



Pro-poor certification

Assessing the benefits of sustainability
certification for small-scale farmers in Asia

Emma Blackmore and James Keeley
with Rhiannon Pyburn, Ellen Mangus, Lu Chen and Qiao Yuhui

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Abbreviations

4C	Common Code for the Coffee Community
ACEP	Advancement for Community Empowerment and Partnership (Vietnamese civil society organisation)
ACF	Aceh Coffee Forum
AOFG	Agriculture and Organic Farmers Group (India)
APED	Aceh Partnership for Economic Development
APEDA	Agriculture and Processed Food Products Export Development Authority
BCI	Better Cotton Initiative
BYCI	Baoshan Yunnan Coffee Industry Company
COSA	Committee on Sustainability Assessment
CP	CAFÉ Practices (Coffee and Farmer Equity Practices)
EUREPGAP	Euro-Retailer Produce Working Group for Good Agricultural Practice
FAO	Food and Agriculture Organization
FLO	Fairtrade Labelling Organizations International
FT	Fairtrade
GAP	Good Agricultural Practices standards
GI	Geographical indications
GLOBALGAP	Global Partnership for Good Agricultural Practice
GM	Genetically modified
ICA	International Coffee Agreement
ICS	Internal control system
IFOAM	International Federation of Organic Agriculture Movements
ILO	International Labour Organization
KBQB	Koperasi Baitul Qiraat Baburraya (Indonesian cooperative)
MDI	International Market and Investment (Vietnamese company)
MFA	Multi-fibre Agreement
NGO	Non-governmental organisation
NOP	National Organic Programme (US)
OFDC	Organic Food Development Centre (China)
OTRDC	Organic Tea Research and Development Centre (China)
PBU	Producer Business Unit
RA	Rainforest Alliance
SAN	Sustainable Agriculture Network
SCFI	Sustainable Farm Certification International
TRIPS	Trade Related Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
VINATEA	Vietnam National Tea Corporation
WTO	World Trade Organization

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Executive summary

Small-scale farmers in the developing world dominate production for many agricultural commodities, such as coffee and cotton. The barriers to entry to these markets are low, but small-scale farmers face particular challenges in building their livelihoods from agriculture. These include geographical dispersion – contributing to high transport and transaction costs, a lack of market information, and limited access to affordable credit and inputs. Small-scale farmers capture a low and declining share of the final purchase price of their produce, and often face problems of environmental sustainability.

Certification is often proposed as a means to avoid the traps associated with low and volatile commodity prices, environmentally unsustainable farming practices and poor market access. But does certification offer a solution to these problems or should we be cautious about endorsing certification as a universal panacea for improving rural livelihoods?

This study reviews evidence on the costs and benefits of a number of certification schemes, organic, Fairtrade, Rainforest Alliance, Utz Certified and CAFÉ Practices. It also explores the potential of geographic labelling strategies to deliver benefits to poor and marginalised farmers. The research has a particular focus on certification for small-scale tea production in Vietnam and China; coffee production in China, Vietnam and Indonesia; and cotton production in India. The Asian settings examined here are interesting because they are dominated by small-scale production systems, often characterised by limited economic and agricultural opportunities, high levels of persistent poverty and pockets of food insecurity.

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This work has been carried out in response to a lack of useful information comparing the costs and benefits – including environmental costs and benefits – of the myriad of certification schemes, specifically in relation to farmers in Asia. It reviews existing literature as well as using interviews and short in-country case studies to assess the relevance of certification schemes for coffee, tea and cotton farmers in China, India, Indonesia and Vietnam.

Understanding the market for certified produce is an important first step

Certification is a process of ‘decommodification’ – a process by which a homogenous product (a commodity) can be differentiated into a range of products with different qualities. The evidence suggests that certification can improve the value of the product, but it doesn’t necessarily lead to the producers themselves getting an increased share of the final price.

The market for certification is growing: in general sales are increasing, new products are entering the certified market and the number of certification schemes is multiplying, each with its own aims and objectives. Some certification schemes have also entered the mainstream. Understanding the market for certification is vital – without consumer demand, producers who engage with certification will make no or only limited financial gains.

The balance of costs and benefits of certification depends on the context

Existing research suggests that it is unlikely that any certification scheme will emerge as a clear, pro-poor winner for farmers in economically-marginalised areas in Asia. Location-specific factors are highly likely to affect the success of various certification schemes. These factors include environmental conditions, soil characteristics, the ability or willingness of farmers to organise themselves into groups, the farming systems already being employed (low input versus high input), and the availability of local extension services and support from exporters, other agents in the value chain or NGOs. These factors need to be borne in mind before assessing the appropriateness of various pro-poor certification schemes in any given context. Certification needs to be a means of achieving tangible benefits, rather than a market hurdle. Only by closely analysing local conditions will it be possible to conclude whether or not a scheme will be of any use.

General conclusions about the costs and benefits of certification

Certification offers farmers the opportunity to upgrade: by following the standards demanded farmers can improve product quality. They may also see greater financial reward, either because of quality improvements or through a specific premium offered by the scheme. The diverse range of aims and objectives of certification schemes means that there is typically a difference in the nature and quantity of premiums obtained by producers. In Fairtrade, set premiums are an explicit component of the scheme, as are minimum prices. In other schemes, such as organic, buyers are not required to pay any set premium, although they may well do so because of associated increases in product quality. For schemes like Utz Certified, premiums are not required, although they are encouraged. As certified produce becomes increasingly mainstream and less of a niche product, premiums may become less likely.

Certification can offer farmers training opportunities which can lead to improved farm practices and new skills. It can mean reduced farm inputs which can lower costs and may encourage a more holistic approach to farming and the farm system. Certification can mean improved access to information, training and support – either from donors, NGOs, private sector players such as exporters, government or certification bodies themselves. Certification requires the development of internal control systems (information collection, storage and documentation). Developing these systems can be challenging for small farmers, but there can be benefits to doing so – they can allow farmers to forecast production more accurately, and improve their planning and financial management.

Certification can improve trading relationships, creating an incentive to form longer-term and more direct relationships that can, in theory, improve the returns obtained by producers. Certification may improve producers' bargaining positions through a requirement for some form of producer organisation (for example, Fairtrade requires farmers to be organised into democratically run structures). Group organisation may also lower the transaction costs associated with working with small producers and increase economies of scale. But there are challenges to

being organised and in some cases farmers may be suspicious of group formation and therefore reluctant to organise.

It is unlikely that all farmers will be able to benefit from certification. For many farmers certification is simply too costly. Farmers have to absorb the lion's share of the costs of certification (both direct costs such as fees, and indirect ones, such as the costs of establishing the structures needed to meet traceability requirements). Farmers with larger asset bases who are already producing quality products are better placed to meet certification requirements. Certification may therefore be a driver of rural differentiation which serves to improve the livelihoods and market opportunities of farmers who are not the poorest. Indeed, certification schemes are likely to be best suited to production systems characterised by scale, homogeneity, capital, technology, access to infrastructure, organisation, information and management skills. Even small-scale farmers who are well-resourced and well-organised, can find certification to be too costly.

Organic certification: technically challenging, knowledge and labour intensive, but likely to deliver environmental benefits

Organic agriculture is a production system that sustains the health of soils, ecosystems and people. It emphasises a knowledge-intensive rather than input-intensive farming system. It is regarded as a technically challenging certification that requires learning new skills and is typically associated with high quality products. It is made more challenging by the fact that there is no single system for organic certification – with different standards existing for Japanese, US and European markets.

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Organic certification can be demanding in terms of the organic inputs needed, the labour intensity of production, and the internal control systems required for documentation and record keeping. In many cases the internal control systems required may be beyond the capabilities of many poor farmers. External support may be critical for farmers who want to certify as organic. If farmers cannot meet the exacting requirements of organic certification, they risk being decertified.

The distribution of costs and benefits of organic certification is highly context specific. For farmers using conventional forms of production, a shift to organic farming may entail a drop in yields and a need to find new inputs for soil fertility and pest management. The total cost of inputs may be lower, leading to similar or improved net incomes, or appropriate organic inputs may cost more. Labour costs are likely to be higher in organic farming systems than conventional ones. For systems that are de facto organic the challenges may be less to do with changing farming practices (such as eliminating use of agrochemicals) and more about meeting the demands of different types of certification process.

The direct cost of organic certification depends on the number of products for which organic certification is being sought, the complexity of operations, the support provided to applicants and the size of the operation. The conversion periods associated with transition to organic agriculture can be challenging, as it can take three to five years to convert, and some farmers may benefit from a safety net such as Fairtrade certification in the meantime.

The benefits of organic certification can include improved yields, higher prices (associated with improved product quality), more resilient farming systems through improved biodiversity and reduced pest and disease problems, improved water quality, and a more diversified farming system. Other benefits can include improved health for farmers, improved social capital and positive demonstration effects where other, non-certified, farmers imitate organic agricultural practices. Organic certification is thus likely to result in improvements in environmental sustainability, but its economic benefits are less clear.

Fairtrade certification: can act as an important safety net and is likely to deliver some socio-economic benefits

Fairtrade is defined as an alternative approach to conventional trade that aims to improve the livelihoods and wellbeing of small producers. Its emphasis is on fairness and building livelihoods through its minimum prices and social premium. Fairtrade regards environmental sustainability as necessary to underpin sustainable livelihoods.

Fairtrade certification has played an important role at times of low prices, such as during the coffee crisis. For very poor producers, minimum prices and market access via Fairtrade networks has been critical. Fairtrade can act as an important safety net and can reduce price volatility. However, Fairtrade premiums and minimum prices have lost value in real terms over time and need to be recalibrated if they are to make a substantial difference to producer livelihoods. In 2011, there was a small upward adjustment in Fairtrade coffee prices but some have argued that prices are still not high enough to be transformational. Some evidence suggests that Fairtrade certification alone is not sufficient to make significant reductions in poverty. Certification needs to go hand-in-hand with investments to improve productivity, business management skills and better provision of public extension services and production support systems.

The Fairtrade 'social' premium has delivered development benefits in some cases; in others these are less clear, and the premium has been used mainly for production infrastructure necessary to meet the quality requirements of Fairtrade itself. Financial premiums may be only a small part of the benefits accruing to farmers from Fairtrade certification – improved relations with buyers and long-term contracts may be more significant. Being Fairtrade certified may also make it easier for farmer to access other sources of support and funding (both from Fairtrade itself and externally). The need to develop internal control systems can be an advantage for small farmers as it can lead to better planning.

In some cases the share of the Fairtrade retail price going to producers is lower than for conventional products, although it may be higher in absolute terms. Less than a quarter of Fairtrade certified produce is sold as Fairtrade, either due to insufficient market demand or because it is being sold under another certification scheme such as organic. To access markets, producers need to be delivering high quality produce, to have contacts with buyers, and, often, another certification such as organic.

Fairtrade typically demands the creation of a democratic producer organisation – though it is beginning to explore ways to relax this requirement. This can build social capital, and be a tool for learning. In some cases, producer organisations can be cumbersome, costly to operate, and lacking in accountability to members. In some countries farmers are suspicious of becoming members of a co-operative.

The costs associated with Fairtrade certification include: application fees, initial certification fees, renewal certification fees and the costs of implementing the standard itself. Costs depend on the size of the organisation and type, the number of products the farmers wish to sell and whether there are processing facilities. Some studies have found that the cost of Fairtrade certification for small-scale farmers is lower than other certification schemes.

Rainforest Alliance, Utz Certified and CAFÉ Practices: more research is needed on costs and benefits

More research is needed to explore the costs and benefits of Rainforest Alliance, Utz Certified and CAFÉ Practices. This research needs to be longitudinal, to compare adopters with non-adopters and compare across countries and different classes of producer. As an internal scheme belonging to a single firm, CAFÉ Practices has been accused of a lack of transparency, and may be more difficult to research.

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Rainforest Alliance, Utz Certified and CAFÉ Practices are associated with actors with considerable market power (Kraft Foods, Sara Lee and Starbucks respectively). These schemes have expanded rapidly and may be less bureaucratic in their certification procedures than other schemes. They are not as strong on social criteria as Fairtrade, and their basic aim is not to transform inequitable trading relations. These schemes have expanded in times of relatively high prices. How economic benefits for producers would stand up in a time of low prices is less clear.

