The Coffee Report:
Can Fair Trade Solve the Coffee Crisis?

History and Policy Project Course
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Department of History
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Preface

The report that follows was written by Carnegie Mellon undergraduates majoring in History and Policy. The specific questions raised, the evidence collected, and the analyses performed are the results of their collective efforts. In fulfilling my role as course instructor, I participated in both rather mundane tasks (e.g., making photocopies) and rather important ones (e.g., identifying sources of data). My most significant contribution was deciding to lead a course on fair trade coffee in the first place.

There were two primary motivations for choosing the topic. As a historian of Central America, the dire social consequences of the severe drop in international coffee prices were all too clear. But potential solutions to the problem were less obvious. I decided that the concept of "fair trade" coffee deserved a close look. In addition, I sought to find a way to connect my research interests to Pittsburgh, a place not well known for its links to Latin America. I was pleasantly surprised when I learned that Building New Hope, a local not-for-profit organization supporting community development in Central America, was importing fair trade coffee from a Nicaraguan cooperative.

I encouraged the students to follow coffee "from farm to cup" in order to appreciate the multiple actors involved in bringing this seemingly simple beverage to U.S. consumers. The task was not an easy one, but I believe that the students, aided by teaching assistant Alex Bennett, did an excellent job. But that is for the readers to judge. We would be delighted to receive your feedback.

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Introduction

Written by Tolga Erbay

The Coffee Report is a culmination of a semester's worth of research and analysis on the local and global coffee market by twelve undergraduate students in the Fall 2004 History and Policy Project Course, the capstone course of the History and Policy major at Carnegie Mellon University. The project course serves two purposes: to encourage students to use a wide array of research methods in order to provide a cogent, historically-informed analysis of a current policy issue, and to provide a report that is helpful and informative for the greater Pittsburgh community and beyond.

The scope of *The Coffee Report* is large. We researched the current coffee trade on both global and local scales, studying the supply chain from the environment itself to the coffee farmer, to the consumer - from "the crop to the last drop." The coffee trade has many players, including major coffee-importing corporations, government regulators, trade organizations, and a relatively new segment called "specialty coffee" roasters. But it doesn't stop there. The coffee trade also involves lobbying groups, advertisers, and even popular culture icons, as some have claimed that drinking specialty coffee is a sign of "privilege" or "hipness."

The falling prices of coffee on the world market have created adverse conditions for tens of thousands of coffee farmers. The world supply is eight percent above demand and overproduction in several regions are adding to the problem. The purpose of this report is to offer an analysis of the current situation and the potential for "fair trade" to offer a viable alternative to current trade models. Fair trade coffee is defined as coffee purchased directly from growers, cutting out as many steps as possible along the supply chain in order to maximize the farmers' share of revenues generated by coffee sales.

Both organic and Fair trade coffees are becoming increasingly popular; this report analyzes their effects on everyone involved in the trade, including farmers, roasters, consumers, and certifying organizations. This information is also intended to help a Pittsburgh-based non-profit organization, Building New Hope, in its efforts to increase both local awareness of the plight of coffee farmers worldwide and to alert consumers that they have options in what coffee they buy. Building New Hope is presently working in conjunction with a local roaster to sell coffee grown by a cooperative in Nicaragua.

Our research focused primarily on Latin America, the major coffee-exporting region during the twentieth century. We utilized a wide array of research methods in constructing the various chapters of this report. The large scope of the subject meant that the research had to be equally wide-ranging. To gain historical perspective, some students combed through online library databases, microfilm repositories, and government documents. In order to understand the current situation, other students interviewed relevant parties, including international Fair Trade Organizations, coffee industry representatives, and local roasters and coffee shop managers. Two students surveyed local consumers in order to measure levels of awareness of fair trade coffee.

This report represents fifteen weeks of research and hard work by students in the History and Policy program who believe that a historical perspective greatly informs their policy recommendations for the future. This belief, combined with our research on the current state of the coffee industry, brings forth a report that is wide in scope, yet specific and concise in results.

The Birth of the Coffee Nation: Coffee in U.S. History since the Revolutionary War

Written by Kim Mason

Have you ever ordered tea instead of coffee at a restaurant and noticed that servers come by every so often to refill your cup of coffee, but no one comes to refill your tea? Let's face it, coffee is the hot drink of choice in the United States, but how did it come to be that a former colony of England, one of the largest tea consuming countries in the world, imported 2.8 billion pounds of coffee in 2003?[1] Key events and historical processes, including three wars and an industrial revolution, have all contributed to the mass consumption of coffee in the United States. The major rise in consumption occurred in the nineteenth century; coffee imports to the United States rose from 9 million pounds in 1800 to 750 million pounds in 1900.[2] Coffee consumption continued to increase during the first half of the twentieth century. This paper traces the modern history of coffee consumption in the United States, a story of national culture, economic growth, and business innovation.

In early colonial America, people consumed more alcohol than coffee. Cider and beer were staple beverages. Even children would drink beer at the dinner table. Coffee was considered to be a poor substitute for alcoholic beverages.[3] However, coffee was not entirely absent in colonial America. Early on, coffee was mostly served in coffeehouses that catered to people of high social standing.[4] Colonial coffeehouses were hotbeds for political discussion and business transactions. Plans for the Boston Tea Party are said to have been established in a coffeehouse. However, for a majority of the people, tea was the hot beverage of choice. Unlike coffee, tea during this time was consumed at home often at the dinner table.

The monopoly on tea by the British East India Company created high prices, which benefited England. The Stamp Act of 1765, imposed by the British, made tea more expensive to drink than coffee. American colonists revolted against the high prices in 1773 with one of the most famous acts of political dissent in history, the Boston Tea Party. Drinking tea from that point on was considered unpatriotic; to be a tea drinker was to be a Tory. Coffee would be the new patriotic drink. It was not only a right, but a duty to drink coffee.[5] Women became active agents in promoting coffee drinking. In 1777, a group of women in Boston raided a local food warehouse in order to force some merchants to release coffee that they were holding in order to inflate its price.[6] During the American Revolution, the Continental Congress declared coffee to be the national drink.[7] Nevertheless, beer and cider were still the beverages of choice for commoners in the late eighteenth century. In fact, during the Revolutionary War, men in the Continental Army did not receive any ration of the so-called national drink in their food allotment, but they did receive beer and cider.[8] Coffee consumption continued to be associated with social elites. For example, the election celebration for George Washington was held in a New York coffeehouse.[9]

The popularity of coffee grew during the years of the early republic. When war broke out with Britain in 1812, all tea imports were cut off from the United States.[10] As had been the case during the Revolutionary War, it was again patriotic and necessary to drink coffee for lack of an alternative hot beverage. The beginning of the nineteenth century also marked a period of American fascination with French culture.[11] One of the ways this fascination manifested itself was through the consumption of coffee. (Coffee had become popular in France after the Turkish Ambassador introduced the drink to Louis XIV in 1669.)[12] In addition, the price of coffee also began to fall. Brazilian coffee was now inexpensive and easier to import to the United States than tea.[13] The combination of these two factors increased coffee consumption among both the upper and working classes. By drinking coffee, upper class Americans could emulate aristocratic French culture, while working class citizens could now participate in the coffee craze – thanks to inexpensive beans from Brazil - which had previously been reserved for the upper classes.

Coffee soon became a staple in American homes. In fact, although coffeehouses remained a presence in the United States, a majority of coffee was now consumed within the home. Coffee was easily purchased from the local general store in its green form and taken home and roasted in a frying pan. Roasting took about twenty minutes, but often produced unevenly toasted beans, which by today's standards would be considered an inferior product.[14] Kitchens in upper-class homes often included a coffee roaster turned via a crank. This machine produced a better product than roasting beans in a frying pan could, but in general home roasting and brewing was difficult, and resulted in uneven roasts and grinds that did not always settle. Recipes for coffee brewing added an array of ingredients such as fish, eggs, and eel skins to help grinds fall to the bottom.[15] Such attempts demonstrate the extent that people would go to drink coffee, even if it produced a fishy taste!

For westward bound settlers, coffee was considered to be an essential element that helped travelers to overcome the hardships of the journey.[16] Coffee was not only a source of comfort, but a tradable commodity; settlers introduced coffee to Native Americans, often exchanging one cup of coffee for a buffalo robe. Although today this may not be seem to have been an equitable trade, it shows the value that Native Americans placed upon coffee, a beverage that they called "kazuta sapa," meaning black medicine.[17]

Coffee prices remained generally stable during the early nineteenth century. However, in 1823, rumors circulated that France and Spain appeared to be headed towards war with one another. Anticipating an increase in coffee consumption (coffee was a staple of European armies at the time), Brazil and other coffee producing nations benefited from a sharp price increase from twenty to thirty cents a pound.[18] Unfortunately for coffee producers, the war never came and coffee prices collapsed, tumbling to eleven cents a pound.[19] These low prices would remain in place for the next thirty years. Although low prices hurt the economies of coffee producing nations, they helped to increase the number of coffee consumers in the United States. With prices at an all time low, more people then ever were able to afford a cup of coffee. Over this thirty year period, the number of U.S. coffee drinkers steadily increased. In the long run, the price low actually helped coffee producing nations to develop a larger consumer base than would have been possible had prices remained high.

The Civil War changed the way coffee was imported and consumed in the United States. For the first time in U.S. history, Army soldiers were given a daily ration of coffee – one tenth of a pound of green coffee.[20] Between 1861 and 1865, the Union Army was the largest single purchaser of coffee beans, buying forty million pounds of green coffee to distribute to its soldiers.[21] Union Army officials believed coffee was important in maintaining morale. A historian expressing a soldier's feelings about the importance of coffee wrote, "If it cannot be said that coffee helped Billy Yank win the war, it at least made his participation in the conflict more tolerable."[22] For Union soldiers, marches and meals always involved drinking coffee. For many, coffee drinking even became a game. Soldiers would often try to prove their masculinity by the amount of coffee they could ingest, some claiming ability to consume up to six quarts a day.[23] Coffee helped soldiers to pass the time and to take their minds off of the misery and brutality of the war. Soldiers took their coffee-drinking habits home with them following the war, creating a boon for the U.S. coffee industry. Many former soldiers also introduced their habits to their families, further increasing consumption.

Confederate soldiers were not as fortunate as Union solders in terms of coffee rations. Major southern ports were subject to blockade during the war, including New Orleans, which had previously been the dominant coffee-importing port in the nation. Subsequently, coffee shipments were detoured to New York, making New York City the important commodity port it is today.[24] As a result, coffee was hard to come by in the South. During the Civil War in Richmond, Virginia, coffee was selling for five dollars a pound.[25] In Atlanta, Georgia, a jeweler even set coffee beans in broaches instead of diamonds.[26] The Confederate Army found it difficult to obtain coffee at such prices for their soldiers. Instead, Confederate soldiers drank coffee substitutes, including concoctions made from acorns, peanuts, wheat, cotton, chicory, beans, sweet potatoes, rye, and corn.[27]

Army rationing of coffee put a strain on supply to the general public and prices generally increased as a result. The price for a pound of coffee when the war began in 1861 was fourteen cents. By 1862, the price had risen to twenty-three cents and jumped another nine cents by 1863. In 1864, coffee prices were around forty-two cents a pound.[28] Coffee prices thus increased by two hundred percent in just four years. This was hard on the average U.S. consumer. Besides the increase in coffee prices, the Union government placed a four cent duty on all imported coffee beans. In the years during the war, the number of non-Army coffee drinkers decreased. Forty-two cents a pound was just too expensive for the average consumer. Coffee mixes were common during this period because people loved coffee and decided mixing was a way in which they could still enjoy coffee but defray the price.

The Industrial Revolution would change the way Americans consumed coffee. Two inventions in the 1860s changed coffee forever. In 1864, an English immigrant named Jabez Burns invented the self-emptying roaster.[29] His roasters were convenient and produced uniform beans. They were an instant success and sold rapidly. The invention of a paper bag manufacturing machine, patented in 1859 by William Goodale of Massachusetts revolutionized the way coffee was sold.[30] Paper bags allowed coffee to be sold in lightweight yet durable packages, instead of tin cans, which were heavy and expensive. In the age of industrialization, with new inventions and the development of large corporations it is not surprising that the coffee had its own business giants. Many men successfully established themselves and changed the image of the coffee industry during the late nineteenth century.

In Pittsburgh, a grocer named John Arbuckle eventually came to specialize in coffee. His knowledge of coffee roasting combined with considerable business skills set the stage for his success in the coffee market. Consumerism acquired a feverish pitch during the industrial revolution, as Americans sought out items that would make their everyday lives easier. These included everything from wrought-iron stoves to coffee. Arbuckle capitalized on this idea, selling one pound bags of roasted coffee to Pittsburghers.[31] Pre-roasting proved to be an instant success and launched Arbuckle's coffee career. He soon expanded his business, employing fifty girls to package and label bags of coffee. In order to make sure that the pre-roasted coffee stayed fresh and to prevent staling, Arbuckle glazed the coffee beans with a mixture of eggs and sugar.[32] He developed a brand name, Ariosa, and marketed his beans as being better than any other coffee product.

Arbuckle can be considered one the first U.S. businessmen to market coffee through the development of a brand name. He regularly insulted his competitors like the Dilworth Brothers by using negative advertising to portray his competitors as having poor quality coffees and dirty, bug-infested facilities.[33] Arbuckle used advertising techniques which fit with the culture of the late nineteenth century, using pictures of housewives to promote his coffee. He developed advertisements that pictured women distraught over their inability to stop coffee from burning while being roasted. The advertisements suggested that these women would never be able to stop burning their coffee and should purchase Ariosa coffee instead. John Arbuckle was adept at understanding the human psyche. He knew how to play to customers and develop brand loyalty.

Arbuckle expanded his coffee empire by traveling around the country and later, the world. He left Pittsburgh for New York, the heart of the coffee industry, in 1871.[34] He soon opened a factory there and two more in Kansas City and Chicago. His coffee business eventually brought him to Latin America. He set up export houses in Rio de Janeiro, Santos, and Victoria, the three major Brazilian ports, in addition to a number of offices in Mexico.[35] Arbuckle understood that he had to go to the source of his product in order to control his supply chain. By cutting out a number of players in the supply chain and arranging to export coffee himself, Arbuckle eliminated middlemen and increased profits for himself.

Like John Arbuckle, Caleb Chase was also a grocer who established his own coffee empire around the turn of the century. After working in a grocery for a number of years, Chase became a coffee roaster.[36] In 1878 he met James Sanborn, from Maine, and the two men established Chase & Sanborn, which sold coffee and tea.[37] The two men catered to an elite clientele. They established themselves as quality coffee dealers, selling only high grade coffees that they shipped in tin cans.[38] They also hired salesmen who went door-to-door pitching coffee. In 1880, they expanded their New England business to Chicago and Montreal, and by 1882, were selling 100,000 pounds a month.[39]

Chase & Sanborn, like Arbuckle, realized the power of marketing and branding. They developed their company with a specific target consumer in mind and catered to that market. They were progressive in many senses and were more concerned with the long term success of their brand than they were with quick profits. When a flood hit Vermont in 1927, Chase and Sanborn forgave all debts owed to the company. If one of the company's clients became ill, Chase and Sanborn sent a salesman to telephone them. Chase and Sanborn was one of the first companies to send Christmas cards to all of its clients. The company also often accepted non-monetary forms of payment, including cotton.[40]

Their advertising techniques portrayed images of young girls looking into empty cups of coffee, happily envisioning the whole world drinking Chase & Sanborn Coffee.[41] Chase & Sanborn refrained from denigrating their competition. Chase was a calculated businessman, who knew how to talk to his customers and business associates. When interviewed by a female consumer who asked Mr. Chase for the best method of brewing coffee, Chase asked her which way she preferred her coffee brewed. After she recited her preferred method, Chase replied, "Well that's the best method."[42] Chase & Sanborn, like Arbuckle, knew how to cut costs and increase profits, but more importantly, they knew coffee. They sold good quality coffee and always sampled their own products. Through their efforts Chase & Sanborn capitalized on the idea of brand recognition and loyalty.

Two inventions in the early twentieth century made coffee easier than ever to consume. The process of decaffeination was invented in 1903 by Ludwig Roseluis.[43] He made it possible for caffeine to be removed from coffee beans without destroying them. After several decades refining the process, consumers were eventually able to enjoy coffee without the caffeine content, which today is known to have addictive qualities and questionable health effects. Decaffeinated coffee can be consumed anytime, day or night, without running the risk of sleep deprivation. Those who were afraid of the caffeine content now had nothing to worry about. They too could become part of the coffee nation. In 1903, Satori Kato, a Japanese chemist living in Chicago, invented instant coffee.[44] It would not be until several decades later however, that instant coffee sales surged. By the 1950s, waking up and enjoying a hot cup of coffee became even easier for U.S. consumers. All one had to do was add boiling water. In the fast-paced twentieth-century, time itself became a commodity; instant coffee made coffee preparation quick and easy.

At the same time that instant coffees became common, another approach to coffee drinking was re-emerging in the United States: the institution of the coffeehouse began to make a comeback. In the 1950s, Beatniks and other disaffected groups of young people began to congregate in coffeehouses. In the 1960s, hippies and college students descended on campus coffeehouses as a place to discuss politics and to organize protests against the establishment. In this sense, the coffeehouse continued to serve the role it had played in a much earlier time.

By the 1980s, the lure of drinking espressos and high quality cups of coffee in coffee houses had entered the mainstream. Since the late 1980's, the number of specialty coffeehouses exploded and became a part of mass culture. The astronomical growth of corporate coffeehouse chains, such as Starbucks, showed that coffeehouses succeeded not only by "brutally effective" marketing, but also by offering a place to relax and mingle with a variety of people. Starbucks claims that their coffeehouses are used by the public as a "third place" – a relaxed retreat where people can meet between home and work.[45]

However, the connection between coffee and politics has not entirely disappeared. For some coffee drinkers, Starbucks is a symbol of globalization and corporate greed; they prefer to hang out in independent shops and or local chains. For example, when a Starbucks opened up across the street from a popular independent shop in Pittsburgh, a local newspaper noted that the political divide became immediately obvious: "It's the patrons who ultimately come to define the coffeehouse, and the division among the customers at the two stores is clear. Any interested patron can see that the artists and hipsters that fill [the local store] far outnumber the sleepy-eyed students in Starbucks.'[46] In the end, while coffeehouses have continued to be places that serve as spaces for discussion and social interaction, they also tend to develop clienteles that share cultural and/or political values.

Historian Kristen Schwendinger wrote, "The growth of the coffee industry in America is not just a matter of taste."[47] Taste is undoubtedly a part of what makes coffee popular, but it is certainly not the only thing which influences the nation's coffee consumption. The canned supermarket brand Folgers, often considered low quality by coffee connoisseurs, is the best-selling coffee in the nation. Thus, it is certain that America's coffee tastes rely more on economics, marketing, and ingrained cultural practices than on what experts regard as a great cup of coffee.[48]

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Coffee and Development in Latin America

Written by Duncan Carroll

"At the end of the twentieth century, most Latin Americans still seek a means by which to develop economically in order to improve the quality of life of the majority of the people."[1]

The word "development" is heard very often in reference to Latin America. It is heard less in other countries such as the United States, primarily because the United States is considered to be a "developed" nation, while the nations of Latin America are not. Development can be difficult to define because it means different things to different people, but in general it is used to indicate ways in which people's lives may be made better. To a modern liberal economist, champion of globalization and the "free market," development means such things as the removal of government restrictions to trade, opening up markets and banks to foreign investment, and a government focused on infrastructure and industrialization. To a revolutionary socialist or Marxist, development means the equitable distribution of land, government control of trade, production and commodity distribution, and increased nationalism through "closed markets" and industrialization.

It is something of a misrepresentation to portray the 30 countries that comprise Latin America as an agglomeration because there are significant variations between countries in the region. To really get an understanding for why one country, for example, Jamaica, in the year 2000 had 13.3% of it's population earning under $2 per day, while in Nicaragua, in 1998, an astonishing 94.5% of the population earned the same amount, it would be necessary to examine each country's economy with a fine-toothed comb. Such an examination is beyond the scope of this paper, which is seeks to provide broad perspectives on Latin American development in the nineteenth and twentieth centuries and to examine the role that free markets and export economies, particularly the global coffee economy, have had in respect to the lopsidedness of this development.

There are several theories which attempt to answer some of the questions posed by the uneven nature of Latin American development—indeed, a whole crop of neologisms has sprung up around the subject—neoliberalism, neoimperialism, etc. You can learn a lot about a person by the way in which they rationalize lopsided development and its most disturbing consequence, poverty. Liberal economists tend to explain events in ways, which support free market theories. Marxists tend to explain events in ways, which support Marxism. Lawrence E. Harrison, a historian who for nearly twenty years functioned in Latin America as an important part of USAID, the United States Agency for International Development, has offered what might be called a psychosocial or anthropological explanation. In his book Development is a State of Mind, he asserts that the *creative faculties* of the people of Latin America are essentially underdeveloped, and if their society nurtured these capacities, development would occur naturally: "…the society that is most successful at helping its people … realize their creative potential is the society that will progress the fastest."[2] Curiously, according to Harrison, many of the requirements for realizing this potential are also listed as its outcomes: education, health care, and economic and political stability. Although the thesis may be elliptical, it illustrates the complexity of the subject—there is very definitely a psychological dimension to the problem. For example, societies who are not oriented towards the future, towards progress, but instead are oriented towards, say, "the glory of earlier times" may not be inclined to invent, create, or push for progressive political institutions.[3]

Other explanations usually focus on the role played by imperialist countries in dominating the smaller ones. And indeed, most if not all Latin American countries are mere

Davids to the Goliath of the United States and Europe. The extent of this gulf should not to be underestimated. For example, if Ecuador, a country whose predominant export is banana, were to deny sales to the United States, the impact on the United States would be negligible. On the other hand, if the United States were to discontinue banana imports from Ecuador there would be severe economic consequences. Since the economies of Latin American countries are not in a position to be self-sufficient and self-maintaining, their fates ultimately rest on the economic well being of more powerful economies. They in essence become satellites to wealthier nations. This idea is the basis behind what is known as Dependency Theory, an idea that gained much currency in Latin America and the United States in the 1960s. As a result of this dependence, Latin American economies are not capable of generating the kind of sustained internal growth necessary for development. Furthermore, national economies are put at risk by the fact that in many cases, foreigners own land, corporations, banks, and key natural resources. For many of these investors, their holdings in Latin America are one of many investments, and if it is not productive, they are liable to sell or abandon it without a second thought to the harm they may be doing to that nation's economy. As Alberto Torres, a Brazilian intellectual, wrote prophetically in 1914,

> "The Brazilian people have no idea of the national danger that suddenly confronts them. Foreigners control the national patrimony as well as the exports. Our territorial integrity, our independence, and our sovereignty all exist at the mercy of the great economic and military powers ... A people cannot be free if they do not control their own sources of wealth, produce their own food, and direct their own industry and commerce."[4]

To Luis Guillermo Lumbreras, a Peruvian professor of Andean archeology, it is not underdevelopment, but "misguided development" which is responsible for the state of Latin America today. In his eyes, the destruction of the Indian civilizations of the Inca and Maya and the loss of their traditional practices, combined with the imposition of Spanish colonial ways of life, which attempted to "make the New World like the Old", meant that subsequent generations growing up in the colonies learned not the centuries-old traditions which had served their fathers and grandfathers, but Spanish and Portuguese ideas about cultivation and civilization that were out of place in the Andes and furthermore "misguided."[5] By the dawn of the twentieth century, the situation became intolerable for many people:

"Latin Americans became acutely aware that as their economies grew, however, erratically, development remained elusive. Greater apparent wealth and manifestations of modernization seemed to etch more sharply the poverty of ever-larger numbers of the population . . . food for local consumption became scarcer and ... more expensive. If economic development had anything to do with the economic well-being of the majority of the citizens, then little development was taking place to the apparent frustration of many."[6]

But development, as a focus of government function, is a relatively recent phenomenon. At the time of the Spanish conquest, Latin America was simply exploited as a source of commodities by European nations. With the expansion of industrialization in Europe and the United States, Latin America, a prime source of cheap raw materials, quickly became enveloped in the processes of the global economy. From 1850 to 1930, exports from Latin America grew one thousand percent.[7] The majority of these exports were primary resources: crude oil, coffee beans, fibers, and fruits. The expanding empires of Europe and the United States demanded ever more raw materials to fuel their growth. Latin American elites, similar in culture and values to European elites, jumped enthusiastically at the chance to export the natural wealth of their countries for it was on the strength of this wealth that most Latin American countries began to modernize. By 1910, 61,000 miles of railways connected diverse regions of Latin America, quickening the pace of commerce. The promise of cheap primary goods spurred foreign investment in Latin America during this time period, creating a dizzying climate of wealth and prosperity for some parts of society. By 1913, estimates of European foreign investment were as high as $43 billion, and Latin American economies were growing rapidly. But the manner in which the wealth of these countries increased was not uniform in any way. Furthermore, some Latin American countries grew more than others. However, the boom did not last forever, and by the 1930s, in terms of wealth distribution per capita, the average Latin American emerged perhaps even worse than he or she had been just a few generations ago.

Among the consequences of the emphasis on export agriculture were rising prices of food crops and rising imports. Sebastiao Ferreira Soares, a Brazilian economist living in the mid-1800s, documented the trend:

"Ever since Brazilian coffee began to find bigger European markets and to become our major export, its price . . . rose, encouraging our producers to expand their cultivation of the crop . . . To a large degree, they abandoned the cultivation of food necessary to feed their workers . . . The result is an economic crisis that affects the country . . ."

In the mind of historian Bradford Burns, the results of this practice were clear:

"Export agriculture earned higher profits than did subsistence agriculture. Consequently, capital, labor, technology, and the best land tended to concentrate in the export sector of the economy to the detriment of the production of food for local consumption, and economic reality notable during the past half-millennium. As populations grew and urbanization increased at hitherto unprecedented rates in the nineteenth century, that reality adversely affected the diet of a majority of Latin Americans. Where once there was plenty, hunger and malnutrition appeared." [8]

The production of coffee went hand in hand with the sort of lopsided economic growth described by Burns—making its production central to many Latin American economies for several reasons: First, the requirements for its production meshed very well with the capabilities of Latin American producers. There is also a steady marginal demand for coffee in the world market—in other words, demand does not peak at a certain year and then fall off, as with other primary materials, but rather either stays constant as a factor of population, or in many cases increases. Coffee's place in Latin American economies is as an export crop. It is not a food crop, and thus its principal value is derived from its sale in global and domestic markets, in which it has proved an excellent source of revenue. Latin American coffee production has skyrocketed in the years since the mid 1700s, when production began in Haiti, to over 7.6 billion pounds per year in 1990.[9] Since that time period, world demand for coffee has grown tremendously, and Latin America has long been at the forefront of coffee production. Coffee was perhaps the most important crop during the export boom of 1850-1930. Brazil was the dominant producer during this period producing 82% of the world's supply in 1915, compared with 5% produced by Colombia and 7% produced in Central American countries.[10]

In the beginnings of the coffee boom in the 1900s, Latin America had a virtual monopoly on its production. Like sugar, tobacco, or any other "soft" drug, the market for coffee is a dream. In general, both coffee farmers and heads of state had but one goal: maximization of profits. In many cases, political leaders and coffee producers were very closely related—many authors speak of a "coffee elite" whose interests were very closely tied to the welfare of the state.[11] The single-minded focus on maximization of profits may have been beneficial for the coffee elite, but it was not as lucrative for the majority of the population. In part by producing too much for export, and not enough for subsistence, these economies made themselves over-dependent on the volatile global market. Thus, Latin American governments were forced to take out large international loans in order to import foods and other goods, which, due to land and labor being tied up in coffee production, were not being produced.

The production of coffee over subsistence crops has led to much controversy in Latin American politics. Free market models predict that export-oriented economies such as those in Latin America will benefit the general population due to economic expansion that leads to a diffusion of wealth from the wealthiest to the poorest. In Latin America in late 1800s and early 1900s, "liberalization" of the export economy was a significant political buzzword much like it is today. Then, as now, the idea of the liberal free market was upheld as an almost holy road by which Latin American countries would prosper. Although modernization in Latin American nations was facilitated to a large extent by coffee production, the idea that wealth would pass downward from the rich to the poor essentially revealed itself to be wishful thinking. According to the most recent data from the World Bank, poverty in every Latin American country, which reported figures at any time from 1987 to 2002, ranged from 16.9% in Colombia in 1991 to 65% in Haiti in 1987. (In the United States, the percentage of all persons below the poverty line in 2002 was 12.1 percent.) Using the Gini index, a measure of the degree to which income is imperfectly distributed (where a higher number corresponds to a more unequal distribution), most Latin American countries hover between 40 and 60, compared to the U.S. score of 40.8, and the UK's score of 36. These figures reveal the extent of the income inequality found in most of Latin America.

In 2002, per capita Gross Domestic Product (GDP) was approximately $3,045 for the entire Latin American region, in contrast to the United States, which in 2003 was estimated at $37,800.[12] High foreign debt is also a problem.[13] In 2001, the total debt outstanding in Latin America as a whole was $740.8 billion US dollars, or 38.7% of the total Latin American GDP. While this figure is a mere drop in the bucket of the United States' $7.4 trillion debt, the difference is that Latin America's historical political and economic instability diminishes the region's credibility with lenders. Furthermore, while the figure of $740 billion is an improvement over 1999's high of $770 billion, there is no indication that Latin America as a whole is in a position to begin substantial repayments. Given the lack of immediate prospects for dramatic economic growth, it is improbable that this debt will be resolved in the near future.[14] The perception of volatility, instability, and in general poor investment climate in Latin American markets is displayed in Standard & Poor's ratings of Latin American currencies against foreign currencies, which stand at "B" rankings, or below for nearly every Latin American republic, with the exception of the Republic of Chile, which is at an "A" ranking.[15]

Today, the price of coffee has been dropping and with it the standard of living of many Latin American coffee farmers. This price drop is partly due to oversupply, but also to the large number of intermediaries coffee beans must pass through in order to reach the mugs of consumers. In 1997, for every dollar spent on coffee by the consumer, the farmers received on average just five cents.[16] Large plantation growers can more readily absorb the impact of such price cuts, but for many small farmers they spell the end of their livelihood, and, like the impoverished countries that they often inhabit, these farmers are mired in debts, unable to "develop" their way out.

As the nineteenth century advanced, "market failures" became more and more apparent. Indeed, one would be hard-pressed to claim that the effects of the market have been, on the whole, beneficial, or just for a majority of people in Latin America. In many ways, global markets are like casinos. It is a dangerous place, home to sharks and bandits. There are winners and there are losers at every table. A nation walks in, converts their existing wealth into chips, and begins to play. Some Latin American governments seem to be addicted to gambling, although they continue to lose their shirts. When they lose, these nations go home to their families and explain that this is why they cannot eat tonight. But, they claim, if the family continues to have faith in them, then they will do better next time. But there is no virtue—no intrinsic humanitarianism to the casino—after all, it is a business. Nonetheless, *campesinos* and the urban poor continue to labor in the faith that one day they might be able to afford the good things in life. The siphoning of capital surpluses from the laborers of Latin America to the richer nations, by way of global trade and financial speculation has contributed to the revolutions, which have marked the twentieth-century history of Latin America. Indeed, one of the most glaring contradictions in the history of the United States – a nation born out of revolution against colonial rule - is the unwillingness of U.S. governments to support Latin American revolutions seeking to overthrow imperial and anti-democratic governments.

In 1961, during the peak of the Cold War and shortly after the failed covert Bay of Pigs invasion of Cuba by the United States, President Kennedy proposed his Alliance for Progress, a contract with several countries in South America which promised $21 billion in interest-bearing U.S. loans in return for cooperation with U.S. efforts to contain communism. Present at the inaugural ceremony was socialist revolutionary leader Che Guevara, who, representing Cuba, gave a speech to the delegates present explaining why Cuba could not participate in the Alliance for Progress. Che explained that to Cuba, the Alliance was more rhetoric than reality, and that more foreign subsidy would not ultimately affect the welfare of Cubans or Latin Americans in general:

> "... The fundamental root of our troubles has not been attacked; namely, the existence of foreign monopolies which interfere with our economies and also tie our international policies to outside dictates . . . There has been an insistence on solving Latin America's problems through a monetary policy, in the sense of considering that ... changes in currency, are going to change the economic structure of the countries, while we have insisted that only a change in the total structure, in the relations of production, can ensure the real creation of conditions for the progress of nations."[17]

Many authors, Latin American, North American and European, have written about Latin America from a similar standpoint—that it is a broken system in need of repair. These authors approach Latin America in order to understand, for example, why it is not like the United States, or why poverty is so widespread, or why development is not taking place or is not having the expected results. The implicit intention in these writings and reports, beyond the obvious purpose of disseminating facts and ideas, is presumably to actually accomplish change, to achieve the goals sought after by the noble humanitarian ideals to which these authors subscribe. Looking at the many theories that have been offered to explain Latin American "underdevelopment," one is struck by the diversity of explanations. This can, in part, be accounted for by the fact that there is no singular entity, which is "Latin America." Instead, there are approximately thirty interrelated political entities, each with its own diverse geography, culture, and history.

To the right of the political spectrum, we have advocates of free-market economies. To the left, we have, essentially, revolutionary socialisms. These two poles represent very different visions of the world that often correspond to the interests of social classes. One finds few free-market advocates among the poor of Latin America and even fewer revolutionary socialists among wealthy capitalists. Just as the winning team in a sports game is not likely to criticize the referees, the middle and upper classes in Latin America seldom criticize the rules of free market economics. Instead, these winners admonish the "losing team" for not trying hard enough, or, in a barbarous Darwinian smugness which goes in and out of style, feign regret at the observation that the losers were not fit to survive and prosper. This is seen very readily in the grandiose proclamations of Latin American policymakers during periods of high market prices for coffee and other exports. When they are winning the game, there is praise for the magic and glory of the market, but when prices inevitably fall, there is silence. In no case is there what might be called true international cooperation—the global economic system is founded upon competition. The development of stable, functional, affluent societies in Latin America is not simply a matter of establishing a "free market," as market failures need to be addressed in manners which do not simply give a hand-out to the hungry—the poor and disenfranchised of Latin America and indeed the world, will not be silenced until there is justice, equality, and balance in their lives.

