

CSR CASE # 07-01

**THE COFFEE SYSTEM:
WHAT STANDARD, WHAT MEANS?
“FAIR TRADE” AND “UTZ”**

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PART ONE: FAIRTRADE

I. THE CASE FOR FAIRTRADE¹ COFFEE

“In many villages in Chiapas, you’ll hardly see any younger men anymore. They’ve wandered off to the big cities and to the U.S., looking for work and income, because in their villages, neither farming nor anything else allows them to earn a living and feed their families any longer. The result, in terms of broken families, orphaned and disrupted communities and disintegration of communal life, is dramatic. But in the villages of Majomut’s cooperative, the men have not left. Fairtrade has allowed them to stay, to provide their families with what is needed, to contribute to communities prospering.”

Victor Perezgrovas, Fairtrade Labeling Organization Annual Report 2005²

The benchmarks by which Fairtrade currently measures itself are Transparency and Fairtrade Impact—empowerment and development. As far as transparency, the organization relies on meeting the standards of the International Standard’s (ISO) criteria under ISO 65. As for Fairtrade impact, the organization must rely on anecdotal evidence like that provided by Victor Perezgrovas and other producers throughout the developing world. As such this measure will not be explored in this case, as they are intangible and hard to measure. The issue of Transparency will be the primary focus.³

Fairtrade Labeling Organization Annual Report 2005

A. Sustainable Coffee Defined

Certification and labeling 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.⁴ The certification mark is intended for the consumer and intended to represent a guarantee that the producer was paid a premium to grow the coffee in an environmentally or socially responsible way. Some coffee is double or triple certified which offers the consumer the assurance that multiple conditions were met.

Fairtrade began with the simple premise of ensuring a living wage for small-holder coffee

¹ In 1997 all Fairtrade Labeling Organization certified products were labeled as Fairtrade as opposed to Fair trade to further distinguish the brand.

² http://www.fairtrade.net/uploads/media/FLO_Annual_Report_01.pdf

³ Ibid.

⁴ Ponte, Stefano. Standards and Sustainability in the Coffee Sector. IISD, May 2004

producers in the developing world. It promised to pay above the market price for agricultural products cultivated by those living in poverty. The fair trade model differed from traditional development instruments in that they sought to improve the standard of living in developing countries through market-based mechanisms as opposed to traditional development practices.⁵

In order to successfully implement this objective the organizations needs both consumer and producer buy-in. Buy-in is created via incentives to both the consumer and the producer. The incentives are provided based on the needs of the individual. For the producer the incentives—increased market access in the consumer North and escape from volatile price swings of the commodity market—are conditional on meeting a number of standards. By ensuring that producers meet minimum standards in the area of social and environmental practices, the organization is able to differentiate the end product. For the consumer the incentive is that they are buying a product grown in equitable social conditions, as such they are expected to pay a price premium for sustainable coffee. The Fair Trade Mark, regulated by the Fairtrade Labeling Organization (FLO eV), has been the most successful of the coffee certifications with growth of almost 40% between 2004 and 2005.⁶ Through the coordination of international and domestic verification agencies, the Fairtrade movement has successfully created the belief that products labeled Fairtrade adhere to these criteria.

But what lies underneath the actual label? Fair Trade is not without its critics. Recent reports of Fairtrade failures have been uncovered by major national and international newspapers and the Fairtrade model has been questioned in documentaries and books.⁷ In 2006, the Financial Times uncovered two sets of violations in a Peruvian cooperative. One violation involved the

⁵ http://www.fairtrade.net/faq_links.html?&no_cache=1

⁶ The volume of fairtrade coffee increased from 24,222 MT to 33,992 MT between 2004-2005.

⁷ Recent articles in the Financial Times (www.ft.com), the Documentary *Black Gold* (www.blackgoldmovie.com) and Christian Jacquiau's—*Les coulisses du commerce équitable : Mensonges et vérités sur un petit business qui monte*.

wages of hired labor and the other cited encroachment into virgin rainforest by members of the cooperative.

Even third-party standards are not free from manipulation and opportunistic behavior. The standards have been created with the intention that some parties will be denied access in order to differentiate those who are included through set inclusion/exclusion thresholds.⁸ These thresholds empower the monitoring institutions with the ability to control the administration, monitoring and certification of these standards.

The question that shapes this case-study is “Where are the areas ‘cheating’ could occur? And how appropriately do the Certification Organizations address the possibility?” With emphasis on how FLO has adapted to justified criticism and increasing demand for its product. As the demand for certified coffee grows, so does the concern about reliability—‘Does the coffee in the bag conform to the standard being advertised?’

B. Monitoring

For the purposes of this study, there are four types of monitoring, divided into certification or verification. Verification is usually an informal mechanism through which an interested party performs an inspection to ensure certain criteria are being met

Certification on the other hand, is always a formal process performed by outside inspectors, using codified standards created by an independent, external organization. For the purposes of this case study—verification will be any mechanism that is confined to a single or small group of purchasers or producers; and certification will apply to a mechanism which is, in theory, open to all qualified parties and is available to all interested purchasers.

⁸ Ibid.

First-party verification is self-monitoring by the cooperative or producers. This is the least transparent form of verification and is the one most open to cheating within the process because there are no outside checks on the system. First-party verification can be a quality control mechanism or a mechanism which controls the process of production. This type of verification is the least likely to convey a sense of trust.

Second-party verification is done by the coffee processing organization. This is where the purchasing company ensures that they are buying the coffee for which they are paying. This is performed through the checking of documentation and tasting of the quality upon arrival. This type of verification is a standard part of doing business and can be thought of as quality control, with the added feature of origin assurance in the case of Certified coffee. An example of this is CAFÉ Practices by Starbucks Coffee, where Starbucks uses a third-party certifier, but is used only for Starbucks Corporation.

Third-party certification is done by an independent agent outside of both the producer and purchasing arenas. The organization is set-up with a system of standards and verifies that both the producer and the retailers are not cheating. They usually perform yearly inspections of facilities and have the ability to remove certification from a producer or retailer. The most transparent certifications use independent inspectors to further remove them from the certification process. This can be done through a specific certification agency or through a list of approved certifiers.

Fourth-party verification is done by the consumer and media. Similar to what is called the fourth estate in politics, this group determines the overall perceived legitimacy of certification labels. If this group does not believe in the certification, they will not pay the price premium it entails.

C. History of Fair Trade

Fairtrade was established in 1989 under the non-profit organization Max Havelaar. The label Max Havelaar, was named after a best-selling 19th century book about the exploitation of Javanese coffee plantation workers by Dutch colonial merchants. The success of the program inspired other countries to replicate the Fairtrade label.

In the early-years of the fair trade movement, each country launched its own initiative and operated independently under either the Max Havelaar Label, the TransFair Label, or in the case of the United Kingdom and Australia country-specific initiatives which held no ties to either organization.⁹

In an effort to harmonize the process, between 1993 and 1997 the fair trade certification initiatives created the Fairtrade Labeling Organization (FLO eV) with an associated certification body called FLO-Cert. FLO eV institutionalized the current standards of Fairtrade limiting certification to the poorest sectors of the economy, setting international Fairtrade standards, facilitating and developing Fairtrade business and making the case for trade justice. FLO eV does this by maintaining the leading role in the support, inspection and certification of producers; and the creation of a coherent and unified message for the consumer.¹⁰

D. Fairtrade and the Consumer

While the main objective of Fairtrade is to provide social and economic benefits to small-scale coffee producers, they can only do so by making certain promises to the consumer. The

⁹ http://www.fairtrade.net/about_fairtrade.html

¹⁰ http://en.wikipedia.org/wiki/Fair_trade

premium is a consumer donation intended for a specific social purpose. As such, why would the consumer be willing to pay?

The answer is in the promises by FLO eV that products labeled as Fairtrade adhere to stringent social standards (see Appendix I for list of the FLO eV Minimum Standards). FLO eV ensures these promises by providing the consumer with the assurance that the product has met standards set by a third-party and has been inspected by an independent certification body.

The promises that FLO eV makes to the consumer are primarily in social and labor conditions of the poorest sector. Standards are aimed at both the overall performance of the cooperatives and the practices of individual members of the cooperatives. The major criteria are non-discrimination in both hiring laborers and accepting members, the minimum wage of the country is adhered to and child or forced labor is not used in the production of the coffee.

The second and slightly less important aspect of Fairtrade is environmental—due to consumer concerns, certain environmental conditions have evolved in coordination with the social guarantees. These guarantees include a ban on genetically-modified products, limited use of agro-chemicals, protection of soil and waterways and natural habitat is protection.

The assurance of these social and environmental conditions is the promise the Fairtrade Label provides consumers. As such, name recognition and trust in the standards and integrity of the third-party (FLO) are essential for the success of the certification and the consumer's willingness-to-pay the price premium on the coffee.

E. Producer Benefit

The underlying principle of Fairtrade is empowerment of smallholder coffee producers. It does this by directly targeting producer organizations or first-grade cooperatives. A first-grade

cooperative is a group of producers who have organized to form a union. These cooperatives are fully democratic and operated by the members of the cooperative. The boards of these cooperatives are composed of cooperative members and all members have the right to vote for board members and on the collective decisions of the cooperative.

The cooperative collectively pays the price of certification and all subsequent air-trade fees. Money is normally collected via membership dues and a small percentage paid on each pound of coffee sold. This money pays for the overhead of the cooperative and general improvements to the cooperative infrastructure.

The cooperative also receives an air-trade premium, which is the direct donation consumers give to the producers. This premium provides \$0.05 per pound of coffee sold to the community for infrastructure improvements and general community development. The cooperative collectively chooses projects they deem most important to the community.

We can be fairly confident the producer is getting this price premium, as the process is fairly transparent and there is documentation along the supply chain. National initiatives verify the payment of the premium and the minimum price by inspecting bills of sale submitted to the national office by the coffee purchasers. This bill of sale is then registered by the national office and the price paid is verified.

The proper use of this premium is another matter. FLO does a third-party check of premium use during the yearly inspections. Yet the FLO-CERT inspector is at the mercy of the cooperatives book-keeping system. If the records are not accurate or the book-keeping is poor, it may be difficult to ascertain if the premium has been applied correctly. The sole check of the inspector is that the misuse of this premium carries the penalty of the loss of Fairtrade certification. In this area it is important for first-party verification by the cooperative membership

to ensure that the leadership of the cooperative is providing transparent financial records.

II. FairTrade Labeling Organization (FLO eV)

A. Organization and Purpose

The Fairtrade Labeling Organization (FLO eV) based in Bonn, Germany was created as a way to standardize the criteria for certification and to synthesize the process of producer monitoring between Max Havelaar and TransFair organizations. The creation of an international organization was intended to instill the consumer with confidence in the Fairtrade process. FLO eV has done this by facilitating annual inspections of certified producers and traders.

The National Initiatives retain the responsibility of increasing market access for the producers domestically, branding the label at the national level and verifying the transactions between domestic traders and Fairtrade producers—ensuring that contracts are met by domestic traders, that the minimum price is paid and that payments are made to the producers in a timely manner.

According to FLO's multi-stakeholder commitment, Fairtrade Certified Producers, Fairtrade Certified Traders and the Labeling Initiatives elect the Board of Directors, which holds the supreme power over the organization. Its composition is as follows:

- 5 representatives from the National Labeling Initiatives, 4 representatives from Fairtrade-certified producer organizations (2 from Latin America, one from Africa, one from Asia), 2 representatives from Fairtrade-registered traders, 2 independent Board Members.