These schemes offer no minimum prices, no guaranteed premiums and do not address price volatility or inequity in the value chain as a primary objective. They allow the market to set a premium, if any, based on supply and demand and on the quality of the produce. Certification costs can also be high but certification is arguably quicker to achieve which allows the schemes to be scaled up easily. These schemes can offer access to mainstream markets and may be associated with improvements in quality and productivity, for example through training in Good Agricultural Practices – all of which can lead to improved incomes. This may be beneficial in the longer term, though evidence is currently lacking. Productivity improvements may be dependent on the level and quality of support, training and credit obtained along with certification. The supporting infrastructure of inputs, training and financing may, in many cases, be a key determinant of the costs and benefits obtained as a result of certification.

The schemes themselves have different emphases and benefits, as detailed below.

Rainforest Alliance is stronger on environmental issues than Utz Certified or CAFÉ Practices and its aim is to protect ecosystems and the people and wildlife that depend on them. It has focused on larger growers and estates, though this is

now changing, which has allowed the scheme to scale up quickly, but may limit its impact on development. Rainforest Alliance has been criticised for allowing coffee containing anywhere between 30 and 90 per cent of certified produce to carry its label, thereby diluting its impact. Farmers may receive a premium for producing Rainforest Alliance certified coffee because of associations with higher quality but this is not part of the scheme. It is argued that it is relatively quick to implement, but the costs associated with certification have been found to be high and may not yet have been appropriately tailored to small-scale production. Rainforest Alliance certification may bring environmental benefits, such as the conservation of natural resources and a reduction in pesticide use.

Utz Certified is based on the idea of Good Agricultural Practices, as specified by GLOBALGAP. Its primary emphasis is on traceability and production practices and processes. It offers producers access to high-specification traceability technologies. It does also incorporate some social and environmental criteria such as abiding by International Labour Organization (ILO) conventions regarding wages and working hours and responsible use of agrochemicals. Some farmers engaged in Utz certification do achieve higher prices and this is associated with improvements in quality. Its original focus was on large estates though small-scale producers can now become certified. It may be easier, however, for large estates to meet the requirements of the scheme than smaller farmers. Exporters and support organisations have a key role in facilitating the inclusion of small-scale farmers in Utz certification schemes. There is a significant difference between the volumes produced as Utz Certified and the amount sold. This may indicate that there is insufficient demand for Utz Certified produce, though Utz argues that this is because the scheme wants to be able to respond quickly if a new roaster wants to get involved.

The logo consists of the lowercase letters 'ix' in white, centered within a solid blue square.

In some cases farmers may already be near to meeting the requirements of Utz and as such the cost of certification will be relatively small. In other cases, however, evidence suggests that the costs of certification are too high and the benefits too small for farmers to justify being certified.

CAFÉ Practices is a corporate ethical sourcing scheme which evaluates the sustainable production of cherry and green coffee. It prioritises quality and economic accountability. The scheme is designed and managed by Starbucks, though it is verified by a third party – Scientific Certification Systems. Product quality and economic accountability are prerequisites for participation in the scheme, although the standard also includes social responsibility and environmental leadership criteria. Producers are evaluated through a points system and awarded Strategic Supplier status if they score 80 per cent. They then receive a US \$0.05 premium per pound for the first crop. There are no other formal price premiums for farmers.

There is currently a lack of rigorous and publicly available data about the costs and benefits of the scheme and it has been criticised for a lack of transparency. It is unclear what the costs of certification are. The standard has been criticised for not being rigorous in some areas, such as environmental standards – farmers

can still be certified if they don't meet any of the environmental criteria. Some researchers have argued that the scheme is too focused on quality rather than socio-economic and environmental development.

In some regions CAFÉ Practices has become de facto mandatory for market access. This may have improved product quality and prices, but in some cases it has brought about a reconfiguration of traditional production institutions, reducing producer autonomy and possibly making it harder for farmers to participate in other schemes. It may have resulted in an unanticipated loss of functions played by traditional institutions, such as access to credit or marketing of other agricultural produce.

Geographic labelling: another option with important prerequisites for successful engagement

Geographic labelling is a potentially useful complement or alternative to sustainability certification. It has been successful for Colombian and Jamaican Blue Mountain coffee, Darjeeling tea and tequila, for example, and appears to be offering some benefits for Ethiopian coffee. Use of geographical indicators (GIs) is one approach to geographic labelling; another is to use trademarks or collective trademarks, as has been done in Ethiopia. Trademarks can be a useful approach where the state does not have the capacity to enforce a GI, but they will not necessarily result in more value returning to producers in the region.

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The use of geographic labels has been favoured by the developed world and particularly the European Union. It is likely to be easier for developed countries to use intellectual property rights such as trademarks and geographical indication because they are better able to absorb the costs associated with creating, promoting and enforcing geographic labels. Those opting for a geographic label-based development strategy may find there are many unforeseen costs to this approach.

GIs require considerable investment from the state to ensure adequate enforcement. It may be useful to build up the reputation of a GI locally before reaching out to overseas markets. Indeed, long-term investments in marketing will need to be made in order to generate added value in a GI. Products will generally need to be of a high quality and have distinctive characteristics associated with the place and method of production.

Balancing the interests of corporations and producers requires careful judgement. In some cases, corporations rather than producers have captured most of the benefits from geographic labels. At the same time, corporations may be needed to help build up the profile of a region and product, and secure access to markets. Intellectual property mechanisms such as GIs and collective trademarks need to be designed appropriately. The definition of a GI product can have important implications for development. A narrow definition might encourage uniformity over diversity.

Successful geographical indications and trademarks require strong organisational and institutional structures, equitable participation by both producers and enterprises, strong market partners and effective legal protection including a strong domestic GI system.

Coffee production and certification in Indonesia

Coffee production in Indonesia is dominated by poor small-scale farmers. The majority of Indonesia's coffee is for export, of which approximately 87 per cent by volume is Robusta (which is generally seen as inferior to the other main type of coffee, Arabica, in terms of taste). High-quality Arabica production for export makes up a significant share of the value. Many certification schemes already exist for coffee production in Indonesia, particularly in Arabica-growing parts of the country. CAFÉ Practices is particularly dominant in the region.

Farmers who produce Robusta coffee may find it difficult to engage with certification. Many farmers in Indonesia find it difficult to understand the differences between the different schemes and have yet to see any significant price benefits. They are reluctant to document their coffee production practices or organise into groups as this has not been part of traditional practice. Farmers in Indonesia in general need to improve the quality of their coffee in order to be attractive to buyers and secure better deals.

There are successful, multiple certified co-operatives in Indonesia, whose members have benefited from certification. In the most successful cases donor organisations and key buyers have played an important role in providing training, covering the costs of certification and linking producers to markets.

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There is limited evidence on certification's impact on rural differentiation, but it is likely that farmers in the best production regions, with the skills and capacity to meet the demands of group organisation, will be best placed to benefit from participation in sustainability certification schemes in Indonesia.

More research is needed into how certification could deliver benefits for farmers in Indonesia in the context of changing international supply chains, where major coffee corporations are exerting more influence as buyers enforce particular sets of standards.

Coffee production and certification in Vietnam

Vietnam is the second largest exporter of green coffee after Brazil in terms of quantity and is a major producer of Robusta coffee. Around 70 per cent of production in Vietnam is carried out by small-scale farmers. The rapid expansion of coffee production after market reform in the mid 1980s has been associated with deforestation and severe environmental degradation. Vietnam now wants to concentrate on improving quality.

There has been a rapid expansion of certification of coffee by Utz Certified and Rainforest Alliance in Vietnam. Fairtrade certification also exists in the region, but there is currently no organic coffee being exported from Vietnam. External support for training may be necessary to build the capacity of farmer groups so they can benefit from participation in these schemes.

There are no studies yet of the impact of these certification programmes on poor farmers or on poverty in the production regions, although initial evidence suggests that certification has seen a shift to better agricultural practices including more careful use of fertilisers, a reduction in pesticide sprayings and more efficient water use per tree.

There is scope for Fairtrade certification and marketing of speciality coffees, but it is likely to need the support of skilled intermediaries to identify markets and ensure that standards are met as Vietnam is generally associated with poorer quality coffee.

Coffee production and certification in China

Large-scale commercial coffee production in China is a relatively recent phenomenon. The most important base for coffee production is Yunnan a poor province in south-west China, which is the only province where Arabica varieties are grown. Very little certified coffee is currently exported from China. Farmers' groups seeking to pursue certification are to some extent pursuing a new path, with limited local experience to learn from.

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Chinese coffee has had a reputation for poor quality. This may be changing, with new research partnerships underway to develop varieties with quality traits adapted to agroecologies in Yunnan. Major coffee companies are taking a greater interest in Chinese coffee, because of the rapid growth of domestic coffee consumption (including that of high-quality coffees) and a perception that China could produce sought-after high-quality coffees for the global market. This may help change the image problem of Chinese coffee. Yunnan has considerable potential for speciality coffee but at present there is almost no production of organic or Fairtrade coffee in Yunnan for export. Some coffee farms are de facto organic and may be in a strong position to pursue certification. They are likely to need external support to meet international standards for organic certification; the cost of certification inspections alone in remote areas can be very high. Yunnan is an area of rich biodiversity, but faces serious problems of environmental degradation. By Chinese standards, however, it is also associated with high levels of environmental awareness and activism, which may help boost support for certification. The provincial government also actively supports the expansion of coffee production in Yunnan, so as a province it is well suited to receive support from external and Chinese agencies.

Until recently, there has not been a Fairtrade Labelling Organisation (FLO) representative in China. At the time of writing a liaison officer was being recruited which could potentially help with communicating the principles of Fairtrade and assisting groups with the application process. Rainforest Alliance

and Utz Certified are currently not operating in China, although Rainforest Alliance claims that they are planning to work with coffee farmers there in the near future.

The domestic coffee market could be more important than export markets given the costs associated with certification, and the size of the growing Chinese middle-class with increasingly sophisticated tastes in coffee. It is possible that China's Green Food certification, which is not organic and permits restricted agrochemical use and is aimed at the domestic market, may be a useful interim step on the way to full organic certification.

Tea production and certification in Vietnam

In 2008, Vietnam was the world's sixth largest producer of tea. Tea production has significant potential to alleviate poverty in the country because it is planted mainly on small farms in poor areas by ethnic minorities, requires few inputs and is labour intensive. In some of the poorest regions of Vietnam tea is one of the few crops that are suitable for cultivation. Most tea farmers in Vietnam produce tea alongside other crops and livestock and at low levels of productivity. Vietnamese tea is typically poor quality.

Certification for export is therefore highly relevant in Vietnam as a way for the rural poor to earn more from their assets. In order to successfully engage with certification producers will need to grow high quality tea. Following the codes associated with certification schemes can help farmers to improve the quality of their produce.

At present there is no Rainforest Alliance certification for tea in Vietnam, though this is planned. Sara Lee has started to market Utz Certified tea through its Pickwick brand which will include certified tea from Vietnam in the next year or so. Organic certification for tea in Vietnam may make most sense for those farmers who are not using agrochemicals and are de facto organic.

Focusing on the demands of a standard alone is not enough in Vietnam – progress will require an equal emphasis on identifying buyers and marketing. Intermediaries can play an important role in this.

Tea production and certification in China

China is a major producer of tea both for export and for the domestic market. Some farmers are already producing for export with organic and Fairtrade certification. Consumer awareness (outside of China and Asia) of the variety of Chinese teas is likely to increase, with increased recognition of Chinese geographic labels and the very high quality speciality teas that are available in China. However, these labels will need to be well-managed to build and maintain consumer confidence.

China has a reputation for significant overuse of pesticides on tea, as well as other crops. Policies on maximum residue levels have changed in line with the demands of major export markets but confidence in regulation and safety

remains an issue. There have been many reports of fake organic food entering the market from China. Indeed, trust in organic certification is low in China, as there are serious problems of compliance with organic standards. This has affected international perceptions and the ability of Chinese farmers to successfully market organic tea.

There are only a few examples of farmers' associations producing certified teas. The most prevalent models, particularly in the organic sector, are contract farming and the company-based model with land rented to farmers. Small-scale farmers in producer associations may find it difficult to secure the political and bureaucratic support for successful negotiation of regulatory structures and certification regimes. They will also need help to strengthen the functionality and effectiveness of their groups.

Cotton production and certification in India

India has the world's largest area of planted cotton. Despite government intervention to support cotton production, productivity is relatively low compared to other cotton-producing countries. Cotton farming in India is associated with overuse of pesticides and high levels of indebtedness and related farmer suicides.

