

## Fair Trade Criteria and Monitoring

### What are the Fairtrade Labeling Organizations (FLO) criteria for roasters and importers?

A: Any coffee roaster that complies with the following conditions can apply for the right to use of one of the Fair Trade Labels of FLO-International.

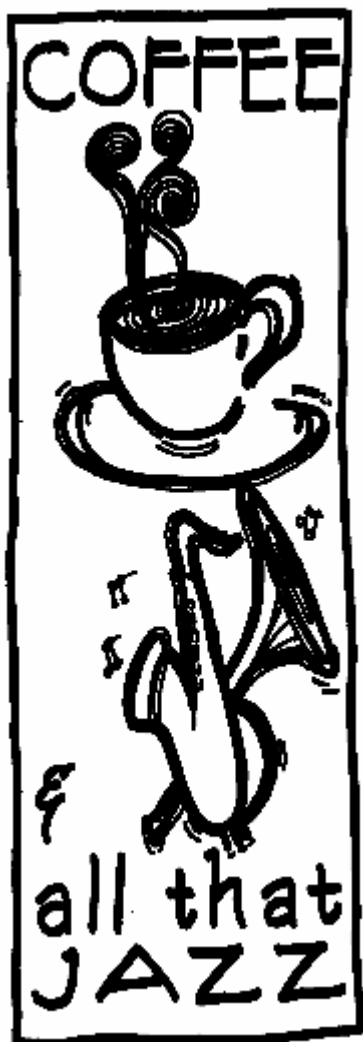
1. The purchasing price must have been fixed in accordance with the conditions established for this effect by FLO-International:
  - Guaranteed floor price of \$1.26 per pound for washed arabica.
  - For Arabicas the New York "C" market shall be the basis of calculation. The price shall be established in US\$-cents per pound, plus or minus the prevailing differential for the relevant quality, basis F.O.B. origin, net shipped weight. Over the established prices, there shall be a fixed premium of 5 US\$-cents per pound.
  - For certified organic or biological coffee with officially recognized certification, that will be sold as such, an additional premium of 15 US\$-cents per pound green coffee will be due, on top of the FLO-International price.
2. The roaster/buyer is obliged to facilitate the coffee producers access to credit-facilities at the beginning of the harvest season, up to 60% of the value of the contracted coffee at Fair Trade conditions, at regular international interest rates. The credit will be cancelled upon shipment of the coffee.
3. Producers and roasters/buyers depend on reliability and continuity. For that reason, relations between both should be based on long term contracts (1 to 10 years).

The floor price of the Fair Trade criteria acts as a safety net, protecting small farmers when fluctuating market prices fall extremely low. Currently, the floor price for conventionally grown Arabica beans is \$1.26/pound and \$1.41/pound if the coffee is certified organic. When the market price is above the floor price, as it was during the 1994-98 period, the Fair Trade price is an additional \$0.05/pound premium above normal market price. Therefore, the Fair Trade floor price is most relevant in times like the present, when the world market price hovers around \$0.85/pound (meaning that most small farmers are only getting \$0.20-0.40/pound). The Fair Trade floor prices were determined after considerable field research into production and living costs in various coffee-growing countries. Negotiation in 1988 between European Fair Trade leaders, farmer representatives and the industry established the initial floor prices.

The Fair Trade criteria around credit are especially important for small farmers. Without access to credit during the "lean months" between harvests, small farmers often are forced to sell the future rights to their harvests to local middlemen at extremely low prices in exchange for some cash up front. At harvest time, the farmers are not allowed to pay off the middlemen with cash - they must hand over the coffee. So without access to credit, many farmers would not be able to take advantage of the opportunity to sell at Fair Trade prices. This is why credit is built into the Fair Trade criteria as an obligation of the importer.

### What are the Fairtrade Labeling Organizations criteria for producers?

A: FLO maintains a Coffee Producers Registry that is open to associations of small farmers who meet several criteria that can be summed up in the following way. They have to be poor; only small farmers who are not dependent on hired labor, not plantations, are represented. And they have to be democratically organized as small farmer associations that are independent and transparent. Representatives from FLO annually inspect Fair Trade farms in producing countries.