The Meeting of Members elects the Labeling Initiatives representatives; traders and producers elect their own representatives, all for three-year terms. The Board mission is to guide FLO into becoming the 'worldwide reference for consumer and producer choice in sustainable

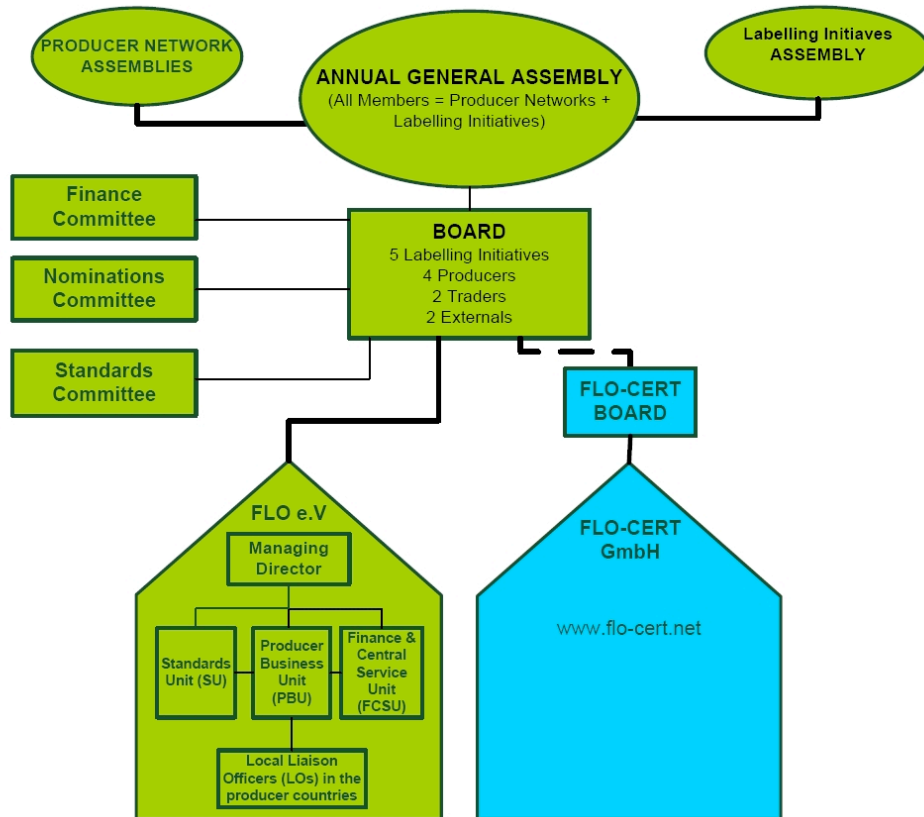
certification.’ Its tasks include the appointment of the members of:

- The Standards Committee, setting its priorities and approving its work plan.
- The Finance Committee.
- The Governance/Nominations Committee.

The Board normally makes its decisions by consensus. If this cannot be reached, decisions are taken by vote, each Board member having one vote. The Chair of the Board leads the activities of the Board and Committees.¹¹

FLO eV has approximately 50 employees and works under a budget of approximately 2 million Euros, money collected from royalties on coffee sold and from donations from foundations and other concerned parties, in 2005 FLO eV ran a deficit of approximately 90,000 Euros.

¹¹ www.fairtrade.net



B. Standards

The FLO Standards Committee supervises and guides the standards. Membership comprises all stakeholders of FLO (national members, producers and traders), with external experts to ensure necessary expertise for informed decision-making. The standard development process additionally includes a broad consultation phase following the requirements of the International Social and Environmental Accreditation and Labeling Alliance (ISEAL) Code of Good Practice in standard setting—“the mission of the ISEAL Alliance is to strengthen credible and accessible voluntary standards and to promote them as effective policy instruments and market mechanisms.”¹²

The organization is currently in the process of meeting ISO 65 certification. The ISO is

¹² www.isealliance.org

an international organization which provides standards on quality management. ISO Guide 65 specifies the general requirements that a third-party operating a product or service certification system shall meet if it is to be recognized as competent and reliable.¹³ In order to meet these ISO 65 standards and to address questions of independence between the certification of producers and the setting of standards, FLO eV has spun-off the certification arm in 2004, creating FLO-CERT GmbH. FLO-CERT was created as a for-profit independent certifier, but transparency issues continue into 2007 as the two are still closely tied and FLO Cert is wholly owned by FLO eV.

This issue of transparency has damaged trust in the fairtrade process within the media and thorough-out the upper levels of the supply chain. Both major and minor players in the coffee industry have started competing initiatives. Starbucks began CAFÉ practices in 2004, the International Coffee Organization created the 4 Cs program in 2006 and other smaller companies have followed suit by creating similar verification mechanisms. In response to these media reports on fairtrade infractions, FLO has added stringent standards in the area of environmental protection and reiterated the importance of labor standards. While this could provide a further check against cheating within the system and protect the consumer, trust will be a huge issue in the future as large corporations and trade agencies attempt to capture the certification process.¹⁴

The further question about standards is who they should be applied to and who should be certified as a Fairtrade retailer. While currently anyone can apply for Fairtrade certification, some fairtrade supporters question the 'main-streaming of fairtrade' which is putting fairtrade products into the box stores like Costco, Wal-Mart and others. This begs the question as to where do fairtrade standards stop? Are the standards only applied to the producer and importer or are

¹³ USDA Website (<http://www.ams.usda.gov/Lsg/arc/iso65.htm>)

¹⁴ <http://www.fairtrade.net/standards.html>

they applied at every level.¹⁵

C. Revenues of FLO eV

The annual budgets of both FLO eV and the national labeling initiative offices are comprised primarily of licensing fees paid by members of the supply-chain. FLO eV receives these fees from the producer-level and indirectly from the other members of the supply-chain through fees paid by the country offices. The country offices receive fees from coffee roasters and others who use the Fairtrade label. These fees make up about 2/3rds of their annual budgets.

Anecdotal evidence from conversations with roasters and importers suggests that the royalties contribute much of the end-user price increase as far as whole bean coffee. There is little or no difference between the price of specialty coffee and the price of sustainable coffee at the Café level, the price of coffee is the same across the board for all prepared coffee, whether it is sustainable or solely specialty. The price of sustainable coffee from the roaster is approximated at 4.50 to 5.50 a pound and the price of specialty coffee is estimated at \$3.75 to 4 a pound roasted. The green coffee sold to roasters is again dependent on coffee quality and certification status. Certified coffee from a local importer currently runs from \$1.50 to 3.00 per pound.¹⁶

At these percentages, the royalties in the US on each pound of green coffee sold varies from \$0.13 to 0.40 per pound. The consumer can expect to pay around \$1.00 per pound more when choosing to buy roasted Fairtrade Coffee Beans and even more if the coffee is of especially high quality or carries multiple certifications. These royalties increase the price of roasted coffee

¹⁵ The question of credibility is such that it questions where the fair trade process ends. Do the standards only apply to production or do they apply all the way up the supply chain. For example, one of the producer requirements is to allow collective bargaining and organized labor, would this apply to corporations like Wal-Mart who currently are against both collective bargaining and organized labor (see Was Wal-Mart's Anti-Union Image Used as a Shield?, Michael Barbaro. *New York Times*. Jan 9, 2006).

¹⁶ www.elanorganics.com

to the retailer by approximately \$0.75 per pound. The profit from the sale of Fairtrade coffee is at the roaster and retailer levels, the roaster gaining around \$0.75 per pound and the retailer earning about a dollar a pound above their standard mark-up. The importer and brokers who sell to these roasters do not necessarily profit on these sustainable coffees, with most sales running on margins of 7-10%.¹⁷

A second form of funding comes from grants from independent organizations, foundations and government funded projects. These grants are used to increase the capacity of the cooperatives both in the management and quality criteria, money from grants are usually given in a partnership arrangement as most national initiatives do not have the capacity to provide these services. Grants currently make up a small portion of the operating budgets of these organizations. Grants range from about half to one-third of the total operating budgets of these organizations.

These revenues are spent on administrative overhead and marketing the fairtrade brand. The majority of the money goes to marketing and finding new buyers in the respective countries. Much of the money received by FLO comes from the National organizations. FLO is responsible for finding and certifying new producers. Recently FLO has separated the Certification agency from the Standard side of the business and privatized this process in an effort to create greater transparency in the certification process.¹⁸

D. FLO-CERT GmbH Organizational Structure

Until 2004, FLO-Cert was a part of the greater FLO organization. In 2004 the

¹⁷ Karen Cebrenros, Elan Organic Coffee

¹⁸ http://www.fairtrade.net/annual_reports0.html

organization was set up as a separate agency under the corporate laws of Germany. The split was made to increase transparency in the process of certification, give certification greater independence from FLO eV who made the certification criteria and to create a worldwide system that remained consistent in all countries, as opposed to using independent certification agencies. The second reason was to meet the requirements of ISO 65 certification. The entity, however, is wholly owned by FLO eV.

The organization keeps a limited staff in Germany, but most inspectors are natives of the region they certify. There are currently 54 local inspectors, 18 international inspectors and 32 administrative employees, for a total of 50 full-time employees and 54 contract employees. Between 2004 and 2005, 400 producer organizations applied for membership for Fairtrade certification. These 400 organizations represented all areas of Fairtrade from bananas to tea. FLO-Cert GmbH is responsible for the certification of all Fairtrade certified products, which currently amounts to 16 products from sports balls to beer. To meet this increase FLO-Cert added 3 country offices and trained 21 more inspectors.

There were also a number of changes to the inspection process, the most significant being the actual inspection of producer accounting procedures at the international office as opposed to relying on audits done by cooperative paid accountants.

The Governing Board consists of a FLO Certification Expert, an Independent Certification Expert, a member of subsidiary country Fairtrade Labeling Initiatives, an industry representative, the Managing Director of FLO eV, a producer representative and an Independent Consumer Expert. The role of the Governing board is to evaluate FLO-CERT on a yearly basis and suggest improvements based on the adopted Quality Management System.¹⁹

¹⁹ www.fairtrade.net

The Quality Management System is based on the requirements of International Standards Organization Initiative 65 developed in 1996. The ISO is an international organization which provides standards on quality management. ISO Guide 65 specifies the general requirements that a third-party operating a product or service certification system shall meet if it is to be recognized as competent and reliable.²⁰ These guidelines, when met, provide the consumer with the confidence that the product has been verified by an external audit to meet the following criteria:

- INDEPENDENCE: a Certification body must be independent of any external pressure being able to influence a certification decision.
- TRANSPARENCY: the evaluation and certification processes must be transparent and explained to all parties before inspection.
- QUALITY: certification decisions can only be consistent and suitable if there are proper internal control mechanisms. The existence of a quality control system, for example, supported by regular internal audits, is essential to identify problems and continuously improve service.
- EQUALITY: all producers must be treated the same way.

The Quality Management System has been adapted to meet the needs of the organization.

The QMS is adapted from the ISO Good-Practices handbook and follows “TCCCC” principles of Quality Management: Transparency, Consistency, Comparability, Correctness and Completeness. These principles involve the methods of both collecting data and external audit techniques for companies to follow when reporting on ISO certification. The process provides a

²⁰ USDA Website (<http://www.ams.usda.gov/Lsg/arc/iso65.htm>)

series checks and evaluations aimed at ensuring the integrity of the Fairtrade Certification system. The system is overseen by the Quality Manager.²¹