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Comparing Coffee in Costa Rica and Guatemala

Written by Marissa Diaz

Introduction

There is no doubt that the introduction of coffee to Latin America has shaped the development of its countries, but each had a unique progression that cannot be generalized. Because Latin America has some shared culture and history it is easy to fall into the trap that oversimplifies each country's experiences as being one and the same for another country in the region. Despite popular belief in the United States, each country in Latin America has its own identity, where the manner of speaking varies, where the government runs specific to each country, where people have different values. One can infer the impact of the role of government in Costa Rica and Guatemala during the rise of the coffee trade by focusing on land distribution, obstacles facing the administration such as transportation and financing, and society. It can also be said that every country had a related experience but with entirely different origins, enacted policies and outcomes.

In 1821, both Costa Rica and Guatemala declared independence from Spanish rule. Shortly thereafter, Costa Ricans began to cultivate coffee. In Guatemala, coffee cultivation would not begin in earnest until the 1870's. During the colonial period Costa Rica's export industries were tobacco and silver mining while Guatemala produced and exported indigo. During the rise of the coffee trade, Europeans were a major market for Central America and leading investors in coffee operations.

In Costa Rica, wealthy merchants and traders of the region became coffee barons when coffee began to make profits during the mid-19th century.[1] Unlike colonial times, land ownership was not the definitive characteristic of power. The prime characteristic of the wealthy elite was prominence in land ownership and strong political and economic ties to the market.[2] In 1832, Costa Rica exported a meager 50,000 pounds of coffee. This volume increased tremendously over the years due to the demand of coffee, new technology and increase in labor. By the late 1930's, Costa Rica exported 55 million pounds of coffee.[3]

In Guatemala the elites were made up of merchants as well but ran the indigo trade. The reason it took long to begin cultivating was because of the elite merchants' restrictions on coffee production to a level that allowed existing facilities of indigo to yield greater profits. Once Guatemalans saw the success of Costa Rica and other nearby regions, they began to experiment with coffee cultivation.[4] In 1871 Guatemala exported about eleven million pounds of coffee. By 1885 Guatemala exported 51 million pounds of coffee.[5]

Land

The Costa Rican government took its first steps toward promoting coffee production shortly after independence. In 1825 President Juan Mora Fernández, exempted coffee from state taxes and granted land ownership to people who worked on plantations for five years. The government was motivated to make this policy because coffee production soared which increased the wealth of the country.[6] The presidents who followed Fernández also used their influence to further modernize the industry in Costa Rica.

In order to grow coffee, the government promoted the privatization of land. The government did this by imposing land taxes that the poor could not afford.[7] The lands that belonged to peasants passed to investors who wanted to grow coffee. This led to the transition of land-owning peasants in the fertile Central Valley region to wage workers that remained.[8] By installing export and custom duties Costa Rica faired well and developed quickly. But they were also dependent on the financial support of domestic wealthy farmers and foreign sources of capital. In order to pay back their creditors the government granted coffee growers land of equivalent value outside the Central Valley region. But land there had very low value because coffee could not be grown so in order to pay back even small debts the government had to grant huge tracts of land belonging to the peasants.[9]

In Guatemala, peasants made up of mostly indigenous people in Guatemala owned land prior to the expansion of the coffee trade. In the mid-1800's we begin seeing an increasing effort from the government that granted land to European immigrants and foreign investors.[10] The government hoped such a plan would force the indigenous population to become wage laborers and increase production and efficiency based on the belief that a greater white population would do so. In addition, the government also tried to increase the world's recognition of Guatemalan coffee.[11]

Transportation and Financing

Both Guatemala and Costa Rica had difficulty in transporting their coffee from highland regions to the Atlantic coast of Central America where European traders sent their ships. Both countries came up with the same solution to solve this problem: railroads. The countries also incurred large debts in their efforts to construct them.

In Costa Rica, shipping beans from the highlands to the coast took a long time and was an expensive and wasteful process since accidents often occurred, spilling tons of beans down the mountain roads. The government decided to build a railroad to the Atlantic

Coast but lacked the funds for such a project. They asked London financiers for several large loans but trading companies held large commissions and a very small sum of the money actually went into building the railroad. Construction on the railroad began in 1872 but technology failures and minimal financial backing slowed progress. The government asked the railroad companies to continue the project in the hope that a railroad would generate revenue, but instead it plunged Costa Rica into more debt. In order to pay the debt, more land was granted to foreign and domestic investors. In order to generate profits from the railroad, the builders began to cultivate bananas. They hired African-Caribbean immigrants to work on the railroads. These immigrants often settled and cultivated bananas. This increased the population and formed a new society in the lowlands. The railroads were finished in 1889.[12]

For Guatemala an inadequate transport network presented a major obstacle. Unfortunately, the roads were very poor and rugged so spilling accidents like in Costa Rica often happened. The government tried looking for investors but they were turned down by many. Finally in 1877 California capitalists agreed to construct a railroad. When it was built, the high debt did not help Guatemala and they had to give all their profits to foreign investors. The government then tried to give control of the railroad to local investors so they pay back the foreigners but they refused. In its last attempt, in 1883 the government instituted a compulsory popular investment to fund nationally-owned Northern Railroad from the working citizens of the country. Of course mass opposition rose and the enactment never gave the government sufficient funds to pay back. The railroads were finished by the late 1880's and the railroad company would eventually be acquired by a US company, United Fruit, which produced bananas. The majority of Guatemalans remained very poor.[13]

Society

Following the introduction of coffee Costa Rican society witnessed a peasant-to-farmer transition in agriculture. Smallholding was the predominant form of ownership between 1850 and the early 1900's. The impoverishment of the less landed became apparent. In Costa Rica as in Guatemala, wealth was distributed very unequally before the coffee boom. There existed much inequality between land-holders and laborers who depended on wages for income.[14] Over time social classes became sharply defined and included the coffee processor/estate owner, the non-processor producer and the land-poor producer/wage laborers.[15]

During the Conservative period in Guatemala, before the cultivation of coffee, in Guatemala between 1837 and 1871 allowed a period of economic expansion for indigenous peasants. Wealthier peasants were likely to exercise local power rather than the elders. Population increases broke up the extended patriarchal family and decentralized communities. With the rise of coffee cultivation, Guatemala developed a distinct division in classes as well, with a wider gap between the rich and the poor.[16]

Costa Rican elites did not control all aspects of the government but their influence enabled them to influence policies intended to encourage and maintain the growth of the coffee trade.[17] There existed conflicts between processors and producers in Costa Rica. Coffee growers felt processors and financiers made up an oligarchy. Well-to-do coffee growers owned large estates without involving themselves in processing so they struggled to maintain social position. Their sons married carefully, they migrated, and restricted partible inheritance to avoid erosion of family power. They retained their land and cash resources to keep independent of any other social class while others were financially dependent on processors.[18]

Smallholders faced difficulties with family land transmission: lotification (division of land lots) and out-migration. They tried to build up land through guile, industry and marriage but were often unsuccessful because land divisions were too little to work with.[19] Peasants remained a distinct class and retained ethnic identity separate from that of non-peasants. The coffee economy for peasants meant a struggle to survive, early death, low wages, and chronic underemployment. Workers were not paid well, and were usually hired only during harvesting season or if they had family ties with the agriculturists.[20]

Guatemala developed oligarchies that directed the central state apparatus, not local politics. They deregulated government controls over coffee producers in order to benefit their needs and increase their profits and investment. Regional elites were people of white and indigenous ancestry, or ladinos, who shared similar economic traits with smallholders of Costa Rica. They controlled local politics in peasant communities and directed aspects of internal commerce. However, they did not have economic control over peasants which was atypical of elites in Latin America. Instead, they controlled the masses through political means. Plantation oligarchies became the national elites and their power was rarely contested by another group. The State did not prevent the intimidation, exploitation or expropriating of peasants from happening. In turn, only large producers had power to obtain forced labor.[21]

The majority of the population was indigenous people who were forced to migrate to harvest coffee and earn wages. The government tried to prevent this in fear of a revolt but the demand for coffee called for land and labor. The newly introduced labor system of forced migration and labor began a life of servitude for peasants, dividing families and lowering their living standards.[22]

The twentieth century marked a change in political governments for Costa Rica and Guatemala. This came out of dissatisfaction of the rural class of both countries. Costa Rica's transition from a conservative, laissez-faire, capitalist government to a liberal, moderate intervention and regulation government in the 1940's was essentially bloodless, a very rare occurrence in Latin American politics. On the other hand, Guatemala remained a centralized, repressive regime of power. There were peasant revolts that killed many leaders and retaliation to the family farm communities followed.

In the first half of twentieth century in Costa Rica well-to-do landowners experienced an increasing land pressure and a downward mobility. In order to ease tensions between the elite and the rural community the state began to intervene and began the process of legitimizing the role of state. This democratization decreased the power of the elite. From the 1920's through the 1940's liberal governments adopted moderately reformist policies which included legislation to regulate relations between processors and coffee producers as well. In the 1950s, the Costa Rican government began to promote coffee grower co-operatives.[23]

Guatemala's growing dependency on the coffee trade was damaging to the society and reinforced by powerful oligarchs. This dependency obviously forced producers to take drastic measures to hire laborers at minimum or no wages. Peasants became more impoverished after WWII and the 1944-54 reform government did little to sway forces over Guatemala's internal pattern of development except they did abolish forced labor laws in 1945. But in reality the reformers, who represented a small, educated bourgeois, wanted to share wealth and power held by oligarchy. The struggle between these two groups led to U.S. intervention in Guatemala in 1954.[24] An authoritative and repressive government took power that kept oligarchs in power and was characterized by corruption, nepotism, and violent repression of indigenous populations.

Conclusion

Through the coffee trade Latin American countries were given the chance to expand their economies without the rule of their former colonizers. Yet money, power, and recognition were and remain driving forces that move policy makers towards unjust ways of implementing policy. The economic well being of these nations became highly dependent on coffee and policy measures tended to reflect the need for maximum productivity with lowest costs of production.

However, each country has a unique experience that shaped the political and social development of the country. In the case of Costa Rica the coffee trade partitioned the population into three classes. Eventually after much dissatisfaction from the working class the government saw that by moderately intervening it can suppress large producers' power and protect workers' rights. This led to a structured, democratically run country. In Guatemala, less democratic forces have governed that exploits workers including the large indigenous population.

It is difficult to account for the differences between the two countries in the same region. One factor may have been that Costa Rica simply had more experience growing coffee than Guatemala by a 50-year head start. The building of the railroads also left Guatemala destitute but Costa Rica managed to escape some of the repercussions with a great amount of foreign and domestic investment. One can also infer that race-based policies played a major role. Guatemala was inhabited by a majority of indigenous people who were forced off their land and coerced into forced labor. The government implemented policies intended to "bleach" the society by inviting European settlers to live and work in Guatemala. This prejudice led to exploitation by the government and revolt and violence on the part of the population.

Today, international agencies and investors are also helping the working class of these countries by fighting exploitation and creating jobs. Fair Trade organizations promote democratic structures and the just treatment of workers including fair wages, healthy and safe working conditions, and fair prices for crops. They try to cut out middlemen and any form of corruption that endangers farmers, increases unnecessary costs, and harms the environment. They also try to educate farm communities to be self-reliant and confident of their rights. These organizations are currently operating in many coffee-growing countries including Costa Rica and Guatemala. In order to be successful, such organizations will have to consider the different histories of the Latin American nations.

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Land in Nicaragua:
From The Coffee Boom to The Sandinista Revolution

Written by Matt Merewitz & Stephanie Broff

Historical analyses of Latin American coffee societies often focus on big producing countries such as Brazil and Colombia. However, as historian Julie Charlip notes, "While Nicaragua's impact on the coffee market was minimal, the coffee market's impact on Nicaragua was enormous."[1] The expansion of coffee production in Nicaragua, where coffee has been cultivated for export since the 1870s, had a major affect on land ownership. This paper examines how land ownership in Nicaragua evolved over the course of the twentieth century and how these changes shape present conditions for rural workers and landowners. The history can be broken into three periods: from the 1870s to the 1930s, government land policies were designed to stimulate economic growth through export production. From 1930 to 1979, the policies of the Somoza family that ruled Nicaragua were intended to establish and consolidate their power and control over much of the country's arable land. Finally, the third period, from 1979 to 1990, was marked by the Sandinista Revolution and its leaderships' attempts to implement an agrarian reform program that sought to break up the Somoza's land holdings.

The "Boom" Years

In the early nineteenth century, Nicaragua experienced an economic recession. The government turned to coffee as an export crop capable of bringing foreign capital into the economy. Coffee's popularity was on the rise at this time in Europe and the United States, and the Nicaraguan government sensed an opportunity to enter a growing commodity market. However, as late as 1858, Nicaragua was not producing as much coffee as the government thought to be possible. In order to encourage people to cultivate the crop, the government passed a law exempting coffee growers and their employees from serving in the military during times of peace. But the laws providing military exemption did little to increase coffee production. The government would need to address land ownership if it wanted real change. Traditionally, scholars have described the rise of the coffee economy in Nicaragua as a phenomenon that led to the systematic expropriation of land from the peasantry.[2] However, in the nineteenth century, the opposite was true. According to Pablo Levy, who lived in Carazo province in 1870, "there is seemingly an infinite amount of virgin soil, so that, in general, when one wants to form a plantation, he begins by looking for a vacant plot of land, whether virgin or abandoned, and when he finds one he likes, he claims it."[3]

According to historian Julie Charlip, whose analysis of the Carazo province in western Nicaragua (the first coffee-producing region and one of the most densely populated areas) is a detailed case study of the local property registry, the Nicaraguan government provided land through *ejidos*,[4] properties that local governments leased to farmers. The land given to towns for ejidos came from *terrenos baldíos*, unclaimed lands that belonged to the state. An estimated 65% of the land in Nicaragua in the mid-nineteenth century was *terrenos baldíos*.[5] In other words, the government owned most of the land in Nicaragua in the mid–nineteenth century but was gradually giving it away to spur growth in coffee production.

When it came time to harvest, small farmers generally didn't have the credit to finance the labor-intensive harvesting of coffee. In these situations, they borrowed from lenders. Often such lenders also owned large tracts of land in the surrounding areas.

Individuals with initial capital concentrated on converting unclaimed pasture into coffee cultivation, and expanding the land under their control.[6] An unfortunate result was that many "small-scale farmers with their own farms [fell] into a cycle of poverty, whereby their small production levels limited their access to credit, in turn hindering their potential for increased output."[7] Payment for debts usually came in the form of coffee or another crop. But as farmers sunk deeper and deeper into debt, often the only way to bail out was to give up title to one's land and move on or rent the land from the debtor.

Even though land was free for the taking early on, the majority of Nicaragua's agricultural workers were "landless peasants who lacked access to permanent employment opportunities, or [unable] to generate their full subsistence requirements."[8] Relations between landless workers and large landowners, who needed laborers to harvest crops, were tense at best. The fact that these groups lived close to one another often resulted in an arrangement where direct producers (farmers and rural workers) provided labor services to landlords in order to gain access to land to grow subsistence foodstuffs for themselves and their families.[9]

In the early 1870s, coffee production in Nicaragua began to take off. According to Charlip, "It is clear that a great deal of Nicaraguan farmland was converted to coffee production."[10] Still, as late as 1871 coffee constituted only 10% of Nicaragua's exports. This is the major reason why the government wanted to change the nature of *ejidos*. In order to encourage more permanent farms that would produce exports rather than just subsistence goods, the government issued a decree in 1877 that attempted to force people using *ejidos* to pay for the land that had earlier been given to them for free. According to the decree, the land would be auctioned off and if people in the vicinity didn't purchase it, the sale would open up to neighboring villages. However, this law was not enforced in very many villages as many small farmers maintained their small plots without paying for them. In 1881, the government modified the earlier law, stating that the people who worked *ejidos* had the right to purchase their plots, and if this was not an option, they were to pay rent on the land. These laws sought to dispossess the land from the peasants. The latter of the two laws was more effective. "Peasants without title to their land parcels...were readily pushed aside by the expansion of the coffee haciendas."[11] By the 1880s, coffee became Nicaragua's leading export. This was the beginning of the coffee boom in Nicaragua.

In 1877, the property registry was created for the Carazo province. These records make it possible to see the expansion of lands planted in coffee during the boom period in Western Nicaragua. According to records from 1909, coffee production had risen to 4.7 million pounds from 472,250 pounds in 1880. A mere ten families owned 49 percent of the land in Carazo and 46 percent of the coffee trees.[12] A small handful of wealthy landowners dominated the coffee market during the coffee boom. However, Charlip argues that small farmers continued to participate in the coffee trade. Her evidence is drawn from Carazo, an important, but relatively small region. It is not clear that other regions throughout Nicaragua echo this region's story. Small growers were probably active at one time in the buying and selling of land, but it is fair to say this was certainly not the case for most people in the years following this period when a brutal family dictatorship ruled Nicaragua from 1936 through 1979.

The Somoza Years

In 1936 following a bitter power struggle, Anastasio Somoza Garcia, the leader of a US-trained and supported Nicaraguan National Guard, assumed power. Somoza immediately began to amass the largest private fortune in Nicaraguan history at the expense of rural workers and elites alike. With military support, wealth, and the backing of the United States, he and his family members would rule Nicaragua for the next 43 years. As president, Somoza gave Nicaragua stability in the eyes of the United States. The economy grew, new agricultural exports such as cotton and beef were developed, and the foreign debt was paid off. But all of this came at a high price. Corruption, violence, fraud, and inside deals dominated politics. When members of elite families rebelled against Somoza's rule they were exiled. Individuals with less influence who rebelled were often imprisoned, tortured, or killed.[13]

The Great Depression caused many rural agricultural workers to lose their land. Later, the expansion of the cattle and cotton sectors initiated a massive wave of farm consolidation. Both sectors occupied huge amounts of land, displacing more small growers than coffee had when it became the big export crop seventy years before.[14] From a logistical standpoint, cotton is an annual crop and requires pesticides and fertilizers which had to be imported at high cost to growers. Most small growers simply could not afford such expenses. The Somoza government's insistence on the development of these sectors served to make many thousands of rural smallholders and medium landholders part of the rural proletariat. "The end result, in classic fashion, was to create a mass of landless workers free to sell their labor power...freed of their means of production. The majority formed part of the rural labor reserve [which was] employed only during labor-intensive harvest periods."[15] In 1973, of the 228,000 workers employed during the cotton harvest, only 26,000 had year-round employment.[16]

The Somozas not only managed to control the Nicaraguan government and military, but also the economy. They controlled almost all of the major markets, and the majority of the land. If the Somoza family themselves did not own a large tract of land, it was highly probable that it was owned by one of their close associates. These associates maintained positions of power and influence throughout the Somoza reign.

Beginnings of the FSLN

In July 1961 four university students dedicated to righting the social injustices of their country formed the Frente Sandinista de Liberacion Nacional (Sandinista National Liberation Front or FSLN). The four were Tomás Borge, Carlos Fonseca Amador, Silvio Mayorga and Santos Lopez. The name Sandinista comes from General Augusto Sandino, a liberal general from the late 1920s and 1930s who led a guerilla army of rural workers and peasants against occupation forces from the United States and their Nicaraguan cohorts. Sandino also pursued an aggressive social agenda by denouncing the socioeconomic conditions of the time and demanding an end to peasant exploitation.[17]

In the early 1960s, Sandinista-led workers engaged in armed struggles with Somoza's National Guard. The results were discouraging. They didn't have enough logistical training and lacked a good knowledge of the terrain. Also, they didn't have enough grassroots support to be effective.[18] They changed their strategy to incorporate the spreading of the word through "liberation theology," with the help of sympathetic members of the clergy. Early on, they focused on preaching the anti-Somoza cause to agroindustrial workers in the most densely populated region – the Pacific coastal areas (such as Carazo) where workers were highly concentrated.[19] By 1974, the Sandinistas were successful in incorporating the poorest Nicaraguans peasants into a guerrilla movement. Once they gained the peasantry's support, they had ensured their survival.[20]

A national assembly of agricultural workers took place in the village of Diriamba (Carazo province) on March 25, 1978. This mass meeting led to the formation of one of the Sandinista Front's most important organizing bodies, the Asociación de Trabajadores del Campo (Association of Rural Workers or ATC). ATC was basically a union of agricultural workers. "Apart from direct military involvement [in the insurrection], the ATC denounced the repressive Somoza regime in public demonstrations, organized land invasions in the Chinandega province, and set up centers for the training of Sandinista fighters. These public denunciations of the dictatorship increased ATC's credibility among the rural proletariat."[21] Prior to the insurrection, the ATC announced its first "Plan de Lucha," which set out the organization's objectives. They called for higher pay, an end to exploitative practices by their employers, better conditions (especially in rural processing plants where workers handled toxic materials), an end to child labor, equal pay for women, an end to sexual exploitation, the right to organize labor, and an end to the repression of rural workers by the Somozas.[22]

Revolution: The Sandinista Years

In 1979, the Sandinistas, backed by a large coalition, succeeded in overthrowing the Somoza government. The Sandinista's governing structure included nine major revolutionary leaders who each had equal say on all matters. These nine members included founders Borge, Mayorga, and Lopez (Fonseca, generally thought of as the true father of the modern Sandinistas, had died during the revolution). Another member of the Directorate was Jaime Wheelock Román; a central figure to the story of Sandinista land reform. His seminal work, *Imperialismo y dictadura (Imperialism and Dictatorship)*, published in 1975, is what most scholars who write on the Sandinistas base their analysis of modern Nicaraguan history on.[23] Wheelock's book and his other writings said that the roots of Nicaragua's poverty and oppression could be found in the introduction of coffee in the late nineteenth century. He claimed that national and community land was usurped and a proletariat formed, with most of the land converted into latifundios.[24]

Wheelock had been forced to leave Nicaragua during the years of Somoza rule because the regime knew he was a potentially threatening figure. "This situation also put others who knew me in danger...I finally decided to take asylum in Chile, from 1970 to the beginning of 1971 while [Salvador] Allende was still in power."[25] Wheelock worked in the agrarian reform of the Allende government. This would prove useful later on. He returned secretly to Nicaragua in 1971, where he spent several years "organizing among Nicaraguan groups, including farmworkers, urban workers, students and women."[26] Thus Wheelock was particularly fit to head the agrarian reform efforts.

A major part of the Sandinistas' plans were in the agricultural sector because of their time spent with the rural workers in the mountains during the early stages of the party's life. By the time the Sandinista Revolution had brought about the Somozas' collapse in 1979, more than 52 percent of Nicaragua's total area was owned by 4 percent of Nicaraguan families.[27] Twenty percent of Nicaragua's arable land – (2,000 farms) – was owned by Somoza and his associates. The Sandinistas were concerned with increasing agricultural production (slowed by revolutionary activity) as well as embarking on an ambitious program of agrarian reform that would "transform the land tenure structure and provide the rural population with different forms of access to land, credit, technical assistance and other services."[28]

The Sandinista leadership envisioned a mixed economy. This meant that in addition to goals of collectivization and nationalization of certain parts of the economy, they planned to retain much of the private urban and rural property that could be maintained efficiently and in a manner that was tolerable to the workers. "While Socialist ideology may have played a major role in the establishment of a state farm tenure system over most of [the] confiscated estates, distributing these farms and their agroindustrial components among the landless...was a risk the [Sandinistas] were not willing or able to take."[29]

Along these lines Wheelock said in an interview that "in fact, state ownership is relatively small – it represents barely twenty percent of our [economy]. In addition to state enterprises, the Nicaraguan economy includes hundreds of thousands of small agricultural producers, known here as the 'middle bourgeoisie,' which plays an important role in building an independent economy. In contrast to the system under Somoza, we gave reality to [the concept] of a mixed economy."[30]

The first step was to legalize land redistribution and carry it out. The systematic and symbolic confiscation of all lands held by the Somoza family, their military officers and followers, as well as other lands (such as land illegally held or unused), followed. "The legal and institutional foundations necessary for a complete process of agrarian reform we laid out at this time. Decrees No. 3 of July 20, 1979, and No. 38 of August 8, 1979 [authorized] confiscations of all rural properties – some two million acres - owned by the Somoza family and its cronies. The financial system, the export of agricultural goods, and natural resource industries were also nationalized."[31] Scholars David Kaimowitz and Joseph Thome of the Land Tenure Center at the University of Wisconsin noted that this process was relatively painless compared to other countries where such sweeping changes usually engendered unrest in the upper echelons of society. In Nicaragua, because most of the landowning class and rural petty bourgeoisie opposed the Somozas, land reform did not meet much resistance at first.[32]

In January 1980 a fusion of the Sandinista Institute of Agrarian Reform (INRA) and the old Ministry of Agriculture created the new Ministry of Agricultural Development and Agrarian Reform (MIDINRA).[33] MIDINRA managed the state farms, tried to help increase production, and generally made sure rural workers and peasant farmers were active participants in the agrarian reform process. Organizing the land into smaller state-run farms turned out to be a challenging task. There weren't many people who had experience running large farms. For this reason, MIDINRA kept many of the Somozas' lower-level managers. Although this solved some problems, it created many more. These administrators often retained ideas about workers acquired during the Somoza years giving rise to considerable tensions. Nevertheless, by 1984 there were 92 *empresas* (companies) representing over 1,000 Unidades de Producción Estatal (UPE) that employed 64,855 workers."[34]

The state-run farms which produced export products were the focus of Sandinista attention. This created a major problem: a lack of a large domestic food supply. With such a focus on producing export goods, the domestic food supply became a serious issue for Nicaragua. The state run farm system, as it was set up, did not allow peasants access to land. Clearly, not everyone was happy with the way the Sandinista government controlled agriculture. Since the primary concern of the Sandinistas was national unity, they quickly realized they needed to broaden their agricultural policies to include poverty, unemployment, and the production of domestic food.

Although the Sandinistas controlled a significant portion of the farmlands in Nicaragua, the private sector still accounted for 72% of cotton production and over half of coffee, tobacco, and cattle farming in 1980 (Deere, 82). The Sandinista administration saw this issue as one that needed to be corrected in order to maintain national unity. In May 1980, a law was passed which lowered rental rates by 85 percent and made it illegal to evict a tenant. The Sandinista government also provided extensive credit to peasant producers without regard to whether they owned land. They felt that this would encourage cooperative organization. The ATC organized the cooperative initiative, which focused primarily on rural farmers and peasants. According to Carmen Deere and Peter Marchetti, "The success of this drive was immediate."[35] A growing number of rural workers and peasants ahd joined cooperatives by June.

The Sandinista's credit system primarily aided medium sized and small farm owners who formed an important part of the Sandinistas' broad-based constituency. The actual output rates of export products did not match pre-revolution rates.[36] Deere and Marchetti believe that the fundamental reason for this problem was that the Sandinista policy was not peasant friendly. The ATC continued to focus the majority of their energy on the workers rather than landless farmers. Access to land continued to be a problem for many Nicaraguans. Despite the fact that landowners were supposed to make land accessible at low rental cost, this was not occurring: "It was becoming evident that more fundamental changes in the approach to the peasant sector were necessary."[37]

The ATC also faced problems created by class divisions. Since the ATC represented the interests of agricultural workers who had a highly defined class-consciousness, the small and medium-sized landowners felt disenfranchised. Many ATC leaders and members had experienced injustice at the hands of these same producers during the years that preceded the revolution. Many of these producers, who supported the Sandinistas as well, were left without a voice in the ATC. These problems came to a head in 1981 when farmers and ranchers formed the Unión Nacional de Agricultores y Ganaderos (National Union of Farmers and Ranchers or UNAG). UNAG swallowed up many people who had earlier been part of ATC. Between 1980 and 1985, ATC experienced a net loss in membership of 11,000.[38]

The Agrarian Reform Law of 1981

One of the most important developments of the Sandinistas program was the 1981 Agrarian Reform Law. It called for the conversion of inefficient latifundia into agricultural production cooperatives. This law arose because the people's desire for land exceeded the amount offered by confiscated Somoza property. Many ATC members felt the government was not living up to its promises of giving land to rural workers. At the same time, landowners insisted that "security of tenure was a prerequisite for raising productivity."[39] By converting idle land into productive farms the Sandinistas sought to increase the domestic food supply. According to Wheelock, "the objectives of the agrarian reform were to cement the alliance of the peasantry to the revolution and to ensure provision of cheap food."[40] The agrarian reform law made it possible to confiscate abandoned land for redistribution. The distribution of land would be done at no cost to the people and the law set no limits on size of farms or the number of people who could be considered owners of a particular piece of land. In fact, collective ownership was encouraged.

By 1982, forty-five percent of all previously landless workers belonged to cooperatives.[41] The success of the cooperatives caused an increase in UNAG membership and strength. A problem that surfaced as a result of increased accessibility for rural workers to land was a shortage of seasonal labor (which was essential to coffee production and other agro-exports the country depended on).

The Contras

By the summer of 1982, a U.S.-backed counter-revolutionary group called the Contras began to gain momentum. Based in Honduras, the Contras attacked Nicaragua throughout 1982 in attempts to disrupt the country's ability to export goods.[42] The slow pace of the Sandinista agrarian reform led many people in Nicaragua to support the Contras. In addition, a considerable number of small farmers who had received land during the Somoza era and felt betrayed by the Sandinista reforms joined the Contras.

Charlip argues that the Sandinistas did not look to history in planning for their agrarian reform: "Wheelock expected to find landless workers interested in collective landholding or a guaranteed wage on state farms. Instead he found smallholders in unexpected numbers and a desire for land even among the proletarianized or semi-proletarianized workers...These workers wanted what they historically had had."[43] Because of widespread discontent, the Sandinistas decided to decentralize the agrarian reform by giving the ATC more control in order to speed up the process. This seemed to work quite well. The number of families who received land dramatically increased in 1983, and the cooperative movement was still strong.[44] Despite this, a combination of cut-off support from the United States and poor weather caused an overall decrease in agricultural production for the year.

Special Land Titling

The 1984 elections revealed that "support for opposition parties had been strongest in areas where under ten percent of the peasants had received land"[45] This caused the Sandinistas to reevaluate their position on individual plots of land. UNAG realized that they had not given enough attention to landless peasants. They shifted their attention away from cooperatives back to individual producers – in particular, the landless. UNAG pressured MIDINRA to distribute secure land titles to workers who had been on certain plots of land for years.[46] "[MIDINRA] sought to maintain or increase the political support of the [rural workers] by fulfilling their long-stranding desire for secure titles."[47] Photographs of the revolution's early years constantly show poor workers holding up their framed land titles. By giving workers the confidence that the government was truly behind them, the Sandinistas could count on these workers to put up resistance to counter-revolutionary groups such as the Contras.[48] It is important to stress that most of the land granted with special titles was not new land (the workers who received the titles had already lived on the land for many years but had no legal proof to support that claim).

On January 11, 1986, the Sandinistas announced their revised Agrarian Reform Policy. One of the most important revisions was the first article that gave "rights to private property over land to all those who employ it productively and efficiently."[49]

This meant that anyone who worked on a plot of land that was not otherwise owned had the right to claim it as long as they continued to produce at efficient rates. The Sandinistas maintained a production oriented agrarian reform system. While they previously focused primarily on breaking up large farms, the 1986 modifications shifted attention to smaller landholders and landless peasants.

Coffee continued to be a major product in the Nicaraguan economy. In 1985, production of coffee decreased significantly due to Contra violence and sabotage. (Collins, 252). In order to increase production in the 1986 harvest, the government tripled prices that were paid to coffee producers. A drought in Brazil during the same year increased coffee prices in the world market, which also helped the producers in Nicaragua to make more money and produce more coffee. By 1986, more people were able to own land and the cooperative movement had gained much support.

Conclusions

Far from the Soviet-style dictatorship the Reagan administration thought it to be, the Sandinista government based its power on a concept of "national unity." The Sandinistas' work in the agrarian sector was initially filled with great promise. However, this promise was undermined both by ideological splits that ruined the concept of "national unity," and counterrevolutionary forces (Contras), supported by the CIA, who sought to capitalize on these internal splits and destabilize the Sandinista government. Carmen Diana Deere, an economist who specializes in Latin America, has argued that the combination of the Contras and Wheelock's mistaken assumptions, weakened the Sandinista's agrarian reform program:

> The main thing that went wrong with the Sandinista agrarian reform was the Contra war, which soon debilitated the country and shifted resources to the war effort.

