

Standards and Sustainability in the Coffee Sector

A Global Value Chain Approach

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1. Introduction

Coffee is a truly global commodity and a major foreign exchange earner in many developing countries. Deregulation, evolving corporate strategies, and new consumption patterns have transformed the global coffee chain dramatically in the last two decades. The economic clauses of the International Coffee Agreements collapsed in 1989. Market liberalization has taken place in most producing countries. A process of consolidation has taken place both at the level of roasting companies and of international traders. In the interim, the act of coffee drinking—and its associated symbolism— has also changed. New consumption patterns have emerged with the growing importance of specialty, fair trade, organic and other “sustainable” coffees. Coffee bar chains have spread dramatically, although the relative coffee content of the final consumption “experience” in these outlets is low.¹ Consumers can now choose from (and pay dearly for) hundreds of combinations of coffee variety, origin, brewing and grinding methods, flavoring, packaging, “sustainability content,” and ambience.

At the same time, international prices for the raw product (“green” coffee) are the lowest in decades. The “commercial” market, plagued by sluggish growth of consumption, is awash in low quality coffee with international prices at record-setting lows. Global production in the 2002/2003 season was almost 120 million bags (source: ICO database), while consumption has been relatively stable in the last couple of years at under 110 million bags. Coffee farming (especially by smallholders) has become economically unsustainable. The “coffee crisis” is also threatening the social fabric of communities that rely heavily on coffee cultivation for their livelihoods. The “technification” of coffee cultivation is posing threats to its environmental sustainability. This is bad news for producers, but not necessarily for the large corporations who dominate the roasted coffee trade, which have been posting record profits.

This paper analyzes the potential of sustainability standards to address this situation through the lenses of Global Value Chain (GVC) analysis. How do sustainability standards affect the structure of the coffee marketing chain? Do they actually address and/or solve problems of sustainability in its economic, social and environmental aspects? Can different sustainability standards be coordinated or harmonized to improve their actual impact? Can sustainability be addressed in mainstream markets as well as in niche markets? Is there a role for public regulation (national and international) for the development, harmonization and/or implementation of sustainability standards?

2. Global Value Chain (GVC) Analysis

In global value chain (GVC) analysis,² the international structure of production, trade, and consumption of commodities is disaggregated into stages that are embedded in a network of activities controlled by firms. In its original formulation, one of the founders of this approach identified three key dimensions of commodity chains: (1) their input-output structure and geographical coverage; (2) their form of governance; and (3) their institutional framework (Gereffi 1994; 1995).

- (1) The *input-output structure* and the *geographical coverage* of value chains are used mainly descriptively to outline their configuration.

¹ Fitter and Kaplinsky (2001: 76) estimate that the coffee content of the cost of a cappuccino bought in a coffee bar in the U.K. is less than four per cent.

² This approach was initiated by Gereffi (1994) as “Global Commodity Chain” (GCC) analysis. Recently, this term has been abandoned and was substituted by the ‘value chain’ concept. The latter is thought to better capture a wider variety of products, some of which lack ‘commodity’ features. As a result, the Global Commodity Chain (GCC) approach is now known as ‘Global Value Chain’ (GVC) analysis. The concept of ‘value chain’ was originally developed by Porter (1987). Porter’s formulation focused on the inter-connected and sequential nature of economic activity, in which each link adds value in the process. The political economy use of ‘GVC’ takes its point of departure not in the activities surrounding a specific firm, but in the full range of activities that are required to bring a specific product from its conception to its end use and beyond. The concept of ‘global’ value chain refers to configuration of activities that are divided among firms and that have a global geographical scale.

- (2) The *form of governance* of global value chains introduces the key notions of entry barriers and chain coordination. The GVC literature originally distinguished broadly between “producer-driven” and “buyer-driven” value chain governance. “Producer-driven” chains are said to be found usually in sectors with high technological and capital requirements, where capital and proprietary know-how constitute the main entry barriers (automobiles, aircraft, and computers). In these chains, producers tend to keep control of capital-intensive operations and sub-contract more labour-intensive functions, often in the form of vertically-integrated networks. “Buyer-driven” chains are found in generally more labour-intensive sectors, where information costs, product design, advertising, and advanced supply management systems set the entry barriers (garments, footwear, many agro-food commodities). In these chains, production functions are usually out-sourced and key actors concentrate on branding, design, and marketing functions.
- (3) The *institutional framework* surrounding the chain delineates the conditions under which key (or “lead”) firms incorporate subordinate firms through their control of market access and information. Under this rubric, Gereffi also discusses how subordinate participation in a global value chain can provide indirect access to markets at lower costs than individual small-scale producers would face, and how technological information and learning-by-doing allow (the more favoured) producers to move up the chain hierarchy (also known as “*upgrading*”). This suggests that participation in a global value chain is a necessary, but not sufficient, condition for subordinate agents to upgrade. Participation also involves acceptance of terms defined by key agents or institutions, especially for those aiming to progress towards “higher” (technology, value-added) positions in the chain (see Gereffi 1999).

In the last couple of years, the GVC literature has expanded considerably, both empirically and conceptually. Case studies of manufacturing and high-technology have been accompanied by case studies on agro-food commodities.³ Recent efforts have focused on two areas: (1) empirical observation and theoretical discussion of (changing) forms of coordination and *governance* in global value chains (Gereffi 2003; Gereffi, Humphrey and Sturgeon forthcoming; Gibbon and Ponte in press; Humphrey and Schmitz 2003; Sturgeon 2001; 2002); and (2) conceptual and policy-related analyses of paths of *upgrading*, with particular reference to developing country farms and firms (Gibbon 2001; Humphrey 2003).

Related discussions have taken place on the links between forms of governance and upgrading (Gibbon forthcoming), and the relationship between global value chains and industrial clusters (Humphrey and Schmitz 2002a; Humphrey and Schmitz 2002b; Nadvi and Halder 2002). A more explicit effort has also been made to link issues of governance and upgrading with overall regulatory structures (Kessler 1999; Gereffi, Spener and Bair 2002; Gibbon 2002c; Ponte 2002b). There is also an emergent literature analyzing the links between value chains, standards and ethical/sustainable trade issues (Barrientos, Dolan and Tallontire 2003; Messner 2002; Nadvi and Wältring 2002; Ponte 2002c; Quadros 2002).

The GVC approach emphasizes the power of different constellations of “lead firms” and how interactions between these firms determine some of the specific organizational features of trade. The analysis of the *coffee* marketing chain is particularly important in understanding the political economy of development for a variety of reasons. First, over 90 per cent of coffee production takes place in developing countries, while consumption happens mainly in industrialized economies.⁴ This production-consumption pattern provides insights on North-South relations. Second, for most of the post-World

³ On citrus, see Mather (2004) and Mather and Greenberg (2003); on clothing, see Gibbon (forthcoming; 2002a; 2002b; 2000); on cocoa-chocolate, see Fold (2004; 2002; 2001; 2000); on coffee, see Ponte (2002a; 2002b; 2002c; 2004) and Daviron and Ponte (forthcoming); on cotton, see Larsen (2003; 2002; 2001); on horticulture, see Jensen (2000) and Humphrey and Dolan (2001). For studies on cross-cutting issues, see: Daviron and Gibbon (2002), Fold and Larsen (forthcoming), Gibbon and Ponte (in press); Raikes, Jensen and Ponte (2000) and Raikes and Gibbon (2000).

⁴ The major exception is Brazil, which is the top producer and also one of the main consuming countries in the world. Ethiopia also consumes a large proportion of coffee it produces.

War II period coffee has been the second most valuable traded commodity after oil.⁵ Third, attempts to control the international coffee trade have been taking place since the beginning of the 20th century, making coffee one of the first “regulated” commodities. Fourth, a number of developing countries, even those with a low share of the global export market, rely on coffee for a high proportion of their export earnings. Coffee is a source of livelihoods for millions of smallholders and farm workers worldwide.⁶ Fifth, producing country governments have historically treated coffee as a “strategic” commodity; they have either directly controlled domestic marketing and quality control operations or have strictly regulated them—at least until market liberalization took place in the 1980s and 1990s.

3. The Restructuring of the Global Coffee Chain

The essential characteristics of the global coffee chain in the last 40 years can be described in relation to two broad historical periods: the International Coffee Agreement (ICA) regime (1962-89) and the post-ICA regime (1989–present). The first International Coffee Agreement (ICA) was signed 1962 and included most producing and consuming countries as signatories. Under the ICA regime, a target price (or a price band) for coffee was set, and export quotas were allocated to each producer. When the indicator price calculated by the International Coffee Organization (ICO) rose over the set price, quotas were relaxed; when it fell below the set price, quotas were tightened. If an extremely high rise of coffee prices took place (as in 1975-77), quotas were abandoned until prices fell down within the band. Although there were problems with this system, most analysts agree that it was successful in raising *and* stabilizing coffee prices (Akiyama and Varangis 1990; Bates 1997; Daviron 1996; Gilbert 1996; Palm and Vogelvang 1991).

The relative success of the ICA regime is attributed to various factors: (1) the participation of consuming countries in the workings of the quota system; (2) the existence of producing countries as “market units,” where governments were in control of decisions concerning exports; (3) Brazil’s acceptance of a shrinking market share that resulted from successive ICAs; and (4) an initial common strategy of import substitution in producing countries, which required maximum mobilization of export earnings (therefore high commodity prices) (Daviron 1996: 86-9). However, the ICA system was eventually undermined by free-riding and squabbling over quotas. Other problems were the increasing volume of coffee traded with (or through) non-member importing countries at lower prices, and the rising fragmentation of the market. (Daviron 1993; 1996).

During the ICA regime, the global coffee chain was not particularly “driven” by any actor, nor was it possible to clearly state that producing or consuming countries controlled it. Entry barriers in farming and in domestic trade were often mediated by governments. The international coffee trade was regulated by the commodity agreement. The establishment of quotas and their periodic negotiation entailed that entry barriers for countries (as producer units) were also politically negotiated within the ICA mechanisms. The inherent stabilization forces of the ICA, coupled with regulated markets in producing countries, created a relatively stable institutional environment where rules were relatively clear, change politically negotiated, and proportions of generated income fairly distributed between consuming and producing countries. The relatively homogeneous form of trade limited the possibilities of product upgrading, but producing countries ensured product valorization through higher prices generated by the ICA (Ponte 2002b).

On the contrary, the post-ICA regime exhibits many of the characteristics of what Gereffi (1994) calls a “buyer-driven” chain. More specifically, it can be labelled a “roaster-driven” chain.⁷ Strategic choices made by roasters in the last 10–15 years have shaped barriers of entry not only in the roaster segment of

⁵ This has changed recently. In 1996/97, coffee ranked only fifth among internationally traded commodities after oil, aluminum, wheat and coal.

⁶ In Africa, for example, coffee exports in 1996-98 represented more than 50 per cent of agricultural export earnings in five countries, and more than 20 per cent in nine countries. In three of these countries, coffee exports represented more than 50 per cent of total merchandise exports, and in eight countries more than 10 per cent (see Ponte 2002a).

⁷ An exception to this general argument could be made for the situation in the domestic coffee market in Brazil, where retailers seem to have the upper hand over roasters.

the chain, but also in other segments upstream. The adoption of supplier-managed inventory (SMI) has added new requirements for international traders to be part of the game. Guaranteeing a constant supply of a variety of origins and coffee types has prompted international traders to get even more involved in producing countries than they would have anyway as a result of market liberalization. Out-sourcing supply management is also an instance of externalization of non-core functions upstream that is peculiar to many “buyer-driven” chains. New requirements set by roasters on minimum quantities needed from any particular origin to be included in a major blend may also be interpreted as setting entry barriers to producing countries. These barriers used to be set by governments on the basis of political negotiation under the ICA regime. Now, private firms set them on the basis of market requirements (Ponte 2002b).

The institutional framework within which the coffee chain operates has changed dramatically as well. Market relations have substituted political negotiation over quotas. Producing countries have disappeared as actors in these interactions, with the exception of unsuccessful retention attempts under the umbrella of the now defunct Association of Coffee Producing Countries (ACPC). The market-regulation power of the ICO has been voided. Domestic regulation of coffee markets plays an increasingly weaker role. All of this indicates that the institutional framework is moving away from a formal and relatively stable system where producers had an established “voice” towards one that is more informal, inherently unstable and buyer-dominated.

The ICO has been attempting to address the “coffee crisis” without having much regulatory power to do so. The most high-profile initiative in this realm started in September 2001, when the ICO established a Quality Committee with a mandate of recommending standards and procedures for the withdrawal from the market of “low quality” coffee. The committee, comprising twelve experts from exporting and importing members, and private sector representatives formulated recommendations that were agreed by the ICO in February 2002 under Resolution 407. This resolution established the Coffee Quality-Improvement Program and spelled out the minimum standards for exportable coffee based on defect count and maximum moisture content. A higher defect count is allowed for Robusta than for Arabica.⁸ This implies that each exporting member has to develop and implement national measures ensuring the compliance of these standards. This is a particularly important change in those countries that do not have quality certification procedures for coffee exports. The coffee that is not exportable has to be used for non-human consumption purposes.

The overall goal of the program is, in the short term, to reduce the supply of exportable coffee, therefore rising prices. In the longer-term, the program aims at raising the overall quality of coffee exports. It is not clear what mechanisms will be used to compensate those countries and farmers that are more likely to be affected by the program. The success of the program in the long run will to large extent depend on cooperation from importing countries. The main problem in this realm is that the largest consuming country (the US) is not presently a member of ICO. The Food and Drug Administration of the U.S. has permissive import rules, which allow the import of an average 10-12 million bags of coffee of very low quality per year—what the industry calls “triage.”⁹ Without cooperation from the U.S., it is unlikely that the initiative will succeed in increasing prices.¹⁰ The ICO quality program, however, has found some support from several consuming country governments and private sector operators. It is more likely to make a difference in the global coffee market than retention schemes that were attempted by the ACPC.¹¹

The collapse of the ICA regime and increased consolidation in the coffee industry (see Figures 1 and 2) have affected the distribution of total income generated along the coffee chain.¹² Talbot (1997a: 65-7) estimates that, in the 1970s, an average of 20 per cent of total income was retained by producers, while

⁸ For details, see <http://www.ico.org/frameset/activset.htm>

⁹ Alberto Hesse, personal communication, October 4, 2002.

¹⁰ However, Nestor Osorio (Executive Director of ICO) said at the 2004 SCAA conference that the dialogue with the U.S. concerning the Coffee Quality-Improvement Program was advancing in a constructive way (source: Mette Christensen, personal communication).

¹¹ For a recent review of the global coffee market, see also Lewin, Giovannucci and Varangis (2004).

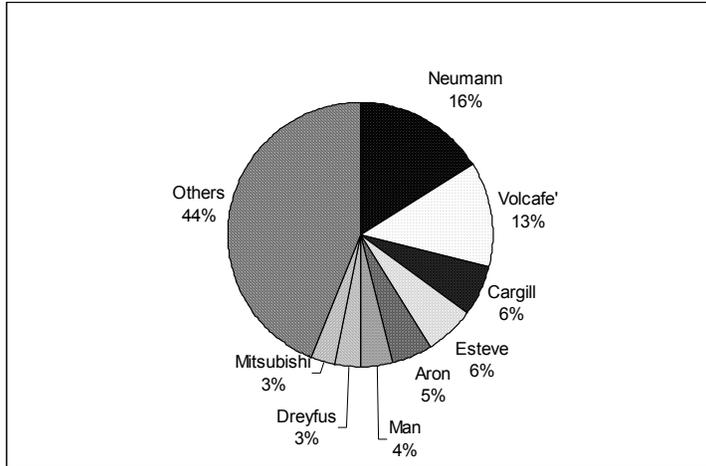
¹² Talbot (1997a: 63) defines the total income generated along the coffee chain as “equal to the total amount of money spent by consumers to purchase coffee products for final consumption.”

the average proportion retained in consuming countries was almost 53 per cent (see Figure 3).¹³ Between 1980/81 and 1988/89, producers still controlled almost 20 per cent of total income; 55 per cent was retained in consuming countries. After the collapse of ICA in 1989, the situation changed dramatically. Between 1989/90 and 1994/95, the proportion of total income gained by producers dropped to 13 per cent; the proportion retained in consuming countries surged to 78 per cent.¹⁴ This represents a substantial transfer of resources from producing to consuming countries, irrespectively of price levels. The share of income retained by producers in the last two-three years is likely to have dropped further due to the current situation of oversupply and low prices for green coffee and the ability of roasters to maintain retail prices at relatively stable levels. While green coffee prices almost halved between December 1999 and June 2003 (source: ICO composite indicator price), average retail prices in the U.S. between December 1999 and December 2002 (latest figure available) decreased by only 15 per cent (source: ICO). This suggests that not only gross margins—but also profits—have increased for roasters.

