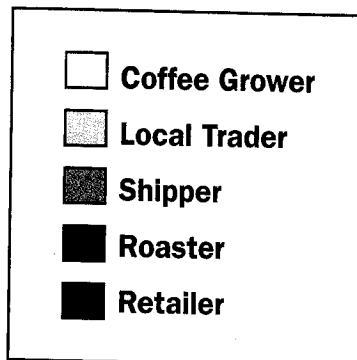
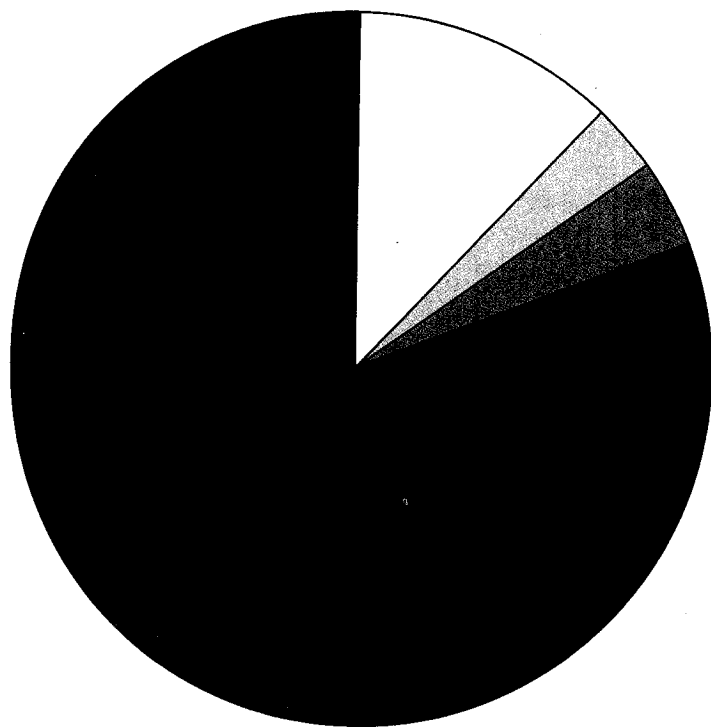
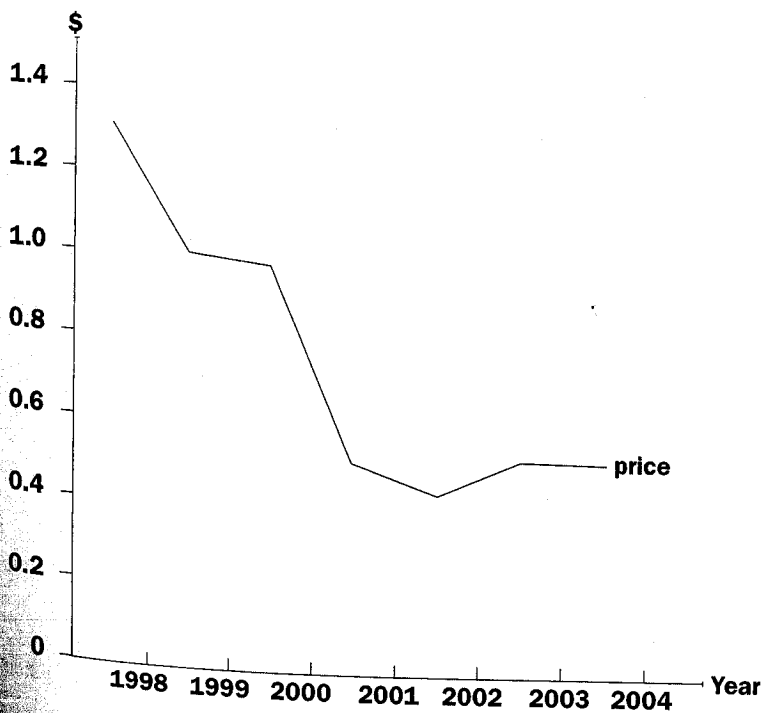


Where Does the Money Go?



What Has Happened to Coffee Prices?



What is Fair Trade?

Fair trade is a way of buying and selling products that is designed to help the producers/growers make a living wage. Examples of fair trade products include coffee, tea and chocolate.

Fair trade is a guarantee that the producers will cover their costs

Because many products are subject to increases or decreases in market prices, it can be difficult for individuals or families growing a product to make a living. For example, a coffee grower may not earn enough from his or her crop to cover the costs of growing the crop. A fair trade arrangement guarantees that the buyer will pay a minimum price that will allow the growers to make a living and continue farming. If the market price goes over that minimum fair trade price, the buyer will pay the market price. Thus, growers are guaranteed to make at least the minimum they need to cover their costs of production.