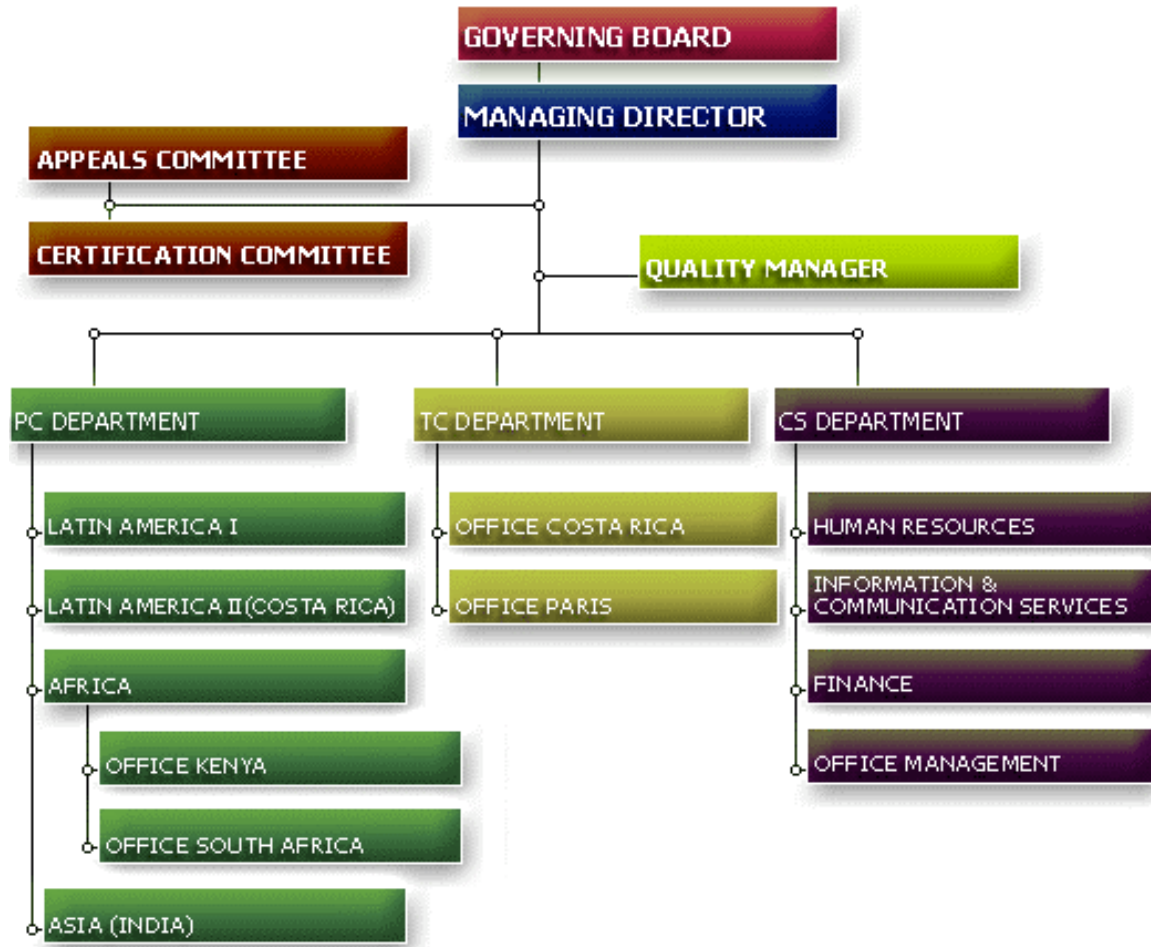
The Quality Manager is responsible for conducting and reporting the result of the bi-annual internal audits, management reviews and the implementation of document control systems.

The internal audits are performed on staff and inspectors to ensure that all staff is properly trained and working toward the specified goals of the organization. This includes the evaluation of the proper method of following internal processes and the internal processes themselves. The Quality Manager makes recommendations to both the Management Team and the Governing Board who will determine if these process need to be redesigned.

The management review is the evaluation of the certification system. These reviews ensure that the results of the internal audits, any complaints about service from the producers, industry, or media are evaluated and the general state of the company is in proper order. All results and decisions are reported bi-annually and presented annually to the members of the Governing Board.

²¹ www.iso.org

The document control system is a series of checks, which provide the organization consistent access to all information compiled. This system ensures that all information regarding



producers and the industry are accessible to the staff members and the Fairtrade initiative country offices.²²

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E. The Certification Process

While FLO-CERT GmbH was spun-off into an independent agency, there are still possible issues with the relationship as they only certify fairtrade and are still wholly owned by

²² http://www.flo-cert.net/artikel_75_29.html

FLO eV. The organization is financed by the fees charged for producer certification. The certification side of FLO is still seeking ISO 65 certification as of early 2006, though the certification should be in effect by the year-end 2006 or the beginning of 2007.

As of 2005 there were 1,483 members in the category of exporter, importer and roaster. These members are certified on a yearly basis by the National offices. The national offices are semi-independent as they have the ability to choose their own label, though currently only the US and Canada do so. The label was created to replace the previous method of each national office having its own label. National retailers are required to use the label that is chosen by the national office.

Initial certification may take anywhere from 5 days for a small cooperative to 6 weeks for the largest producers. The final decision rests with the FLO-CERT GmbH Director. This includes decisions on violations and compliance with the violations the following year. The inspections take place once a yearend all inspections are verified at the international level for decisions on whether or not the producer has maintained the standards of fairtrade. These inspection costs are based on the number of days that the inspector is on-site, not on the volume of product sold.

Member producers with exceptional track records may opt-in to a desktop certification renewal, which saves them certification fees. These organizations are self-reporting for two out of three years and inspected on site by a third-party once during this period to ensure compliance.

In 2005, 261 producers were found in violation of one or more of the standards, of which 248 complied with the standards on their next inspection. The producers are given one-year to ameliorate the infractions while still maintaining fairtrade status. The most common

violations are in the areas of cooperative management—especially in the case of irregular accounting practices, an ineffective cooperative board and issues of transparency of budgetary matters of the cooperative. If the producer is found to be in violation two years in a row, Fairtrade status can be suspended until the violations are ameliorated.

A suspension of Fairtrade disallows the cooperative to enter into new contracts with traders and limits the ability of the cooperative from receiving the Fairtrade minimum price for their product. While the cooperative can still continue to sell product to established markets, the coffee purchased may not be labeled as Fairtrade until the suspension is lifted, severely limiting the price premium that can be charged to the end-user.

A violation process is uncovered by inspection or media attention, but only violations found during inspections are binding and subject to sanction. In the past, cooperatives that have been identified through media attention have in their next inspection received corrective action notices and lost the privilege of desktop recertification. But the fact that an outside source identified a Fairtrade violation that was not turned up in a routine inspection, causes close observers to question the validity of other inspections, especially in light of the number of actual producer decertifications in the last two years (2 decertifications, 1 voluntary decertification and one pending decertification as of February 10, 2007).

When the violations are uncovered by a FLO Certified inspector, either during an on site inspection or a desktop inspection, the violations are reported to the FLO-CERT GmbH. At this point the violations are reviewed by the directors of trade and producer certification and if they prove serious, a corrective action is issued.²³

Corrective action is determined when a fairtrade cooperative, exporter, or retail unit is

²³ http://www.flo-cert.net/artikel_95_t53.html

found to be in gross violation²⁴ of one of the fairtrade minimum standards. The corrective action must outline the nature of the violation, the action that must be taken by the trader or producer and a timeline for the action to be corrected. The certification committee must then set up a corrective action inspection at the end of the allocated time period, which was given to the cooperative/trader.

A corrective action in itself is not enough to decertify a producer or company, it simply describes the exact non-compliances found and mandates a time-line for compliance. The time-line is one of the conditions that the non-complying cooperative must address. Based on the nature of the violation, the cooperative is given a specified amount of time to rectify the violations. In the case of a minor infraction, the corrective measures may be verified with documentation. If the violations are of a more serious nature, a follow-up inspection may be necessary. In the case of major violations the producer or operator is notified of a specific date for the follow up inspection.

Coming into compliance means that the producer/operator must remedy the infractions within the specified time-line, the shortest time-line is three months, with multiple or major violations given up to five months. During this period, the words “Corrective Action” appear next to the operators name on the FLO-CERT Producer or Trade lists. The operator remains a certified member of Fairtrade during the compliance period.

If the operator fails to meet the time-line as specified by the corrective action letter, the operator's certificate is suspended until the operator is again in full compliance. Once a licensee

²⁴ A gross violation is defined as non-compliance with FLO published standards, continued non-compliance of producer standards as defined by FLO and identified as a problem by FLO-Cert in the yearly inspection (usually in the area of either accounting, premium distribution, or lack of communication between the cooperative administration and membership), traders or producer failure to meet contracts and other obligations (with the exception of crop failures and other situations out of the producers control), or non-compliance with trade standards as defined by FLO standards for traders.

is placed on suspension, the compliance can only be verified through an on-site inspection. During the time it takes for the licensee to comply, “Suspended” is placed next to the name of the licensee on FLO-CERT Producer or Trade lists. During this suspension period the licensee may not label products as Fairtrade certified. Until the cooperative rectifies the infractions, the coffee can only be sold on the world market, at the New York Commodity Price.

While this may have significant impacts on the price received for coffee, recent price trends in the specialty coffee market has nullified the effects of decertification. The current price being paid by most US importers is around \$1.45 a pound for conventional Fairtrade coffee (the minimum price is \$1.26 per pound or NY Commodity Price + \$0.05, whichever is greater). For cooperatives who are unable to sell their coffee as Fairtrade due to demand or quality issues, the prices falls to the international coffee commodity price of around \$1.06 per pound (in 2006).²⁵

F. Example of a Corrective Action Process

In August of 2005, the Abahuzamugambi Cooperative in Rwanda was suspended for a number of violations. The cooperative was given a time-line of 9 months to remedy the following problems:

Most of the problems were rather minor in terms of effort the cooperative had to put in. The guidelines were well laid out and an international NGO was working with the cooperative to resolve at least some of the issues. The major infractions as far as FLO-CERT was concerned were in the arena of non-transparency. The financial records were in disarray and the cooperative members were not being provided with enough information about the workings of the cooperative. The management of the cooperative was also not including the General Assembly in

²⁵ http://www.flo-cert.net/artikel_58_s84.html

cooperative decisions. As a result the cooperative was suspended. The cooperative is still under corrective action with the next inspection taking place in May 2007.

G. Decertification

Decertification is the result of continued violations by a member cooperative. Cooperatives that do not make an effort to address the corrective actions identified during inspection. Decertification is most often triggered by poor business practices within the working of the cooperative. These corrective actions consistently address the lack of transparency in the cooperatives accounting for member fees and the distribution of the fairtrade premium, lack of a democratic process in the general assembly and the lack of a clear presentation to members and a clear understanding by members of the by-laws of both the cooperative and Fairtrade itself.

Decertification is a process that normally takes place over a number of years. The enactment of decertification is the result of consistent violations by the cooperative of the same type and no effort demonstrated to improve the situation.

Over the last 3 years, there have been 2 decertifications and one voluntary deregistration. The deregistration was initiated by the cooperative due to its inability to properly address the internal problems of the cooperative. The fairtrade list of producers notes that one of the first and most famous cooperatives—*Cooperativa Agraria Cafetalera La Florida*, as termination pending. There is no further information given; only that a corrective action had been issued and the cooperative hadn't met the compliance measures for premium use, environmental protections and other administrative problems within the cooperative.

H. Appeals

The sanctioned trader/producer has the option of filing a complaint with the appeals committee. All Appellants must list the grounds on which they base their Appeal. These grounds for appeal could include, but are not limited to:

- Certification decisions made based on irrelevant grounds.
- Certification decisions based on irrelevant information, or information for which there is no credible basis. In general, hearsay is treated as information for which there is no credible basis.
- Failure to consider relevant information in reaching a Certification decision.
- Reasonable apprehension of bias against the Appellant;
- Unreasonable delay in the Certification decision making process,
- Prejudicial procedural irregularities in reaching the Certification decision,
- Disputes about facts relevant to the offending Certification decision or disputes about interpretations relevant to the offending Certification decision.

The appeals process begins with the Quality Manager who reviews all appeals and decides if the appeal merits further investigation. If the appeal is accepted, the decision is then passed on to the Managing Director who assigns the appropriate Producer/Trade Director to gather submissions for the appeals process.

The final decision rests with the Appeals Committee, who consists of the Managing Director, the Quality Manager and a Director of either Producer or Trade Certification or their delegates. If the appeals committee finds the allegations to be false or not a gross violation, the corrective action is then repealed. If the appeals process is lost, the trader/producer must comply

within the allocated time period or face possible decertification. If the trader/producer is decertified they are no longer allowed to receive fairtrade benefits and will be removed from the FLO lists.

In the coffee arena, there has been more non-compliance over the last two years. Some of the possible reasons are that the principles of fairtrade are not clearly defined to the cooperatives, that there is some ambiguity in the way corrective actions are administered and that the recent rise in world coffee prices have devalued the certification mark itself. While the farmer receives major benefits from certification when the price of coffee is low, the additional \$0.05 received for the fairtrade price may not be worth the price and effort to maintain fairtrade certification.²⁶

I. Requirements of Fairtrade Certified Coffee

The requirements (as listed in Appendix ii) are essentially equal, though the environmental aspects carry less weight than the social requirements until 2008.

At this time there is no partial Fairtrade certification. A new applicant must meet all the requirements or have a plan to meet all the requirements to receive certification. While none of the below are grounds for immediate expulsion once the cooperative is already certified, they are required to provide compliance for each standard on a yearly basis.

