‘Fairtrade’: Evaluating opportunities for smallholder coffee growers in PNG

Elisabeth Riedl, University of Sydney 2009
**Structure**

**AIM:** Is fairtrade a feasible alternative for smallholder coffee growers in PNG?

1. Fairtrade (FT) as a development strategy
2. Trends in the conventional market
3. FT: barriers of entry for growers
1. FT as a development strategy

- 1989: ‘Fairtrade’ (coffee) enters supermarkets

- ‘Unequal exchange’/rise of ‘trade not aid’ argument
  - “Had developing countries encountered in 1993 the same prices for their imports and exports as they did in 1989, their foreign exchange earnings would have been $75 billion greater than they actually were” (UN Secretary General 1994)

- Joint Definition of FT (FINE 2001):
  - Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of international trade”.

FT in coffee

Product assurances:
- Long-term trade
- Sustainable Income (COSP)
- Social Premium
- Collective marketing
- Pre-financing/credit (up to 60%)

Key Impacts:
- Supports cost of living & investments
- Pooling resources
- Community development (e.g. health/education)
- New economic opportunities (e.g. diversification/upgrading)

<table>
<thead>
<tr>
<th>FT Prices: Unwashed/Washed (2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FT</td>
</tr>
<tr>
<td>----</td>
</tr>
<tr>
<td>120-125c/lb (Arabica)</td>
</tr>
<tr>
<td>101-105c/lb (Robusta)</td>
</tr>
</tbody>
</table>
2. Trends in the conventional market

Volatile Global Market:

*represents price averages for a composite of 15% Colombian Milds, 30% Other Milds, 20% Brazilian Naturals & 35% Robustas.

Source: International Coffee Organisation (ICO) 2008
The future for PNG coffee?

some possible pathways

- subsistence agriculture to limit dependence
- diversification to limit dependence
- value-added production
- collective marketing strategy
- sustainability initiatives (e.g. Fairtrade)
3. FT: barriers of entry for growers

**FT: International Governance System:**
FLO sets standards & prices; **FLO-Cert** audits producers; National Labelling Initiatives (NLIs) provide licenses to traders/retailers.

**To become a FT producer:**
- Financial capacity
- Communications infrastructure
- Minimum requirements, e.g.:
  - Democratic organisations
  - Transparency
  - Export capacity & buyer
- Increasingly Organics certification
  (1998-2007 71% of FT coffee in US double-certified)

**To stay a FT producer:**
- Financial capacity
- Communications infrastructure
- Progress requirements: community driven
## Initial & ongoing costs

<table>
<thead>
<tr>
<th>Cost Category (by No. of members)</th>
<th>Application Fee (Flat Fee €500)</th>
<th>YEAR 1: Initial Fee/Certification (€400/ day)</th>
<th>YEAR 2/3: Scenario 1 (Full Inspection) Renewal Fee (€350/ day)</th>
<th>YEAR 2/3: Scenario 2 (Surveillance Inspection) Renewal Fee (€350/ day)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Days</td>
<td>Total Cost (in €)</td>
<td>Days</td>
</tr>
<tr>
<td>A &lt;50</td>
<td>500</td>
<td>3.5</td>
<td>1 400</td>
<td>3.25</td>
</tr>
<tr>
<td>B 50-100</td>
<td></td>
<td>5.0</td>
<td>2 000</td>
<td>4.5</td>
</tr>
<tr>
<td>C 101-250</td>
<td></td>
<td>5.5</td>
<td>2 200</td>
<td>5.0</td>
</tr>
<tr>
<td>D 251-500</td>
<td></td>
<td>6.0</td>
<td>2 400</td>
<td>5.5</td>
</tr>
<tr>
<td>E 501-1 000</td>
<td></td>
<td>7.5</td>
<td>3 000</td>
<td>6.75</td>
</tr>
<tr>
<td>F &gt;1 000</td>
<td></td>
<td>8.5</td>
<td>3 400</td>
<td>7.75</td>
</tr>
</tbody>
</table>

*Effective from 1 January 2007

Sources: Adapted from Brinkschneider 2006 (FLO-Cert publication) & FLO-Cert GmbH n/d
## Costs for coffee growers

### Fairtrade Producer Certification Costs (3 Years): 1st Grade Growers’ Organisation

<table>
<thead>
<tr>
<th>Scale of Organisation</th>
<th>Costs* (€)</th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
<th>Total</th>
<th>Per Member/ 1st Year</th>
<th>Per Member/ Over 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>A/ 45 members</td>
<td>1 900.00</td>
<td>1 137.50</td>
<td>875.00</td>
<td>3 912.50</td>
<td>42.22</td>
<td>86.94</td>
<td></td>
</tr>
<tr>
<td>B/ 95 members</td>
<td>2 500.00</td>
<td>1 575.00</td>
<td>962.50</td>
<td>5 037.50</td>
<td>26.31</td>
<td>53.30</td>
<td></td>
</tr>
<tr>
<td>C/ 245 members</td>
<td>2 700.00</td>
<td>1 750.00</td>
<td>1 050.00</td>
<td>5 500.00</td>
<td>11.02</td>
<td>22.44</td>
<td></td>
</tr>
<tr>
<td>D/ 495 members</td>
<td>2 900.00</td>
<td>1 925.00</td>
<td>1 137.50</td>
<td>5 962.50</td>
<td>5.85</td>
<td>11.97</td>
<td></td>
</tr>
<tr>
<td>E/ 995 members</td>
<td>3 500.00</td>
<td>2 362.50</td>
<td>1 487.50</td>
<td>7 350.00</td>
<td>3.51</td>
<td>7.38</td>
<td></td>
</tr>
<tr>
<td>F/ 2 000 members</td>
<td>3 900.00</td>
<td>2 712.50</td>
<td>1 575.00</td>
<td>8 187.50</td>
<td>1.95</td>
<td>4.09</td>
<td></td>
</tr>
</tbody>
</table>

*Costs based on the following: 1st year application fee and initial fee; 2nd year renewal fee (full inspection); and 3rd year renewal fee (surveillance inspection)*

**Sources:** Adapted from Brinkschneider 2006 and FLO-Cert GmbH n/d
Trends in FT Access: Coffee

Uneven access:
- 88% global FT coffee production from LA origins (2002)
- 75% production for US FT market from LA origins (2006)

Limited market:
- Problems taking on new suppliers
  - FT coffee accounts for less than 2% of individual markets
- Favours popular origins of key FT markets
  - 2006: Top 3 markets (USA, France, UK) account for over 60% of FT coffee sales
- Problems catering to existing suppliers
  - “…less than 20% of the total available Fairtrade production [for coffee] is actually purchased with a Fairtrade premium…” (Giovannucci & Koekoek 2003, 39)
Collective marketing: a way forward?

```
| subsistence agriculture to limit dependence |
| diversification to limit dependence         |
| value-added production                      |
| sustainability Initiatives (e.g. Fairtrade) |
```

“By grouping themselves into cooperatives, common people with limited income can contribute funds to provide themselves with facilities that as individuals they could not afford”

(Cooperative Societies Unit/Ministry of Trade PNG n/d)
Conclusion

FLOs (2003) vision is that:

- “Fairtrade is the norm for poor and disadvantaged producers and workers, and a reference for all trade across the world.”

FLO-Cert (n/d) assurance:

- “Our certificate is a passport enabling access to international markets”
Thank you!

Contact: elisabeth.riedl@usyd.edu.au

More further information on:
- FT standards: see www.fairtrade.net
- Getting FT certified: see www.flo-cert.net