The Sandinistas underestimated the peasants' desire for individual, private plots. That [unfulfilled] promise became a recruiting tool for the Contras. Jaime Wheelock was an urban intellectual who had very strong relations with UNAG and the ATC, and it was the latter in particular that supported the state farm model. UNAG always favored production cooperatives and individual [worker] holdings. The alliance did not last for long which is why UNAG and ATC became separate mass organizations. UNAG came to represent the broad class coalition between small to medium rural landholders and the rural petty bourgeoisie.[50]

In 1990, the Sandinistas lost power to a coalition of political parties. However, fourteen years later, hundreds of cooperatives are still in existence, many producing coffee. One of the most impressive of these cooperatives is PRODECOOP, an amalgamation of seventy-one smaller cooperatives that contain coffee processing facilities on the premises. PRODECOOP supplies California-based fair trade businessman Paul Katzeff with his popular Thanksgiving Coffee. Katzeff is known both for his pioneering role in educating consumers about fair trade and for his current efforts to educate Nicaraguan producers about marketing their products to U.S. consumers. "Working with the Cooperative League of the United States (CLUSA), Katzeff received USAID funding to build nine [coffee-tasting] labs for Nicaraguan grower cooperatives in rural regions."[51]

Equal Exchange, another fair trade retailer started by paying fair prices for small amounts of Nicaraguan coffee—called Café Nica—to support the Sandinista revolution of 1979. Equal Exchange support enabled many cooperatives to keep their land when the Sandinistas lost power in 1990. In the new pressure-cooker environment, farmers started their own grassroots organizations like Segovias Cooperative Development Program (SCDP), which provides technical support, credit, and marketing services to local co-op farmers. Nowadays Equal Exchange purchases about 10% of the coffee of SCDP's larger successor, PRODECOOP, which serves over 2,500 farmer-owners. More importantly, reports TransFair USA's director Paul Rice—who spent 10 years working with Nicaraguan cooperatives—'Equal Exchange has been an educator and advisor to the project, helping PRODECOOP managers to learn the ropes of international coffee marketing and make contact with other fair traders'."[52]

Although their tenure ended following the 1990 elections, the Sandinistas achieved a great deal. Charlip credits the Sandinistas with securing democratic elections in a relatively short amount of time. Despite their policies being undermined by the Contras and largely reversed by their successors, the Sandinista legacy lives on in the agrarian sector. The cooperatives initially created to address rural workers' and smallholders' concerns with landownership, have survived a very trying time for the international coffee industry. The fair trade movement offers coffee cooperatives continued sustenance.

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[2] Julie A. Charlip, "So That Land Takes on Value: Coffee and Land in Carazo, Nicaragua" *Latin American Perspectives* (Jan. 1999), 26(1): pp. 92-105.
[3] Charlip, *Cultivating Coffee*, p. 40.
[4] Plots of communal land that belonged to a town.
[5] Charlip, *Cultivating Coffee*, p. 58.
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[10] Charlip, *Cultivating Coffee*, p. 31.
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[16] David Kaimowitz & Joseph R. Thome, "Nicaragua's Agrarian Reform: The First Year (1979-1980)" Madison, WI: The Land Tenure Center, 1980, p 3.
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[18] Ibid., p. 51.

[19] Ibid., p. 52.
[20] Ibid., p. 53.
[21] Ibid., pp. 53-54.
[22] Ibid., p. 54.
[23] Charlip poses a fundamental flaw in Wheelock's groundwork.
[24] Charlip. *Cultivating Coffee*, p. 4.
[25] *Listen, Companero: Conversations with Central American Revolutionary Leaders.* San Francisco: Solidarity Press, 1983, p. 87.
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[30] CENSA, *Listen, Companero: Conversations with Central American Revolutionary Leaders,* San Francisco: Solidarity Publications, 1983, p. 92.
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[37] Ibid.
[38] Luciak, pp. 56-57.
[39] Ibid., p. 303.
[40] Deere and Marchetti, p. 90.
[41] Ibid, p. 96.
[42] Ibid., p. 98.
[43] Charlip, "So That Land Might Take on Value," p. 93.
[44] Deere and Marchetti, p. 99.
[45] Charlip, *Cultivating Coffee*, p. 223.
[46] Luciak, p. 303.
[47] Ibid., p. 120.
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The Human Face of Coffee: Labor in Central America

Written by Kelly Bunch

Coffee is a major source of income and livelihoods in many tropical nations, including Central America.[1] Unfortunately for Central America and its people, the coffee industry is not as dependent on Central America. Coffee producers used to have more control over the supply and price of coffee. However in 1989, coffee-exporting nations could not come to an agreement on coffee quotas, and the International Coffee Agreement fell apart.[2] In addition, organizations such as the World Bank and the IMF began to encourage free trade in pushing countries like Vietnam and Indonesia to grow coffee.[3] Other drinks such as soda also made consumer's demand for coffee decrease. All of these events led to an international surplus of coffee--making its price plummet.

Between January 1998 and December of 2003, the price of coffee on the world market fell by more than half. Furthermore, some estimates indicate that coffee growers capture as little as ten percent of the market value of the coffee compared to 33 percent just ten years ago.[4] As a result, many small farmers have lost their farms. International aid organizations estimate that over 500,000 agricultural jobs have been lost in Central America and Mexico.[5] In order to survive many small producers had to lay off thousands of workers, or sell their farms completely because fertilizer and seed were more expensive than the money earned from growing coffee.[6] In 1998, just as the coffee crisis was beginning to affect Central America, Hurricane Mitch struck the region and claimed the lives of over 10,000 people. This was another terrible blow to Central Americans.[7] In 2001, coffee prices plunged to historic lows, and thousands of coffee laborers lost their jobs forcing their families to migrate in search of work and food. While the coffee price crisis and Hurricane Mitch both contributed to the current depreciation of the standard of living for coffee workers in Central America, life for coffee laborers before these events was never easy.

The constantly changing political climate in addition to the dependency on coffee as a single commodity has put coffee workers and coffee farmers in Central America at an extreme disadvantage. Although each nation has a different political history that has shaped labor conditions today, almost all of Central America shares a historical dependency on coffee as a chief export. Losing footing in the coffee market has severely weakened efforts to improve labor conditions.

Regulations in many Central American countries concerning labor are rarely enforced today. Coffee laborers – often children - in Central America experience horrible working conditions, acute malnutrition, and disease from polluted water and chemicals in pesticides and fertilizers.[8] These conditions affect entire families as a result of unemployment and neglect from their governments. In addition to outlining the historical events in Central America that contributed to this situation, this paper portrays the daily experiences of coffee workers and describes efforts to improve living conditions.

Central American cooperatives and international non-profit organizations have tried, and are still trying, to improve the labor crisis in Central America. Some organizations are pressuring coffee industry giants like Starbucks to buy fair-trade coffee; other organizations try to provide more immediate relief by providing food, clean water, and medical supplies to homeless families displaced by the crises. [9] The United States government, while encouraging nations to enforce labor laws and providing some aid to

Central America, continues to push free trade agreements which ultimately disfavor small-scale farmers and laborers by forcing them to compete on an unlevel playing field. While coffee labor unions have had a strong effect in some respects, it is ultimately impossible for them to protect their members' interests if labor laws are not enforced, and this is the case a majority of the time.[10] Several individuals working to improve the current labor situation in Central America believe they are making a difference, however they do not see their solution as a permanent one.[11]

Current Labor Conditions in Central America

In Costa Rica coffee workers rise as early as 4:30 AM to begin working in the coffee fields. Groups of men, women, and children stand huddled around coffee bushes throwing the cherries they pick into the four or five coffee baskets they carry with them. Men and women work alongside each other. Men lift heavy coffee sacks to the measuring station, while women remain vigorously picking the coffee cherries off of the bushes.[12] On large coffee plantations, children are very important to farm work. In addition to harvesting coffee, they guard their family's bags against theft from another family. Since the decline in coffee prices, many farmers are replacing older men with young boys who are paid less for the same amount of work.

Coffee workers are paid in accordance with how many cherries they pick (i.e., piece wage rates), making the labor relatively seasonal for when the cherries are ripe. Most young men pick around six to eight baskets or *cajulas* on a daily basis. Some of the best workers can pick up to fifteen when there is an ample supply of coffee. Workers earn lower wages as a result of "dry" seasons when the quality and ripeness of coffee cherries decreases. The ripening of only a few berries in each cluster make coffee harvesting harder on all coffee laborers. This forces coffee workers to roam from farm to farm everyday in search of work and pay. At times, many of these workers found harvesting to be a desperate situation where they resolved their anger by mixing dirt and twigs inside the coffee in order to increase their load.[13] As one Costa Rican harvester complained while grabbing a coffee branch, "I heard that the bushes were bursting with coffee! But they are all green!"[14] Coffee laborers' work is often interrupted by food breaks or other "leisure times" where the workers remain idle when their labor is not needed. In these cases workers would spend their time talking to other laborers, and trying to find another farm where there is work. This is the situation in Costa Rica – by far the most affluent Central American nation - of coffee workers who can find a job. There are many rural workers throughout Central America who cannot find even temporary work and those who can rarely make enough to support their family.

In the past couple years, the value of Guatemala's coffee exports fell from $600 million to $320 million and unemployment rates in rural areas reached 40 percent.[15] A five member family in rural Guatemala would have to earn eight dollars a day to meet minimum living requirements; however the minimum wage is around $2.60 a day, and is rarely enforced. The average household income in 2000 was $127.37 a year. According to data published in 1998, the costs of basic necessities such as food, clothing, education, health care, clothing, and transportation for a family of five was $312.72 a year. The average number of inhabitants per home is 5.9 people, whereas the average number of rooms per house is two. A study done by COVERCO, a non-profit organization, found that 91 percent of coffee workers in Guatemala reported working longer than 9 hours per day, and 83 percent reported not being paid overtime. Anecdotal evidence from the same study suggests that the only available water around is often not potable. Many might look to education as a way for children of coffee workers to escape the hardships of agricultural life. However, children of coffee workers seldom have the luxury of getting a good education. COVERCO found that 82 percent coffee workers reported either no formal education or an incomplete primary schooling. In the end many farmers have to gather their families together and move from rural areas to cities in order to find work.

A more personal perspective of Guatemalan coffee cultivators and workers is revealed from the living room of planter Don Ramón. While he can afford to put dinner on the table for his family, every 100 pound sack of coffee his sons tow down the mountain brings his family about $14.[16] The plot of land they live on is around half an acre and this year they will be lucky if they harvest 2,500 pounds. Ramon's weekly income is $17 dollars (approximately $850/year), considerably less than Guatemala's national average annual income of $1500.[17] However Ramón is better off than most Guatemalans. Almost 75 percent of Guatemalans live in poverty and almost 60 percent are unable to meet basic nutritional needs.[18] For families who have been kicked off of the land that they have been working for generations, the situation is even worse. Their wages which were initially inadequate are cut in half because it is cheaper for employers to just hire them for seasonal work. Without land, there is no way to grow food for them to eat. And benefits including housing, health care, and education are beyond comprehension for most families.

A similar situation is found in Nicaragua. Families in Nicaragua that had been working the same farms for decades have been forced to leave and find food or work elsewhere. The largest number of unemployed coffee workers is in Jinotega and

Matagalpa, Nicaragua. In Matagalpa, there were over 3000 starving unemployed workers in 2001. The bankruptcy of coffee farmers left over 70,000 workers jobless. Coffee workers migrated to the city of Matagalpa where they set up makeshift tents and shacks and begged for food and work.[19] José Angel Pérez, a laid off worker, stated that, "It's not easy to grab your sick children and get on the move...But when the kids start clinging to you and saying, 'Daddy, I want food,' you have to do something."[20] If this were not heartbreaking enough, there are arguably even worse conditions in other places in Latin America.

In Brazil, one of the largest coffee producing nations in Latin America, there are accounts of modern day slavery. In 2003, Brazillian authorities claimed they had freed over 800 slave workers from a coffee farm in the state of Bahia.[21] The workers were never paid and had no money to return to their homes. In 2003, labor inspectors found freed over 2000 workers from forced labor in the Amazon region alone. Beth Herzfeld, a Anti-Slavery International spokesperson stated, "Very poor, desperate, young men are being targeted. In Amazonian, what happens is agents promise good wages to these men, who have no opportunities where they live. But when they reach their destination they are told they are in debt and they have to pay for their own tools and transportation so they are trapped in a form of bondage labor." When inspectors visited the farm, they found that 70 percent of the workers were seriously ill. There is an estimated 25,000 people who live in slave-like conditions in Brazil although slavery was formally abolished in 1888.[22] While the Brazilian government has taken measures to bring to justice those responsible for forced labor, the persistence of such harsh exploitation is a reminder of the desperate circumstances in which many farm workers continue to live.

Child Labor

Children perform a number of task on coffee farms. They prune, weed, and fertilize coffee plants; sort and transport coffee beans; and haul supplies on the farms. In 1995 the US Department of Labor reported that children as young as six years old helped their parents harvest coffee. In 2003 an IPEC (International Programme on the Elimination of Child Labor) study of Coffee Producers in Costa Rica found that child labor occurs on both family farms and large plantations. Children in these farms usually work more than eight hours a day, and are exposed to toxic pesticides. During the planting season in Honduras, 20 percent of the labor force is children, and during the harvesting season, 40 percent of the labor force is children.[23] A study by the University of Central America found that 2,500 children under 14 were working in the coffee fields of Jinotega and Matagalpa in Nicaragua. Most of the children interviewed worked six days a week; less than one half had attended school the previous year.[24] Only 31 percent of those who went to school managed to advance to the next grade; two-thirds of the coffee working children cannot read.[25] At this point it is more urgent for the children to work so that their families can survive than to attend school. Regardless of whether child labor laws exist or not, most governments do not enforce them because of the desperate economic situation that faces Latin America.

Occupational Health

Major health and safety hazards that coffee laborers are exposed to include injuries from tools, motorized machinery, hearing loss or impairment, muscoskeletal injuries from repetitive and forceful movements, poisoning and long term health problems from pesticide use or exposure, respiratory problems, snake and insect bites, and stress.[26] One woman helping to feed and employ these poor workers described the living conditions of a family in rural Yucul, Nicaragua:

"No one had a latrine, no one had a source of water other than a polluted river two kilometers away...The plastic roofed home was about 10 by 12 feet, had a very uneven floor, and was home to a husband and wife and their three small boys...The walls were formed by boards separated by large gaps. It must have gotten quite cold at night, and I saw no bedding of any kind." [27]

According to the same article, one hundred and thirty-seven families in Yucul had contracted disease from drinking polluted river water that was contaminated by the three coffee plantations that were dumping coffee pulp into the river.[28] One coffee worker, Justo Caesar Mendoza, worried about his sick daughter because he cannot afford to buy the medicine to help her recover. He took her to a public clinic where a doctor diagnosed her with parasites and anemia, and wrote a prescription. "What can I do with a prescription if it's only paper?" asked Justo, "She can't eat paper." [29] In Guatemala, up to 85 percent of children under the age of five experience malnutrition and almost 95 percent of non-Spanish speaking children are affected by stunted growth as a result.[30] Many diseases and illnesses among coffee workers are a result of their work. Studies have shown that chronic respiratory symptoms were significantly higher for coffee workers than other workers (the control group). These studies show that exposure to dust in green or roasted coffee processing plants may lead to persistent loss of pulmonary function.[31] The combination of unsatisfactory working conditions, malnutrition and hunger, and overexposure to coffee dusts, pesticides, and fertilizer chemicals all contribute to the extremely poor health of many if not most coffee workers in Central America.

Coffee workers fighting for their livelihoods

In August 2003, after the death of 14 Nicaraguans due to starvation, 5000 jobless coffee workers and their families marched on Managua. Two more died of starvation and malnutrition on the way. The government of Nicaragua negotiated with the marchers to allow the unemployed workers to buy 14 farms from the government that the protesters had already been occupying. These farms will be purchased at 40 percent of their value over 25 years with no interest. Another part of the agreement was that the government would provide temporary work for 5,000 workers in addition to food packages and farm supplies for the land. The government followed through on their promise of temporary work, providing jobs that paid $2.3 a day without food. However, once the work was over, the government did not give the workers any land. In 2004, Nicaraguans walked once again to Matagalpa to pressure the government to come through with their promise.[32]

Similar events unfolded in Honduras in September 2002. Honduran police used tear gas and night sticks to disperse more than 1000 coffee workers protesting for more farm aid. Twenty-four people were injured and over 500 coffee growers were arrested. Over 120,000 coffee workers demanded their government to provide $20 million in promised loans. The farmers also protested because the government wanted to add a three percent interest rate to $40 million in previously interest free loans.[33] Central American coffee workers are not willing nor physically able to take more economic losses. They have to either stand up to their government and demand results, or they will face starvation. However at the same time, the way labor is contracted is detrimental to the coffee workers. It is more profitable to use seasonal or daily contract laborers than permanent employees. This saves employers from having to provide year round wages and benefits to their workers. Having seasonal labor makes it almost impossible to create worker movements or unions.

Coffee Cooperatives

There are several non profit organizations and cooperatives dedicated to help resolve the coffee crisis. Oxfam America and Oxfam International, the U.S. Labor Education in the Americas Project (USLEAP) and Global Exchange all have launched campaigns intended to pressure U.S. companies to participate in Fair Trade. Oxfam has developed several policy recommendations that address the coffee crisis including the destruction of stock piled beans to reduce the supply, cash crop diversification, and the promotion of fairly traded high quality, "specialty coffees."[34] Smaller organizations are also involved in assisting coffee workers. Nicaragua Net, an organization dedicated to spreading the word about human rights, labor, and environmental issues that affect Nicaragua, and the Ernesto Gonzalez Foundation are supporting a twenty-family cooperative in San Ramón, Guatemala to plant beans and corn and raise livestock in order to meet their basic food needs.[35] In Pittsburgh, Building New Hope, a small foundation, is currently buying coffee from the El Porvenir Cooperative in Nicaragua. Building New Hope is paying the cooperative above fair trade prices.

USLEAP, a Chicago-based organization dedicated to improving labor conditions for Central American workers, has urged the Starbucks Coffee Company to be an industry leader in taking responsibility for ensuring that coffee growers who supply

Starbucks pay their workers decent wages and provide safe working conditions.[36] In 1995, Starbucks agreed to create and adopt a code of conduct that ensured that they would buy coffee from only growers who paid fair wages and upheld the rights of their workers. Starbucks also agreed to start a pilot project in Guatemala. After a two year delay, the company recommitted itself to the code and began a program to provide growers with $500,000 to improve working conditions.[37] While Starbucks is ahead of most of the larger coffee corporations in promoting fair trade, its programs to date have not had much success. Other coffee giants such as Kraft, Nestlé, and Proctor and Gamble make more than one billion dollars in profits every year from coffee sales, yet they refuse to participate in fair trade. "They know there is terrible human suffering at the heart of their business and yet the do virtually nothing to help," states Oxfam director Adrian Lovett.

The Recent Role of USAID

U.S. economic policy is partially responsible for the dependency of Central American nations on coffee as an export crop. The US is also the largest coffee consuming nation in the world. In 2002 the US Agency for International Development (AID) launched a new Central American Initiative that provided 8.5 million dollars in 2002 and 30 million dollars in 2003 to help the region to recover from the 2001 coffee crisis. The money was targeted to create opportunities for agricultural diversification and off-farm employment for those in need. From 2002-2004 USAID has given Central America more than $35 million to invest in these objectives.[38] I was not able to research how this aid has affected conditions in coffee-growing regions, but it is a step in the right direction toward helping improve conditions in Central America.

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Conclusion

In Central America, coffee provides livelihoods for tens of thousands of people. The recent history of civil wars combined with neoliberal economic policies have contributed to great hardship in rural regions. Small-scale coffee planters receive a tiny fraction of the current market value of coffee. For every three dollar coffee beverage sold in the United States, farmers like Don Ramón only receive approximately two cents.[39] Processors, exporters, transportation companies, advertising agencies, roasters, retailers and other intermediaries pocket the rest. One has to ask who benefits the most from the current economic model. According to one observer, the answer is clear: "Not....the thousands of starving coffee workers in Nicaragua. Not...[ones] who obediently cultivated coffee for export for years, only now to lose everything. Not U.S. coffee drinkers who continue to pay $2.50-$3.00 for a cup of coffee. Large transnational coffee distributors now get to pocket the difference."[40]

Unions, coffee cooperatives, human rights groups, and non-profits are dedicated to improving working conditions. They continue to provide support by both supplying coffee families with food and shelter, and by promoting fair trade. Some coffee corporations such as Starbucks have started to participate in fair trade in response to pressure from organizations such as USLEAP, but the pace of change is very slow. Central America is dependent on coffee, and cannot survive today without outside aid. This dependency on global commodity markets has weakened Central America's ability to recover from crises such as Hurricane Mitch. The United States, while supplying relief aid to the coffee workers sporadically, remains committed to the economics of "free trade," that generally favor huge coffee companies such as Kraft, Nestlé, and Proctor and

Gamble. Even with fair trade, the immediate future looks grim for the coffee workers of Central America. The cycle of dependency on unstable export markets will continue to expose workers and their families to great risks. While free trade might be the most logical economic policy for generating profits for some of its participants, the history and current situation of Central America's coffee laborers demonstrates how this logic does not account for the basic rights of working people.

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Agroforestry, Technification, and the Environment

By Sarah E. Strauss

Coffee is one of the most important commodities traded in the world today and it has a large effect on culture, trade, and economics. Unfortunately only recently have the environmental effects of growing and producing coffee been studied. Coffee is grown in a variety of ways, ranging from agroforestry settings (shade coffee) to the most 'modernized' agricultural techniques (sun coffee). It is becoming more and more apparent that 'modernized' or technified agricultural practices have significant negative effects on the environment. Some of the environmental impacts of technification are the use of a great deal of chemicals that can have harmful effects on humans and animals, the loss of biodiversity, and deforestation. Agroforestry, which uses the same land to grow many crops, tends not to need as much hands on care and chemicals to sustain it, keeping production costs low and providing a back up source of income if the coffee market fluctuates.

Until recently the majority of coffee was grown without the addition of pesticides and herbicides. In many cases coffee was grown under shade. The non-sustainable sun coffee is a relatively new development in coffee growth and production. The Green Revolution which started around the 1950s led to a change in agriculture. There was a push to develop new farming techniques to increase yields worldwide. These new technologies included an increase in the use of chemicals to increase production in agriculture, the use of "miracle" seeds (hybrids and disease resistant), and new irrigation techniques which could extend the growing season. Many developed countries helped other countries to adopt these new technologies by funding their use and providing the new seeds and irrigation technologies.

By the 1970s these new technologies enticed many people to enter the coffee industry. Many Asian producers joined Latin Americans and Africans in the hope of making a significant amount of money aided by increased production capabilities. Technification also altered production methods in older coffee regions. For example, PROMECAFE a Costa Rica-based program was a major force in promoting technified coffee. Their idea was to "intensify production via Green Revolution-like strategies"[1] There was a rush to 'modernize' farming practices to help prevent diseases that pushed many coffee growers to change from their traditional farming practices to these new ones as well. In Latin America there was a large fear of agricultural diseases. "The most popular response was a technological one proposed by the United States Agency for International Development. With the coordination and financing of USAID or on their own, governments throughout the region implemented or participated in programs to technify their coffee."[2]

At present, coffee is grown under a variety of systems. Traditional agroforestry or "Rustic Coffee" is the least disruptive method of growing coffee on the environment. (Agroforestry is defined as an agricultural technique where many different species of plant life are grown together in the same area.) A rustic coffee system consists of farmers inserting coffee plants directly into a forest with minimal clearing or addition of any chemicals. Next is "Traditional Polyculture" which is very similar to rustic coffee, but the farmer plants other species of plants in addition to the coffee. "Commercial Polyculture" systems usually have higher outputs of coffee than rustic systems, but fewer total plant species. The "Reduced Shade" system has a single canopy plant (tree) and many include two or three species of plant life other than coffee. These systems require a large amount of additional maintenance. The most technified method is "sun coffee" where coffee is grown in a monoculture. This system requires the most chemical fertilizers, pesticides, and fungicides.[3]

Rustic Coffee, Traditional Polyculture, and Commercial Polyculture provide additional food and/or income resources to the grower. Many farmers include timber woods that can be sold when the coffee market fluctuates. They may require some maintenance, but very little in the way of chemical inputs. These three systems can be referred to as agroforestry systems. Some of the additional plant species commonly found in coffee agroforestry systems in Latin America are bananas, citrus trees, Aceituno, Aguacate, Guabilo, Hule, Jobo, Laurel, Mora, Palo de Leche, and Zapote. [4] In Reduced Shade and Sun Coffee systems the sole purpose is the growing of coffee. Both of these systems require chemical inputs and labor intensive clearing and pruning throughout the growing season. I will refer to these two types of managements systems as "technified" agriculture

While there is some research on specific areas on the environmental effects of different coffee management systems, there is still much to be done. The full effects of technification on the environment in the coffee industry are not fully known. There are three main areas in which to assess the environmental impact: the use and effects of pesticides, deforestation, and loss of biodiversity. As with most environmental systems, changes in one part of a coffee ecosystem can affect another area. All three of these issues are of great concern to the overall survival of the coffee lands.

Coffee and Pesticides

Pesticides are used in some agroforestry systems in small amounts, but they tend to rely on chemicals far less than technified systems. L. Soto-Pinto, I. Perfecto, and J. Caballero-Nieto looked at the relationship between "ecological features of shade and the incidence of coffee berry borer (BB), coffee leaf rust (LR) and spontaneous herbs (SH) in rustic coffee plantations in Chiapas, Mexico.[5] In their conclusion they state "shade coffee stands do not require additional control for BB, LR and SH due to their low incidence"[6] This is important because leaf rust was one of the reasons why many coffee farmers turned to chemicals. There had been cases where leaf rust had destroyed whole crops, so when it turned up in South America there was a panic in the coffee industry. This is an indication that the chemicals used in technified lands are not the only way to prevent leaf rust.

The more technified the agricultural system is, the more pesticides, fertilizers, and fungicides are used. The natural protection and nutrients for the coffee plants are lost when land is cleared and other plant species are removed. In order for the coffee plants to survive chemicals need to be added to the system. Sun coffee and reduced shade coffee systems only produce higher yields with these added chemicals.

Pesticides and fungicides were originally used to protect against diseases including coffee rust. The disease never manifested itself in Latin America to the same extent as elsewhere, but fear of leaf rust led to a large conversion to sun coffees. Pesticides are used to prevent insect infestations and damage to coffee crops. However, they can have the reverse effect. Use of certain pesticides or insecticides may kill off one species allowing for another to flourish. A study in Brazil showed that applications of a "relatively high dose" of the organophosphate dicrotophos led to outbreaks of the coffee leaf miner caterpillar two months after spraying, due to "the drastic reduction" in the activity of predatory wasps which feed on the pest.[7]

Many of the chemicals used today in the Latin American coffee industry are banned in the United States. Some of the main kinds of chemicals used in coffee growing are DDT, BHC, Aldrin, Lindane, and Chlordane. Many of these chemicals and others are used to ward off pests. In studies done in the 1970s and 80s by the U.S Food and Drug Administration found many incidents of chemicals that had been banned in the United States. In 1983 the Natural Resources Defense Council had an outside lab conduct tests, samples of the green coffee beans had amounts of these pesticides that were over the detection limit in many countries. Colombia and Haiti both had levels of DDT that were over the detection limit. Brazil and Guatemala had levels of BHC and Lindane that were high. Brazil also had a high level of Chlordane. [8] These chemicals can have very adverse effects on animals and humans.

Some of the chemicals found in high levels in green coffee beans are DDT, DDD, DDE, BHC, Lindane, and Aldrin. DDT , once widely used to control mosquitoes, was banned in 1972 in the United States. DDT breaks down in the environment into DDD and DDE. DDT is harmful to both animals and people. Both DDT and DDE build up in plants and in fatty tissues of fish, birds, and other animals.[9] They can affect nervous and reproductive systems. DDT, DDE, and DDD are probable human carcinogens.[10]

BHC is an organochlorine. BHC has five isomers, one of which is Lindane. BHC is no longer used in the United States due to concerns that it is a carcinogen; it can also have an effect on birth and reproduction. Lindane is usually used on fruits and vegetables. It is very toxic to humans and is no longer used in the United States. It can cause vomiting, nausea, and seizures. Long-term exposure can have effects on "the liver, blood, and nervous, cardiovascular, and immune systems."[11]

Aldrin is used as a soil insecticide. In 1975 most uses were banned in the United Stats. Currently it is not produced or imported into the U.S. Aldrin is also very toxic and in high doses can be lethal. In smaller doses it can cause "headache, dizziness, irritability, loss of appetite, nausea, muscle twitching, convulsions, and loss of consciousness".[12] Thus, there are many risks associated with the use of chemicals in technified agriculture, as well as considerable financial costs since these chemicals must be purchased and constantly reapplied to the crops. Because these chemicals are used in conjunction with technified coffee grown in monocultures, these chemicals can end up outside the coffee farm due to soil erosion, mudslides, and flooding causing a wide spread problem.

Deforestation and Climate Change

Technification also causes a great deal of deforestation. Reduced Shade and Sun Coffee require land to be cleared. By the early 1990s thirty to forty percent of Central America's and the Caribbean's coffee land had been transformed into a reduced shade system. Sixty-nine percent of the coffee in Columbia is grown in reduced shade systems.[13] "Of the 2.8 million hectares (6.9 million acres) planted to coffee in Mexico, Colombia, Central America and the Caribbean through the early 1990s, 1.1 million hectares (about 40 percent) have been converted to sun coffee or "technified". "The overall trend in the past two decades has been one of shade removal or reduction, resulting in landscape transformations with long-term ramifications for conservation and environmental protection."[14] Deforestation contributes to climate change, soil erosion, flooding, and loss of habitats.

Climate change is defined many ways. For the purpose of this paper it shall be defined as the long-term fluctuations in temperature, precipitation, wind, and all other aspects of the Earth's climate. It is also defined by the United Nations Convention on Climate change as "change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods" [15]

Some of the effects of climate change are rising ocean levels, the loss of plant and animal species, and an increase in the number of severe storms. One of the most important aspects of climate change is Global Warming. Global Warming happens when there is an increase in the Greenhouse Effect (see appendix); Greenhouse gases, including carbon dioxide, ozone, nitrous oxide and methane, are emitted into the atmosphere trapping heat on the earth's surface. One of the major causes of an increase in greenhouse gases is deforestation. When you lose forests, you not only emit the carbon that was kept inside the forest plants due to photosynthesis but you lose the ability to remove carbon from the atmosphere. (Appendix 1)

Deforestation is responsible for an estimated 20 percent of the world's carbon emissions.[16] (Appendix 1) This is based on the amount of carbon that they release into the atmosphere when they are burned, or cut down. This does not include the amount of carbon that can not be removed from the environment once the forest is gone. Tropical and subtropical forests pose the greatest potential for carbon sequestration. Shade coffee lands provide a great resources for carbon sequestration, since they contain a diverse plant life including many tree species.

In tropical forests most of the nutrients come from plant life, not the soil. The soils in tropical forests tend not to have nearly as many nutrients as temperate forests. When you remove the trees and plant life, you are left with unfertile soils, since it is the plant life and leaf litter decomposition that provide the majority of the nutrients. This is why rustic coffee and other agroforestry systems use few fertilizer inputs. In Nicaragua researchers found that shade coffee farms had higher levels of soil moisture and organic materials. Shade coffee's system provides a great deal of nutrients from the leaf litter of the other plant species besides the coffee grown on its land. In contrast, in areas where the land has been cleared, "in as little as 3 years, the ground is no longer capable of supporting crops." After land is abandoned, the forest may take up to 50 years to grow back.[17] The addition of chemicals to provide nutrients is needed to be able to sustain coffee growth in tropical regions in which the land has been cleared. "As of now, about 80% of the soils in the humid tropics are acidic and infertile."[18]

Also, without the root system in place, rain fall will remove what little nutrients are in the soil. The root systems of the trees and plants in times of heavy rainfall also help to prevent flooding and mudslides. Once the land is cleared the soils do not have as many larger trees to help soak up the waters, or as deep roots to help hold it in place. In Nicaragua in the late 1980s studies found that there were much higher rates of soil erosion on technified coffee lands than on shade coffee lands.

Deforestation also leaves areas more vulnerable to severe storms and high winds like those found in hurricanes. The forest creates a blocking system for the wind, slowing it down before it reaches an inhabited area. When the area is clear there is nothing to block the winds or absorb the precipitation. One of the side effects of this flooding in technified systems is the run off of pesticides into rivers and other sources of drinking water. This has resulted in serious illness to both local animals and human populations.

Coffee and Biodiversity

Deforestation directly impacts biodiversity. Deforestation causes a huge loss of natural habitats for many endangered species and in turn a great loss to biodiversity. The trees and shrubbery provide habitats for many different kinds of insects, birds, and other animals. The removal of the habitat equates to a removal of the animals themselves. Tropical forests cover six percent of the Earth's land surface, but they contain seventy to ninety percent of the world's species. "As a result of deforestation, we are losing between fifty and one-hundred animal and plant species each day." [19] The loss of these species also equates a loss of their genetic material. "As of 1991, over twenty five percent of the world's pharmaceutical products were derived from tropical plants."[20] In other words, we may be destroying the cure for many diseases we face today as well as ones that we may face in the future.

Since shade coffee plantations do not require land clearing that leads to a loss in biodiversity they can provide habitats for many species. A study conducted by the Smithsonian Migratory Bird Center found more than one-hundred fifty species of birds on shade-coffee farms.[21] Researcher in Veracruz, Mexico found that "shaded agricultural plantations, as compared to unshaded agricultural landscapes, feature richer diversity of small mammals such as opossums, squirrels and mice." They also found bats; bats play an important role since they help to disperse seeds of many tree species and are predators of insects[22].

Shade coffee has been credited with being a critical refuge in areas of high deforestation. The necessary diverse plant life needed to be a shade, or rustic coffee system also allows it to sustain many forms of life. In Puerto Rico it is believed that "many rare orchids survived deforestation...on shaded coffee farms" Some studies show that the biodiversity of rustic coffee farms are as high as that of undisturbed forests.[23] This provides great hope that even in regions where there has already been a great amount of deforestation, species can survive on rustic coffee farms.