The usual method of meting out violations is to allow the cooperative to retain certification until the next inspection. If the cooperative has made no effort to remedy the violated standard after one year they are suspended from the certification and must remedy the violations before regaining full status.²⁷

²⁶ http://www.flo-cert.net/artikel_63.html

²⁷ Taken from the Generic Fair Trade Standards for Small Farmer Organizations, www.fairtrade.net/standards.html

III. CONCLUSIONS

While fairtrade does produce an annual report, much of the certification process is not given freely to the curious consumer and inspections reports are not public record. As such, there is no real opportunity for the customer to verify if the coffee they are buying is fairtrade, except on the word of the national office. Yet where are the fire alarms in the system? And can a system be transparent without these warning mechanisms?

This is where fourth-party verification is important. The fourth-party composed of importers, roasters, retailers and true-believers acts as the fire alarm in the system. If the ethical consumer has trust in her local café, this trust is often acts as verification to the end-user. And while this is not a formal verification process, personal relationships can act as an incentive not to cheat.

The question of how we know the organization is doing its job is also done by these fourth-party verifiers. It is the continued belief in the process by these 'true-believers' that is the true measurement of fairtrade. If the organizations begin to lose these people, it is a sign that the organization is no longer effective.

Added to this is the measurement of how much more fairtrade certified coffee is sold from year to year. Is it growing? Or diminishing? And while all of these measures are subject to fads and human error, they will measure consumer trust in the certification. If the sales of fairtrade are going up, then the consumer is showing their belief in the certification (voting with their dollars). If sales are going down, it may be as a result of a lack of trust in the verification process.

The best way to increase the transparency of the fairtrade minimum price would be to

require that all fairtrade certified coffee be sold at auction, whereby the fairtrade price is the starting price and importers/exporters can bid on the coffee openly. Yet the problem with this system is that it would eliminate contracts between the producer and the buyer. These contracts are important because they provide pre-financing to the cooperatives and foster personal relationships between the buyer and seller.

Cheating, so far, has mostly occurred at the cooperative level. Cooperatives often buy coffee from a number of producers, both certified and non-certified. Some of this coffee is then sold under the fairtrade label, as the cooperative is fairtrade certified. This could be the case in a number of the certifications and will be a greater issue as the demand for fairtrade and the other certified coffee increases. The only way to actually stop this is through the fourth-party verifier and the mid-level of the supply chain demanding more transparency in the process. The fourth-party verification and the personal relationship between buyer and seller is a matter of trust, not transparent in itself, but the lack of trust could eventually be bad for business. The actual supply chain should demand more transparency in the process. Starbucks has done just this by creating CAFÉ Practices. CAFÉ Practices is a way for Starbucks to have a physical presence at the producer level through a representative whose compensation is tied to performance. While it is unreasonable for all coffee corporations to replicate this method, it is not unreasonable for the traders to demand a greater physical presence at the cooperative level by FLO.

Yet as fairtrade coffee gains market size, these concerns may be swept aside by the increased profits of fairtrade coffee. If fairtrade is going to retain the trust of the consumer, the fire alarms set-off by NGOs, true believers and the media, must move beyond their current focus on large companies, and extend throughout the entire system. The brokers and the importers have the greatest incentive to both require further verification and to ignore this process. Both make

money from the sale of coffee and can only increase revenue by either moving vertically along the supply chain to increase margins or by selling more coffee.

Who is paying more? All levels of the supply chain are paying more money for sustainable coffee. The importer pays a price that is no less than \$1.26 per pound for Fairtrade. This cost is then passed on along the supply chain ending in the consumer paying more for the coffee. Typically consumers are willing to pay approximately a dollar a pound more for certified coffee, with the number of certifications the price rises. Consumers are typically not willing to pay more than a dollar a pound for only the social and environmental aspects of the coffee. The willingness-to-pay comes from a perceived benefit from the coffee—i.e. health in organic and quality in shade grown and fairtrade.

Certain types of coffee, such as Blue Mountain in Jamaica and extremely high quality coffees from South America and Ethiopia, can reach prices as high as 45 dollars per pound. But again, while these may be certified coffees the true value of this coffee is in the perceived quality of the coffee not from the certifications. These coffees are also quite rare and this limited supply is one of the appeals of the coffee. The only way to have true verification of the coffee is an institutionalized first-party verification whereby the cooperatives themselves act as the fire alarm, ensuring all cooperatives are playing by the same rules.

Does this mean that Fairtrade might be more transparent if it certified individual producers as opposed to cooperatives? Does this even make sense to do so? How important is the first-party verification process especially since the certification bodies can not be present at all times? When are the inspections most beneficial? Should they be random and unannounced or should they be planned in advance? How do these different inspection preparations affect transparency?

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IV. Discussion Questions

1. One of the things each of these certification processes has been unable to cultivate is the development of first-party monitoring, whereby the certified producers self-police the process from the ground. Without this mechanism in place, the consumer and organization must place all of their trust in the yearly inspections.

How can these processes be harmonized? The major corporations need an independent verification to protect themselves against the “60 Minutes” phenomenon, as inevitably the consumer still associates the end product with the mechanism they have contact with as opposed to the certification body, which is outside the supply chain. How can these two seemingly different processes be resolved?

2. Why is the consumer willing to pay more for these certifications and why can some products carry a larger premium than others? Who should decide the premium? Should all certification premiums be determined by the market or the certifying agency? What problems do both of these cause?

3. Would the Organization be more transparent and better served by uniting all the national initiatives under one binding umbrella agency? What is the benefit in providing the country offices independence and what are the drawbacks?

4. It has been suggested that the fairtrade royalty for the larger roasters (Starbucks, Green Mountain and others) is a lower percentage than the independent smaller coffee roasters. How does this fit into the overall Fairtrade model and should Fairtrade cater to the largest buyers/sellers at the expense of smaller roasters who were the first supporters of the certification? Is this just a “natural” part of business or can Fairtrade successfully integrate the overall objective of Fairtrade principles into their dealings with corporations and suppliers?

5. How can the agency sustain itself through fees only? Does this create a larger issue in that the fees to run the agency profitably may turn into barriers-to-entry for the smallest producers? Would FLO-CERT better serve the goals of Fairtrade by returning to the non-profit sector of the Organization and sub-contracting the producer certification as many of the other certification bodies currently do? Should FLO-CERT be more involved in the national process of certifying the participating corporations, or should this role remain with the country initiative offices?

6. How much of the process should be passed onto the consumer as far as fees and so forth? There is a definite need for producer buy-in, but is it ‘fairtrade’ if the corporations are profiting from the process? Should there be a limit to this and are they really profiting from Fairtrade products or do they make their profit from the association with Fairtrade? What percentage of the product should be Fairtrade to fully gain Fairtrade status? Is carrying one line enough? What should be the requirements as far as this goes?

7. If the national office makes money from the certification of companies within the country, it is in their benefit to certify as many companies as possible. Should companies such as Wal-Mart

and Costco be allowed to be Fairtrade certified even though they might have questionable national corporate responsible standards? Should Fairtrade apply only to dealings with the producer? Who should decide? Should it be the certification bodies or the consumer?

8. Is this the most efficient way to charge for certification? Does this not give the producer further incentive to sell non-certified coffee as Fairtrade? This is one of the accusations that have been made by the media and there are reported infractions by cooperatives under the Fairtrade label. What actions should be taken against these organizations? Is it more important to keep the standards pure (i.e. prosecute violators with fines and suspension of the license), or to take the overall grand goal into account when dealing with minor violations (that of helping the producer)? Which is more important? And does the consumer really care?

9. As mentioned before, there is currently no first-party system of checks and balances on the certification process (meaning the producers do not self-police each other). While self-policing is not as credible as a second or third-party verification, it is in the interest of the cooperative to be as transparent as possible to protect themselves from sanction as well as ensure the credibility of the Fairtrade Label. The lack of this self-policing maybe a result of culture or it may be a situation of distance between the actual cooperatives.

Does this mean that Fairtrade might be more transparent if it certified individual producers as opposed to cooperatives? Does this even make sense to do so? How important is the first-party verification process especially since the certification bodies can not be present at all times. When are the inspections most beneficial? Should they be random and unannounced or should they be planned in advance? How do these different inspection preparations affect transparency?

10. How successful have FLO eV and the National Initiatives been in providing the end-user the assurance that the coffee they are buying is produced at the minimum Fairtrade standards? And how transparent is the organization in providing these assurances to the consumer?

11. Identify the stakeholders and run through the certification process. How are the interests of the each party aligned? Identify area where “cheating” is most likely to happen. How robust do find FLO-Cert’s sanction process? Who has the incentive to blow the whistle on transgressions?

12. How credible to you find Fairtrade Labeling Organization (FLO eV) and its certification body, FLO-Cert? Have they been successfully able to differentiate itself from other coffee certification standards such as Starbucks’ CAFÉ and the International Coffee Organization’s 4Cs Program? What measures should FLO eV to enhance its credibility?

13. While the overall goal of the organization is to improve coffee farmers’ lives by guaranteeing them a ready market and fair price for their product, how might the Fairtrade system discourage coffee farmers from improving the overall quality of their coffee? Does FLO eV have mechanisms to help boost farmers’ skills and abilities to the next level so that its coffee might sell at market premiums? Does FLO eV have an incentive to do so?

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VI. Appendix

Appendix i: Certified Coffee Defined

Criteria for Certification:

Social: Certifies that coffee “improves the lives of those who produce it”.

- Focuses on Labor issues and verifying that smaller producers comply with FLO standards in the areas of child labor, hired labor and working conditions

Environmental: Certifies that coffee is grown in such a way that it minimizes the environmental impact or footprint.

- Multiple aspects from Organic to recreation of the virgin rainforest on the extremes to the limiting of certain chemicals and practices, which affect human health.

Economic: a by-product of Social and Environmental certifications, this provides guarantees of a price premium over the standard market for producers meeting these criteria.

- Some certifications carry it implicitly and others have written it into the standards of the certification.

Appendix ii: FLO eV Minimum Standards

- Development Potential
 - Determine that community will use revenues to promote social and economic development of small farmers
 - Provide a comprehensive plan to share revenues and premium among farmers
- Small Producers
 - Small-holder farmers (under 20 Hectares, Not dependent on hired labor, Family Labor-Force, Self-Management)
 - More than 50% of Fairtrade product is produced by small-holders
- Democracy, Participation, Transparency
 - Must demonstrate that association is developed with the intention of social and economic improvement for the members
 - Must have an organized association with an elected Board supervising the Management, a General Assembly which meets annually and a separate control

committee with the ability to monitor and demand external audits

- Organization must be democratic and organized with financial and administrative transparency
- Secure communication channels between the administration and the members, as well as securing the membership's commitment to the association
- Non-discrimination
 - Must follow ILO 111, which moves towards ending discrimination against workers.
 - If membership is restricted, restrictions and by-laws may not target social or ethnic groups
 - Programs must be put in place to promote and improve the lives of minority/disadvantaged members of the group

Economic Development:

- Fairtrade Premium
 - Premium allocation must be transparent to membership and FLO, members must vote on the allocation of the Premium
 - When Premium is available usage plan is created and approved by the general assembly, the Organization is to work towards Premium allocation in the fiscal budget
- Exportability
 - Must be able to get quality product to market.
 - Demand and Quality requirements that meet marketplace expectations
- Economic Strengthen of the Organization
 - Membership and Organization will gradually move toward exporting own product

Environmental Development²⁸:

- Impact assessment and planning
 - Organization is expected to monitor and assess the impact of the agricultural practices of its members and to provide a plan for the improvement and monitoring of performance of member agricultural practices.
 - Assign a person in the organization responsible for planning and ensuring environmental standards are met by end of 2008, with plan and organizational

²⁸ Was instituted in this form as of 1 January 2006

- management team in place by end of 2007, allowing for a 3-year phase-in period²⁹.
- All “natural” or non-cultivated harvesting must be done in such a way as to minimize human impact on the natural environment. Shade-grown requirements should be practiced where applicable.
 - Watershed and Water-body conservation zones must be created where farming and the use of Agrochemicals is prohibited. These buffer zones must be maintained in accordance of local standards. New planting in virgin forest is prohibited and new planting of native flora is encouraged in areas not suited to agricultural practices³⁰.
 - Maintain accurate records of land- and agrochemical-usage, crop rotation and water-usage; as well as promote crop diversification.
 - Organization should work in accordance with and promote national, local and NGO programs for the social and environmental improvement of the area.
 - Organizations are encouraged to move toward organic methods of farming where economically and environmentally practical.
- Agrochemicals
 - Work to reduce the volumes and types of agrochemicals used in the agricultural process
 - Items on the FLO prohibited materials list will not be used, handled, or sold by the organization³¹.
 - Agrochemicals are used, stored, handled, used, disposed offend labeled appropriately and used only by trained individuals.
 - Organization has a separate area sufficiently equipped to handle spills and other mishandlings in the preparation of agrochemicals. Organization must document the use, disposal offend any mishaps in the preparation of agrochemicals.
 - Waste
 - Organization is expected to reuse, recycle, compost and reduce waste in a way that is appropriate to the materials in question.
 - Appropriate disposal of hazardous materials and agrochemicals.