¹³ The remaining shares of total coffee income are: (1) transport costs and weight losses; and (2) value added in producing countries.

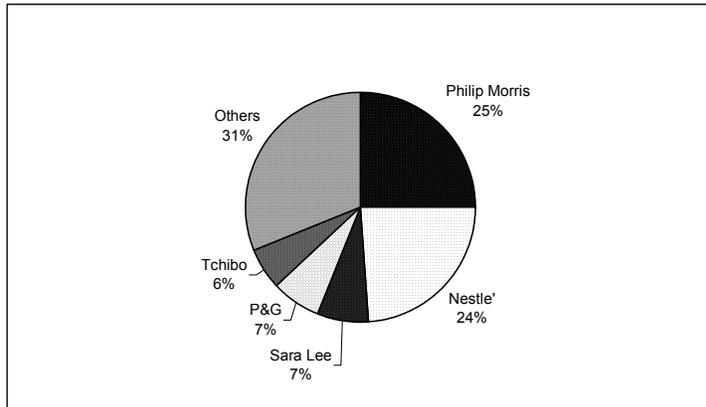
¹⁴ Talbot's (1997a) calculations are based on weighted average prices for all ICO member countries at various nodes of the chain. An alternative approach is to calculate the distribution of value along specific producer-consumer country chains. Pelupessy (1999) has applied this method to the Côte d'Ivoire-France and the Costa Rica-Germany chains. His results are fairly similar to Talbot's. In 1994, the grower's share of total retail price was 13.8 per cent in Côte d'Ivoire and 14.6 per cent in Costa Rica.

Figure 1: Green coffee market share by international trade company (1998) (%)



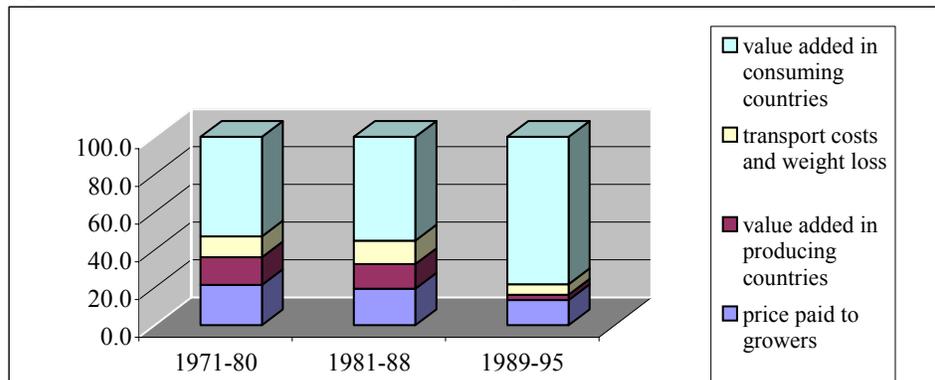
Source: van Dijk *et al.* (1998: 34).

Figure 2. Market share of roasting and instant manufacturing companies (1998) (%)



Source: van Dijk *et al.* (1998: 34).

Figure 3. Distribution of coffee income along the coffee chain (1971-80 to 1989-95) (%)



Source: Adapted from Talbot (1997a: 65-7).

Note: Coffee income = weighted average of retail prices in ICO member importing countries, expressed in green bean equivalents. Monetary values of total coffee income for the periods indicated in Figure 2: 1971-80 (262.6 US cts/lb); 1981-88 (363.5 US cts/lb); 1989-95 (435.8 US cts/lb) (calculated from Talbot, 1997a: 65-7).

In the rest of the paper, I examine how sustainability standards are affecting the institutional structure and the form of governance of the global coffee value chain. I will start with a general analysis of the role

standards in the coordination of value chains. I will then move to examining sustainability standards in the coffee sector.

4. The Role of Standards in the Coordination of Value Chains

Standards communicate information about the attributes of a product. These attributes can be classified depending on the ease with which they can be measured. *Search* attributes are those that can be verified at the time of the transaction (the colour of a coffee bean). *Experience* attributes can be assessed only after the transaction has taken place (the taste of brewed coffee). *Credence* attributes can not be objectively verified through the analysis of the physical characteristics of the product and are based on trust (whether coffee has been grown organically) (Jensen 2002; Reardon et al. 2001). These attributes can pertain to the *product* itself (coffee appearance, taste, cleanliness, absence of taints) or to *production and process methods*, which include aspects related to the authenticity of origin (geographic appellation), safety (pesticide residues, levels of toxins) and environmental and socio-economic conditions (organic, fair trade, shade-grown coffees).

Standards systems can be classified in three broad categories: mandatory, voluntary and private. Standards are *mandatory* when they are set by governments in the form of regulation. These may affect trade flows by placing technical requirements, testing, certification and labelling procedures on imported goods (Wilson 2001). Governments can rely on standard enforcement through *ex post* liability rules that allow punitive damages to be awarded to the buyer in case of non-compliance, or they can adopt *ex ante* measures—such as requiring information or banning a product not matching technical standards from being imported (Caswell and Henson 1997). In the US, *ex post* liability is more common, while in Europe *ex ante* measures are the backbone of regulation. *Voluntary* standards arise from a formal coordinated process in which key participants in a market or sector seek consensus. The International Standardization Organization (ISO) has established over 7,000 voluntary standards. Some of these are also introduced as a response to consumer request (such as eco-labels) (Grote and Kirchhoff 2001: 6), or as a result of NGO-initiatives (such as fair trade labelling). Sectoral organizations can also establish voluntary standards that apply to their members. Voluntary standards are usually verified through third-party auditing. *Private* standards are developed and monitored internally by individual enterprises. What often distinguishes them from mandatory and voluntary standards is their lack of third party verification, and a lower degree of transparency and participation of affected stakeholders.

The distinction between mandatory, voluntary and private standards, however, is becoming increasingly blurred. Although voluntary standards are not mandatory by rule, some of them (such as the ISO 9000 standards on quality management) have become so in practice—meaning that they are required if economic agents want to compete globally. The distinction between private and voluntary standards is also to some extent arbitrary, as many private enterprises borrow parts of voluntary standards. Adherence to voluntary and/or private standards is often a pre-condition for the acceptability of products by consumers and/or distributors. Moreover, insurance companies may request compliance with standards to reduce product liability exposure, and voluntary standards may be incorporated in regulation (Zarrilli 1999). A cumulative reading of these changes may suggest that “private” regulation is if not *de jure*—at least *de facto*—substituting public regulation in determining what characteristics products and production/process methods need to match to be fit for trade. This process is also known as the “privatization” of standards.

In agro-food industries, the evolution of the role of standards in shaping market access should be understood in relation to the changing features of consumption. Food consumption is increasingly characterized by food safety awareness, focus on health and diet, globalization of consumer tastes, and social and environmental concerns. This, together with market saturation for goods with “commodity” traits, has led to product proliferation and differentiation. It has also been accompanied by an increased importance of issues of quality control, “field-to-fork” custodial tracking, and social and environmental certification.¹⁵ In the world of “mass consumption” of relatively homogeneous commodities, standards

¹⁵ Daniele Giovannucci, “Producing Countries and the Flight to Specialty Coffee,” presentation at the SCAA 14th Annual Conference & Exhibition, Anaheim, California, May 5, 2002.

created economies of scale and facilitated the creation of futures markets (Daviron 2002). In the current situation, standards are proliferating and becoming more specific. They also tend to focus (sometimes exclusively) on production and process methods rather than on the product itself (Giovannucci and Reardon 2000; Reardon et al. 2001).

Contemporary food consumers in high-income economies demand complete information on a product so that they can make individual choices in relation to personal beliefs (food safety and environmental protection, for example) and taste preferences. In this situation, consumer protection is not uniquely a matter of food safety, but also of supplying reliable information to facilitate consumer choices (Valceschini and Nicholas 1995: 18). Hence, the management of standards may be seen as a question of competition and/or cooperation between the actors of a value chain, each one having only partial access to—and control of—information on the product and its related production and process methods. Choices aimed at solving information problems by key actors will then determine the way a certain value chain (or segment of a chain) is governed.

Standards are not free from manipulation, power struggles and opportunistic behaviour. They empower the institutions or actors that decide their criteria and control their administration, monitoring and/or certification. They confer power because (in trying to solve problems of asymmetrical information) they create situations of asymmetrical access. Those who control standards have power over users. Users of a standard may have been in the position of participating in the setting of it. However, not all users have the same influence in the process of standard determination or administration. Standards are therefore political spheres of action because they shut out some interests while serving others. They contribute to the determination of the distribution of value added along a value chain and set inclusion/exclusion thresholds. Rather than simply being a technical instrument to decrease transaction costs associated with asymmetry of information, they should be viewed as a strategic instrument of value chain coordination. This entails that the technical approaches currently used in understanding the impact of sustainability standards on developing country trade need to be integrated by political economy approaches, which are more historically-minded and power-sensitive.

5. Standards, Sustainability and Ethical Trade

Standards can be set up to specify technical characteristics of a product, specific process and producing methods, quality traits, and safety. Increasingly, they include specifications relating to environmental impact, animal welfare concerns, and worker conditions. This is most clear when one analyses “sustainability standards” or more generally “ethical trade” initiatives. Ethical trade and sustainability are interlinked concepts, as the former includes all the main features of the latter. Ethical trade is indeed defined as “any form of trade that consciously seeks to be socially and environmentally, as well as economically, responsible” (Tallontire et al. 2001). Ethical consumerism is a growing phenomenon that has motivated ethical business practice, together with the increasing vulnerability of brands to reputation problems, which may lead to stock value losses. Many businesses adopt ethical practices because they think that is what consumers want. The globalization of food sourcing and foreign travel have resulted in more adventurous consumers, and also consumers who ask more questions about the source of the products they buy. This has led to the proliferation of ethical trade schemes and of sustainability standards. Examples of these schemes are: fair trade, codes of practice of enterprises, eco-labels, forest and fisheries certification, and ethical sourcing initiatives of major retailers and brand owners. Unfortunately, many ethical trade schemes are driven by developed country consumers and business, rather than producer opinions or priorities (ibid.).

Ethical trade can be usefully distinguished in two broad categories: (1) enterprise initiatives; and (2) certification and labelling procedures. Among *enterprise initiatives*, the most common instrument for showing ethical responsibility is the adoption of “codes of practice” (or “codes of conduct”), which define the criteria for measuring company performance against a set of ethical objectives. These codes may be developed by individual companies or draw from model codes, such as the “Code of Labour Practices for the Apparel Industry” by the Clean Clothes Campaign, or the “The Charter of the Safe Production of Toys” by the Hong Kong Coalition. Unfortunately, as Blowfield (1999: 758) argues, “too many codes are launched with a fanfare of publicity in the West, yet are ‘unknown, unavailable or

untranslated' in the developing country sites of operation." Compliance is rarely reported upon, and independent verification is the exception rather than the rule. Too often, these initiatives are cases of "a launch, a lunch and a logo" (ibid.). Furthermore, companies that develop their own code can pick and choose which standards to adopt without consulting the so-called beneficiaries. Finally, if enterprise initiatives do not earn a premium to suppliers or higher wages to workers, then they simply become a further requirement to access a market segment (du Toit 2002: 371).

Certification and labelling procedures are used as a means of communicating information about the social or environmental conditions surrounding the production of goods or the provision of services. Examples of these are the Fairtrade label, organic certification, and the Forest Stewardship Council initiative, which certifies landowners matching a series of criteria for sustainable forest management. Labels can help setting common standards for certain sectors and help prevent confusion among consumers. They generally ensure better stakeholder representation in the negotiation of standards than enterprise initiatives. However, participation to the setting of criteria may not amount to much (see du Toit 2002)—especially when the label is controlled by an industry association or by an organization with close links to a particular company (Blowfield 1999).

While ethical trade schemes have created new opportunities for their beneficiaries, there is evidence that there have been negative impacts among those who are unable or unwilling to participate. In some cases, consumer concerns have even had negative consequences on their "beneficiaries."¹⁶ It is also clear that these schemes have been weak in targeting certain disadvantaged groups. Finally, stakeholders have rarely been able to influence codes of practice and labels, with the result that they do not address all of the priority issues for workers and smallholders (Blowfield and Jones 1999).

6. The "Sustainability Market" in the Coffee Industry

Sustainability has become a hot topic in the coffee industry. The broad notion of sustainable coffee was developed within the North American specialty industry—although the first forms of sustainable certified coffee were developed in Europe by the fair trade movement. The specialty coffee industry accounts for 17 per cent of total green coffee imports into the U.S. by volume. Its sales represent approximately 40 per cent of the U.S. coffee market (although some sources think this figure is too high). Estimates indicate that this market is growing by 5-20 per cent per year. In 2000, U.S. retail sales of specialty coffee beans were \$2.5 billion, while sales of specialty coffee beverages were \$5.4 billion (Giovannucci 2001). The latter figure masks the fact that the "coffee content" of these sales is a minor proportion of the total, the rest being added value in flavoring, mixing with milk products, and providing a specific "consumption ambience."

Within the specialty industry, there is a growing recognition and increasing market value for "sustainable coffee." The concept of sustainability in this realm includes aspects variously referred to as "economic viability for farmers," "environmental conservation" and "social responsibility." Some of these coffees are sold as *certified* coffee, such as "organic," "Bird-friendly," "Rainforest Alliance-certified," "Fair Trade," and "Utz Kapeh." Others are sold under sustainability initiatives that are designed by private companies, with or without third party monitoring (i.e., Green Mountain Coffee Roasters' "Stewardship Program"; Thanksgiving Coffee Company's "Song Bird" and "Bat Magic" coffees; Starbucks' "preferred supplier system," and Rapunzel Pure Organics' "E-Blend" and "E-Espresso").

Organic coffee is produced with methods that ensure a viable and sustainable agro-ecosystem. Shade-grown coffee is grown under forest cover, thus preserving biodiversity and providing an appropriate habitat for migratory birds. Fair trade coffee is based on a trading relationship between stakeholders that has both market-based and ethical elements and aims to be sustainable in the long term. Rainforest Alliance certification and the Utz Kapeh code of conduct attempt to incorporate elements of the other three sustainability traditions.

¹⁶ For example, King and Marcus (2000) show how consumer concerns on child labour in East Asian clothing factories led to many children losing their jobs and ending up in more dangerous occupations on the streets.

The estimated size of *certified* organic, fair trade, and shade-grown coffees sales in North America was over 5,000 tons in 2000, with a value of \$152 million at the retail level (see Table 1). By value, this represented less than one percent of the \$20.7 billion North American coffee market and approximately two percent of the specialty coffee market. Even accounting for non-certified coffees that are marketed as “sustainable,” the total market value of sustainable coffee in North America was about \$188 million in 2000 (for a volume of 6,818 tons).

Table 1: Size and value of specialty and sustainable coffee markets in North America (US and Canada) in 2000

	Volume		Retail value	
	(tons)	% of total coffee market	(million \$)	% of total coffee market
Total coffee market	1,428,000		20,700.0	
Total specialty coffee market	242,760	17.00	8,280.0	40.00
Total sustainable coffee (incl. non certified)	6,818	0.48	188.0	0.91
Certified sustainable coffee	5,091	0.36	152.0	0.73
Total organic coffee (incl. non certified)	5,364	0.38	146.0	0.71
Certified organic coffee	4,091	0.29	122.0	0.59
Certified fair trade	2,136	0.15	64.4	0.31
Total shade grown (incl. non certified)	955	0.07	28.4	0.14
Certified shade grown	505	0.04	15.0	0.07

Source: total coffee market volume = total imports into the USA in 2000 (23.8 million bags) (ICO database); 1 bag = 60 Kg; for all other figures, Giovannucci (2001).

