar label was officially launched on 15 November 1988. At this time, coffee with the certification mark was introduced into Dutch supermarkets. A new model of development cooperation was born. One in which the main role was assigned to the consumer.
Before, concerned citizens who wished to support the people in the South were accustomed to doing so by means of collection boxes, bank accounts, becoming a donor to development organisations, and a well-considered vote during Parliamentary elections. Now, a new option arose that was accessible to all. Besides being citizens, people are also consumers, who exercise considerable economic influence when doing their daily shopping. The Max Havelaar scheme was set-up to mobilize consumer power in the struggle against poverty. Max Havelaar invited all coffee drinkers to help coffee growers at the bottom of the commercial chain, to achieve a structurally better point of departure, by buying their 250-gram packets of coffee with deliberate thought.

One Mexican coffee farmer's well-chosen words reflect the essence of the mission of Max Havelaar: "Aid is wonderful, thank you. But a fair price for our coffee is much better. Then we no longer have to hold out or hands." This, in essence, is the logic behind the foundation of Max Havelaar. The certification mark was started to break up the mechanisms that keep small farmers in developing countries dependent and poor. The world coffee market, which is second only to crude oil in terms of turnover, provides a stark illustration of the dependency relationships that exist.

The current estimate is that worldwide, about 25 million producers make their living from coffee cultivation, with 70% of all coffee being grown on farms smaller than 10 hectares, most no larger than two hectares. None of these millions of small producers have even the slightest influence on price setting in the world coffee market, whereas the price is key to determining their living conditions. And that is, alas, not a positive influence. Coffee prices are characterized by strong fluctuations, and the long-term trend is downward. An all time low was seen recently in 2001.

In addition, most small producers have great difficulties to claim a proportional share of the world market price for themselves. They lack capital and do not have sufficient insight or negotiating power to influence the market to their benefit. Usually, they sell their coffee immediately after the harvest. The first mechanized processing, transport and export of their green beans must be left to others, who are anxious to reap good earnings. The coffee farmers that stood at the cradle of the Max Havelaar initiative were mostly Latin American. They told bitter stories of abuse of power by local landowners, money-lenders and traders. While they were charged high prices for credit and input such as seed and equipment, the payment they finally received was far below the actual market value of the coffee. They hoped to put an end to this kind of exploitation with the support of Western consumers.

The choice for a certification mark

Since the late 1950s, the problems of coffee farmers and other marginal groups of producers have been recognized by alternative trade organisations. SOS Wereldhandel, subsequently renamed the Fair Trade Organisatie, is considered the pioneer of Fairtrade. *Stichting Ideële Import* (Idealistic Import Foundation) had also

been active in the Netherlands for years when the Max Havelaar Certification Mark was launched. These organisations bought directly from producers in the Third World, and sold their products via Third World Shops and churches. The economic aims of alternative trade were not always of high importance for those who handled local sales. They mainly sought an effective medium for informing and increasing the awareness of their customers and related groups such as educators, churches and local clubs and societies. These activities certainly did not miss their mark. Over the years, a remarkably high public awareness of the unfair relationships in world trade developed in Dutch society.
But this broad awareness was not capitalized upon effectively, so that the direct effect on producers remained disappointing. In 1987, fair coffee had captured no more than 0.2% of the market. The church organisation *Solidaridad* saw this great unused potential and looked for ways to break the impasse. The biggest problem was the limited number of outlets in an alternative sphere to which the average shopper seldom or never came. It was therefore important to put the coffee within daily reach of consumers by introducing it to the regular distribution channels. It had to be put on supermarket shelves.

To achieve this, it was ultimately decided to set up a certification mark. A certification mark seemed the best way to achieve an optimal division of tasks and synergy between the parties involved. The alternative would be to introduce a new brand to the market. However, this would result in competition with all other coffee roasters, without a sufficient marketing budget available for the operation. In contrast, a certification mark would be available to any company willing to conform to the rules of play. In this way, every coffee roaster could become a partner instead of a competitor, contributing its expertise, as well as its existing retail and institutional market contacts, to the success of Max Havelaar.
The Max Havelaar Foundation (*Stichting Max Havelaar,* SMH) became the independent owner of the certification mark. It stood apart from the actual trade transactions and the commercial interests associated with it. Its responsibility was to set the conditions, hand out the label, and to check that it's users comply with the agreements made. The Foundation also registered producer groups who met the criteria to become suppliers. A final core task of SMH would be the promotion of the label. The idealistic goals should be well communicated, to allow the consumer to realize that there was a good reason for paying a slightly higher price. These certification mark tasks were financed by licence rights: a small fee on coffee sales. The initial subsidy mainly came from churches that, like friendly organisations in later years, were always prepared to assist with financing special projects.

A flying start and a prosperous flight

Max Havelaar came, saw and conquered. At least, that is how it looked initially. Market research indicated that the certification mark could eventually capture 14% of the coffee market and immediately following the start-up, things seemed to be moving swiftly in that direction. Fifteen small and medium roasters signed up for the certification mark, and one supermarket after another, albeit after initial hesitation, opened their shelves. This all went hand in hand with a great wave of publicity. By the end of 1988, 65% of the Dutch public had heard of Max Havelaar, and 2-3% were actually buying certification mark coffee, which led to much euphoria. Whoever now reads the articles of that time tends to shake his head. The prognosis gradually became more realistic when there came more insight into the barriers that may prevent consumers from actually converting their words into action. That does not alter the fact that by the end of 1989, the Max Havelaar label had come from nowhere to capture 1.7% of the coffee market.

One roaster watched and waited, and continues to wait today. In 1987, when the survey figures were released showing the enormous potential of fair coffee, the market leader Douwe Egberts (DE) initiated talks with the IOW (Inter-church committee for global food issues). When the certification mark was actually launched, DE announced that it also intended to take a step. The company would purchase 3% of its coffee according to the Max Havelaar principles, and process these volumes into its regular blends. A few months later, however, DE reversed their promise , probably because their fears had proved less founded than expected. In October 1989, the market leader founded the Roasters and Planters Foundation, which started buying small amounts of coffee directly from farmers' cooperatives. But, at the conventional market price, thereby falling short of the most important point of the Max Havelaar conditions. Much later, the market leader began supporting coffee projects in Uganda, Vietnam and Peru. Until today DE has not committed itself to fairer prices. During the past year, however, the company has been hard-handed reminded of its social responsibility in the supply chain.

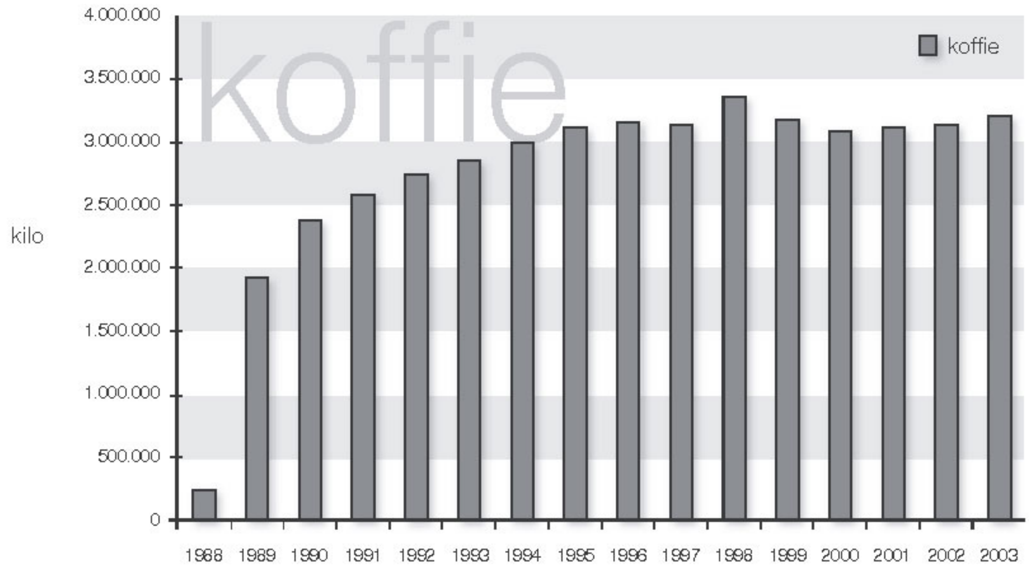
The growth of labelled coffee sales continued steadily. The first years showed high growth rates, which later became smaller. What has remained unchanged through the years is the hitherto unknown breadth of civil society support and the considerably sympathy for the Max Havelaar initiative. To mention a few contributions which underpin the success of the certification mark:

- Many respected Dutchmen were prepared to fulfil a role as ambassador, or otherwise associate themselves with Max Havelaar. One remembers especially the names of Professor Jan Tinbergen and Prince Claus.
- From a political perspective, support came from across the spectrum. One good example is that countless government institutions and services, from European to local municipal level, switched to certification mark coffee.
- The civil society has proven itself an enthusiastic partner and a good friend. SMH has cooperated with a broad spectrum of organisations in a host of actions, campaigns and projects: development organisations, schools and universities, churches, women's organisations, the sports world, trade unions and youth organisations.
- There were constantly new incentives for media attention, whether it concerned current affairs programmes on radio and TV, business publications for the corporate sector, local newspapers or lifestyle magazines. Sometimes, the news was positive: the results for farming partners or the introduction of new products such as chocolate, bananas and tea. Sometimes, there were negative causes such as the collapse of the coffee price or the devastating effect of Hurricane Mitch.

Developments in marketing

With much free publicity, the boundless energy of active grass root support and virtually without a budget, a group of the most motivated consumers was included in the list of regular customers. After that, it became more difficult. The graph below shows the development of coffee sales over 15 years.

Sales of Max Havelaar labelled coffee in the Netherlands, 1988-2003



In order to recruit new consumer groups, it became increasingly important to approach marketing in a professional way and use tried and tested mass communication media. Advertising rules dictate that potential consumers should be reminded of your message frequently. SMH twice received support from the Ministry of Foreign Affairs, in 1993 and in 2000, to do a (long-term) media campaign.
Max Havelaar primarily enjoys the support of a stable, loyal core of customers. Around it there is another layer of consumers that can also be addressed on sustainability principles, and will indicate this in market research surveys. However, their desire for ethical consumption can easily be offset by other considerations. Annual research presents a fairly constant picture. In addition to a customer's positive buying intentions, four other factors also are important.

1. **Brand recognition**
   Here, one disadvantage of the certification mark framework rears its head. The packages are all different, with the brand in the foreground and the label as a kind of endorsement. However, the major "brand recognition" of the label is the Max Havelaar name. Many consumers can therefore not find what they are looking for. They think that Max Havelaar products are not available at their supermarket, while in reality the supermarket chains Aldi and Lidl are almost the only ones that do not sell certification mark coffee.
2. **Perception of quality**
   Max Havelaar suffers from the historical prejudice that the certification mark coffee is socially correct, but does not taste good. Our roots in activism work against us in this instance. Numerous taste tests have since proved the opposite. Strikingly, due to the deterioration over many years of coffee plantations that had to cope with conventional prices, many farmers' organisations that participate in the Fairtrade market have built up a tangible advantage where quality is concerned. But prejudices are hard to break, and the variations in packaging, one more attractive than the next, have not done us any good. The outward appearance of the label was, until last year, expected more to persuade than to seduce.

3. **Identification options**
   This point is related to the previous one. Max Havelaar appeals to people who are sympathetic to other societies, and who would grant their inhabitants a better quality of life. It is obvious that the world should be different. This does not imply that all members of this group would describe themselves as a starry-eyed idealist. Many people do not respond to anything that smacks of pedantic severity or Calvinism, as if one should not enjoy life. The challenge for Max Havelaar is to better portray its image and charisma in this regard.
4. **Price difference**
   Max Havelaar products are more expensive than their non-certification mark equivalents. In the case of coffee, this difference has amounted to an average of approximately 25% in the course of 15 years, with a difference of 35% at the time of writing. It is obvious that this price difference influenced buyer behaviour, however this influence is difficult to ascertain unequivocally. Growth and stagnation in the sales of Max Havelaar coffee were often at odds with the price difference of the moment. Other factors then seemed more important than the price level. In addition, it is important to note that coffee drinkers are prepared to pay for the *added value* that they attribute to certain coffees.

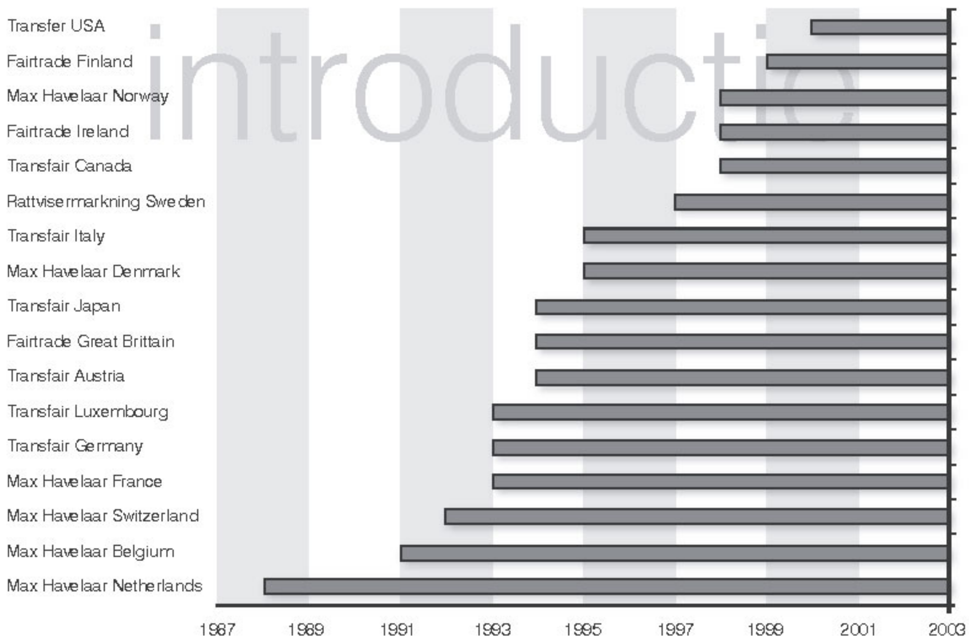
Amplified brand familiarity on the supermarket shelf and an underlining of quality in Max Havelaar products are necessary for further growth. The coffee must achieve an A-brand image. This does not concern the objective taste characteristics of the product, but rather association and perception. The product image must fit the attitude to life of well-informed, contemporary consumers, prepared to pay for the high demands they make of products. Social responsibility is thus a criterion that is implicit, if not exclusive.
To achieve this, important improvements have been implemented over the past year, in close cooperation with the licence users that supply the retail trade (Neuteboom, Fair Trade Organisatie, Ahold Coffee Company, Drie Mollen). The mishmash of packaging has been replaced by a single uniform version with an attractive design, in which Max Havelaar is the standard-bearer rather than the brand in question. The label itself has also been subjected to re-styling. The transition is supported by a media campaign and several projects with lifestyle magazines.

The first positive signs from the consumer market have already been noted, but it is too soon to measure the definite effects. In the meantime, the out of home market has continued to grow by 7% in 2002. The increased share represented by the business sector in this segment is noteworthy, while previously, it was mainly the public sector that was supplied. Customers include IKEA, ING Bank, Vodafone, Shell, SNS-bank and Unilever.