²⁹ Milestones listed in appendix

³⁰ Note the vague styling of these conditions.

³¹ Based on international standards complied by World Health Organization, PAN and Food and Agricultural Organization/UN Development Program

- Ensure members use organic materials in an appropriate way (mulching, composting, etc.). Do not feed livestock organic materials that have been infected by pesticides and manage waste in such a way that it does not spread pests or damage the surrounding area.
- Soil and Water
 - Producers are expected to maintain the fertility and structure of the soil. Water should be conserved and protected from contamination.
 - Reduce soil erosion, enhance soil structure and fertility, protect cultivated areas from salinization and desertification, protects groundwater and exposed water quality and levels and minimizes the use of water in irrigation and processing.
- Fire
 - Use fire in the creation of firebreaks that protect both crops and the natural environment.
 - Uses only trained personnel in the clearing and preparing of land.
- GMO
 - Producers do not use genetically modified food for cultivation or other production purposes.

Standards on Labor Conditions: International Labor Organization standards are accepted as the standard on labor relations and conditions

- Forced and Child Labor
 - No involuntary labor of any kind is used
 - Children under 15 not be employed
 - Work does not jeopardize the moral, educational, or social development of the child
 - Work is not based on the condition of spouse employment
 - No one under 18 handles hazardous materials or performs potentially dangerous jobs.
- Freedom of Association and Collective Bargaining
 - Organization provides in writing the right of employees to join an independent trade union and does not discriminate against members of any trade union
- Conditions of Employment
 - All employees must work under fair conditions of employment and receive the minimum wage as dictated by national guidelines

- Occupation Health and Safety
 - Provide safe and properly functioning machinery.

Appendix iii: Specifics From the Abahuzamugambi Corrective Action

- Improve the accounting system to guarantee accurate documentation of all business activities.
- The violations consisted of the accountant during recertification being unable to produce financial statements or cash flows; records were not recorded in a timely fashion; and the accountant was unable to trace payments and inflows.
- Internal audits proved ineffective and as such FLO-CERT required an External Audit to be completed by the end of the year.
- Annual financial statements were not presented and approved by a meeting of the cooperative's General Assembly.
- The internal control committee was not taking an active interest in the financial situation of the cooperative.
- Annual work plans were not presented and explained to the General Assembly.
- There was a lack of an adequate filing system.
- Members were not paying cooperative dues and the ones who were not properly documented.
- Communication between the management of the cooperative and cooperative members was inefficient and there was no strategy for improving communication, even though the inspector had noted the need the year before.
- The FLO premium was placed in the cooperative bank account and not properly accounted for. The premium, rather than being used for community development as intended was used to finance the day-to-day operations of the cooperative.
- There was no established work plan for the use of the premium as decided by the last meeting of the General Assembly.
- The use of the premium was not being decided by the General Assembly and the premium was being used inappropriately.
- The cooperative was buying coffee from non-members and using the premium to finance the running of the cooperative.

- The premium allocation was not transparent and the General Assembly had not approved the allocation and did not understand the purpose of the Fairtrade premium.
- The cooperative was not taking proper measures to protect the local waterways during wet-processing.
- The cooperative coffee processing station was not meeting the set standards of working conditions. The temporary workers, while being paid the Rwandan minimum wage, were not informed of labor rights and were often improperly trained.

Appendix iv: Environmental Milestones

3.1.1.2 The organization seeking certification develops and then implements a formalized Internal Control System (ICS) that liaises with the certification body.

During the first year the organization should:

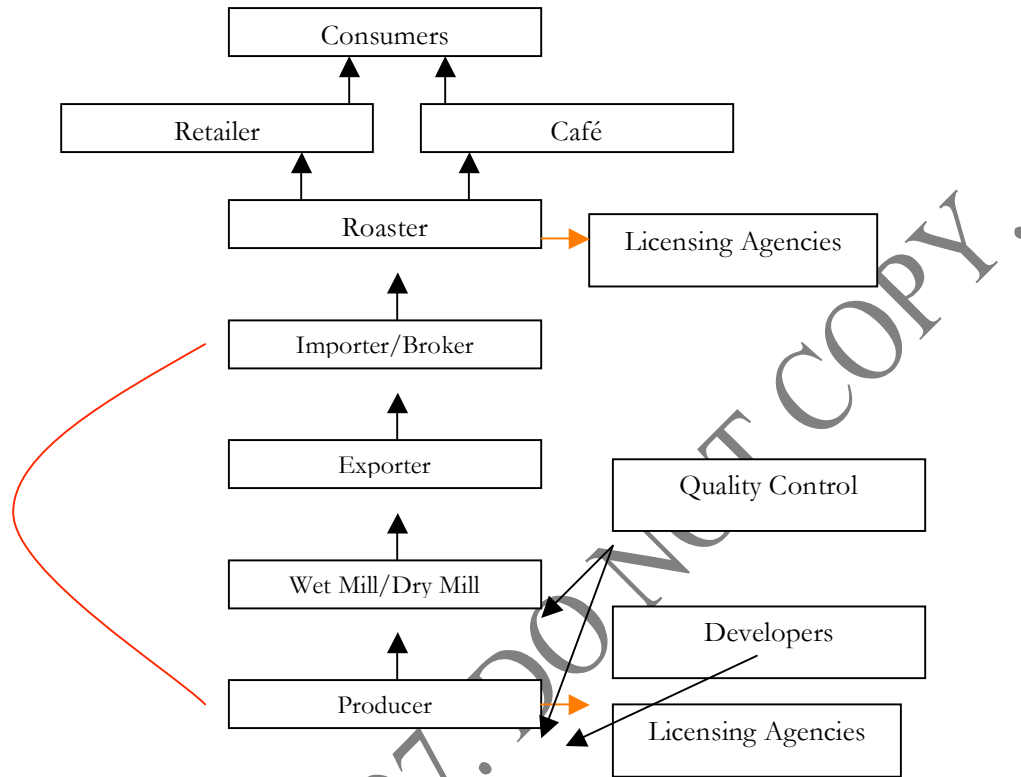
- Identify responsible personnel and assign job tasks
- Compile basic data about all members as applicable to these standards
- Identify control points as applicable to these standards
- Decide on a method of verifying that members are compliant
- Create or assemble documentation to attest to inspectors and the certification body that its system is functioning.

In the second and third year, the organization should demonstrate compliance with the milestones as noted in this standard (3.1.1.2).

Organizations applying for certification during 2006 must, as part of the requirements for certification, develop such an ICS if not already in place and, by the end of 2007, must be able to provide evidence of the implementation of the system to the FLO-CERT inspector. By the end of 2008, all aspects of the ICS must be in place. As such the cooperative must have complied with all the standards and be compliant with these standards. In the case of organizations that are already certified, a similar 3-year phase-in period will be assigned.

The full inspection of the new standards will take place during the 2009 inspection year and will again be carried out by the FLO-CERT inspector with the final decision resting with the FLO-CERT Director.

The Coffee Value Chain³²



1. The black arrows denote the normal operation of the conventional coffee Value Chain
2. The red arch denotes the ability of producers to move vertically along the Value Chain after becoming certified.
3. The orange arrows represent actors within the Value Chain who must pay a royalty to the third-party certification organization for coffee sold (usually on a per pound basis).
4. The boxes on the right indicate external actors (NGO's, Importers, or Certification Organizations) who are invested in the coffee production process.

³² Karen Cebrenros, Elan Organic Coffees, www.elanorganics.com

PART TWO: UTZ

I. “Good Inside” UTZ Certified: An Alternative to Fair Trade?

"The high ground has been staked out by organic and Fair Trade coffee, but there is a limit to how far those segments are going to grow. The question is what is going to happen to the other 95 percent [medium to large-scale estates] that is not in that niche."

Utz Kapeh director David Rosenberg

A. Sustainable Coffee Defined

Certification and labeling 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.³³ The certification mark is intended for the consumer and intended to represent a guarantee that the producer was paid a premium to grow the coffee in an environmentally or socially responsible way. Some coffee is double or triple certified which offers the consumer the assurance that multiple conditions were met.

Organic coffee is grown using methods which ensure a viable and sustainable agro-ecosystem. Shade-grown (Bird-Friendly) coffee is grown under a natural forest canopy which mimics virgin rainforest in an attempt to preserve biodiversity and provide habitat for migratory birds. Fair Trade coffee is based on a trading relationship balancing market-based and ethical elements to promote long-term sustainability. Rainforest Alliance certification and the Utz Kapeh code of conduct attempt to incorporate elements of the other three sustainability

³³ Ponte, Stefano. Standards and Sustainability in the Coffee Sector. IISD, May 2004

traditions.³⁴ Other certifications deal only with quality and reputation for taste, for example geographical indicators or appellation coffee from a region, such as Kona, or individual estate, such as La Torcaza, very similar to the appellation system in the wine industry.

As the demand for certified coffee grows, there is also a growing concern about reliability, and ‘Does the coffee in the bag actually conform to the standard being advertised?’

Even third-party standards are not free from manipulation and opportunistic behavior. The standards have been created with the intention that some parties will be denied access in order to differentiate those who are included through set inclusion/exclusion thresholds.³⁵ These thresholds empower the monitoring institutions with the ability to control the administration, monitoring and certification of these standards. The question that shapes this case-study is “Where are the areas ‘cheating’ could occur? And how appropriately do the Certification Organizations address the possibility?”

B. Monitoring

For the purposes of this study, there are four types of monitoring, divided into certification and verification. Verification is usually an informal mechanism through which an interested party performs an inspection to ensure certain criteria are being met

Certification on the other hand, is always a formal process performed by outside inspectors, using codified standards created by an independent, external organization. For the purposes of this case study—verification will be any mechanism that is confined to a single or small group of purchasers or producers and certification will apply to a mechanism which is, in

³⁴Ibid.

³⁵ Ibid.

theory, open to all qualified parties and is available to all interested purchasers.

First-party verification is self-monitoring by the cooperative or producers. This is the least transparent form of verification and is the one most open to cheating within the process because there are no outside checks on the system. First-party verification can be a quality control mechanism or a mechanism which controls the process of production. This type of verification is the least likely to convey a sense of trust.

Second-party verification is done by the coffee processing organization. This is where the purchasing company ensures that they are buying the coffee for which they are paying. This is performed through the checking of documentation and tasting of the quality upon arrival. This type of verification is a standard part of doing business and can be thought of as quality control, with the added feature of origin assurance in the case of Certified coffee. An example of this is CAFÉ Practices by Starbucks Coffee, where Starbucks uses a third-party certifier, but is used only for Starbucks Corporation.

Third-party certification is done by an independent agent outside of both the producer and purchasing arenas. The organization is set-up with a system of standards and verifies that both the producer and the retailers are not cheating. They usually perform yearly inspections of facilities and have the ability to remove certification from a producer or retailer. The most transparent certifications use independent inspectors to further remove them from the certification process. This can be done through a specific certification agency or through a list of approved certifiers.

Fourth-party verification is done by the consumer and media. Similar to what is called the fourth estate in politics, this group determines the overall perceived legitimacy of certification labels. If this group does not believe in the certification, they will not pay the price premium it

entails.

II. UTZ Certified Coffee

Founded in 1997 by Ward de Groote of Ahold Coffee Company and Nick Bocklandt, a Guatemalan coffee producer, Utz Kapeh is based on the principles of “traceability, social responsibility and impartial certification.” The certification is proposed as an alternative to Fair Trade with the implicit purpose of “redressing the lack of agricultural capacity building” in the Fair Trade system and providing certification for large and medium-size coffee plantations.