Fair trade works through cooperatives

Individual coffee growers join cooperatives (groups of growers). The cooperatives sell directly to importers (skipping the middlemen). The cooperatives are guaranteed a price for their coffee that covers the cost of production. In addition, the buyers pay partially in advance to help the small growers avoid borrowing money. The buyers also promise to purchase for several years so that growers can plan ahead. In return, the cooperatives must:

- Be made up of small growers who use mainly their own and their family's labor to run their farms. A large company with lots of employees could not be part of a cooperative.
- Be democratically run by their members. This means that the members make decisions together. The cooperatives must also be politically independent—they cannot be part of a political party.
- Pursue sustainable development that conserves natural resources and avoid use of agricultural chemicals (although not all fair trade coffee is organic, shade-grown coffee, most fair trade coffee sold in the United States is).
- Help families of growers and communities by helping provide improved health care, education, housing, and water supplies.
- Build the skills of members and improve products.

How do I know if I am buying fair trade?

Fair trade products will have a special label on them. The fair trade Labeling Organization (FLO) is in charge of labels used to show that a product is a fair trade product.

Mourning Coffee

San Francisco Chronicle
May 20, 2001

By Robert Collier

La Reforma, Guatemala ... For millions of impoverished farmers worldwide, coffee has become a cruel business. Producer prices have plummeted in recent months to an all-time low, while prices on the retail end are mostly at an all-time high. ... This is the dark side of coffee, the world's second-most-traded commodity after petroleum.

In many coffee-growing countries, crisis is brewing. International coffee prices have fallen by two-thirds since 1997, and no significant recovery is expected. The collapse has worsened rural poverty, spurred immigration to the United States and, in some areas, raised the specter of civil unrest.

In Guatemala, the world's seventh-largest coffee producer, American java lovers' spending habits seem far away indeed. Large farms, where the average wage is \$3 per day, are laying off workers in droves. The price decline's impact is even harder at small farms—those with gross sales of less than \$5,000 annually, which made up four-fifths of the nation's 63,000 farms before the price crash. Around La Reforma, a town in the southwest coffee region, unemployment is rising fast.

"Go up and down the hills around here, and there are lots of farms that have closed, not just mine," said Gonzalo Varillas, who is laying off the last of the 80 workers on his 220-acre coffee farm. "Lots of people depend on me, but I can't continue to lose money like this."

Varillas explained that, as with other growers in the area, it costs him about \$1 to produce each pound of arabica coffee and send it to an exporting firm. In return, he is paid about 50 cents per pound. ...

Over the past two years, Guatemala's annual coffee exports have dropped in half, from \$600 million to \$320 million, and rural unemployment has soared to an estimated 40 percent. ... Some fear that the economic crisis could help undermine Guatemala's 1996 peace agreement, which ended 36 years of war between the government and leftist guerrillas. ...

According to a report issued last week by the international aid agency Oxfam, similar trouble is occurring in many other nations where coffee forms a large part of earnings and small farms predominate—Nicaragua, El Salvador, Ethiopia and Uganda, to name a few. ...

In Mexico, media reports say tens of thousands of people who once made a living from coffee in southern Chiapas state have migrated to the nation's major cities and the U.S. border. ... Today, the U.S. war against drugs in Colombia is being hindered by the flood of thousands of out-of-work coffee

growers and workers to the southern jungles, where there is work in coca farms and cocaine laboratories. ...

... Analysts say U.S. policy has helped cause the decline of coffee prices. In the late 1980s, opposition from the Reagan administration forced the collapse of the International Coffee Agreement, a decades-old, cartel-like pact between coffee producing and consuming nations that guaranteed relatively high prices. After the pact ended in 1989 and the market was deregulated, prices plummeted.

At the same time, the World Bank and its cousin, the Asian Development Bank, gave generous loans to Vietnam to plant huge amounts of low-quality robusta coffee—in line with international lending institutions' mandate to stimulate low-cost production and end market inefficiencies. The strategy succeeded with a vengeance, as Vietnam went from being one of the world's smallest coffee producers to being second-largest, after Brazil.

Vietnamese exports have tripled in the past five years, flooding world markets and driving down prices. At the same time, Brazil has created vast, mechanized plantations of robusta coffee in the center of the nation, far from the damaging frosts that in previous years often affected southern coffee areas and drove up world prices. ...

What's needed is a new version of producer-consumer price agreements, a "global Roosevelt New Deal to ensure that farmers get a fair price and have a level playing field," said Mark Ritchie, president of the Institute for Agriculture and Trade Policy in Minneapolis.

But any such solution would take place too far in the future to help the people around La Reforma. The region's residents, most of whom are Mayan Indians, tramp the roads looking for work. They knock on gates and wait patiently—the men holding their broad-brimmed hats in their hands, the women clutching their shawls. The answer is always the same. No one is hiring.

"Eating?" said Sebastian Alonso, one such job seeker, when asked what he is able to provide for his family at dinner. He thought for a long moment, his eyes blank. "Tortillas, some salt, some hojasanta," he said, referring to a common herb. "That's all."