Expansion

What started out in the Netherlands has since established itself in 17 industrialised countries. Shortly after the kick-off in the Netherlands, plans were hatched in neighbouring countries to set up a similar system, and SMH assisted with the formulation of these plans. Belgium was the first in the line of successors and Switzerland was soon to follow, and became the most successful. The two largest supermarket chains, Migros and Coop, welcomed the Swiss Max Havelaar Certification Mark from the beginning, and rigorously applied their marketing power for the success of the undertaking. This proved to be a very important success factor.

Launch of Fairtrade labels worldwide.



The range of products bearing the certification mark has increased extensively over the years, after all, not only coffee producers are subject to unfair trade relations. The Netherlands developed the certification mark for cocoa/chocolate (1993) and for bananas (1996). The latter product has come to represent the largest commercial value within Fairtrade labelling. Germany started in 1994 with tea, which brought the first plantations into the system.
Many agricultural products that are exported by developing countries are produced by hired labourers. This means that the workers suffer when there is a drop in prices, or other problems occur in the market, often combined with glaring abuses of workers' rights. As the workers are not the trading partners, this creates new challenges for the Fairtrade system. Apart from the smallholders' model, Fairtrade labelling has meanwhile recognised the hired labour model. This model has three core elements.

1. The employer undertakes to comply with a number of basic workers' rights (ILO conventions, national legislation, social security). Where these criteria exceed legal requirements and require large investments, the implementation timeframe is adjusted relative to the actual earnings from Fairtrade.
2. He receives a product price that has taken into account the costs of compliance with the criteria.
3. A premium on top of the price is aimed directly at the workers, in order, just as in the smallholders' model, to support them to catch up on their development

deprivation. The deployment of these premium funds via *Joint Bodies* (consisting of management and workers) plays a major role in Fairtrade labelling's plantation work.

By the end of 2002, there were nine certified products on the international Fairtrade list. Of these, six can be found on the Dutch market: coffee, bananas, orange juice, tea, honey and chocolate. SMH places special focus on coffee and bananas because these are the strongest products that still retain the necessary untapped potential. Continued growth in these products can pave the way for others.

Restructuring the organisation

The expansion to other countries also resulted in a process of change for the organisation of certification mark tasks. During the initial years, SMH was the only player. The Foundation's policies were determined by a board in which those directly involved such as development organisations, consumer organisations and the alternative trade, had direct representation. Partnership with the farmers was a crucial concept. The producers had three representatives in the board, while from 1990 a bi-annual General Producers Assembly (GPA) was organised, where partner organisations discussed the main policy elements. With the growth in the number of partners, bi-annual regional meetings were added, during which also the representatives for the GPA were elected.
Specific tasks were handled by committees of experts. There was a committee that discussed pre-financing issues, while the Register Committee was responsible for the admission of farmers' organisations to the list of registered sources for the Fairtrade market. This committee based its decisions on monitoring reports submitted by SMH staff. Once other countries obtained a share in coffee matters and as the number of registered partners continued to grow, the monitoring work was distributed per region among several national labelling organisations. The register coordination work was also decentralised. In 1994, the cocoa register moved to Basel, and the honey register to Germany. The coffee register was coordinated by Max Havelaar Netherlands until 2001.

The desirability of a more drastic pooling of energy and resources was already obvious in the early 1990s, but this took some years to achieve. For a long time, it seemed that differing opinions concerning plantation work and the degree of centralism could not be bridged. Finally, in 1997, the time was right for the foundation of FLO, *Fairtrade Labelling Organizations International*. All operations related to producers and importers were brought together under this umbrella, while the marketing of the label and contact with parties in the sales market remained a national concern.
Since its foundation, FLO has made much progress in harmonising product criteria and standardisation of the monitoring work. Inspectors in the producing countries replaced monitors from the national labelling organisations. The organisational structure, distribution of competences and procedures have been attuned to conform with ISO, which implies that, contrary to the former register coordination work, standard setting and certification have now been separated. Since July 1st, 2003, the Certification Unit even functions as an independent Ltd. company. All decision-making bodies (Board, Standard Committee, Certification Committee) have a multi-stakeholder composition. The Fairtrade Forum, the offspring of the earlier GPA, that was recently held in London, brought approximately 300 people together, of whom 110 were producer representatives from 51 countries. Altogether they represented farmers, workers, trade unions, employers, traders (commercial and alternative),

manufacturers, NGOs, retail organisations and national labelling organisations. A milestone in the now 6-year existence of FLO was the introduction of the new international logo, which can since be seen on Max Havelaar packaging, and will gradually find its way to the various markets.

Market results of Fairtrade labelling worldwide

TABLE: FLO sales (x 1,000 kg) of coffee (2001-2002) and other products (2002)

Marktresultaten van *fairtrade labelling* wereldwijd

FLO - verkopen in tonnen

	koffie 2001	koffie 2002	groei/ afname in %	Bananen	Cacao	Honing	Thee	Sinaas appelsap
Austria	332	409	23,2%	1.775	77	2	8	36
Belgium	582	632	8,6%	1.314	3	46	1	11
Canada	258	425	64,7%		43		4	
Denmark	697	655	-6,0%	365	13		22	
Finland	97	109	12,4%	2.833	7	25	5	
France	945	1.386	46,7%	696	33		31	30
Germany	3.128	2.942	-5,9%	117	339	378	155	177
Great Brittain	1.648	2.079	26,2%	11.426	551	100	806	123
Ireland	62	60	-3,2%				1	
Italy	457	243	-46,8%	82	163	38	42	44
Japan	7	10	42,9%				8	
Luxemb.	77	68	-11,7%	178	17	1	1	23
Netherl.	3.105	3.140	1,1%	1.996	106	66	68	25
Norway	179	232	29,6%	154	0		2	43
Sweden	254	289	13,8%	586	50		17	
Switzerl.	1.306	1.246	-4,6%	15.090	254	385	42	875
USA	1.263	1.854	46,8%		2		55	
TOTAL	14.397	15.779	9,6%	36.612	1.656	1.039	1.266	1.387

From 1999, Fairtrade labelling grew by 20% per annum for all products jointly. For coffee, the annual average growth was 10%. As can be seen in the table, countries show marked differences: the USA, England and France are moving fast. In other countries, including the Netherlands, growth was limited.
Recent research is particularly optimistic about the potential of so-called sustainable coffees: Fairtrade, organic and eco-friendly (a label that has thus far shown specific prominence in the USA). Since 1999, this market has grown five times as much as the regular coffee market. Fairtrade enjoys the largest volume, but organic is growing faster. The interviewees, trend watchers from the coffee industry in 12

countries, expect the growth spurt to continue, especially from 2004, with most success for double-certified coffees – Fairtrade and organic. This new growth is also predicted for the Netherlands.

2. Max Havelaar in the coffee market

The model

Gaining a better income from their coffee is a Herculean task for small farmers - poor people, often without any education. It requires a process that is also referred to as empowerment. To tip the balance of power in their favour, they must try to become an attractive trading partner for coffee buyers, and add as much value as possible to their product before it changes ownership. Obviously, this is far beyond the reach of an individual farmer. Small farmers can only become a party in the coffee market if they join their volumes and forces. Forming organisations gives the farmers a better base for negotiation, and enables an effective approach to their socio-economic problems. This is why Max Havelaar works exclusively with farmers' organisations, which can be grass-root cooperatives or associations, but also the umbrella organisations they have created.
The success of an organisation depends on the power that the farmers manage to develop together, but opportunities need to be offered first. The mainstream trade raises structural barriers that drive the weakest producers from the market, or tie them into dependency relationships. In the Max Havelaar model, following links up in the coffee chain see to level these barriers. The primary producers are offered fair trade conditions as a tool with which to work themselves up from their deprivation. The realisation of their economic potential is the basis for social development, which was the original aim.

Trade conditions

The Max Havelaar model distinguishes between trade conditions and producers' criteria. Importers that purchase according to the certification mark must comply with the following conditions.

1. **Direct purchasing**
   Traders and exporters need their margin, but often take more than their fair share. By purchasing directly from farmers' organisations, the middlemen are eliminated, and therefore also the rake-off.
   Handling exports themselves entirely is not always the best option, especially for starting organisations. It can prove to be more efficient to leave the export to an external organisation with the necessary expertise, providing, of course, that it is a reliable partner. Of the currently certified, 74% handle their own exports independently, while the rest sell their coffee through an external exporter who, for this purpose, is contracted to FLO. The essence of this first trade condition is to keep the supply chain as short as possible and entirely transparent: it must be possible to follow the coffee lots and the cash flow from A to Z.
2. **Pre-financing**
   Should the organisation require so, 60% of the purchase price must be made available before the harvest as trade credit. This condition is of vital importance. Local banks usually view starting small farmers' organisations as non-creditworthy. These nevertheless require financing to be able to pay the members out on delivery. If the organisation cannot do this, it simply has too little to offer to the farmers; they have trouble enough controlling their need for cash until the harvest.
3. **Long-term trade relations**
   Insecurity about income makes farmers and their organisations become hesitant to invest in, for instance, soil conservation or the best maintenance for their

coffee plants. For this reason, the importers are asked to enter into contracts for longer periods, wherever the market development allows.

4. **Premium on top of the market price**
   The farmers with whom Max Havelaar works start off with an enormous disadvantage in terms of transport, processing equipment, means of communication, etc. Irrespective of the market price levels, a small development premium is paid to assist the organisations to make up for their investment deficit, and to offer members the social and other services that would otherwise be unaffordable.
5. **Guaranteed minimum price**
   The world market price is very volatile, and usually too low. That is, lower than is required for sustainable production. In economic jargon it is termed that certain production costs are externalized, which is seen as a form of market failure. Commercial transactions do not take certain costs into account. As a result the market price gives inaccurate information. Another form of market behaviour is essential if internationally agreed development objectives are to be achieved. Max Havelaar follows the principle of cost internalization, and therefore determined a bottom in the market price, because small farmers cannot produce sustainably for less. Importers simply pay the market price, according to the daily stock exchange listings in respectively New York (arabica) and London (robusta), plus the quality differentials that apply to the various origins. However, as soon as the market price drops below the Fairtrade bottom level, they are bound to the minimum price. The consequences are carried through to consumers in the form of a higher price. (Consumers are in fact confronted with a false choice, because the mainstream market shifts the damage at the start of the supply chain onto others).

The price clause in the Max Havelaar model has undergone small technical changes over the past years, but the price and premium levels have remained essentially the same. The minimum prices, set at the start, were at the bottom of the price range determined in the *International Coffee Agreement* (ICO), with the aim of stabilising world market prices. This price range was not based on cost calculations, but was the result of negotiations between producing and consuming countries and expressed an internationally agreed minimum standard.
In 1994, a consultant was engaged by SMH to evaluate these prices by means of cost analysis, to determine whether adjustments were needed. Based on interviews with experts, comparative cost studies and research at partner organisations in six different producing countries, she ascertained that while the production costs had changed little in ten years, low market prices had forced farmers everywhere to cut down to “survival” levels, with agricultural practices opposed to the requirements for sustainability. The additional efforts that were needed to change this were identified, and priced. Naturally the production costs vary for and within each country, depending on factors such as climate, production intensity, technology used, and social economic structure. The survey took the average within the entire range of costs, from traditional to more intensive production, as a reference for the Max Havelaar price. This justified the decision to keep the minimum price at the same level: slightly too low for some organisations, and slightly too high for others. A subsequent survey in 1997 likewise gave no reason for change.

[Table: Price structure of a package of 250 grams of coffee - 2002]

Gemiddelde prijsopbouw van pak koffie van 250 gram in 2003						
	MARKT		MAX HAVELAAR			
	€	%%	€	%%		
CONSUMENTENPRIJS	**1,55**	**100**	**1,97**	**100**		
BTW (6%)	0,09	6	0,11	6		
Max Havelaar – license fees	0,00	0	0,05	2		
Margin distribution, costs of roasting, storage, (sea-)transport, financing, margin roaster and importer	1,15	74	1,12	57		
FOB-Price	**0,31**	**20**	**0,69**	**35**		
Structure purchasing price coffee (FOB):						
Export taxes and other fees	0,02	1	0,03	2		
Costs of processing, financing, transport, bags and other trading expenditures, incl. trade margin	0,15	9	0,15	7		
(GROSS) INCOME FARMER	**0,14**	**10**	**0,51**	**26**		

- Price structure of a package of a coffee blend of 1/3 robusta and 2/3 arabica.
- FOB (Free on Board) is the price for coffee ready to be shipped in the country of origin.
- Average world market price arabica (new York) per 100 lbs (=45.36 kg) in US$: 59.58
- Average world market price robusta (London) per 100 lbs in US$: 29.03
- Average Max Havelaar price arabica (port of origin) per 100 lbs: 126.00
- Average Max Havelaar price robusta (port of origin) per 100 lbs: 106.00
- Average exchange rate dollar (in euro): 1,01
- The (gross) income of a farmer on the conventional market refers to non-organised farmers; in the Max Havelaar market farmers decide collectively on what part is spent on various purposes within the organisation.

One important piece of information is that the Fairtrade minimum price and the accompanying development premium ultimately result from the weighing-up of interests rather than from survey. They express what the farmers need, but also take into account what the consumer market will absorb. Too great a price difference would be counterproductive. The decision is therefore taken jointly by the stakeholders. That was the case when Max Havelaar Netherlands coordinated the coffee register, and it is still the case now that the Fairtrade conditions are determined in FLO, where coffee prices are currently being reviewed once again.

Excerpt from the trade criteria for coffee:
The following minimum prices, including quality differentials, the fixed FLO-International premium of 5 US$-cents per pound and the organic premium of 15 US$-cents per pound, apply: (all prices in US$-cents per pound F.O.B. port of origin)

Type of coffee	Regular		Certified organic	
Origin	Central America, Mexico, Africa, Asia	South America, Caribbean Area	Central America, Mexico, Africa, Asia	South America, Caribbean Area
Washed Arabica (4)	126	124	141	139
Non-washed Arabica (1)	120	120	135	135
Washed Robusta (2)	110	110	125	125
Non-washed Robusta (3)	106	106	121	121

(1) Ethiopia, Tanzania.
(2) Congo, Indonesia.
(3) Congo, Cameroon, Tanzania, Uganda.
(4) Other countries, incl. Ethiopia, Indonesia, Tanzania and Uganda.

Producers criteria
Requirements are also made for the producers' organisations. These standards are set up to ensure that the fruits of Fairtrade are indeed utilized for the interests of small farmers. Once the organisations comply with these standards, there are no further requirements regarding the spending of Fairtrade benefits. The members decide on the priorities. Equality and/or the prevention of paternalism (*ownership* in the latest development-speak) has always been high on the Max Havelaar list.