Fair Trade is a third-party certification which addresses “social issues endured by the smallest coffee producers.” These producers have less than 20 hectares of land and must be organized into a first-level cooperative, a cooperative run and organized by the producers themselves. Since Fair Trade focuses on redressing the social conditions of the poorest producers—child labor, poor living conditions and depressed prices of the coffee sector—they have so far placed little emphasis on developing the business or technical farming abilities of producers in an attempt to increase both production yields and negotiating ability, instead setting a price premium of 1.26 USD per pound of green coffee to the farmer.

Utz Kapeh in contrast, has made a without causing “exorbitant price hikes in retail coffee,” which allows the market to determine commitment to addressing not only the issues of child labor, poor living conditions and depressed coffee prices, but also to capacity building in both environmental and agronomic issues. The goal of producing quality coffee is advocated through the use of trained agronomists retained by UTZ Certified and available to the individual farmers. The certification attempts to improve the lives of farmers the price and sell more coffee to a wider consumer-base. By allowing the market to determine the price of the coffee, UTZ

Certified removes a potential barrier from the Fair Trade system. In Fair Trade system, with the minimum price always above the current market price and limited demand, there is an informal cap on the number of producers the scheme can support. UTZ Certified has the advantage of allowing the price of certified coffee to “float” with the market price, always above the commodity coffee price but with the advantage of depending on both quality and responsibly grown coffee to stimulate demand.

A. Beginnings

Initially Utz Kapeh was set up as a second-party monitoring system to insure that Ahold Coffee Company, a part of the Dutch conglomerate Royal Ahold Corporation, was not purchasing coffee from producers who were using child-labor. The standards expanded into other social impact areas such as ensuring plantations were providing children with an alternative to working in the fields (initially free schooling) as well as offering health care and adequate housing to workers. In the beginning, Ahold Coffee absorbed the added costs of the coffee, as opposed to raising retail costs.

Ahold Coffee Company and Nick Bocklandt began field-testing the program at El Volcán in Guatemala, a farm with over 1,250 workers. Over the next five years, the model evolved into a mark of recognition for both growers and roasters in the pursuit of responsibly grown coffee; successfully developed relationships between the buyers and producers; brought transparency to the Certified coffee business; supplied farmers with the ability to create efficient farm management systems; and encouraged responsible agricultural techniques in the sector. The program was publicly launched in 2002 when Utz Kapeh was spun-off from Ahold Coffee as an independent alternative to Fair Trade certification.

Utz Kapeh sold 3,700 MT of coffee in the first year. The certification grew to 28,800 MT by the end of 2005, and is reported to have sold 38,000 MT of coffee in 2006.³⁶ On March 7th of this year, the Utz Kapeh Foundation officially changed its name and logo to UTZ Certified 'Good Inside.' Utz Certified has become the largest coffee certification program worldwide.³⁷

While UTZ Certified mirrors the standards of Fair Trade, there are a number of differences between the two organizations. The first is that UTZ will certify cooperatives, estate farms and other producer groups as long as they comply with the Code of Conduct, providing the other 95% of the coffee sector who do not fall into the Fair Trade niche—unorganized cooperatives, large and medium-sized plantations—the ability to certify their coffee.

A second difference is that UTZ certified promotes itself as “traceable from tree to cup.” They accomplish this via providing the importer/roaster with access to a web database showing exactly where the coffee originated. The buyers in turn can provide customers with transparency through these on-line coffee tracers.³⁸ UTZ Certified coffee is sold in more than 20 consuming countries and its coffee producers are located in Latin America, Asia and Africa.

B. Roots

UTZ Kapeh was initiated by Ward de Groote in 1997, a coffee buyer working with medium-sized estates outside the Fair Trade target group, who wanted to show that coffee his company sold was sustainably and responsibly grown. He teamed up with Nick Bocklandt, a Guatemalan plantation owner, to create a set of standards that could be applied to all coffee producers, from the unorganized single producer to large-scale plantations. The certification was

³⁶ <http://www.utzcertified.org/>, 17 April 2007.

³⁷ http://en.wikipedia.org/wiki/UTZ_Certified#_note-2, 10 April 2007.

³⁸ Ibid.

initially aimed at medium-sized estates too large for Fair Trade certification, yet too small to influence the local coffee markets. Starting with Finca El Volcan in Guatemala, Bocklandt and de Groote began to test the practices they would later standardize into the UTZ Code of Conduct. By the end of 2002, the first year they publicly certified other producers, the organization had grown to 21 producers with 6 active buyers.

While the initial purpose of UTZ Kapeh was to offer “all producers the opportunity to benefit from certification,” the UTZ certification has attempted go one step further—UTZ Kapeh wanted to represent not only “good practices, but also quality coffee”—something Fair Trade had yet to implement within the certification standards. Fair Trade has placed its primary focus of on building brand recognition through marketing, creating a reliance on other NGOs to provide the management and agricultural training³⁹. UTZ Certified has instead built this element into the business model.

UTZ Certified carries no fixed market price, in contrast to Fair Trade’s minimum price. But according to De Groote, the producers receive a 'sustainability' premium in times of crisis, but the actual price is negotiated between the buyer and the producer and is dependent on the negotiating skills of the producers and the quality of the coffee. UTZ Certified has also kept a low-public profile, especially in the United States. The organization feels that by focusing exclusively on the “ethical and social issues of coffee production” a large market sector is alienated. As a result UTZ Certified has focused on coffee quality and social concerns.⁴⁰

III. Certification Body

Unlike Fair Trade, UTZ certified does not have a single organization to perform producer

³⁹ TransFair USA and other country initiatives have now added this element to their organizations. In 1997 when Utz Kapeh was devised, these organizations had yet to institutionalize this process.

⁴⁰ http://www.vanilla.com/html/ethical_coffee.html, Ethical Coffee pushed Mainstream, 03 July 2003

certification inspections. Instead, UTZ uses small independent certifying organizations to perform both initial and annual inspections. These agencies or certification bodies have been specifically trained by UTZ on the nuances of the program and have been qualified by the UTZ to conduct annual inspections. The certifiers are chosen based on their ability to audit both the agricultural and labor practices of the UTZ Certified coffee producers.⁴¹

The independence of these certifying bodies (CB) lies in the voluntary connection between the two organizations. If either at any time decides the relationship is no longer beneficial, each is free to break the arrangement. The difference in the Fair Trade model is that while currently separate from the certification group, the certifying agency is wholly owned by FLO eV.

A Certification Body (CB) is an independent, third-party certifier holding International Standards Organization Initiative 65 accreditation (ISO 65). The ISO is an international organization which provides standards on quality management. ISO Guide 65 specifies the general requirements that a third-party operating a product or service certification system shall meet if it is to be recognized as competent and reliable.⁴² These guidelines, when met, provide the consumer with the confidence that they are purchasing a product that has been verified by an external audit to meet the following criteria: independent of external pressure on certification decision; the evaluation and certification are transparent and explained to all parties before inspection; the existence of a quality control system supported by regular internal audits; and non-discrimination in the treatment of producers.

⁴¹ Annual report 2005

⁴² USDA Website (<http://www.ams.usda.gov/Lsg/arc/iso65.htm>)

IV. The UTZ Code of Conduct

The Code of Conduct is based on International Labor Organization (a UN organization sets international responsible labor standards that are adopted by countries on an individual basis) Conventions and the EurepGAP (the Euro-Retailer Agricultural Working Group or EurepGAP is a private sector body that sets voluntary standards for the certification of agricultural products around the globe)⁴³ protocol for good agricultural practices for fruits and vegetables (see appendix 2). In its inception in 2002, the UTZ Code has been recognized as the equivalent to EurepGAP standards for Coffee production and has since been adopted by the organization as the coffee standard. The current incarnation of the Code of Conduct was revised in 2006, and revisions to the Code have occurred every two years since its founding. The current revision was aimed at making the certification more accessible to small-holder coffee farmers and cooperatives.⁴⁴

The Code of Conduct is divided into 3 sections—Good Agricultural & Business practices, Social and Environmental Criteria. Under each of these topic headings, the specific criteria are ranked into control points. Control points are then ranked into levels—major, minor and recommended. Major points are areas that must be complied with for certification. Minor points are areas that the producer must be in compliance with 95% of the control points. Recommended control points are not taken into consideration for certification.⁴⁵ Producers must meet these criteria as well as the criteria listed in the UTZ Chain of Custody Code.

Before a producer can be certified, each potential certificate holder must assess applicability for each control point to their situation. Each control point deemed non-appropriate to the situation requires the certificate holder to provide evidence to the external inspector

⁴³ www.eurepgap.org

⁴⁴ http://intranet.csreurope.org/news/csr/one-entry?entry_id=210825

⁴⁵ www.coffeehabitat.com/2007/02/utz_kapeh.html, 8 May 2007

explaining why the point is not applicable. An example of this would be in the area of irrigation, if a certificate holder relied entirely on rainfall, any point referring to irrigation would be deemed non-applicable.

For initial certification, potential certificate holders must accumulate required documentation, do a self-certification assessment and then submit the documents to an independent Certifying Body. The CB examines all requested documents in the Code for a period of three months prior to the date of the inspection. The CB then submits their assessment of the documents to UTZ Certified. When approved by UTZ Certified, the CBs conduct on-site inspections and subsequent annual inspections to determine whether producers are in compliance with the UTZ Certified Code of Conduct and Chain of Custody requirements.

V. Types of Certification

UTZ Certification is available in two ways. The first is individual certification—a single producer who has been individually certified. The second method is group certification—a organization that encompasses a number of producers.

Group certification is offered to first-grade cooperatives—producers organized in a formal organization or association, or second-grade cooperatives—an exporter who organizes or contracts from the producers. In the case of group certification, an internal control system (ICS) must be implemented that guarantees all members of the group are complying with the Code. The group certification is the one most vulnerable to cheating. In the case of these cooperatives, the ICS is made up of vested stakeholders (either the coffee exporter or cooperative members) and a large number of producers, there is always the risk of coffee from non-certified farms

finding its way into the cooperative supply.⁴⁶ Further in a second-grade cooperative, there is a second opportunity to cheat, the first being at the farm gate, and the second being after the coffee has come into the warehouse (assuming the exporter also buys non-certified coffee).

The ICS is responsible for the annual internal inspection, which is then inspected by external auditors. The external auditors also inspect a random selection of the individual producers for each cooperative. In order to pass certification, the ICS must prove that it is functioning well and that all members of the group are in compliance.⁴⁷

VI. UTZ CERTIFIED and the Consumer

Specialty coffee can be divided into two categories that are not mutually exclusive. The first category is gourmet coffee, coffee that is produced and sold expressly on the merits of its flavor.⁴⁸ The second category is certified coffee, coffee that has been grown in a responsible manner (either socially or environmentally) and been verified as such by an independent third-party. UTZ Certified attempts to bridge this gap by assuring the consumer that they don't have to sacrifice one for the other.

While the main objective of UTZ Certified is to promote responsibly grown coffee, they can only do so by making certain promises to the consumer—first, that the production methods promote responsible farming practices (both socially and environmentally) and second, that the coffee is of good quality. The premium is entirely dependent on the market's willingness to pay for an ethical product. In essence it is a donation to producers on the basis of their responsible social practices. The differentiation between paying for coffee solely on certification and for

⁴⁶ http://www.marginalrevolution.com/marginalrevolution/2005/12/who_benefits_fr.html, 23 May 2007

⁴⁷ UTZ Certified Code of Conduct, Version 2006; revision 01

⁴⁸ Specialty coffee, especially Geographically Indicated coffee is also susceptible to cheating. The only check on this certification is the consumer and their willingness to continue to pay for this specialty coffee.

quality is that paying for quality is a value-added proposition for the consumer, while paying solely for the certification is the basis for ethical consumerism. UTZ attempts to fulfill both stipulations, the belief being that delivering a superior coffee will maintain the loyalty of their customers. The quality aspect of UTZ Certified is essentially the way farmers can promote “value-added” products.

The incentives that UTZ Certified provides for consumers lies in the UTZ Code of Conduct (see Appendix 1). The first promise that UTZ Certified makes to the consumer is that the coffee meets three standards—labor/social, environmental and quality. The standards follow many of those set by other certifications, addressing documentation and management systems; worker health and welfare; meet International Labor Organization standards (safe working conditions, no child labor, minimum wage); proper use of chemicals and fertilizers; soil conservation; waste management; water conservation; and protection of eco-systems and biodiversity.⁴⁹

Of these standards record keeping and transparency within the supply-chain are considered most important for producer and organization accountability. The goal of transparency is to provide the consumer with the assurance that they are getting UTZ Certified coffee and that the coffee they are drinking has not been somehow mishandled or sold under false circumstances. The least important aspect of their standards appears to be environmental as of the 21 environmental criteria only one is ranked “major” or required for certification.