In a study done by Ivette Perfecto and Inge Armbrecht in a traditional coffee plantation or shade coffee farm they found a high diversity of arthropods. "In the canopy of a single Erythrina poeppigeana they recorded thirty species of ants, one-hundred and three species of Hymenoptera, and one-hundred twenty six species of beetles. In a second tree in the same plantation the recorded twenty seven species of ants, sixty seven of other hymenopterans, and one-hundred species of beetles. "[24] The level of diversity they found is comparable to that of a tropical forest. However, studies indicate that when shade trees are cut down, coffee farms lose approximately 90 percent of their bird diversity."[25] Since sixty to eighty percent of the birds that live in North America migrate to Latin America every winter, the impact of Latin American farming practices directly affect the biodiversity of North America. In addition, the conversion to sun coffee farms has led to the loss of approximately half of the diversity of non-flying mammals, and an even larger percentage of reptiles and amphibians.[26]

The study by Perfecto and Armbrecht also describes the effects of different species on each other. A shift in the population or diversity of one species can affect the ability of another to survive. For example, if a certain bird species relies on a particular insect as its main food source, a decline in the population of the insect will likely affect the population of the bird species. Consequently, both the use of chemical insecticides and deforestation has a negative effect on biodiversity.

Research indicates then, that the more technified the agricultural process becomes, the greater the negative environmental effects. The most sustainable system is Rustic Coffee, followed by polycultures. Reduced shade and sun coffee systems are the least sustainable. Although they are able to produce greater yields of coffee, they leave farmers unprotected against the market fluctuations because they are the only crop produced. The environmental hazards they create should not and cannot be taken lightly. Sustainable coffee growing systems already exist; rustic coffee and shaded polycultures help to preserve forests and protect biodiversity. They also do not need as many chemical inputs to grow coffee, thereby reducing the risk to farmers and local animal life. These agroecosystems also allow for additional products to be grown on the same land, giving farmers an alternative source of income when coffee prices fall. As scholars from the Smithsonian Migratory Bird Center conclude:

> Agroforestry structures results in a fairly stable production system, providing protection from soil erosion, favorable local temperature and humidity regimes, constant replenishment of the soil organic matter via leaf litter production, and home to an array of beneficial insects that can act to control potential economic pests without the use of toxic

chemicals. Traditional coffee, in fact, has been cited as the region's most environmentally benign and ecologically stable aroecosystem.[27]

Given the existence of coffee systems judged to be sustainable, it is important to understand why coffee farmers would use non-environmentally friendly methods of coffee cultivation. Additional research in this area is needed, but it can be hypothesized that the recent decline in coffee prices has had an impact. Some research suggests that the coffee crisis is compelling shade-coffee farmers to leave their land and move to cities to find work. Ranchers and developers often purchase these abandoned farms and raze the land for other uses. Many coffee farmers have also cleared shade coffee land to sell the timbers just to be able to make ends meet.

There are many new types of certification systems that have been created for export coffees, including fair trade, organic, and bird-friendly coffees. All of these certifications can be costly to obtain and maintain. None of the three major kinds of certification address the three major categories of environmental impacts addressed in this paper. For example, Fair Trade certifications do not require farmers to grow biodiversity-friendly shade coffee. However, fair trade, by paying farmers an above-market price for their coffee, helps to combat some of the underlying causes of abandonment of shade coffee farms. Organic coffees are not necessarily shade coffees; they do require reduced use of chemicals, but an "organic" label provides little information about how diverse the plant life is on coffee farms. It also fails to address social aspects of production. "Bird-friendly" coffees require that coffee farms be diverse agroforestry systems in order to help protect against loss of birdlife. A combination of these classifications would help to pay farmers higher prices while preventing the use of dangerous chemicals and encouraging shade coffee production.

In order to maintain healthy ecosystems, we must pay close attention to the ways in which they are changed by human activities. In a public statement made in 1994, 104 Nobel Prize-winning scientists declared that "Human beings and the natural world are on a collision course. Human activities inflict harsh and often irreversible damage on the environment and on critical resources. If not checked, many of our current practices put at serious risk the future that we wish for human society and the plant and animal kingdoms, and may so alter the living world that it will be unable to sustain life in the manner that we know."[28] Coffee is an example of an important crop consumed throughout the world that can be cultivated in a sustainable manner.

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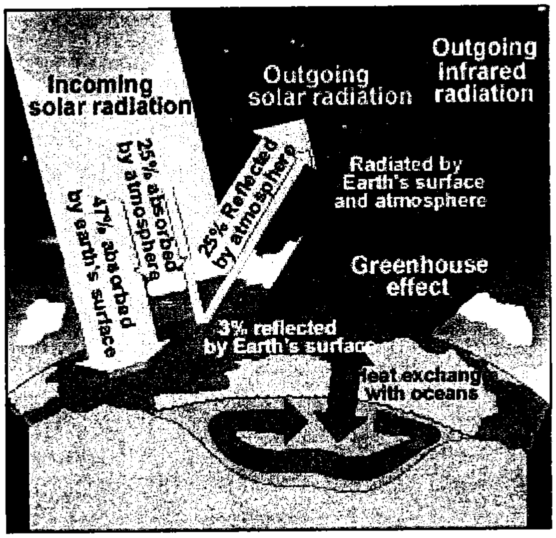
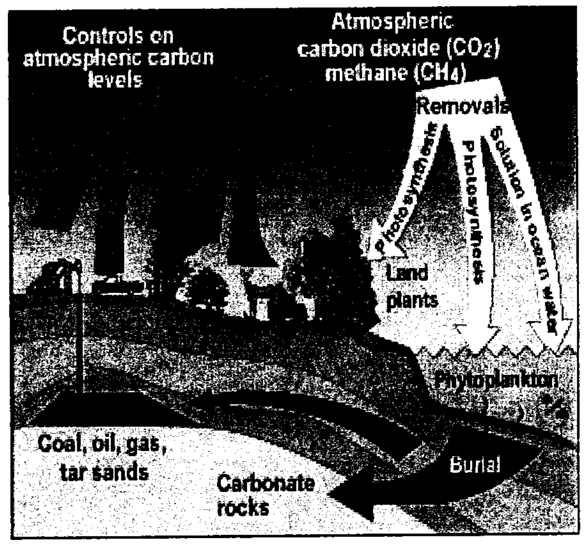
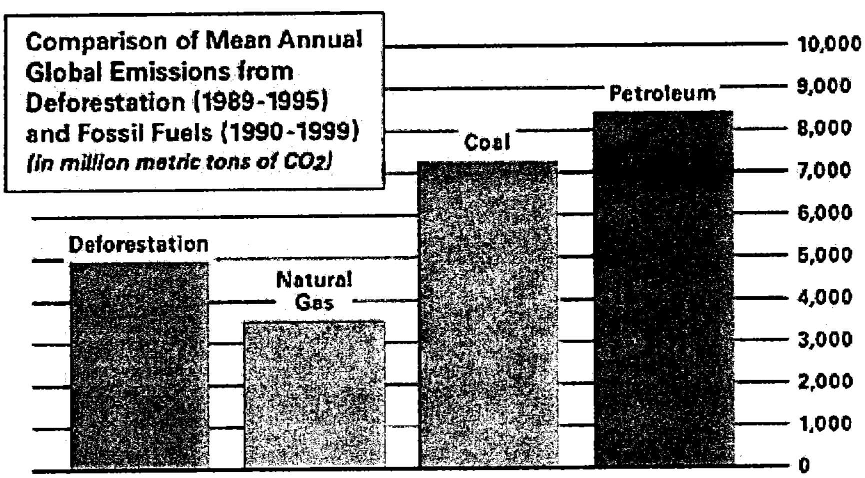
Appendix

Greenhouse Effect and Carbon Cycle





Source: Natural Resources Canada



Source: IPCC; US Department of Energy

From Valorization to the International Coffee Agreement: Coffee Price Controls, 1905-2001

Written by Juvy Santos

Coffee has undergone a dramatic decrease in price in recent years. Many observers attribute this to the collapse of the International Coffee Agreement in 1989. The current "coffee crisis" was a product of the United States' and Brazil's refusal to sign onto a new International Coffee Agreement (ICA) in 1989. Up to that point, multiple international commodity agreements had governed the coffee market throughout much of the twentieth century. The International Coffee Agreement of 1962 was a product of economic and political forces. The ICA was preceded by other national and international agreements involving both large producer nations in Latin America such as Colombia and Brazil, and the United States of America, which dominated the coffee market as a consumer throughout the twentieth century. Beginning with the valorization of Brazilian coffee in 1905, these agreements include those made between Colombia and Brazil in the early twentieth century, the agreements between these two countries and the United States following the Second World War—known as the Inter-American Coffee Agreement of 1940-1948, and the International Coffee Agreement of 1962. The legacy of these agreements is partly responsibly for the present "coffee crisis." This chapter discusses the evolution of international arrangements on coffee and their relationships to each other in the context of coffee's cyclical rise and fall in price.

The International Coffee Agreement was born out of what researcher Bart Fisher calls the "coffee problem"—the combination of "annual price instability, seasonal marketing difficulties, and...a declining price trend.[1]" Namely, the coffee market is susceptible not only to normal market forces governing the price of commodities, but also the vagaries of nature and climate—frosts, earthquakes, and droughts in producing regions have had huge ramifications on coffee crops. In addition, coffee prices have followed a decreasing trajectory throughout the twentieth century, a result of more and more countries producing coffee. These three factors were also important influences on earlier coffee agreement schemes. Throughout the twentieth century, these three "problems" have driven coffee producing countries to seek out methods to control the market, limit supply, and keep prices relatively high and relatively stable. Because demand is perceived to be inelastic, these agreements functioned to influence the supply of coffee available on the market. Demand for a particular commodity is inelastic if a change in the quantity available by a given percentage results in a larger percentage change of the price in the opposite direction. If demand is inelastic, suppliers can obtain more revenue from a smaller supply than they can from a larger supply. The increase in price will more than offset the decrease in sales.[2] When demand is inelastic with regards to price of the goods, consumers are relatively unresponsive to a price change.

The valorization of Brazilian coffee in 1905 was the first of a series of price controls in the coffee market. In the second half of the 19th century, Brazilian coffee exports experienced great growth. According to Antonio Delfim Netto, exports increased from 2.5 million bags in 1857-1860 to nearly 9.5 million bags in 1897-1900 and to approximately 13 million bags in 1901-1904.[3] The increased growth and subsequent glut of coffee on international markets required price controls—a practice that became known as the "valorization" of coffee. Valorization was not a direct form of price control. Coffee prices were not explicitly controlled by agencies or governments. Instead, Brazilian suppliers aimed to control coffee prices by limiting supply. This "valorization" of coffee was created through the agency of the Brazilian Instituto do Café (IBC)—an organization originally composed of coffee growers that became part of the Brazilian government in 1926. Valorization—namely, the limiting of the supply of coffee through destruction or through storage—would be the template for price regulation throughout the rest of the century. Brazil would attempt to ensure high prices for its coffee by attempting to bring competitors into a larger system of agreements imposing limitation of coffee exports.

The valorization scheme instituted a system whereby agents of the IBC "bought coffee from farmers, stored it in warehouses in Santos, New York and Hamburg, and sold it on the world market."[4] The practice of "valorization" itself happened several times throughout the early twentieth century. During the years 1907-1908, 1917-1918, and 1921-1922, the IBC purchased surplus coffee and stored the crop until it could be sold at a more opportune time. During times of extreme surplus, the Brazilian IBC destroyed coffee in order to keep prices from destabilizing. The first valorization (1907) can be considered a success because it prevented the decline of prices below the level of 1903. There were also disadvantages to the practice of valorization. Because the coffee was stored in warehouses abroad, there were significant costs in foreign currency and administration.[5]

In 1925, a practice known as "coffee defense" replaced valorization. "Coffee defense" differed from valorization in that it was a permanent procedure. Under "coffee defense," stocks were stored in Brazil.[6] Because the supply of Brazilian coffee was centrally controlled, the IBC could both determine how much coffee entered the world market as influence the price that the supply would fetch. This allowed the Brazilian coffee industry to address directly Fisher's "coffee problem" of annual price instability.

In 1926, a surplus year, eight million bags of coffee were withheld from the world market, resulting in record high prices for the Brazilian coffee industry.

Many Brazilian coffee growers profited from the valorization policy. However, it also prompted countries outside the IBC's sphere to produce more coffee for a market paying premium prices for valorized coffee: "The long term effects [of valorization] were…unfortunate, as the higher prices created by valorization tended to encourage an extension of planting."[7] Colombia, in particular, soon consolidated its position as the world's second greatest exporter of coffee. Between 1920 and 1930, coffee production doubled.[8] Colombia's entry into the coffee market produced tension between the Brazilian IBC and Colombian coffee growers. The Brazilian valorization policy ensured that Brazil carried the heaviest load of "intervention in the market to restrict supply."[9] This made Colombian coffee increasingly attractive due to decreasing price differentials between the two producers' coffee.

This tension eventually resulted in an agreement between the two competing nations to bring Colombia's coffee production under the aegis of Brazilian valorization and price controls. In 1928, Colombian growers established the Federación Nacional de Cafeteros de Colombia (FNCC) in order to address issues "in the spheres of trade, finance, and propaganda."[10] The FNCC has not only served to promote economic concerns of Colombian planters but has also provided social services in the form of basic infrastructure—roads, schools, and hospitals.[11] During the Colombian coffee crisis of 1929-1930, the FNCC "rapidly became the spokesman for the large producers and exporters."[12] In the 1930s, the FNCC concerned itself with regulating the types and grades of export coffee, pressuring for obtaining favorable rates of exchange, devaluing in step with competitors (particularly Brazil), and advocating for debtors who had become insolvent during the crisis of 1930.[13] The FNCC also created special offices for advertising and promoting Colombian coffee in the United States.[14]

There were obvious tensions between the Brazilian coffee exporters and their Colombian conterparts. The Colombians essentially "rode free" on the Brazilian protection of high coffee prices. Brazil bore the brunt of excess coffee on the world's market as it kept its crops off the market while others expanded their cultivation. In 1936, Brazil and Colombia agreed to "work in concert to maintain a constant price spread between their principal coffees."[15] In 1937, however, the accord between the two countries collapsed and Brazil reacted by "dumping its massive coffee stocks into the global market"—an act that was disastrous for everyone in the market. The price wars between Brazilian and Colombian coffee growers prompted the creation of the Inter-American Coffee Agreement.

The Inter-American Coffee Agreement was written during the Second World War, when the coffee producing Latin American countries and the United States recognized their mutual desire to stabilize the coffee market. The Inter-American Coffee Agreement was signed on November 28, 1940 and represented "a measure of Pan-American solidarity among allies."[16] All parties had interests in reaching an agreement. The Latin American countries had completely lost the European market because of the outbreak of the Second World War, and the United States was interested in insulating South America from Axis overtures.[17] Colombia, which exported nineteen percent of its coffee to Europe, was particularly hard-hit. During this period, Colombia could not sell its remaining large stocks of coffee.[18] The Inter-American Coffee Agreement established the Inter-American Coffee Board, which granted the interested parties powers of regulation over both United States import quotas and export quotas of members to other markets. On the IACB, the United States was granted twelve votes, Brazil nine, Colombia three, and twelve other exporting countries one vote each.[19] The Inter-American Coffee Agreement established three different quotas—the United States had a fixed import quota of 15.5 million bags from the signatory countries and 355,000 bags from non-signatory countries. The signatory countries' quota to export to markets other than the United States was also fixed at 11.6 million bags.[20] Although this was a step towards cooperation, the Inter-American Coffee Agreement had some dissidents. In the late 1940s, smaller parties to the treaty began to protest their limited voting power.

The Inter-American Coffee Agreement did not address prices, leaving only the quotas to establish stability in price for U.S. consumers. Brazil and other Latin American countries had established minimum export prices in accordance with the ICB, but without official mention in the IACA policies. Although the Inter-American Coffee Board was disbanded in 1948, it provided important precedents for United States policy in Latin America during the Cold War, when the Soviet Union replaced the Axis powers as a possible threat. After the close of World War II, factors such as unfavorable weather conditions led to requests for the removal of the price ceilings on coffee crops.

The end of World War II also heralded the end of the Inter-American Coffee Agreement. Following the war, the world's consumption of coffee far outweighed the available supply. Prices between the years of 1946-1954 reflected the high demand and lower supply.[21] The relative stability of the coffee market during these years may have contributed to the disbanding of the Inter-American Coffee Board. However, U.S.

policies toward coffee continued evolving throughout the 1950s as a result of the Cold War and the United States' foreign policy of containment. Although the United States had previously favored an open coffee market, prevention of the Communist "domino effect" became a much higher priority. Brazil and Colombia's original 1936 scheme of valorization and price control continued to be foiled by the expansion of coffee plantings around the world. Because these "new" coffee producers were outside the Latin American sphere of influence, they frequently undercut Brazilian and Colombian sales because they were willing to sell at lower prices.

During the 1950s, Latin American countries attempted to stabilize the price of coffee through agreements among themselves. For example, in October 1957, Brazil succeeded in efforts to unify producing countries in an agreement to retain at least 20 percent of their exports from October 1957 to September 1958. Colombia and other countries producing milder-flavored Arabica beans agreed to "limit exports from November 1, 1957 to March 31, 1958, to 80 percent of the average in the same period of the two preceding crop years."[22] This arrangement was known as the Mexican Agreement. This differentiated the Arabica-growing Latin American countries from planters of Robusta coffee beans in other areas of the world. In 1958, the Latin-American Coffee Agreement was ratified between fifteen Latin American countries. Under this agreement, countries again agreed to withhold percentages of their crops. Brazil was to withhold 40 percent, Colombia 15 percent, and other countries 5 percent.[23]

The International Coffee Agreement (ICA) was first ratified in 1962 under the auspices of the United Nations. The ICA emerged in part from the Coffee Study Group, a U.S. initiative started in 1958. The purpose of the Coffee Study Group was to promote international collaboration in the coffee market.[24] The Coffee Study Group was indicative of the United State's changing attitude towards an "open" coffee market.

As in previous attempts to stabilize market prices for coffee, the ICA's primary mechanism was the restriction of supplies to "a level sufficient to maintain coffee prices within the agreed upon range."[25] The member countries of the ICA agreed to adhere to a set of quotas, with each producer agreeing not to ship more than its allotted amount of coffee under the quota system. Enforcement of the quota was ensured through a system of certificates, with "the customs authorities of importing nations remitting copies from each shipment to the headquarters of the organization, which in the case of overshipment calls for the reduction of the producing country's quota."[26] Once producers filled their quota, crops could be sold to the non-quota market—although the prices in this market were generally half the price of those under the ICA.

President Dwight D. Eisenhower viewed price-fixing agreements between the countries as encroachment against free enterprise, but it was clear that the "interest of the United States in the coffee problem had been secured."[27] This interest was framed in the context of the Cold War. Although the ICA contradicted US policies favoring free markets, it did follow a precedent of the use of economic agreements in exchange for political solidarity in the Western Hemisphere. The concept of an ICA was supported by both the Eisenhower and Kennedy administrations because it was seen as a means of building US-Latin America solidarity against the Communist "menace" —a particularly pressing issue following the Cuban Revolution led by Fidel Castro.

The United States government framed the International Coffee Agreement both in terms of fighting the Communist threat and preventing a market collapse in coffee prices.

It was generally agreed that a collapse in the coffee market would be "disastrous."[28] A poor coffee market meant an unstable political atmosphere in Latin American countries—an atmosphere that US officials believed encouraged the growth of Communism. Passing the ICA would have additional benefits for both producing and consuming nations. Besides preventing the spread of Communism, the U.S. wanted to ensure the affordability and availability of its coffee supply. Large corporations such as General Foods controlled the vast majority of the U.S. market. Their interest was in stable coffee prices in order to maintain consumer loyalty to brands that were reliable in price and in quality.[29] Coffee growing countries not only wanted to stabilize coffee prices but wanted to raise them, counting on the inelastic demand for coffee to ensure that consumption would not go down markedly following an increase in price. U.S. coffee consumption reached all-time highs in the 1960s. The nation's coffee drinkers consumed 58% of the coffee exported from Latin America.

Douglas Dillon, Undersecretary of State for Economic Affairs under President Eisenhower, was instrumental in promoting a commodity agreement with Latin America. Before his appointment, Eisenhower's presidency had favored laissez-faire policies for the coffee market. Dillon advocated "new policies toward Latin America, including the possibility of U.S. participation in a commodity agreement governing coffee trade."[30] Although Eisenhower's presidency in the 1950s had not been conducive to international agreements with Latin American countries, John F. Kennedy's administration was. Kennedy agreed with the importance of stabilizing the commodities market, particularly coffee.[31] Kennedy's establishment of a South American Task Force recommended the further extension or establishment of another International Coffee Agreement. The world's coffee economy was depressed after 1958 and the "production [of coffee] exceeded consumption by ever-increasing amounts, and the adverse economic repercussions in Latin America were already evident."[32] The United States was also facing pressure from newly independent African countries to "take a position and provide assistance in solving the commodity problems faced by the new countries." The Cuban Revolution, the ability of Latin American powers to organize, and the susceptibility of the coffee market to control were also significant factors leading to policy change.[33]

The International Coffee Agreement of 1962 essentially institutionalized the market dominance of Brazil, Colombia, and the United States because of its emphasis on market shares.[34] At this time, the United States was the leading importer of coffee, consuming over half of the world's imports in 1960, and Brazil was leading exporter.[35] Netto and Pinto state that the ICA "crowned the efforts of the Brazilian government to maintain a reasonably price for the product."[36] The ICA reflected the Brazilian goal of attaining the highest possible price for coffee—it was, essentially, "the systematic attempt to undermine as much as possible the resistance of the world market and to impose the highest possible price, at all times, regardless of the medium and long-run effects of the measures that provide for the maximization of the exchange receipts."[37] The ICA proved to be more effective in regulating the coffee trade than its predecessors. It's efficacy of the International Coffee Agreement can be measured by the range of price fluctuations of coffee. From the passage of the ICA in 1962 to mid-July 1969, coffee prices fluctuated 11 cents. This is in marked contrast to pre-Agreement years following World War II when prices fluctuated by as much as 41.7 cents.[38]

However, despite the seeming stability, there were other factors that ensured higher prices for coffee. The ICA and the quota system were still subjected to environmental forces. Brazil received frosts in 1963 that limited its production and thus ensured a lower supply for the first year of the ICA. Såo Paolo and the state of Paraná also experienced severe droughts that year and "there was subsequently a fire in the major producing area of the world whose effects, although they were never confirmed, permitted new manipulations of the international market under the allegation that there would be practically no harvest in 1964-1965."[39] There were also severe frosts in 1975 that limited production. Because of these environmental factors and the threat of low harvest yields, coffee planters obtained large increases in prices.

There were also loopholes to the requirement set forth by the 1962 ICA that enforced the international quotas through a series of certificates. The first quarterly overshipment was to be "countered by a deduction of an equal amount from future quotas, and second and third overshipments were to have double deductions."[40] Members were also threatened with expulsion from the ICO for repeated offenses. However, loopholes developed after the ratification of the 1962 ICA. One method that bypassed the system of certificates was the overshipment of export quotas. Obviously against the terms of the ICA, both the importer and exporter would have to be complicit in the arrangement. Other loopholes involved the shipment of coffee through non-member countries and into the destination import country, as non-member country shipments did not require certificates of origin. A variation on this loophole was the supposed shipment of coffee from the exporter to a "new market." The coffee would never reach the "new market" but instead would be redirected to the importing country of destination.[41] The use of these loopholes resulted from a number of factors. However, it centered on new entrants to the coffee market, who "had a vested interest in circumventing their basic export quota shares."[42] The accepted ICA formula was thought to be "advantageous to the dominant oligopolists, Brazil and Colombia, and disadvantageous to the Latin American and African countries whose coffee production was growing rapidly."[43]

Enforcement of the ICA proved to be a complex legal issue, as the act of "obtaining compliance with assigned export quotas was primarily a task for the importing members of the ICA under the certificates of the origin system."[44] Violations of the International Coffee Agreement occurred early in the ICO's history. Producing member countries would violate the agreement by shipping to non-member countries, who would then sell the coffee to member consumer countries at a reduced price. This was known as the "tourist coffee" phenomenon. This provided important problems in the enforcement of the 1962 ICA. Until 1966, some countries "justified their quota violations on the basis of the 1962 Agreement's method of determining export quotas."[45] Because of these problems, the ICO instituted a system whereby producing countries marked their coffee under stamps and certificates. Large importers such as the United States would have to pass and implement legislation legitimizing the terms of the certificate and stamp system under United States law. Eventually, the Executive Board of the ICO met in September 1966 and recommended that non-member imports be limited.[46] Stamps were also introduced into the certificate system. Suggested as a compromise between small and large holders by the United States, the "stamp plan" became a means to handle the overshipment loophole. Under this plan, "the ICO would give exporting members each quarter enough stamps to match its quota, and importing members would refuse to accept coffee shipments without stamps."[47]

After the initial ratification of the International Coffee Agreement, the International Coffee Organization continued to function in concert with the market's needs—it oversaw market trends and quotas. The subsequent re-ratification of the International Coffee Agreement in 1968 continued the practice of the quota system as originally established in 1962. According to the International Coffee Organization, the market remained relatively stable between 1962 and 1972, with the production and consumption of coffee becoming more balanced. The "key change" in 1968 was the issue of the diversification fund as a means of dealing with the chronic oversupply problem.[48] Farmers were encouraged to diversify their crops and farms, as well as to destroy coffee trees, in order to reduce dependence on the coffee crop itself.

In 1976, the aforementioned frost in Brazil limited the world's supply of coffee, and provoked a sharp increase in prices. The ICO decided to modify the agreement to allow for "the suspension of quotas if prices were high and their reintroduction if prices became too low."[49] The frost gave consuming countries "an incentive to participate in an agreement that might reduce the severe price escalation that was occurring."[50] It was obvious that the 1962 and 1968 Agreements needed to be revised in light of the shortage brought about by environmental factors. As early as the late 1960s, analysts and commentators published various opinions on what needed to be done to reform the ICA's quota system. Bart Fisher, writing in 1972, observed that "some individuals argue that now is the opportune moment to scrap the quota system and to place the ICA on a 'stand-by' basis."[51] However, he noted that others argued that "in the absence of basic and annual quotas, the whole control structure of the ICO would become irreparably paralyzed and that, without basic quotas enforced by consumers as checks, all producing countries would abandon efforts at production control."[52] A third position was held by the President of the IBC Mario Penteado who favored "a return to a straight producer cartel, i.e. quotas without consumer country participation." [53]

The ICO removed quotas in 1973 and then re-introduced them in 1980. Three year s later, the ICA was re-ratified uneventfully, with widespread support among member countries. During this era, prices were relatively high, and supply relatively low. The 1983 treaty was relatively successful in stabilizing coffee prices from its signing in 1983 until 1989, when the U.S. and Brazil refused to remain members of the International Coffee Organization. The terms of the 1983 ICA were extended into 1989 and eventually to 1991. Between 1989 and 1991, the 1983 International Coffee Agreement remained in effect with the suspension of the quota system. In the absence of quotas, prices immediately dropped to around half their previous level and remained at these lower levels for over four years.[54] Even before the suspension of quotas in the 1983 agreement, the price of coffee began to fall. According to a 1989 source, Colombian producers complained that the market price of $.60 was "less than it costs them to grow and ship coffee." It was the suspension of the quota system, in addition to the extension of the existing 1983 treaty, which ultimately contributed to the present crisis.

The failure of the International Coffee Organization's member countries to come to a new agreement following the expiration of the 1983 Coffee Agreement can be traced to several factors. Both the United States, as a primary importer, and Brazil, as a primary exporter, had a great deal of influence on the negotiations for a new treaty. United States opposition to the renewal of the International Coffee Agreement in 1989 had its roots in the Reagan administration. Increasingly, the advent of glasnost and perestroika during Mikhail Gorbachev's reign lessened the appeal of price controls as a means to prevent Soviet infiltration into South America. During earlier decades, the Communist threat had been a goad to the United States, encouraging solidarity with its Latin American neighbors. However, because the Cold War was weakening in intensity, the former U.S. policy of supporting "free markets" became dominant. Under the Reagan and George H. W. Bush administrations, the United States government not only sought to protect its interests with regards to coffee but also favored a treaty that encouraged the work of free market forces.

This was in keeping with a general trend towards the liberalization of markets. U.S. Under Secretary for Economic Affairs Allen Wallis alluded to the Reagan Administration's belief in free market policies in two addresses—one to the National Coffee Association in 1986, and another to the International Coffee Organization itself in November 1988. In his 1986 speech, Wallis offered several reasons why the United States was against the continuance of the International Coffee Agreement. Because the ICA supported prices over the equilibrium level that would otherwise be reached by the market, the excess costs to consumers caused by the ICA in some years are "several billion dollars."[55] He argued against the concept of price supports as aid to developing countries, stating that such "aid" was universal, and resulted in US dollars ending up in Cuba and Nicaragua, two nations whose governments did not enjoy the support of the United States. Furthermore, the Under-Secretary raised the concern that the ICA was unsound because it forced "consumers to provide money for a public purpose that is not subject to congressional appropriation and oversight.[56] In this same address, some of the traditional problems of the ICA's quota system between member countries were illustrated. The "tourist coffee" phenomenon was offered as an example of a central loophole to the process, despite earlier attempts to correct it with a system of stamps. The prevalence of this practice was another reason why the US chose to forego continued membership in the International Coffee Organization.

The Under-Secretary's speech reflected the ideology of the Reagan era. He details President Reagan's efforts to re-establish a free market for the United States by eliminating controls and regulations that are "needless economic constraints and to create an environment conducive to private initiative and innovation." Clearly, the ICA, with its cooperative agreements on restricting the market through artificially withholding crops from member countries, contradicted the heart of the Reagan administration's policies.

In 1988, a few months before the expiration of the ICA 1983's extension, Wallis addressed the ICO in order to explain the U.S official position. He stated that the United States had been considering removing itself from the ICA treaty as early as 1986, stating that "for several years, the US delegations to meetings of this organization have tried to persuade other delegations to operate the ICA in a manner that would do a minimum of violence to the play of market forces."[57] The prevailing point of view within the US government and private sector was one that increasingly favored a free market system. By November 1988, Wallis stated that the 1983 ICA had not performed satisfactorily. He advocated withholding supplies "when prices are exceptionally low and releasing supplies when prices are exceptionally high" in a process echoing Brazil's earlier valorization scheme.

The two-year period that followed September 1989 saw a large drop in coffee's price as a commodity. Numerous articles in London's Financial Times and *The Wall Street Journal* chronicle the concerns in the commodities market. While several countries remained members of the International Coffee Organization, the United States was not one of them. Producing countries such as Brazil released vast amounts of stored coffee onto the market in the hopes of achieving a quick profit. Instead, the prices of coffee were driven down by the increased supply.[58] One nation that advocated the continuance of the International Coffee Agreement was Colombia, the second largest producer of coffee. Colombia was under pressure from the Bush administration to wage a "war on drugs." Colombian President Virgilio Barco pleaded with the United States to continue on as a member of the ICO in order to prevent coffee farmers from growing a far more profitable crop—coca. The government of Colombia argued that "it was unfair for the United States to urge the country to try to eliminate the cocaine industry at a time when income from its most important legitimate crop is suffering."[59] In 1989, Barco met with Bush in order to discuss economic aid to Colombia in the form of reductions in tariffs imposed on import goods. According to Colombian officials, the country had purportedly lost between $300 and $400 million due to the collapse of the ICA, which, they argued, was "precipitated largely by US free trade policy."[60]

By 1994, the ICA had "lost its power to set and enforce export and import quotas."[61] Today, the International Coffee Organization's website details the new objectives of the 2001 International Coffee Agreement. These objectives include the promoting of a "sustainable coffee economy,"increasded coffee consumption, improved coffee quality, and technology transfers.[62] Unlike previous "editions" of the International

Coffee Agreement, however, the current International Coffee Organization not only recognizes the coffee crisis brought about by a surplus of coffee on the market but also proposes alternative methods of resolving it. The current "solutions" to the coffee crisis listed on the ICO website differ markedly from the century-old Brazilian method of withholding product from the market. The ICO proposes both supply-side and demand-side solutions. These include the encouragement of improving coffee quality—namely, the imposition of minimum grading standards and maximum moisture content for coffee exports. The ICO also states that it will encourage diversification for coffee-dependent farmers, and monitor products so that "multilateral and bilateral donor institutions are informed of the coffee balance in order to avoid inappropriate projects." Also breaking with tradition is the fact that the ICO proposes actions on the demand-side of the market. These actions include the promotion of coffee in "new markets" such as Russia and China and working through the World Trade Organization to seek the "elimination of tariffs and other barriers to all forms of coffee." Although the demand-side is not as "proactive" as the supply side, the ICO still breaks with tradition by not imposing new quotas on producing countries. The ICO website also states that the United States has announced its membership once again although the US has yet to rejoin formally.

Throughout the twentieth century, coffee producers and its importers have attempted to balance "coffee problems" and profit. Each agreement presents itself as a solution to over-production of a relatively high-value crop. The majority of these international agreements depended on a system of quotas to limit the supply of coffee on the market. The century has proved that new policies are necessary in order to lift the coffee market out of the current crisis.

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Majors and Minors:
A Comparison of U.S. Coffee Trade Organizations

Written by Matthew Merewitz[1]

A thorough discussion of an international industry such as coffee would be incomplete without an understanding of the mechanisms in place to keep that industry in business. How do individual players get what they want? The answer is rather simple. Every industry has an advocacy group (though some are officially called 'trade organizations'). Advocacy groups seek to maintain the most favorable conditions in which the industry can function and maximize profits.

In the coffee business, the purview of these organizations extends from your kitchen cabinet all the way to South America, Africa and Asia. Coffee companies in the United States have historically bought coffee primarily from Latin America, and more recently (due to changes in international economics and politics) from Africa and Asia. Today with 25 percent of coffee being consumed in the United States, the large conglomerates based here greatly affect the livelihood of approximately 25 million producers, mostly in poor countries.[2] Large U.S. corporate coffee firms (which from here on will be referred to as roasters), and smaller coffee businesses alike, are concerned with what goes on in Washington because federal legislators have the power to shape the environment in which they operate. The relationship coffee merchants and corporations have had with lawmakers has been very dynamic.