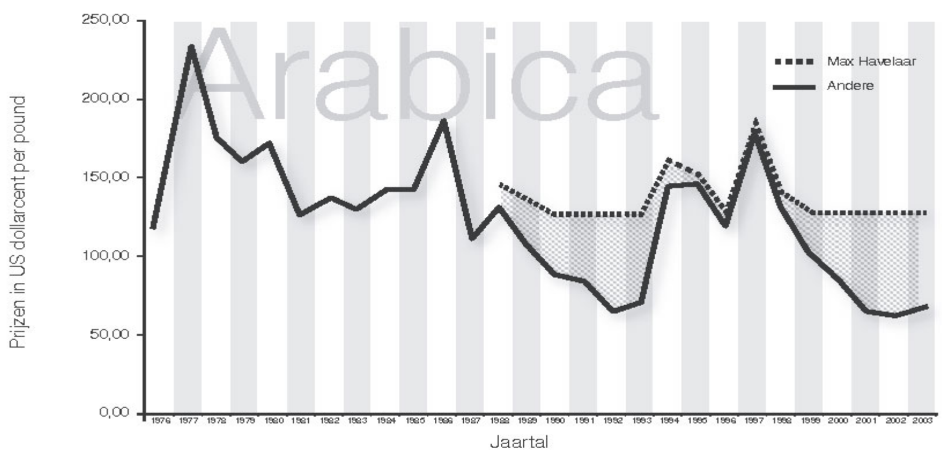
- The aim of the organisation is the improvement of the position and social economic development of the members.
- The majority of members are smallholders: farmers who run their coffee farm with family labour.
- The organisation has a democratic, transparent structure. Members must be able to actively participate and effectively control their organisation.
- The organisation does not discriminate: anyone must be able to join, regardless of skin colour, race, sex, political or religious conviction.
- The organisation must comply with basic practical requirements (on quality, logistics, and administration).
- A responsible environmental policy is adopted. [1]

Many consumers would probably find it a good idea if coffee was, by definition, both produced organically and paid for according to Fairtrade: double labelled. Why has Max Havelaar not included the requirement of organic certification in its producers' criteria?
Coffee is a relatively eco-friendly crop. In its fully grown state the coffee plant serves as ground cover, protecting the soil from heavy rains and bright sunlight. Small farmers originally operate in a reasonable equilibrium with nature. The traditional coffee varieties they use require much shade, which is supplied by the broad leaves

[1] for complete list of standards see www.Fairtrade.net

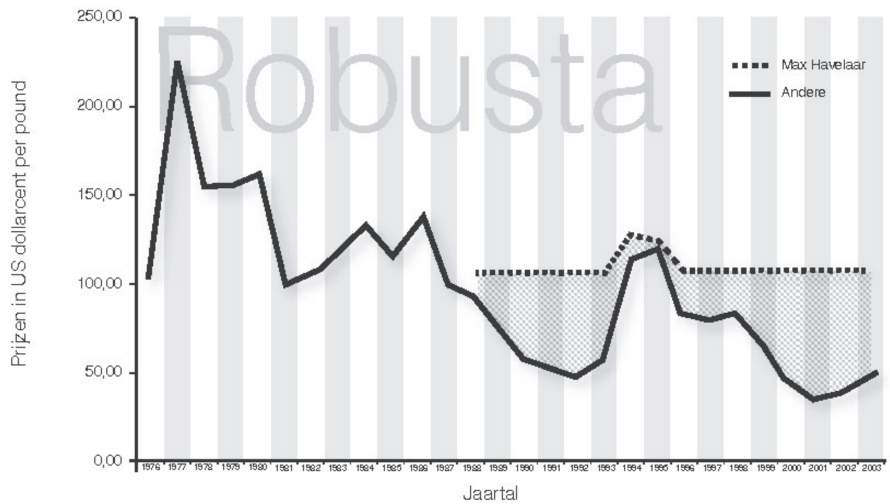
of banana plants. Maize and beans or citric trees are also often planted between the coffee plants: a variation of crops that avoids the washing out of soil. Also, the farmers usually cannot afford chemical fertilizers or pesticides.
However, not using chemical inputs alone by far does not constitute organic production, since this also demands a balanced production management. Training and the implementation of the required registration systems are an extremely complex and costly exercise for small-scale production. Then there are also the certification costs. The Fairtrade criteria do not impose organic production, but they do offer financial conditions that help to invest in new methods and they reward certified organic products with better prices. Figures show that this is working. More than half of the partner organisations are either converting to or already selling certified organic coffee.
In the meantime, FLO is compiling a new set of environmental standards, also for coffee. The existing criteria were not clear enough. Another factor is that European retailers are rapidly introducing food safety codes (EurepGAP), in response to the constant discovery of food products with an unacceptably high residue of pesticides and the breakout of animal diseases. With its standards, FLO wants to assist farmers to anticipate possible mandatory introduction of these new codes. Organisations that have invested in environmental certification systems already have the infrastructure in place. Others find themselves in a difficult situation because it is very expensive for small farmers to comply with the new selection criteria.

The price difference from the conventional market
It will not be surprising to hear that the price component is central in the Max Havelaar model. This is the most crucial difference with the mainstream coffee market. It is also the component which calls for the support of the consumer, and appeals to his solidarity: a good product deserves a fair price.
The graphs below show the development of the Max Havelaar price in relation to the world market price for both *other arabica milds* and *robusta*. These two coffee varieties form the bulk of coffee under the Fairtrade label, 90 and 10% respectively in 2002. It is clear to see that the landscape in which Max Havelaar operated was subject to great
changes.



- *Price development of arabica coffee, mainstream market and Max Havelaar*

*(1975-
2003)*



** Price development of robusta coffee, mainstream market and Max Havelaar (1975-2003)]*

At the start of the initiative, the founders of Max Havelaar regarded the world market prices as relatively low, but they had no way of knowing what was to follow. We outline the developments below.

Good and bad times

In 1988, the economic clause of the *International Coffee Agreement* still applied. The agreement was reached by 50 producing countries and 24 consuming countries in the ICO, the *International Coffee Organisation*. A reasonable, stable coffee price was in the interests of both groups. The producers sought continuity of income, while the importing countries sought a consistent quality. Quality comes under threat when too little can be invested in the production process.

The result of the negotiations was a price range of 120-140 dollar cents per pound (454g). Each producing country was allocated an export quota, according its importance in the market. In accordance with the same distribution formula, the quota was reduced if the price dropped below 120, and increased if it rose above 140. This mechanism worked well, although small farmers and their organisations did not benefit at all. When the scarce volume allowances for export were distributed, small farmers were easily put aside by the large exporters, with corrupt officials equally to blame. The sales markets of the ICO participants simply remained closed to small farmers.

Conflict was also brewing between the participating countries themselves. The mighty Brazil could export almost its entire crop, while a country such as Mexico only half. The USA required a larger quota for the mild arabicas of Central America, because due to the relatively low price, consumer demand in North America had

shifted to the more expensive coffee varieties. Brazil refused to accommodate, and in 1989, the economic clause of the coffee agreement collapsed.
While from the side of producing countries they tried hard, it was never possible to decide to reintroduce it. After the fall of the Wall, the 1990s were marked by worldwide market liberalisation (at least as long as the vital agricultural interests of the richer parts of the world were not threatened). Government intervention in the commodity market was irreconcilable with this, and therefore no longer politically viable. Canada and the USA even withdrew from the ICO. The coffee-producing countries have repeatedly tried to set up a unilateral retention scheme, by which coffee would be held back as soon as the price fell below a certain level. These attempts failed due to a lack of unity, and because the financing of stockpiling was problematic.

Immediately following the collapse of the coffee agreement, the existing stocks streamed into the market, and the prices tumbled. Within a year, export income for the coffee countries decreased by 35%. The price arrangement of the certification mark, that initially did not seem to be the most important point, came into effect just after the launch of the label. This was an important support for the farmers' organisations that during these years were making their first steps in the export market. The coffee market experienced five dark years. Only in 1994 did the market prices once again exceed the minimum prices of Max Havelaar. The failed harvest in Brazil caused a new price peak in 1995.

The period between 1994 and 1997 was characterised by prices that were high on average, but also very volatile. There was much speculation done, which had a disruptive effect on price setting. Stock exchange listings showed large differences week by week. During this period, the cooperatives had to deal with a problem of a completely different kind. Achieving good selling prices on an unstable market made high demands on their commercial skills, while they had to cope with stiff competition when buying coffee from the farmers.
While the farmers had struggled to sell their beans in previous years, coffee had now become a sought-after product. The local markets, in Africa only recently and drastically privatised on the instructions of the IMF and World Bank, were awash with traders. Many of them were small fortune-hunters who saw the opportunity to make a quick buck as middlemen. But also large international traders sent their buyers into the field with a large bankroll in order to guarantee supply. The cooperatives had to square-up against competitors who had much more capital than they had, and the loyalty of members was sorely tested. The farmers were even offered high prices for beans of a distinctly dubious quality. If too many members succumbed to the lure of easy money, the cooperatives found themselves in trouble, as they could no longer comply with their contracts. Weaknesses in management and relationship with members were mercilessly brought to light during this turbulent period. In 1997, this was an indication for FLO to set up a support network. This network connected the financial means of donors and the expertise of consultants with the needs of farmers' organisations, to effectively react to the dire need for capacity building.

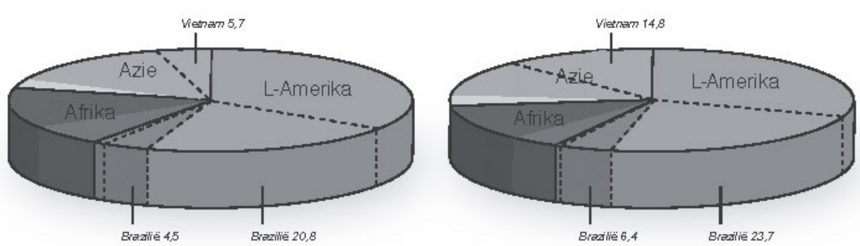
The coffee crisis: farmers in need
The next turning point came in 1997. The drop in price that occurred became what is now known as the coffee crisis. Central to the problem was, as before, the disturbed balance between production and consumption. When the lowest point was reached in the 2001-2002 season, the production of coffee was 8% higher than what was bought, while stock existed that could supply 35% of the annual demand.

Periods of oversupply are virtually unavoidable in the coffee market because production reacts slowly to price stimuli. When the price is high, extra planting becomes attractive, but extra beans are only produced after four years. The plant continues to bear fruit for a few decades after that. For this reason, especially in the case of small farmers, lower prices do not have the immediate effect that production suddenly drops. As best they can, they simply reduce running costs. The investment has already been made, there is no new capital and alternative crops are rare. Within this hog cycle, especially in Brazil as the largest production country, climatic factors also contribute to the unpredictability.

But the coffee crisis is characterized by contributing factors other than the usual cyclical ones. The depth of the crisis is explained by the fact that a number of structural changes have occurred within the coffee sector. The most important causes of the imbalance between supply and demand:

- The economic liberalization of Vietnam led to large-scale investments in coffee in that country. At the end of the 20th century, the new plantations rocketed Vietnam from virtually nowhere into a position among the world's top coffee producers.
- In Brazil, volumes also grew at a hitherto unknown rate, in this case due to cultivation innovations. Central coffee production was moved to lower-lying regions that are less sensitive to frost, and where manual picking gave way to mechanized harvesting. The yield per hectare was increased by denser planting, irrigation and more use of artificial fertilizers and pesticides.
- At the same time, consumption in the most important coffee markets (EU, USA and Japan) stagnated, with a shift to soft drinks, while the growth markets did not reach the expected levels.

World production per coffee variety x million bags of 60 kgs.



1996/1997

	Arabica	Robusta
L-Amerika	54,7	5,2
Afrika	6,5	12,2
Azie	3,7	17,2

2000/2001

	Arabica	Robusta
L-Amerika	58,4	6,2
Afrika	5,3	9,1
Azie	3,9	23,1

A paradise for the coffee industry

An added factor was that the buyers' power over producers was also intensified in other ways during this period. The privatization of the coffee sector in producing countries removed government intervention from the supply chain. This had a positive effect in countries where state marketing was run at the expense of the price payable to the farmers, but another result was that there was now no buffer between farmers and the wild fluctuations on the world market. They were left completely at the mercy of private enterprise. In addition, useful facilitating government functions fell away, such as quality control.

At the same time, fast concentration processes in the coffee industry took place. At present, a combination of five multinationals is responsible for almost half of all trade in green beans: Nestlé (13%), Kraft (13%), Sara Lee/DE (10%), Procter & Gamble (4%) and Tschibo (4%). Their share in the consumer markets of the rich Western nations is even more important.

The latest technological developments make it possible for roasters to keep commodity costs to a minimum. Computer programs can calculate 50 different ways to arrive at the same standard blend. Based on availability and price, the program indicates how the various coffee types can be combined in the cheapest possible proportions. This makes the origin of the beans ever less important. They have become easily interchangeable. Moreover, a technique has been developed to mask the bitterness of robusta coffee to a certain extent. Since 1997, when the last price peak prompted roasters to investigate how they could purchase more economically, arabica coffees have lost 7% market share to robusta. Combined with faster supply possibilities and advanced financial options to avoid price fluctuations as far as possible, the commodity market has been a buyer's paradise in recent years.

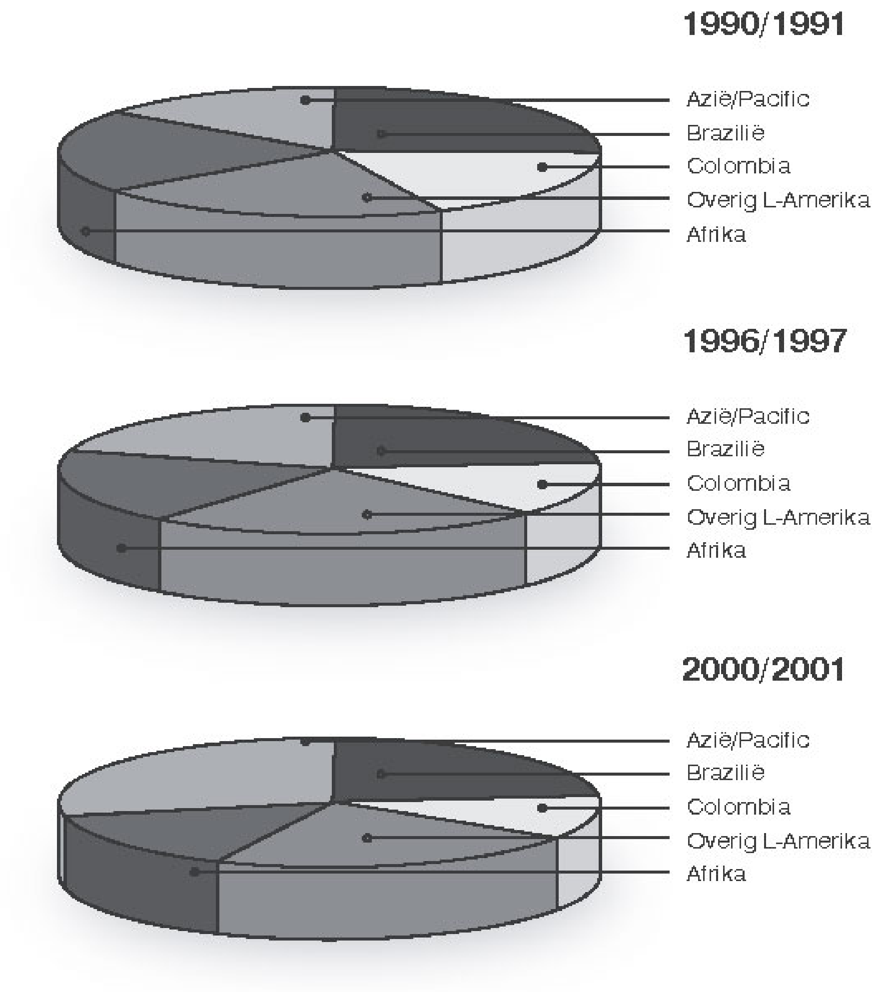
The profitability in the consumer market was further increased by inventive product development (such as instant varieties, flavourings, iced coffee and coffee pads) and massive advertising campaigns. In the UK $65 million was spent in 1999 on the promotion of instant coffee alone. This paid off. According to one analysis in 2000, Nestlé made an estimated 26% profit on the product, and 2002 profits for Sara Lee/DE are projected at nearly 17%. These are golden figures compared to what can be earned on other food and beverage products.