In response to these problems, India turned to organic cotton and is now the world's largest producer. Rigorous internal control systems, inspections, and management of supply chains are necessary to maintain the credibility of Indian certified organic cotton. Sourcing sufficient non-GM cotton seed can be a challenge in some locations. In some areas there are insufficient supplies of organic fertilisers. Other problems include lack of credit and limited development of organic farming techniques. Care also needs to be taken to segregate organic, or non-GM cotton, from GM cotton throughout the supply chain.

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Farmers need to be supported during the conversion period to cover possible initial drop-offs in yields, and to help them master of organic farming practices such as composting and crop rotations. If organic markets for rotation crops can be developed, the overall profitability of cotton farmers will improve.

Certification is not a development panacea

This report argues that certification can offer a tool for learning, helping farmers to upgrade their production, and can offer a powerful safety net in times of low or volatile prices. Certification can improve productivity, reduce inputs costs and increase quality, all of which can lead to financial benefits and increased profits. Certification can be a successful means for farmers to diversify their markets and to establish longer-term relationships with trading partners based on co-investment and collaboration.

Despite the potential benefits of certification, anecdotal evidence suggests that certification excludes some producers and is not likely in its current form to be achievable by all. For many marginalised farmers, certification is only likely to be successful where they already produce, or have the potential to

produce, quality or well-branded produce and where support is available to cover the costs of certification or provide the training needed to establish effective farmer groups, internal control systems and management capacity, and the appropriate agricultural practices. Even if certification is achieved there is no guarantee of market access or sales. Certification allows good producers to differentiate themselves from poor ones, but has limited impact on the behaviour of poor performers.

It is important to bear in mind that the conditions under which certification will be a viable option for farmers are highly context-specific, depending upon the nature of the original farming system, farmers' pre-existing links to markets, the ways in which they are organised, whether they can access external support and how developed the certified market is for the commodity in question.

Conclusions and recommendations for improving the chances of successful engagement with certification include:

Certification's key benefits are not necessarily financial in the first instance. Farmers who engage with certification chiefly for financial reasons may be disappointed.

Certification is typically most successful when farmers are already linked to markets and can use these links to obtain support and co-investment for certification. Certification does not guarantee market access or minimise investment risks. It is recommended that farmers identify existing or potential buyers who recognise the value in certification and can provide a link to markets for their certified produce. Certification is unlikely to create market access for those who are not currently linked to markets.

Successful certification generally requires external support which might take the form of financing and loans, technical advice and extension services, or guaranteed market access. Financing can be important as capital requirements for certification is often a key limitation. Intermediaries will therefore play a crucial role in determining the success of smallholders when participating in certification schemes. Farmers who have received initial external support are most likely to reap financial benefits.

Group organisation is essential. While it may not be compulsory for all certification schemes, without group organisation the costs of compliance and certification are prohibitive, producers cannot achieve economies of scale and transaction costs for developing links to markets are likely to be excessively high. Indeed, evidence suggests that group organisation of some kind is vital for any effective link between small-scale farmers and markets to be established. Certification is no exception. A question for the future is whether certification schemes themselves need to adapt and find new ways of working with individual farmers. In some cases, this would be better suited to the realities of small-scale farmers, particularly where farmers are not organised (and most are not), and where organisation is particularly difficult for historical, cultural or other reasons.

Internal management and control systems are vital, for continued, successful engagement with certification. Group formation is meaningless without the relevant management capacity, processes and procedures in place to facilitate group auditing and to maximise benefits from establishing economies of scale. Effective management is important for monitoring certification and production, ensuring compliance and using information to improve the farming or group system and maximise benefits from certification. Management systems, however, do not need to be excessively complex or complicated.

Quality produce is key for successful engagement with certification for export. Apart from the case of Fairtrade, in many cases it is impossible to tell whether price premiums are due to certification itself or the high quality produce that is typically expected and sold by the certification scheme. Quality demands do vary, however, with organic and Fairtrade often associated with high quality, whereas some Utz Certified and Rainforest Alliance certified products, which are aimed at mainstream markets, less so. Certification is also seen as a key means of improving quality of produce.

The focus of this research has been on certification for export, and not on the relative merits of exports and domestic markets. However, it is important for any group looking at export opportunities to balance these against opportunities associated with supplying local markets. Selling into both domestic and export markets can be a useful strategy for market diversification.

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Adopting multiple certifications (after one certification has been achieved, or in domestic then international markets for the same certification) is likely to be beneficial, helping to guarantee market access and strengthening buying relationships, particularly as these certifications are not mutually exclusive in their conditions or market niches. Farmers converting to organic, where conversion periods can be lengthy, can benefit from adopting Fairtrade simultaneously, to benefit from its premiums and minimum price, while working towards meeting organic standards. Set against this, the costs of obtaining multiple certifications will be high and in many cases prohibitive.

Over the medium to long term, the degree to which farmers and civil society organisations are able to participate in the governance of different certification schemes will determine whether they can deliver sustainability and development benefits. This includes participation in the setting and revision of standards and prices. Meaningful participation will contribute to the design of relevant and fair standards. It is important to balance private sector influence over certification design with accountability to small-scale producers and their representatives. Excluding farmer and civil society organisations from decision-making processes could reduce the transformative potential of certification.

Introduction

Certification of agricultural products for export has been promoted as a tool for helping poor producers avoid the traps associated with low and volatile commodity prices, environmentally unsustainable farming practices, blocked market access, and poor quality produce. These are important and worthwhile objectives, but evidence that certification can achieve these benefits is not always clear-cut. This report asks whether in practice certification is a sensible strategy for the millions of small-scale farmers involved in commodity production.

The report considers the potential costs and benefits of participation by small-scale farmers in certification schemes for selected agricultural commodities for export in Asia. We look at the evidence on costs and benefits for the major sustainability certification schemes: organic, Fairtrade, Rainforest Alliance, Utz Certified and CAFÉ Practices. We also examine the merits of geographic labelling as an additional or alternative approach to improving returns to poor producers.

The research concentrates on certification for small-scale tea production in Vietnam and China, coffee production in China, Vietnam and Indonesia, and cotton production in India.¹ These Asian settings are interesting because they are dominated by small-scale production systems, often characterised by limited economic and agricultural opportunities and high levels of persistent poverty and pockets of food insecurity. These countries are also interesting because they are major global exporters of tea, coffee and cotton, and these commodities have large shares of global certified markets. However, despite this, to date, many Asian producers, for example coffee producers in China, have not played a major role in certified export markets. As farmers and development actors in the region consider the merits of pursuing a certification strategy it is important to evaluate experience elsewhere, and assess how relevant those lessons are to the particular Asian contexts of interest here.

Although there are some studies on certification in Asia, including Neilson (2008), there is still a lack of useful information comparing the costs and benefits – including environmental costs and benefits – of the myriad of certification schemes, specifically in relation to farmers in different Asian countries. This report focuses on certification for export markets such as Europe, Japan and the United States. Understanding and analysing the growing domestic markets for certification in low- and middle-income countries was beyond the scope of this paper but would be an important area for future research.

This report is based largely on a review of the existing literature on certification schemes, including studies of costs and benefits for participants. We also interviewed key players involved in certification, including market analysts,

1. These countries were chosen at the request of Ford Foundation country offices in Asia who jointly funded this work.



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Workers at this farm in Madhya Pradesh, India rotate crops of organic cotton and organic wheat

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certifiers, and companies marketing certified products. Short in-country studies were commissioned to draw together information on certified tea and coffee in China and coffee in Indonesia where the existing literature was particularly limited. We also carried out a case study of the Indian company Zameen, which produces certified Fairtrade and organic cotton.

The report is structured as follows: Section 2 provides an introduction to certification and its potential impact on poverty. Section 3 provides a review of the main sustainability certification schemes and geographic labelling and analyses the existing evidence on their costs and benefits. Section 4 looks at the relevance of certification for export for poor small-scale farmers for selected commodities in certain Asian countries. Section 5 summarises key conclusions from each section and offers a series of recommendations.

Understanding certification and its potential impact on poverty

2.1 Roles of small-scale farmers in commodity production

Small-scale farmers are big producers of tea, cotton and coffee

Poor and marginalised farmers have long been involved in the production of commodities such as tea, coffee and cotton. The barriers to participation in these markets are low, and commodity production is an essential part of livelihoods and farming systems for many small-scale farmers in the developing world.

For many important globally-traded agricultural commodities small-farmer production accounts for over 50 per cent of the commodity supplied on the world market. Small-scale family farms in 85 Latin American, Asian and African countries produce over 70 per cent of the world's coffee (Oxfam, 2002). According to Bacon, 'Most coffee producers live in poverty and manage agroecosystems in some of the world's most culturally and biologically diverse regions.' (Bacon, 2005:155). In contrast, large-scale or plantation systems dominate tea production in many countries (particularly in South Asia), but not all; in China and Vietnam, for example, tea production is predominantly by small-scale producers. Cotton in India is primarily produced by small farmers. The majority of these small-scale producers of tea, coffee and cotton are extremely poor. Many also participate in global value chains for the commodities they produce.

Small-scale farmers face major challenges

Small-scale farmers face particular challenges in building their livelihoods from agriculture and in overcoming poverty. They are typically widely dispersed, are often far from markets and face high costs in transporting their produce, particularly where infrastructure is poor. Small-scale farmers tend to lack access to affordable credit and inputs such as seeds and fertilisers and to market information. As a consequence, transaction costs are high, economies of scale are low, market access is challenging and they have less bargaining power than large-scale competitors.

Small-scale farmers are often faced with low and volatile prices for their products. Price fluctuations inhibit entrepreneurial activity and expose farmers to serious risks including loss of assets (Lazaro *et al.*, 2008). The coffee price crash of the late 1990s and early 2000s, for example, resulted in hunger and increased rural poverty for many poor producers (Daviron and Ponte, 2005; Jaffee, 2007). Cotton prices have recently been at an all-time high (Index Mundi, 2011) but through the late 1990s and much of the 2000s they were low.

Buyers, processors and retail companies capture much of the value in the supply chain and even constrain opportunities for small-scale producers to access markets and obtain a fair share of the value of the products they produce. Producers receive only a small share of the final market value of commodities such as tea, coffee and cotton. Small-scale farmers typically lack the capital to purchase equipment to process their crops themselves, and so only derive the non value-added returns from production. At the same time, lack of fixed assets often excludes them from the loans they need to purchase equipment and so they are caught in a vicious circle.

The poor deal facing many producers may limit their incentives to farm sustainably and adopt good agricultural practices, although this is not inevitably the case. Those who have adopted unsustainable agricultural practices have seen long-term declines in productivity and environmental sustainability as well as in product quality.

Farmers in 'complex, diverse and risk-prone' agroecological zones (Chambers *et al.*, 1989) face numerous challenges, but they also possess certain advantages: low input systems may offer a good base for conversion to organic farming, and geographic regions historically regarded as poor and with low agricultural potential may be able to market themselves as having distinctive forms of production, or other qualities such as unique soils or water, and therefore have the potential to become well-recognised *terroirs*,² possibly enabling them to capture premiums through the geographic labelling increasingly favoured by discerning consumers.

The question remains whether certification, built on the existing assets of small-scale farmers, can offer a solution to some of the key challenges they face.

2.2 Can certification offer a solution? Understanding the market

The implementation of environmental and social certification schemes has been seen as one way to overcome many of the unsustainable economic, social and environmental aspects of commodity production outlined above. The nature and design of any given certification scheme will inevitably affect its impact on social, economic and environmental outcomes. In addition, market dynamics are also important in determining the distribution of costs and benefits associated with certification.

Certification can be understood as a process of 'decommodification', by which a homogenous product – a commodity – can be differentiated into a range of products, which can in theory therefore lead to a restriction of supply relative to demand³. This may make it harder for buyers to switch between suppliers and

2. 'Terroir' is used to denote the characteristics of a certain place, in terms of the geography, geology and climate. These characteristics combine to create the unique qualities (e.g. taste, appearance) of a particular food or drink.

3. By decommodification we mean a move away from bulk commodities to differentiated products. As Galtier (2008:1) explains 'A commodity is a standardized good with a homogeneous quality. Decommodifying a market means to differentiate the product in order to reduce the substitutability between the suppliers and, by so doing, to improve the share of the added value captured by the suppliers.'

so improve the share of the added value captured by the suppliers (Galtier *et al.*, 2008), in this case the producers. In practice, though, the evidence suggests that it is other supply chain players, like manufacturers, processors and retailers, rather than the producers, who are able to capture greater value from the sale of certified products.