For most of the 20th century, one U.S. trade organization stood at the forefront of the coffee industry – the National Coffee Association (NCA). The NCA has been the mouthpiece of the coffee industry's wants and needs. Funded by membership dues from major corporate roasters, smaller roasters, importers, and retailers, the NCA has lobbied on behalf of coffee interests since 1911.[3] Like the industry itself, the NCA has constantly been in a state of evolution. Today it is an umbrella organization for various groups within the coffee world, many of whom disagree on everything from how to conduct trade to how to brew coffee.

From its formation through the Cold War, the NCA was largely a collection of the most elite importers, traders, wholesalers, roasters and retailers. Today, most of its members are mid-sized companies and corporate outfits (numbering around 300) that deal, annually, with 90 percent of the coffee commerce done in the United States. The corporate roasters, many of whom are part of much larger food conglomerates, have a greater say in the official stance of the NCA since they have such a large stake in the industry.[4]

The NCA's main goals over the last fifty years include the following: First, it aims to promote general consumption of coffee; second, it collects data on trends in consumption of coffee by U.S. consumers; and third, the NCA has sought to combat negative publicity related to the health effects of coffee drinking by investing several millions of dollars to fund studies and instigate newspaper stories that support coffee. Finally, the NCA has sought to fight off government involvement in their business practices and to limit any and all federal legislation affecting the importation of coffee.

In 1982, a second coffee trade organization appeared on the scene in the United States: the Specialty Coffee Association of America (SCAA). The SCAA does much the same as the NCA does (i.e. provide statistics to its members, offer training in best practices, offer discounts on coffee shipments, and provide a forum for industry folks to network), but the SCAA represents a smaller, but rapidly growing segment of the US coffee market – relatively expensive, "specialty" coffees.[5] This paper compares the NCA and the SCAA. The members of these organizations make up two separate constituencies in the US coffee industry, each with their own agenda.

Readers will learn about actions taken by the NCA, its members, or the U.S. government since 1940 that have shaped the coffee market. In the process, I will explain how and why the SCAA came about. I will also discuss how each organization is addressing today's worldwide coffee crisis. Given the deplorable economic and social state of coffee farmers and workers in producing countries, it is important to know how U.S. businesses and trade groups are addressing (or not addressing) these problems.

A Note on Sources

The sources used in this study were rather limited given the general lack of media coverage on the NCA.[6] Some of the transcripts from past hearings on Capitol Hill concerning coffee agreements during the Cold War were helpful. The NCA almost always submitted some kind of written testimony or correspondence on legislation that was being discussed in Congress. However there is no direct evidence that the NCA instigated any of these hearings. One in-depth study of coffee that guided much of my analysis was Mark Pendergrast's *Uncommon Grounds*, which is essentially a history of coffee from its earliest beginnings to the contemporary coffee market. *The Coffee Book* by Gregory Dicum and Nina Luttinger was also helpful as were web-based archives of trade journals and a handful of individuals in the industry who took the time to talk to me about their experiences with the NCA or the SCAA.

The U.S. Coffee Industry 1930-1980

The NCA of 1940 was very different from today's NCA in many respects. Most of its members' coffee was imported from either Columbia or Brazil and the majority of those beans were arabicas. In 1912 a study commissioned by the New York Coffee Exchange to study robusta beans condemned them.[7] They concluded that, "Even in comparison with low-grade Santos [arabica], robusta was 'a practically worthless bean,' and they banned it from the exchange."[8] Many in Latin America in the late 1930s and early 1940s feared that African and Javanese (Dutch East Indies) robustas would replace the demand for low-grade arabicas since they were cheaper and were already being smuggled into the United States as early as the mid-1940s.[9] By 1960, the New York Coffee & Sugar Exchange abrogated its long-standing ban on robustas. Then as now, the largest of NCA members were primarily concerned with price wars that raged between them. Regular and instant coffees sold in supermarkets in the 1960s and 1970 generally were comprised of low quality blends of arabicas and robustas. These coffees offered a quick caffeine fix for those who drank it to stay awake. It was also very affordably priced.

Beyond marketing and advertising, the NCA was concerned with the ever-fluctuating price of coffee due to various tactics used by Brazil and Colombia to boost the price of coffee. Brazilian planters pioneered the practice of storing and/or burning large stocks of beans in order to reduce supply and thus command a higher price on international markets for what they *did* release. At the same time, frosts, speculation on futures, and crop contamination plagued the trade.

The NCA and U.S. Coffee Policy in Wartime

When World War II broke out, European coffee markets, traditionally a bastion of commerce for producing nations, became unavailable for trade. To soften the blow, the U.S. government entered into a trilateral agreement with Columbia and Brazil. The Inter-American Coffee Agreement, as it was called, was "a major break with established trade policy that [had] generally favored free international markets. The United States entered into it to support friendly nations in the hemisphere, thereby securing their support in resisting Axis overtures during this time of war." [10] The agreement set a precedent for how the United States would set its coffee policy for the next 50 years. The NCA initially supported the move, though they would later repeal their support. Although prices swiftly rose as a result of the deal, W.F. Williamson, secretary of the NCA, explained that coffee companies could tolerate higher prices if they were instituted to keep producing countries in business. "The American consumer does not require, and will not insist on having [low] coffee prices which [would] mean bankruptcy [for] Latin American producing countries."[11] Although the IACA infringed on the idea of free markets, it helped to ensure a constant supply of coffee to the companies who had previously bought the majority of their coffee from Brazil and Colombia before the agreement was signed.

The NCA and the International Coffee Agreement

As the Cold War progressed, "U.S. policy priorities [began] to shift away from the five-cent cup of coffee toward the stabilization of non-communist regimes in Latin America."[12] Following the Cuban Revolution of 1959, the U.S. government decided to create policies intended to prevent Fidel Castro from "exporting" revolutions. Since many of the countries in Latin America depended on coffee as their main export, an agreement was conceived between non-communist consuming countries such as Britain and the United States on one hand, and Latin American producers on the other. The United States, after much heated debate on whether or not the agreement would benefit U.S. companies and the U.S. consumer, decided to join the London-based International Coffee Organization (ICO). The ICO administered what came to be known as the International Coffee Agreement (ICA). The ICA was essentially a price stabilizer that established quotas to limit the amount of coffee that any single country could put on the world market. With the nation's businesses and the consumer in mind, the U.S. Congress tacked on a caveat to their signature joining the ICO, reserving the right to withdraw from the ICA at any time.

What did the NCA do to affect Congress' acceptance of the ICA? First of all, the Industry Advisory Committee (IAC), which was set up by the U.S. Department of State in 1958 to advise the government on potential coffee policies, was made up entirely of the NCA's Foreign Affairs Committee. All were coffee industry executives. The Industry Advisory Committee strongly advocated joining the ICA, knowing they stood to benefit from easily foreseeable prices.[13] At the same time, they presented the agreement as a humanitarian move. "In 1961, John McKiernan of the NCA warned that in Africa, Khrushchev could 'exploit nationalism to ensnare emerging nations into Communist slavery'." He concluded that, "Although the NCA traditionally had opposed quota schemes as limits on free trade, it would now 'support the International Coffee Agreement in this 'atmosphere of international hypertension.'"[14] At the inception of the ICA in 1964, roasters represented by the NCA handled 45% of the worldwide coffee market. At the same time, U.S. roasters were experiencing all-time highs in domestic consumption (in 1962, 3.1 cups per person per day).[15]

On the Record: The NCA on Capitol Hill

The NCA and its members periodically had the opportunity to comment officially on the ICA. This occurred when the ICA was up for renewal in Congress or when any event concerning coffee happened to reach national politics. The following is an excerpt from a letter submitted by NCA president, George E. Boecklin to Congressman Charles Vanik, Chairman of the Subcommittee on Trade of the Committee on Ways & Means. It concerns the proposed renewal of the ICA in 1979:

"The Board of Directors of the National Coffee Association of U.S.A., Inc., has consistently been opposed to governmental restrictions affecting the availability or price of green coffee; and considers it of vital importance that the Agreement be administered in a manner that is in the best interests of the United States consumer and coffee industry. However, it is recognized that, if the conditions for implementation of the Agreement's economic provisions should come into existence at some future date, the Department of State should be able to point to legislation indicating that the United States is in a position to carry out its obligations under the Agreement."[16]

Mr. Boecklin never mentions the political concerns behind the agreement. These were tacitly understood. In addition, he only frames his argument within the context of U.S. consumers, not once mentioning the companies who were profiting immensely from coffee bought at an easily forecasted price. The second part of the statement reveals the speaker's ambivalence toward the ICA by acknowledging that should prices fall, the government needs to have legislation to put the terms of the ICA into effect. This characterized the way NCA officials have often spoken at such hearings – unenthusiastically tolerant.

General Foods, historically one of the largest roasters and a key member of the NCA, also submitted a statement for the record in 1979. Andrew J. Schroeder III, Vice President for Public Affairs at General Foods wrote, "this legislation deserves support since it appears to [be the best way to] ensure adequate supplies of green coffee over the long-term, thereby reducing price volatility and benefiting both producers and consumers." He also makes a point of listing the Agreement's downsides. "Fundamentally, [the ICA] operates to constrain the forces of a free market and in so doing it may well cause somewhat higher prices in the short term – hardly a desirable result in periods where public concerns over inflation already is evident . . . However it is General Foods' judgment that, without an ICA, it [would] be difficult to avoid continuing boom and bust cycles which [were] harmful to both producing and consuming countries."[17]

Health Scare! The NCA take on Science

A string of health alerts about coffee drinking produced by researchers and other concerned individuals received widespread media attention beginning in 1963 when an epidemiological survey of 2,000 factory workers suggested that coffee was a cause of heart disease. Then, a Naval Reserve surgeon made headlines when he reported that pilots who drank too much coffee experienced heart palpitations while in the air. The NCA responded by claiming neither assertion was based on hard science. In 1966, *Science Digest* published a story indicting coffee as a "poison," tying the drink to ulcers, coronary thrombosis, various cancers and general irritability.[18] In the 1980s, coffee was again implicated in cancers. The negative coverage of coffee drinking prompted the NCA to launch a major defensive campaign.

In response to the early allegations, the NCA formed a Scientific Advisory Group (SAG), which put scientists to work on experiments to disprove the negative press coffee was receiving.[19] The NCA-employed researchers tried to duplicate the results arrived at in the reported studies, but few if any, were repeatable. The damage was done however. The initial findings received front-page coverage, while subsequent reports on studies that contradicted the initial findings were buried in news media coverage. Many of these scientists worked for NCA member companies, thus creating a conflict of interest. When I looked for an NCA-sponsored survey or study that came out with results that might discourage coffee drinking, I couldn't find one. Other coffee researchers have noted a similar pattern. SAG, would later become a research center at Vanderbilt University Medical School. An interesting result of the health concerns over drinking coffee was the creation of a market for decaffeinated coffees such as Sanka.

Specialty Coffee: The Whole Bean Revolution

Specialty coffee in the United States had its origins largely in ethnic enclaves such as New York's Little Italy, where consumers valued high quality coffees. Specialty coffees also emerged from the coffeehouse scene that flourished in Berkeley, California - location of Alfred Peet's legendary coffee shop - and New York's Greenwich Village.[20] In 1982, the Specialty Coffee Association of America (SCAA) was founded in Los Angeles by a "small group of coffee professionals seeking a common forum to discuss issues and set quality standards for the specialty coffee trade."[21] There is no official definition of "specialty coffee," but the term generally includes gourmet, rare origin, estate, organic, and shade-grown coffees. They can also be differentiated based on a higher price tag than ground, canned coffees.

The SCAA's definition of specialty coffee stresses quality:

> Specialty coffees are made from exceptional beans grown only in ideal coffee-producing climates. They tend to feature distinctive flavors, which are shaped by the unique characteristics of the soil that produces them. Erma Knutsen first used the term 'specialty coffee' in a 1974 issue of the *Tea & Coffee Trade Journal*. Knutsen coined the term to describe beans of outstanding flavor produced by special microclimates.[22]

Specialty coffee dealers offer whole bean coffee (either ground in front of you or sold as whole beans for you to grind on your own). They also provide consumers with information about the variety and geographical origins of coffee beans, not unlike fine wine dealers. In a 1990 article in a trade publication, Timothy J. Castle, president of LA-based SCAA member Castle & Company said, "whereas the '70s and '80s saw a growing interest in coffees from specific countries, the trend has been refined so that we are now looking for coffees produced by specific regions, and even specific estates, to enhance quality and to help roasters differentiate their product."[23] Indeed such exclusive brands as Kona Coffee from Hawaii and Jamaican Blue

Mountain have proven to be highly desirable. Blue Mountain Coffees often fetch upwards of $25 US for a pound, more than double the price of many premium arabica blends.

Many corporate roasters initially ignored the specialty coffee market: "Although start-ups [like Starbucks] were experiencing double-digit growth rates [in the 1980s], to the corporate roasters [specialty coffee's] total sales seemed like small beans. It was hard for the corporate roasters to measure or even imagine the momentum of such tiny numbers relative to a $5 billion industry. Also having made several failed attempts at marketing gourmet coffee, the brand leaders falsely assumed that gourmet coffee was just a fad."[24] Entering the twenty-first century, the perspective of corporate roasters is changing because the specialty coffee market is the fastest-growing niche market in the United States. The sale of specialty coffees in coffee shops such as Starbucks has turned consumers away from instant coffee, especially in urban areas. Since 1998 there has been a 13 percent drop in the value of the instant coffee market. This shift away from instant coffee can be explained by the new affordability and availability of specialty coffees all over the country. In order to effectively compete in the coffee market, large corporations, Nescafe for example, have been forced to branch out into new sections of the market. Nescafe is currently working to even the playing field by creating its own fair trade coffee brand and by upping their marketing strategy. The new marketing strategy is geared towards recruiting a younger consumer base. They are trying to draw their target audience in with a new, catchy slogan, "Live now, sleep later."[25]

Comparing Responses to the Coffee Crisis

The NCA today is reborn in some respects and stuck in past in others. Once again, the group had been forced to incorporate more of the coffee community into their organization to better represent the whole industry, rather than just the corporate brands and regional chains.

The present membership of the NCA includes the leading brands of the specialty market: Starbucks, Seattle's Best, and Bucks County Coffee Company among others. Even though the NCA counts these companies among its members, it does not necessarily represent the same core beliefs that the specialty movement originally called its own.

The NCA is a rather small organization. Despite its staff of less than twenty people, its President and CEO, Robert Nelson has been credited for breathing new life into an organization that had become divided and inactive. Trade journals praise Mr. Nelson for reinvigorating the resolve of the association, increasing membership by lowering membership dues, and creating a slew of new services and publications for its members. In addition, Mr. Nelson was the first to reach out to the specialty sector in the spirit of collaboration. The current members of the NCA Board of Directors represent the biggest names in corporate coffee – Procter & Gamble, Kraft Foods, Nestle, Sara Lee, and now Starbucks[26] – as well as a number of importers, and traders who do business with corporate roasters and large specialty chains.

There is further evidence that corporate roasters are looking to enter the specialty market. For example, Maxwell House, the second most popular brand in the United States, has introduced a line of coffees made of pure arabica beans in both ground and whole bean varieties.[27] Kraft Foods, owner of coffee brands such as Maxwell House, General Foods International Coffees, Gevalia, Maxim, Sanka, and Yuban, handles distribution, sales, marketing, and promotion of Starbucks' gourmet whole bean coffees in retail grocery stores. This is a huge change in the way coffee is being marketed, especially in the hands of corporate roasters. It also shows the cooperation that is now going on between the majors and the used-to-be minors. In effect what has happened is that the NCA has become an organization that embraces specialty coffee products. But, corporate NCA members are not necessarily motivated by quality issues as much as they profess to be. The same companies that offer "gourmet" blends also continue to offer canned robustas – Chock Full 'o Nuts, Folgers, Tasters Choice. Many consumers continue to buy the supermarket brands with which they are familiar.

SCAA Executive Director Ted Lingle is an outspoken proponent on quality issues and import standards reform. In an editorial that appeared in *Tea & Coffee Trade Journal*, Mr. Lingle cites Dr. Gabriel Silva's appeal for help from U.S. coffee companies at the NCA Annual Conference. "We have the responsibility," said Dr. Silva, CEO of the National Federation of Coffee Growers of Colombia, "of jointly crafting solutions that will allow the coffee community to have a future." The only people who talk about coffee as a community are the specialty coffee people. Lingle responds to Dr. Silva's veiled plea for aid:

> "If what we are witnessing is a structural meltdown of the coffee-producing sector as we have known it for the last fifty years, the answer to his [request] from the specialty coffee industry is...absolutely! SCAA's strategy, since its inception has been [largely] based on the three "coffee commandments" Dr. Silva referred to in his presentation: (1) the coffee grower needs to earn a decent livelihood; (2) the industry has to make a profit; (3) the consumer has the right to demand information, transparency, and choice. Commandment three has been SCAA's guiding principle from the beginning, recognizing that an educated and demanding consumer was our greatest asset in building the specialty coffee sector."[28]

This is the key difference between the NCA and the SCAA: dedication to informing U.S. consumers about coffee production in its myriad forms: shade grown, bird friendly; handpicked, sun-coffees, organics, and fair trade. All these issues are ones that specialty coffee vendors have been educating people about for several years.

In a telephone interview with Mr. Lingle, he stated that SCAA members are "generally a more socially conscious group." He said they believe in a "more progressive approach to supply management than our friends at the NCA," which for specialty coffee retailers usually means cutting out the middlemen who generally stand between the farmer and the consumer. "However, we share certain things in common. We both seek to debunk the myth that coffee is bad for you. We believe that coffee can be good for you if it is drank in moderation. We both aim to promote a general increase in the consumption of coffee."

The differences between the NCA and the SCAA surfaced during a public hearing in the U.S. House of Representatives dedicated to the "coffee crisis" in the Americas. The Chairman of the Subcommittee on the Western Hemisphere, Mr. Cass Ballenger of North Carolina, opened the hearing:

> "The coffee crisis is devastating the economies of many countries in Latin America and the Caribbean, which depend on coffee as a critical export crop. Hundreds of thousands of laborers have lost their jobs and many more are working for decreased wages. For most farmers, the production costs are too great to be recovered in today's market and many are abandoning their crops...some coffee farmers are beginning to harvest illicit crops such as coca plants and poppies for opium, Some unemployed former agricultural workers are coming to the United States looking for work...I particularly hope that our witnesses today can help us to understand not only what is happening but what the United States may be able to do to help the countries in the Western Hemisphere suffering from these great changes in the coffee market."[29]

These are the types of concerns members of Congress have with the coffee crisis. Poor farmers are only one part of the picture. It's more about what those poor farmers choose to do when coffee fails them. One easily conceivable option is to convert one's crops to illicit plants used to make drugs, which Dr. Silva said is happening very frequently in Colombia today. Another concern of the U.S. government is that eventually some of these poor farmers will make their way to the United States to find work.

Among the congressional members who attended the hearing was California Representative Sam Farr, who represents an extremely liberal Congressional district. It is probably one of the most pro-environment and socially conscious regions in the United States. Farr drew a connection between the coffee crisis and political instability: "We cannot as an American policy, say that one of our most important policies in Latin America is trying to stabilize a country and at the same time drive down the principal product of these countries to a rock bottom low. It just does not make sense."[30] He went on to praise the virtues of fair trade and higher import standards.

"I suggest that there are two things Congress can do. First of all we ought to support these small coffee growers by really looking at all the public institutions in America that use taxpayer dollars to buy food and do whatever we can to encourage these entities purchase sustainable coffee. It is good public policy. It is good expenditure of taxpayer money."[31]

Farr also addressed the International Coffee Organization's Resolution 407 concerning purity standards for coffee imports:

"The United States lags behind the international standard. This is what is really remarkable. I did not know this but the international standards in terms of the purity of coffee as set by the International Coffee Organization is European countries requires that 95% of the coffee imports be [actual] coffee product, allowing 5% to be non-coffee. From a wine-producing state like California, I know what this is like. The same [is true] when selling grapes. When you [harvest] a raw product, you have things that get caught up in the harvesting of the crop. You get rotten grapes. You get the vine. You get leaves. You have all this stuff in the coffee as well. Our guidelines are [set at] only 75% of the [contents of a coffee sack], that means that 25% of the bag of coffee imported to the United States is made up of bad beans, sticks, and rocks and we ought to change that policy.[32]

Mr. Nelson and Mr. Lingle's prepared statements and oral testimony reveal the key differences between the NCA and the SCAA. Mr. Nelson's opening statement included the following:

"As [the NCA] works to address this imbalance, let me assure you that the NCA is committed to working with producers, governmental bodies and development agencies in seeking solutions that will make a difference. Recently we convened an international summit of global coffee leaders… Summit participants identified eight options that might be considered to address the current situation…With regard to the role of quality standards, the concept was recently debated at the International Coffee Organization, and producing and consuming nations alike, elected to adopt an export-based quality standard. Let me be clear that the NCA supports efforts by producers to improve the quality of their products. At the same time we support the current FDA import standards, which focus on the protection of health and safety of the American consumer. Moreover, the NCA strongly opposes changing an excellent, decades old FDA standard that is based on health and safety to meet a totally different objective of supply management."

Nelson identified three priority areas for the NCA's future work: promoting the "health benefits" of coffee consumption; supporting "sound" government agricultural policies that minimize "market distortion;" and increasing "accessibility, convenience, and quality choices" for coffee consumers.[33] These priorities focus on consumption. Apparently, the NCA is less inclined to work actively in Latin America to assist farmers directly. It seems safe to assume that the corporate members of the NCA are equally unwilling to affect change for producers. However, Nelson's prepared statement does comment upon U.S. policies that indirectly affect Latin American farmers. For example, he notes that U.S. tariffs and subsidies on crops including grains and cotton make it difficult for Latin American coffee growers to find alternative cash crops.[34]

Nelson defended existing purity standards on green coffee imports: "Since the United States imports only 25 percent of the world's coffee exports . . . any coffee restricted from U.S. entry would simply find an alternative destination." This is a valid point. However when he continues, Nelson reveals that the large companies he represents support the 75 percent standard not because it gives them a competitive advantage over other countries by allowing corporate roasters to secure low quality beans at dirt-cheap prices: "The most likely effects [of changing the import standard] would be competitive disadvantages for American companies and higher prices for American consumers, with no change in income for coffee growers around the world."[35] Here, "American consumers," really means American companies. Many of the low quality coffees entering U.S. ports are coming from huge large farms in Brazil, Mexico, and several African countries that have partially mechanized harvesting operations using methods that lower labor costs – and the price of the beans – but increase the likelihood of impurities.

Nelson also contested the SCAA assumption that improved quality leads to increased rates of consumption: "The assumption that a higher quality standard for coffee will lead to increased consumption is without merit. The fact is that American consumers today enjoy a wide variety of quality coffee products. Consumer demand dictates the range of qualities provided by the coffee industry." When he says Americans consume a "wide variety," what he really means is that Americans will buy whatever coffee roasters put on the shelf. If NCA members put more quality items out and got rid of their old mentality of low quality cheap coffee, they have the power not only to change the drinking habits of consumers, but also the power to vastly improve the lives of people in producing countries.

In his testimony, the SCAA's Ted Lingle agreed that U.S. agricultural policies are partly to blame for the plight of Latin American farmers: "I think we have to accept responsibility for part of this within the policies of the U.S. government, particularly as it relates to our farm sector. I share Mr. Nelson's view on this."[36] He goes on to discuss the oversupply in Brazil and Vietnam and says that Vietnam exports everything they produce. "We have this loss of standards. Standards have to do with export grades. It is a matter of industry's way of dealing with defective items in coffee . . . what makes Vietnam unique is that they are virtually shipping all of their defects because they have no internal consumption." He cites an ICO study, which found that, "for every million bags of [bad] coffee removed from the market, the price will increase two cents a pound." In addition, Lingle maintained that the coffee triage (non-coffee byproducts of harvesting coffee) could be put into renewable energy.

Lingle stressed the need to market high quality coffees. He argued that many people have been so disillusioned by the experience of bad coffee that they do not consider the widening range of options now available in supermarkets. He pointed out that NCA members care about two things more than anything else: "They don't want any government involvement in their business. And they don't want to provide information on quality or grade of the coffee they are selling." [37] Of course, it is no secret that since the New York Sugar and Coffee Exchange allowed the trading of robustas, corporate roasters have been buying largely robusta stocks for their retail brands because they are considerably cheaper than arabicas.

In order to promote coffee quality, the SCCA created the Coffee Quality Institute."[38] In September 2002, the Coffee Quality Institute created a volunteer-based service organization called Coffee Corps whose mission is to "enhance the livelihoods of coffee farmers, workers and entrepreneurs in developing countries and to help ensure a reliable supply of quality coffee products for the world."[39] This is a clear indication that the specialty sector is dedicated to organizing public-private partnerships to assuage the coffee crisis. We see no such organizational efforts by the NCA, although some of the large roasters have programs that carry out activities similar to those of the Coffee Quality Institute.

Congressional discussions about coffee standards were cut short by the events of September 11, 2001. According to Ted Lingle, none of the beans that the United States is currently importing are checked by customs officials because coffee quality has taken a back seat to security concerns: "Dirty bombs became a greater concern than dirty beans."[40] Hopefully it is a dialogue that will reemerge when Congress realizes that coffee growers in Latin America are waiting for U.S. trade policies to benefit them. Perhaps it will take an increase in illicit drug exports to make the US government "wake up and smell the coffee" because clearly the NCA is not about to do anything to change current price structures.

Conclusion

The coffee industry is a complex network of small regional retailers, traders, roasters, and importers who have always competed alongside the corporate roasters. The segmentation of the marketplace, which has occurred over a long period of time, has differentiated certain groups from others. Today the NCA does not accurately represent all industry viewpoints. Conscientious merchants are increasingly oriented toward coffees that are higher in quality and come with information about where they come from and how they were procured. Part of ICO Resolution 407 is to require authenticity labels to be standardized on all sacks of internationally traded coffee.

It is too simplistic – given the above evidence from the SCAA and the arguments for fair trade presented elsewhere in this report – to say that all the players in the coffee trade are operating strictly on profit-maximizing, cost-cutting business models. The corporate roasters certainly are, but many small- and medium-sized roasters, along with religious and student groups care enough about the people on the producing end to use their considerable purchasing power as consumers to make a difference.

Coffee is the second most valuable traded commodity next to oil. The ever-increasing number of specialty roasters and expanded distribution plans has helped to increase demand for specialty coffees in the Unite States where the market value for specialty roasting is valued at over one billion dollars.[41] In 2000, 54 percent of the adult population drank coffee on a daily basis, consuming an average of 3.1 cups of coffee per day. In regards to the specialty coffee market, 18.12 percent of daily coffee drinkers drink some variety of specialty coffee every day. The fastest growing niche in the coffee market is the specialty coffee market. Its growth and moneymaking potential have yet to be fully appreciated. It may be that specialty coffees are the future of the coffee industry.

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[1] With contributions by Katie Marcoux.

[2] Congress, House of Representatives, Committee on International Relations, Subcommittee on the Western Hemisphere, *The Coffee Crisis in the Western Hemisphere*, 24 July 2002.

[3] Mark Pendergrast, *Uncommon Grounds*, New York: Basic Books, 1999. According to Pendergrast, the organization was originally called National Coffee Roasters Association (NCRA). After being outflanked by [door to door salesmen], chain stores, and green coffee importers it was necessary to bring all interested parties together. In 1932, banding with smaller competitors, the NCRA became the Associated Coffee Industries of America (ACIA). The ACIA changed its name to National Coffee Association (NCA) in 1940.

[4] Though many of the largest corporate roasters have their own lobbyists who take care of their business with lawmakers on Capitol Hill, they also benefit from services the NCA provides.

[5] Most SCAA members are retailers whereas NCA members vary in what they do. However, SCAA has almost ten times as many members, most of them small businesses.

[6] The general public is unaware of the NCA just like many other trade groups. Organizations like the NCA exist to serve as a party who knows enough about the industry through research to comment on stories on coffee. In addition the NCA constantly pitches story ideas about coffee to journalists.

[7] Robustas are desirable to roasters because they can be grown cheaply and at lower altitudes (meaning in much greater mass) and can thrive in soil no longer good enough for arabicas.

[8] Pendergrast, p. 153.

[9] Ibid., pp. 186-187.

[10] Gregory Dicum and Nina Luttinger, *The Coffee Book: An Anatomy of An Industry from Crop to the Last Drop*, New York: The New Press, 1999, pp. 79-80.

[11] Pendergrast, p. 220.

[12] Dicum & Luttinger, p. 85.

[13] Ibid., pp. 88-89.

[14] Pendergrast, p. 276.

[15] Ibid., pp. 279-280.

[16] Congress, US House of Representatives, Committee on Ways & Means, Subcommittee on Trade, *Hearing on H.R. 3637 - The International Coffee Agreement Act of 1979*, p. 53.

[17] Ibid., p. 51.

[18] Ibid., p. 301.

[19] Ibid.

[20] Dicum and Luttinger, p. 144.

[21] Specialty Coffee Association of America, "About SCAA," <http://www.scaa.org/about_scaa.asp> (accessed 21 Nov. 2004).

[22] Specialty Coffee Association of America, "What Is Specialty Coffee," <http://www.scaa.org/what_is_specialty_coffee.asp> (accessed 22 Nov. 2004).

[23] Joan Hackeling. "Quality and geography: the future of specialty coffee," *Tea & Coffee Trade Journal* (April 1990), 162(4): p. 12.

[24] Adrian J Slywotzky and Kevin Mundt, "Hold the sugar; Starbucks Corp's business success," *Across the Board* (Sept. 1996), 33(8): p. 39.

[25] Claire Murphy, "Coffee – Revolution in a Coffee Cup," *Marketing*, (3 June 2004), p. 34.

[26] Some in the specialty community feel that amidst its "corporatization," Starbucks has lost its roots.

[27] Laura Liebeck, "Coffee sales good to last drop," *Discount Store News* (25 Jan. 1999), 38(2): p. 32.

[28] Ted R. Lingle, "Jointly Crafting Solutions," *Tea & Coffee Trade Journal* (April 2003).

[29] Congress, *Coffee Crisis in the Western Hemisphere*, p. 1.

[30] Ibid., p. 6.

[31] Ibid.

[32] Ibid., p. 7.

[33] This actually refers to all agricultural subsidies and barriers to free trade, which often prevent Latin American countries from switching to other crops, which would thrive in that climate. Since the U.S. government puts quotas on importation of commodities such as cotton and sugar and gives subsidies to domestic agricultural producers, Latin America could not realistically sell other crops here as it currently stands.

[34] Congress, *Coffee Crisis in the Western Hemisphere,* pp. 82-83.

[35] Ibid., p. 82.

[36] Ibid., p. 84.

[37] Ibid.

[38] Interview with Ted Lingle, Executive Director, SCAA, interview conducted by Matt Merewitz, 26 Nov. 2004.

[39] Coffee Corps, "Coffee Corps," <http://www.coffeecorps.org/> (accessed 6 Dec. 2004).

[40] National Coffee Association, "Overview of the NCA," <http://www.ncausa.org/public/pages/index.cfm?pageid=33> (accessed 20 Nov. 2004).

[41] Bplans, "Coffee Export Business Plan – 4.0 Market Analysis Summary," <www.bplans.com/spv/3244/4.cfm> (accessed 5 Oct. 2004).

A History of Coffee Marketing Strategies in the United States

Written by Katie Marcoux

"The buzzing would not go away. Without opening my eyes, I hit the clock radio. My brain managed to hold one coherent thought: caffeine."[1]

The promise of that first cup of coffee is what gets millions of Americans up every day. For over a century coffee has provided a needed dose of caffeine to coffee drinkers throughout the day. In 1962 coffee consumption in the United States peaked with 74.7 percent of the U.S. population over the age of ten consuming 3.12 cups of coffee a day. By 1989 that figure dropped to 52.5 percent of the population drinking only 1.75 cups a day.[2] With the overall market shrinking, major coffee companies relied on the marketing prowess of their brand managers to capture as much of the remaining market as possible. Corporations like Proctor & Gamble, General Foods, Chock Full o' Nuts and Nestlé made large investments in advertising after World War II. In the early 1950's Maxwell House coffee, owned by General Foods, became the first coffee company to advertise on television.[3] In 1953, the Chock Full o' Nuts theme song was written by Bernie Wayne and Bill Silbert who also composed "There She Is, Miss America."[4] The 'Heavenly Coffee' theme song is still used by the company today, a measure of the power of advertising. This chapter reviews trends in advertising during the second half of the twentieth century, a period that featured elaborate advertising campaigns, big budgets and many memorable advertising campaigns.