Table 2: Size and volume of global sustainable coffee markets in 2000

	Volume		Retail value		Reliability score	
	(tons)	% of total coffee market	(million \$)	% of total coffee market	1= high medium low	2= 3=
Total coffee market	6,692,727		49,257.0		2	
Total sustainable coffee (incl. non certified)	19,091	0.29	565.0	1.15	1	
Certified sustainable coffee	16,364	0.24	490.0	0.99	2	
Total organic coffee (incl. non certified)	9,636	0.14	286.0	0.58	1	
Certified organic coffee	7,500	0.11	223.0	0.45	1	
Certified fair trade	13,227	0.20	393.0	0.80	2	
Total shade grown (incl. non certified)	1,045	0.02	30.5	0.06	1	
Certified shade grown	545	0.0	16.2	0.0	2	

Sources: for sustainable coffee, Giovannucci (2001); Total coffee market volume = global production in 2000 (11.5 million bags, ICO database); Total coffee market value = average retail prices in top nine importing countries times their import volumes + 11.7 per cent for rest of import value for other countries + estimated value of domestic consumption in Brazil and Ethiopia (from ICO database).

Globally, the volume of certified sustainable coffee was estimated to be around 16,000 tons for a retail value of \$490 million in 2000; if we include non-certified coffee sold as sustainable, the figures rise to 19,000 tons and \$565 million, around one percent of the global coffee market (see Table 2). According to a survey of 2,098 North American coffee firms (importers, distributors, wholesalers, roasters and retailers) carried out in 2001, there is a relatively high level of awareness of sustainable coffees in the industry (98.7 per cent for organic, 76.4 per cent for shade-grown, and 82.5 per cent for fair trade), although the proportion of operators offering them is lower (78.6 per cent offer organic, 51.8 per cent shade-grown, and 54 per cent fair trade). Even more problematic is the fact that “many firms indicate or believe that they are selling sustainable coffee although they lack independent certification or verification,” (Ibid.).

Table 3: Average premia paid for organic, fair trade and shade-grown coffees in North America in 2000 (\$/Kg)

	Organic	Fair Trade	Shade grown
Importers	0.79	1.63	0.77
Distributors	1.03	1.06	0.97
Wholesalers	1.10	1.28	1.08
Roasters	1.01	1.12	0.90
Retailers	1.41	1.43	1.32
Industry average	1.30	1.36	1.17
Average across categories	1.07	1.30	1.01

Source: Giovannucci (2001)

Sustainable coffees provide positive returns for consumer country/based operators. They fetch average premia of \$1.30/Kg for organic, \$1.36/Kg for fair trade, and \$1.17/Kg for shade-grown. These are average premia paid by various operators to their suppliers (see Table 3). It does not necessarily mean that these premia are transferred all the way to producers in their entirety—or at all. The survey also suggests

that “sustainability” and “quality” can not be kept in isolation. The most important factor in making sustainable coffee valued to businesses was the “specialty quality of taste” (indicated in almost 92 per cent of cases), followed by personal ethics and beliefs about fair trade and the environment. Interestingly, sustainable coffees do not seem to be customer-driven. Customer demand was rated as an important factor only in 50.9 per cent of responses (Ibid.).

A more recent study covering 11 European countries and Japan (Giovannucci and Koekoek 2003) estimates the volume of “sustainable coffee” in these countries in 2001 to have been 21,266 tons—equivalent to 1.1 per cent of the total volume of coffee consumed. This is a much higher estimate than the one provided for the global market for certified coffees in 2000—16,634 tons (Giovannucci 2001). Estimated annual average growth of sustainable coffee for the 1999-2004 period in these countries is about 10 per cent per cent (Giovannucci and Koekoek 2003).

Table 4 illustrates the estimated market size of “sustainable coffee” for 2003. Organic and fair trade are the largest by volume. It should also be noted that there is extensive overlap between the two: over 40 per cent of the fair trade market is now also certified organic. The total volume estimated (51,067 tons) is much higher than in previous estimations presented above. This is explained on the basis of much higher estimates on organic and the recent growth of a new sustainability initiative—Utz Kapeh (see details in Section 7). In any case, the sustainable coffee market is still a small niche—about one per cent the 5,104,000 tons exported from ICO member countries in 2003.

Table 4: Estimated size of certified coffee markets (2003)

	Utz Kapeh	Organic	Fair trade	Shade-grown	Total ¹⁷
<i>Total volume (tons)</i>	<i>14,000</i>	<i>26,400</i>	<i>17,870</i>	<i>660</i>	<i>51,067</i>

Sources: Utz Kapeh: Utz Kapeh data; organic: 15 cent annual growth over figure cited in Lewin, Giovannucci and Varangis (2004) for 2001; fair trade: Giovannucci and Koekoek (2003); shade-grown: ten per cent annual growth over figure cited in Giovannucci (2001) for 2001.

The analysis carried out in this section suggests that the market for “sustainable” coffees is still relatively small in relation to the size and value of the global coffee market. Yet, it is growing fairly rapidly and is attracting increased interest in the industry. Large commercial roasters (such as Nestlé), roasters/retailers (such as Starbucks) and international traders (such as Volcafé and Neumann) have established (or are in the process of establishing) sourcing guidelines on the basis of one form or another of “sustainability.” Sara Lee has recently announced that it will be buying 2,500 tons of Utz Kapeh coffee in 2004. Kraft has committed to buy more or less the same amount of Rainforest Alliance-certified coffee. Procter & Gamble started buying Fair Trade coffee through its specialty division Millstone and has committed to purchase up to one million pounds in the next few years.

In the next section, I provide an in-depth analysis of the main third-party certifications systems that address issues of sustainability in the coffee sector. This will be followed by a brief discussion of “private” and “public/private initiatives” on sustainability.

¹⁷ This estimate takes into consideration that 44 per cent of fair trade coffee is also certified organic.

7. Analysis of Selected “Sustainable” Coffee Certification Systems

7.1 Utz Kapeh

7.1.1 General Features

Utz Kapeh (meaning “a good cup of coffee” in one of the Mayan languages) is the name of a foundation based in Guatemala and the Netherlands. Originally set up with the support of the Dutch company Ahold, one of the world’s largest retail chains, it is now an independent initiative. It has developed a code of conduct for growing sustainable coffee on the basis of the “good agricultural practices” of the European Retailer Group (EUREP-GAP). This code contains criteria on soil management, fertilizer use, integrated pest management, waste pollution management, worker health, safety and welfare, and other socio-economic and cultural aspects. Utz Kapeh’s goals are to guarantee access to basic social services, guide producers to match standards for growing sustainable coffee, and provide assistance in implementing these standards. The foundation registers interested producers and provides the code of conduct. It establishes contact with an independent certification agency, which performs inspections and grants the certificate if standards are met. Roasters pay a \$0.01/Kg fee to the foundation. Certifications were first achieved in 2002.

As of March 2004, Utz Kapeh had certified 42 farms and groups of cooperatives in twelve countries: two cooperatives in Costa Rica, eight farms in Guatemala, one group of cooperatives in Honduras, eight farms in Brazil, one farm in Bolivia, one farm and one group of cooperatives in Colombia, six groups of cooperatives and farmer groups in Peru, one group of farms in India, one group of farms in Indonesia, six farms in Vietnam, three farmer groups organized by an exporter in Uganda, and one farm in Zambia. This amounts to a potential production of 37,815 tons, including 6,664 tons of Robusta (about 18% of the total). However, in 2003 Utz Kapeh actually purchased 14,000 tons as certified coffee. One could interpret this demand-supply balance as “oversupply”; however, large roasters want a wide variety of origins to choose from. As a matter of fact, one of the reasons why the “Big Four” roasters had not yet committed to buying large quantities of Utz Kapeh coffee until recently was that there was not enough certified coffee of various origins for their needs.¹⁸

Most of the demand for Utz Kapeh coffee until very recently came from Ahold Coffee Company, a roaster controlling about 12 per cent of the Dutch market and sourcing all its coffee as Utz Kapeh certified. As mentioned above, in March 2004, Sara Lee announced that it will be buying 2,500 tons of Utz Kapeh coffee in 2004. Another 40 roasters are buying Utz Kapeh coffee, but in smaller quantities. It is clear that this certification scheme is growing fast and has reached a substantial size. According to Utz Kapeh’s coordinator in the Netherlands, there are good prospects for growth—even in the Robusta sector—but estimates are a little more than guesswork.¹⁹

7.1.2 Premium

Originally, Utz Kapeh did not set fixed premia for their certified coffee. Their initiative was thought as a “preferred supplier system,” where roasters would buy directly from certified suppliers in producing countries that matched certain standards. In practice, it seems that producers ended up getting a premium of \$0.07-0.26 for Mild Arabica,²⁰ but it is not clear how much of this premium was linked to quality and how much to sustainability. When it was realized that certification costs in this system would have had to be borne by producers, the foundation started to consider a system of variable premia specifically rewarding sustainability. This system was finally approved in May 2003.

¹⁸ Source: Bo van Elzakker, Agro Eco, personal communication 2/6/2003.

¹⁹ Lucas Simons, Utz Kapeh, personal communication 13/05/2003.

²⁰ Source: Utz Kapeh presentation at the 2002 SCAA conference.

Figure 4 shows that the total price of coffee bought with Utz Kapeh certification under this system is the sum of the reference price (NY or London) plus or minus the quality premium, plus a variable “sustainability investment premium” that depends on the level of international prices (see Table 5). The “low price” thresholds that trigger the sustainability premium are the following: \$0.70/lb for Arabica (NY “C” contract price) and \$650/ton for Robusta (LIFFE price). The size of the premium depends on the type of coffee and is summarized in Table 6. These are lower than average organic premia (see below) but are at least guaranteed during a period of low international prices. At the time of writing, the NY “C” price for the September 2003 contract was \$0.59/lb, thus triggering the sustainability premium for Arabica. On the contrary, the LIFFE price for Robusta for the September 2003 contract was \$686/ton, thus did not trigger the premium.

Figure 4: Utz Kapeh pricing system



X=quality differential
Y=sustainability premium

One problem with this system is that the critical thresholds that trigger the sustainability premium are to be reviewed periodically by the Utz Kapeh Board of Directors. The review was initially scheduled to take place two times per year. Abrupt changes in these levels may jeopardize the feasibility of an Utz Kapeh certification system in producing countries. This could create problems of instability and risk. The positive side of this system (as originally designed in May 2003) was that the payment of the differential (when applicable) was not optional. Utz Kapeh stated that “over time, buyers who consistently do not live up to the spirit of the Sustainability Differential will be de-listed from the Utz Kapeh program.”²¹ Yet, it is not clear yet how the foundation monitors the payment of the premium (and whether it goes down all the way to farmers) and how it ensures that farmers know (and expect) a premium for Utz Kapeh coffee. A recent analysis of Utz Kapeh coffee certification in Uganda suggests that neither farmers nor the exporter involved knew much (or at all) about the premium system (Ponte and Kawuma 2003). Also, discussions of the premium systems have disappeared from Utz Kapeh’s recent literature and from the presentation given at the 2004 SCAA conference. At this point, one can only assume that the premium system has been abandoned. The emphasis of this initiative seems to have shifted to ensuring full traceability and to providing producers with a “ticket to entry” to an “emerging market for mainstream certified responsible coffee.”²² Utz Kapeh’s current position on pricing is that “a certified producer is ‘rewarded’ in a market-oriented way and not in the form of a minimum price . . . Therefore Utz Kapeh does not interfere in the price negotiations between roaster and farmer. We believe that the principle of supply and demand is the best way to provide a better price for a better product for the farmer.”²³

²¹ Source: Utz Kapeh, “Guidelines on the pricing of Utz Kapeh Certified Responsible Coffee.” Available at: <http://www.utzkapeh.org>.

²² Source: <http://www.utzkapeh.org/Utzkapeh/ukwebsite.nsf/portal?Openframeset>.

²³ Source: Ibid.

Table 5: Utz Kapeh: Premium system when international prices are lower than \$0.70/lb (NY “C” contract) and \$650/ton (LIFFE price)

	Arabica \$/kg	Robusta \$/kg
Washed	0.154	0.100
Unwashed	0.088	0.060

Source: Utz Kapeh foundation (2003)

7.1.3 Standards and compliance

Utz Kapeh registers interested producers or cooperatives/farmer associations and provides the Code of Conduct. If desired by the producer, exchange of information starts between the Foundation and the producer to help comply with the Code of Conduct. When the producer is ready, Utz Kapeh establishes contact with a (Utz Kapeh approved) independent Certification Body. The Certification Body performs inspections on basis of the Code of Conduct and when the producer complies, grants the certificate.

The Utz Kapeh Code of Conduct revolves around three criteria:

1. social responsibility
2. environmental responsibility
3. food safety

The EUREP-GAP Protocol for Good Agricultural Practice forms the basis of the Code of Conduct. Several years ago, leading European retailers got together in the European Retailers Produce Working Group (EUREP) to harmonize their agricultural standards for fruit and vegetables. This became known as the EUREP-GAP Protocol. The Protocol was developed by more than 20 leading European retailers and is now part of their sourcing strategy. It provides minimum assurance of basic good agricultural practices and social conditions. Specific topics covered are soil management, fertilizer use, integrated crop management, waste and pollution management, recycling/re-use and worker health, safety and welfare.

Many of the issues that are relevant for fruit and vegetable cultivation are also relevant for coffee. For this reason Utz Kapeh developed a translation of the EUREP-GAP Protocol for coffee production, which can be applied worldwide. This added part contains chapters with detailed requirements on:

- Wet coffee mill (environmental and food safety criteria)
- Dry coffee mill (environmental and food safety criteria)
- Education and training (social criteria)
- Health Care (social criteria)
- Housing (social criteria)
- Seasonal Workers (social criteria)
- Cultural Issues (social criteria)

The added chapters refer to standards of the ILO (International Labour Organization) and to the Universal Declaration of Human Rights. At least on paper, the Utz Kapeh initiative aims at improving the living conditions of people who work in the coffee sector and at achieving environmental goals. It should be noted, however, that many of these entries in the Utz Kapeh code of conduct are marked as ‘should’

and ‘minor must.’ This means that they have lower priority in the implementation protocol. For example, the only ‘major must’ entries in the chapters on ‘workers health, safety and welfare’ and ‘workers and their families’ relate to: pest control measures in packing and storage sites; provision of education at the farm if the nearest public school is too far away to walk; and adequate water analysis. The other ‘major must’ entries in the remaining chapters of the code of conduct are:

- record seed history
- comply with national law on GMO plant material
- implement risk assessment
- keep records of chemicals used to sterilize substrates
- do not store fertilizers with fresh produce
- do not use untreated human sewage sludge and sewage water for irrigation
- the crop protection product utilized must be appropriate for the control required
- growers must only use chemicals that are officially registered in the country of use
- growers must only use chemicals that are officially registered for use on the crop that is to be protected
- chemicals that are banned in the European Union must not be used on crops destined for sale in the European Union
- recommendations for application of pesticides must be given by competent, qualified advisers holding a recognized national certificate or similar (where such advisers are unavailable, growers must be able to demonstrate their competence and knowledge—e.g., through adequate training in pesticide usage and pesticide application)
- all applications of pesticides (and post-harvest chemicals) must be recorded in a crop diary or equivalent. Records must include crop name, location, date of application, trade name, and name of the operator
- workers who handle and apply pesticides must be able to demonstrate appropriate competence and knowledge, must be equipped with suitable protective clothing
- pre-harvest intervals must be observed
- growers and/or suppliers must be able to provide evidence of pesticide residue testing
- post-harvest chemicals must only be used in accordance with product label
- growers must only use chemicals that are officially registered in the country of use, and for use on the crop being protected
- chemicals that are banned in the European Union must not be used on crops destined for sale in the European Union
- the contaminated water coming out of the wet mill must be treated (5 year compliance on this entry)

7.2 Organic

7.2.1 General Features

Organic agriculture is a production management system promoting and enhancing biodiversity and soil activity. It is based on minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony. Organic standards are devised by government authorities, international organizations (FAO/WHO Codex Alimentarius) and the International Federation of Organic Agriculture Movements (IFOAM). Accredited certification agencies monitor organic standards on production, processing and handling.