Certification can also be understood as a new form of private regulation where companies take over the role formerly played by states through commodity agreements such as the International Coffee Agreement (Muradian and Pelupessy, 2005; Giovannucci and Ponte, 2005). Corporations need to ensure continuing supply of the commodities that they process, manufacture and sell and it is this, as much as the reputational benefits and increased sales that certification can offer, which has driven the growing interest from mainstream manufacturers and retailers in sustainability certification.

Private-sector organised certification schemes are stand alone in the sense that they do not necessarily link with public policymaking objectives. There is also no immediate platform linking private standards to one another. Their adoption is also voluntary.

While certification can offer benefits for retailers, processors and manufacturers (such as improved reputation, giving their customers greater choice and improved quality), it is typically producers who absorb the majority of the costs and therefore risks associated with it. This cost burden has implications for which farmers can engage in certified markets and which cannot.

Markets for certified produce are growing

Driven by ethical consumerism in the North, the market for social and environmental certification has grown rapidly in recent years – although in many cases from a very small base. The sales of certified coffee and tea, for example, have increased fourfold and 20-fold respectively over the past five years (SSI, 2010). New products are continually entering the certified market (most recently, Fairtrade and Fairmined gold).

The certified market generally remains relatively niche, however – typically less than 10 per cent of total market share for individual products. Certified tea and coffee have market shares of 7.7 per cent and 8 per cent respectively, for example, although certified bananas made up 20 per cent of world exports in 2009 (SSI, 2011).

Certification schemes are multiplying

The number of certification schemes has proliferated in recent years as new schemes such as Rainforest Alliance, Utz Certified and Starbucks's CAFÉ Practices have entered the market alongside the more established Fairtrade and organic certification schemes. This poses additional challenges to producers

selecting an appropriate scheme, because of differences in objectives and challenges in comparing relative costs and benefits. The proliferation can also be confusing for consumers.

Although no two certification schemes are the same, their concerns increasingly overlap. For example, while Fairtrade has increasingly integrated environmental criteria into its standards, organic certification has added social dimensions into its. None of the schemes in this report focus on solely social, environmental or economic factors. This adds to the confusion for producers and consumers as well as others in the supply chain.

Certification schemes are entering mainstream consumer markets

Although certified products generally remains a very niche market, some processors and retailers have converted their entire production lines to a particular certification scheme. In 2010, for example, Nestlé committed to converting all of its Kit Kat product line in the UK and Ireland to Fairtrade (Nestlé, 2011) and Cadbury converted its Dairy Milk bar to 100 per cent Fairtrade (Cadbury, 2011), McDonald's sells only 100 per cent Rainforest Alliance certified coffee (McDonalds, 2011), and Lipton have committed to sourcing all of their tea from Rainforest Alliance certified estates by 2015 (Lipton, 2011). This has helped take some certification schemes to the mainstream.

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2.3 Benefits and costs of certification – an overview

Although the market for certified produce appears to be growing, more scrutiny is needed over whether certification schemes can deliver improved sustainability. Does certification bring about tangible benefits for farmers and the environment? Are the investments necessary to get certified worth it when compared with the returns? Is donor support for certification schemes a positive, or is certification too difficult to maintain once donor support is withdrawn? This section summarises the costs and benefits of certification in general terms – before detailing the costs and benefits of specific schemes in Section 3.

For farmers who are able to meet the requirements of certification schemes, benefits can include:

- the ability to charge increased prices and gain a greater share of the final consumer price through product differentiation and improved quality
- reduction of price volatility
- improved organisation of producers leading to stronger bargaining positions and economies of scale
- improved farming practices and farm management leading to productivity gains and a strengthened natural resource base
- benefits arising from the development of internal control systems.

Certification can also exacerbate rural inequalities because it is farmers with the largest asset bases who are most able to meet the costs and requirements of certification.

Higher prices and greater profits through differentiation and improved quality

Certification can offer the opportunity for producers to upgrade⁴ their production – allowing them to target different markets which offer greater opportunities for financial reward (typically through improved quality and variety). Fitter and Kaplinsky discuss the challenge of upgrading and note that the benefits for marginalised producers cannot be assumed: ‘Making the best of globalization requires the capacity for upgrading producers to tackle increasingly differentiated markets by producing products of higher variety and enhanced quality....However, the capacity to meet these requirements in global product markets does not necessarily mean that the returns to differentiation accrue to poor producers’ (Fitter and Kaplinsky, 2001:16).

The diverse range of aims and objectives of certification schemes means that the nature and quantity of the premiums received by producers can vary. In some schemes, for example Fairtrade, premiums are set and are an explicit component of the scheme – as are minimum prices. In other schemes, such as organic, there is no set premium that buyers are required to pay, though buyers may well pay a premium because of associated increases in quality or because a product has been grown without the use of pesticides. For schemes like Utz Certified, premiums are encouraged and sometimes offered through negotiation between buyer and seller, but are not required. Most standards offer no guarantee that any benefits such as price premiums go to the local workers or producers (Giovannucci and Ponte, 2005).

Several studies (Fromm and Dubón, 2006; Giovannucci and Ponte, 2005; Potts, 2007; Lyngbaek *et al.*, 2001; Kilian *et al.*, 2006; Ruben and Zuniga, 2011) have demonstrated that certification can enable farmers to obtain a price premium. ‘For those producing coffee for differentiated markets, there seems to [be] a chance of gain. These markets pay up to twice as much per bag of coffee. Furthermore through internet auctions and direct buys, the role of intermediaries is smaller and this guarantees that a higher price will be paid to producers’, (Fromm and Dubón, 2006:7). According to Giovannucci and Ponte (2005) most actors engaged in the coffee value chain earn higher margins on sustainable coffee than on regular coffee. However, the price premium paid to the farmers can vary considerably.

4. That is to say target different markets that offer greater opportunities for financial reward (through improved quality and variety), to establish longer-term and more direct trading relationships and improve production efficiency through group organisation and improved farm management.

Premium prices could be a function of supply and demand or because the certification scheme is associated with improved product quality for which buyers are prepared to pay more. The manager of a small trading and distribution coffee and tea house based in the UK that specialises in niche and gourmet teas and coffees (all of which are becoming certified to either Utz, Rainforest Alliance or Fairtrade), argues that the premium obtained is due to the improved quality of the product rather than due to its social and environmental criteria.⁵ The manager also argues that certification does *not* significantly change the shape of the value chain – which would lead to improvements in the proportion earned by small-scale farmers.

As certified products become increasingly mainstream it will become even less likely that certification will change the shape of the value chain in favour of a greater share of value being captured by farmers (Potts, 2007).

Improved trading relationships and decreased price volatility

Certification does not guarantee market access, but it can make success more likely when market integration and linkages are established. Certification can help to establish longer-term and more direct trading relationships which can improve long-term income stability and reduce price volatility (Potts, 2007).

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Establishing more direct trading relationships can reduce or remove the role of intermediaries. Fairtrade wants to give producers ‘greater control over the trading process’ (Fairtrade International, 2011b). This can in theory lead to producers getting a greater share of the profits. But some intermediaries play an important role in giving small-scale farmers access to markets, technical assistance, credit, and inputs. One interviewee argues that many farmers ‘face serious technical capacity issues...Fairtrade has been trying to get rid of intermediaries but it is often dangerous to do so without any kind of support’.⁶

The evidence seems to suggest that while certification has the potential to distribute benefits more fairly throughout the product chain and increase the share received by producers in the developing world, this is a best-case scenario rather than the norm. In many cases certification or adherence to standards may not translate into small farmers capturing a greater share of the profits, but instead the financial benefit could largely go to other players in the chain, such as retailers, intermediaries or, in the case of coffee, roasters.

Improved farmer organisation, improved bargaining power and economies of scale

Group organisation can be mutually beneficial for producers and other agents further up the chain, establishing economies of scale for producers and buyers, thereby reducing transaction costs and ultimately improving profitability. It allows

5. Interview with trading and distribution house manager, May 2009. This interview and all subsequent ones were carried out by the IIED research team.

6. Interview as referenced above.

bulk buying of inputs, can help to improve access to capital support for producers (Markets4poor, 2004a) and improves the ease with which product collection, technical and financial assistance, monitoring and auditing can be carried out for the buyer.

As Liu argues 'the organizational changes needed to comply with the standard and certification requirements may yield significant benefits in the long run. They may help them rationalize production and cut input costs (for example through a more efficient use of agrochemicals in fair-trade cooperatives)' (Liu, 2008:67). Depending on the way in which organisations are formed and run, efforts to meet the standards set out in certification can lead to a virtuous cycle of empowerment and organisational strengthening (Giovannucci and Ponte, 2005).

Group formation also improves farmers' bargaining position over prices and supply with intermediaries or exporters and plays an important role in enabling them to share knowledge and make overall efficiency gains to improve the quality and cost-effectiveness of production. Farmer organisation into co-operatives is typically a prerequisite for Fairtrade certification. In other cases, group formation may not be explicitly required but it may be necessary to facilitate certification (for example, by making the costs of certification manageable) and trade.

The Dutch Royal Tropical Institute and the International Institute for Rural Reconstruction argue that 'individual farmers and traders are usually too small to make a difference. Only when teaming up with peers can they reach sufficient force to make improvements in the value chain. When farmers organise themselves, this not only benefits the chain actor itself, but also the value chain itself' (KIT and IIRR, 2008: 230). Group formation can prevent side selling (selling to buyers other than those the farmers are contracted to sell to) and thus strengthen the relationship between producer and trader, or producer and all other agents in the chain. It creates trust between value chain agents and can improve the long-term sustainability of a trading relationship (Vorley *et al.*, 2007).

Farmer organisations can take different forms: co-operatives, producer groups, associations, partnerships and peasant economic organisations. A detailed analysis of this is outside the scope of this report, however.⁷

There are challenges associated with group formation and organisation. Farmers need to be able to impose discipline on one another to ensure that members deliver on the agreements made in relation to quality and quantity. If one farmer does not comply this may mean non-compliance for the whole group and a loss of certification. The need to form a group, whether as an explicit requirement or to overcome the costs associated with certification, can also pose a barrier – some farmers are reluctant to organise due to top-down imposition of organisation in the past or because they associate co-operatives

7. See www.oxfam.org.uk/resources/downloads/produorgs_book.pdf for more information.

with corruption (Markets4poor, 2004a; Neilson, 2008). It is important to bear in mind that the majority of small-scale farmers are not economically organised⁸ in the market. As one interviewee explains: 'certification is less likely to happen in remote areas where farmers are less well organised and therefore where only small volumes can be produced. Certified production of coffee is skewed towards Colombia (which is especially good in terms of having organised farmers) and Brazil and Vietnam.'⁹

Learning opportunities leading to improved practices

One industry actor interviewed¹⁰ argues that certification is very much a learning process which brings about efficiency improvements in farming practices, which can improve product quality and can reduce the level of inputs relative to outputs – thereby reducing costs and increasing profit margins. Certification schemes can help farmers adopt a holistic approach to farming practices, soil management and other environmental issues, which improves long-term sustainability. For this industry informant, certification is less about the label received at the end and the information to consumers it provides, and is more about the learning process it entails.

There is a clear distinction in relation to attitudes towards certification. For example, between people who believe in the principles of certification and those who believe in monetary benefits. Being driven by monetary benefits does not really work. Farmers end up not complying. You need a sustainable rationale behind the reasons why certification is being adopted. There are obvious benefits to certification such as minimising soil erosion, improving local governance and so on. These schemes have huge value regardless of market opportunities and premiums and so on.¹¹

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Fromm and Dubón (2006) agree that implementation of, and compliance with, standards provides opportunities for learning and acquiring new skills and knowledge. Certification informs producers about the standards they need to meet to access premium markets and as a consequence commonly improves product quality, which together improve their chances of effectively participating in global value chains. Certification can also improve access to information about prices and the nature of buyer demands and overcome the barrier of imperfect information – a barrier commonly faced by small-scale farmers in the developing world when trying to access modern or niche markets.

8. Organised for the purpose of trading, as opposed to being organised for social reasons.

9. Interview with the manager of an international commodity merchant, involved in worldwide trade of cotton, coffee, cotton and other commodities, May 2009.

10. Interview with manager of an international commodity merchant, involved in worldwide trade of cotton, coffee, cotton and other commodities, May 2009.