The power relation in the supply chain have has a completely different effect on coffee-producing countries. While a total of around $60 billion is earned from coffee products, only $6 billion remains in the producing countries. Ten years ago, that was still $10 billion of the $30 billion generated by the end product.

Intensive competition

Producing countries also need to compete stiffly for the decreasing benefits. As the origins of the average blend become less important, the producers have no option but to compete on price. The volume growth of cheap robustas in Vietnam, but also in Brazil, undermines coffee prices for the mainstream market. The traditional production areas are thereby confronted with production yields that are out of their league, which is a massive problem for robusta producers in Africa. Even the arabicas from Brazil are a growing threat to the lower-quality varieties of Central American coffee for example. It seems as if the world coffee production map will change radically. But what are the economical alternatives for countries, regions, villages and people?

Distribution of coffee export per continent



The environment and the coffee quality suffer when the production is intensified unscrupulously. Cutting down shade trees, for example, can increase the number of coffee plants per hectare six-fold, but this is done at the expense of soil conservation and microclimate. In Central America, for instance, this is influencing the natural habitat of migratory birds. Fast-growing coffee varieties raise the yield, but only if coupled with more intensive use of agro-chemicals. Selective handpicking may not be the most efficient way to do the job. But if all the berries are ripped from the plant in one go, ripe and unripe berries get mixed. Late harvesting in order to confine the costs to a single operation cause that black and rotting berries also make their way into the cisterns. In this way, the constant pressure to raise yields and lower costs are threatening the soundness of agricultural practice.

Structural approach needed
Sooner or later, due to reorganisation of the sector and the attempts to influence supply and demand, coffee prices must rise once again, but the recovery is a very slow process. A new production record was attained in the 2002/2003 season, and stockpiles have increased even further. But it seems that the harvests of the coming year will decrease, even though the volume projection due to drought in Brazil is put into new perspective since it has rained in the meantime. At the time of writing, the arabica price had once again dropped below 65 dollar cents. The coffee crisis is not over yet.

Structural problems require a structural approach, and each party in the coffee sector will have to make its contribution. In October 2002, minimum quality standards were agreed upon in the ICO, with the agreement that coffee that does not meet these standards will no longer be traded. The intention is to support prices by taking the lowest quality, estimated at around 8% of production, out of the market. However, the scheme is voluntary and costs money. While a few Latin American countries had already destroyed volumes before the agreement was reached, other production countries are hesitant. It is difficult to project the degree to which the agreement is being adhered to, as good reporting is absent. The ICO is also attempting to book results on the consumption side with promotion programmes to stimulate coffee consumption.
Support programmes from multilateral and other development organisations are needed to equip coffee producers sufficiently for the market and to allow the sector to function as efficiently as possible. The greatest challenge is in the creation of new perspectives for all those who are, or will be victims of the current reorganisation. During the WTO conference in Cancún, Western countries had a fantastic opportunity to create more space in the market for the agricultural products from developing countries. This opportunity was missed.

Socially responsible business
For the coffee that is indeed needed by the market, buyers have a considerable responsibility: namely responsibility for the supply chain, for the production conditions at the suppliers. A recent study by the World Bank praises the efforts of sustainable coffees (Fairtrade, organic and eco-friendly), as demonstrably the best contribution to responsible practice in coffee business. The entire coffee sector, deep in the doldrums, benefits from this. A sustainable producer is typified as a producer that contributes to social and environmental objectives, also in the longer term, while continuing to compete effectively with other participants in the market, receiving prices that both cover his production costs and allow an acceptable margin. According to the World Bank, producers urgently need the premium prices that are offered, but the benefits extend beyond their direct earnings.
Better management of natural resources and conservation of biodiversity
Greater crop resistance to climatic risks

- Less financial vulnerability resulting from crop diversification and lower cost of input
- Organisation and community development; more use of local labour
- Lower health risks by reducing the use of agro-chemicals.

Sustainable coffee trade should no longer stand sublime as a level of excellence. It must become the rule. The Max Havelaar model cannot be imposed on the market as a whole, because it has explicit development goals for a specific group - marginalised, small-scale producers - through tailor-made trade conditions. But the principle of Fairtrade is generally valid: sustainability demands on production, of which the costs are internalised in the price-setting. This is not a choice that should be left entirely to the responsibility of the consumer. Companies have to change their attitude completely in a manner that allows the realisation of sustainable production at the beginning of the supply chain. A code of conduct that binds the entire industry to basic principles is therefore the best tool for the job.

One favourable development occurring is that mainstream companies are slowly moving towards more social responsibility in their operations. There are a number of reasons for this.

The pioneers have shown that it works. There is a market for coffee that is produced and traded according to the new principles. The proof has come full circle, in that whoever has done nothing is now lagging behind. The sale of Fairtrade coffee is mushrooming internationally, while the conventional market has been stagnant or shrinking for years.

The conventional market is encountering an increasing number of quality problems as a result of the systematic neglect of coffee cultivation. A critical point has been reached, so that the need for greater sustainability is by now even recognised by the coffee industry.

Direct, long-term relations with suppliers allow the roasters to maintain the continuity that they need for their blends (consistency is not synonymous with high quality). The need for traceability and control in the supply chain are growing anyway for reasons of food safety. Access to the market becomes increasingly dependent on compliance with production requirements. The fruit and vegetable industry is the most advanced in this field.

The social pressure on companies to purchase responsibly has increased substantially, led by alternative globalists and very successful pioneering work to promote codes of conduct, especially in the garment and sports industry (Clean Clothes Campaign). Oxfam International (Novib) has embarked on a worldwide campaign concerning the coffee crisis, and in the Netherlands, the *Koffie Coalitie* (Coffee Coalition, CC) has also made its voice heard loud and clear during the past year.

Business initiatives

The Coffee Coalition (CC) is a joint venture between ten organisations: Oikos, Hivos, FNV, CNV, Novib, the Third World shops, Pax Christi, Solidaridad, Fair Trade Organisatie and SMH. The coalition was founded to help defend the labour rights of coffee plantation workers - a hitherto underexposed issue that gained urgency once the consequences of the coffee crisis became visible. By forming coalitions with trade unions and labour-related NGOs in coffee-producing countries, the CC intends to convince roasters to adopt a responsible purchasing policy that ensures that employees rights are respected, and that producers are paid a decent price to make this possible. The spotlight is especially on market leader Douwe Egberts (DE).

DE does have guidelines for suppliers, but does not check whether these are complied with. Investigation by the CC in Kenya revealed systematic abuse of workers' rights on plantations that also supply DE, varying from child labour and underpayment to sexual abuse. In the meantime, KPMG (an auditor) has been hired to investigate how to improve the implementation of the guidelines. The CC will be informed about the results. DE further highlights its DE-Foundation, which supports projects for cultivation and quality improvement in four coffee-producing countries.

A special blend has been introduced for the out of home market, Coffee Alliance, with coffee from these projects and from direct purchasing from farmers' organisations, a project that exists as long as Max Havelaar. The customer pays a premium price, which is channelled through to the projects.

Ahold is by far more pro-active, as it does make its social contribution by taking responsibility for the supply chain. The Utz Kapeh Foundation by now has been detached from Ahold in order to stimulate the participation of other commercial parties. The code of conduct of the Utz Kapeh Foundation is based on the food safety requirements of EurepGap, supplemented with stipulations regarding the labour and living conditions of plantation workers, in line with ILO conventions. Producers are certified by an external institution, accredited by Utz Kapeh. Roasters who participate in Utz Kapeh may market the coffee from these producers as *certified responsible coffee*. Ahold now obtains all its home brand Perla coffee from certified suppliers. There are already a few roasters who supply to the out of home market and also Delhaize in Belgium is now participating. In 2002, a sales volume of 16,000 tons of coffee is expected. Utz Kapeh aims to change the line of behaviour in the mainstream coffee trade.
While Utz Kapeh represents a clear step forward, the pricing policy raises questions. There are no norms for the purchasing party, and pricing is specifically described as a matter between purchaser and supplier. There is a guideline by which the roaster is asked to pay a so-called sustainability premium. For arabica a premium of seven dollar cents above the market price +/- differentials applies, up to a maximum of 70 dollar cents per pound. Should the market price rise above 70, the premium falls away. But that is not a price level that covers the costs of the efforts required and it does not allow the producer to break even. Large volumes do not solve this problem because a loss is suffered on every kilo of coffee. Suppliers will, however, welcome any improvement on the current world market price.

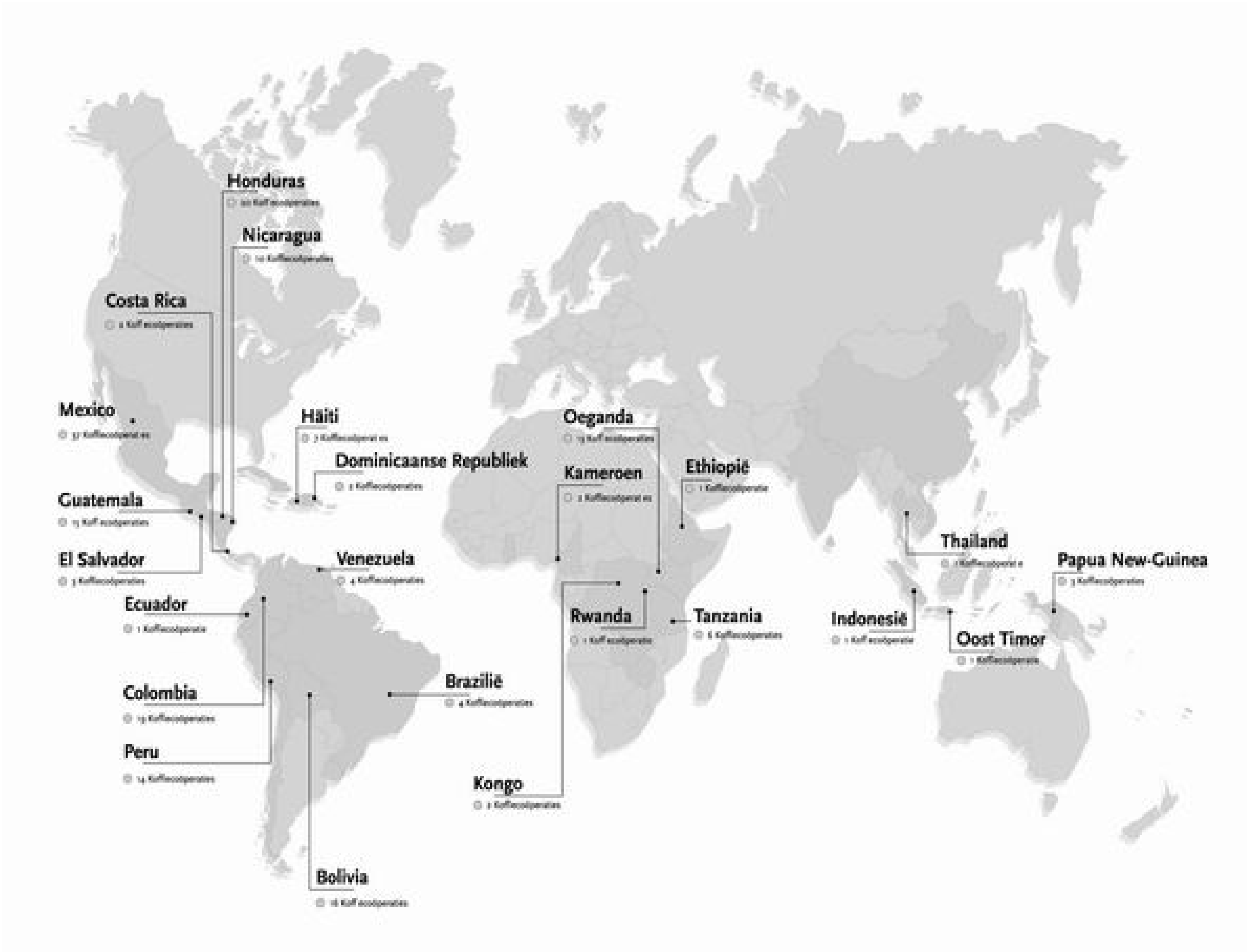
Recent initiatives in other countries have also shown a turning tide in the coffee market, both within and outside Fairtrade. One recent breakthrough in the USA is that Procter & Gamble have introduced a Fairtrade labelled coffee as part of their Millstone brand, with a projected volume of 1.000 tons in the first year. Starbucks, the international chain of coffee bars, sells Fairtrade in the USA, England, and all opening branches in Europe and Asia. Starbucks also has a *preferred supplier program*, by which contracts with suppliers are negotiated based on cost price, upon which premiums are allocated according to sustainability points achieved. In Switzerland, all 130 outlets of Mc Donald's recently switched to Fairtrade labelled coffee. Coffee giant Kraft has started cooperation with Rainforest Alliance, an environmentally oriented certification scheme that allows farmers to access the speciality market, mostly in the USA. And last but not least, this week in the UK, supermarket chain COOP announced that in the future all its own brand coffee will carry the Fairtrade label.

The growing acceptance of sustainability in coffee trade in the business sector is satisfying and gives hope for the future. The World Bank report on sustainable coffee that covers market trends in 12 countries, however, also highlights new challenges. Consumer confusion lies in wait due to the threatening proliferation of labels, and terms such as organic, ecological, biological, Fairtrade, ethical, sustainable and responsible. If the underlying norms are too low, there is the risk of free riding on the reputation and moral position that the established sustainable coffees have built up. The more business-driven initiatives tend to set the standards relatively low in order to achieve easier acceptance in the business world. The critical points always lie in how far the claims are independently and externally verified and if the producers are offered sufficient additional benefits.

Clearly, in its 15 years of experience in the Netherlands, SMH has often had to hear that internalisation of costs cannot be imposed on the conventional market price. The buck is usually passed to the producers (to work more efficiently and increase quality). It is only occasionally acknowledged that a better price is not “economically viable”. And even that is veiled language. It is worthwhile to clarify where the crux of the matter is to be found: companies fear loss of market share if they get too far out of step with their competitors. That is very understandable, and the current recession and the price war in the retail market does not improve the situation. However, that does not make it acceptable. Why should powerful commercial interests ever again prevail over the rightful claims of the poor?

More ambition should be expected. A remarkable initiative was taken in Germany by the government together with the branch organisation of the coffee industry. They aim at an industry-wide code of conduct for the sustainable production, processing and marketing of coffee, a Common Code for the Coffee Community (CCCC). Representatives of both trade and industry, NGOs, trade unions and producers are participating in the discussions. Even the ICO is present. While there is no reason for great optimism as yet, the multi-stakeholder composition and the broad participation from business is the best starting point to come to results, because it has brought the largest market players to the table: Nestlé, Sara Lee/Douwe Egberts, Kraft Foods and the Neumann Kaffee Gruppe. The role of a strong and critical movement in the background is however indispensable.

3. The impact on coffee farmers



Production countries for Max Havelaar labelled coffee

Introduction

The aim of SMH is the improvement of the position of farmers by means of trade. Trade cannot be aimed at individuals, however, but rather at their organisations. In the measure the organisations become stronger, this impacts on the situation of the members, and on the position of individual farmers. In the case of coffee, this involves groups of small farmers that have organised themselves into cooperatives or associations.