In order to ensure this record-keeping and transparency, a web-based track and trace system follows the Utz Kapeh Certified coffee through the supply chain from grower to roaster. Utz Kapeh's Chain of Custody criteria assure that Utz Kapeh Certified coffee is not mixed with

⁴⁹ TripleStandards.org, accessed 12 May 2007

non-Certified coffee. These criteria include separation of Utz Kapeh coffee and non-Utz Kapeh coffee and keeping records of direct suppliers and buyers.⁵⁰

Here again is an opportunity to cheat. Not on the producer level, but at the exporter/importer level. Unless stringent audits are done and there are perceived ramifications to cheating, even chain of custody verification will not be a sufficient stopgap measure. At the moment there is a strong belief in the system as it is still controlled on many levels by the “true-believer” and since the supply currently outweighs demand. Yet as the demand for certified coffee rises, the incentives to cheat will become increasingly stronger. This is the first pressure point, on the strength of the certification. Currently supply outweighs demand, yet as demand outstrips supply, increased pressures on producers, importers and retailers will lead to further questions of what really is in the bag.

A. Web-based traceability system

When an UTZ Certified coffee producer sells his coffee to a registered UTZ Certified buyer, the coffee is announced in the UTZ Certified web-based system. UTZ Certified assigns a unique tracking number to this lot of coffee. This unique UTZ number travels with the coffee through the whole coffee chain. At the end of the coffee chain, the roaster uses the unique tracking number to know where his coffee was grown. Some brands use this unique tracking system to make the coffee traceable for their consumers.

⁵⁰ www.ceres-cert.de/en_utz_kapeh.html

B. Chain of Custody

To enhance the guarantee that coffee with an UTZ Certified logo does indeed come from an UTZ Certified producer, the UTZ Certified program contains Chain of Custody requirements. This is a set of chain-wide administrative and technical requirements for traceability. These requirements include criteria for separation of UTZ Certified coffee and non-UTZ Certified coffee, and keeping records of direct suppliers and buyers.

We would like to know the process or steps by which the chain of custody is monitored and how and when the monitoring takes place. We would also like to know what the checks in this system are.

There are of course some inconsistencies in the model for Chain of Custody verification. While the Chain of Custody inspections are independent, in some cases, due to the limited number of certification bodies who do Chain of Custody inspections, the Chain of Custody inspector and the producer inspector will be the same company, if separate divisions. While this might be inconsequential, there is always the danger of under-inspecting due to trust or professional courtesy within the agency. This is the second pressure point on the validity of the certification. There are no known regulations by this author of restrictions on agencies performing both producer and chain of custody inspections. If for any reason the chain of custody inspectors are known to under-inspect due to professional courtesy within the agency, there is the potential for importers to cheat under these circumstances.

This could also be the case toward companies who have been deemed reliable in the past and the past performance could be taken into account when inspection is taking place.

UTZ Certified Price Premium

Retail Price for Pound of Coffee May 2007

Coffee Type	Starbucks	Green Mountain Roasters	Jeremiah's Pick
NON-CERTIFIED	9.16	9.89	12.25
UTZ KAPEH	N/A	N/A	N/A
FAIR TRADE	10.45	10.61	N/A
ORGANIC	13.45	11.11	13.00
MULTIPLE CERTIFICATIONS			
ORG/SHADEGROWN	13.45		
ORG/FT		10.86	13.60
ORG/UTZ			13.00

Websites of Starbucks, Green Mountain Roasters and Jerimah's Pick

The UTZ policy on price paid for UTZ Certified coffee are a reflection of the added value of certification, not a set price premium on the coffee. The Premium is a market-based mechanism, which allows the market to determine the value of the coffee. The price is negotiated on a case by case basis between the buyer and the seller, with no outside interference from the organization.

Coffee with an UTZ Certified certification has added value in the sense that it assures buyers that their coffee has been produced according to a baseline standard for responsible production, i.e. according to the UTZ Certified Code of Conduct. The premium on UTZ branded coffee is from 0.01 to 0.10 per pound in Costa Rica.⁵¹ This premium is a reflection not of the organization itself, but of the importer and roasters willingness to pay for the coffee. Without this willingness to pay, the certification has no value to the producer.

The table below shows the estimated prices for conventional and three sustainable types of coffee. The first is the conventional coffee price—the price that is paid on the commodity market for Arabica coffee. The second is the premium above the commodity price that UTZ producers received. The Third column is the price above the “C” price for organic coffee. The

⁵¹ John Russell, 7 Mar 07, Ethical certification – Sustainability with a rich aroma. www.ethicalcorp.com

last is the price premium paid to the producer for coffee certified as fair trade.

Certified coffee "C" price + Premium

"C" Price June2003	UTZ Premium \$/kg (green)	Organic Premium \$/kg (green)	Fair Trade Premium \$/kg (green)
1.47	0.15	0.35	1.30

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

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

Fair Trade coffee currently has the highest brand recognition and often carries multiple certifications, such as Fair Trade certified Organic or Shade-grown. This is one of the reasons there are discrepancies in premiums between the certifications. This is one advantage Fair Trade has over UTZ certified.

C. UTZ Certified Costs

UTZ Certified cites costs of approximately 0.04 USD per pound of certified green coffee grown,⁵² UTZ absorbs some of the costs of this certification by providing access to trained agronomists who help set up the agricultural systems and provide training for improved farm management.

An UTZ trained agronomist is available for all applying entities to act as a technical consultant, with the specific ability to assist producers with the Code of Conduct. Trained agronomists will advise on practical implementation of elements and give directions on improvement of efficiency in farm management.

Another cost of certification is over-supply. UTZ Certified Farms produce approximately

⁵² (www.ethicalcorp.com/content.asp?ContentID=4902), 7 May 2007

200,000 tones of coffee, but only 37,000 tones are sold as UTZ Certified⁵³, one of the lowest averages among the major certification schemes with Rainforest Alliance reporting about 40% and Fair Trade in the range of 25%.⁵⁴

D. Complaint System

In order to provide another level of accountability to the consumer a complaint system must be in place that is available to customers and documents and responds to complaints. Farms keep documented lot samples to reference in the instance of a complaint. But this only applies to coffee quality. This is one area in which more information is needed, especially complaints filed against shippers, importers, roasters and producers.

We would also like to know the process of investigation and what penalties ensue when a complaint is verified as valid. We would also like to know the corrective actions issued by the Organization when a certificate holder is found in violation during an annual inspection. This includes the appeals process for the accused and the timeline the certificate holder has to rectify the cited violation.

VII. UTZ Kapeh Foundation: Organizational Structure

A. Organization and Purpose

Utz Foundation as of June 2007, employs 27 full-time employees and 4 interns. The organization is divided into 7 regional offices in Switzerland, Guatemala, Brazil, Africa,

⁵³ Ibid, for specific numbers as cited.

⁵⁴ The Fair Trade coffee market is still too small to support both small farmers and plantations. Presently, less than half the total production volume of the small farmers on the International Fair Trade Register is sold at Fair Trade terms because worldwide demand is still too small to absorb it all.

(www.globalexchange.org/campaigns/fairtrade/coffee/coffeeFAQ.html) 21 May 2007

Vietnam, Japan and South America.

We would like to know more about the way the organization is structured and the way the regional and head office interact. As well as the amount of control/freedom each regional office operates under.

B. Board of Directors

The Board of Directors is made up of 5 directors. The current directors are: Christian Bendz Wolthers, former president of the SCAA and current president of Wolthers and Associates (Brazilian coffee broker) and Blaser & Wolthers Specialty Coffee Trading Co. (a US/Colombian company which sells retail coffee); Hans Perk, coffee program manager for the Dutch NGO Solidaridad and the Coffee Support Network (both are capacity building programs which work with UTZ producers); Jeff Hill, President/CEO of Java Trading Co., a specialty coffee roaster and retailer; Carlos Murillo, General Manager of Exportadora Libertad S.A. and former cooperative president; Jan Bernhard, a coffee Farmer/Exporter in Peru and founder Ward De Groote acting as an advisor to the board, at the same time maintaining his position at Ahold Coffee.

The board is conspicuously absent of smaller producers and current cooperative heads. While this lack is not grounds for suspicion, it does cause one to think how well represented the producers are. The composition of the Board makes one think that the certification has decided not to compete directly with Fair Trade for the neediest producers.

VIII. Standards

Standards are developed with the active participation of stakeholders through a Sounding Board consisting of producers, consultants and certifiers, as well as public input through the Utz

Certified website. The second component of the process is the collected feedback from producers and certifiers during trainings and promotional events.

Certification is provided in the form of certificates and those named on the certificate are ultimately responsible for the validity of the certification. Certificates may be obtained by individual coffee producers (usually large estates), first-grade cooperatives (producers organized in a formal organization or association) or a second-grade cooperative (an exporter who organizes or contracts from the producers).

The Code consists of 204 control points, divided into 12 chapters, the chapters following the stages of coffee growing and processing. Record keeping supersedes all other control points and is built into all the major points. There are 71 major control points, 98 minor points and 35 recommended points.

IX. Revenues of UTZ

UTZ Certified assesses a royalty fee of 0.01 USD per pound of green coffee. This fee is paid by the first buyer of the coffee as opposed to the roaster as in Fair Trade. The fee is charged with the intention of covering the costs of administration, operational expenses, programs and producer assistance. In 2005, in the most recent annual report, the organization reported revenues of € 508,000, subsidies of € 1,654,766 and total expenses of € 1,164,952.

Of these expenses, UTZ Certified spent under € 85,000 on promotion of the brand, as compared with the originally budgeted € 131,012, yet saw over a 100% increase in income from royalties.

X. UTZ CERTIFIED & Fair Trade

UTZ Certified and Fair Trade are both leading certification programs in the world of coffee. Though they share many similarities in terms of goals and ambitions within the international coffee market, the specifics regarding the method of operations in regard to certification, pricing and trading are very different. The two organizations have jointly published a document outlining each program.

Fair Trade

While the main objective of Fair Trade is to provide social and economic benefits to small-scale coffee producers, they can only do so by making certain promises to the consumer. The premium is a consumer tax intended for a specific social purpose.

The answer is in the promises by FLO eV that products labeled as Fair Trade adhere to stringent Social and Environmental and are 100% Fair Trade. FLO eV ensures these promises by providing the consumer with the assurance that the product has met standards set by a third-party and has been inspected by an independent certification body.

Fair Trade Objectives

- Empowerment of the poorest sector of society, thus contributing to the sustainable development of coffee communities.
- Ensure that the coffee producer has the ability to feed and clothe their families.
- Provide development opportunities to the poorest sector of society through organizations of small farmers.
- Provide a sustainable price to the farmer that does not change with the market.
- Provide traceability for the consumer and coffee worker.
- Establish a trading partnership and allow producers input into the process

What Fair Trade hasn't been able to establish is increasing the accountability of the larger

producers to the social needs of migratory pickers and estate workers, address environmental problems or make inroads among the largest coffee retailers.

UTZ Certified

The main objective of UTZ Certified is to “provide a holistic approach to coffee production.” UTZ goes further than Fair Trade by addressing the environmental, social and economic reform all parts of coffee production. They do so by emphasizing farming techniques, preservation of rainforest and the rights of employees.⁵⁵

UTZ Certified Objectives

- Set a world-wide standard for sustainable coffee that appeal to the mainstream market.
- Recognize all coffee producers who implement responsible practices on their farms.
- Improve the management and business skills of producers in order to lower costs of production, increase yields and quality.
- Provide producers with both client access and the skills to negotiate fair contracts.
- Ensure absolute transparency from farm-gate to coffee cup.