11. Interview with co-founder of COSA, May 2009.

Certification schemes can encourage farmers to practise better farming, harvesting and post-harvest skills.¹² These factors can also help to improve the quality of produce and thereby enable farmers to upgrade their production. The process of certification can also entail the provision of technical assistance, for example from an external agent such as an exporter or an NGO, although this is not always the case.¹³ However, it is important not to overstate these benefits: the skills and knowledge promoted by certification are not necessarily the knowledge about agroecological processes that would improve farmers' sustainability, or even increase their autonomy.¹⁴

Benefits associated with the need for internal control systems

In order to comply with many certification schemes' requirements, farmers have to establish appropriate information collection, storage and documentation mechanisms. This is particularly important for satisfying traceability requirements. Interviews with some industry experts reveal that developing these internal control systems (ICS) can be challenging: 'The biggest challenge (and a benefit if achieved) for all of the schemes (Utz, organic, FT, RA etc) is the internal control systems that farmer groups require in order to be able to be successfully certified. This is most stringent for organic – they need traceability which is pretty challenging for co-ops, particularly those in remote areas with thousands of members'.¹⁵ However, the benefits of establishing these internal control systems can be significant. They allow farmers to improve their forecasting which allows for better planning and financial management and more informed investment decisions. They can also serve as a feedback loop to improve the nature of technical assistance. Traceability and better record keeping may improve the management of the supply chain.¹⁶

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2.4 Certification is out of reach for some

Despite the potential benefits of certification, some evidence suggests that the initial investment needed to comply is significant and that market access is not guaranteed once it is achieved.

Successful engagement with certification is more likely for farmers who already have market access: 'for it [certification] to be worthwhile, farmers really need to be able to sell their produce. They need to have a buyer...for Fairtrade you need to have a buyer in order to convert, but for Rainforest Alliance you could certify without any guarantee of a market.'¹⁷ Becoming certified, without having a buyer in place, is potentially a high risk strategy for small farmers.

12. Interview with manager of an international commodity merchant, involved in worldwide trade of cotton, coffee and other commodities, May 2009.

13. Interview as referenced in footnote 12.

14. Personal communication with Chris Bacon, 2011.

15. Interview as referenced in footnote 12.

16. Interview as referenced in footnote 12.

17. Interview with an ethical trading manager of a boutique coffee and tea retailer, 2009.

Certification costs are often beyond the reach of many farmers

Certification costs include certification fees, charges for annual inspections and additional costs associated with implementing the requirements of the certification – including internal control systems, traceability structures, technical assistance, and infrastructure.

It is typically the farmers who pay all (or most) of the costs of certification. Although there is some evidence of co-investment by intermediaries such as exporters in meeting the costs of certification and standards (see Blackmore and MacGregor, 2011) this is the exception rather than the norm. It is farmers who find it hardest to absorb these costs.

Consumers International carried out interviews with conventional (i.e. non-certified producers) and found that ‘the costs of certification, whatever the scheme, would be very high for small producers’ (Consumers International, 2005:33). Typically, poor producers operating in remote and marginal areas will be less able to make the necessary changes and investments to their farming system to improve the quality of their produce and meet certification requirements. Indeed, lower quality growers may face prohibitive barriers when trying to become certified.

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The exclusion of certain types of producers from certification schemes has not been investigated in depth although it has been regularly acknowledged as a weakness of certification. Perhaps the most detailed research has come from studying the effect of Good Agricultural Practice (GAP) standards (required by retailers in the North) on small-scale horticultural producers in East Africa. Graffham *et al.*, (2007) found that the costs of individual certification to the EurepGAP (now GlobalGAP) standards were substantial. As a result a significant number of farmers were unable to reach compliance and were excluded from the lucrative export market. Such findings are supported by evidence presented at the 2007 African Association of Agricultural Economists conference on meeting food safety standard requirements. Okello *et al.* (2007) report on the costs of compliance to food safety standards as a percentage of household income for different farm sizes and organisational arrangements. For example, for farmers organised into a group of fifteen, the costs of compliance are 4 per cent of household income. However for individual small farmers costs of compliance can be 68 per cent of total income, compared to 24 per cent for large farmers (Okello *et al.*, 2007). Though this evidence does not relate specifically to the schemes covered in this report, it is indicative of the size (and variability) of costs faced by small farmers in adhering to standards.

A major requirement of any certification scheme is traceability – it enables retailers to make consistent and reliable claims to consumers about the origins of their products. However achieving traceability is not an easy task. It requires organisation and co-ordination throughout the supply chain. The costs involved

in ensuring the correct procedures are in place are high, and may be increased disproportionately when trying to involve large numbers of geographically dispersed small-scale producers.

As Mutersbaugh explains, ‘in a sense globalised standards, particularly certification standards, create a barrier to entry so formidable that all of the rent income earned by market entry is spent scaling the barrier.’ (Mutersbaugh, 2005:2040).

Certification as a driver of rural differentiation

As noted above, there are considerable costs to certification that often makes participation hard for resource-poor small-scale farmers, thus excluding them from the potential benefits of certification. The small farmers who tend to participate in certification schemes are those whose existing practice is already close to the standards required by certification. In most cases participation in certification schemes is likely to be best suited to production systems characterised by greater scale, homogeneity, capital, technology, access to infrastructure, organisation, information and management skills. Given that it is likely to be better connected farmers who have these advantages, certification can be a key driver of differentiation within rural areas – enhancing market access and prices for those who are better resourced to start with. Consumers International (2005) explains that certification allows good producers to differentiate themselves from poor performers, but has limited impact on the behaviour of poor performers.

Consequently, a common concern about certification is that, by default, it excludes the poorest small-scale farmers. Often certification is beyond their reach because of a low asset base, and poor access to credit, technology and information. The poorest small-scale farmers may be unable to protect their market or other rights, be distant from markets and be poorly organised. The certification process has a large fixed-cost element, which is more significant for small producers, and ‘thus has typically been taken up by large producers’ (Consumers International, 2005:27).

Certification can therefore create new barriers to entry including additional costs, a steep learning curve of adaptation and insufficient technical support (Giovannucci and Ponte, 2005). Even for small-scale farmers who are well-resourced and well-organised, certification can still be too costly: ‘Globalised standards constitute a form of “policy rent” that helps producer groups with exceptionally good administrative capacity to increase their income-earning capacity relative to other, less organised groups... [but] even the best-organised groups find their gains severely eroded by the high costs of complying with globalized standards’ (Mutersbaugh, 2005:2040). It is worth reiterating that the majority of small-scale farmers worldwide are not currently organised, and often view group formation with suspicion.

Certification is not a panacea

Research from around the world suggests that it is unlikely that any certification scheme will emerge as a clear, pro-poor winner for farmers in remote locations of Asia. Location-specific factors are highly likely to affect the success of various certification schemes. These factors include environmental conditions, soil characteristics, likelihood and ability to form farmers groups or democratic associations, previous farming systems employed (low input versus high input), local extension services and support from exporters, other agents in the value chain or non-governmental organisations (NGOs). These individual characteristics need to be borne in mind before assessing the appropriateness of pro-poor certification schemes in any given context. Certification must be a means of achieving tangible benefits, rather than 'a market hurdle' (Consumers International, 2005) and only by closely analysing local conditions can a meaningful conclusion about its potential be drawn.

Certification schemes can offer incentives for more sustainable production practices as well as increasing returns to producers, thanks to product differentiation. Certification is potentially a way to include small-scale farmers in increasingly globalised markets. It is also often seen as a learning process where farmers can improve skills and organise themselves horizontally to overcome costs of certification and achieve economies of scale. It is clear however that certification has the potential to exclude large numbers of small-scale producers. High fixed costs and traceability requirements are expensive – requiring capital, skills and organisation often far beyond the asset base of many small-scale producers.

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The sustainable development impacts of certification, particularly on poverty reduction, have not been well documented. In fact most studies have failed to develop counterfactual¹⁸ situations and have lacked rigour (Blackman and Rivera, 2010). In this respect development practitioners are wise to be cautious about endorsing certification as a universal panacea for improving rural livelihoods. In Section 3 we review the available evidence in more detail.

18. A counterfactual demonstrates what would have happened in the same place and under the same conditions, in the absence of certification.

Assessing specific certification schemes

This section presents a review of evidence on the specific strengths and weaknesses of a range of sustainability certification schemes. Those covered are organic certification, Fairtrade, Rainforest Alliance, Utz Certified and CAFÉ Practices. The section also looks at geographic labelling.

There is a range of peer-reviewed and grey literature on certification but the quality of this work varies. The majority of studies are based on small samples (only one country and/or a limited number of farmers), and do not consider counterfactual evidence. According to Blackman and Rivera, 'the evidence base of environmental and socioeconomic impacts of sustainability certification is relatively thin, comprising 37 studies, of which 14 attempt to construct a credible counterfactual and can, therefore, be considered tests of causal impacts' (Blackman and Rivera, 2010:23).¹⁹

Assessing what difference certification has made is challenging given the diversity of settings in which schemes operate, as Donovan observes: 'In the case of social and environmental standards systems, impact assessment is difficult to do well because of the complex context in which they are applied, including such factors as market conditions, buyer relations, interventions by civil society and government regulations' (Donovan, 2010: 9).

The frequency with which certain certified products have been studied varies too. For example, certified coffee has been researched in more depth than certified tea or cotton. Blackman and Rivera (2011) found that, of the 14 studies that look at causal impacts of certification, 12 concentrate on bananas, coffee and tourism. Studies on organic and Fairtrade certification are more numerous than those looking at the newer certification schemes linked to multinational corporations, such as Rainforest Alliance, Utz Certified and CAFÉ Practices (Blackman and Rivera, 2011). There has been more investigation of socio-economic impacts than of environmental impacts. Most studies of sustainability certification concentrate on Latin America, and to a lesser extent Africa. There are very few good studies of experience with certification in Asia, and arguably none that can be considered to be impact studies. In their review of the evidence base for the sustainable impact of certification schemes, Blackman and Rivera (2011) did not include any studies in Asia. These limitations notwithstanding, this section looks at the main sustainability section for each certification scheme and highlights key strengths and weaknesses.

19. Forthcoming reports from the Committee on Sustainability Assessment (COSA) will potentially provide more evidence. An initial study by COSA exists, but the sample is small and evidence is not disaggregated by certification scheme. For further information see: www.iisd.org/standards/cosa.asp.

3.1 Organic certification

What is organic certification?

Organic agriculture aims to promote agricultural production based on healthy soils, making use of natural soil processes. It does not allow the use of synthetically produced agrochemicals. It attempts to establish holistic management of the agroecosystem and 'restore, maintain and enhance ecological harmony' (Giovanucci and Ponte, 2005:287). Organic certification demands that:

a) production is without use of agrochemicals for three years prior to certification, b) farmers keep records of production materials and processes used and management plans, and c) a third party certifier annually inspects methods and materials (Daviron and Ponte, 2005).

Organic certification is certification of land, not a specific crop. Hence while organic certification might be sought for a particular cash crop, once the land is certified other crops grown on that land can also be marketed as organic (assuming they are handled correctly and kept separate from non-organic produce). This contrasts with Fairtrade where a farmer may be a member of a co-operative that has certification for coffee, for instance, but would not automatically be Fairtrade certified for any other produce. Organic farmers may also have units of land that are not certified as organic. The acceptability of having separate parcels of land where agrochemicals are used would depend on the requirements of the certification. Generally this would be likely to be a problem if they were adjacent.

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The International Federation of Organic Agriculture Movements (IFOAM) is 'the worldwide umbrella organization for the organic movement, uniting more than 750 member organisations in 108 countries' (IFOAM, 2009). IFOAM guides the setting of more specific organic standards by public and private bodies by creating basic standards upon which different countries or bodies will build. For example different standards apply in different countries or regions, such as the European Union, United States and Japan (FAO, 2003). The IFOAM basic standards state that:

Organic agriculture...is a whole system approach based upon a set of processes resulting in a sustainable ecosystem, safe food, good nutrition, animal welfare and social justice. Organic production therefore is more than a system of production that includes or excludes certain inputs. IFOAM defines organic agriculture as "a production system that sustains the health of soils, ecosystems and people" (IFOAM, 2012:5).