In general, a grower or processor of organic coffee may be certified by a public or private certification company if, among others, the following standards and procedures are met: (1) coffee is grown without the use of synthetic agro-chemicals for three years prior to certification; (2) farmers and processors keep detailed records of methods and materials used in coffee production and management plans; and (3) a third-party certifier annually inspects all methods and materials.

7.2.2 The International Regulatory Framework²⁴

Organic standards have been developed through government regulation, in efforts carried out within international organizations, and by private organizations. Government regulation of imports of organic products started essentially in the 1980s in France, Denmark and selected states in the US. This often happened at the request of organic growers who needed protection from fraudulent marketing of organic products and/or as a result of political efforts to support or subsidize organic farming.

In the *European Union*, the drive for regulation started in 1991 when the council regulation (EEC) 2092/91 was passed. This regulation covers the marketing of all products labelled as “organic.” It covers production standards and inspection measures that should be implemented to ensure the integrity of production. The regulation lists all the inputs that may be used in organic agriculture and identifies the production methods that are allowed and those that are prohibited. Some issues may be decided by member states.

The import rules are complex and constantly changing and will not be covered in detail here. In general, there are three different systems for approval of imports: approval of country, importer derogation, and approval of a certification organization (following a proposal of a member state). In practice, the importer derogation system is by far the most common. Its implementation is not harmonized, so one product may be accepted when imported to one of the EU member states and rejected when imported to another. Yet, once within the EU border, it may be freely circulated. Even though this rule is based on the approval of individual lots, the emphasis for this approval is tightly linked to which certification organization approves a lot. Certification organizations are assessed by “competent authorities” in EU member states.

The *United States* regulations on organic production are set out in the Organic Foods Production Act (OFPA) of 1990 and the National Organic Program (NOP). According to the Final Rule of the NOP, products produced in a foreign country and exported for sale as “organic” in the United States must be certified and labelled in accordance with the U.S. Rule. Currently there are three official methods for meeting the requirements for importing organic products into the United States: direct accreditation by USDA, accreditation by a foreign government, and equivalency. In practice, only direct accreditation by USDA is operational.

The *Codex Alimentarius Commission*, a joint FAO/WHO Food Standards Program, is the body that sets international food standards. It started to develop guidelines for the production; processing, labelling and marketing of organically produced food in 1991. The requirements in these Codex Guidelines are generally in line with IFOAM Basic Standards (see below) and the EU regulation for organic food

²⁴ This section draws heavily from Rundgren and Lustig (2002).

(2092/91 and amendments, 1804/99). There are some differences in regard to the details and the areas covered by the different standards.

Throughout the years, the *International Federation of Organic Agriculture Movements (IFOAM)* has developed a set of standards for organic agriculture (commonly known as Basic Standards), which are developed continually. These standards *cannot* be used for certification on their own. They provide a framework for certification programs to develop their own national or regional standards. In 1992, IFOAM also established an accreditation program to provide international equivalency of organic quality claims on the basis of the Basic Standards. In theory, the IFOAM Accreditation Program (IAP) should provide a mechanism for regulatory acceptance of certification organizations in exporting countries. However, so far the efforts of IFOAM to get a formal recognition for this program have not been successful. For the time being, IFOAM accreditation is most helpful for imports to the EU under the “importer derogation” system and to achieve market recognition.

7.2.3 The Organic Coffee Market

According to industry operators, the organic coffee market has sustained substantial growth rates in the last decade in many high-income countries.²⁵ Increased consumer interest for the conditions under which coffee is grown has been accompanied by cutthroat competition among supermarket chains to attract consumers through a differentiated offer of customized products. Organic coffee has been used as a marketing tool to attract new consumers. Because organic products are sold at a premium at the retail level, higher margins have been generated for all those involved in the marketing chain (but not on an equal basis—see Table 3). In most European countries, organic coffee is still mainly sold in natural food stores and World Shops. However, in Germany, Switzerland, the Netherlands and Denmark, organic coffee is also sold in mainstream supermarkets.

Estimates of organic coffee consumption vary enormously, implying that they are not very reliable. According to a first source, certified organic coffee exports in 1999/2000 were approximately 7,500 tons, with an estimated retail value of \$223 million. Of these, more than half (55 per cent) was imported in North America (Giovannucci 2001). If we include non-certified organic coffee sales, the global market is estimated by one source to be in the range of 9,600 tons for a market value of \$286 million (Ibid.). This suggests that there was a sizeable market for uncertified organic coffee in 2000. A recent survey of coffee operators in North America suggests that a large majority of respondents (78.3 per cent) consider organic certification as an important factor in promoting accuracy in labelling and further educating the marketplace (Ibid.). Failure in doing so may lead to confusion among consumers. In any case, with new USDA regulation, no uncertified “organic” coffee is now allowed in the U.S. market.

²⁵ For various estimates of the organic coffee market, see Giovannucci (2001), Lewin and Giovannucci (2003), Rice and McLean (1999), ITC (2002), FIBL (2002). IFOAM, the Organic Coffee Association (OCA), the Organic Trade Association (OTA) and Naturland (Germany) were not able to provide statistics on the global organic coffee trade. The most reliable figures on organic coffee are the ones from fair trade (see below). Fair trade and organic double certified coffee, however, is only one segment of the organic trade.

Table 6: Estimated consumption of organic coffee in 2002/03

Country	Market share of organic coffee (%)	
	Tons	
United States	12,000	1.1
Germany	6,600	1.2
France	2,940	0.9
Italy	2,880	0.9
Japan	1,980	0.5
Brazil	1,800	0.2
Canada	1,620	1.1
UK	1,380	1.0
Denmark	1,320	2.8
Spain	1,320	0.7
Switzerland	1,080	2.3
Austria	900	2.0
Netherlands	900	0.8
Sweden	720	1.0
Finland	540	0.8
Belgium/Luxembourg	420	0.9
Norway	420	0.9
Other Europe*	1,980	0.4
Unspecified	1,200	
Total	38,820	

* includes Eastern Europe

Source: ITC (2002) 'Coffee: An exporter guide',
Geneva: International Trade Centre; Table 17.

Table 7: Estimated green organic coffee imports in Europe in tons (2000)

Country	Arabica	Robusta
Germany	3,200	320
Sweden	3,350	0
Netherlands	2,600	85
Denmark	1,700	100
France	200	500
UK	444	50
Belgium	295	0
Austria	150	0
Italy	150	0
Switzerland	120	18
Norway	62	0
Spain	17	0
Total	12,288	1,073

Source: FIBL (2002) 'Organic Coffee, Cocoa and Tea'.
Frick (Switzerland): Research Institute of Organic Agriculture

A second source estimates the global consumption of organic coffee in 2002/03 to be as high as 38,800 tons (see Table 6). This is likely to be an over-estimation. A third source reported imports of organic coffee into Europe at about 13,000 tons in 2000, of which about 12,000 tons of Arabica and about 1,000 tons of Robusta (see Table 7). Organic Robusta coffee is imported mostly to France, Germany and Denmark. Although this market is still small, a recent study on organic coffee claims that it is “increasing [in many European countries] due to growing consumer demand for espresso coffee” (FIBL 2002). Unfortunately, there is no empirical evidence to back up this statement.

A more recent (and more reliable) estimate of organic coffee sales in selected European countries for the 2001 season shows a market of 10,400 tons (see Table 8). Added to North American demand, the total market size of organic coffee in 2001 should have been around 20,000 tons. Estimated growth projections for 1999-2004 are about 15 per cent on average (Lewin, Varangis and Giovannucci 2004). Assuming this average rate of growth, the organic coffee market in 2003 should be around 26,400 tons, of which 2,100 tons of Robusta.²⁶ A positive factor for the organic coffee market is that quality has improved dramatically in the last few years. At the same time, increased supply has led to reduced premia.

Table 8: Organic coffee sales in selected European countries (2001)

Country	Volume (green metric tons)	Average annual growth (1999- 2001)
Germany	3,402	17
Sweden	1,477	28
Denmark	1,448	4
Netherlands	978	15
UK	691	18
Italy	641	60
France	600	18
Belgium	456	15
Switzerland	431	15
Norway	230	2
Finland	103	18
Total	10,457	

Source: Lewin, Giovannucci and Varangis (2004)

On the supply side, most organic coffee imported in North America originates from Latin America, especially Mexico (Rice and McLean 1999). There are no precise figures for the total area of certified organic coffee in the world, but industry observers estimate it at over 205,000 ha. Latin America accounts for more than 85 per cent of this area, and Mexico alone accounts for 45 per cent.²⁷ Total land under organic production in Mexico has grown on average by 45 per cent in the second half of the 1990s, now covering over 100,000 ha. 70 per cent of this area is under coffee cultivation. Organic agriculture provides a livelihood to 33,000 farmers and organic coffee exports provided US\$ 32.6 million to the Mexican economy in 2000. Organic coffee production in Mexico started in the 1980s and developed through grants, subsidized credit and technical assistance through regular rural development programs (Damiani 2001).

7.2.4 Organic coffee prices and premia

A recent case study on coffee certification in Uganda (Ponte and Kawuma 2003) shows that premia at the export level are in the range of 25-35 per cent depending on the type of coffee (at current market prices, this translates into \$0.23/Kg for Robusta and \$0.35-0.44/Kg for washed Arabica). At the farm level, premia were in the range of 22-35 per cent. This translated into a premium of 0.08/Kg of *kiboko* (dry cherry Robusta) and \$0.10/Kg of washed Arabica parchment. In general, these data suggest that premia range between 17-35 per cent over regular coffee both at the export and farm levels. However, it should be noted that all organic projects in Uganda have led to quality improvements. This means that the organic premium itself is a combination of premium for organic practices and premium for improved quality. The quality component is estimated to be at least half of the total premium.

²⁶ This is the figure entered in Table 4.

²⁷ Rice and McLean (1999). "Sustainable Coffee at the Crossroads." Consumer's Choice Council.

For comparative purposes, other studies have reported premia *at the farm level* for organic Mild Arabica in 2001 in the range of \$0.18/Kg in Guatemala (18 per cent over the farm gate price of conventional coffee) and \$0.57/Kg in Mexico (63 per cent premium) (Damiani 2001; 2002). Other sources give organic premia averaging \$0.33-0.44/Kg at the farm level. *Export-level* premia for Mild Arabica from Latin America are estimated at \$0.33-0.66/Kg (a standard \$0.33/Kg if sold to the fair trade channel). Average consumer-level premium is \$2.20/Kg, ranging from \$0.44 to \$4.40/Kg. Organic coffee premia have fallen dramatically over the last 20 years even as quality has increased, mainly because supply has grown. With lower premia, some of the larger roasters may move into organics. At the same time, the motivation and commitment of many organic farmers may falter (Rice and McLean 1999).

Table 9: Prices and premia for organic coffee in Uganda (2002/03 season)

<i>Export level</i>	Robusta \$/Kg	Bugisu \$/Kg
fob price	0.75	1.39
organic export price	0.98	1.74
premium	0.23	0.35
premium (%)	30	25
<i>Farm level</i>	Robusta (dry cherry)	Bugisu (parchment)
regular price (USh/Kg)	465	1150
organic price (USh/Kg)	630	1350
premium (USh/Kg)	165	200
Premium (\$/Kg)	0.08	0.10
Premium (%)	35	17

Source: Ponte and Kawuma (2003)

7.3 Fair Trade

7.3.1 Main Features²⁸

Fair trade is based on partnerships between so-called Alternative Trade Organizations (ATOs)—such as Twin Trading, Oxfam Trading, Equal Exchange—and producers. Fair trade is defined as “an alternative approach to conventional trade that aims to improve the livelihoods and well-being of small producers by improving their market access, strengthening their organizations, paying them a fair price with a fixed minimum, and providing continuity in trading relationships” (Giovannucci and Koekoek 2003: 38). ATOs started to operate in the 1950s and 1960s, purchasing products in developing countries directly from producers and selling them through networks of so-called Third World Shops. In the late 1980s, ATOs began labelling fair trade products through Fair Trade Labelling Organizations (such as Max Havelaar and the Fairtrade Foundation), and started a push to make them available in mainstream retail spaces, especially supermarkets (Murray *et al* 2003). Fair trade in the coffee sector was pioneered by the Max Havelaar Foundation in the Netherlands in the late 1980s with the establishment of fair trade labelling.

Labelling organizations are national-level initiatives that issue Fair Trade labels to importers and that verify that Fair Trade standards for specific products are met. They certify products, select, verify and monitor fair trade coffee producers, and promote fair trade products to retailers and consumers. They are not involved in trading products. Fair trade labels are now used both by conventional companies and ATOs that are registered with one of the national initiatives. Labelling is meant to guarantee that the product has been produced and traded according to pre-defined social, contractual and sometimes environmental standards, including the payment of the agreed FLO-determined minimum price. This price is not only intended to provide a better return to the producer, but includes a “social premium” to be used by producer groups for social development activities (Tallontire 2001).

²⁸ This section draws from Tallontire (1999; 2000; 2001), Murray *et. al.* (2003), FLO (2002), and CBI (n.d.) “Access Guide International environmental and social label for various products: Max Havelaar, TransFair,” CBI: Rotterdam.

Recently, umbrella organizations have also been set up to coordinate the activities of labelling organizations and to draft general guidelines. The most important of these is the Fair Trade Labelling Organizations International (FLO). FLO has established detailed standards for twelve product groups that are currently labelled: coffee, cocoa, tea, juices, honey, sugar, rice, bananas, fresh fruit, wine, flowers and sport balls. Two of these (coffee and bananas) are also found in double certification fair trade and organic. FLO also maintains a producer register, which now has about 350 producer groups. At present, coffee producers are the largest group in the register. These fair trade products are sourced from 800,000 producers in 45 developing countries and marketed through 17 national initiatives (14 in Europe and three elsewhere). FLO monitors producers and traders and de-certifies those that fail to match the required standards.

In relation to coffee, a group of *producers* (cooperative, farmer association) can be registered to FLO if: (1) its members are smallholders; and (2) the group is democratically run and politically independent. The first condition is strictly enforced by FLO. The track record in relation to the second condition could be questioned in some countries where fair trade buys coffee from formerly state-controlled cooperatives, which political independence is doubtful (see Ponte 2004). FLO guidelines also require that producers follow some basic guidelines in terms of minimal use of agro-chemicals and environmental protection. So far, these guidelines have not been strictly enforced, although they are likely to become more prominent.

Fair trade requirements for producer organizations are divided in two sets: (1) minimum requirements, which all producer organizations must meet if they want to join register (or that they have to meet within a specified period); and (2) process requirements, on which producer organizations must show permanent improvement. Minimum standards are meant to ensure that fair trade benefits reach the small farmers and/or workers; that the farmer organization has potential for development; and that the fair trade instruments can take effect and lead to a development which cannot be achieved otherwise. The degree of progress which FLO requires from each producer organization depends on the level of economic benefits it receives from Fairtrade and on its specific context (FLO 2002). Producers' organizations are regularly inspected for compliance against these requirements.

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

In addition to these requirements, fair trade importers also provide technical support to producer organizations and play an advocacy role for producers in national and international fora. Farmer organizations use the fair trade premium for community projects, human resource development, environmental protection and business development. Part of the premium is also paid directly to farmers.

Producer organizations, on the contrary, are regularly assessed against a set of standards by FLO inspectors. One of the main criticisms levied against the fair trade system was that FLO was both the custodian and the certifier of the standard, while in other systems the two functions are kept separate. This has now changed as the former FLO Certification Unit, now FLO-Cert Ltd, has become a limited company to make certification and trade auditing operations more transparent. A major difference between fair trade and other sustainability certifications is that fair trade attempts to address the power relations in trading, rather than putting the responsibility for matching a set of standards on the shoulders of producers, as often happens in other kinds of environmental and social certification.