"What's happening is a catastrophe," said Dr. Alfredo Cordon, the only medical doctor in the La Reforma municipality, which has 16,000 residents. "There's always been poverty and temporary unemployment, but I've never seen real hunger like I do now—people who literally have nothing to eat but tortillas."

What Price Virtue?

The Wall Street Journal, June 8, 2004.

By Steve Stecklow and Erin White

At a Whole Foods Market in suburban Boston, the coffee aisle recently was lined with leaflets promising to donate 5 percent of sales to growers. Labels proclaimed that beans were "purchased in accordance with international fair trade standards." Pamphlets asked: "Is your coffee fair to farmers?"

The materials reflect a growing international campaign to pay struggling farmers in poor countries more than market rate for commodities like coffee, bananas and chocolate. The extra cash has helped thousands of farmers fund education, health-care and training projects, among other things. ...

But as "fair trade" catches on in the U.S., Europe's experience shows that the biggest winners aren't always the farmers ... Sainsbury's, a British supermarket chain owned by J Sainsbury PLC, has sold fair-trade bananas at more than quadruple the price of conventional bananas—and more than 16 times what growers receive. ...

"Supermarkets are taking advantage of the label to make more profit because they know that consumers are willing to pay a bit more because it's fair trade," says Emily Dardaine, fruit-product manager at Fairtrade Labelling Organizations International, or FLO, a Germany-based federation of fair-trade groups. ...

The history of fair-trade products goes back to about 50 years ago, when missionaries arranged to have Western churches sell African handicrafts and return the profits to the villages. In the late '60s and '70s, "world shops" sprang up in Europe and the U.S., to give sellers in developing countries access to Western markets. The shops purchased craftwork, textiles and commodities such as coffee, tea and honey directly from cooperatives and small farmers, so there were no middlemen to take a cut of the sales.

In 1988, a Dutch foundation introduced a new label for retail coffee that carried the name Max Havelaar, a fictional 19th-century folk hero who campaigned for better treatment of Indonesian workers on Dutch coffee plantations. To carry the label, companies had to pay a minimum price for coffee that guaranteed growers a profit—along with small premiums to fund development projects at their production facilities. That gave growers access to Western consumers without exposing them to swings in commodity prices, which sometimes fall below production costs.

For example, raw arabica coffee beans currently sell for about 82 cents a pound on the world market. The fair-trade minimum price ... is \$1.26. Dean Cycon, chief executive of Dean's Beans, a wholesale coffee roaster in Orange, Mass., says it generally costs farmers about 60 cents a pound to

produce coffee.

Nonprofits sprang up to launch fair-trade products in other European countries. To improve the certification of fair-trade products, FLO, the German federation, was established in 1997. Working with the various country groups, it certifies producers of fair-trade products, sets minimum prices for goods, verifies that products labeled fair trade really benefit farmers, and works toward introducing a universal fair-trade label. Meanwhile, FLO's 18 affiliates in North America, Europe and Japan license companies to put fair-trade labels on products.

... Sainsbury's, which says it sells more fair-trade bananas than any other British supermarket, sells the fruit in bagged bunches of six. A bag of fair-trade bananas, weighing about a pound, recently cost \$2.74 in London. That's more than four times the price of a pound of regular bananas. ... According to FLO, Dominican Republic fair-trade banana growers receive about 16 cents a pound from middlemen. ...

A spokeswoman for Sainsbury's said in a statement that the chain has generated more than \$1.8 million of funds for fair-trade projects since July 2000 that "has gone directly to growers on projects such as improving roads, schools and community projects. ..."

In the U.S., where fair-trade items are just catching on, pricing anomalies already have arisen. Wild Oats Natural Marketplace, a 78-store national supermarket chain run by Wild Oats Markets Inc., of Boulder, Colo., introduced fair-trade organic bananas in January at 99 cents a pound—the same price as regular organic bananas. "We've taken a margin hit, but we feel that bringing in the fair-trade bananas is the right thing to do for the farmers," says a spokeswoman. In late 2002, the chain introduced fair-trade bulk organic coffee at \$9.99 a pound, the same price as regular bulk organic coffee.

Paul Rice, chief executive of Transfair USA—an Oakland, Calif., FLO affiliate that licenses certified fair-trade products for U.S. companies—says he believes his organization shouldn't interfere in what companies charge for fair-trade products, and that on average their retail cost is 10% to 15% more than comparable goods in the U.S.

"As a core philosophy, fair traders believe in as little market intervention as possible," he says. Regulating retail prices goes against the idea of "using the market as a vehicle for creating a win-win scenario for farmers and for industry" as well as consumers. The growth of fair-trade sales in the U.S., he says, suggests that "millions of U.S. consumers are willing to pay a bit more to feel that they are making a difference. ..."