IFOAM explains that organic agriculture is based on the principles of health, ecology, fairness and care (see box 1) (IFOAM, 2012).²⁰

20. 'Organic Agriculture should sustain and enhance the health of soil, plant, animal, human and planet as one and indivisible... Organic Agriculture should be based on living ecological systems and cycles, work with them, emulate them and help sustain them... Organic Agriculture should build on relationships that ensure fairness with regard to the common environment and life opportunities... Organic Agriculture should be managed in a precautionary and responsible manner to protect the health and well-being of current and future generations and the environment' (IFOAM, 2012 :2-4).

Organic agriculture is sometimes presented as knowledge intensive, in contrast to conventional agriculture which is input intensive (such as chemicals and capital) but this distinction is somewhat misleading; organic farming can also be highly input intensive in terms of its use of organic inputs, and labour. For farmers who are used to conventional farming and reliant on external inputs, conversion to organic agriculture can take longer than for those used to traditional, low-input farming systems. The main challenge for farmers, once conversion has started, is to enhance their understanding of organic agriculture, 'to develop appropriate production techniques, especially for soil fertilisation and pest and disease control and to facilitate the integration of animal husbandry into the system' (Giovannucci, 2005:3).

Worldwide, 32 million hectares of land are managed organically (about 0.8 per cent of total agricultural land). Around 9 per cent of this is in Asia, with China having an organic area of around 1.6 million hectares, and India 1 million.²¹ Total organic sales were estimated at US\$46 billion in 2007 (Willer and Kilcher, 2009), with 97 per cent of sales in North America and Europe. Just 0.25 per cent of production in Asia was organic in 2009 (Willer and Kilcher, 2009).

Box 1. Requirements for organic certification

The specific requirements of organic certification vary from country to country. IFOAM have a standard that is, at the time of writing, in draft form and under consultation.²² The IFOAM Standard is 'an internationally applicable organic standard developed by IFOAM and described as an off-the-shelf standard which can be used by those wanting to outsource standard setting and maintenance and see the benefits of sharing the work with others and creating synergies on an international level.' (IFOAM, 2012:5).

In the absence of a final version of this standard we have used the principles of the Soil Association – the UK's largest organic certification body – as an indicator of the nature of organic certification.

Agricultural principles

- To produce food of high quality in sufficient quantity.
- To work within natural systems and cycles throughout all levels from the soil to plants and animals.
- To maintain the long term fertility and biological activity of soils.
- To treat livestock ethically, meeting their physiological and behavioural needs.
- To respect regional, environmental, climatic and geographic differences and (appropriate) practices that have evolved in response to them.

Environmental principles

- To foster biodiversity and protect sensitive habitats and landscape features.
- To maximise use of renewable resources and recycling.
- To minimise pollution and waste.

Food processing principles

- To minimise processing, consistent with the food in question.
- To maximise information for the consumer on processing methods and ingredients.

21. For China the percentage of land under organic management is 0.3 per cent, for India it is 0.6 per cent, and for Indonesia and Vietnam it is 0.1 per cent each (in 2007) (Willer and Kilcher, 2009).

22. www.ifoam.org/about_ifoam/standards/norms/IFOAMStandard_V0.1.forconsultation.doc

Social principles

- To provide a fair and adequate quality of life, work satisfaction and working environment.
- To develop ecologically responsible production, processing and distribution chains, emphasising local systems.

From these principles the practices that form the foundations of organic farming have been established:

- encouraging biological cycles involving micro-organisms, soil fauna, plants and animals
- sustainable crop rotations
- recycling of nutrients using composted manure and vegetable waste
- cultivation techniques that enhance and protect the soil and its life
- avoiding soluble mineral fertilisers and agrochemical pesticides
- animal husbandry which meets physiological, behavioural and health needs of livestock.

Organic standards also tend to involve a set of production standards for growing, storage, processing, packaging and shipping that include:

- avoidance of most synthetic chemical inputs (for example, fertiliser, pesticides, antibiotics and food additives), genetically-modified organisms, irradiation and the use of sewage sludge
- use of farmland that has been free from chemicals for a number of years (often three or more)
- keeping detailed written production and sales records (an audit trail)
- maintaining strict physical separation of organic products from non-certified products
- undergoing periodic on-site inspections.

Source: Soil Association, 2009.

De facto organic versus conventional, intensive farming

The value and relevance of organic certification for small-scale farmers in remote areas of Asia will depend on the characteristics of their location and what farming systems they already have in operation. There is a significant difference between shifting to certified organic production from a conventional intensive system – where high yields may have been maintained through use of agrochemicals – and low-input ‘organic by default’, or *de facto* organic, farming systems, where practices may be environmentally sustainable, but not so economically productive. For farmers using conventional forms of production a shift to organic farming may entail a drop in yields and the need to find more labour and new inputs for soil fertility and pest management. For *de facto* organic systems, the challenges may be less to do with changing farming practices and more to do with meeting the demands of different types of certification process.

As one industry analyst interviewed explains, many farmers in the developing world are already organic by default, due to poverty.²³ These farmers differ from those who are ‘sophisticated organic’, who have chosen to become certified as organic for its perceived benefits: ‘The latter group will be using organic fertilisers and crop protection whereas the other group won’t be able to afford the inputs for this. However, certification could be a real benefit to those who are organic by default because they are able to improve their practices through learning.’²⁴

23. Interview with manager of an international commodity merchant, involved in worldwide trade of cotton, coffee, cotton and other commodities, May 2009.

24. Interview as referenced above.

Jaffee makes a similar point, arguing that: 'most smallholder coffee plots in Latin America are organic by default, because farmers are either unable to afford or uninterested in using fertiliser and pesticide inputs which were formerly subsidised by many national governments' (Jaffee, 2007:147). Field research in the Rincon area of Mexico found that: 'all coffee plots... can accurately be described as "passive" organic because they use no agrochemicals' (Jaffee, 2007:147).

What are the potential benefits of organic certification?

Certified organic farming can be associated with many different types of benefits for farmers (UNCTAD, 2008). It can lead to improved yields through improved farming practices; organic certification can also enable farmers to capture the benefits of premiums and niche market access. Either or both of these factors together can mean that organic certification is a route to increased profitability for small-scale farming operations. However neither improved yields nor significant premiums are certain.

In general terms organic production can be associated with improvements in soils through development of organic matter content, improved soil biodiversity, and soil nutrient content and nutrient cycling capacity. Better soils may mean greater resilience to drought and other environmental stresses. Organic systems are associated with greater levels of biodiversity in the soil and on the farm and in the surrounding environment. On-farm biodiversity may reduce vulnerability to pest and disease problems and go along with a greater capacity to manage these problems when they arise. Organic coffee systems make great use of shade crops, and this can have many benefits including improved bird life. Shade production is also considered to improve the taste of coffee, improving the overall quality (Mueschler, 2001, in Lyngbaek *et al.*, 2001).

Organic systems are likely to be associated with diversification of crops on farm and a move away from monocultural production, although this is not always the case for large-scale organic farming systems, the desirability of which has been hotly debated in the organic movement. Crop diversity may mean greater resilience to stresses and improved food security at the household level, where food crops are intercropped with cash crops such as cotton or coffee (see Organic Exchange, 2010a). Fieldwork with cotton farmers in India for this study indicated that where organic cash crops are profitable, they may be expanded into food growing lands (see also UNCTAD, 2008). This is not necessarily a problem, however, if extra income from the cash crop enables households to purchase more food.

Organic production can be associated with improved water quality on- and off-farm, through reduced agrochemical usage and, in the case of coffee production, better management of coffee pulp.

Researchers increasingly recognise the importance of social capital to management of the environment and sustainable development. Social capital is the structure of relations and bonds between and among actors, and is

important for facilitating co-operation and lowering costs (Pretty and Ward, 2001). There is some evidence that organic production can be associated with improvements in social capital, through sharing of information and joint problem solving (Giovannucci, 2005). Jaffee notes spillover benefits from a demonstration effect from organic farming on neighbouring communities, with conventional producers also taking up improved farming practices based on agroecological principles (Jaffee, 2007). The demonstration effect is also noted by Bassett in his study of cotton farming in Mali. He claims that the cotton parastatal company, the CMDT (Compagnie Malienne pour le Developpement des Textiles), had been highly sceptical of the merits of organic farming, but came to see the benefits of techniques such as composting and use of biopesticides, and began to promote these through its extension systems, which resulted in reduced agrochemical use by farmers (Bassett, 2010).

A minority of commentators question the benefits of organic farming to environmental sustainability. Organic farming is seen as less likely to result in nitrate run off or 'leaching', than high-input conventional systems. Nutrient use may also be more efficient in organic systems (Eyhorn *et al.* 2007). In large parts of China, for example, high levels of overuse of mineral fertilisers is a major source of soil and water pollution (and agrochemicals are a significant component of farm household expenditure). On the other hand, organic farming can be less precise in its application of nutrients than farming using mineral fertilisers, and can thereby be associated with greater levels of leaching, and negative impacts on water quality (van der Vossen, 2005). Washington State University argues that 'organic wastes may contain pathogens and small amounts of toxic materials, which can become pollutants if the materials are not managed properly. Over-application of some organic wastes can result in excessive levels of nutrients in the soil, which can harm crop production or water quality' (Washington State University, 2011). In a study comparing organic and conventional farming systems Pimental *et al.* (2005) found that nitrate leaching occurred in all types of systems, and that often external factors such as weather conditions caused significant differences. Studies of leaching will be subject to a high degree of variation, so conclusive evidence on either side of the debate is unlikely.

The impact of organic certification on gender issues varies but on balance is probably positive (see Lyon *et al.*, 2010). Evidence of costs and benefits is embedded in a wide range of context-specific economic, cultural, and social relations. Nevertheless work in Mexico on combined organic and Fairtrade certification by Lyon *et al.*, (2010) suggests that the procedural aspect of organic certification encourages women to be recognised as farm operators. Organic certification requires that farm operators be present for on-farm inspections. Since men are often engaged in migrant labour and absent from the farm, farm operator status has to be transferred to women. This can improve their decision-making status. Chain of custody requirements also mean that women have to be present at coffee-purchasing points when inspectors check receipts. This increases their visibility, and reduces exploitative practices by informal traders. But

communal rights, which are often important for women (for example, rights to collect firewood), may be eroded by private property rights regimes sometimes associated with organic standards. In addition, organisational demands, such as attending co-operative meetings, may be onerous for women and result in the exclusion of those who have childcare responsibilities. Just one setting in Mexico can therefore show a range of effects.

Bacon's study of three co-operatives in Nicaragua finds that neither organic nor Fairtrade certification programmes have systematically challenged the tendency for fewer women to have land titles or occupy leadership positions in their co-operatives than men (Bacon 2010b, also supported by Shreck *et al.*, 2007 in Bacon, 2010b). On balance, certified organic farming results in women's participation both socially and economically in empowering relationships, although not without some downsides, which can be significant in some cases.

Challenges associated with a transition to organic certification

Learning new skills

Switching to certified organic farming presents many challenges for farmers. Improved farming practices and gaining new skills are clear benefits although it needs to be considered whether the farmers who benefit from organic certification are likely to be those who would tend to adopt new practices in any case, or were already using them. New skills required for organic farming can be difficult for farmers to master. This is particularly the case where the schemes make requirements about production processes, for example which inputs are permissible or land management requirements. External support from extension agents or NGOs can be critical, but may not always be available. The case of Zameen, an Indian organic/Fairtrade cotton company part owned by farmers themselves, is instructive. Zameen organised weekly farmer field schools on soil management, pest control and other subjects. This training was a vital form of support for farmers transitioning to organic production.

Organic conversion periods

Conversion periods for transition to organic certification are particularly hard for small-scale farmers, and especially those converting from high-input systems, who face 'the triple blow of a reduction in yields precisely when certification costs are highest and in the absence of an offsetting increase in produce prices' (IFAD, 2003:xix). An advisor from Textile (formerly Organic) Exchange argues that the 'three to five years conversion time to organic is very burdensome for small farmers and a disincentive, particularly when the differences in production costs between organic and conventional cotton are not so large'.²⁵ In some cases having dual Fairtrade and organic certification can be an advantage, allowing farmers to access higher prices than would be obtained from having just one certification, while also allowing them to benefit from Fairtrade prices while the organic conversion process is underway.

25. Interview with official from Textile Exchange in India, 2009.

Eyhorn *et al.* note that for cotton farming in India yields decline between 10 and 50 per cent during the first two to three years of organic cotton production, but recover thereafter (Eyhorn *et al.*, 2007).