7.3.2 Prices and Premia

The main difference between fair trade and other 'sustainable coffee' certifications is that fair trade pays a minimum price to producers. The price paid by fair trade importers to farmer organizations are based on a social premium of at least \$0.05/lb of green coffee over the New York "C" and London "LIFFE" prices, plus or minus the relevant quality differential. Certified organic coffee bought from a registered farmer organization attracts an additional premium of \$0.15/lb. The overall fair trade minimum price varies according to the type and origin of the coffee (Table 10). As we can observe by comparing prices in

Tables 10 and 11, in 2003 fair trade paid a fob price that was almost twice the level of the conventional market in washed Arabica, and more than three times the market price for conventional natural Robusta. As a result the FT premium was extremely high: \$0.59/lb for washed Arabica and \$0.75/lb for Robusta.

Table 10: Fair trade minimum prices (\$/lb, green)

Type of coffee	regular		organic certified	
	Central America, Mexico, Africa, Asia	South America, Caribbean	Central America, Mexico, Africa, Asia	South America, Caribbean
Washed Arabica	1.26	1.24	1.41	1.39
Unwashed Arabica	1.20	1.20	1.35	1.35
Washed Robusta	1.10	1.10	1.25	1.25
Unwashed Robusta	1.06	1.06	1.21	1.21

Source: FLO

Table 11: Market prices and fair trade premium level

	Market price* (\$/lb, green)	FT premium (\$/lb green)
Mild Arabica	0.67	0.59
Unwashed Robusta	0.31	0.75

* Prices refer to June 2003 (September 2003 NY “C” and LIFFE contracts)

Table 12: Main characteristics of fair trade coffee imports

	Percentage of fair trade coffee over total conventional imports per year							Rate of growth (% over previous year by volume)			Volume (tons)
	1996	1997	1998	1999	2000	2001		1999	2000	2001	2001
Austria		0.28%	0.13%	0.31%	0.40%	0.27%	Austria	180.73%	6.71%	-21.91%	241
Belgium	0.05%	0.05%	0.03%	0.25%	0.21%	0.48%	Belgium	562.61%	-7.14%	88.94%	780
Canada					0.04%	0.06%	Canada			9.83%	89
Denmark	0.23%	0.90%	1.45%	2.09%	2.06%	2.33%	Denmark	54.81%	-6.33%	18.29%	1,505
Finland				0.06%		0.04%	Finland				29
France				0.01%	0.02%	0.05%	France		125.07%	125.57%	209
Germany	0.36%	0.43%	0.31%	0.47%	0.35%	0.35%	Germany	61.55%	-27.01%	7.17%	3,214
Italy	0.08%	0.06%	0.06%	0.09%	0.10%	0.12%	Italy	51.67%	19.42%	5.26%	406
Japan	0.01%		0.00%	0.01%	0.01%	0.01%	Japan	86.25%	30.90%	26.62%	53
Netherlands	4.25%	4.61%	4.99%	2.83%	2.86%	6.14%	Netherlands	-32.17%	11.70%	12.72%	5,459
Norway					0.07%	0.12%	Norway			33.17%	38
Sweden		0.20%	0.08%	0.19%	0.07%	0.02%	Sweden	137.67%	-68.06%	-71.02%	19
Switzerland	0.13%	0.12%	0.08%	0.03%	0.27%	0.31%	Switzerland	-58.58%	756.82%	23.43%	236
UK	0.25%	0.58%	0.15%	0.75%	0.67%	0.92%	UK	366.71%	-6.91%	18.83%	1,440
USA			0.00%	0.06%	0.15%	0.24%	USA	1351.78%	179.58%	44.99%	3,045
Total	0.57%	0.69%	0.29%	0.31%	0.31%	0.38%	Total	24.06%	5.89%	19.44%	16,765
Source: FLO											

7.3.3 Market Characteristics and Trends

In 2000, a quantity of over 13,000 tons of coffee was sold as fair trade globally, for a retail value of \$393 million. The estimated production capacity of the 197 cooperatives and farmer organizations in the coffee fair trade register is 75,000 tons. This could be interpreted as a large over-supply situation. However, some observers argue that having many cooperatives from a number of origins is actually good for fair trade importers. In this way, they can choose among many different kinds of coffees and can be more demanding on quality. This is one of the reasons the overall quality of fair trade coffee has improved in recent years. On the other hand, the over-supply argument may be supported by the fact that there seems to be an “unspoken moratorium” on the entry of new coffee cooperatives into the FLO registry.

The global market share of fair trade coffee is still small (0.8 per cent in 2000 by value, 0.2-0.3 per cent by volume). According to FLO, total imports of fair trade coffee in 2001 were 16,700 tons—an increase of 19 per cent over the previous year (see Table 12). 44 per cent of these imports were fair trade and organic certified. In previous years, growth was as low as six per cent (2000) and as high as 24 per cent (1999). The U.S. market is growing fast (45 per cent in 2001). Other markets that also grew by more than 20 per cent in 2001 are Belgium, France, Japan, Norway and Switzerland. Fair trade coffee represents a relatively high proportion of total coffee imports in the Netherlands (6.1 per cent), Denmark (2.3 per cent) and the U.K. (0.9 per cent). The largest markets by overall volume of fair trade imports are the Netherlands (5,459 tons), Germany (3,214 tons), the U.S. (3,045 tons), Denmark (1,505 tons) and the U.K. (1,440 tons). The share of Robusta imports over total fair trade imports in 2001 was only 8.5 per cent. The share of Robusta fair trade imports that are also organic certified represented only five per cent of total fair trade and organic certified imports (source: FLO). If we extrapolated the average rate of growth in fair trade coffee markets for the period 1999-2001 (16.5 per cent), fair trade coffee imports in 2003 would be in the range of 22,700 tons—1,900 of which Robusta. This estimate, however, is likely to be too optimistic. According to other analysts, fair trade purchase levels in most mature European markets are relatively stagnant (Potts 2003). Giovannucci and Koekoek (2003) estimate a global demand for fair trade coffee in 2003 at 17,870 tons (which is a more reasonable figure and has been entered in Table 4).

7.4 Shade-grown

7.4.1 Main Features

Shade-grown is a relatively recent sustainable coffee certification initiative. Its main aim is to conserve forest cover through the production of coffee under the shade of forest canopy. Currently, the only labels offering independent verification are the Smithsonian Migratory Bird Center (SMBC) for “Bird-friendly” coffee (since 1997) and the Rainforest Alliance for “Rainforest-Alliance-certified” coffee (since 1996).²⁹

In traditional farming systems, coffee is part of an integrated agro-forestry system including indigenous tree species that provide shade and timber. It is also inter-cropped with other food crops such as maize and bananas. This system supports the long-term sustainability of coffee yields and conserves water, soil and biodiversity. Advocates of shade-grown coffee argue that the conversion from shade-grown to “sun coffee” (also known as the “technification” of coffee cultivation) that has taken place in Latin America in the last 20 years is threatening this ecological equilibrium. Of the permanent land planted in coffee, the amount of sun coffee systems ranges from 17 per cent in Mexico to 40 per cent in Costa Rica and 69 per cent in Colombia. Overall, an estimated 30-40 per cent of all Latin American coffee is technified—even excluding Brazil where coffee has historically been almost all sun grown. Sun coffee achieves higher yields in the short term due to higher coffee tree density and the application of external inputs. However, concerns arise on the long-term sustainability of these gains. Conversion from shade to sun coffee entails cutting of forest trees. Clearing layers of vegetation impedes the replenishment of soil nutrients through natural mulching and decreases protection from soil erosion and water runoff, in addition to the increased runoff of agro-chemicals. A large plantation company investing in sun coffee in East Africa has reported a “project cycle” of 5-7 years, after which it is more profitable for them to move to another piece of land

²⁹ “Rainforest Alliance-certified” coffee was formerly known as “Eco-OK.”

rather than continuing with intensive cultivation.³⁰ If this is the case, the original tree-covered land would be abandoned de-forested and depleted of soil nutrients.

Coffee can be grown under a variety of types of shade—from a monoculture shade system (with only one type of shade tree) to a multi-layered system with a high diversity of species. The latter achieves a higher level of biodiversity than the former. This creates a problem when “shade grown” coffee reaches the marketplace without third party certification, since the consumer does not know what level of shade is present on the farm. Recently, a consensus has been reached among stakeholders (mainly consumer country-based ones) on a common set of “Conservation Principles for Coffee Production,” which provides a foundation for conservation-based certification programs—including shade guidelines. The “conservation principles” have been published by the Consumer’s Choice Council in collaboration with the Rainforest Alliance, the Smithsonian Migratory Bird Center (SMBC) and Conservation International. Coffee operators can use them as a sourcing guideline or as a code of conduct. This is a step forward in terms of streamlining shade parameters. Companies can refer to these guidelines and publicize their content to consumers without necessarily recurring to third party certification. In theory, the “conservation principles” outline conditions and practices that apply to farms and processing facilities in most coffee-growing regions of the world. However, this initiative, as well as the core of the market for shade-grown coffee, is centered on the U.S. and its Central American and Andean suppliers. African voices have been largely missing in this debate.

7.4.2 Smithsonian “Bird-friendly” Coffee

In North America, some shade-grown coffee is also known as “bird-friendly.” This is because it provides an excellent eco-system for migratory birds and other forest-dwelling wildlife. Studies have shown that the diversity of migratory birds plummets when coffee is converted from shade to sun: in Colombia and Mexico, 94-97 per cent fewer bird species were found in sun coffee than in shade coffee. In Mexico and the Caribbean Basin, cocoa and coffee plantations are estimated to support the largest number of forest-dependent migratory birds of any agricultural habitat. On the basis of these observations, the Smithsonian Migratory Bird Centre (SMBC) has developed a certification system for the production, processing and marketing of shade-grown organic coffee that awards a “bird-friendly” label.

SMBC certifies farms that are already certified as organic (or that can be simultaneously certified as organic) on the basis of guidelines covering a number of criteria, the most important of which are:

- the coffee plantation must have at least 40 per cent canopy cover;
- plant coverage must be made of different strata, and the lower stratum must constitute 20 per cent of the total volume of shade foliage;
- “backbone” species must be at minimum 12 meters high and the shade must have some clearly visible strata, of which the upper stratum must be composed by native trees;
- predominant species of the backbone must occupy no more than 60 per cent of all shade trees; the remaining must belong to a minimum of 10 different species; each of these species must constitute at least one per cent of the total shade trees present.³¹

These guidelines have been developed in relation to the optimal environment for birds migrating between North and Latin America. No such effort has yet been formalized in relation to migratory birds that travel between Europe and Africa, where criteria may differ.

7.4.3 “Rainforest Alliance-certified” Coffee

The Sustainable Agriculture Network has developed a “sustainability” certification for coffee. The secretariat for this network is the Rainforest Alliance, an environmental group based in the US. The Rainforest Alliance label combines environmental and social criteria. Coffee has to be grown under shade (although the shade criteria are less strict than in the Smithsonian certification). Use of agro-chemicals is

³⁰ Own field interview, Moshi (Tanzania), December 2000.

³¹ Sources: April Pojman, “Shade-Grown Coffee,” *Fresh Cup*, May 2002, and Smithsonian Migratory Bird Center, “Norms for the Production, Processing and Marketing of ‘Bird-Friendly’ Coffee,” Washington, DC.

kept to a minimum and strictly managed (therefore, the criteria are less strict than in organic certification). Fair treatment and good conditions for workers must be provided. However, no minimum price is guaranteed and large farms can be certified (contrary to existing fair trade criteria). Growers must not burn fuel-wood and other waste wood from the pruning of coffee trees, and new farms cannot be established on cleared forestland. Finally, vegetation buffers must be used to mitigate the polluting effects of pulp runoff in rivers. Therefore, some landscape and biodiversity issues that are not covered in organic certification are addressed in Rainforest Alliance certification. In sum, the Rainforest Alliance tries to cover environmental, shade-specific and socio-economic issues, but its standards are less strict than in the case of organic, SMBC's bird-friendly and fair trade certifications. In relation to shade, Rainforest Alliance standards only require that "in those regions where coffee has traditionally been cultivated beneath shade trees, producers must maintain or establish a canopy cover of mixed native trees." This requirement include at least 12 species of native trees that are well distributed around the farm, a density of shade trees species of 70 trees per ha, two shade strata, and a minimum proportion of evergreen species.

7.4.4 Market Characteristics

Shade-grown coffee was practically unknown in the market as recently as 1997. In 2000/2001, 3,000 tons of coffee were certified as shade-grown by SMBC and Rainforest Alliance, but only 545 tons were sold as such (for a retail value \$16.2 million), almost all in North America (see Tables 1 and 2). A substantial amount of coffee (500 tons) is sold with reference to "shade" although it is not certified. Many consuming country-based operators use the concept of "shade-grown verified" coffee; however, a third party does not certify this coffee. The concept simply implies the farm is visited by someone to make sure that there is "shade." These verifiers are not *super partes* and it is not clear what guidelines they use. Some coffee operators use the term shade-grown even where there are only a few trees in a farm, or only one species. This creates confusion, as consumers do not know which terms to trust, and provides opportunities for free-riding to less committed operators.

As of 2004, the SMBC coffee program comprises 19 farms in seven Latin American countries (Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, and Peru), covering about 6,000 acres of shaded farmland. Rainforest Alliance (which also certifies wood product and foliage, bananas, oranges, cocoa and cut flowers) has certified over 28,337 acres of coffee land in nine Latin American countries (Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama). Only about 11 per cent of this area appears to be related to smallholders and their cooperatives and groups (a majority of which are found in Colombia and Honduras).

Future market growth assessments are not available at the moment, but can be estimated at 10-20 per cent per year. According to Rice and McLean (1999) several importers and roasters in the late 1990s reported that they saw limited market potential for non-organic shade grown coffee, and had therefore decided to offer shade only in conjunction with organic coffees (SMBC certification and, more rarely, combined Rainforest Alliance and organic certification). This situation may be changing, however, as mainstream roasters (such as Kraft and Procter & Gamble) have committed to purchasing Rainforest Alliance-certified coffee. In Europe, there has been a relative lack of interest for shade-grown coffee so far. As a result, Africa has not exported any certified shade-grown coffee. However, there may be prospects for developing similar certification systems that are better tuned to African coffee farming systems in the UK, Germany, Switzerland, the Netherlands and Scandinavia—where bird-watching is popular and/or environmental concerns are important.

7.4.5 Premia

According to one source, the average premium at the import level for shade grown coffee is estimated at \$0.77/Kg. The industry average is \$1.17, with retailers pocketing an average of \$1.32/Kg (see Table 3; Giovannucci 2001). Interestingly, these levels are slightly lower than those reported for organic coffee. The explanation for this is that half of the market for "shade-grown" coffee is not certified, and of the certified portion, only SMBC requires organic certification. Other sources estimate the premium at the retail level to be \$2.20-4.40/Kg over coffees of comparable origin and grade. Yet, there is no formal or standard price premium for shade coffee producers in the SMBC system. They usually receive the same price as for organic coffee. Although there are no added costs to farmers since certification is carried out jointly with organic, the lack of price premium gives no incentive to sun grown coffee farmers to convert

to shade. Rainforest Alliance has reported that sometimes farmers selling coffee under their label are able to charge a premium of \$0.22/Kg. With a few exceptions, no premium is paid to producers of uncertified shade coffee (Rice and McLean 1999). Premia reported by SMBC and Rainforest Alliance are said to range between \$0.12/Kg and \$0.40/Kg.³² Expenses to run these programs are covered differently. SMBC charges \$0.55/Kg for use of its label to roasters. Rainforest Alliance costs are covered by foundation grants. Direct costs of certification are in both cases paid by farmers.