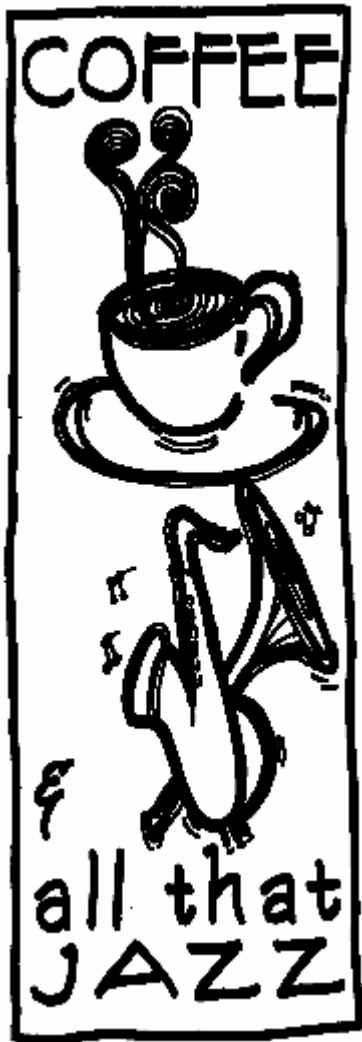


The exact FLO criteria for Producers are the following:

1. the majority of the members of the organization are small scale producers of coffee. By small producers are understood those that are not structurally dependent on hired labor, managing their farm mainly with their own and their family's labor-force;
2. the organization is independent and democratically controlled by its members. This means that the members of the organizations participate in the decision-making process which determines the general strategy of their organization, including decisions related to the destiny of the additional resources which result from operations in the framework of this agreement;
3. administrative transparency and effective control by the members and its Board over the management is secured, minimizing the risk of fraud and offering members the necessary instruments to be able to act adequately in case of fraud;
4. the philosophy motivating the organization is based on the concept and practice of solidarity;
5. no form of political, racial, religious or sexual discrimination is practiced;
6. the organization is statutorily open to new members;
7. the organization is politically independent, and there are sufficient guarantees that the organization will not become the instrument of any political party or interest;
8. the organization shares with the FLO-International and with the other organizations inscribed in the Producers' Register the following principles and general objectives:
  - integral economic development, concentrating on improvement of production techniques and diversification of the production, in order to diminish dependency on one single product as a cash crop;
  - integral organizational development, improving the managerial and administrative capacity of the actual and future leadership of the organization and ensuring full participation of the members in the definition of strategies and the use of extra income resulting from fair trade;
  - integral social development, for instance through health care and educational programs, improvement of housing and water supply, thus creating better living conditions for the members and their families and the communities they live in;
  - sustainable development strategies, applying production techniques which respect the specific ecosystems and contribute to the conservation and a sustainable use of natural resources, in order to avoid as much as possible - or even totally - the use of chemical inputs;
  - integral human participation, offering especially women the opportunity to play a more active role in the development process and in the decision making process and management of the organization;
  - improvement of the quality of the products as a strategic requirement for the small producers to defend themselves on both the Fair Trade Market and the regular market.

Logically, it is necessary that the quality of the coffee offered for exportation complies with the minimum quality standards as required by the different markets, and the organization must count with the management capacity to effectively export the coffee and act as a reliable commercial partner.

There are no criteria made for farm practices that the Fair Trade farmers must follow, even though Fair Trade standards explicitly support the development of organic agriculture and environmental protection. At the Fair Trade Producers' Assembly in June 1997, the producer groups themselves proposed a set of environmental standards. These standards included the use of leguminous trees, cultivation of



timber species on the coffee farm, and windbreaks. These producer-derived indicators emphasize the awareness of "shade" as a beneficial farm practice, decreasing the likelihood that farmers will transfer to "sun" grown coffee as they increase their profits.

#### **How does the certification process work?**

A: As a member of the international Fair Trade network, TransFairUSA is responsible for monitoring the paper trail from crop to cup to ensure Fair Trade practices were followed throughout.

#### **Producers**

FLO maintains a Coffee Producers Registry that is open to associations of small farmers as detailed above. FLO maintains field monitors in countries and regions of origin, and makes annual visits to ensure producer compliance with the Fair Trade criteria. The majority of cooperatives fulfill or surpass the requirements of FLO's criteria wholeheartedly. If producer cooperatives are found not in compliance, they can be put on probation for a period to allow for improvement, and in rare cases, dismissed from the list for serious violations.

#### **Importers and Roasters**

In the U.S., coffee importers and roasters must sign a licensing agreement with TransFair USA in order to sell Fair Trade Certified coffee using TransFair's trademarked seal on their products. TransFair's Monitoring Department handles the US side of the coffee trail by monitoring licensee paperwork, including sales receipts and tracking numbers. Roasters must pay a licensing fee of 10 cents per pound to TransFair to ensure the sustainability of the system, and to ensure that costs for certification are born in the North rather than by the farmers.