The 1960's

IMAGE 1: Maxwell House Instant Coffee[5]

Methods of advertising varied. Some campaigns were designed exclusively for print advertisements, while others were designed for radio or television. In 1960, Nestlé pushed Nescafé heavily on radio stations. That year, Nescafé brand was awarded a gold plaque for being one of the eight heaviest radio sponsors by the Radio Advertising Bureau. Other award winners included Budweiser, Coca Cola and Pepsi.[6] In the same month, top television advertisers were also recognized. Maxwell House was third and Folgers was tenth. Maxwell House had been on the top-ten list for the previous five years as well.[7] Pushing their coffee hard, Folgers started broadcasting testimonial advertisements with the intent of building credibility. A taping crew would surprise diners while they were eating and ask them what they thought of Folgers coffee. The idea behind the campaign was that ordinary people were more trusted by the general public than actors reciting scripts.[8]

Advertising existing products is extremely important, but so too is the initial marketing for new products. In 1961 Chock Full o' Nuts introduced their instant coffee to the market. The main premise of their campaign was honesty. They told consumers advertisements. The company used door-to-door samples (6 oz. jars), television ads and print ads to saturate the area with the Folgers name. Maxwell House tried to compete with the invasion of Folgers and by 1979 they had increased their advertising budget for the retaliatory campaign to $1.5 million. During the 1970's Proctor & Gamble marketed Folgers brand coffee via the "Mrs. Olsen" television commercials. Mrs. Olsen, played by Virginia Christine, was a Swedish-American woman who supplied viewers with testimonials about the brew as she spoke to her family.[17] Maxwell House countered the Mrs. Olsen spots with their Cora campaigns. Cora, played by Margaret Hamilton (known to many as the Wicked Witch of the West), was a kind general store owner who offered her praise for Maxwell House coffee. However, both companies relied on many different marketing strategies to maintain or expand their hold on the market.[18]

Sanka brand used the testimonial of a television doctor to promote their decaffeinated coffee throughout the 1970s. The actor, Robert Young, who played the lead character on the television show 'Marcus Welby, M.D.' portrayed Sanka as the healthy alternative to regular coffee and qualified each commercial with a disclaimer, "I am not a doctor, but I play one on television." Because the character was a decent and honest doctor, he was seen as a medical authority. When he questioned the wisdom of drinking regular coffee so too did many of the consumers who watched the commercials. The campaign was particularly successful with older Americans.[19]

Mass marketing required a lot of money. Between 1978 and 1979 the marketing budget for Folgers Flaked increased by 412 percent to $13 million while Folgers Regular was increased 111 percent to $11.8 million. According to the Television Advertising Bureau, the top ten coffees advertising budgets increased by 138 percent to $85.8 million, with the two Folgers brands posting the biggest budgets. General Food's Sanka showed gains of 1,143 percent, bringing their total up to $9.5 million. Folgers surpassed Maxwell House Regular as the number one regular brand in the country.[20] By 1979, Folgers had made gains in all areas of the market except in New York City. One source reported that New Yorkers were stubborn people who would rather pay a little more and fight for their brand of choice rather than convert to Folgers.[21]

IMAGE 3: Sanka's Dr. Welby Commercial[22]

The 1980s

The decade of the 1980s witnessed the rise of a new class of consumers. No longer were the primary grocery store shoppers middle aged women shopping for their family. Now, single men and women, childless couples and a large elderly population were viable consumers and needed to be considered when marketing campaigns were created. As the composition of the target market changed, so did the attitude of the consumers. Intimate, testimonial-style commercials lost popularity.[23] The 1980s also marked the end Mrs. Olsen's career pitching coffee; a housewife no longer appealed to the new target market.[24] Dr. Welby was also dropped in the late 1980s because Sanka brand executives wanted to attract a younger consumer base.[25] The composition of coffee commercials was not the only marketing change. Internally, the large companies changed their approaches to mass marketing.

According to management at General Foods, by 1980 "marketing [had] become more specialized, leading to the development of separate corporate departments for media and promotions."[26] The company divided its marketing department into three units, a consumer promotions division, advertising specialists for each type of coffee, and advertising specialists for Maxwell House brand. General Foods wasn't the only large company to restructure their marketing division. Folgers, under the umbrella of Proctor & Gamble, revamped their hierarchy by reducing the decision-making power of "brand managers," who now had to work hand-in-hand with other departments to develop marketing strategies. The new theory in the company stressed cooperation among brands rather than competition.[27] Despite the restructuring, coffee companies were still struggling to maintain their place in the beverage world. The growing popularity of cold carbonated beverages began to make serious inroads in the coffee market.[28]

Coffee companies developed several theories for why their products were faltering. The chief concern was that their commercials excluded youths, the future consumers of coffee. It would be necessary to introduce coffee to young consumers so that they would grow accustomed to the bitter beverage. The sale of harsh, low quality coffees at restaurants for high prices has not helped keep coffee drinkers drinking coffee either. "Coffee's chief enemy, however, has been a steady shift in tastes from hot, acrid drinks to cold, sweet drinks."[29] Besides the tastes of the consumers changing, the soda companies tried to further attack coffee by creating their own morning drinks. Coca Cola created their "Coke in the Morning" campaign and Pepsi developed Pepsi A.M., both drinks sporting higher levels of caffeine. Both companies boasted the theme 'The taste that beats coffee cold.' The new soda campaigns targeted young consumers, a market segment often overlooked by coffee companies. One coffee company, however, was able to gain a little ground during this period. Folgers maintained its highly funded marketing campaign throughout the 1980s, while Maxwell House's budget was slashed by thirty percent. The decrease in advertising proved deadly as Folgers overtook Maxwell House in the market and has remained on top since.[30]

The 1990's

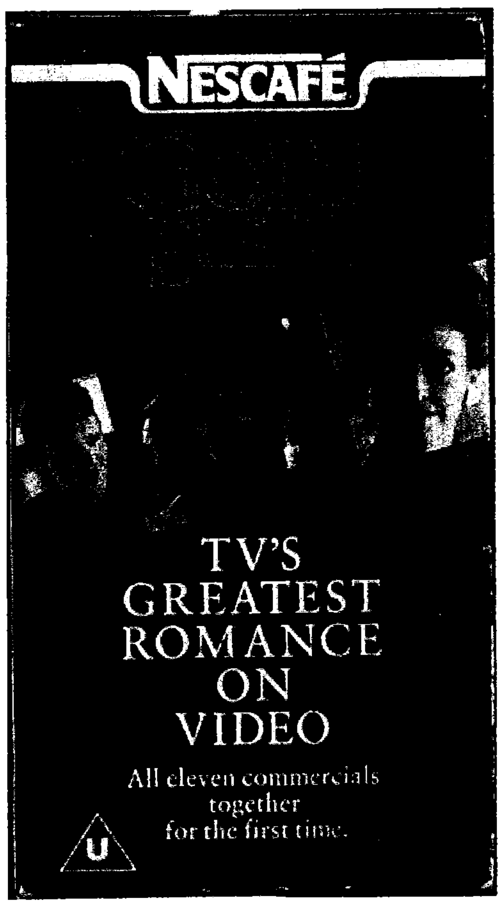


IMAGE 4: Nescafé's Soap Opera Commercials[31]

Starbucks and specialty coffees marked the transformation of coffee marketing in the late twentieth century. No longer would regular coffee satisfy a growing number of consumers. Now, with a plethora of choices, a cappuccino or mocha had more appeal than an ordinary 'cup of joe.' Starbucks approached marketing their coffee completely differently. Instead of flooding the market with Starbucks ads, they spent more money training employees than they did on advertising. Their philosophy was to build their customer base 'one customer at a time.' As the 1990s advanced, Starbucks became a household name and outside companies wanted to be associated with the strong brand name. Starbucks employed a policy, still in effect today, that stated that they would only partner with companies that understood their mission and that would bolster the Starbucks' brand name rather than dilute it. In the big picture, "Starbucks is a big brand. But in the context of the total coffee business, Starbucks is not a major player. In fact, two-thirds of all coffee is sold in supermarkets."[32] By expanding into other complementary markets, Starbucks was able to create itself as a household name which enticed consumers to try the new lucrative coffee products sold in their shops.

As the gourmet craze started and Starbucks became extremely popular, Dunkin Donuts needed to find a way to compete in the specialty coffee market. In 1994, Dunkin Donuts decided to extend its coffee brand past its Original and decaffeinated blends. To account for growing tastes they took on hazelnut and French vanilla flavored coffees. "The challenge for Dunkin Donuts was to reach as far into the upper end of the market as possible without abandoning its traditional middle-of-the-market niche."[33] By 1997 another change was needed. To match the introduction of frozen frappucinos, Dunkin Donuts created Coffee Coolattas. The drink was introduced in 1997 and within the first four month netted $75 million in sales. The strength of Dunkin Donuts was that it was completely different than Starbucks. Some former Starbucks customers were turned off by what they called a snobby atmosphere and preferred the more down to earth atmosphere of Dunkin Donuts. Between 1995 and 1998 Dunkin Donuts' coffee sales increased by 40 percent, indicating that the consumers were in fact responding to the new coffees and the working class atmosphere.[34]

While Starbucks and Dunkin Donuts were fighting over frozen coffee drinks, Folgers, Maxwell House and Nestlé were recreating and renewing old campaigns. Maxwell House created campaigns with nostalgic themes which pushed the idea of back to the good old times.[35] During the 1990s, Maxwell House brought back the "Good to the Last Drop" slogan. "Whether the 'Good to the Last Drop' [would] persist as a mark of quality coffee [would] depend on whether a brand that was built on the idea of standardization [could] continue to do well in a more diversified market."[36] Folgers also reintroduced an older commercial tagline, "The Best Part of Waking Up is Folgers in Your Cup." The catchy tagline reflected the tendency for consumers to associate coffee products with a desired lifestyle.[37] Chock Full o' Nuts adopted a "new," under-utilized approach to advertising – the radio. The radio offered the company more air time and was much cheaper. The ads, aimed at women between the ages of 35-45, were played during times when the women would be in their cars and thinking about grocery shopping. The ad was always tagged with the Chock Full o' Nuts Jingle.[38]

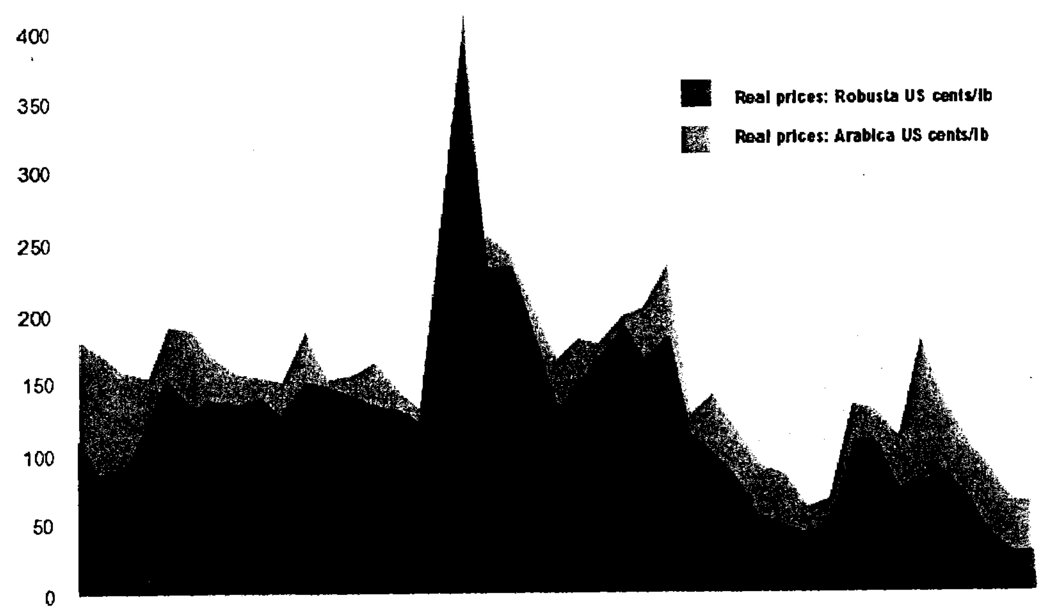
The highlight of coffee advertising during the 1990s was the Nestlé soap opera commercial series. The commercials started in 1990 and featured two British actors, Sharon Maughan and Anthony Head. The commercials incorporated standard soap opera techniques including cliff hangers and surprise guests.[39] The plot involved two neighbors having a steamy affair over a cup of coffee. The campaign became such a hit that it was

Fair Trade Organizations and their Impact on the Coffee Market

Written by Duncan Carroll

Although the average retail price for coffee in the US and elsewhere has remained roughly the same since the 1980s, falling market prices since the 1989 withdrawal of the United States, the world's largest coffee buyer, from the International Coffee Organization (ICO), and the subsequent collapse of the International Coffee Agreement, has caused widespread economic strain in coffee-growing nations. While the strength of the ICO had made it possible to keep the indicator price of coffee from falling below $1/lb. - in fact, there have been price spikes into the $2/lb and $3/lb range - deregulation of the market has resulted in the lowest prices in recent decades.[1]

Figure 3. The dramatic fall in real prices for coffee
Arabica and robusta, US cents/lb



Source: World Bank. Price in constant 1990 US$. G-5 MUV Deflator
Prices for 2002 are Jan - May

2

Coffee is unusual among agricultural commodities in that the producers are many and diverse. Other tropical food exports, bananas, for example, historically have been produced by vertically integrated companies who often operated enormous plantations. In the coffee industry today, large producers exist alongside as many as 20-25 million farming families who are dependent on the world price of coffee for their economic future. Thus, the magnitude of the effects of falling prices cannot be easily overlooked, at least in the more than 50 countries, all "developing nations," who produce the vast majority of the world's coffee supply. TransFair USA, a fair trade organization, reported in 2002 that "real farm-gate prices fell to an all-time low of 15-20 cents/lb." Market prices were still below the cost of production for millions of farmers, many of whom do not have direct access to the broader global market and are often exploited heavily by middlemen.[3] Since a significant percentage of coffee farmers live in remote regions which are largely isolated from major trading centers, it is difficult both to find buyers and to transport their beans without the aid of middlemen. Farmers are often price-gouged by middlemen who exercise monopoly control over a certain region. The ICO composite price of 62 cents/lb therefore represents a higher price than many farmers actually receive. Until the advent of fairly-trade coffee, the so-called "coffee crisis" was largely invisible to the average U.S. coffee drinker. Coffee Kids, an organization devoted to providing welfare for the children of small coffee farmers, tells a revealing story about the recent history of coffee prices.

"Twenty-five years ago, a friend of mine was arrested for buying coffee at 60 cents a pound. Of course, the [market price] at the time was well over $1.50 and he bought the coffee from a rather dubious character that insisted he be paid cash on the barrelhead. However, the judge was lenient. My friend was released, but fined heavily and the coffee was confiscated. But he wasn't released without a stern reprimand, clearly admonishing him as an informed coffee merchant who should have known that at 60 cents a pound, the coffee must have been stolen. Twenty-five years ago, it was a crime to buy coffee for 60 cents a pound."[4]

Coffee is an $18 billion industry. In many Latin American countries, coffee is the primary export crop, thus a low price for coffee reduces the export receipts of those countries by a very significant amount. The largest consumers of coffee have always been first-world countries, although a large market for coffee has emerged in Brazil. As with many other agricultural products, the price for coffee is volatile. This is due mainly to the sensitivity of crops to adverse weather, and the relatively long start-up time needed for the coffee tree to begin yielding its full potential. This instability has led to the establishment of various price-control agreements and institutions, the largest being the International Coffee Organization, which managed to successfully keep the price of coffee well above $1.00/lb until the United States withdrew in 1989. The breakdown of the ICO combined with the entry of many new producers, including Vietnam, caused prices to begin their downward plunge. The weighted average price for coffee in 2003 was 52 cents/lb. contrasted with the average US retail price in 2003 of $2.92/lb. [5] But, as many coffee drinkers know, the price of a pound of "specialty coffee" is often around ten dollars. Although the United States has formally rejoined the International Coffee Organization,[6] there is no indication of a new price agreement in the works. The Economist, a magazine noted for its support of free market economic models, admitted in 2001 that millions of growers face "financial ruin" and "destitution".[7]

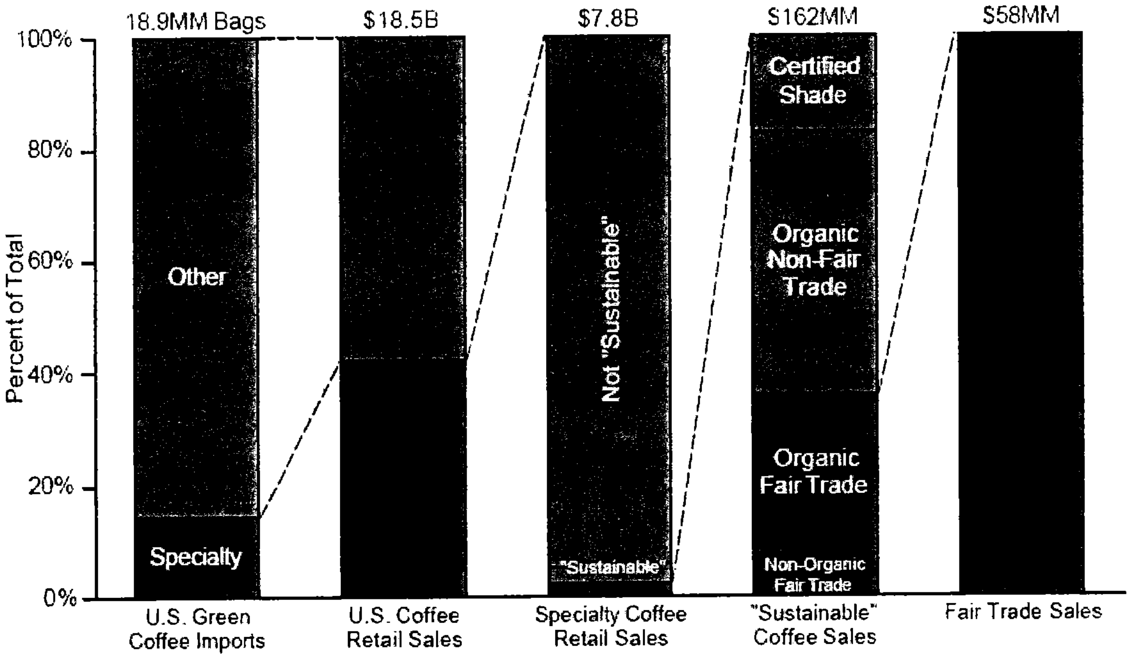
Solutions to low coffee prices have been offered from every player in the coffee industry. Among producers, there has been an effort to differentiate their product as superior. Differentiation or feature-adding allows growers to command a higher price, which is paid for by virtue of the fact that there is a relatively small but growing world market for premium-priced "specialty coffees." In the year 2000, specialty coffee accounted for 17 percent of total green coffee imports into the United States.[8] Though this niche market has grown by 30 percent over the past 5 years,[9] improvements in quality generally require substantial investments on the part of the farm owner, and many small farmers still cannot afford to make such investments.[10]

One effective feature-adding tool has been what is known as "fair trade" coffee, or more correctly, "fair trade certified" coffee. Fair trade traces it's origins to church-based humanitarian workers abroad who became aware of poor artisans and craftspeople who were skilled but could not draw demand for their products in their home countries. These aid workers then became the liaisons between the artisans and first-world buyers.[11] The first such organization was established in 1946 by Mennonite worker Edna Ruth Byler of Akron, PA. While visiting the Mennonite mission to Puerto Rico, she encountered people in dire poverty. But she also saw a potential means for helping them beyond simple charity. She bought a large quantity of Puerto Rican embroidery and sold it throughout the Mennonite organization upon her return to the US. The combination of exotic handcrafts and charity was a formula for success and not long after she began to offer Palestinian needlework and Haitian handcrafts. By 1970, her business became an official part of the Mennonite Central Committee, and was then known as "Self Help Crafts of the World". In 1996, the name was changed to Ten Thousand Villages.[12] Today, Ten Thousand Villages is the largest US retailer of fair trade handcrafts and in 2004 recorded sales of over $15.2 million dollars.[13]

In 1959, shortly after Edna Byler began selling Puerto Rican embroidery, Oxfam, a UK-based independent organization which since 1942 has focused on eliminating famine and related social problems in the Third World, began offering handcrafts produced by Chinese refugees who were fleeing the communist revolution there. After the successes of these two major organizations, numerous other "fair" or "alternative" trade organizations opened for business throughout the second half of the 20th century.[14] Coffee was not really on the radar screen of fair trade organizations until the price collapse of the late 1980s. The first fair trade organization to respond to coffee crisis was the Dutch Max Havelaar Foundation. Max Havelaar is the main character in a novel of the same name, originally published in 1859. The novel describes the exploitative practices of Dutch traders in the colonies of Sumatra and Java, which were both major coffee-producing regions at the time. The book had a significant impact, raising the awareness of upper-class Europeans about the consequences of their beverage choices and eventually led to a number of reforms which aimed to provide an education and a future to the coffee and tea producing natives. The Max Havelaar Foundation, a non-profit, was established in 1988 for the express purpose of assisting coffee farmers. Together with the Dutch aid organization Solidaridad, Max Havelaar began retailing coffee sourced directly from Mexican farmers and purchased at an above-market or "fair" price. This coffee was labeled as "Max Havelaar" coffee. This became the first fair trade certification mark. Coffee drinkers in Europe at the time was willing to pay for this feature, and Max Havelaar has recently expanded its operation to include fairly traded honey, chocolate, tea, bananas, flowers, rice, pineapples, and mangos. The organization boasts that 38 million Swiss francs (roughly $54 million) went back directly to producers' and workers' organizations in the south in 2002. This represented 50% more than what they producers would have received under conventional trade conditions. The example of Max Havelaar coffee was soon imitated by other enterprises, both for-profit and non-profit, around the world.[15]

It quickly became clear to those individuals running the first fair trade businesses that there was a need for an independent certification organization to monitor and ensure that the needs of both producers and consumers were being met. Given the profitability and the higher prices commanded by declaring one's product to be "fairly traded," there was the real possibility that the label could be "hijacked" and used unfairly. To this end, the Fair Trade Labeling Organization (FLO) was established as the umbrella organization for fair trade certifiers in 1997. FLO has standardized fair trade certification criteria. Today, if one is not involved with FLO, one will not be legitimately recognized as a fair trade organization. In the United States, TransFair USA is the only independent certifier of Fair Trade coffee, tea, and cocoa. TransFair was established by Paul Rice, a businessman who in the 1980s served on the Sandinista Board of Agriculture in Nicaragua. Today, Rice is a leading spokesperson for Fair Trade. The largest Fair Trade buyer of coffee in the United States is Equal Exchange. Founded in 1986 as a for-profit, "worker-owned cooperative", Equal Exchange now sources coffee from 22 farming co-ops in 12 countries worldwide. Their operations have expanded to include tea, sugar, and cocoa. In 2002, their sales were over $10.4 million dollars, which provided $1.6 million in "above-market premiums" to farmers.[16]

Clearly, fair trade is a viable business model. The success of Max Havelaar, Equal Exchange and other fair trade organizations indicates that consumers are both able and willing to pay a premium for the feature of "fair trade". However, fair trade only represents a very small fraction of the growing specialty coffee market, so its effects on coffee farmers are necessarily limited. The chart below illustrates the position of fair trade coffee relative to the market as a whole:



17

The certification process is crucial to the integrity of fair trade products. Consumers must be assured that the product they are buying meets definite standards. The requirements for certification which FLO enforces fall into three categories - Social Development, Economic Development, and Political Development - which are meant to provide a model for "sustainable development" (See Appendix).[18] FLO has a sizeable obligation to uphold: The organization is directly responsible for the yearly re-certification of almost one million growers in 45 different countries. To do this, FLO employs regional inspectors who personally visit farms and cooperatives and perform audits. They interview laborers and managers and review financial statements. Pending a final review from FLO trade experts, a farm is either certified, decertified, or denied. If certified, the coffee co-op or farm is guaranteed a floor price of $1.26/lb. If the coffee is organic, an additional 15-cent premium is paid.[19]

There are advantages and disadvantages to both producers and consumers of fair trade coffee. The most concrete advantage to the producers of Fair Trade coffee is the price that they receive for their product. Presently, the fair trade price is $1.26/lb for regular coffee, $1.41/lb for organic coffee, or 5 cents above the market price in the event that it becomes higher than the fair frade price. The additional premium for organic coffee provides an incentive for farms to modify their operations to become more environmentally friendly. Many FTOs provide farms an additional lending source by pre-financing part of the value of their yearly contract, up to 60% in the case of TransFair. This financial assistance provides a ready source of credit to fair trade farmers.[20]

The system is made possible only by those consumers who choose to buy Fair Trade. By purchasing fair trade coffee, millions of consumers have shown that they are willing to support the plight of disenfranchised coffee farmers. TransFair USA has declared that sales of fair trade coffee make an immediate difference in the lives of farmers and their dependents: "Our impact studies reveal a dramatic story. Fair Trade farmers' families eat better, keep their kids in school longer, and invest in essential community services such as new schools, scholarship programs, health clinics, housing, and potable water... Through Fair Trade, almost one million farming families in 45 developing countries have found hope."[21]

Another advantage of being fair trade certified is that cooperatives are not required to sell all of their coffee through an FTO. The premium received by the cooperative enables them to invest in improvements which increase the quality of the bean, which in turn will then command a higher price than inferior coffee, whether or not it is sold through the FTO. TransFair USA received this commentary from a member of the COCLA cooperative in Peru, "We are fortunate that Fair Trade prices enable us to maintain our strict quality controls and actually improve the quality of our coffee. Our neighbors, on the other hand, have cut back on quality because of the low prices they receive. Without a doubt, Fair Trade is what enables us to continue producing the excellent coffees that US companies are looking for."[22]

Equal Exchange, the largest Fair Trade coffee buyer in the US, echoes these positive results in their own annual report: "After years of trading, many of these cooperatives have acquired the dry processing facilities that they previously rented from local elites." The Equal Exchange report included examples of the ways in which communities put the revenues from fair trade coffee sales to use: "The benefits [of fair trade] are manifest in many ways and are in every case dictated by the farmers themselves… in El Salvador our pre-financing program enabled the Las Colinas co-op to offer affordable loans to it's members. Fair trade premiums helped Las Colinas build an elementary school open to everyone in the community. In Guatemala the APECAFORM co-op used their premiums to buy land and build a coffee processing facility… Another initiative in Guatemala… was the creation of a special women's leadership development program that will strengthen the role of women in their cooperative, Manos Campesinas."[23]

Equal Exchange in many ways typifies the ideals of the fair trade movement. This is evident not only in the standard FLO-mandated fair trade requirements for price, quality, and sustainability, but also in the fact that Equal Exchange is a democratically run, worker-owned company. The motive behind this organizational structure is essentially to eliminate the profit motive while retaining the ability to grow as an industry by generating capital that can be re-invested. In other words, where most companies are profit-driven, Equal Exchange is "mission-driven." This has real effects on how the company is run.

Alistair Williamson, a financial analyst who has worked for Equal Exchange since June 2004, says that the worker-owned aspect of Equal Exchange serves as a powerful tool in the company. His job is to attract investors, who then purchase shares in the company as they would any other company. But there is a twist: "Our structure is somewhat unusual in that the shares are fixed price shares… every year you get 5% on your money, then you can cash those shares in and get your original money back, but the share itself doesn't actually grow in value… our mission is not about speculation, it's not about somebody or anybody getting rich, it's about how can we give everyone a fair return."

Williamson further explains how Equal Exchange eliminates speculators: "Let's say Proctor and Gamble decides they want a fair trade arm and they offer $20 million to the company… [In that case], any money over and above that which is paid to the investors and the employees who have put money in is [then] gifted to another fair trade organization. So essentially we've removed from the equation speculation… we build mission-protection in for our shareholders, and I think you'll see a lot more companies doing this kind of thing."[24]

The numerous success stories notwithstanding, some economists have pointed out several inefficiencies and potential long-term problems with the Fair Trade business model. For example, addressing the problem of middlemen in the coffee supply chain, R. Mendoza (2000) has suggested that although farming cooperatives were established to leverage the power of a number of growers, an effect of Fair Trade has been to increase the power of the representatives of the cooperative, who have become the new middlemen: "… they expel members who deal with other enterprises, they hide information, deceive the cooperatives with false promises… all this allows directors to act without any accountability to the formal owners of the enterprise: the first-level cooperatives and producers."[25] Paul Rice of TransFair USA responded to this claim by criticizing Mendoza's report as being "fundamentally flawed because it makes sweeping generalizations about the internal functioning of cooperatives without providing any supporting data or evidence whatsoever."[26]

David Zehner, a student attending Columbia Business School in 2002, leveled several arguments against Fair Trade in a paper published by Columbia's Chazen Web Journal of

International Business entitled, "An Economic Assessment of 'Fair Trade' in Coffee". Zehner argues that Fair Trade is, "a small and inefficiently transferred subsidy. In the short term a grower may be better off with Fair Trade, but in the long term this is unlikely to be the case." Zehner believes that it is not low prices which are the fundamental cause of poverty among coffee farmers, but that "low prices are a symptom of the power imbalances that exist in the supply chain." These "power imbalances" are evidenced by a noncompetitive market for middlemen. Zehner states that the existence of more middlemen would create a more competitive market and thus force an increase in prices. He recognizes that the fair trade system is useful in providing farmers with safety from fluctuations in the price of coffee, but he also points out that because fair trade is dependent on a growing base of consumers, there is no telling how long it will continue to grow, or even remain viable and thus farmers would be foolish to depend on it completely. Zehner suggests that Fair Trade will never overtake the mainstream coffee market: "Even after 14 years in Europe, there is only a limited customer base for Fair Trade coffee. . . the highest market share recorded for Fair Trade coffee in a European market is 5 percent (in Switzerland)."[27] Zehner maintains that a formal system of insurance for farmers would be more effective in protecting against price volatility.[28]

Zehner also argues that the Fair Trade system is not the most efficient method of transferring money directly to farm workers, and that in times of high prices, the system favors the cooperatives. This is because of the fact that when coffee prices increase past the FLO-established floor price of $1.26, the fair-trade premium drops to 5 cents over the market price. By the terms of the fair trade agreement, the cooperative is allowed to keep a maximum of 26 cent/lb of the premium. In the event that market prices rise past the fair trade price floor, the cooperative only receives a 5 cent/lb premium and thus is not obligated to pass on any of that money to its members.[29] However, the fact that the cooperatives are worker-owned tends to protect in most cases against the gouging incentive that exists in privately owned agribusiness. Zehner's argues that a direct-transfer charity would be more efficient, however he seems to neglect a major advantage of Fair Trade: its convenience. The widespread availability of fair trade products makes it so consumers don't need to write a check or actually even know anything about fair trade in order to buy a fair trade product. In effect, a charitable donation is made simply by drinking fair trade coffee.

Zehner also argues that one of the central tenets of the fair trade system—the elimination of middlemen—is not beneficial in the long-term. His premise is that the market would be better off with a booming, competitive market for middlemen. This competition between middlemen would drive up the price paid to farmers. In the current market, Zehner says, "there are concentrated, noncompetitive markets for intermediaries at several points in the supply chain; creating monopsony power for the middlemen… the best way to help growers may be to address whatever failure prevents a competitive market among middlemen from developing."[30]

Zehner also estimates that demand for fair trade coffee has peaked in the United States and that the fair trade market will soon become oversupplied, leaving farmers back at square one. He believes that this possibility distorts the incentives of farmers to use the fair trade premium to upgrade equipment or switch crops, for the very reason that they would not be wise to depend on its continued availability. He agrees with fair trade proponents that it would be desirable for farmers to switch to other crops and thus reduce their reliance on coffee, but notes that "it is difficult to find concrete examples of growers who have used the Fair Trade premium only as a temporary 'crutch' as they switched crops."[31]

Paul Rice, CEO of TransFair USA, wrote a response to Zehner's paper in which he argues that the scattered pockets of coffee producers prevents the establishment of a competitive market for middlemen. Thus, by playing the role of middleman and buyer, fair trade organizations are stepping in where textbook economic theory has failed. After Rice's rebuttal, Zehner published a reply in which he conceded that his argument boiled down to just two points: One, the fact that growers may actually end up with only half of the fair trade premium in their pocket, with TransFair keeping 1% and the cooperative keeping the rest. And two, the issue of the noncompetitive supply chain, which he characterizes as being undeveloped and thus noncompetitive, stating "a program that fails to address the economies of scale and scope [in the supply chain] cannot hope to change the power balance in a meaningful way." Thus it would seem that fair trade may not be totally viable in the long term. It is not a "total solution".[32]

In many ways, the debate between Zehner and Rice echoes the broader controversy between high-ranking economists who deal with numbers, theories, and case studies, and field workers who deal with more tangible realities. For example, the World Bank has long been a proponent of export-led growth and market deregulation, lending to countries on the condition that they accomplish "structural adjustments" which achieve these aims. With respect to the coffee crisis, the World Bank concludes, "...governments need to focus on rural development that will increase competitiveness and reduce dependency on a few primary commodities by broadening the range of products produced by the agricultural sector, improving production and marketing systems, and supporting the creating of non-farm activities."[33]

However, this approach views many crucial factors as mere market externalities: the evicted farmer and his family, or the pesticide-laced water. The difference with Fair Trade is that incentives for the well-being of farmers and for environmental protection are built in.

Oxfam International has proposed a comprehensive approach to the price crisis of the coffee market. In a proposal similar to the ICA of old, Oxfam calls for a multi-staged “coffee rescue plan” that combines price controls, quotas, and overstock destruction.[34] However, such a plan would require a level of cooperation on an international level that is unlikely to occur.

Although Fair Trade Organizations have had a significant impact on the well-being of coffee farmers, the principal difficulty with the approach is that it is limited in scope and thus can only feasibly help a small number of farmers. Even with the significant amount of growth which has occurred over the past decade, Fair Trade still represents only a very small percentage of the total market for coffee. However, as an avenue for affluent coffee drinkers to make contributions to improving the lives of some farmers, it has succeeded in many respects.

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[8] Daniele Giovannucci, “Sustainable Coffee Survey of the North American Specialty Coffee Industry,” <http://www.scaa.org/pdfs/2001_Sustainable_Report_NA.pdf> (accessed 6 Dec. 2004).

[9] Ibid., p. 7.