According to a third source, farmers selling triple-certified organic, fair trade and Rainforest Alliance-certified coffee from El Triunfo (Chiapas, Mexico) earned a price of \$3.04/Kg in 2001 (Damiani 2001). Considering that double-certified organic and fair trade coffee is bought at \$3.10/Kg, there does not seem to be an extra premium for shade-grown coffee. This is confirmed by other shade-grown certified producers, who have reported that they do not necessarily end up earning an extra premium above organic certification (which is required by the Smithsonian standards). This means that instead of earning a premium, certification may just ensure that certified producers sell their coffee more easily (or earlier) than other producers. Yet, this outcome could be conceived as an “implicit premium”—in case the price obtained as a “first-in-line” supplier is higher than the price that would be obtained by selling coffee later in the season (through price discounting or complete sale failure). No estimations on this interpretation were available at the time of writing.

7.5. Impact of Certification Systems on Sustainability

7.5.1 Comparative Analysis of Premium Levels

The more direct measure of the impact of standards systems on economic sustainability is the level of premium offered. At current market prices, the highest premium is by far offered in fair trade certification. The fair trade premium for Mild Arabica coffee is almost four times what can be obtained for organic coffee and nine times larger than what would have been paid by Utz Kapeh had they applied their 2003 premium system. In the case of Robusta, the gap is even higher: the premium is seven times what is offered for organic. At current market prices, the Utz Kapeh premium would not apply in Robusta (see Table 13).

³² Reported to Daniele Giovannucci. See Giovannucci and Ponte (2004).

Table 13: Premium levels for certified “sustainability” coffees

	Market price* (\$/kg, green)	Utz Kapeh premium** (\$/kg green)	Organic premium (\$/kg green)	Fair trade premium (\$/kg green)	Shade-grown premium (\$/kg green)
Mild Arabica	1.47	0.15	0.35	1.30	0.12 – 0.40
Natural Robusta	0.68	0.00	0.23	1.65	n.a.

Sources: Ponte and Kawuma (2003); Giovannucci and Ponte (2004)

* Prices refer to June 2003 (September 2003 NY “C” and LIFFE contracts)

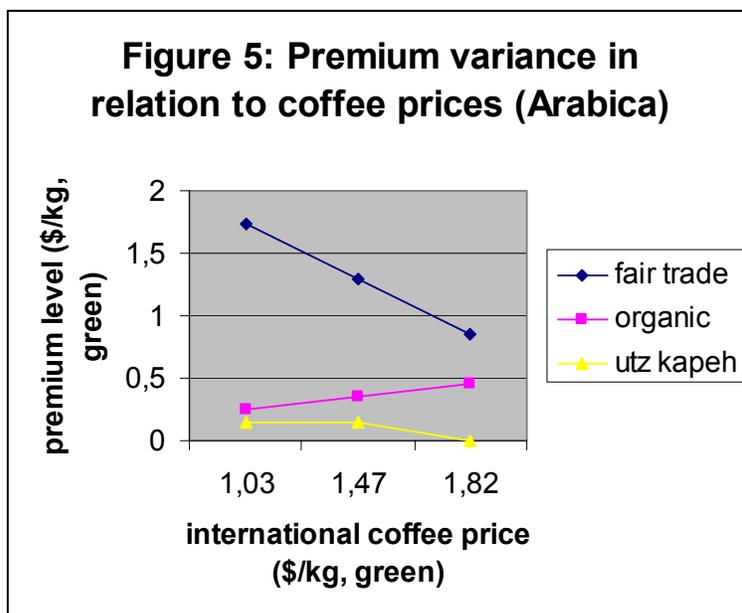
** However, this premium is currently not paid; it is not clear whether it will ever be paid

The premium mechanism in the four certification options listed above works in different ways. As a result, changes in market prices affect them differently. Table 14 provides a sensitivity analysis in relation to changing market prices in three of the certifications where there is a premium (or there can be one in specific market circumstances). A 30 per cent *increase* in coffee market prices eliminates the premium for Utz Kapeh Arabica (if the premium system was applied at all), increases the level of the organic premium, while it reduces the fair trade premium. In this scenario, the gap between fair trade and organic premia is still substantial but lower than in Table 13. A 30 per cent *decrease* in coffee market prices triggers both Arabica and Robusta premia for Utz Kapeh, decreases the premium for organic and increases the premium for fair trade.

Table 14: Sensitivity analysis of premium levels for certified coffees in relation to changing coffee market prices

	Higher market price scenario				Lower market price scenario			
	Market price 30% higher (\$/kg, green)	Utz Kapeh premium (\$/kg green)	Organic premium (\$/kg green)	Fair trade premium (\$/kg green)	Market price 30% lower (\$/kg, green)	Utz Kapeh premium (\$/kg green)*	Organic premium (\$/kg green)	Fair trade premium (\$/kg green)
Mild Arabica	1.82	0.00	0.46	0.86	1.03	0.15	0.25	1.74
Natural Robusta	0.87	0.00	0.30	1.45	0.48	0.06	0.16	1.85

Source: Ponte and Kawuma (2003)



Source: Table 14.

7.5.2 Other Impacts on Income

The overall income impact of sustainability standards on producers depends on the balance between the extra costs of matching these standards (including labour costs and the cost of certification) in comparison to the extra income earned from the premium plus/minus the impact of changing farming practices on yields and quality. No estimates are available for Utz Kapeh certification yet. In the case of organic, yields and quality tend to increase in areas where agro-chemicals were not used previous to conversion. In other cases, quality is still likely to improve, but yields may suffer in the short term. The balance sheet for fair trade is invariably positive, since farmers do not pay for certification, the premium is very high and the necessary changes in farming systems fairly limited. However, these impacts may be hard to maintain in the future in the fair trade system—as oversupply continues and pressure for prices to descend increases. As for shade-grown certification, on the one hand, the impact on yields in the short term is negative and labour inputs increase; on the other hand, coffee quality often improves, weeding becomes cheaper, soil fertility improves, and coffee trees tend to live longer.

The process leading to some of the certifications examined in this paper can stimulate farm incomes *outside of the coffee economy*. Shade grown certification stimulates reforestation; therefore, income from sale of forest by-products and fruit may increase. Organic and Rainforest Alliance certification relate to the farm rather than coffee alone; thus, markets can be sought for other farm products (a range of products in the case of organic and Rainforest Alliance certifications). However, these possibilities should not be over-estimated: local markets for forest by-products vary from location to location and some non-coffee organic products may suffer from the same demand problems as coffee does. Also, most organic projects are focused on one or a small group or related crops for which the exporter has technical and market competence. In Uganda, for example, the most obvious candidate for diversification in sales of organic produce would be bananas. However, this has not happened so far for at least three reasons: (1) some exporters fear that selling other organic products may distract farmers from coffee maintenance practices; (2) the technical specifications for exporting other organic crops may be different and/or more stringent than for coffee—especially when fruit and vegetables are concerned, and (3) in Uganda, coffee certifications have tended to be carried out by one certification agency, while another has certified a number of fruit and vanilla projects; a certified coffee exporter has tried to buy organic coffee from a certified vanilla project, but encountered problems with the compatibility between the two different certifications (see Ponte and Kawuma 2003).

7.5.3 *Social and Environmental Impacts*

In the case of organic and shade-grown certifications, spill-over effects have been observed on adjacent communities—in terms of improving both farming practices and coffee quality. In Uganda, for example, several observers mentioned that coffee quality and yields are improving even for non-participants who live in areas close to an organic coffee project. This is likely to be the result of “copying” effects and their hope of being incorporated in the project in the future. In fair trade, the main spill-over effect is achieved through community level projects financed with part of the fair trade premium. In areas where fair trade and organic double certification has been achieved, the two sets of benefits have been cumulative (Ponte and Kawuma 2003). The potential impact of Utz Kapeh on adjacent communities has not been assessed so far.

Other social benefits of sustainable certifications arise from the fact that marketing partners demand a certain degree of accountability and monitoring, usually through producer organizations. These organizations can help improving the bargaining position of farmers even for the part of the coffee harvest that is not sold through the sustainable channel. These organizations can also become an anchor for other rural development activities, such as micro-finance. However, sustainability certification is a costly and sometimes lengthy exercise. It requires setting rules and monitoring compliance. In the right circumstances and with the right dynamics, this can create a virtuous circle of empowerment and organizational strengthening. At the same time, farmer organizations may find it difficult to wade through rough times if the expected benefits do not materialize in the short-term. The hidden costs of coordination (i.e., time spent in meetings, transport), uncertainty, and the limitations of collective action may dramatically decrease the overall net benefits of certification efforts.

In *organic* certification systems, the following socio-economic and environmental benefits have been mentioned by farmers (see Ponte and Kawuma 2003):

- access to a reliable market;
- mutual support among farmers to solve management problems in the farm; a sense of togetherness; developing a community spirit;
- access to extension advice through organic schemes;
- provision of tools (pruning saws), drying mats, pulping machines, gunny bags, and seedlings for planting shade trees;
- changing farm practices and/or learning new ones (application of farm-yard manure; mulching; contour farming and other erosion control techniques; planting wind-breakers; improving pruning and husbandry; improved weed control);
- dropping other practices to comply with the requirements for organic certification (careless disposal of polythene materials; spraying or the use of agro-chemicals; storing coffee in plastic or polypropylene bags);
- improved soil fertility.

Participants of *fair trade* cooperatives and/or farmer groups have reported benefits in terms of:³³

- better planning for coffee production and personal and household needs;
- reduction of risk (and related stress) because of access to a guaranteed market (at least for periods over one year);
- greater access to traditional credit sources through a cooperative’s improved financial position;
- access to training and enhanced ability to improve coffee quality;

³³ This list is based on field interviews and on a recent evaluation of fair trade societies and projects (Tallontire *et al* 2001).

- development of new networks of contacts among participants;
- increase in self-esteem;
- access to a diverse range of projects sponsored by the cooperative or farmer group;
- increased organizational capacity of participant farmers;
- strengthened ability of organizations to serve their members.

Yield and quality improvements and other benefits that have appeared in organic certification schemes may also appear in *Utz Kapeh* or shade-grown schemes if an extension and support system was created in similar ways as in organic certification. However, because the premium is lower than in the case of organic (or absent), it is unlikely that *Utz Kapeh* or shade-grown schemes would reach the same organizational “thickness” because there would be fewer resources to run it.

Finally, the impact of *shade trees* on coffee farming systems can be summarized as follows (Boffa 2003):

- shade trees create a microclimate favouring coffee tree growth and production;³⁴
- they ensure a more even crop yield from year to year by lessening alternate bearing;
- in limiting coffee flowering and production, shade trees increase the lifespan of coffee trees;
- they depress weed growth, thus reducing the cost of weeding;
- soil fertility is enhanced through nitrogen fixation of intercropped legumes and nutrients recycled by trees from the lower soil depths as a result of mulching with pruning materials;
- shade trees favour bigger bean size through temperature reduction and the extension of the ripening period; however, as altitude increases, cloud cover also increases, thus the need for shade trees is less important;
- shade trees guarantee better quality in terms of better appearance, bigger bean size and density, and organoleptic properties; these improvements are due to reduced fruit load, more balanced filling and uniform and longer ripening periods;
- shade trees compete with coffee trees, thus lowering yields in the short term.

³⁴ This is because lower temperatures of top-soils ensure that coffee root systems benefit from optimum water and mineral uptake conditions; shade trees reduce the rate of transpiration and therefore of evapotranspiration from leaves and soil; organic matter in the surface soil layer is protected from breakdown by exposure to the sun.

7.5.4 *The Potential of Multiple Certifications*

There are definite economies of scale and market advantages in seeking double or multiple coffee certifications. However, some certifications are less prone to be combined with others. For example, Utz Kapeh and Rainforest Alliance are both seen as attempts to create a “super-label” covering socio-economic and environmental issues. Because these standards tend to be more flexible than any of the three “strict” certifications (organic, fair trade, bird-friendly), they are often viewed with suspicion by the stricter standards initiatives. They are more likely to be sought as single certifications rather than in combination with others. In the following paragraphs, I briefly assess the certification combinations that have been carried out in practice or that have some future potential:

- *Fair trade + organic*: A large proportion of fair trade coffee available in consuming countries is also organic certified, especially in the U.S.; this suggests that double fair trade and organic certification has good market recognition and future prospects; however, decisions on this matter should be made on an *ad hoc* basis; there may be farmer groups that do not qualify for registration in the fair trade register and still have potential for organic sales; on the other hand, for those already involved in fair trade, organic certification can be easily paid for by the fair trade premium.
- *Organic + shade grown*: Organic and shade grown double certification is already carried out for the bird-friendly label; it does not cost much in addition to organic certification alone; however, farms in some agro-ecological systems (especially outside Central America and the Andes) may find problems in matching the strict SMBC standards; if organic and Rainforest Alliance double certification is sought, then standards may be easier to match.
- *Organic + fair trade + shade grown*: If producers do qualify for any of the shade grown certifications, then a triple certification with fair trade may also be desirable. Although it is not likely to achieve a higher premium than a double organic and fair trade double certification alone, it makes organic coffee more marketable (especially in the US). One instance of this combination is El Triunfo coffee from Chiapas, which is triple-certified fair trade + organic + Rainforest Alliance. Since agronomic and social standards are already met by fair trade and organic certifications, Rainforest Alliance certification in this case is mainly used for shade (possibly because SMBC standards were considered either too strict or expensive for the buyer).
- *Fair trade + shade grown*: Shade grown certification would cost extra to producers, since it is not currently covered by fair trade standards. There would be no extra premium guaranteed. This combination does not seem to make much sense unless it is carried out jointly with organic certification.
- *Utz Kapeh + organic*: Utz Kapeh certification in Uganda has been built upon an already existing organic certification (although the coffee is sold just as Utz Kapeh). This was done mostly on the basis of easier logistics, the pre-existing presence of a traceability system, and lower costs of certification (building upon organic certification means that there is already a register of farmers and an internal control system; organic certification also helps to match some Utz Kapeh standards).

7.5.5 *A Critical Evaluation*

In the previous sections, I have examined the sustainability certifications that are active in the coffee industry. Their main characteristics are summarized in Table 15. Their impact on actual sustainability (broadly defined) is summarized in Table 16.³⁵

³⁵ For other assessments of fair trade coffee, see Mace (1998), Murray, Raynolds and Taylor (2003), Raynolds (2002), Schmidt (2002), Tallontire (1999; 2000) and Waridel (2001).