⁵⁵ http://www.writing.com/main/view_item/item_id/1250497, May 2007

	UTZ	FAIR TRADE
Standard	Coffee	Primarily Agricultural products, increasingly applied to manufactured goods
Focus	Food Safety, protection of workers and the environment, and traceability.	Human and workers rights
Structure	Traceability and documentation; record-keeping; varieties and rootstocks; site history/management; soil and substrate management; fertilizer use; crop protection; environment and conservation.	Creating a standard for socially conscious product labeling
Conformity requirements		
Auditing System	Producers are certified by the Utz Kapeh Foundation and independent 3rd party certifiers.	FairTrade Labeling Organization Certification is run by an independent unit within FLO International
Accredited Certifying Bodies	Euro-retailer Produce Working Group (EurepGap)	FLO International
Labeling	UTZ Certified Responsible Coffee logo	Country Initiative Logo

XI. Criticism

UTZ Certified, similar to rival Rainforest Alliance coffee certification program, has been called "Fair Trade light" by critics, as it offers producers no minimum or guaranteed price for their crop. UTZ Certified producer organizations are therefore highly vulnerable to the volatility of the coffee market. This major price difference makes the UTZ Certified label considerably cheaper than Fair Trade for companies such as Sara Lee interested in tapping the ethical market. Many have also criticized UTZ Certified for not having clear requirements in regard to the remuneration of hired labor—in this respect, only national laws must be followed. In addition, several observers have criticized the program for its lack of crop pre-financing and producer support.

UTZ has fallen under a number of criticisms. The most common criticisms are in regard to environmental practices, the focus on the buyer and the lack of remediation for the poorest producers. These criticisms come mostly from the consumers and the different coffee blogs that

are on the internet. While these ‘bloggers’ are not experts or academics, in many respects these bloggers are the fourth-party verification system and more importantly, the consumers who have to have confidence in the label in order for it to be successful.

In regard to environmental criticisms, UTZ has 21 control points under its Environmental Criteria, but of these criteria only one, no deforestation, is a mandatory condition of certification. Of the other 20, 11 are categorized as minor—of which 9 have to be complied with, and 9 are recommended. These nine recommended actions are to ensure farming practices do not interfere with ecological areas or national parks, delineate and preserve sensitive areas, use natural species in the creation of shade for the coffee plants, protect and preserve watersheds, reforest land not useable for agriculture, use good resource conservation practices, implement an individual conservation management plan and assess the possibility of product diversification. Most if not all of these recommendations will become mandatory requirements in the 2008 Fair Trade inspections process.

The second criticism is that the system is designed and focused more on the buyers than the actual coffee producer. The certification seems to be more of a way for large corporations to avoid the ‘60 Minutes’ phenomenon as opposed to offering a way for producers to a path towards improved living. While this may be an unjust criticism when looking at laborers on the large and medium-sized estates, the criticism does have validity when applied to the smaller producers.

The final major criticism is that the pricing scheme and certification costs are exorbitant for small producers. As the scheme uses independent certification agencies, it has no way to control the price each agency charges for certification. As such, the price is often more than small organizations can afford. There is also the possibility that since there is no price premium,

the costs will not be covered when the coffee is sold.

These criticisms are all true to some extent in that they address underlying problems in all the current sustainable coffee certifications. They are more resonant with UTZ certified as it has attempted to position itself as a certification that covers all aspects of sustainable coffee— quality, environmental and social. The fact that they have been unable to be successful in all the sectors makes them more susceptible to criticism, while at the same time more attractive to large corporations who want sustainable coffee but also want it at the lowest possible price.

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XII. Discussion Questions

1. Look at appendix. Identify the areas in the supply chain which are most vulnerable to cheating and why? Who stands to benefit the most?
2. What are the problems with certifying second-grade cooperatives that are not physically on the farms on a daily basis? Do the social/environmental gains make-up for potential cheating?
3. How effective do the annual inspections seem to be? Are their potential areas in which producers can cheat, especially at the group level? Is it fair that individual certificate holders seem to be held to higher standards than the others, at least in the sense that they are fully inspected whereas the group certificate holders are only partially inspected?
4. How effective do you see the Internal Control System being?
5. Look at the UTZ Certified (<http://www.utzcertified.org/index.php?pageID=111>) and the TransFair USA Annual Reports (http://www.transfairusa.org/content/about/financial_info.php). In 2005 UTZ Certified allocated 131,000 Euros but only used 83,000 Euros on promotion (based on approximately 1.5 million Euros operating income). TransFair USA on the other hand spent over 1 million dollars in consumer outreach programs just in the United States (based on 4 million USD in operating income). Do you feel UTZ Certified is doing enough to increase its brand to the consumer?
6. Which price mechanism do you see as more sustainable—a set premium or a price determined by the market? As such, why would the consumer be willing to pay this tax/donation to help coffee producers? Why should the consumer bear partial responsibility to pay the costs of larger estates?
7. Is there a place for both certifications? Why or Why not?
8. Which is the better method of providing coffee producers with social benefits—a set price premium and security? Or the skills to improve conditions through better farming and business practices?
9. How do UTZ's mission, standards, and certification process differ from Fair Trade's? Which label seems more robust? Which label are you as a consumer more likely to buy?
10. Discuss UTZ's reasons for keeping a low profile in the U.S. Does this decision make UTZ better able to address the social issues faced by producers? Does it enable UTZ to better respond to coffee buyer's needs? How does it affect UTZ's credibility?

XIII. Appendix

Appendix 2: External Standards

International Labor Standards: Defined

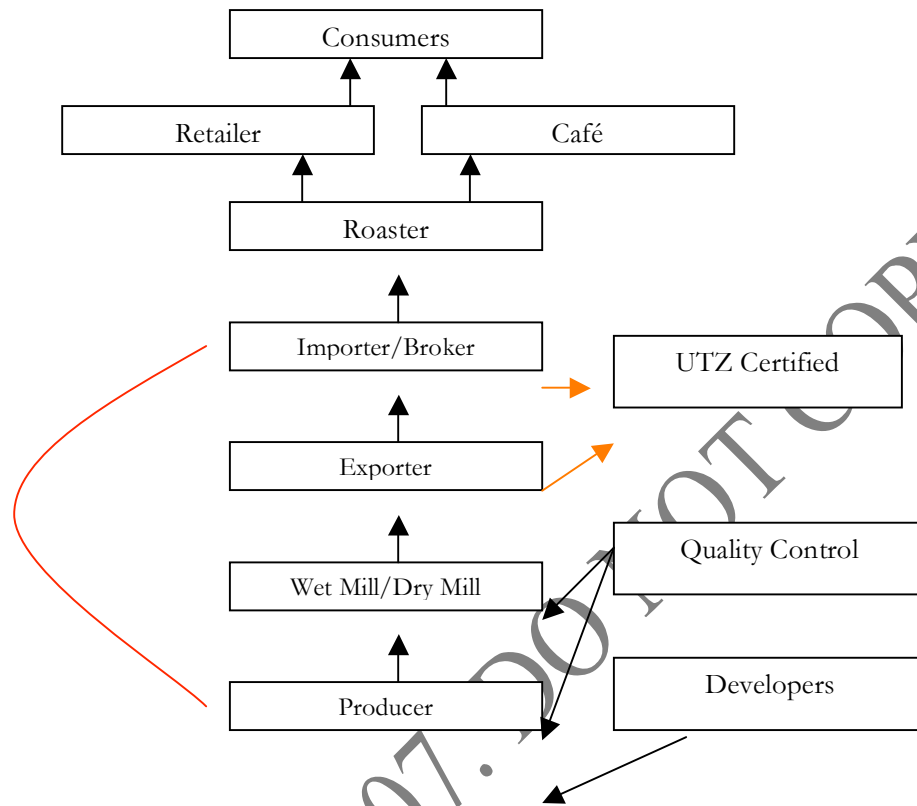
Today, the ILO has developed a comprehensive Decent Work Agenda which takes up many of the same challenges that the organization faced at its inception. The Decent Work Agenda aims to achieve decent work for all by promoting social dialogue, social protection and employment creation, as well as respect for international labor standards. The standards have grown into a comprehensive system of instruments on work and social policy, backed by a supervisory system designed to address all sorts of problems in their application at the national level. They are the legal component in the ILO's strategy for governing globalization, promoting sustainable development, eradicating poverty, and ensuring that people can work in dignity and safety.

European Retailers EurepGap: Defined

In responding to the demands of consumers, retailers and their global suppliers have created and implemented a series of sector specific farm certification standards. The aim is to ensure integrity, transparency and harmonization of global agricultural standards. This includes the requirements for safe food that is produced respecting worker health, safety and welfare, environmental and animal welfare issues.

- EurepGAP is a private sector body that sets voluntary standards for the certification of agricultural products around the globe.
- EurepGAP is an equal partnership of agricultural producers and retailers which want to establish certification standards and procedures for Good Agricultural Practices (GAP).
- EurepGAP is a pre-farm-gate-standard that means the certificate covers the process of the Certified product from before the seed is planted until it leaves the farm. EurepGAP is a business-to-business label and is therefore not directly visible for the consumers.

*The Coffee Value Chain*⁵⁶



1. The black arrows denote the normal operation of the conventional coffee Value Chain
2. The red arch denotes the ability of producers to move vertically along the Value Chain after becoming certified.
3. The orange arrows represent actors within the Value Chain who must pay a royalty to the third-party certification organization for coffee sold (usually on a per pound basis).
4. The boxes on the right indicate external actors (NGO's, Importers, or Certification Organizations) who are invested in the coffee production process.

⁵⁶ Karen Cebrenos, Elan Organic Coffees, www.elanorganics.com

Appendix 1

UTZ CERTIFIED CODE OF CONDUCT (Abridged)

Good Agricultural & Business practices

- monitoring business processes
- record keeping of fertilizers & agro chemicals
- good housekeeping practices
- workers trained properly
- implementation of accident and emergency procedures
- implementation of hygiene rules and practices
- traceability of coffee
- annual internal inspections

Social Criteria

- workers are protected by national laws and ILO conventions regarding age, working hours, pensions, working conditions, collective bargaining and safety
- workers receive training in their own language about safe handling of chemicals
- workers receive protective clothing for the use of chemicals
- access to health care for the workers and their families
- access to education for children
- access to decent housing
- access to clean drinking water
- freedom of cultural expression

Environmental Criteria

- reduce and prevent soil erosion
- responsible and minimal use of agrochemicals
- implementation of Integrated Pest Management
- minimize water usage and environmental pollution
- minimize energy use
- optimize use of sustainable energy sources
- treatment of contaminated water
- protecting water sources
- no deforestation of primary forests

- use of native tree species as coffee shade trees
- protecting endangered species

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CERTIFICATION BODIES—UTZ APPROVED

AFRICA

AfriCert Ltd	Kenya
IMO Institute for Market Ecology	Uganda/Tanzania
SGS Kenya	Kenya
BCS Oko-Garantie Gmbh	Ethiopia
Ceres GmbH	Uganda

ASIA

Café Control	Vietnam
IMO Institute for Market Ecology	India
Control Union (Skal International)	India/Indonesia
SGS Indonesia	Indonesia

CENTRAL AMERICA

Eco-Logica	Costa Rica
MayaCert	Guatemala
OCIA Mexico	Mexico

LATIN AMERICA

Café y Calidad	Bolivia
IMO Institute for Market Ecology	Bolivia/Brazil
BCS Oko-Garantie Gmbh	Brazil/Colombia
OIA Brazil	Brazil
SGS Brazil	Brazil
Control Union (Skal International)	Brazil/Colombia/Peru
Biotropico	Colombia
Ceres GmbH	Colombia

EUROPE (CHAIN OF CUSTODY)

Control Union (Skal International)	Netherlands
ICC Instituto Comunitario de Certificacion	Spain

JAPAN (CHAIN OF CUSTODY)

SGS Japan	Japan
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	Utz Kapeh	Fair Trade
Premium	A system paying a low premium only under certain market conditions was initiated in 2003 but has since been abandoned	Premium is always assured, at \$1.26 (C) and \$1.41 (O)
Yields and Quality	Limited impact on yeilds and quality	Indirect impact through higher income and ability to hire labor
Labor inputs	Moderately higher labor inputs	N/A
Market access	Limited but growing markets	Well established and reliable markets
Extension, Credit	Good extension services from NGOs and buyers, limited support from public extension services	Trade financing and traditional credit sources through the cooperatives
Organizational Capacity community impact	Strenghtens organizational activities	Increased organizational capacity, training, community projects
Environment	Limited environmental benefits	NONE
Risk, planning capabilities	Improved planning and pest management, reduced social risks	Guaranteed price reduces volatility risks