When speaking of the impact of Max Havelaar, one first hears of the quantitative results such as the volumes sold and the premium that the farmers earn from their coffee. These elements cannot be ignored, and we pay much attention to them, but they remain the means and/or the conditions to achieve various improvements within the organisations which must lead to development. By impact, we mean a process of many qualitative aspects, often termed “empowerment”.

Participants, sales and financial benefits

Certified cooperatives

The growth in sales of certification mark coffee went hand in hand with an increase in the number of coffee cooperatives that could supply the Fairtrade market. In 1988, we started with 15 organisations in four countries[2], in 1990, 36 organisation were certified in 10 countries, by 1995, this had increased to 284 organisations in 17 countries. This number decreased thereafter as quite some cooperatives decided to join forces and apply for certification as umbrella organisations. In March 2003, 183 coffee organisations were certified by FLO, which translates to an estimated 1,000 certified basic cooperatives. More than 500,000 farmers are now connected to FLO through their cooperatives, collectively representing a certified coffee volume of more than 100,000 tons.

Most of the certified organisations are from Latin America, where 70% of the world's coffee volume is produced. This was the source of 88% of coffee sold via Fairtrade in 2002. This is all arabica coffee.

Origin and share of certified coffee organisations:

Continent	*number of organisations*	*fair trade share in volume*
Latin-America	154	88%
Africa	23	9%
Asia	6	3%
Total	**183**	**100%**

Within FLO, all robusta comes from Africa, mainly from Congo, Tanzania and Uganda. As the demand for robusta is by far smaller than for arabica, African producers have a small market share within Fairtrade, similar to that on the conventional market. In addition, the poor infrastructure and inadequate internal organisation of African countries do little to benefit their cooperatives.
The market functions as it does. Even within Fairtrade, not every farmers' cooperative can equally easily sell its coffee. This also has consequences for the certification of farmers' groups. Practical conditions such as the minimum quality requirements, available volumes (at least one 18 MT shipping container) and coffee variety on offer (saleability on the Fairtrade market) must be taken into account. It is all related to the realistic development perspective of an organisation.

Share of Fairtrade sales

In the past few years, nearly 60% of the certified organisations have sold coffee at Fairtrade conditions. Besides, an organisation sells only part of its coffee at Fairtrade conditions. That would not be in line with the Fairtrade objectives. Complete dependence on Fairtrade is not advisable. Eventually, organisations also want a strong footing in the conventional market, even though prices have not been attractive for the past few years.
The Fairtrade share in sales can vary from a few percent of production, in African countries for example, to more than 50% in the case of popular coffees in countries such as Colombia, Guatemala and Costa Rica. This percentage is only higher is a very few cases. In African countries, the fact that organisations represent tens of thousands of farmers plays a role. This makes purchased volumes look relatively

[2] In addition, in the initial years of Max Havelaar, so-called "country coffee" existed. This coffee came from Angola, Nicaragua and Tanzania, where no direct relationships with farmer cooperatives were yet possible.

smaller than from cooperatives in Latin America, that often count only a few hundred members. More than 60% of the certified organisations supply less than one fifth of their exportable production volume to the Fairtrade market. As a whole, the percentage of coffee that the FLO partners sell at Fairtrade conditions is slowly increasing. In 1999, 15% of all coffee produced was sold under Fairtrade. Today, this has increased to nearly 20%.

Additional income

Based only on sales in the Netherlands in 2002, these sales at Fairtrade conditions resulted in more than € 7 million extra for the organisations of coffee farmers, over and above the price on the world market. The crisis of the last few years is clearly visible in the table. The extra money paid over the years also illustrates the stabilising effect that fair trade has had on coffee farmers. This was especially important during the last four years.

In practice, the extra amounts are even higher, because in the conventional market farmers' organisations usually do not achieve the world market price. In many cases, a chain of traders operates between farmers and the eventual shipment, all of whom claim a profit margin. Also, from the official price listings amounts are often subtracted – the so-called "differentials", reflecting quality, image or other, often subjective reasons.

Since 1988, approximately an additional €47 million has been transferred to coffee farmers' organisations, from the sales on the Dutch market. For all FLO countries together, only in 2002 the extra income for coffee farmers was estimated at over €30 million. The figure since 1995 for all FLO countries is more than €75 million.

Table: Additional funds to coffee cooperatives based on sales in the Netherlands, 1988-2003

Year	**Sales (roasted) x 1000 kg**	**Paid to farmers (FOB) in US$ x 1000**	**Premium (x 1000) in €**
1988	253	863	43
1989	1,935	6,230	1,446
1990	2,381	7,232	2,735
1991	2,577	7,825	2,785
1992	2,754	8,366	3,734
1993	2,849	8,654	3,615
1994	3,006	11,809	1,024
1995	3,113	11,559	394
1996	3,162	10,111	1,228
1997	3,138	13,626	1,465
1998	3,353	11,482	1,665
1999	3,186	10,150	2,765
2000	3,102	9,847	4,668
2001	3,105	9,774	7,427
2002	3,140	9,884	7,023
2003*	2,750	8,657	4,656
TOTAL	**43,804**	**146,069**	**46,773**

*estimated up till mid November

The concept of ‘empowerment’
The empowerment for which the farmers strive is a lengthy process in which a broad spectrum of aspects can be isolated.

- **Market access**
  The problem that small farmers’ organisations face is the lack of direct access to the export market. In order to sell their produce, they have to rely on middlemen who exploit the farmers’ situation (poverty, remoteness, lack of communication and transport, lack of knowledge of the coffee market) to make large profit margins on coffee, at the farmers’ expense. Market access is therefore an important condition for further economic growth.
- **Market knowledge**
  The cooperatives need to gain insight into the international coffee market and the behaviour of their competitors. They must learn about the quality of their own coffee and gain experience in commercialisation and marketing. This knowledge and experience will strengthen their negotiating position when selling their coffee.
- **Improving the infrastructure**
  Export operations are only successful when processing and transport facilities exist, and means of communication with the outside world. Coffee cooperatives that start exportation of their coffee need much improvement in this area.
- **Improving internal organisation**
  The running of a market-oriented farmers’ organisation requires:
  - capable management and board, as well as continuity of these
  - transparent bookkeeping and administration
  - involvement of members, who must support and control the organisation
  - effective communication for streamlining the flow of money and goods
  - (continued) training in (financial) management and administration at all levels of the organisation.
- **Quality improvement**
  While small farmers often cultivate the best coffees, they are not aware of the quality demands of the market. To ensure optimal and consistent quality, a sharp eye must be kept on the further processing. All aspects of production (picking, hulling, fermenting, washing, drying, transport and storage) require specific attention. This also applies to the further mechanical processing within the organisation (removing the last skin, removal of stones and other undesirable components, selection, bagging and once again, storage and transport) until the final shipping to the harbour. All components of the process require capacity building. Quality control as a structural component of the internal business processes of an organisation is therefore essential.
- **More control over the commercialisation of their own product**
  Initially, the farmers’ organisations will not be able to finalise its’ exports by itself. Processing, transport, contract negotiations, shipping and other export formalities require specific knowledge and skills. This leads to dependence on exporters which affects farmers negatively. It is therefore very important to maintain control of the product, in order to optimise the benefit from the export of coffee. Meaning that the cooperative remains the owner of the coffee, even if the work - due to expertise or to achieve economies of scale - is performed by third parties. The development from dependence toward a position of compete control is a long road. Eventually, it can mean that the farmers’ organisation handles the entire export process itself.
- **Strengthening the financial position**

Farmers’ organisations often lack the financial means to purchase coffee from their members. Besides, credit is expensive, or difficult to secure, due to doubts as to the creditworthiness of farmers’ organisations. The road to building up their own capital or gaining the trust of banks is a long one, but eventually provides the scope for further development.

- **Building a contact network**
  Cooperation with other groups gives farmers a stronger voice when it comes to defending their interests. The support and assistance of NGOs and external consultants is often necessary in order to strengthen the various aspects of the organisations.
- **Generating additional income**
  Dependence on a single product and only part of the production process leaves organisations on a risky footing. Strengthening the organisation can therefore mean:

- vertical integration: taking over further processing of the coffee by which more added value remains within the organisation.
- product specialisation: offering several varieties of coffee (e.g. biological, house brand, speciality coffee).
- diversification: the search for other sources of income, thus decreasing the risk for both farmers and organisation.

- **Improving services and a higher income for members**
  A strong organisation and an improved trading position ultimately lead to an improved service to the members, and a better price for their product. The provision of service and developments therein are therefore indications for empowerment.
- **Increase in the number of members, and benefits for their village community**
  Another indication of the strength of an organisation can be found in the growth in the number of members and the position of the organisation within the community in the broader sense: the village or region.

These aspects come back in the following chapters, which offer a description of the developments within several farmers’ organisations and the role that Fairtrade has played in that.

3.1. What Fairtrade can ultimately lead to
UCIRI - Mexico

Map of Mexico

Introduction
"Naturally we appreciate it to be given money for a truck or a small hospital. But give us a good price for our coffee. Then we can solve our problems ourselves and aid will not be necessary." This plea from the Mexican farmers of the Unión de Comunidades Indígenas de la Región del Istmo (UCIRI) was the reason the Max Havelaar Certification Mark was launched in 1988. This was the start of what has become a global Fairtrade initiative and UCIRI was the first organisation to sell its coffee under this label. UCIRI is a textbook case of how farmers have put their ideas into practice and to what Fairtrade can ultimately lead to. What is more, right from the start UCIRI decided to not only improve the socio-economic position of the farmers, but to consciously include care for the natural environment. As a result all of UCIRI's coffee is certified organic since 1985.

Export under own management

The farmers in Oaxaca region in the southernmost part of Mexico were dependent upon middlemen. In order to take a stand they established UCIRI in 1983, developing into a federation actually formed by 54 village communities. UCIRI operates in an area half the size of the Netherlands (see map). At the time, export in Mexico was under the tight control of the state institution for coffee, Inmecafé. The export quota allocation in place at the time was such that small farmers, producing an average of ten bags of coffee, were always worst off. In the mid 1980s price was not a problem but market access was. In 1986 UCIRI started exporting directly after a huge effort to get an export licence. Alternative trading organisations such as Gepa in Germany and Simon Levelt, a Dutch coffee roaster, were the first buyers. Fairtrade conditions were applied to 30 to 40% of UCIRI's sales right from the start. When subsequently the market price dropped, and the situation became more difficult, Max Havelaar already had been established.

UCIRI could sell most of its coffee at Fairtrade conditions guaranteeing a significantly higher price. Although not everything was sold under the Max Havelaar label, UCIRI subsequently sold it coffee at the Fairtrade price level. And still does so today. About 80% is exported of which 700 tons is sold with the Fairtrade label. In total UCIRI produces about 1.4 million kilograms.

Improved income

Farmers of UCIRI now have an income of US$2 a day instead of US$1, as almost all the coffee is sold at Fairtrade prices. UCIRI pays the farmers the full Fairtrade price[3] after deducting costs.[4] The 85 workers, who are permanently employed by UCIRI, also benefit from the improved income through higher wages. Currently farmers are paid 82% of the export price. However, this will by far not bring in a fortune and many farmers are still leaving the area. Of the Fairtrade price, five dollar cents per pound is a fixed premium. On this basis UCIRI received about US$600,000 of premium in the period 1995-2003. UCIRI used this to everything it can to improve the position of the farmers and make to strengthen the organisation.

Services to individual farmers

One of the principles of UCIRI is that service to the individual members comes first. In this way the farmers' commitment to the organisation increases. Besides a good price the farmers also expect other services, that in many cases are cost-saving for members and thus, indirectly, increase their income. A few examples of the services provided by UCIRI are given below.

- Distributing handmills to remove the pulp from the coffee berries, for which farmers pay 50% themselves.
- Placing better roofs on houses.
- Building drying floors for coffee and other crops.
- Construction of toilets.
- Setting up facilities such as shops, of which there are now about forty.

Improving the infrastructure

Besides providing these primary services to its members, UCIRI also works on many other matters. An important one is improving the infrastructure for coffee processing.

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[3] The full Fairtrade price is defined as the price remaining after the deduction of the FLO premium of 5 dollar cents per pound (454 grams).

[4] UCIRI considers 85 to 90 dollar cents per pound to be the minimum price at which coffee can be produced, without even fully taking into account the social and environmental costs.

- Supplying fermentation tanks and introducing a new, simple coffee drying system.
- A mule project to help farmers transport the coffee from the mountains and which has since been supplemented with
- Three trucks to transport the coffee to the cooperative.
- Their own coffee processing plant (since paid for in full).
- Advanced machinery for the electronic selection of coffee beans in the plant (result: further quality improvement).

Better communications
Another important development has been setting up a bus service that links all the UCIRI villages with each other. This provided the villagers with a connection to the outside world and gave the farmers the opportunity to meet each other more frequently during meetings and training courses. It also resulted in a closer bond within UCIRI. UCIRI also improved communications by installing a (satellite) telephone network and by setting up an Internet café. Today the cooperative even has its own website.

Training and education
In 1985 UCIRI established a training centre where 300 to 500 young people are trained to ensure the professional management of the organisation in the future. The first graduates have already started working in the organisation. Others are fulfilling important posts in the local administration. The training centre offers a wide range of courses including agriculture and administration. Naturally, emphasis is given to organic cultivation of coffee and other crops. Such courses are also continuously given in the field during visits to the various villages. Some training courses are geared towards women. Besides the various training courses, there are monthly meetings of members of the cooperative.

New sources of income
UCIRI has continually sought new sources of income to strengthen the position of the organisation and its members. Not only has UCIRI opted for organic cultivation (on principle) that yields a higher market price, it is now also operating on the local market with roast & ground and packaged coffee, for which the organisation has set up its own small plant. UCIRI instant coffee is also drunk throughout the region as well as being exported to countries such as Italy, Canada, Sweden and Japan. UCIRI is actively involved in establishing a Fairtrade certification mark for the Mexican market. This certification mark organisation is expected to join FLO in the near future.

At present 50% of UCIRI's coffee is sold under Fairtrade labels. In the 1990s this was more, but UCIRI has since found other valuable outlets. For example, the organisation sells not labelled coffee (but at the Fairtrade price) to the French supermarket chain Carrefour and is increasingly focusing on the local market. These new outlets mean that other farmers who currently do not (yet) meet the Fairtrade criteria, but who get support from UCIRI for commercialisation, can sell their coffee at reasonable prices. The new market opportunities and relatively better prices have not led to an increase in the acreage under cultivation by UCIRI farmers.

Additional income
Besides product specialisation, farmers are diversifying in products other than coffee.
- Marmalade plant started in 2001 for the benefit of about a hundred members who cultivate passion fruit (maracuya).
- Sale of bio-resin from pine trees used in medicines and as a detergent. This can

monthly generate about US$80 extra income for the farmers.

- An area around UCIRI has been assigned as an ecological reservation in which the farmers and the government harvest ornamental plants in an eco-friendly manner.
- The ecological value of the area has also resulted in setting up controlled eco-tourism on a limited scale and the sale of clean air thereby allowing other regions to comply with international environmental agreements. This is very much in line with UCIRI's philosophy, which moreover plants half a million trees itself each year.
- Women's projects that help women earn something extra from poultry, goats and/or vegetables. A group of about 800 women have set up their own organisation within UCIRI to improve their position.
- A project on organic cotton and the manufacturing of garments for export. Although this project has been suspended and the plant has been closed down, UCIRI is considering re-starting it, focusing on clothing for the local market.