Table 15: Main features of coffee certification systems on sustainability

Name	Actors or organisations setting the standards	Characteristics	Geographic and farm-size coverage
Bird-friendly Coffee	Smithsonian Migratory Bird Center (SMBC)	Minimum standards on vegetation cover and species diversity to obtain use of label; also covers soil management	Standard applied only to Latin American coffees so far; mainly estates
Organic	International Federation of Organic Agriculture Movements (IFOAM) and affiliated associations	Accredited certification agencies monitor organic standards on production, processing and handling; formally, IFOAM basic standards also include issues of social justice	Global, but most organic coffee comes from Latin America, especially Mexico; all farms
Fair-trade	Fair Trade Labelling Organizations International (FLO) and associated Fair Trade Guarantee Organisations	Minimum guaranteed price paid to registered small farmers' organisations that match standards on socio-economic development; nonprofit organisations set/monitor standards and mediate between registered producers and FT importers	Global, but a sizeable amount of FT coffee is bought also in Africa; only smallholders
Eco-OK	Rainforest Alliance	Certifies farms on the basis of sustainability standards; covers environmental protection, shade, basic labour and living conditions, and community relations	Latin American countries only; mostly estates but also some cooperatives
Utz Kapeh	Utz Kapeh Foundation	Code of conduct for growing sustainable coffee formulated on the basis of the 'good agricultural practices' of the European Retailer Group (EUREP); includes standards on environmental protection and management, and labour and living conditions	Mainly in Latin American countries, but growing also in Asia (India, Indonesia, and Vietnam) and in Africa (Uganda and Zambia); mostly estates, but also some cooperatives

Table 16: Summary of impacts of selected coffee certification systems on sustainability

	<i>Utz Kapeh</i>	<i>Organic</i>	<i>Fair trade</i>	<i>Shade-grown (SMBC and RA)</i>
<i>Premium</i>	A system paying a low premium only under certain market conditions was agreed in 2003 but subsequently abandoned	Premium paid (but overall levels of premium decreasing in time)	High level of premium in current market; some premium always assured	No assured premium (but may be paid in certain circumstances)
<i>Yields and quality</i>	Possibly positive but limited impact on yields and quality	Short-term impact on yields may be negative; possibly positive impact on quality	Only indirect (and possibly positive) impact on yields and quality (through higher income, thus increased possibility of purchasing inputs and hiring labour)	Negative yield impact; positive impact on quality
<i>Labour inputs</i>	Moderately higher labour inputs	Higher labour inputs		Higher labour inputs
<i>Other income impacts</i>		Possibility of selling other organic products from the farm; diversification of income		Possibility of selling forest by-products and fruit
<i>Market access, networking</i>	Buyers and markets are still limited, but likely to increase when Sara Lee starts buying substantial amounts—as recently announced	Access to well-established and reliable market	Access to well-established and reliable market; technical assistance from fair trade importers; development of new networks of contacts among participants	Buyers and markets are still limited, but likely to increase when Kraft starts buying substantial amounts—as recently announced
<i>Extension, credit</i>	Potentially better extension services from supportive NGOs and some buyers, but limited support from public extension services	More effective extension from supportive NGOs and some buyers, but limited support from public system	Access to trade financing & traditional credit sources due to the improved financial position of cooperatives	More effective agro-forestry extension from supportive NGOs but limited support from public system
<i>Organizational capacity; community impact</i>	Strengthening organizational capabilities (if registration is done via farmer groups rather than individually)	Mutual support among farmers to solve management problems in the farm; sense of togetherness; development of a community spirit	Increased organizational capacity of participant farmers; access to training; increase in self-esteem; strengthened ability of organizations to serve their members; community projects	Mutual support among farmers for forest management; development of a community spirit
<i>Environment</i>	Limited environmental benefits	New farming techniques improve soil fertility as well as drought and erosion resilience		Improved biodiversity and agro-ecological conditions enhance soil fertility
<i>Risk, planning capabilities</i>	Potential for some reduced pest management and social risks. Planning may improve	Risk reduction through reduced external inputs, no mono-cropping, improved soil resilience; planning improves.	Better planning for coffee production and personal and household needs; guaranteed price reduces risk	Reduced pest management and social (RA only) risk; planning improves

A general problem in the realm of certified coffees is that the quantity supplied is often above the market demand. Therefore, producers may not be sure that the investment made on certification and in changing their agro-ecological practices will pay back. For example, oversupply of organic coffee is a common problem in some countries. In many agro-ecological and/or socio-economic settings, coffee farmers perform agricultural practices that are close to the organic model.³⁶ Yet, organic agriculture is more than not using agro-chemicals. The conversion process is elaborate, expensive, and may take years—usually involving access to extension services and technical assistance. The costs of certification for producers can be alleviated if NGOs or aid agencies are involved, or if the certificate holders are export companies (in this case, however, the exporter ends up controlling financial and information flows). The premium received by farmers depends on the marketing system (whether the certificate holder is a cooperative or an exporter), on the number of farmers that are involved in the scheme, on what percentage of total sales are certified organic (versus how much coffee has to be sold as “conventional”), and on the costs of acquiring and maintaining certification. The key to economic sustainability for organic conversion is to find a reliable minimum size market year after year.

Some of the same problems apply to shade-grown certification. Certified producers have reported that they do not necessarily end up earning an extra premium above organic certification (which is required by the Smithsonian standards). In 2000/2001, 6.6 million pounds of coffee were certified as shade-grown, but only 1.2 million pounds were sold as such (for a retail value \$16.2 million), mostly in North America. This means that instead of earning a substantial premium, certification may just ensure that certified producers sell their coffee more easily (or earlier) than other producers. If this is the case, then certification—rather than providing an incentive—may merely constitute an added entry barrier. Another problematic aspect of marketing is that many consuming country-based operators use the concept of “shade-grown verified” coffee. A third party does not certify this coffee; the term simply implies someone has visited the farm to make sure there is “shade”. These verifiers are not *super partes* and it is not clear what guidelines they use. Some coffee operators use the term shade-grown even where there are only a few trees in a farm, or only one species a situation creating confusion, as consumers do not know which terms to trust, and providing opportunities for free-riding to less committed operators.

Fair trade certification is available only to small farmer groups, organizations and cooperatives. The process usually takes six to twelve months to be carried out—longer if organic certification is also sought. FT certification requires setting up formal organizational structures, auditing, and mechanisms of transparency and accountability. Therefore, its cost depends on whether farmers in a certain area are already organized, and on what it takes for an organization to achieve “FT status.” The rewards in terms of premium are known and substantial (as long as there is a fair trade market for the coffee supplied). They vary depending on whether the coffee sold is Robusta or Arabica, conventional or organic. Yet, “fairness” issues in FT are not completely crystal clear. Better off farmers are more likely to be involved in a farmer group or organization than more marginalized ones. In the same area, there may be a cooperative that is chosen as FT partner and one that is not. FT buyers may select a small cooperative that sells most of their product exclusively to the FT channel, making a few farmers relatively well off. Alternatively, they may buy from a large cooperative that sells a tiny percentage to FT, which results in a small premium to a large number of farmers. The accountability and transparency record of some cooperatives, especially if formerly government-controlled, has also been questioned. FT does not cover the conditions of workers in coffee estates. Finally, some countries offer more FT coffee than others do.

When the FT market offers such a large premium over the commercial market, these points of contention become even trickier to handle. FLO is considering a downward revision of the minimum price for unwashed Robusta, which would be a good idea if it makes FT espresso blends cheaper at the retail level, and if this translates into a higher market share. Obviously, increasing the market share of FT coffee in general would have a positive impact on producers. For this reason, fair trade organizations, after

³⁶ This is especially relevant in African Mild Arabica producing countries after market liberalization. Agro-chemicals have become much more expensive, especially if compared to coffee prices, and access to credit for smallholders has dried up (Ponte 2002a). On the contrary, in Hard Arabica and Robusta coffee producing areas, farmers rarely used agro-chemicals even before liberalization.

targeting Starbucks, have started to mount campaigns against large commercial roasters and roasters/retailers. This has resulted in Procter & Gamble and Dunkin' Donuts to start offering FT coffee. However, at the same time, FT coffee faces strong challenges in making inroads into mainstream supply channels under the current pricing structure.

In relation to attempts at “super-labelling,” one of the problems so far has been the limited reach of such initiatives. Rainforest Alliance has granted over 60 certifications in the coffee sector so far,³⁷ most of them to estates, and all in Latin America. Utz Kapeh has certified large estates and some cooperatives, mostly in Latin America, but also (more recently) in Asia and Africa. In neither case are funds provided to producers for investments to comply with the standards and for certification (although both provide help in finding funds). Similarly neither guarantees a “living wage” (only payments according to national laws). This has prompted criticism from advocates of “traditional” certifications, who fear that economic benefits to consumers are being watered down and that the multiplication of labels confuses consumers.

The problem of equity in relation to sustainability revolves around the fact that raising standards (whether in terms of environmental protection or socio-economic conditions) heightens entry barriers. A first issue is whether higher standards are rewarded with higher prices to producers. This happens in fair trade and, at lower levels, in organic. Utz Kapeh seems to have abandoned the idea of paying a (low) guaranteed premium in certain market conditions. Shade-grown coffee does not guarantee a premium. A second issue relates to the distribution of benefits to different coffee growing regions under the various schemes. On this count, Latin America seems to be the clear winner over Asia and Africa, with the exception of fair trade. A third issue is whether one group of producers is disproportionately rewarded in comparison to another. On this count, smallholders emerge as winners only in fair trade and, to some extent, in organic certification. In the case of Utz Kapeh and shade-grown coffee, estates appear to have benefited more than smallholders and smallholder organizations—although efforts seem to be taking place to correct this imbalance.

8. Private and Public/Private Initiatives on Sustainability

8.1 Main Features

Coffee operators in consuming countries are involved in sustainability issues in four ways: (1) they may buy and/or sell third-party certified coffees, such as organic, fair trade, Utz Kapeh, and shade-grown; (2) they may contribute to projects in favour of coffee growing communities; (3) they may develop their own mission statements, codes of conduct and sourcing guidelines that include environmental and/or social parameters; and (4) they may adopt codes of conduct or sourcing guidelines that have been written by sectoral organizations, public/private fora and/or NGOs. In this section, I focus on private firms' adoption of codes of conduct and sourcing guidelines that are not verified by third parties.

An increasing number of companies are adopting the “Conservation Principles for Coffee Production” to develop their own codes of conduct and sourcing guidelines. Among these, we find Green Mountain Coffee Roasters, Rapunzel Pure Organics, and Starbucks. These companies (and others) have also been using their own guidelines. For example, since 1992, Green Mountain Coffee Roasters has been running a “Stewardship Program,” which is geared to identify those growers who have made measurable commitments in the areas of coffee quality, environmental protection and labour conditions.³⁸

Thanksgiving Coffee Company has been running a rating system for buying coffee from growers based on social and environmental criteria since 1995. Thanksgiving Coffee also markets “Song Bird Coffee” in joint venture with the American Birding Association (ABA). This line of shade-grown coffees is “verified” by the coffee company owner (therefore, it does not qualify as a certified coffee). The ABA endorses Song Bird Coffee, while Thanksgiving markets the product. The company also returns 15 cents

³⁷ Rainforest certification is more widespread in the banana sector, but still applies only to Latin American farms.

³⁸ Interview, Anaheim, California, 5 May 2002. Green Mountain ranked 16th on the Forbes 200 Best Small Companies Ranking in 2001. Its coffee sales are valued at \$84 million in 2000 (see Luisa Kroll, “Entrepreneur of the Year: Java Man,” *Forbes*, October 29, 2001).

per package to the ABA. A similar process is taking place for the company's "Bat Magic" coffee. This is also a shade grown coffee, and is marketed in relation to the preservation of bat habitat. A percentage of each sale of Bat Magic coffee supports Bat Conservation International and the Wildlife Trust, two non-profit environmental groups that are collaborating on grassroots bat conservation and public education projects around the world.³⁹

Starbucks, a \$4 billion company, started in November 2001 a pilot program for the establishment of a "preferred supplier system" (PSP) of green coffee purchasing.⁴⁰ This is now known as the "Coffee and Farmer Equity Practices Program" (CAFE). In February 2004, Starbucks announced that it intends to source more than 90,000 tons of coffee through these guidelines within five years. If that happened today, this amount would constitute almost twice the estimated 2003 size of all the sustainability certifications put together (see Table 4). This program constitutes a set of standards and verification procedures for the "improvement in sustainable coffee production." Starbucks defines sustainability as "an economically viable model that addresses the social and environmental needs of all the participants in the coffee supply chain, from producer to consumer."⁴¹ This system is superimposed on the already-existing quality standards developed and applied by Starbucks to their suppliers. The CAFE program is a flexible point system that rewards performance in a number of categories of "sustainability." A flexible point scale includes indicators grouped along three main headings and applies to farmers, processors, and vendors: social responsibility (max. 40 points), coffee growing (max. 45 points, mainly on environmental indicators), and coffee processing (max. 20 points, mainly on water, waste and energy management). In this system, program applicants that achieve 60% of total performance rating and 60% in each pertaining area are awarded with "Preferred Supplier Status". If they achieve a minimum of 80% overall rating (and 60% in each area), they qualify as "Strategic Supplier Status". Preferred and Strategic suppliers of individual origins and types are given purchase priority (starting from the highest score) over other offers received during a particular purchasing cycle. Strategic Suppliers are awarded a one-year sustainability conversion premium of \$0.022/Kg on all shipments that meet the CAFE program guidelines (only) during the first crop year in which the score is achieved.⁴² Continuous improvement is stimulated through a further premium of the same size by suppliers improving by at least 10 points above the 80% score over the previous year. Starbucks has also outlined a system of independent verification to ensure credibility.

Commercial roasters and international traders are also taking steps in the realm of "sustainability." Nestlé has developed a procurement policy linked to the concept of "sustainable agriculture" (see Box 1) in collaboration with the Sustainable Agriculture Initiative (SAI) Platform (which also sees the participation of other coffee chain players such as Ecom, Efico, Kraft, Neumann, Sara Lee DE, Tchibo and Volcafé). In a recent document entitled "Action Plan for Sustainable Green Coffee Production," Nestlé lays out a points-based system its suppliers will have to progressively comply with—a system similar to the one developed by Starbucks. According to the Nestlé document, this system "would enable the creation, for each origin, of a Sustainability ranking of suppliers. In future Nestlé will use this ranking in order to "assure that our Green Coffee sourcing supports the long term drive towards Sustainable Green Coffee Production. The Sustainable Green Coffee Production project will progressively establish full traceability of Nestlé Green Coffee supplies."

³⁹ Amy Satkofsky, "Sustainable Coffee Is for the Birds — and Everybody Else," *Business Magazine*, September/October 2001.

⁴⁰ Source: <http://www.scscertified.com/csrpurchasing/starbucks.html>.

⁴¹ Sources: Starbucks, press release, November 12, 2001; "Starbucks Green Coffee Purchasing Program. Pilot Program for Preferred Suppliers," mimeo; and interview, Anaheim, California, 3 May 2002.

⁴² It should be noted that in the original 2001 formulation of the pilot program, the costs incurred by suppliers in transitioning to such as system were to be mitigated by an interim financial incentive program. The PSP program stipulated that Starbucks would pay up to \$0.22/Kg premium above the contracted price, roughly one cent for each 10 points earned. The current incentive system, as we can see, is much less generous (Ibid.).

Box 1: Nestlé procurement policy and sustainable agriculture

“There are two aspects to Nestlé’s strategy to implement Sustainable Agriculture. One is **pre-competitive** (concerned with agriculture in general). Here Nestlé seeks to collaborate with the food industry on a common SAI (Sustainable Agriculture Initiative) platform with Danone and Unilever and other industries. In this initiative Nestlé seeks to provide general support to sustainable agricultural development, and cooperates with traders and primary processors to support sustainable practices in the trade of commodities.

The other aspect is **competitive** (concerning relations with direct suppliers). Here Nestlé encourages sustainable agriculture through the sourcing of its key raw materials (milk, coffee, and cocoa). This is done by providing guidelines to the producers and by developing preferential supplier contracts.

Sustainable Agriculture offers opportunities for food companies to achieve better control on long term supply of raw materials at reasonable costs, and at the same time to improve quality and enhance quality control (through increased traceability).”

Source: Quoted from: “Nestlé procurement policy for agricultural raw materials,” May 28, 2002.

Another recent initiative in the realm of sustainability in the commercial coffee market is the public/private collaboration between the German Coffee Association and the German Development Cooperation (GTZ). This project, entitled “Common Codes for the Coffee Community” (or 4C) started in January 2003 and should last two years. It aims at developing a code of conduct for growing, processing and marketing of mainstream coffee that is feasible for implementation and suitable for binding agreements. The project seeks to “draw up social, ecological and economic dimensions of sustainability of the production, processing and marketing of green coffee through a participatory process that will serve as a code of conduct for the market for ‘mainstream coffee.’ This means, the code shall be made for all coffee produced and processed in all different coffee regions.”⁴³ The GTZ initiative—in attempting to set a cross-sector standard developed with multi-stakeholder input—is a clear example of how the distinction between private and voluntary standards is becoming blurred.

In a sense, Utz Kapeh also started as a “private initiative” by Ahold Coffee Company. It achieved a different status (as a certification option open to any coffee buyer) through the adoption of independent third party verification. A couple of mid-sized roasters and Sara Lee (among the big roasters) are now buying Utz Kapeh coffee. Finally, Neumann and Volcafé, the two largest international traders, are both devising ways of sourcing “sustainable” coffees for their major clients. In short, sustainability is becoming a mainstream concept.