Giovannucci (2005) finds that in more remote and less affluent mountain regions with fewer pollutants and traditional low-external-input farming systems (of particular relevance to upland tea and coffee producing areas of China and Vietnam for instance) conversion to organic agriculture is often faster and easier.

Access to organic inputs

Ravanera (2006) found that farmers converting from low-input systems faced increased production costs due partly to the use of organic fertilisers. Farmers need to learn how to use local resources to obtain organic fertilisers; they may need to pay for the collection of local materials for fertilisers and require large volumes of organic fertiliser to meet the requirements of degraded farmland. Farmers converting to organic methods can face input shortages. This is particularly pertinent in the case of farmers in upland or more remote areas where organic fertilisers are often more expensive. Giovannucci (2005) cites a case study of tea production in China, where the price difference for organic fertilisers was up to three times more in remote areas than in less remote ones. Analysis of the potential to access organic inputs is therefore vital before making a shift to organic production.

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According to an interview with an official from Textile Exchange, in India:

Government policy is stacked against organic production. There are subsidies for fertilisers and pesticides in this country but none for organic inputs. The availability of organic inputs is actually a real challenge because of availability and prices. Companies are not producing organic inputs and this is because of the risk for farmers in placing guaranteed orders when they don't know how much organic cotton they need to grow to meet buyers' demands.²⁶

Public policy can also be beneficial. In Adilabad, Andhra Pradesh, India, an area where the Zameen cotton company operates, 100 days of labour on the rural Employment Guarantee Scheme²⁷ can be used for organic agriculture-related activities such as building compost pits and planting trees. Supportive government structures in Amravati in India have been subsidising pheromone traps and other organic inputs.

For some crops nutrient demands can be very high. Van der Vossen (2005) argues that high levels of productivity from coffee requires very high levels of nutrient application and that these are difficult to achieve under organic production conditions. Research by Haggard and Soto (2010) looked at nutrient balances for 80 organic producers in Honduras, Nicaragua and Guatemala and found that only

26. Interview with official from Textile Exchange in India, 2009.

27. A national scheme in India where anybody can demand 100 days employment from the government.

13 to 16 per cent of farmers were supplying sufficient organic nutrients (around 3.2 tonnes per hectare). Other farmers had nutrient deficits of 12-14 kilograms per hectare for nitrogen and 12-15kg/ha for potassium. Between 16 and 38 per cent of farmers were applying no organic fertiliser at all. However with applications of organic fertiliser above 2000kg/ha, yields of between 900 and 1500kg/ha were possible (Hagggar and Soto, 2010), compared with average yields of around 1000 kg/ha for conventional production, and around 90 kg/ha for very low input systems (*de facto* organic).

What is the overall profitability of organic certification?

The profitability of certified organic farming depends on several factors, the most important of which are: a) yields, b) costs of production, including costs of certification, c) prices and premiums, and d) how much can be sold at certified prices. The evidence about each of these factors varies for different settings and leads to different conclusions about the advisability of pursuing an organic certification path.

Impact on yields

Evidence on yields is mixed, even within similar farming systems. For farmers in low-input systems, once the organic techniques associated with certification schemes are adopted there is likely to be an increase in yields. Giovannucci and Purcell (2008) found that when traditional, small-scale farmers converted to organic production, they incurred extra costs but experienced long-term improvements in yields and profitability, which they attribute to improved farm management and practices, and the price premiums they received. Hagggar argues that the main finding from his study with Soto (Hagggar and Soto, 2010) was that there is great variety in yields for both conventional and organic producers, making mean yield figures almost irrelevant in many cases. The critical issue they argue is level of capacity to invest. With enough investment in inputs, organic production can deliver high yields.²⁸

Kilian *et al.* compared organic and conventional production in Costa Rica, Guatemala, Honduras and El Salvador and argue that for the latter three countries – where coffee production is mostly characterised by low-input systems – yields between conventional and organic are roughly similar. In the case of Costa Rica however, where more intensive conventional coffee farming is practised, yield differences were in the region of 40-50 per cent lower for organic production (Kilian *et al.*, 2006).

Lyngbaek *et al.* (2001) compared yields between 10 individually-paired organic and conventional coffee farms in Costa Rica and found that three-year mean yields were 22 per cent lower for the organic farms, although five of the organic farms had yields equal to or higher than their conventional counterparts. It is important to note however that the sample size is small and applies to a limited number of years.

28. Personal communication with Jeremy Hagggar, 2012.

Valkila (2009) reports that, based on field interviews with co-operative technicians in Nicaragua in 2005, organic coffee yields ranged from just over 100 kilograms per hectare to nearly 1200kg/ha. The most intensive organic farmers would be using up to 6000 kilograms of compost per hectare. Conventional farmers however reported yields ranging from just over 200kg/ha to over 2600kg/ha. As production systems become significantly more intensive, organic yields are not likely to match those from conventional farms. However, many conventional farmers in Nicaragua could produce significantly higher yields using organic methods.

According to Bassett (2010), organic cotton yields in Mali and Burkina Faso are much lower than those for conventional cotton, which are over 1 tonne per hectare. In Mali, average annual organic yields ranged between 369 and 570kg/ha between 2004 and 2006 while in Burkina Faso the highest yields were 550kg/ha, achieved in 2007-8. Bassett cites the NGO Helvetas, who have an organic cotton programme in Mali, as saying that organic cotton is profitable with yields of 600 kg/ha, a threshold would appear not to have been reached yet (Bassett, 2010). Eyhorn *et al.*, however, using field data from a comparison of over 100 organic and conventional cotton farms in Madhya Pradesh in India, argue that seed cotton yields were roughly equal between organic and inorganic farms (Eyhorn *et al.*, 2007). Williamson *et al.* also claim that for Tanzania, Uganda and Benin, cotton yields for conventional and organic farms were roughly equal (2005, cited in Eyhorn *et al.*, 2007). Franz *et al.* analysed the profitability of organic cotton in Uzbekistan and argue that with appropriate policies, a shift to organic cultivation could result in higher revenues than for conventional cotton (Franz *et al.*, 2009).

It would appear that, while there is some evidence that yields for intensive conventional farming are likely to be higher than organic systems, there is less evidence that the contrary is the case. Debates about crop yields under organic cultivation are controversial; further research and synthesis of existing evidence in this area is warranted. There may be substantial scope to improve yields through improved agronomic practices in many cases. One relevant example might be the System of Rice Intensification, which uses different methods of plant spacing and water use to achieve significant increases in rice yields without increases in (or even the use of, in many cases) agrochemicals. This system is increasingly being applied to other crops beside rice, although it is not clear whether experiments are being carried out for cotton, tea or coffee.

Labour costs

There is some debate about labour inputs for organic farming. Following a variety of case-studies of organic production in China and India, Giovannucci (2005) concluded that in most cases organic agriculture requires more labour. A typical average cited is 30 per cent more than conventional labour costs. This increase in labour is 'due to initial adaptation work and for newer and more demanding methods of cultivation and harvesting that are specifically necessary in order

to meet the required standards of the organic buyer that is paying a considerable premium for that higher quality' (Giovannucci, 2005:23). Increased labour costs are associated with the need to achieve improved quality and with increased harvests as a result of improved yields. Eyhorn *et al.* (2007) dispute this, however: their field research suggests that labour inputs for organic and conventional cotton in India were roughly equal.

Increased demand for labour can have positive externalities for the local community, re-distributing resources in areas where the labour force might be underemployed. The significance of labour costs will vary depending on availability of family labour, or off-farm labour, and the opportunity costs of farm work compared to off-farm work. Where labour is not the constraining factor, wage costs might be a more attractive alternative to paying high prices for agrochemicals (Kilian *et al.*, 2006). In countries such as China significant levels of long-term or seasonal off-farm work means that much less labour is available for demanding farm management practices in some production sectors or locations, although in some cases intensive labour inputs have been associated with greater production specialisation, particularly among households that are unable or unwilling to migrate. Additional labour burdens may have significant gender implications, particularly in areas where farming is experiencing 'feminisation' due to male labour out-migration. Women may be expected to carry out the extra farming work involved in organic production, in addition to their regular household and farm labour responsibilities, and they may not control any extra income which results from changes in farm practice.

Possible increased labour costs associated with organic farming need to be set against reductions in expenditure on fertiliser and pesticides which may be significant. In Mali, for example, conventional cotton growers spend 45 per cent of gross revenues on fertilisers and pesticides (Bassett, 2010).

Prices and premiums

The level of price premiums for certified organic produce is the key variable that needs to offset possible declines in yields and increases in costs. Lyngbaek *et al.* (2001) argue that in the Costa Rican farms they studied the premium for organic needed to be 38 per cent higher to compensate for lower yields and higher costs.

Mendez *et al.* (2010) cite data from 461 farms in Mexico and Central America in 2003-4. The median price for non-certified coffee was US\$0.51 per pound. For organic coffee the price was US\$0.77 (indicating a premium of US\$0.26 or roughly 50 per cent). By way of comparison for Fairtrade the price was US\$0.68 (a premium of US\$0.17, or 33 per cent). For combined organic and Fairtrade coffee the price was US\$0.89 (a premium of US\$0.38, around 75 per cent). For El Salvador the median organic price was US\$1.13 per pound, more than double the median uncertified price of US\$0.51 per pound (but organic data in this case came from only one co-operative). For Mexico, however, where the uncertified price was US\$0.70, the combined organic and Fairtrade price was only US\$1.11 (a premium of 58 per cent).

The premium for organic produce can therefore be significant in some years, particularly for farmers in countries where the uncertified price is low. Prices are of course changing all the time, and the data above are from a period after the end of the coffee crisis when prices for conventional coffee had been particularly depressed. More recent data from Nicaragua suggests that organic coffee farmers received a 46 per cent price premium in 2005 and a 27 per cent premium in 2008 based on conventional prices of US\$0.85 per pound in 2005, and US\$1.14 in 2008 (the non-organic Fairtrade premium was 28 per cent in 2005 and 10 per cent in 2008) (Donovan, 2010).

Premiums also vary by commodity. According to field data from interviews with Zameen cotton producers, premiums for organic cotton in India were around 25 per cent for good quality cotton in 2009, although they were nearer to 15 per cent for lower quality.

In fact, quality is an important factor generally and realising a significant price premium is more complicated than simply being certified organic. The highest premiums are only likely to be achieved by regions associated with high quality produce. Kilian *et al.* (2006) present data for coffee prices for a range of Central American countries for 2002/3. This was the height of the coffee price collapse, with prices at record lows – the New York 'C' price was around US\$0.65 per pound.²⁹ For all countries organic price premiums were between 15 and 25 cents per pound, with an average of 60 cents per pound for Costa Rican coffee (the highest quality in the region). The very highest organic premiums were 150 cents per pound. Kilian *et al.* (2006) go on to indicate (based on interviews with coffee traders) that for speciality coffees the premium for quality in 2003 was 85 cents per pound on top of the 65 cents/pound New York 'C' price, and the premium for organic certification was up to 10 cents. For premium coffee (not as good as speciality) the quality premium ranged between 15 and 30 cents, as did the organic certification premium. This suggests that for the very highest producer prices quality is the key determining variable, not certification.

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Premiums are also determined by whether farmers can produce in sufficient quantity, how much coffee buyers will take at a given price and the nature of the marketing chain. According to Lyngbaek *et al.*, the scale of production can be important for getting better deals and for selling to processing plants. If farmers process themselves they can capture more of the premium: 'the premium received by organic producers will depend on the buyer, the quantity and quality of coffee, and the number of middlemen' (Lyngbaek *et al.*, 2001:211).

Research from the Centre for Tropical Agriculture Research and Higher Education in Costa Rica in 2009, suggests that nearly one-third of organic coffee farmers in Central America had abandoned organic coffee farming due to low premiums,

29. 'The Coffee C contract is the world benchmark for Arabica coffee. The contract prices physical delivery of exchange-grade green beans, from one of 19 countries of origin in a licensed warehouse to one of several ports in the U. S. and Europe, with stated premiums/discounts for ports and growths' (ICE, 2011).

high costs, low productivity and difficulties with organic inputs (Donovan, 2010). Consultations with over 3000 farmers from 22 co-operatives suggested that 8 per cent of farmers in Nicaragua and up to 50 per cent in Costa Rica had ceased to farm organically (Haggar and Soto, 2010). Although premiums were in the region of 25 per cent, a premium of 40 per cent would be necessary for profitability (Fieser, 2009). Donovan also notes for Nicaragua that premiums were lower in a period of high conventional prices. For the 2007-8 season gross incomes for non-organic farmers were higher than for organic farmers (Donovan, 2010). However in Uganda, coffee farmers who were organic by default and were certified as part of a contract farming scheme were found to be achieving raised incomes (Bolweig *et al.*, 2008).