Solidarity

One of the basic principles of UCIRI is to deal in a responsible way with the natural environment. Opting for organic production right from the inception of the organisation was a clear choice. The principle of organic cultivation, a precondition for membership, has created a special bond between the farmers. There is also a relationship of solidarity with other organisations. UCIRI supports other coffee cooperatives in the processing and commercialisation of their product and assists them on the way to organic production. They are trained to become independent operators in the future. Many Mexican cooperatives that now operate independently on the Fairtrade market started off with the guidance of UCIRI. UCIRI regards this as a logical and natural development.

Thanks to its success UCIRI has become a force to be reckoned with and an authority. The organisation also uses its reputation as a political influence.

- UCIRI has gained a great deal of influence locally and is trying to convince the local authorities that much of their services provided are in fact the government's responsibility and not of a coffee cooperative. These activities are increasing the farmers' political awareness.
- At a national level as well as through its representatives in umbrella organisations such as the CNOC (a cluster of Mexican farmer cooperatives). UCIRI also lobbies for a better position of coffee farmers in Mexico and in general. An UCIRI consultant is operating at the Ministries of Agriculture and Social Affairs. The influence of UCIRI is such that Mexico is now about to compensate coffee farmers for the low prices on the world market. The price is supplemented to that of 80 dollar cents per pound, an amount that will have to be repaid when prices increase to above 100 dollar cents.
- UCIRI is also active in international forums and was present during the official meetings of the World Trade Organisation in Cancún.

More elements

The aforementioned activities and achievements indicate that UCIRI has developed into a strong organisation. But there is more worth to be mentioned here.

At present 54 villages are members of UCIRI representing some 3000 members. UCIRI started off with only three villages and for a long time just 17 communities were members. Membership continues to grow. This year no less than 300 new members joined and participation at the meetings continues to increase.

UCIRI has become much more efficient. Export costs, for example, have dropped as the organisation now does most of the work itself. Confidence in the organisation has grown, transport means were improved and the organic certification is done by the local accreditation body, Certimex, which UCIRI was instrumental in setting up.

UCIRI has become creditworthy as expressed by the fact that the offer of loans now exceeds the demand of UCIRI. Ten years ago UCIRI started its own fund that is now worth US$1 million. It now also has its own bank.

The negotiating power of UCIRI in coffee business has increased. The organisation says it “maintains a respectful and stable relationship with buyers” thanks to the good quality, good communication and timely shipments and also because many buyers now see for themselves what has been achieved within UCIRI.

3.2. A village returns to life
Asociación Chajulense Va’l Vàq Quyol - Guatemala

Introduction
“Max Havelaar planted a seed that has taken root.” This sentence in a letter from the Asociación Chajulense in 1992 is an indication of the organisation’s appreciation for the developments that followed the first contacts with Max Havelaar. The report of an inspection in 2002 concludes: “Since the association received the FLO and organic certification, the lives of the farmers in Chajul have very much improved socially, financially and politically.”

Founded out of desperation
It all started in 1988 out of absolute desperation. The Quiché region in the north of Guatemala was confronted by the devastating effects of a civil war that caused many people to flee from the area to Mexico. The area was isolated, without work, without vehicles, without economic activity. Coffee was the economic basis of Quiché. However in no other part of Guatemala did farmers receive a lower price for their coffee from the middlemen. The farmers were unable to process their coffee themselves for which it had to be transported to the capital. For this they depended on middlemen. The area was exceptionally difficult to access and most middlemen did not dare yet to go and collect the coffee. The farmers were therefore left to the mercy of the few who did dare but who charged a very high risk premium, which translated into an extremely low price for the farmers. To make any kind of economic recovery this was therefore the first problem that had to be tackled. A group of coffee farmers put their heads together to try and find a solution. This led to the formation of the Asociación Chajulense Va’l Vàq Quyol in 1988.

Access to the export market
Contact with Max Havelaar was first made in 1989 and by the end of that year the first container of coffee was shipped to the Netherlands at fair trading conditions. This gave the association for the first time access to the export market. An infrastructure was barely existing, but Max Havelaar introduced the association to the former EDCS (now Oikocredit) that provided loans, for example for warehouses, drying floors and means of transport. A coffee plant was also built to prepare the coffee for export. This reduced their dependence on third parties and especially women were able to earn an income by working in the plant. The first Fairtrade income was used to distribute 200 manual coffee depulpers so that farmers could perform the first part of the coffee processing themselves.

Extra income
With the growth of Max Havelaar volumes could increase in the years that followed. Of the production of 400 to 500 tons, about 70% was sold at Max Havelaar conditions. According to estimates by FLO, the association has received more than US$1.5 million extra since 1995 than it would have on the conventional market. This meant a much higher income for the farmers, as much as 70% more in 2001. What is more it allowed the association to repay the mentioned loans. The association also started all kinds of new projects that allowed the coffee initiative to develop into a project that benefits the entire region (see box).

Developments in Chajul
Communications:
- Investments in communication, including a radio station that helps illiterate people throughout the region.

Healthcare:
- Opening a health clinic and hiring health workers.
- Setting up an educational centre for young people and adults offering agricultural courses, reading and writing courses, workshops for coffee farmers, etc.
- Financing professional education for young people

Diversification
Organic certification (since 1993)
Own brand for local market (fails)
Cattle project

Other projects
Shop
Craftsmanship project (furniture)
Maize mill
Sewing workplace
Credit fund for individual projects

Prospects
More and more refugees have returned to Chajul. Membership of the association has increased from about a thousand in 1991 to about 2,600, of which about 1,700 are coffee farmers. Trade has returned to the village, there is more traffic and more jobs ensure that fewer people leave the region. The association makes every effort to recruit young people as members. The relatively young age of members represents the future prospects for both the association and the village.

3.3. Guarantee for continued existence CDI Bwamanda - Congo

Salvation
Coffee is an indispensable source of income to the Centre Development Integral (CDI) in Congo with which to carry out its support programmes. For this reason CDI

has always sought to obtain a better market for its robusta coffee. The launching of Max Havelaar in 1988 offered this opportunity. At precisely the time that the international coffee price plummeted. In the early 1990s CDI was already proclaiming that Max Havelaar had been the salvation of the organisation.

The farmers request

CDI was established in 1969 by a small group of employees at the University of Kinshasa. The group wanted to start a development project in the north-west of Congo as the Congolese government had abandoned this region. The mission of the Capuchin order in Bwamanda was selected as its headquarters. The aim of CDI was the integral development of the population. Although the organisation initiated many medical, social and cultural programmes right from the beginning, improved economic conditions were seen as the basis for development. In this region agricultural plays an important role, but local traders abused the weak position of the farmers. The farmers then requested CDI to become involved in buying and selling of coffee that was used as a form of payment in the villages. The area of operations increased and today CDI operates from ten centres that reach more than 20,000 farmers.

An important support

CDI is vitally important to the population of the north-western part of the Equateur province. To the farmers in this area, coffee is an indispensable source of income and therefore also to CDI, that works with and for the farmers. The low coffee prices however plunged the organisation into deep trouble. The launching of the certification mark in the Netherlands therefore was exactly what they needed. When Max Havelaar initiatives were launched in other countries, the sales of CDI Bwamanda increased. Since 1995 more than 4 million kilograms of robusta coffee has been exported at Fairtrade conditions, which amounts to 10 to 15% of the total production. Because of the extremely low world prices this yielded a considerable extra amount for the CDI, adding up to almost US$3 million since 1995.

Impressive achievement

Exporting from north-western Congo is no easy task. The infrastructure leaves much to be desired, the road and air connections are poor and communication possibilities are limited. The main route is by river. Initially CDI depended on third parties for the transportation of coffee and other agricultural products. Transport to the port of Kinshasa takes one to two weeks and moreover was highly unreliable. As early as 1976 the CDI established a centre for logistical support for the organisation in Kinshasa. CDI also bought a piece of land where a coffee plant was built and where other agricultural products are processed. Additional external support was needed to realise all this.

The political unrest that arose with the fall of Mobutu in 1997 and the ensuing civil wars further worsened the situation and kept endangering the continuity of the export. It was then decided to create a coffee buffer in Rotterdam to reduce the risk of unreliable supplies. CDI now also has its own boats for transportation to Kinshasa. Despite all the problems and the difficult situation in which CDI has to operate, the organisation has been able to continue exporting and what is more, to even increase the export volumes. An impressive achievement. CDI not only sells coffee on the Fairtrade market but 30% is also sold directly on the conventional market. It may be obvious that CDI uses a significant part of its income for the maintenance and improvement of the infrastructure. Not only for the export but including road works and building bridges in its own region.

Range of social provisions
Healthcare
- Hospitals and an impressive network of health centres in ownership
- Nurses training
- System of medical insurance (2/3 of the population participates)

Hygiene
- Providing clean water by sinking 700 wells and hand pumps
- This has resulted in fewer diseases and a decrease in workload for women

Education
- A primary school and several technical schools
- Advice on housing construction
- Contributing to the conservation of trees and forests (partly in the interests of construction of houses)

Economically stronger
Fairtrade coffee firstly allows CDI to offer farmers a fairer and more stable price. It also enables the organisation to repay the loan for the coffee plant and warehouse in Kinshasa and to pay for an insurance of the stored. This income furthermore represents a considerable contribution to maintaining all kinds of provisions developed by CDI (see box).
Besides the commercialisation of coffee, on which the farmers depend for at least 50% of their income, CDI is also involved in many other activities in the field of agriculture. Significant examples are the more than two hundred demonstration fields and the training courses for farmers where they are shown how best to grow crops. The focus is no longer on coffee alone as CDI is also involved in maize, soy, rice and palm trees. A research centre has been opened that is expected to result in the use of better seed types and more modern farming methods. CDI has also established a veterinary service and a chicken project. In Kinshasa CDI has started processing agricultural products such as maize, rice and peanuts and is producing an animal feed concentrate.

Gaining independence
The income from Fairtrade and further external support guarantee the survival of CDI. And this is extremely important in view of the role it plays in the development of the region. Thanks to all its activities CDI was recognised years ago as a regional development organisation. Nevertheless, CDI is working hard to strengthen the internal organisation, both at central and local level, and to achieve further independence of the organisation.

3.4. No coffee without Fairtrade
Cepicafé - Peru

Introduction
"If we were to operate only in the conventional market, we would not produce any coffee. If there were no Fairtrade price, we would not be where we are today." This statement made by the leaders of Cepicafé reflects the importance of fair trade to

the organisation.

A new impulse
Cepicafé (Central Piurana de Cafetaleros) is an umbrella organisation of coffee cooperatives in the Piura department in northern Peru. The organisation's aim is to improve the lives of the families of coffee farmers in the region and to contribute to the general development of the area. There are around 10,000 farmers in the region representing more than 3% of the total production of Peru. The members of the cooperatives are small-scale farmers who grow their arabica coffee under shade trees on the flanks of the Andes at a height of 900 to 1600 metres above sea level. They depend on coffee for about 90% of their income.
Cepicafé was established in 1995 by 18 cooperatives who saw this as a way to commercialise their coffee, the most important crop in the region. This was a new impulse in a situation where many cooperatives could no longer manage and had disappeared. The initiative was supported by Pidecafé, an NGO that had then been operating in the area for several years. German NGOs were also involved in this organisation. The first coffee export took place in 1994, but the real incentive came together with the access to the Fairtrade market. Cepicafé was first certified by FLO in 1996.

Fairtrade
A year later Cepicafé sold the first coffee at Fairtrade conditions, only 17,000 tons at that time. The volume gradually increased to about 200,000 kilograms a year, some 30% of the 650 tons Cepicafé produces annually. During the second half of 1998 the export of organic coffee started. Cepicafé is very much aware of the importance of the environment and the farmers therefore grow the coffee using ecologically sound methods. About 70% of the coffee has now the organic certificate. About 700 farmers have switched to organic production while another 900 are in transition. About 50% of the extra money earned through Fairtrade, over the years amounting to about US$600,000, is used to strengthen the umbrella organisation. The remainder is paid out to the member organisations, who at their annual general meetings decide how the money is to be spent. In the current situation most cooperatives pay most of it to the farmer members. In some cases half of the money is used for credits and improving the cooperative's infrastructure. The farmers see Fairtrade as the only way to keep afloat during the current coffee crisis.

Advantages of Cepicafé for farmers
- Takes care of the commercialisation of the coffee
- Provides technical assistance
- Gives support for investments and building capital
- Represents the farmers in regional and national forums
- Creates opportunities to increase income (used for schooling and additional food in particular)
- Offers the possibility to borrow money
- Has established a funeral fund
- Strengthens the position of women (15 to 20% of the members) among other things, by giving training courses.

Strengthening the organisation
Export by Cepicafé increased significantly. Whereas in 1999 20 containers were exported, this increased to 36 in 2001 and at present it is 51. Cepicafé now sells 'ordinary' as well as organic and speciality coffee on the conventional market in addition to the Fairtrade market. This is possible because the organisation is able to

use the extra income to bring about technical improvements in the production, organic cultivation and quality. This year the organisation introduced its own internal quality control system. It organised training courses in management and administration. Cepicafé has also developed a better infrastructure than in many other places. Workshops are organised to bring about further improvement in the efficiency of the organisation. Land has been acquired for the construction of the organisation's own processing plant . A cane sugar project has been started.
The sales of coffee considerably contributes to the capitalisation of the organisation: US$4 of each quintal (± 45 kg) flow directly into the organisation. This will gradually make Cepicafé less dependent on Pidecafé. In the past this NGO paid for the salary of the manager and the bookkeeper as well as the communication costs. Nowadays it only pays the manager's salary.
The organisation's success has led to an influx of new members. In 2001 the number of members had grown to 35 cooperatives, while membership has increased to 51 cooperatives today. The number of farmer members has also increased relatively: from 1450 in 2001 and 1650 in 2002 to 2050 members at present.

3.5. Unity is strength
Cirsa / Fiech - Mexico

In search for better prices
Cirsa, in the Mexican province Chiapas, was established in 1995 with the intention of trying to get better prices for the farmers by avoiding the middlemen. What is more, the hundreds of members of the organisation wanted to do so in harmony with nature, so that Cirsa introduced agro-ecological methods. In that very same year the group was certified by FLO and early 1996 the first container of coffee was shipped to the Netherlands at Max Havelaar conditions. Initially Cirsa was unable to do this itself so another Mexican organisation, UCIRI, stood in for them. Fiech, an organisation that focuses on the general improvement of its members' living conditions, provides further commercial support.
In 1997 Cirsa gained the status of organic producer and since then the cooperative exported mainly certified organic coffee. Two-thirds of the total production of about 175 tons are certified organic. While export started with 50,000 kilograms, in recent years Cirsa has been selling three times as much at Fairtrade conditions amounting to a total of some 700 tons and generating extra income of more than US$500,000.

Less dependent
Cirsa initially considered that the extra benefits should be passed on fully to improving the farmers' income, simply because of the fact that the coffee price was too low. Later on they decided to use part of this extra money to offer technical assistance to the farmers. In 2000 a new office was built as the old one desperately needed to be replaced. The infrastructure was improved and Cirsa acquired a new warehouse. In 2002 a truck was bought so that they could transport the coffee themselves. Some of the money was also used to capitalise the organisation bit by bit. Today Cirsa has no debts and is no longer dependent upon external financing. This also applies to technical assistance. The organisation has a team of 14 people that provides technical assistance to the farmers, supports the commercialisation and gives advice on specific projects. This team is also in charge of the internal inspection of the flow of goods and the organic activities. The internal organisation has been improved by acquiring computer equipment. Special programmes have

been developed for the members' wives.