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[20] Ibid., p. 7.
[21] Ibid., p. 1.
[22] Ibid., p. 7.
[23] Equal Exchange, "Equal Exchange 2002 Annual Report," p. 7.
[24] Alistair Williamson, interviewed by Duncan Carroll, 19 Nov. 2004.
[25] Zehner, p. 14.
[26] Paul Rice, "Fair Trade: A More Accurate Assessment," *The Chazen Web Journal of International Business*, <http://www-1.gsb.columbia.edu/chazenjournal/Rebuttal.pdf> (accessed Nov. 20 2004).
[27] Ibid., p. 14.
[28] Ibid., p. 2.
[29] Ibid., pp. 7-8.
[30] Ibid., p. 12.
[31] Ibid., p. 15.
[32] David C. Zehner, "Author David Zehner MBA/MIA '02 responds to Paul Rice's rebuttal of 'An Economic Assessment of 'Fair Trade' in Coffee'," *The Chazen Web Journal of International Business*, <http://www.gsb.columbia.edu/chazenjournal/Author_Response.pdf> (accessed Nov. 21 2004).
[33] Lewin, Giovannucci, and Varangis, p. xv.
[34] Oxfam International, "Mugged: Poverty in Your Coffee Cup," p. 3.

Examining Fair Trade Certification

Written by Long D. Pham and Stephanie D. Broff

Background

Fair trade certification of coffee is a labeling scheme that provides consumers with a brand or tool which they can recognize when making their purchasing decisions. Its ultimate goal is to maintain fair trade conditions, which aims to ensure some adherence to principals of ethical purchasing, leaning to a "post-Keynesian model of economics where price is more closely linked to cost of production and the balance of power is changed to offer fair access to markets."[1] In almost all coffee producing countries, low prices are unable to cover production costs and have led to serious social and economic problems, including increased poverty, indebtedness, and abandonment of coffee farms. Fair trade is advertised by its proponents as an investment in quality as well as a means to further humanitarian goals since it seeks to ensure that farmers can earn enough for their crops to continue producing quality coffee and sustain their farms and families. Direct relationships with producers strengthen businesses across the board and help maintain long-term access to the high quality that industry standards demand. These relationships are even more critical in times of crisis for the traditional shade growers, struggling to compete with high-yield, ecologically damaging plantations.

This chapter explores fair trade certification in depth. Currently, the fair trade certification process is controlled by Fair Trade Labeling Organizations (FLO), an umbrella organization based in Bonn, Germany, that sets the standards for all fair trade certifiers. Currently, people in humanitarian and economic circles are debating whether fair trade is the solution to this growing problem. In order to provide multiple perspectives on fair trade certification, we reviewed reports produced by both fair trade advocates and critics in addition to reading several coffee farmer accounts and conducting a phone interview with a representative of TransFair USA.[2]

The Rise of Fair Trade Labeling

One of the main principles of the current fair trade labeling system is independent auditing of producers and the establishment of a fair trade premium which is used for enhancing social wellbeing (schooling, healthcare, etc.). For the consumers, fair trade seeks to guarantee high quality, mainly through branding or labeling. Many of its advocates believe that monitored, third party certification furthers the fair trade movement by allowing for consistency of characteristics (i.e. the fair trade labeling standards set by FLO), improves market transparency, and provides credibility.[3] Interestingly, fair trade certification is the only labeling scheme in the world where the consumer, by paying higher than market prices, pays for the monitoring of producers (see Appendix A).

Only those that pass the certification process are eligible to sell their products in the fair trade market. There are strict requirements for certification that are imposed by FLO, which sees its mission as "providing an independent, transparent, and competent certification of social and economic development," which gives credibility to fair trade labels.[4] In order to accomplish this goal, FLO focuses on four main aspects of certification: assessing conformity of the producers to fair trade standards, ensuring that benefits are used for social and economic development, guaranteeing that the producers receive a fair price, and making sure that fair trade labels are only used on fair trade products. The fair trade standards require that farms are farmer owned and small-scale (consisting of 250 to 300 growers on average).[5] Cooperatives, farmer-owned entities in which members approve decisions through a democratic process, are favored by fair trade organizations. Under the FLO umbrella, there are a total of 197 cooperatives certified.[6]

Each fair trade label company establishes a labeling fee, which is the price that a producer must pay in order to use the label, possibly in addition to a yearly membership due. This fee is usually assessed as a percentage (typically at least 0.5 percent) of the sales price.[7] In order to be considered for certification, a producer must submit a paper application. If the application is deemed acceptable, the producer's operations are physically inspected by a regionally based FLO inspector who then makes a recommendation on whether the producer meets fair trade criteria. In FLO, the final decision to admit a producer to the Fair Trade Register is made by a committee of trade experts from both developed and developing nations. Once approved, producers are re-inspected annually to ensure continued adherence to certification requirements.

The current market for fair trade goods is small. Consequently, every farmer who is in need of financial help cannot use fair trade as their solution. In order to become certified, a party associated with the certifier must be aware that a particular cooperative exists. The party then contacts the cooperative and offers the certification application. This application process is a way of controlling the supply of fair trade coffee. Until demand for fair trade coffee grows, there is no other way for the process to work while maintaining a successful business.

Consumer demand for socially responsible goods, including fair trade certified products, is rising. While price, quality, and brand familiarity are still the most important factors in buying behavior, consumers strongly consider the production methods of the goods they buy and are less likely to purchase from businesses whose practices are considered to be unethical.[8] Moreover, an all-time high of 81% of Americans say they are likely to switch brands to help support a cause when price and quality are equal. Moreover, the market research journal *Lifestyles of Health and Sustainability* has shown that 63 million American adults now base their purchasing decisions on how the products they consume affect the world.[9] Businesses, whether large or small, which incorporate a recognized code of social responsibility gain the advantage of promoting a positive image to consumers. According to a Specialty Coffee Association survey conducted in 2001, more than two-thirds of the North American specialty coffee industry believes that certification of sustainable coffees will be important to their business in the future.[10]

Criticisms of Fair Trade Certification

In theory, fair trade certification seems like it may be the answer to the growing problem facing coffee producers. It guarantees that the producer is paid a premium price (now approximately $1.26 per pound of coffee and $1.41 for organic coffee) as opposed to substantially much lower market prices. In addition, it encourages farmers to use the added money they receive to better their social and economic situation. However, in reality, this outcome is not necessarily the case as much of the premium fails to translate into earnings for the producer (Appendix B).

Since fair trade coffee costs more for retailers to procure, it has a higher cost for the buyer as well. If the buyer is going to pay a price premium, the coffee must be a high quality product. One farmer claims that the added money they receive through fair trade "is necessary because [they] have to work harder to produce better coffee."[11] This farmer also recognizes that the theory of fair trade is in his best interest, and enjoys the direct relationship with the buyer that fair trade allows. However, due to added costs of production associated with growing high quality coffee, some producers do not reap all of the benefits that in theory are guaranteed to them.

As stated above, each fair trade certifier has a fee that it charges producers to use its label. Farmers who qualify for fair trade certification often object to having to pay for the label.

Recently, TransFair USA lowered its price from 10 cents per pound sold to 5 cents per pound sold for its label.[12] Ironically, the fees may function to prevent the participation of the very farmers that certification aims to help. Another FLO practice that excludes a significant segment of farmers is the size requirement. Only small farms and cooperatives are eligible to use the fair trade label. Consequently, a farm considered to be large is not eligible to use the label even if its owners treat their employees fairly. These two FLO policies leave a large population of farmers who are suffering from low market prices for coffee without access to fair trade certification.[13]

There are ways for farmers to get around fair trade requirements and still receive better than market prices for their coffee. Several non-profit organizations have made it their goal to help coffee growers achieve better lives by paying them fair trade prices or better for their crops. For example, a Bainbridge Island, Washington, non-profit organization purchases coffee grown on a cooperative in Nicaragua and then sells it in the United States. According to José Felix Centeno, a member of the cooperative, without the $1.61 per pound that the non-profit organization pays them, he would not be able to send his children to school.[14] Also, Pittsburgh-based Building New Hope sells organic, shade-grown coffee produced by the El Porvenir cooperative, a community of 48 families near León, Nicaragua. Thus, non-profit organizations offer some farmers an alternative to fair trade certification. However, there are not nearly as many non-profit organizations as there are farmers in need. Thus, fair trade remains the only other practical alternative to low market prices for those who qualify for certification.

Another argument against certification reflects those made against fair trade in general. Critics believe that fair trade serves to protect inefficient farming methods and that fair trade as conceived of by its proponents does little to help those they seek to aid since its market remains a small niche incapable of absorbing a majority of the global harvest. They also maintain that the fundamental problem creating low coffee prices is that production exceeds demand, with 117 million bags being produced in 2001, and 109 million being consumed.[15] Any solution to the low coffee price problem must address this basic issue in order to reverse the disturbing increase in poverty and suffering among many coffee farmers. Nestlé, for example, believes that the best way to help coffee farmers is to increase demand for their product. Over the past decade, total coffee consumption increased by 17%. For the year 2001 alone, Nestlé increased Nescafé consumption by 6%, while overall coffee consumption only increased by some 2%.[16]

Many members of the U.S. National Coffee Association (NCA) would rather support initiatives aimed at better managing supply, reducing volatility, and maintaining coffee prices within price bands that provide a satisfactory livelihood for producers and allow consumption to grow. Along with Oxfam, major roasting companies favor the elimination of farm subsidies in the United States and the European Union. These effectively stop coffee farmers from cultivating other market crops that could provide an alternative source of revenue.

Furthermore, critics of certification point out that while fair trade coffee is useful in benefiting a relatively small percentage of farmers and allowing some consumers to express their preferences, if higher prices were to be applied on a broad level, it would motivate farmers to grow more coffee, ultimately exacerbating the present condition of overproduction. For this reason, some favor the direct procurement of coffee from farmers. Nestlé, for example, buys some 1.5 million bags (13 percent of its total green coffee requirements) through that channel, making the firm the largest coffee manufacturer buying through direct procurement.[17] This scheme allows the farmers to receive a higher percentage of the market price for their produce, as well as a premium for higher quality. In addition, Nestlé agrees with Oxfam that coffee farmers need to be supported in their efforts to produce higher quality coffee. In many countries the company provides training for farmers on how to improve the quality of their beans so that they can be sold at premium prices. However, in the absence of certification, consumers cannot verify the source and method from which their coffee is produced.

Making Certification and Fair Trade Work

Advocates of coffee certification point out that opponents of fair trade sometimes emphasize an extreme scenario where governments would actually tax "unfair" or non-locally-produced goods differently, and that current fair trade schemes are mostly based on labeling schemes that give consumers an option to choose whether to participate. Thus, fair trade actually works in the context of free trade. Also, current fair trade premiums in the labeling system are in fact spent in the producer community directly and are not channeled to generic foreign aid; the producer community will democratically decide for which purposes the premium should be used. Moreover, both fair trade advocates and free trade proponents are in favor of reducing crop subsidies in wealthy nations.

Supporters of coffee certification emphasize that it is not a handout since it helps farmers understand and access international markets and bootstrap their way out of poverty. From a competition perspective, it also enables growers to adopt a "quality orientation that differentiates their coffees" and improves their "overall position in international markets through enhanced reputation and higher differentials" relative to benchmark futures prices.[18] By cutting out middlemen and brokers, fair trade gets growers a greater share of the final market value of their products. The principal fair trade criteria for coffee are: guaranteed floor price or income paid directly to the producer; fair labor conditions for all people working on the farms; freedom of association for farmers and workers; democratic decision-making processes; environmental standards that restrict use of agrochemicals and foster sustainability; and pre-harvest lines of credit for cooperatives.[19]

Income from fair trade funds schools and basic medical care for families. It provides opportunities for economic independence and community involvement for women. Cooperatives enable farmers to achieve economies of scale, and they invest a portion of their fair trade earnings in community development, coffee quality improvements, and training in organic farming techniques. Farmers are to protect the land and wildlife habitat by intercropping plant species and maintaining strict waste management control. They are also supposed to abide by rigorous environmental standards that prohibit use of the most harmful chemical pesticides and encourage integrated pest management. Consequently, fair trade promotes environmental stewardship by generating resources for co-ops to provide technical assistance, training, and organic certification to their members.

The higher fair trade minimum price for organic coffee ($1.41 per pound) provides a strong financial incentive to capture opportunities in the organic market and commit to certified organic production. According to TransFair USA, organic, shade-grown coffee is the "gold standard" of sustainable agriculture, reflecting farmer and industry compliance with much higher standards of social and environmental responsibility than those of other labels. More than 85% of fair trade coffee sold in the U.S. is certified organic.[20] However, the existence of numerous labels on the market is counterproductive since it undermines the credibility of fair trade labeling. Thus, World Bank researchers suggest that private firms and nonprofits should work increasingly to harmonize authentic certification systems to reduce confusion and costs for coffee producers as well as consumers.[21]

While fair trade certification can do much to mitigate the negative consequences of globalization, it is not possible for every single coffee farmer to expect better social and economic conditions in the near future. The fair trade market is still relatively young and market constraints will persist until awareness among consumers (who are able to pay higher prices) increases significantly. Moreover, certification companies are private entities with their own interests as well. They strive to make a profit, and although their ultimate goal is to offer the public the option to buy coffee that was purchased at a fair price allowing producers the opportunity to better their lives, they must still charge producers to use the label to increase their bottom lines.[22] Until conditions change to allow certifiers to earn a profit without charging producers a fee for certification, there is no other alternative. The fair trade label is a guarantee for the consumer that the coffee purchased is indeed a fair trade product.

Looking Forward

An international high-level round table on the coffee crisis, organized by the International Coffee Organization (ICO) and the World Bank, concluded in May 2003 with a call to developed countries to share the burden of the present coffee crisis that affects the living standards of 125 million people in developing countries. The Round Table urged the United States government to rejoin the ICO and demanded that wealthier countries reduce their internal agricultural subsidies and tariffs in order to allow potential diversification in those coffee-producing countries willing to move to other crops. "In the light of the universal acknowledgement of an imbalance in the market, we will also need to pursue the promotion of consumption through various means, including the improvement of quality, and to reduce dependence through diversification," stated ICO Executive Director Néstor Osorio. "We will need to establish the capacity of international agencies and the private sector to work on concrete actions in areas like credit and risk management, and what measures can be taken to bring producers once again into the profit zone."[23] Such objectives seem only to be realizable in the long term, while the goals of certification can be accomplished in the near future. With the aid of conscious consumers, fair trade holds promise for the immediate future.

Currently, coffee is a big business amounting to $5 billion in revenues per year, of which about 40% falls under the banner of specialty coffee.[24] As the world's largest importer of coffee, the United States holds tremendous potential - over 150 million Americans consider themselves coffee drinkers - for the fair trade market, which is still relatively new in this country and growing at lightning speed. Fair trade coffee has been sold in Europe for over 16 years, with retail sales topping $300 million in 2000. This trend highlights the potential for fair trade certified coffee growth in the United States (refer to Appendix C). The specialty market segment came alive in the 1990s as gourmet roasters capitalized on the U.S. appetite for coffeehouse culture and superior brews. Fair trade certified coffee is the fastest-growing segment of the specialty coffee market (at 90% in 2003).[25]

Consumers are inclined to purchase fair trade coffee if they are aware of exactly what it is and why it is important. However, the fair trade certification model is not without flaws. The most important feature of certification is the guarantee that fair trade prices were paid for the coffee. David Funkhouser of TransFair USA believes that this consumer confidence is the reason that certification is a sustainable long term solution.[26] However, it is essential for certification companies to allow all farms who treat their employees fairly to label their coffee as fair trade certified, so that they too may benefit from higher prices. Currently, non-profit organizations offer an alternative to fair trade certification for farmers while still allowing them to sell their product at a higher than market price. In the future, if these organizations would work with the certification companies, it may be possible to alleviate some of the burden of the cost of certification labeling that is placed on the producers. This partnership may be able to determine a way to pay for labeling and inspection fees in order to use a standard label for all fairly traded coffee. Such a solution could lead to greater consumer confidence as well as fewer costly burdens placed on already impoverished farmers.

With the expected growth in the fair trade coffee market, these changes will allow for all parties involved to benefit from certification. In order for fair trade to work efficiently, credible certification is absolutely needed. It is the only way for high quality coffee producers to effectively market themselves and for consumers to identify producers who abide by fair trade principles. With greater cooperation between certifiers and non-profit parties, fair trade certification promises to bring great benefits to both struggling farmers and socially conscious consumers.

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[1] Andy Redfern and Paul Snedker, "Creating Market Opportunities for Small Enterprises: Experiences of the Fair Trade Movement," International Labor Organization, 2002, < http://www.ilo.org/dyn/empent/docs/F1057768373/WP30-2002.pdf> (accessed 11 Nov. 2004).

[2] David Funkhouser of Transfair USA was among the few subjects the writers interviewed as reaching experts posed considerable challenges.

[3] Bryan Lewin, Daniele Giovannucci, and Panos Varangis, "Coffee Markets: New Paradigms in Global Supply and Demand," Agriculture and Rural Development Discussion Paper, The World Bank, March 2004, <http://www.scaa.org/pdfs/2004_Coffee_Markets.pdf> (accessed 11 Nov. 2004).

[4] "FLO's Main Tasks," Fair Trade Labeling Organization, <http://www.fairtrade.net/sites/aboutflo/tasks.html> (accessed 11 Nov. 2004).

[5] Gregory Dicum and Nina Luttinger. *The Coffee Book: Anatomy of an Industry from Crop to the Last Drop.* New York: The New Press, 1999, p. 175.

[6] "FLO Coffee Partners" Fair Trade Labeling Organization, <http://www.fairtrade.net/sites/products/coffee/partners.html> (accessed 11 Nov. 2004).

[7] Gregory Dicum and Nina Luttinger, p. 175.

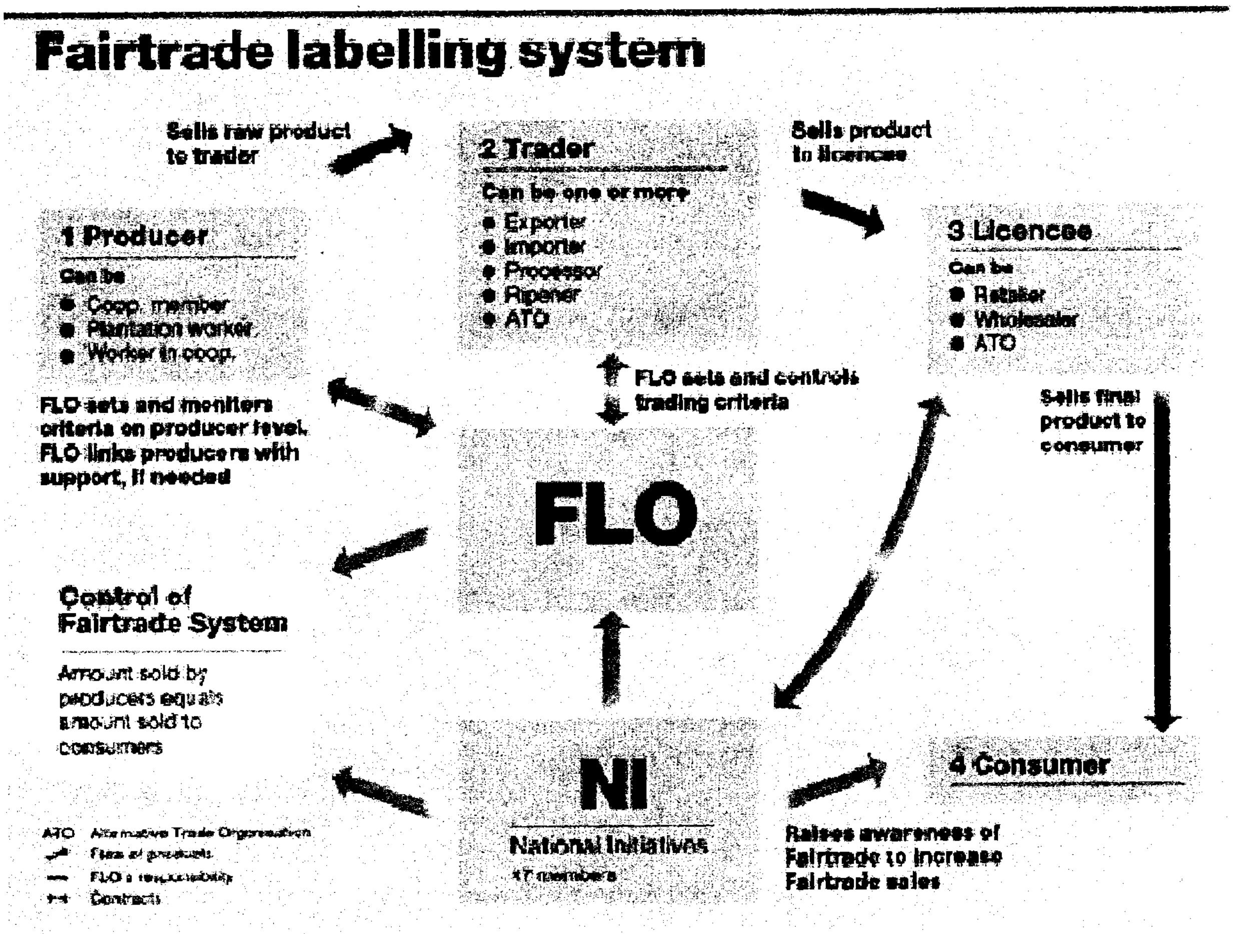
[8] Liesbeth Driesen, Patrick De Pelsmacker, and Glenn Rayp. "Are Fair Trade Labels Good Business?" Ghent University, January 2003, < http://www.feb.ugent.be/fac/research/WP/Papers/wp_03_165.pdf> (accessed 11 Nov. 2004).

[9] "Backgrounder: Fair Trade Certified Coffee," TransFair USA, <http://www.transfairusa.org/pdfs/backgrounder_coffee.pdf> (accessed 11 Nov. 2004).

[10] Daniele Giovannucci, "Sustainable Coffee Survey of the North American Specialty Coffee Industry, Commission for Environmental Cooperation," Specialty Coffee Association of America, 2001, <http://www.cec.org/files/PDF/ECONOMY/CoffeeSurvey_EN.pdf> (accessed 11 Nov. 2004).

[11] "Fair Trade: A Coffee Farmer's Opinion," *The New Internationalist*, 1995
< http://www2.gol.com/users/bobkeim/Foodhunger/Coffee/growerthink.html> (accessed 11 Nov. 2004).
[12] Jake Batsell. "Fair Trade Coffee Debate," *The Arizona Republic*, 2004.
<http://www.azcentral.com/arizonalrepublic/articles/coffeedebate> (accessed 11 Nov. 2004).
[13] Ibid.
[14] Ibid.
[15] "Nestlé's Position Regarding Oxfam's Report," Nestlé Press Office, 2002,
<http://www.eldis.org/csr/Nestlepressrelease.htm> (accessed 11 Nov. 2004).
[16] Ibid.
[17] Ibid.
[18] Panos Varangis, Paul Siegel, Daniele Giovannucci, and Bryan Lewin, "Dealing with the Coffee Crisis in Central America: Impacts and Strategies," World Bank Policy Research Working Paper, March 2003.
[19] "Backgrounder: Fair Trade Certified Coffee."
[20] Ibid.
[21] Bryan Lewin, Daniele Giovannucci, and Panos Varangis.
[22] "Coffee Program," TransFair USA, <www.transfairusa.org> (accessed 11 Nov. 2004).
[23] "Solutions for the Coffee Crisis," The World Bank Group, 2003.
[24] "Backgrounder: Fair Trade Certified Coffee."
[25] Ibid.
[26] David Funkhouser, TransFair USA, interviewed by Stephanie D. Broff, 23 Nov. 2004.

Appendix A



Source: FLO

New Hope with information that can be used to develop strategies to determine how best to increase awareness and sales of fair trade coffee.

Methods

The survey instrument was comprised of yes/no, Likert, list, circle and scale questions.[8] (For the complete survey see appendix A). Education level and occupation were used to estimate Socio-Economic Status (SES) (participants were not questioned about income because of the sensitivity of the question). The target of the survey was the general population of Pittsburgh. In order to capture a population diverse in terms of Socio-Economic Status, race, ethnicity and community, Pittsburgh residents were targeted at bus stops, a shopping mall, two college campuses, grocery stores and coffee shops. Surveys were also distributed in Carnegie Mellon University, including administrative offices and a large undergraduate lecture class. The final sample consisted of 145 people surveyed in the Pittsburgh city neighborhoods of Oakland, Friendship, Shadyside and Monroeville, a suburb of Pittsburgh.

The Statistical Package for the Social Sciences (SPSS) was used to analyze all data. For all information regarding frequencies, percentages and demographic characteristics including gender and ethnicity, a function referred to as descriptive statistics was used. For all other correlational analyses a chi squared test was performed. Chi squared tests are used to find statistical significance when looking at the relationship between nominal (non-ordered) variables.

We hypothesized that younger people and those with high levels of education would be the most likely to know about fair trade coffee because these groups are more likely to be exposed to issues of fair trade and globalization, in schools and other social settings.

Results

A majority of the sample was white, which was consistent with the general demographic characteristics of Pittsburgh. The African-American population of the sample was under representative of the actual Pittsburgh population, and the percentage of Asians in the sample was over representative. The sample was considerably biased towards a younger population, with many participants' being students who have completed some college. The proportion of the sample that held advanced degrees was larger than one would expect to find for the general population of Pittsburgh. Our data was skewed by the fact that 56.6 percent of our sample came from a Carnegie Mellon University (CMU) Introduction to World History class, which was comprised mostly of first year, college students. The tables below display the demographic characteristics of the sample.

Gender	
Male	50%
Female	44%
Not Reported	6%

Education	
Some High School	1.40%
High School	9%
Some College	56.60%
College	9%
Graduate & Doctoral	23.50%

Ethnicity	
White	60.30%
African American	6.20%
Native American	1.40%
Latino/a	2.80%
Pacific Islander	2.80%
Asian	19.30%
Multiracial	2.80%
Not reported	1.40%

Age	
18-24	57.90%
25-31	12.40%
32-37	9.70%
38-44	7.50%
45-51	2.80%
52-58	1.40%
59-64	1.40%
65+	4.10%

When asked "how often do you drink coffee" 33.8 percent of participants reported they drank "often," 36.7 percent reported "occasional" drinking and 29.5 percent reported "never" drinking coffee. Four percent of participants declined to answer. Only 30.3 percent of people surveyed said they knew about Fair Trade coffee. More then double that percentage (69.4) said that they did not know about Fair Trade coffee (Appendix B). Of those who knew of Fair Trade coffee, 23.8 percent said they learned about it from a store advertisement; 26.2 percent from the internet; 9.5 percent from a class or lecture; and 40.5 percent learned about Fair Trade coffee from another source. The most common "other" source was word of mouth from friends and relatives (see appendix C). The means by which knowledge of Fair Trade was acquired was not correlated with age, ethnicity, employment or education.

Among the factors that influence coffee purchases, quality was stated most frequently, appearing 89 times. Price came in second with 70. Brand preference appeared 31 times, followed by Fair Trade (25), roast (20) and organic (13) (see appendix D). It is interesting to note that some participants who said they did not know about Fair Trade listed it as one of the factors which influenced their coffee purchases. We will explore possibilities for this in the discussion section. Many participants also wrote in additional factors which influence their coffee purchases; availability was the most common "write in" response.

It is also important to note that many of the same people who listed quality as a factor reported drinking brands such as Folgers and Maxwell House that are often considered to be inferior coffees by experts. This finding could be interpreted to mean that the general population does not know much about coffee or what is considered by authorities to be high quality coffee. Price could play a factor here; it was cited second only to quality. It could be that people buy the best quality coffee that they can afford.

We hypothesized that people who had higher levels of education were more likely to know about Fair Trade coffee. The survey found that 30.8 percent of people with a high school education, 19.8 percent of people with some college, 46.2 percent of people with a college degree, and 50 percent of people with a graduate level of education answered positively that they knew about Fair Trade coffee.[9] These results did not show a statistically significant relationship between education and knowledge of Fair Trade. We were uncomfortable with these results and decided to analyze further. The number of participants from the high school group was small, so they were grouped together with individuals who had some college education but had not finished their degree. This was reasonable because most of the participants who had some college education were from the CMU Introduction to World History class, consisting mostly of students with first year status. It is likely that most of these subjects were college freshman and at this time would be more similar to those with a high school education. This group was then referred to as the "non-college graduates." Participants who had completed undergraduate college education were grouped with those with a graduate level of education, and were called the "college graduates."

By arranging the data in this manner 20.8 percent of non-college graduates were found to know about Fair Trade coffee compared to 48.9 percent of college graduates were found to know about Fair Trade coffee, which was statistically significant.[10] A statistical analysis was then done to compare only those who were currently students from both the "college graduate" group and the "non-college graduate." Approximately 17 percent of non-college graduates knew about Fair Trade coffee but 50 percent of the college graduates knew about Fair Trade.[11]

Age was found to be significantly associated with knowledge of Fair Trade coffee.[12] The table below lists the percentage of people in each age group who answered positively to knowing about Fair Trade.

Age: 18-24	25-31	32-37	38-44	45-51	52-58	59-64	65+
% 19.3	44.4	57	63.6	25	33.3	0	33.3

Although this was significant, these results seemed to have no real direction, looking more like a parabolic curve than a straight line. Age was then tested was to see if was correlated with education and a relationship between the two was found.[13] Therefore, together age and education level are significantly associated with knowledge of Fair Trade. Ethnicity and gender were not significantly associated with knowledge of fair trade.

We also hypothesized that there may be a relationship between where coffee people purchase their coffee and their knowledge of Fair Trade. We believed that people who bought coffee from supermarkets for brewing at home would be more aware of Fair Trade than people who purchased coffee from coffee shops. The results showed that 47.8 percent of people who bought coffee from a supermarket knew about Fair Trade coffee but 68.6 percent of people who bought from coffee shops answered positively to knowing about Fair Trade. This did not support our original hypothesis. Instead it may support the idea that people with high levels of SES know more about Fair Trade Coffee, because people who buy coffee from coffee shops are paying more money for coffee then those who brew it themselves and therefore probably have higher levels of SES than those who purchase it from supermarkets.[14] From this data we can hypothesize that SES does play a role in knowledge of Fair Trade, where those in higher levels of SES are more likely to know then those in lower levels.

The relationship between knowledge of Fair Trade and peoples' drinking of Fair Trade coffee was examined. We hypothesized that after people were informed about Fair Trade, they would be more inclined to purchase Fair Trade. Eleven percent of the people surveyed said they were not very inclined, 5.5 percent were not inclined, 29.7 percent were neutral, 33.8 percent were inclined and 17.9 percent were very inclined (see appendix E).[15] However, only 60 percent of those who answered positively to knowing about Fair Trade coffee also said that they had drank Fair Trade coffee (26 of 43 people) at least once.[16]

We wondered if price would still play a major role in coffee purchases after people learned about Fair Trade coffee. The relationship between participants' responses to questions about price and the likelihood of buying Fair Trade coffee after reading the descriptive statement about Fair Trade was examined. Surprisingly there was no correlation.[17]

Discussion

We were able to determine with statistical significance that there was a difference in knowledge of Fair Trade between those who graduated from college and those who have not. This result is not surprising because on college campus people are more socially aware, socially active, and interact with people who have higher levels of education. It can be speculated that simply going through the college experience can heighten awareness of Fair Trade. In college people meet others who know about Fair Trade, which is important because knowledge spreads by word of mouth, having access to the internet, classes and lectures, which can all increase awareness. We argue that the first semester freshmen who were polled have not yet had the full college experience, and have not yet been exposed to many of the ways which people become informed about Fair Trade.

There is also a problem with our sample and generalizability for the greater Pittsburgh area. This is because a substantial proportion of the data set comes from the CMU Introduction to World History class. Students at CMU are unlike the general population of Pittsburgh in that they are well educated, come from households with a high level of SES and are very young. This combined with the fact that CMU has a very different pattern of ethnic diversity than the general population of Pittsburgh makes it difficult to generalize our results for all of Pittsburgh.[19]

The results of how inclined people were to purchase Fair Trade coffee after given the definition were skewed towards people being inclined to purchase Fair Trade. While this was significant, we have to take these results with some caution. This is because our definition of Fair Trade coffee was in no way neutral. It was geared towards having people become concerned about the wellbeing of coffee farmers and did not present both sides of the Fair Trade argument.

We were surprised that there was no significant difference between those people who we thought were likely to brew their own coffee, because they purchased coffee at a grocery store, and people who purchased coffee at coffee shops. This could be because we did not specifically ask this question and our inference was wrong. It is possible that people who brew their own coffee are more likely to know about coffee in general and specifically Fair Trade coffee, but it is also possible that people who have higher Socio-Economic Status would know more about Fair Trade, and would also be more likely to purchase coffee at coffee shops. The types of stores where people purchase coffee and how visible Fair Trade brands are at these locations influence awareness of Fair Trade. The relationship between coffee purchasing locations and Fair Trade awareness should be furthered examined in future studies.

Appendix A

Coffee Survey

This information will remain confidential and is for research purposes only

Please circle

Gender: Male Female

Age: 18-24 25-31 32-37 38-44 45-51 52-58 59-64 65+

Ethnicity: White African American Native American Pacific Islander
Latino/a Asian Multiracial Other (*please specify*)____________

Education: Some HS High School Some College College Graduate School Doctoral

Occupation: Student Part-Time work Full-Time work Unemployed Retired

Zip code: _ _ _ _ _

1. Do you drink coffee (including espresso, cappuccino, mochas, etc.)? Yes No
   If yes… a) How often? Never Occasionally Often
   b) Where do you purchase your coffee? (*please specify*)__________
   c) What kind of coffee do you drink? (*please specify*)____________

2. Do you know what Fair Trade coffee is? Yes No

3. If yes, where did you learn about Fair Trade coffee? Store Advertisements Internet Class/Lecture
   Other (*please specify*)____________

4. If yes, to the best of your knowledge, have you ever had Fair Trade coffee? Yes No

5. *Fair Trade coffee cuts out the middleman to provide coffee growers with a fair price for their coffee. Non-Fair Trade coffee often gives a less then fair price to coffee growers, making it difficult for them to make ends meet.*

   After reading this statement, how inclined are you to purchase Fair Trade coffee?