8.2 Evaluation of Private and Public/Private Initiatives

Starbucks’ CAFE initiative is a creative effort that can promote sustainable practices and provide economic stability to qualifying producers. However, a potential shortcoming of the program is that it does not contemplate any permanent price differential to cover the extra costs embedded in meeting the “sustainability criteria.” Suppliers have to improve performance and pay for independent verification. Yet, there is no long-term guarantee that they will receive higher prices than those already offered by Starbucks. Unless the system of point-based incentives is kept over the long-term, instead of just one year, the CAFE program runs the risk of merely raising barriers to entry for suppliers. This system is also much more sophisticated in relation to its environmental aspects than its social coverage, potentially rendering its impacts on the social and economic fronts less substantive. Finally, the Starbucks system is more easily applicable to estates rather than cooperatives and farmer groups. The company has nevertheless demonstrated some concern for smallholders such as in the case of its collaborative project with the Ford Foundation, Oxfam America and CEPSCO (an association of smallholder coffee producers in Oaxaca, Mexico). The pilot project will provide farmers with technical assistance (including the

⁴³ See <http://www.sustainable-coffee.net/>

introduction or refinement of cupping skills for the farmer organization), market information and product quality feedback.⁴⁴

The Nestlé and the “4C” initiatives on sustainability are very much in development and so difficult to assess. Nevertheless, there does not seem to be much scope for the designation of premia or other direct economic benefits to producers from such systems and so their long-term economic benefits for producers remain uncertain at best. Moreover, the participation of farmers (the supposed beneficiaries) in developing these codes of conduct and sourcing guidelines has been at best marginal. It is encouraging to see that the 4C project has placed participation high in their agenda; it will be interesting to see whether the project delivers on this count.

In sum, “private initiatives” are laudable in that they open up market channels for selling sustainable coffees. When points systems are used, they also provide opportunities for suppliers to follow a learning curve towards matching higher standards. Their main limitations are lack of external monitoring and auditing (so far), less transparency than third-party certifications, limited participation in the setting of standards and guidelines by farmers, and a patchy record in providing material incentives to producers (mainly, a premium). The proliferation of initiatives also means that there will be inevitably different definitions and procedural guidelines for “sustainability,” which is likely to add confusion in the marketplace. Finally, these systems are less inclined to address the power relations among actors in the coffee value chain (since they are often built upon them) than third party initiatives.

These critical considerations should be read in a comparative manner. To the extent that these initiatives enable to channel value added to the producer (of any size), they still operate in a redistributive manner (between consuming and producing countries) and thus can play a corrective role the trend towards increased transfer of wealth downstream in supply chains.

9. Sustainability, Standards and the Global Coffee Chain: Ways Forward

9.1 Sustainability and the Governance of the Global Coffee Chain

Major changes are taking place in the coffee industry. Sustainable coffees, albeit still a small proportion of the market, are becoming increasingly important. Meanwhile, large roasters operating in the mainstream market are also in the process of developing “sustainability” criteria and indicators for their coffee. One of the implications of these changes is that, as the nature of coffee sustainability standards becomes more complex, the institutions setting and/or monitoring these standards are achieving increased power. This implies that behind apparently technical discussions about standard content and monitoring procedures lay issues of access and control. As we have seen above, standards can erect new entry barriers, which have distributional consequences both in terms of geographic location and of social groups involved. As certification procedures become more expensive, those smallholders and cooperatives in producing countries that do not have access to development aid or technical assistance tend to lose out. Even those who manage to match entry barriers do not necessarily gain in terms of higher value added. Public institutions, which in the past set standards embedded in regulation, are increasingly unable to defend the interests of producers, especially small-scale ones. The result is that, in many instances, producers have been completely cut off from the game of standard setting and monitoring. What does this mean for the governance and institutional structures of the global coffee chain?

As I have argued in Section 3, previous to the end of the International Coffee Agreement (ICA) regime in 1989, no particular actor drove the global value chain for coffee, nor was it possible to clearly state that

⁴⁴ The stated objectives of this project are: (1) increase the supply of high quality certified Fair Trade coffee for the U.S. specialty coffee market from small-farmer cooperatives; (2) improve the skills of small-scale coffee farmers by providing resources and training to improve and standardize post-harvest quality; (3) provide information and support to enable farmers to earn premium prices for their coffee by producing a high quality product; and (4) enable the farmers to disseminate their learning to other coffee cooperatives (Joint Starbucks and Oxfam America press release, July 29, 2002).

producing or consuming countries controlled it. Entry barriers in farming and in domestic trade were often mediated by governments, who also managed quality control systems and to some extent decided which (quality) standards to apply at the export level. In the consuming country segment of the value chain, roasters were increasing their leading role through branding, advertising and consolidation. Yet, their control of the global value chain was limited by the quota system and government control in producing country markets.

On the contrary, the post-ICA regime exhibits many of the characteristics of an explicitly “buyer-driven” chain. The bargaining power of consuming country-based operators has increased over producing country actors, especially farmers and their governments. The institutional framework has moved away from a formal and relatively stable system where producers and producing countries had an established “voice” towards one that is more informal and buyer-dominated. In the process, a substantial proportion of total income generated in the coffee chain has been transferred from farmers to consuming country operators.⁴⁵ Strategic choices made by roasters in the last decade or so have shaped entry barriers not only in the roaster segment of the chain, but also in other segments upstream (closer to the producer).

At one level, the sustainable coffee industry may be undermining this governance system. It has facilitated a change in ideas of what “content” should be valued in coffee among an increasing number of consumers. Certification systems and private initiatives on sustainability could in theory facilitate more direct relationships between producers and consumers and a better flow of information on markets, prices, and customer demand for “sustainability content.” If a premium is paid, they could also improve the distribution of value added in the coffee chain to the advantage of producers. By including producers in the standard setting process, sustainability systems could provide a more equitable forum for governing relations and activities along the supply chain than that provided through the market alone. However, at another level, the distinction between the sustainable and mainstream markets is becoming increasingly blurred as large commercial roasters enter the sustainability realm and try to achieve recognition while minimizing costs. Also, if coffee buyers (exporters, importers, roasters) decide what is included in sustainability standards and how they are measured, the impact of sustainability initiatives could actually facilitate a higher degree of “buyer-drivenness.” Although some sustainability certifications may yield substantial benefits for producers, power relations may remain essentially unaltered if producers are still on the receiving end of key decision-making processes (see also Daviron and Ponte forthcoming).

9.2 Possibilities for Cooperation, Harmonization and/or Equivalency

The next discussion assesses the steps that need to be taken in certifications and private initiatives so that they appeal to consumers while simultaneously leading to substantive improvements in sustainability and farmer participation. In particular, I highlight the role that could be played by a “sustainable coffee cooperation forum” (SCCF) in terms of:

- (1) promoting the discussion of sustainability standards in terms of their content and of their possible coordination, harmonization and/or equivalency;
- (2) ensuring that the voices of producers (especially smallholders) are heard in relation to the appropriateness and the costs/benefits arising from such standards;
- (3) coordinating efforts to raise funds for technical assistance;
- (4) making sure that the extra efforts entailed in matching sustainability standards yield extra incomes to producers, rather than being an extra demand to be matched at the same price;
- (5) assessing the potential of “mainstream” and “niche” markets for achieving sustainability;
- (6) evaluating the best way of approaching public agencies in the process of development and enforcement of standards.

⁴⁵ On issues of governance, institutions and policy in the global coffee trade, see also Bates (1997), Daviron (1993; 1996), Daviron and Ponte (forthcoming), Fitter and Kaplinsky (2001), Gilbert (1996), Oxfam (2002), Ponte (2002b; 2002d), and Talbot (1997a; 1997b; 2002; 2003).

9.2.1 Coordination among Private Codes of Conduct and Preferred Supply Systems

Coordinating private codes of conduct and preferred supply systems that address issues of sustainability is a particularly challenging task. Each company has its own interests and goals when it establishes a code of conduct or a sourcing system. Perhaps, the most viable form of coordination for the time being would be the promotion of *one* (among the many emerging) baseline code of conduct/sourcing guideline on sustainability that can be adopted by individual companies—on the basis of which (upward) modifications can be made to tailor individual situations. Another aspect that needs to be addressed in relation to private initiatives is the issue of accuracy of claims, especially in areas where there are no universally recognized standards (such as in shade-grown coffee). Efforts should be directed towards ensuring that third party auditing (if not certification) is sought even in private initiatives.

9.2.2 Coordination among Certification Initiatives

There are various ways of promoting cooperation among individual certification initiatives with the goal of increasing the “coverage” of sustainability in the coffee sector. I will present them in order of increasing difficulty. The order of presentation can also be read as a step-by-step program for SCCF activities.

1. The most immediate form of cooperation, and one that is already happening (see Section 7.5.4), is the process of facilitating *multiple certifications*. The most common and successful of these has been the organic + fair trade double label. If shade-grown coffee becomes more popular among consumers, a triple certification may also develop more widely (although there is some confusion on what shade-grown means in the U.S. market, due to the presence of two different certifications and of uncertified shade-grown coffees). According to Rice and McLean (1999), fears of confusion in the marketplace due to label proliferation are unfounded. Separate labels can also be combined in numerous ways, so they can achieve more flexibility and reach a variety of niche markets. However, multiple certifications are more likely to take place among the “stricter” certification options (fair trade, organic, bird-friendly) than with options that are perceived as attempts to combine economic, social and environmental criteria at a lower threshold (Utz Kapeh, Rainforest Alliance). In this sense, it will be difficult to involve all the certification initiatives in such an effort. Yet, multiple certifications (in whatever form) achieve economies of scale and save on costs of certification. Furthermore, the SCCF could be a vehicle for a possible discussion of “low bar” versus “high bar” sustainability thresholds in view of a future development of a sustainability “umbrella seal” based on points rather than absolute standards (see below). In this realm, a “low bar” version could be based on Rainforest Alliance and/or Utz Kapeh, while the “high bar” could be triple certification fair trade + organic + bird friendly.
2. A second step in the process of expanding the sustainability “coverage” is to further *develop economic, social and environmental standards within individual initiatives*. This is also something that is happening already (fair trade is considering stricter environmental standards; the organic movement is considering the inclusion of shade parameters). These processes are made possible through exchange of information among various initiatives. At the institutional level, collaboration among different certification initiatives has taken place within the International Social and Environmental Accreditation and Labelling (ISEAL) initiative, which facilitates communication between various certification bodies and runs joint field certification experiments in the field (Wunderlich 2002: 23). The SCCF could create a spin-off (or linked) initiative with in specific reference to coffee.
3. A third step would be the creation of a *sustainability umbrella label*. This could be developed on the basis of the principle of equivalency. Different certification agencies would use their own criteria but agree on a set of common principles that should be respected within each individual certification (TerraChoice 2000: 41). This option would allow for more flexibility in matching different social and environmental conditions, and at the same time, would provide a common framework of reference. Yet, different certifications adopt standards that focus on one area more than another, and it may be difficult to find common ground in terms of accepting what a

minimum requirement of “sustainability” means. The history of certification initiatives in the coffee sector also suggests that it will be difficult to bring together initiatives that have established their own individual “image” and may be suspicious of each other. If this is possible at all, it would probably happen in terms of developing a label in addition to the ones that are already known to the consumers (an “umbrella label”) rather than a “super-label” that would substitute them. Such an umbrella seal could be developed as an absolute set of standards or on the basis of a “points” system of sustainability (depending on how many aspects are covered by the different combination of certifications), in a similar way that claims on “organic” have three different levels in the system recently approved by USDA. One of the major problems in seeking a unified “umbrella label” is the current disagreement on what constitutes an appropriate standard for shade grown coffee. This aspect is particularly tricky because shade specifications vary among different agro-ecological systems. One way would be to devise a broad minimum framework on shade, and then add “points” for additional elements that could be tailored to different environments. On the other hand, a too complicated system of points within “shade” and/or “sustainable” labels could be confusing to the consumer (see Rice and McLean 1999: 105-6).

4. The most far-fetched process in the development of “sustainability” standards in the coffee sector is *harmonization*. Harmonization is based on the idea that one set of criteria is used for the definition of all “sustainable coffee”: given the plurality of initiatives and the complexity of the content of sustainability, this is unlikely to happen. Even within well-established sub-categories of the sustainability family, such as organics, it has been extremely difficult and laborious to come up with universally accepted standards. The IFOAM Basic standards have provided a baseline, but universal acceptance of certifications in different import countries has been a slow process and a still unfinished one. Also, it may not be possible to come up with standards that are applicable to all agro-ecological conditions. SMBC certification for bird-friendly, for example, is tailored to shade conditions and species variety that is found in Central America and the Andes. African producers in many countries cannot meet these standards.

9.2.3 Other Strategic Issues

As argued at length in this paper, there is no meaning in setting “sustainability” standards without the participation of their intended beneficiaries. Standards as a general rule raise entry barriers, which are likely to be more pronounced for smallholders than for estates (with the exception of fair trade). Technical assistance is one of the ways of ensuring compliance to new standards. Yet, the coverage of technical assistance is spotty, sometimes politically motivated, and tends to concentrate in areas that are less disadvantaged and more likely to show “success.” Technical assistance also tends to be “reactive” (filling the gaps after they arise), while the coffee industry needs to be “pro-active.” Therefore, the SCCF could be involved in fund raising and coordination for:

- farmer credit (for improvements related to matching sustainability standards)
- training and organizational assistance for cooperatives and producer associations
- facilitating direct marketing between these organizations and buyers in consuming countries
- achieving higher quality together with sustainability
- facilitating producer participation in the setting of standards for an “umbrella seal” and in revisions of individual certification requirements

Coffee operators should also accept the idea that matching “sustainability” standards is expensive for producers. Thus, any initiative demanding improvements in the “sustainability” content of coffee should include provisions for offering mandatory premia. Industry actors, public agencies and NGOs within the SCCF could discuss levels and types of premia. Some actors in the industry argue that consumers will not pay for higher prices for sustainable coffees. However, if anything, the experience of the specialty coffee industry actually suggests that consumers are willing to pay higher prices for the “intangible” properties of the coffee they drink.

Most “sustainability” initiatives have developed within the realm of voluntary and/or private standard setting. It is unlikely that governmental intervention is needed in the process of coordinating/combining sustainable standards and certifications. However, public regulation may have an important role in achieving recognition of the content of certification and to ensure the validity of claims made under it. The experience of organic certification suggests that there is a role for public regulation in providing the catalyst for harmonization—as long as rules are flexible enough to accommodate for variation (as in the USDA certified organic system). The SCCF could be the catalyst to bring together private sector actors, NGOs, and public regulators to discuss these issues.

Finally, the SCCF could provide an institutional framework for designing industry-wide strategies on “sustainable coffee.” So far, sustainability issues have been addressed mainly in niche markets. However, they are becoming a concern of the mainstream market as well. What does that mean for the sustainable coffee industry and for coffee farmers in developing countries? Three future paths can be envisaged:

1. *Niche becomes mainstream*: this is the “long haul” strategy of some of the “high mark” certification initiatives (such as fair trade and organic); they envision growth of their labels to the expense of commercial coffees and/or through attempts to get commercial roasters to certify coffee—without compromising sustainability standards and by paying a premium.
2. *Mainstream buys into niche certifications*: this strategy is best exemplified by the Utz Kapeh initiative, which is based on the strategy of providing medium- and large-scale roasters in the commercial market with a code of conduct that is externally certified and has relatively low compliance costs.
3. *Mainstream pushes out niche*: this strategy consists in devising “sustainability” initiatives primarily tailored to company PR needs and that may gain acceptance among their customers without asking a higher price; preferred supplier systems of codes of conduct which offer no premium or other direct benefits to farmers are one example of such an approach. Success under such an approach could conceivably drive out niche approaches to sustainability through a mainstreaming (and “watering down”) process.

This analysis suggests that win-win strategies are possible but that such outcomes will crucially depend upon considerable dialogue, trust building and cooperation, hence the need for something akin to the “Sustainable Coffee Cooperation Forum”. The sustainable coffee industry should seriously consider ways of expanding the market for “sustainable” coffee in ways that: (1) do not substantively water down its content; (2) provide for extra resources to farmers to comply with standards; and (3) involve the supposed beneficiaries at all steps of formulation (4) that are practical and flexible enough to allow for widespread adoption. These objectives are more likely to be achieved in the first and second paths than the third. From this perspective, urgent action is needed for the creation of a “sustainable coffee cooperation forum” and in involving public agencies for devising support programs for and legal rules on the use of “sustainable coffee” labels.

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