Increasing cooperation
Cirsa has strengthened its relationship with other cooperatives through its membership of Fiech. This has also allowed Fiech to become a better running and stronger organisation of eight cooperatives and three women's groups. Nowadays the organisation counts more than 1700 members of which some 1300 are coffee farmers. Fiech follows a complete concept of improving its members' living conditions (see box), and also focuses strongly on organic coffee production and on the market.

Fiech's focal points
- Community houses
- Local savings and credit institutions
- Cultivating family-owned land
- Poultry and pig production
- Organic vegetables for the local market
- Housing projects
- Healthcare
- Position of women
- Human rights issues

In 2002 Fiech set up a marketing division called 'Distribuidora Vida y Esperanza', which now handles Fiech's exports. Cirsa is still handling its own export but is planning to transfer it to this export agency in the short term. With this division Fiech has achieved a high standard of professionalism of its staff and it improved its expertise in the field of commercialization and marketing. Besides this, Fiech is able to handle the final processing of the coffee before it is exported. The farmers contribute one *peso* per kilo to the processing plant. Fiech has opened a second processing plant with a roasting unit and a warehouse, enabling it to launch its own brand, 'Café Biomaya', on the local market. A small office was set up in Mexico City for this purpose. This is another step towards diversification as is a new initiative for organic tomatoes.
Confidence in Fiech and the cooperation now pay off. This development was supported by a newsletter, started to keep members informed of the latest developments. A stronger Fiech has resulted in farmers of other organisations wanting to intensify the cooperation. Fiech applied to FLO for certification as a single group. The certification came about in 2003. The organic certification had been brought together earlier, so that costs could be saved. It will not be long before all the organisations have joined forces in one strong organisation in Chiapas.

Not without Fairtrade
Fairtrade played a crucial role in this development. A FLO inspection report in 2003 reached the following conclusion: "Fiech was born and has grown with Fairtrade. It gave this organisation the opportunity to export directly and to establish itself in the (organic) coffee market. With only the higher price for organic coffee this would not have been possible to such an extent. Without access to the Fairtrade market the organic certification would even have been endangered in recent years as the costs of certification were not covered by the extra price the farmers receive for organic coffee."

3.6. Making use of market opportunities
Coocafé - Costa Rica

Introduction
Fairtrade has been vital to the survival of the cooperatives that form Coocafé and for the continuing service to their farmers. Maybe more than any other organisation Coocafé was permanently looking for opportunities to fully utilize the opportunities offered by Fairtrade. And this has been successful as proven by the fact that since the 1990s the organisation has undergone enormous development.

Cooperation
Coocafé was established in 1988 and is a second level organisation of nine cooperatives. One of those had already been in contact with the Fairtrade market since 1983 (selling to the Dutch Fair Trade Organisatie). Exports were handled by Fedecoop, a federation of cooperatives of small and medium-scale farmers. When the situation of this organisation deteriorated and competition increased, eight cooperatives decided to establish Coocafé. In 2000 the ninth organisation joined and membership increased to more than 4,600 farmers who on average do not own more than 1.5 hectares of land. Besides selling coffee Coocafé also wants to support the cooperatives in other areas such as strengthening the organisational structure, coordinating the coffee processing to reduce costs and improving the quality of the coffee. Selling on the Fairtrade market was crucial to the young organisation.

Extra income
The main hurdle Coocafé had to overcome was to gain access to the market. Fortunately the Max Havelaar initiative started up in the Netherlands immediately after the organisation was established, with the result that Fairtrade sales in Europe swiftly increased. Coocafé was able to build a considerable Fairtrade volume very soon. Of the total production of more than two thousand tons Coocafé managed to sell more than a thousand tons annually on the Fairtrade market. From 1995 to the present it came to some nine million kilograms which generated around US$ 4 million in addition to the regular world market price. In all these years on average more than 50% of the production has been sold on the Fairtrade market.

Extensive services
In the first place the income yielded a much better price for the farmers because Coocafé passed on 70% of the additional benefits to the nine cooperatives. The remainder was deposited in a development fund and a social fund, which increased rapidly year after year. These two funds were the main sources for the increase in services provided by Coocafé to the underlying cooperatives and their farmers. Coocafé devoted extensive attention to education, the position of women, the quality of coffee and the environment (see box).

Range of activities
Education:
- Improving the quality of rural schools (700 children have since benefited)
- Investing in the school infrastructure
- Contributing to a fund for apprenticeships
- Education committee with training courses for members focused mainly on increasing commitment and solidarity among the farmers

Women:
Educational programmes
- Training courses for starting up income supplementing activities (e.g. cultivating ornamental plants and flowers, chicken farming and egg production, sales of handicrafts in own shop and the production of food stuffs)
- Training courses on improved participation within the organisation (20% of the members are women).

Communications:
- A newsletter for members four times a year
- Own website

Environment:
- Course in Mexico on organic cultivation for the benefit of the cooperatives.
- More than 1200 farmers have switched to more sustainable coffee cultivation

500 hectares certified organic (7% of the farmers)
First container of organic coffee sold in 2001
Three of the nine cooperatives switched to organic coffee cultivation
Café Forestal Foundation (established in 1993) to promote the protection and conservation of flora and fauna in Costa Rica (see elsewhere)
Recycling waste water from the processing plants and purifying it before discharging into the river
Solar energy powered drying system in one of the cooperatives
Programme of intercropping and coffee planting under shade trees
Reforestation of 5,000 hectares
Eco-tourism since 1998: educational travels in cooperation with the university and small companies (includes introduction to cooperatives, coffee production process, and the life and work of farmers), which moreover generates extra income for Coocafé.

Market expansion
Coocafé developed many more activities to strengthen its market and increase its income. Firstly much energy was put into improving the quality of the coffee. Investments were made in new machinery for processing coffee and new drying terraces.
Coocafé then looked into expansion into other coffee markets. Already in 1990 Coocafé decided to roast, grind and package part of its coffee itself. To this end a coffee roasting plant was acquired, making Coocafé the first coffee cooperative to do something of the kind. In 1991 the first shipment of 'Café Paz' left for the US. In 1993 the sale of 'Café Directo' on the European market followed, but was stopped a year later due to the inconsistent quality. Coocafé also launched its own brand, 'Café Autentico' on the local market. The roasted coffee brought in extra profits, but what was even more important was that it boosted the farmers' self-confidence. The organisation is now examining the possibility of supplying gourmet coffee.
Reference was already made earlier to the increasing sales of organic coffee. In that context the organisation, in cooperation with the Dutch coffee roaster Neuteboom, launched the 'Café Forestal' brand on the European Fairtrade market in 1993. The extra benefits were used in the programme to stimulate the protection and conservation of the flora and fauna in Costa Rica a.o. for reforestation.
Another important step taken by Coocafé was to handle its own exports. Since 1997 coffee that used to be exported through Fedecoop was exported by Coocafé. The

experience gained by export to Fairtrade partners, strengthened the organisation's confidence to approach buyers on the conventional market directly.

Making use of contacts
Contact with the Fairtrade market also had other benefits. Through buyers, for example, Coocafé came into contact with banking institutions such as Oikocredit, making it easier and cheaper to obtain the credit facilities it needed for buying coffee from members. The cooperative also received - and still receives – a great deal of support for all kinds of programmes from foreign NGOs and alternative trade organisations. This network was also used in attempts to decrease the one-sided dependency on coffee. Meanwhile, Coocafe's macadamia nuts, cassava (yucca) and banana crisps can be found in western markets.
Coocafé played a prominent role in the establishment of 'Frente Solidario', an umbrella organisation of coffee cooperatives in Latin America, that protects the interests of small coffee producers and has its office in Costa Rica. The experience gained by Coocafé is called upon enthusiastically by other cooperatives taking their first steps on the export market. Its extensive experience on the Fairtrade market also means that Coocafé is one of the major coffee cooperatives that actively contributes to policy discussions of the Fairtrade movement.

Interesting
Coocafé has undoubtedly become successful thanks to its sales on the Fairtrade market. All the relationships built with this have been fully utilised to strengthen its position in the market. Coocafé has become an interesting partner in the conventional market and is well on its way to becoming a serious player in the market of specialty coffees such as organic and gourmet coffee.

3.7. Export office as driving force
Kagera Co-operative Union - Tanzania

Introduction
For a long time the coffee farmers in Tanzania only had one simple role to play: supply coffee. They had very little notice of what happened to the coffee after that. And what is more, they simply had to wait and see how much they were paid for their coffee. Thanks to the relationship with Max Havelaar, in conjunction with the market liberalisation in Tanzania, their position has changed.

Market liberalization
Formerly the task of the Kagera Co-operative Union (KCU), as the umbrella organisation of village cooperatives, was to collect the coffee from the farmers and perform the first stage of the processing. The Tanzanian unions held the monopoly position in this. KCU has a long history. It was established in 1955, but was banned between 1976 and 1984, when the government took over the role of the coffee organisations. This was not successful and in 1984 KCU and other unions were reinstated. The government's influence did however remain strong. The government had its own representatives within the unions and the commercialization of coffee was handled by the government-controlled Coffee Board.
From 1991 the coffee sector in Tanzania was liberalized. Cooperatives had to become economically viable and moreover had to be supported by their farmer members. It also meant that the cooperatives were faced with more buyers in the rural areas and

that commercial traders started handling exports. To this day these exporters have to buy their coffee at the auction in the northern city of Moshi. The auction is still managed and regulated by the government. Also KCU, operating as a union in the remote Kagera region in the northwest of the country, wanted to become involved in exports and the coffee auction, but lacked the experience, resources and market to make this step.

A helping hand from Fairtrade

Fairtrade was able to extend a very welcome helping hand. With the support of alternative trade organisations, Max Havelaar and a few local coffee experts, an export office was opened in Moshi and the required means of transport, communication and coffee equipment were provided. Through trial and error KCU managed to buy back (some of) the robusta coffee it had delivered to the auction and ship it to the Fairtrade market. During the first years (1990-1992) this was less than 400 tons whereas KCU produced around 9000 tons. Due to the low world market price these fair trade sales however generated more than 100 million Tanzanian shillings (at that time about US$20,000). As a result, even at a time of extremely low market prices, a modest but sensational second payment could be made to the farmers.

During the following years the volume increased to about 600 tons a year on average. Since 1991 KCU has sold almost 8 million kilograms at Max Havelaar conditions, generating almost 5 billion Tanzanian shillings extra for the organisation (about US$5 million at the current exchange rate). KCU applies the principle that half of this must always be paid out to the farmers in the form of a second payment. This usually was only a modest improvement in their income as the Fairtrade sales never covered more than 8% of the production and KCU has an estimated membership of 40,000 farmers. But even this small share of fair trade meant that KCU could double the payment made to the farmers in recent years, the worst years ever in terms of coffee prices (Fairtrade prices are 4 to 6 times higher!).

Stronger export department

The income from coffee gave the export office more scope. Moreover, they gained extensive experience on matters such as buying at auction, assessing the quality, transport to the port, handling export formalities and financial coverage. KCU also increased knowledge on international trade and gained insight into consumer demand. The relationship resulted in KCU starting price-risk management and making an attempt to operate on the exchange.

Thanks to the experience gained and the contacts made, KCU was able to access the conventional market. Whereas initially all sales were geared to the Fairtrade market, today 60% of the export is supplied to the conventional market. KCU currently exports more than 20% of the total production itself.

KCU’s presence at the auction has also had a considerable indirect impact on the farmers’ income. By taking part in the bidding, KCU is able to drive the prices to a higher level, which benefits all the Tanzanian coffee farmers. It is difficult however to estimate exactly how large this effect is. KCU itself reckons that it could be US$2-US$3 on every 50kg, but this may be too optimistic. Thanks to acquiring its own coffee equipment KCU is now able to control the quality and flavour of the coffee. The organisation has also appointed a coffee taster, who can, by tasting (or cupping), make an expert judgement of the coffee quality. The export department currently has a small professional staff after being a one-man operation for many years.

Impact on the cooperative
By aiming for efficiency and transparency, in part to meet the requirements for its export activities, the export office has made an impact on the functioning of KCU in the field of production. The organisation, which used to be seen as a bastion of bureaucracy and conservatism, underwent a change of culture and becomes more open and efficient because of better administration, computers, etc. Communication with and participation of members also improved. Due to the extremely low coffee prices, structural changes have not yet been made, but thanks to contacts made through trading, with support organisations such as the British TWIN and the Fair Trade Organisatie, new programmes are being developed.

Capitalization
The sales in Moshi through its own export department are an important source of income for the cooperative as a whole. Not only do the farmers get a higher price, what is even more important is that KCU gets additional capital that gives it more leeway in bad times. This makes it easier to operate and give the farmers what they want in the first place: buying and commercialisation of coffee on behalf of the farmers. Since the farmers have made education a priority, KCU supports schools in the region and uses Fairtrade income to run its own secondary school.

Stronger market position
- Building up a fund to buy coffee (even when market prices are low)
- Establishing a cooperative bank (with the assistance of Rabobank)
- Increase shares in local instant coffee plant (from 5 to 34%)
- Export of instant coffee (in bulk or tins, depending on the customer's wishes)
- Starting organic coffee production in four villages (Fairtrade funds contribute to the start up and price incentive to encourage organic farmers)

Mouthpiece
Thanks to the experience KCU has gained, the organisation is now able to help other cooperatives that are starting up their own export activities. Assisting them with the bidding at the auction, for example. KCU and its export manager are often asked to represent the export sector, or Tanzania as a whole, at national and international forums. Gradually the organisation, together with another coffee union, are being regarded as the mouthpiece for all Tanzanian coffee farmers.

3.8. Opportunities for social programmes La Esperanza - Colombia

The hope
In 1987 a few local leaders established the organisation La Esperanza ('The Hope). The way they started differed from that of most other Fairtrade partners. The immediate reason was the lack of a local shop for basic needs and where food could be bought. Initially the organisation was not a commercial cooperative but a non-profit organisation geared to local development in the wider sense. Nevertheless the organisation was later asked to take on the task of commercializing local agricultural products. This established the connection with fair trade.

Fairtrade in figures

- Certified in December 1994
- First container shipped in 1996
- Sales of 100,000 kilograms reached in 1999 and 2000
- US$200,000 additional income

Social programmes

In Colombia coffee is already commercialized through the local cooperative and the export organisation Expocafé. Commercialisation was therefore not greatest improvement for La Esperanza, which produces about 260 tons of coffee. Fairtrade brought the organization additional and stable income, which benefited the whole community in El Guayabo. Since 1995 the organisation has received almost US$200,000 extra income from its Fairtrade sales. Supplemented by several other funds many social and economic programmes could be carried out. Initially the extra funds were invested in the local agricultural school, the renovation of houses and roads, sanitary facilities, such as water tanks, and many other social projects. Funds were also invested in improving the administration. Since 2001, apart from housing, roads and electricity, investments have been made in working capital, the local high school and computers and software for the shop and the association.

La Esperanza recently bought a farm of 300 hectares and the land is being divided among 16 to 20 young families. The farm will focus on reforestation and trial with organic coffee will be started up. The shop and butchery are additional sources of income, while plans for a mushroom project are ready to be carried out.

Growing organisation

The advantages of La Esperanza are widely appreciated. No less than 95% of the coffee farmers in the community are members of the organisation. People are also very much involved. The organisation started off with just 46 member but several young members have joined since 2000, as well as a new organisation, Chia, which has 45 members. La Esperanza now has 110 members of which 25% are women.