1	2	3	4	5
Not Very Inclined	Not Inclined	Neutral	Inclined	Very Inclined

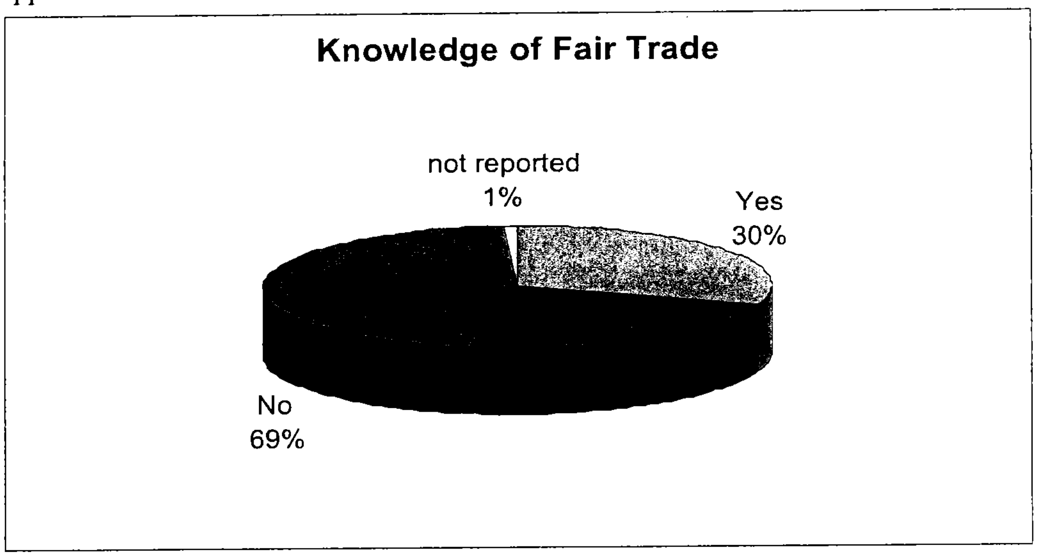
6. Which of these factors influence your coffee purchase? (*Circle all that apply*)

   Price Quality Roast Brand Fair Trade Organic

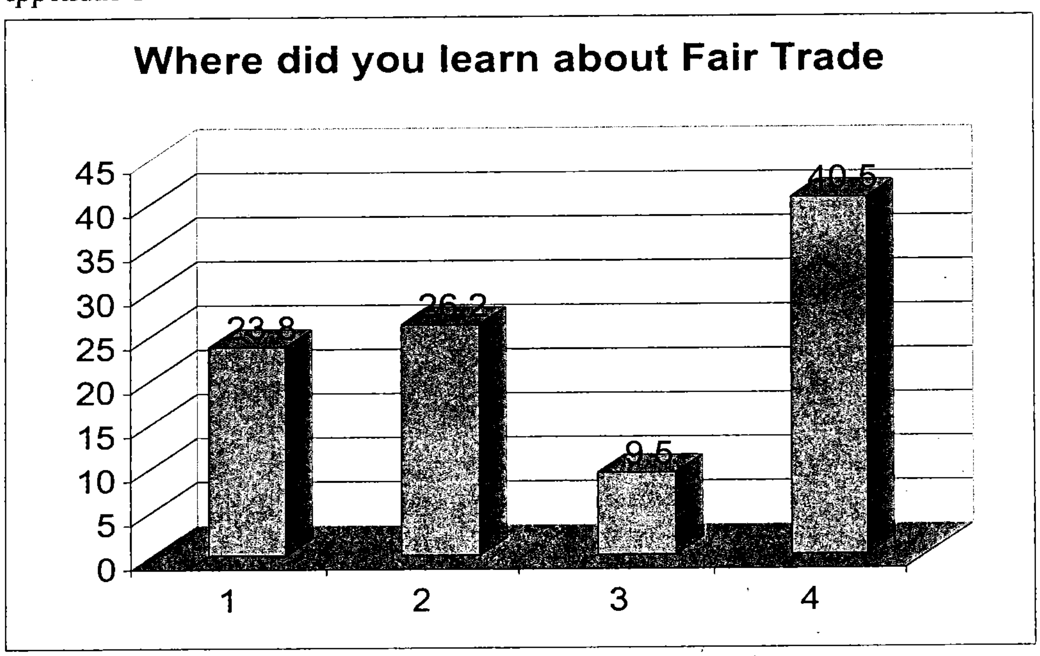
7. Fair Trade coffee is sometimes more expensive than non-Fair Trade, often $8-$10 per pound. How likely is this to influence your decision when purchasing coffee?

1	2	3	4	5
Not Very Likely	Not Likely	Neutral	Likely	Very Likely

Appendix B

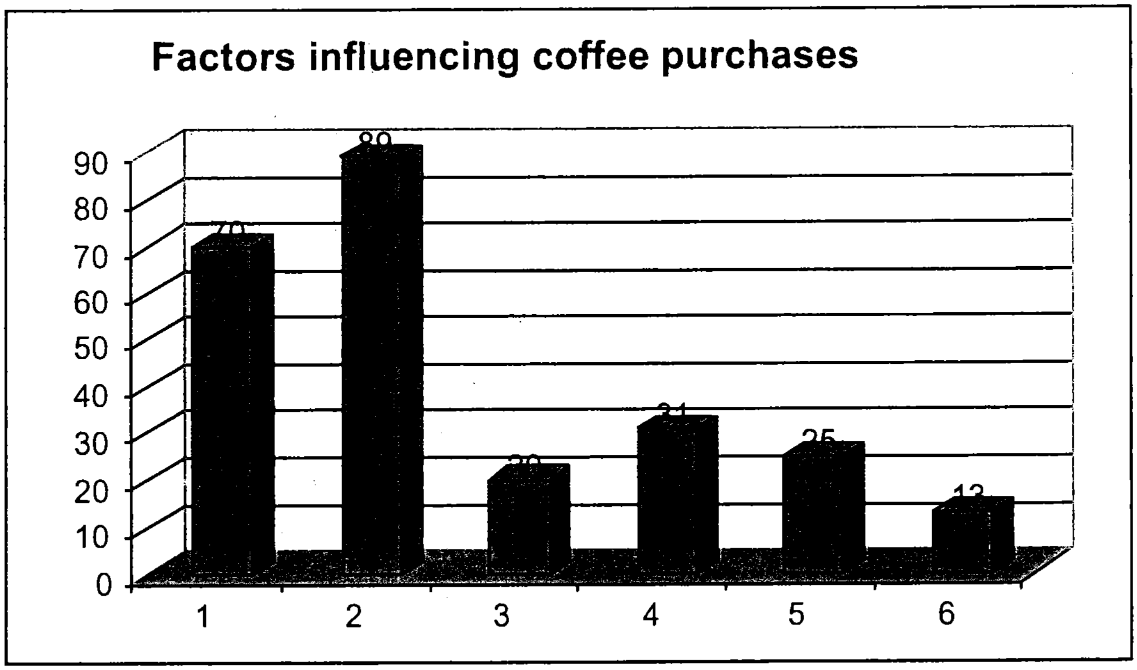


Appendix C



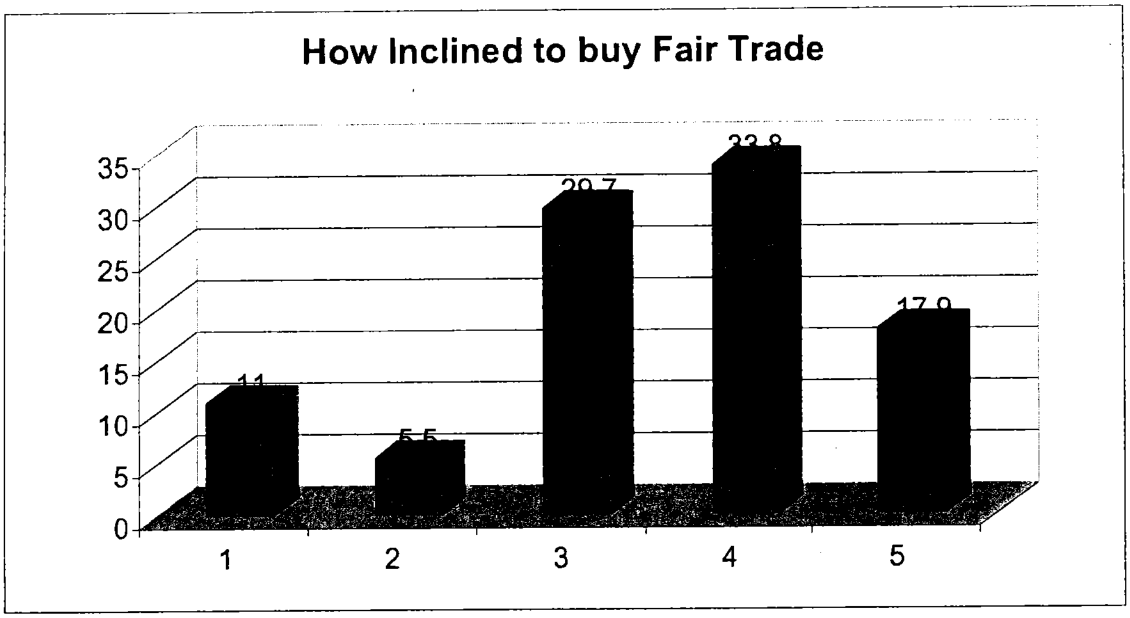
1 = Store Advertisement
2 = Internet
3 = Class/Lecture
4 = Other (mostly word of mouth)

Appendix D



1 = Price
2 = Quality
3 = Roast
4 = Brand
5 = Fair Trade
6 = Organic

Appendix E



1 = Not very inclined
2 = Not inclined
3 = Neutral
4 = Inclined
5 = Very Inclined

Notes

[1] Diana Nelson Jones, "Pittsburgh nonprofit brews up aid for coffee cooperative in Nicaragua," *Pittsburgh Pos-Gazette*, January 25, 2004.
[2] Dan Eldridge, "Brewing Hope on Smallman Street," *Pulp*. Vol 3, Issue 6. April 15, 2004.
[3] Jones.
4 "Fair Trade Certification," Transfair USA, April 2004, <http://www.transfairusa.org> (accessed 7 Nov. 2004)
5 Ibid.
6 "Dunkin' Donuts to sell new espresso beverages using Fair Trade Certified Coffee," Organic Consumers Association, <http://www.organicconsumers.org/starbucks/05073_fair_trade.cfm> (accessed 7 Nov. 2004).
7 Interview with John Notte of La Prima Coffee Roasters, November 12, 2004.
[8] Miller, Delbert Charles and Neil J. Salkind. Handbook of research design & social measurement. Thousand Oaks, Calif.: Sage Publications, 2002.
[9] Significance was determined with a Chi-Squared test.
[10] $p \leq .05$ significance.
[11] $p \leq .05$ significance.
[12] $p \leq .05$ significance.
[13] $p \leq .05$ significance.
[14] Determined not to be statistically significant using a Chi-Squared test.
[15] $p \leq .05$ significance.
[16] Determined to be statistically significant using a Chi-Squared test.
[17] Determined not to be statistically significant using a Chi-Squared test.
[18] Equator Coffee, Coffee Roaster and Wholesaler, <http://www.equator.ca/aboutus/peoplesaying.asp> (accessed 20 Jan. 2005).
[19] Though both maintain a white majority, CMU's Asian population is over-representative while its African American population is under-representative.

Specialty Coffee Houses and Roasters in Pittsburgh

Written by Tolga Erbay & Jon Milikowsky

From their inception almost five hundred years ago in the Ottoman Empire, to the almost 20,000 cafes spread across the United States today, coffee houses have been at the heart of coffee consumption. Most recently, coffee houses and the roasters that provide them have driven the growth of "specialty" coffee in the United States. This paper will closely examine the Pittsburgh specialty market, including the presence of organic and fair trade coffees, through interviews with a variety of retailers and roasters. The majority of our evidence comes from six interviews with local coffee house managers and/or owners, as well as interviews with two local specialty coffee roasters. We attempted to get opinions from as many different places a possible, accommodating a range of neighborhoods, demographics, and organizations. Due to the highly competitive market, some managers agreed to share their knowledge with us on the condition that they would remain anonymous. An outline of the preliminary questions asked in each interview can be found in this chapter's appendix.

Pittsburgh's specialty coffee market is composed of a few predominant elements. At its heart are the roasters, both local and out-of-state, who provide the high quality beans that are regarded as "specialty" coffee. There are approximately four roasters in the greater Pittsburgh region and countless others who ship here, with the out-of-state roasters holding an edge in quantity, which we approximate to be at around 65%. Next are the coffee shops and restaurants who sell specialty coffee to the consumer. Most restaurants obtain their coffee from local roasters. Local coffee shop however, buy beans from both local and regional roasters. Also, Starbucks has a significant presence in Pittsburgh (there are nearly as many Starbucks outlets as there are independent shops. All of Starbuck's coffee comes from their corporate roaster. This means that in terms of specialty coffee, the majority of roasting and purchasing takes place outside the region.

Fifteen years ago, almost nobody in the greater Pittsburgh area knew what Starbucks was; today, nearly everyone recognizes the name. That fact alone illustrates the incredible surge in specialty coffee. The number of coffee shops appearing all over the city confirms the rising popularity of specialty coffees. According to our informants, before 1990 there were approximately five places that could legitimately be called "coffee shops." Now, there are at least 35 such establishments (Starbucks alone has 18 locations) with the majority arriving in the last seven years. And the expansion is not slowing down; at least twelve stores representing several chains (including Starbucks, Crazy Mocha and Caribou Coffee) will open in 2005. But the rise in the number of shops is just one indicator. John Notte, the head roaster at La Prima Espresso, considered by many coffee shop managers to be one of the best roasters in the Pittsburgh area, claims that annual growth in specialty coffee sales is around ten to fifteen percent.[1] Of the six managers we interviewed, all except one mentioned – often with great enthusiasm - that the market is growing.

What is it about specialty coffee that has fueled this surge? The answer to this question is difficult to pinpoint, however there are a few major factors. While the common perception is that increased quality of the coffee leads to growth of the market, a couple of managers argued the opposite. Chaim Steinberg, the manager of a local coffee shop, Crazy Mocha, put it most bluntly: "Without a doubt, they [Starbucks] are responsible for this growth we're seeing in specialty coffee." He even went as far as saying that, while he strongly disapproves and dislikes the chain, "I am thankful Starbucks is in the market, because now I have a job."[2] The popularity of Starbucks and the attention is has received by its sudden appearance throughout Pittsburgh has actually helped expose the public to the market and the joys of specialty coffee. There are other factors beyond the rapid rise of Starbucks that have contributed to the growth as well. One local shop owner furthered this idea: "People are coming here instead of the gas station coffee stand. Expansion is a combination of Starbucks, and this 'gas station cappuccino craze.' They like that there [gas station cappuccino], then they come to a coffee shop and then they get turned on to *real* coffee."[3] He noted that many "quick-stop" establishments, such as convenience stores and gas stations, have tried to expand into the specialty market by offering low quality cappuccino drinks to go. That, in turn has brought growth two-fold, in terms of their sales, and in terms of spreading awareness and interested in better quality coffee.

Awareness of the many forms of specialty coffee beverages (e.g., cappuccino, latte, and expresso) has been one of the biggest issues in the market since its inception. Espresso, cappuccino, mochas, lattes, and plain drip coffee from every coffee-growing region of the earth are available in the majority of shops. Customers new to specialty coffee sometimes have difficulty understanding the menu on their initial visit, however, the options have spurned curiosity, and in turn, sales. In fact, the coffee house owner who did not believe that the market is growing admitted the following: "People are more educated about coffee preferences and what they ask for, their expectations. They are lacking in what they consider in a good cup of coffee, but it's much better than ten years ago."[4] The "discovery factor," along with seasonal promotions and blends, has definitely helped. Coffee Tree Roasters, a local chain with four retail stores, also makes an effort for their customers to experience a variety of different coffees from around the world. Every day they choose three coffees to feature including expensive varieties such as Kona and Jamaica Blue Mountain. This way regular customers can get a taste of what is available and become educated consumers.[5]

There were large differences discovered in favorite types of coffee across town. Bill Swoope Jr. of Coffee Tree Roasters implied that Pittsburgh has traditionally preferred brewed coffee stating, "Pittsburgh is a drip coffee town." He also commented that at $3.50 each, a daily mocha habit can get expensive and people often return to drip coffee.[6] We did not find this across the board however with one retail location in Shady Side selling about 70 percent espresso.[7] It is also important to note that demographics play a large role in the type of specialty drink purchased. Chaim Steinberg noted that at his local chain of three stores, the preferences are based primarily on economics: "At the store in Bloomfield, which is blue-collar and heavily urban, we can sell about three to four full pots of drip. But in Shadyside, which is more middle-upper class and residential, selling 3/4 of one pot [of drip coffee] is the norm."[8] He commented that overall sales were about even, but that the lower price of drip coffee, which typically goes for anywhere between $1.00 and $1.80 attracts a more working-class crowd. By contrast, drinks that use espresso generally run from $2.25 to almost $4.00. Ian Lipsky, the owner of the Quiet Storm coffeehouse situated in a mixed income neighborhood, noted that "pricing is not crucial in terms of competing with other coffee houses, but it is crucial in being affordable for neighborhood residents."[9]

What is the future for the Pittsburgh specialty coffee market? Most owners and managers agree that the prospects are very good. Lipsky, whose business has grown 400 percent since it opened three years ago, says "I've seen a linear incline the past three years. This seems like it will continue."[10] Another interviewee noted that "at some point the market is going to be super-saturated, but I don't think we are even close to that yet. I think coffee is here to stay. The world is addicted to it. It is kind of like television, it will grow and adapt but it won't go anywhere."[11]

The organic and fair trade coffee movements have created the biggest "buzz" in specialty coffee over the past few years. Many consumers and retailers believe that buying organic and fair trade coffee is both a good ethical decision and provides the basis for a high quality cup of the coffee. Nevertheless, the high cost of these coffees continues to stunt the growth of their sales. Typically, specialty coffees retail for $7-10 per pound; organic and/or fair trade coffee often retails for $10-14 per pound. But, there are exceptions to this: the Pittsburgh Whole Foods store has a wide range of coffees between $8 and $15 including organic and fair trade beans available across that price range. In order for consumers to pay higher prices, they need to realize the benefits of these initiatives. As Gregory Dicum and Nina Luttinger observe, "credibility in the marketplace is critical to the success of this kind of initiative."[12] In Pittsburgh, the non-profit organization Building New Hope has been working in conjunction with local roaster La Prima Espresso to bring certified organic, not-certified fair trade coffee from Nicaragua to Pittsburgh. The coffee is on sale in local coffee houses, Whole Foods supermarket, and via the internet. While some coffee shop managers are enthusiastic, believing that the concept has been positive, the Pittsburgh specialty market has not uniformly embraced fair trade coffee. Our interviews offer a number of reasons as to why this is and point to a few suggestions as to what can be done.

Opinions vary widely among local coffee shop managers and owners as to the profitability of organic and fair trade coffees. However, none debate the point that it is an ethically correct thing to do. This is an interesting fact because many large-scale, non-specialty coffee producers have argued that that is not the case. When we asked managers if they sell organic and fair trade coffee, more than half of the retailers responded affirmatively. The ones who responded negatively, enthusiastically supported the idea, while expressing some practical reservations. One manager explained that "we don't sell organic and fair trade, it's too expensive, almost twice the price of regular. He [the owner] doesn't care, he's not the activist."[13] Another manager claims that his supplying roaster does not deal in fair trade coffee because it is not profitable.[14] One manager, whose store *does* sell Building New Hope's coffee, claims that even though it accounts for one tenth of his drip coffee sales "We lose money on it. We keep it at the same prices with everything else. But, we should charge two or three dollars a pound extra. We take that loss, because we are nice people, I guess. I don't know if it would still be popular at $13 or $14 a pound."[15] Another coffee shop manager comments that while he supports the idea, "It keeps costs low not to [carry it]. I can maintain a lower fixed price if I can eliminate fair trade options."[16]

Although many area retailers agree with this assessment, others have had minor successes. The Quiet Storm coffeehouse sells organic and fair trade coffee exclusively, and their sales have been growing for the past few years. As for the price, Lipsky says that they do it because it *does* attract customers, but he admits that "its more (money), but not that much more." He thinks he could save $400-$600 per month by purchasing non-organic and non-fair trade coffee, but that that would be "wrong." He explained how he supports organic and fair trade coffee primarily because of environmental effects and damage that pesticides cause to the coffee farmers.[17] Boosted by the press surrounding the Building New Hope coffee, La Prima has begun selling several fair trade coffees, and their kiosk in Wean Hall on the Carnegie Mellon campus is exclusively fair trade, something that has resonated well among students. Coffee Tree Roasters has also added fair trade coffee to their assortment of coffees, including a fair trade decaf and one fair trade blend. They have found that these coffees sell at all of their locations.

Area retailers and roasters believe that customer awareness of fair trade and organic coffee is low in Pittsburgh. While organic coffee is riding the wave of popularity for organic foods in general, the concept of fair trade is less well known. Apparently, very few people know what it is when presented with the choice. One owner said "a small fraction know what it is. It has become sort of faddy right now."[18] At the Crazy Mocha in blue-collar Bloomfield, the manager commented that, "our crowd doesn't necessarily get involved in it. It doesn't affect their lives to the extent that it makes a difference to them."[19] Another owner noted that purchasing coffee at fair trade prices does not fit well in the free market economy. Almost all the people we interviewed said that the few customers who knew about fair trade were "well-educated, upper-middle class" or a part of the "liberal, radical, more socially aware and activist crowd." However, even in shops with such socially aware and activist crowds, there is still the danger of apathy. As one manager stated bluntly, "This country is at war in Iraq, and they [liberal customers] believe it is totally unjustified and are trying to do something about it. In light of that (and a myriad of more immediate causes), who the fuck cares, or has time to care, about when and where your coffee comes from?"[20] While many coffee retailers are proud of their fair trade and organic offerings, it seems that for the time being consumer awareness is very low.

Many of the same trends shape the business practices of coffee roasters in the region. There are several roasters in Pittsburgh who have been around since the early twentieth century, but the two largest roasters are less than fifteen years old. Local roasters cater to two markets for their coffee: local coffee houses (including their own); and institutional purchases. The majority of the market is currently local cafes, although institutions are turning away from cheap robusta coffee and towards specialty products. John Notte of La Prima commented that he is quickly finding a business among legal firms and other professional offices that lose productivity while employees go out for good coffee. In addition to their four retail stores across Pittsburgh, The Coffee Tree Roasters, who roast coffee in the Squirrel Hill neighborhood, is the city's largest roaster. They have found that universities such as Carnegie Mellon (whose dining contractor purchases all of their coffee from Coffee Tree Roasters) have begun demanding better coffee regardless of price. In addition to local outlets, roasters ship small quantities of coffee throughout the United States, but the roasters do not consider this to be a crucial market for them.

The quality of the coffee is something that everyone we interviewed takes very seriously. Both La Prima and Coffee Tree Roasters have strict standards for the time between roasting and when the coffee is consumed. Both establishments have seven or eight day limits, but most of the coffee is consumed much faster – two or three days after it is roasted. In their local retail stores, Coffee Tree Roasters prominently displays the roast date on coffee so that consumers can see that it is fresh. Local roasters find quality other ways as well – they choose coffees after testing a number of samples and only ordering the very best beans. Bill Swoope Jr. at Coffee Tree Roasters is on the board of directors of the Cup of Excellence organization that does blind taste testing to find the very best coffee in producing nations. If their coffee is chosen in the competition, farmers are able to command higher prices for their crop based on its high quality. This offers an alternative to fair trade, as the farmers receive above market value for their crop because the demand for the very best coffee. Many of the coffees that Coffee Tree Roasters purchase are coffees chosen by Cup of Excellence.[21]

Across the board, roasters have also discovered that customers will have preferences for coffees from specific regions and will sometimes pay extra for higher end products. Bill Swoope

Jr. from Coffee Tree Roasters noted that, "Columbian and the old Juan Valdez marketing program is very, very strong to this day."[22] A retail chain manager believes that Pittsburghers like a strong cup of coffee and often prefer coffees from Africa or Asia. There is agreement that the best selling coffees are all cheaper varieties and John Notte of La Prima added that putting a coffee on sale will make it fly off the shelf.

The majority of the coffee purchased by roasters is acquired through trusted brokers who find good coffees from various growing regions. This is especially true for small roasters who do not have the resources to create direct relationships in Africa and Asia. However, to find the very best coffee, many roasters will develop relationships with particular farms or cooperatives in producing countries. These relationships often demand fair trade standards from the growers (regardless of whether the coffee is certified fair trade or not) and create conditions for a better standard of living for the grower and better coffee for the roasters. Many roasters want to see democratically run organizations with focuses on education and sustainable farming practices.[23] As fair trade coffee continues to enter the market, one roaster noted that the quality continues to improve. However, multiple local sources were not consistently impressed by the coffee imported by Building New Hope from the El Porvenir cooperative in Nicaragua. One source commented that the cooperative's young coffee trees may still need time to develop. Due in part to improvements in the quality of fair trade coffees in general the market is growing.

Our research suggests that the retail coffee market in Pittsburgh is both competitive and profitable. In addition to expanding local businesses and some new Starbucks locations, Caribou Coffee (a chain with 295 locations across nine states) is opening its first Pittsburgh location this month with many more to follow. To sustain this expansion, specialty coffee will have to continue to chip away at the sales of low end coffee. On a national scale, Pittsburgh is perceived to be behind many other cities in specialty coffee consumption, leaving open the possibility that the market is still growing.

As Building New Hope has learned, Pittsburgh residents love to purchase products with a local connection. This gives hope to local establishments facing the arrival of more national chain retailers. An article examining the competition between Starbucks and a local coffee shop on Craig Street shows that they cater to different populations. "On a recent Sunday night in February, both Kiva Han and Starbucks are open for business. From Kiva Han's second story balcony, the glowing green Starbucks sign across the street is at eye level, and any interested patron can see that the artists and hipsters that fill Kiva Han far outnumber the sleepy-eyed students in Starbucks." [24] Of course these stereotypes are not always true, but thus far local shops have survived the corporate invasion. Many of the shops have regular customers who are not likely to switch. In order for sales of fair trade to continue to expand, consumers will have to be made more aware of its qualities. Many roasters and retailers will not be willing to spend the extra money on fair trade coffee if a majority of their consumers do not purchase it.

This chapter has examined the rapid growth of the specialty coffee market in the city of Pittsburgh and its prospects for the future. It is clear that the specialty coffee market both in Pittsburgh and across the nation has quickly grown in the last decade. One source states that the numbers of coffee shops across the nation increased from 585 in 1989 to 17,400 in 2002! This is an average annual growth rate of 30 percent.[25] Likewise, the number of adults who drink specialty coffee on a daily basis has risen from 9 percent in 2000 to 16 percent in 2004. These statistics suggest that the market will continue to grow in the near future.[26]

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1 John Notte, roaster at La Prima Espresso, Pittsburgh, PA, interview by Jon Milikowsky, 12 Nov. 2004.
2 Chaim Steinberg, manager at Crazy Mocha, Bloomfield, Pittsburgh, PA, interview by Tolga Erbay, 19 Nov. 2004.
3 Owner, local coffee house, Oakland, Pittsburgh, PA, interview by Tolga Erbay, 20 Nov. 2004.
4 Manager, local coffee house, Squirrel Hill, Pittsburgh, PA, interview by Tolga Erbay, 14 Nov. 2004.

5 Bill Swoope Jr. Owner, Coffee Tree Roasters, Squirrel Hill, Pittsburgh, PA, interview by Jon Milikowsky, 22 Nov. 2004.
6 Ibid.
7 Manager, local coffee house, Shadyside, Pittsburgh, PA, Interview by Jon Milikowsky, 21 Nov. 2004.
8 Chaim Steinberg, 19 Nov. 2004.
9 Ian Lipsky, Owner, The Quiet Storm, Pittsburgh, PA. Interview by Jon Milikowsky, 19 Nov. 2004.
10 Ibid.
11 Chaim Steinberg, 19 Nov. 2004.
12 Gregory Dicum and Nina Luttinger, *The Coffee Book: Anatomy of an Industry from Crop to the Last Drop*, New York: The New Press, 1999, p. 174.
13 Chaim Steinberg, 19 Nov. 2004.
14 Owner, local coffee house, Oakland, Pittsburgh, PA, interview by Tolga Erbay, 20 Nov. 2004.
15 Manager, local coffee house, Squirrel Hill, Pittsburgh, PA, interview by Tolga Erbay, 14 Nov. 2004.
16 Owner, local coffee house, Oakland, Pittsburgh, PA. Interview by Tolga Erbay, November 20th, 2004
17 Ian Lipsky, 19 Nov. 2004.
18 Manager, local coffee house, Squirrel Hill, Pittsburgh, PA. Interview by Tolga Erbay, November 14th, 2004.
19 Chaim Steinberg, 19 Nov. 2004.
20 Owner, local coffee house, Oakland, Pittsburgh, PA. Interview by Tolga Erbay, November 20th, 2004
21 Bill Swoope Jr. Owner, 22 Nov. 2004.
22 Ibid.
23 John Notte, 12 Nov. 2004.
24 "Starbucks And Kiva Han's Bad Brew," <http://www.tcpulse.com/2004/03/01/ac/kivahanstarbucks> 1 Mar. 2004.
25 Specialty Coffee Association of America, <http://www.scaa.org> (accessed Nov. 2004).
26 National Coffee Association, "Annual Drinking Trends Study," <http://www.ncausa.org> (accessed Nov. 2004).

Principle Findings and Policy Recommendations

Compiled by Juvy Santos

Our work has led to the following findings and policy recommendations on the coffee market in general and fair trade in particular. We hope they will help to alleviate the plight of coffee producers in Latin America and elsewhere.

Fair Trade

Our group came to a general consensus that the fair trade market can and will continue to grow in the future. Fair trade as a practice has both strengths and weaknesses.

Strengths:

- Fair trade offers immediate financial assistance to farmers by paying price premiums and providing loans and credit to small-scale farmers.
- Fair trade encourages cooperatives that are democratically run.
- The Fair Trade Labeling Organization incorporates ILO labor standards for farmers that participate in fair trade certification.
- Fair trade removes middle brokers and lets farmers deal directly with roasters.
- Fair trade promotes organic coffee production by paying an additional premium for certified organic coffee.
- Fair trade helps to raise awareness among consumers of the conditions under which coffee is produced.

Weaknesses:

- Fair Trade is relatively small in scope and scale.
- There is no evidence that Fair Trade has made an impact on the environment; much more can be done to advance sustainable development.
- Fair Trade's use of ILO labor standards is not always enforceable.
- Labeling fees and conditions sometimes serve to limit the number of small farmers who can participate.
- Multiple kinds of certification programs exist, including Fair Trade, Organic, and Shade-grown.
- NCA members, who conduct about 90% of U.S. coffee commerce, show little indication of changing their buying practices to fair trade models.

Sustainability and the Environment

- Rustic coffee provides favorable conditions for the conservation of biodiversity by allowing for the preservation of habitats. However, certification schemes do not explicitly promote rustic coffee production.
- Sun coffee and reduced shade coffee systems have the most negative effects on the environment and foster farmer dependency on a single cash crop.
- The recent coffee crisis has led shade-coffee farmers to cut down their trees and/or abandon their farms. Ranchers and developers often move in.

Awareness and Advertising

- The coffee market is segmented. Fair trade depends upon continued growth in specialty coffees.
- Markets beyond Pittsburgh extend to the Internet and through word-of-mouth.
- In college, students learn about fair trade through the Internet, classes and lectures, and other people with high levels of formal education.
- Our survey found no statistically significant correlation between price and inclination to buy fair trade coffee.
- Fair trade coffee is perceived as less than readily available in Pittsburgh.
- There is a back and forth relationship between availability and demand: the more people demand fair trade coffee, the more fair trade coffee becomes available.

Policy Implications and Recommendations:

The members of the project course agreed that while fair trade helps to ameliorate harsh conditions faced by farmers, it does not form a viable long-term solution.

Short-term Policy:

The following measures could be adopted to increase the effectiveness of fair trade:

- Certification for organic, fair trade, and shade-grown coffees should be combined, simplifying choices for consumers and making certification less expensive for farmers in general.
- Nonprofit organizations should consider raising money for labeling and inspection fees, allowing farmers to grow crops without imposing on them the financial burden of paying for their labeling by the FLO.
- Certifiers (FLOs) should recognize and try to foster rustic coffee production because of its importance in conserving biodiversity.
- Building New Hope and other small non-profit organizations selling coffee should focus their marketing efforts on roasters and institutional buyers including universities like Carnegie Mellon, businesses, and churches.
- The United States government should re-join the International Coffee Organization.

Long-term Policy:

No consensus exists on a viable long-term policy to mitigate the hardships facing producers. Some argue that profound changes or regulations need to be made in international economic policies in order to improve the lives of farmers and laborers. Others believe that efforts to restrict a free market make for bad policy. The problems facing laborers in Latin America have deep historical roots, and Fair Trade alone will not ameliorate their condition.

One possible solution to deal with the severe declines in coffee prices is to create a non-permanent quota system that would provide a structure for producing countries, large and small alike, to limit the amount of coffee released to the market. This strategy would act as a "safety net" to prevent coffee farmers and workers from losing their livelihoods.