3.9. Saved from 'coyotes' Manos Campesinas - Guatemala

Dependent

Many small farmers in Guatemala depend for the sales of their coffee on commercial traders, by the farmers better known as 'coyotes'. They noticed that improving their production was not the answer as this only resulted in the 'coyotes' making more profits. Fairtrade offered the possibilities.

Joining hands

Manos Campesinas ('farmers hands') was established in 1995. The organisation consists of seven cooperatives of small farmers in the regional departments Quetzaltenango and San Marcos, in the southwest of Guatemala. These groups were formed during the land reforms of the Guatemalan government in which landless farmers, usually the workers on the former plantations, were given the opportunity to buy a piece of land. They were supported by the catholic organisation 'Pastoral de la Tierra'. However, to effectively break free from the middlemen - who paid low prices for their coffee, provided credit at extremely high interest rates and drove the farmers to desperation with their dodgy trading methods - they joined forces and established Manos Campesinas. In April 2003 the eighth organisation with some 125 members joined, bringing the membership to about 1200 each cultivating one hectare of coffee on average.

Market access

Manos Campesinas did not have access to the market but applied to Max Havelaar for registration in 1995. One year later this farmers' organisation sold its first coffee at Fairtrade conditions. In 1998 they shipped two containers, in 1999 four and in 2001 this had risen to eight. With a total production of about 450,000 kilograms the maximum Fairtrade share was some 40% of the total sales. With that volume they received in those years more than US$250,000 on top of the regular price. Manos Campesinas bought the services of a commercial export company, Excagua, to handle the exports. The organisation is currently working on getting its own export licence to gain better control of the flows of money and goods.

Strengthening the organisation

The extra income generated by Fairtrade was first of all used to pay the farmers a better price for their coffee. It is also used for training courses in commercialisation, to improve the infrastructure (own means of transport, etc.) and for communication such as mobile telephones. Plans have been made to acquire their own processing plant and to find agricultural support to guarantee the quality of the coffee. Support is widely available. Access to the Fairtrade market also brought the organisation into contact with European, mainly Dutch, development organisations. A support programme for business and organisational improvements was set up. The current manager is Dutch and part of his salary is paid by external organisations. An American company is supporting by facilitating working capital.
Manos Campesinas has stimulated the transition to organic cultivation in order to increase its market opportunities. Many farmers within the organisation are already using organic methods while others are working towards it. The first certified organic coffee was sold in 2000 at Fairtrade conditions. At present more than 55% of the coffee sold is organic.

Position of women

Manos Campesinas is committed to improving the position of women. In three cooperatives women have formed their own groups. Their main activity is roasting and grinding coffee that they sell on the local market. Discussion groups for women have also been started up, to discuss their specific problems.

3.10. Development into a professional company Prodecoop - Nicaragua

From landless to cooperative

Prodecoop is a good example of the emancipation of coffee farmers. When the Somoza regime ended in 1979, land was divided among the landless farmers. Many farmers, who mostly did not own more than two hectares of land and were almost fully dependent on coffee for their income, organised themselves with great difficulty into cooperatives. After the election in 1990 in which the Sandinistas were defeated, the state monopoly was lifted and the cooperatives were allowed to export their own coffee. However, the change in government also brought an end to the technical support and the cooperatives had to find external support for further development.

Access to Fairtrade

Cenzontle, a Nicaraguan NGO, was handling the export for a group of small cooperatives in the Segovias in the poor northern part of Nicaragua. However, there was a growing awareness that the cooperatives should manage their own exports. As individual organisations, with sometimes less than thirty members, they had little influence and depended on third parties. This is why in 1993 they established Prodecoop, a company owned by 45 coffee cooperatives, representing almost 2200 farmer members, of which 500 (!) were women. Prodecoop immediately joined Max Havelaar. Between 1995 and 2003 Prodecoop sold almost 4 million kilograms of coffee at Max Havelaar conditions which generated almost US$2 million more than it would have on the conventional market.

Towards a professional organisation

An important step in the development of Prodecoop was the acquisition of their own coffee processing plant in 2000 and which has since been fully paid off. The plant not only allows Prodecoop to prepare the coffee for export but also to control the quality. A strong commercial department was set up that, through training courses, was able to manage the quality. Prodecoop aims for high quality. That they have succeeded in this is demonstrated by the fact that the market is prepared to pay a positive differential for quality and also by the many prizes Prodecoop has won in cupping competitions in the US and Nicaragua. Additional drying floors were built next to the plant to dry the coffee.

Prodecoop is continually working on strengthening the organisation's financial position. It provides loans to the cooperatives and trains then in the use of credit systems so that in time the cooperatives can provide for their own financing needs independently. Technical assistance and training the cooperatives in coffee cultivation and the first stage of the processing are also important activities to improve the organisation's functioning. Prodecoop has therefore employed a team of agronomists. Training the cooperatives in administration is another focal point. Prodecoop now uses a computer system with a database of all the individual producers to manage the entire coffee-flow. A few years ago the board of Prodecoop was given courses in business administration with the support from, among others, the Dutch Fair Trade Assistance (FTA), so that it is now better equipped to make decisions. These courses are repeated on a regular basis. Prodecoop has joined forces with another cooperative in Nicaragua to further strengthen the internal credit system, to develop a marketing strategy and for the general functioning. Here too, FTA and the British TWIN provided technical assistance. Prodecoop also provides legal advice, for example when large landowners try and claim back into cooperatives the land on which the farmers are now living and working.

Prodecoop projects
Organic project:
- 900 farmers switched to organic cultivation
- First organic coffee sold in 1999
- About 25% of the production sold as organic in 2001
- On-going training for farmers switching to organic production
- Participation of Prodecoop's technical assistants in the programme on 'Integrated Pest Management'.

Specialisation:
Extremely active in the coffee speciality market, particularly in the US
Promoting other types of cultivation among individual farmers (focussed on the conservation of the natural environment!)

Social projects:
Family planning
Education fund to provide school children with, for example a rucksack and paper and the possibility of apprenticeships for students
Policy geared at increasing participation by women

Good reputation
Prodecoop is first of all committed to the sound financial management of the company. Nevertheless, individual members benefit from considerable increases in their income (in 2001 for example by at least 10%). As a result of its sound management the organisation has also been able to give attention to all kinds of social aspects (see box). Despite initial problems in the early years and the devastation caused by hurricane Mitch in 1998, the organisation, with a female manager, has become a professional company from which the member cooperatives benefit to the full. Prodecoop has built up a good reputation and is trusted by the buyers because it meets all its commercial obligations in terms of quality, delivery times, documentation and transport without fail.

Concluding remarks

A few general points in conclusion as a supplement to former descriptions.

Export as the driving force
The majority of the farmer organisation that joined Fairtrade had not had access to the export market before. They sold to middlemen or public institutions and had no clue of what happened to their coffee or what price it ultimately yielded. Thanks to Fairtrade the export market has come within reach of most organisations and this is most important driving force for further development. These is clearly demonstrated by the experiences of organisation that have been operating in the Fairtrade market for quite some time, as well as it is clearly visible by those partners that have been involved in the system less prominently and for a shorter period of time.
Of the 183 organisations certified by FLO about fifty handle their own exports and all preparatory steps themselves. About 85 other organisations export their coffee through their cooperative umbrella organisation. In this way they achieve economies

of scale and they can employ professionals to be in charge of the exports while at the same time they remain in control of the entire process. About fifty organisations buy the services of a commercial exporter.

Conversion to organic production
More than half of our partners (more than 100 cooperatives) are in conversion to organic production or part of their production is already certified organic. Fairtrade and the extra premium helped in this transition. Organic certification is expensive and requires additional investments. It is only in the past two years that FLO has registered new partners that already had an organic certification. In 2002 more than 50% of the Fairtrade coffee was sold as certified organic; a year earlier this was 44%.
The demand for organic coffee does not however keep in step with the supply. In 2000 only the Fairtrade partners could supply at least double the volume of organic coffee that was ultimately sold (10,000 tons, while 5,000 tons were sold as certified organic). Further growth in the organic market would be desirable, as many farmers are ready to supply this demand.

Technical assistance
Cooperatives use part of the extra Fairtrade income to improve the quality of the coffee. Farmers are trying to increase productivity, which generally is fairly low among FLO partners, within the existing acreage (the acreage under coffee is never increased). It is estimated that 90% of the certified organisations provide technical assistance to the farmers. In about half of these cases, many NGOs, development organisations and financial institutions are involved in this. To mention just a few: Fair Trade Assistance, Hivos, Oikocredit, Rabobank Foundation, SNV Nederlandse Ontwikkelingsorganisatie, Solidaridad, Stichting Doen, Triodos as well as many support organisations outside the Netherlands, such as DFID, FES, GTZ, TWIN, USAID and VECO. They also provide support at organisational level.

Diversification into other products
While many organisations try to add value to their coffee by specialising, diversification into other products does not take place on a large scale. Only about ten certified organisations are seriously involved in this. It is not a natural step for a coffee cooperative to start producing another product, as producers do not immediately have the affinity with such a product to turn it into a success. Small-scale projects have been started however, to increase the income of the community as a whole or of individual families. Quite often these are women’s projects. Individual farmers (male and female) usually attempt to diversify in the sale of food crops at the local market.

Building networks
Fairtrade brought farmers’ organisations in Africa, Asia and Latin America into closer contact with each other. As a result these organisations became aware of the fact that they are facing similar problems and have the same objectives.
Several umbrella organisations were formed to serve as a platform for the numerous small cooperatives. The largest of these is probably the Frente Solidario that operates from Costa Rica. But also in Mexico, Honduras and Haiti strong umbrella organisations have been established. A coordinating structure for communication within the international Fairtrade network and among all FLO partners has been implemented in Latin America and is used extensively. Such joint structures are also being developed in Africa. Coffee farmers are increasingly joining forces in order to speak as one and have a stronger voice in discussions at international forums.

A long term process

It is good to emphasise once again that Fairtrade is not a project that at a short term leads to an end result in a certain field of the organisation. It is also not possible to separate the contribution made by Fairtrade to an organisation's development, from those of other players, except in terms of money and volumes. The model's strength is that Fairtrade is embedded in the entire operation of the organisations and their empowerment process, which develops gradually. The effect of Fairtrade is a long-term effect and cannot be isolated from other factors and influences. Nevertheless, the organisations described here certainly demonstrate how crucial their relationship with the Fairtrade movement has been to them.

And then sometimes events occur that plunge the cooperatives back to the state they were in before. Just think of the current coffee crisis or disasters such as hurricane Mitch in 1998. Thanks to the Fairtrade market and the benefits of having many external contacts, the cooperatives are able to survive as farmer organisations and get things back on track to some extent. Without the crisis and such disasters the farmers would have achieved even more.

4. Conclusions

1. **The Max Havelaar Certification Mark was established to improve the economic position of poor coffee farmers through Fairtrade. The model works.**

- FLO International has already registered 183 coffee organisations representing 1000 certified cooperatives and more than half a million farming families.
- Almost 20% of the exportable production is sold at Fairtrade conditions, in 1999 this was still only 15.5%.
- Since 1998, when the coffee crisis began, the minimum prices of Max Havelaar have been two to five times higher than the world market price.
- Since the beginning Dutch consumers have provided the farmers with € 47 million extra income, and in the disaster year 2001 alone this was 7.5 million.
- The statistics of all FLO countries together have been registered since 1995. Since then and up to 2003 more than € 75 million extra has been paid to the farmers of which € 30 million in 2002.

In terms of empowerment the effects of the additional resources, cooperation and a great deal of commitment on the part of the farmers can be summarised as follows.

- Independent access to the coffee markets of the industrialised countries, that had previously been hermetically closed. For virtually all partner organisations Fairtrade was their first experience with direct exports. The importers of Fairtrade coffee also brought them into contact with the conventional market.
- 50% of Fairtrade coffee is now certified organic. In most cases Fairtrade was the starting point of a process that brought the farmers to impressive ecological achievements and gave them access to new and lucrative markets.
- In many other ways the organisations have also been successful in improving the position and income of the farmers:
  - Vertical integration through improved transport and communication, establishment of own processing and export facilities.
  - Increased efficiency: increase in scale of commercialisation, higher productivity, investments in management capacity.
  - Improved quality and product specialisation geared to high-value sales markets.
  - Services provided to members in the area of housing, credit, healthcare, training and education.
  - The strongest organisations play a key role in the development of the region as a whole, thereby counteracting the disastrous migration to the cities.
  - The Fairtrade income can cushion losses suffered on the conventional market. A result that leaves one feeling ambivalent but must be mentioned. It is evidence of the emergency situation in the coffee market.

Fairtrade counteracts the unscrupulous practice of the race to the bottom, buying where production is cheapest, with all the consequent harm inflicted on people, production environment and coffee quality. A recent study of the World Bank refers to sustainable coffees (fair trade, organic and eco-friendly) as undoubtedly the strongest contribution to reversing the decline in the coffee sector. Their practices and success in the market are a reference for the sector as a whole.

2. The Max Havelaar model has been accepted worldwide and Fairtrade labelling is expanding rapidly.

National labelling organisations have now been established in 17 industrialised countries.

FLO International certifies producers in more than 40 developing countries. At the end of 2002, 9 products were brought under label: coffee, bananas, cocoa, orange juice, tea, rice, sugar, honey and footballs.

Sales represent an estimated retail value of €260 million.

In 2003 the product list was expanded, mainly with other tropical fruits.

The growth of sales of labelled products increases year by year and sales increased annually by 20% on average since 1999.

For coffee this was 10% annually, whereby a spectacular increase was seen in particular in the USA, the UK and France. The forecast for the entire international market in the coming years is exceptionally positive.

As far as Fairtrade coffee is concerned, the Netherlands is one of the mature markets. In 2002 growth was minimal, but this must be seen in the context of a total market that declined by 4%.

In 2003 SMH implemented far-reaching changes in its marketing concept. This new approach deals with a number of obstinate bottlenecks (brand recognition on the shelves in the supermarkets, quality perception, and image) and is expected to result in further growth.

Sales in the out of home market continues to grow, by 7% in 2002. Whereas previously a great deal of coffee was sold in the public sector currently it is the business community in particular that is switching to Max Havelaar.

3. Mainstream players in the coffee market are gradually moving towards greater social responsibility in their business operations.

There are several reasons for this.

The international success of Fairtrade proves that there is room for coffee produced and traded according to new principles. Failure to do anything means lagging behind: the conventional market is stagnating.

A critical point has been reached in the coffee quality. All roasters now recognise the need for greater sustainability on the production side.

The market trend is heading towards direct purchases and greater traceability of the coffee flow. This forms a solid base for companies adopting chain responsibility. The background to this is the need for quality control as well as consumer concerns about food reliability.

The pressure on the business community to apply ethical standards to their purchases strongly increased. The coffee crisis and the blatant violation of the labour rights of the pickers have inspired furious campaigns by Oxfam International and the Coffee Coalition in the Netherlands.

Recent business initiatives show a change of tide in the coffee market.

Procter & Gamble launched a Fairtrade coffee blend under their Millstone brand and COOP in the United Kingdom is the first supermarket chain to apply the label to its home brand filter coffee. Fairtrade has also been actively taken up by international chains such as Starbucks and McDonalds.

- In the Netherlands, Ahold is the first of the larger roasters that follows a code of conduct in its purchasing policy (Utz Kapeh).
- The German CCCC initiative is trying to establish a sustainability code for the whole sector, together will all the players in the international coffee sector, including the big ones.

The principle of Max Havelaar applies to the market as a whole: a good product deserves a fair price. Pressure from society will continue to be needed to achieve this.

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