Oversupply of organic produce – has the market become saturated?

It is possible that there has been an oversupply of organic coffee, as Kilian *et al.* (2006) feared when 40,000 hectares of organic production were coming on line to add to an existing capacity of 150,000 hectares in Mexico. As markets mature 'specialised producers enter the market and offer the same product with similar quality at a lower price' (Kilian *et al.* 2006:329). Mutersbaugh (2005) argued that the rents from organic coffee growing in Mexico declined as competition increased and costs of compliance with exacting standards went up.

Indeed, evidence from Ethiopia³⁰ suggests that finding buyers who are willing to take all the certified produce that farmers want to sell may be difficult. In Ethiopia, in 2010, farmers in one coffee producer union were certified organic but had to sell 70-90 per cent of their coffee at conventional prices, because of limited demand among buyers for higher priced organic coffee.

It may also be the case that farmers are not always willing to sell to co-operatives or other organisations that they are part of. Co-operatives may delay payment particularly where they have to wait for payment from buyers. Private traders may appear at festival times, when school fees are due, or during lean periods, resulting in side selling that reduces the overall amount available to the co-operative. Without a certain amount of produce reliably delivered it may be hard to maintain favourable relationships with buyers.

IFAD argues that 'in terms of the organic market's future, it is difficult to say whether this market will always be a niche market or will succeed in growing into a mass market in its own right. In any case, one prediction that can be made is that there will probably be a declining premium' (IFAD, 2003:xx). Unlike Fairtrade, with its guaranteed minimum price and social premium, as the market for organic produce increases and becomes mainstream the price premium is likely to fall. Indeed, organic certification is not explicitly designed to reduce price volatility in the same way that Fairtrade is. Giovannucci argues that 'while organic premiums are very high in a few markets, the global experience is somewhat less promising as more and larger producers enter this lucrative niche. Established organic

30. Personal communication from consultant working with Oxfam GB, Ethiopia, 2010.

commodities like rice, sugar and coffee have already seen considerable reductions in price premiums' (Giovannucci 2005:xix).

Costs associated with organic certification

Certification fees are a key part of the cost structure for farmers seeking to access organic markets. According to IFAD, organic certification costs can 'run as high as a small farmer's average net income for an entire year, especially when done by foreign certifiers' (IFAD, 2003:xx).

Certification costs are particularly high where European or US-based certifiers are involved. Day rates for inspectors can be high and inspections can take several days when co-operatives have members spread over a wide area. These costs are likely to be much lower if a national organisation has authority to carry out certification for major international markets but many developing countries (particularly poorer and smaller developing countries) will still be dependent on the services of expensive international certifiers.

To look at an Asian-specific example, OneCert Asia is a US certification agency with an office in India. Its certification fees may vary depending upon the time required for different activities such as processing of an application, reviews, inspections, report writing, and decision-making. Processor fees depend upon:

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1. The number of products for which organic certification is being sought.
2. The number of operation sites or offices.
3. Records maintained and information provided.
4. Complexity of operations.
5. Support provided by applicants.
6. The size of operations.

OneCert quotes the cost of certification for crop cultivation to Indian, US and EU standards as varying between 45 and 250 Indian Rupees per acre per year (approximately US\$2.5 to US\$12.4 per hectare), depending on the criteria specified above (OneCert Asia, 2008).

There is no single system for organic certification. Different schemes exist for the United States, Japan and Europe. All these important markets make different demands in relation to organic production, with different definitions of acceptable organic inputs or chain of custody requirements for example. This can be challenging for small farmers who will need to meet different sets of standards in order to be able to sell into different markets and increases both costs and confusion among farmers (IFAD, 2003). However it should be noted that harmonisation efforts are underway. The EU regulation 834/2007 ensures equivalence across the EU and regulation 1235/2008 is designed to ensure equivalence for third countries. IFOAM also aims to harmonise organic standards across its members, and along with the Food and Agriculture Organization (FAO) and the United Nations Conference on Trade and Development (UNCTAD), has

been working on international harmonisation with both public and private bodies (GOMA, 2011).

Meeting the demands of organic certification can undoubtedly be a considerable burden in many settings (Mutersbaugh, 2005). Certified organic production requires the development of an internal control system (ICS) to ensure careful documentation and record keeping for production processes. These systems can be demanding for farmers – particularly those who are poorly resourced and lacking in administrative and technical capacity. Successfully implementing an ICS, however, can have important developmental benefits, enabling farmers to work together to improve the efficiency of production processes and the quality of their produce (Pyburn, forthcoming). These characteristics would then put them in a better place to meet the demands of buyers for other high quality markets, not just organic buyers looking for certified produce. Box 2 provides details of the ICS developed with producers by the Zameen organic cotton company in India.

Box 2. Organic Internal Control System for Zameen cotton farmers in Amravati district, Madhya Pradesh, India

The internal inspection process in Amravati region is as follows:

- 1) Farmer list is taken from the Amravati office or the extension officer in advance
- 2) Meet with group leader to discuss the farmers and their fields. Talk to the group president and ask for co-operation
- 3) Visit the home of the farmer to check the farm diary and for signs of fertiliser/pesticide use in the home (e.g. empty containers)
- 4) Field visit
 - a. Inspect field map
 - b. Check for required pheromone crops, trap crops, trees, intercrops
 - c. Use of fertilisers, contour bunds, mulching, green manure, vermicompost
- 5) Fill out inspection form that was developed for this purpose
- 6) Directives given to farmer for improvements needed

Common types of non-compliance include inaccurate maps or insufficient trees in a field. The most common reason for non-compliance cited by farmer monitors and internal inspectors are: water from a neighbouring (non-certified) farm entering a certified field bringing with it chemical fertiliser and pesticide residues from conventional practices, a lack of boundary crops, and documentation not being kept up-to-date.

The strengths of the Zameen ICS lie in the following factors:

- No affiliation between farmer monitors and the farmers that they inspect, which removes the possibility of judgments based on familial connections or other conflicts of interest. This preserves the integrity of the system.
- Well-educated farmer monitors who are able to use the resources available to them. For example, all have a good knowledge of agriculture, in many cases almost to a Bachelor degree level. The farmer monitors are also farmers so they appreciate the work they are inspecting, understand the challenges and are quick to pick up on questionable practices.
- Farmer monitors provide significant support to extension officers from a local NGO.
- Random spot checks without prior notification mean that farmers cannot hide mistakes or have time to cover up inconsistencies. Inspections can happen at any time.

External inspectors from an accredited certification body do random farm visits as part of their certification process. A typical audit takes place once a year lasting three to four days and includes: inspection of the producer organisation, producer-level interviews and documentation checks, and farm visits. They review the functioning of the ICS, are rigorous in verifying the seeds used and do spot checks of specific farmers to ensure that the reports reflect the reality in the field. Producers also undergo a Fairtrade certification process and in some cases inspection for a domestic fair trade label, *Shop for Change*, which certifies 500 Zameen farmers in each region.

Source: Primary research carried out for this report.

Jaffee (2007) argues that tough certification requirements can mean that farmers live continuously with the fear of decertification, which can be highly costly for them. Decertification can happen at the level of the region, village organisation or entire producer organisation. The Michiza co-operative in Mexico had to employ internal inspectors to make sure that farmers were meeting the changing demands of international certifiers. Many farmers were internally sanctioned for losing key bits of paper, and had to go back to the beginning of the two year transition process, experiencing large reductions in income as a result. The co-operative failed to register a single document with one European certifier and were threatened with decertification and loss of access to clients and organic and Fairtrade prices (Jaffee, 2007).

Jaffee notes that:

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The threat of decertification is always hanging over head, and with it the prospect of economic ruin. Each household must necessarily be concerned with the horticultural and production practices of other households, as the failure of any household to abide by certified-organic production norms endangers the organic certification (and product market prices) of all members (Jaffee, 2007:152).

He goes on to argue that:

Something must be done to deal with the dire economic consequences posed by the threat of decertification: it is not acceptable for marginal peasant families and small producer organisations to be living just one possibly erroneous decision away from losing the meagre but hard-won organic premium on which they depend for their livelihoods (Jaffee, 2007:153).

Jaffee argues that many organic certification requirements are particularly arduous for producers in developing countries. For example in Mexico there is a demand that all food crops produced by a farmer be converted to organic. This is a standard not demanded in the United States or Europe (Jaffee, 2007). Rules prohibiting use of animal inputs such as chicken manure as a fertiliser might make sense for European or US organic farming systems, but are not necessarily so appropriate for the integrated, mixed small organic farms found in many developing countries (Donovan, 2010). Also, as Jaffee and Howard argue (2009), the politics of certification standards have resulted in the creation of organic standards in the United States that are more amenable to large-scale organic producers and not a good match with the

agroecologically appropriate, small farmer ethic of the original organic movement. This can be another reason why standards that small farmers in low- and middle-income countries are adopting are not always best suited to their needs and the realities of their farming situations.

Organic certification – good for the environment but what of economic benefits?

Does certified organic production for export make sense as a livelihood development strategy? There are clear benefits in terms of improved soils, protection of biodiversity and better water quality. These factors are critical for the future sustainability and resilience of agricultural production systems, however they do not necessarily build sustainable livelihoods in the short term.

A shift to certified organic production will mean learning new techniques. For conventional farmers this might mean organic farming techniques, for de facto organic farmers this might mean intensifying production through the use of organic fertilisers, composting, green manures and biological pest control. Sourcing enough organic fertiliser at acceptable prices may be difficult.

Certification requires organisation. The creation of co-operatives or other farmer organisations may be necessary. These structures require support and investments of time and money if they are to be effective. Developing effective internal control systems that ensure traceability and handling specifications of certifiers are met may involve high transaction costs and require management competencies that are not readily evident. Certification may also not be enough to access the best buyers and the best prices. Delivering high quality produce is critical; and for some farmers and farmer groups improving product quality will be challenging.

In order to improve quality, learn organic techniques and develop an effective organisation with a strong international control system, farmers may need external support. Trainings from extension workers or NGOs may be necessary to build the capacities from which long-term development can be built. External funding may also be necessary to support groups to build these initial competencies and cover key costs such as certification fees in the early stages of a transition to certified organic production.

Even if groups of farmers can organise to get certified and improve the quality of their product it is still not clear that certification will necessarily deliver economic benefits. This is likely to depend on relative prices for organic and non-organic produce over time, demand for organic produce from particular countries or locations and whether farmers are shifting from an intensive conventional production system to certified organic or upgrading low productivity de facto organic crop production. It may also be that over the longer term prices will decrease. Organic prices are likely to eventually find an equilibrium position between niche and mainstream, but this is likely to be at a lower level than they initially commanded when certified organic produce was in shorter supply.

3.2 Fairtrade

What is Fairtrade?

Fairtrade is defined as 'an alternative approach to conventional trade that aims to improve the livelihoods and well-being of small producers by improving their market access, strengthening their organizations, paying them a fair price with a fixed minimum and providing continuity in trading relationships' (Giovannucci and Koekoek, 2003, cited in Giovannucci and Ponte, 2005). The Fairtrade movement was initiated around 20 years ago by the Dutch development organisation Solidaridad. Coffee was one of the first products to be traded under the Fairtrade label and since then the product range has expanded significantly to include nuts, wine, textiles, flowers and gold. According to Ruben, Fairtrade can be defined as 'a social movement which promotes standards for production practices and delivery procedures, working conditions and labour remuneration, environmental care and social policies in supply chains of certified goods' (Ruben, 2008:190).

Box 3. Fairtrade standards

According to the Fairtrade Foundation, Fairtrade standards are not simply a set of minimum standards for socially responsible production and trade (Fairtrade Foundation, 2009a). The Fairtrade standards go further in seeking to support the development of disadvantaged and marginalised small-scale farmers and plantation workers. Fairtrade standards relate to three pillars of sustainable development: social, economic and environmental development.

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In summary the key objectives of the standards are to:

- ensure a guaranteed Fairtrade minimum price which is agreed with producers
- provide an additional Fairtrade premium which can be invested in projects that enhance social, economic and environmental development – often referred to as the social premium
- enable pre-financing in the form of credit for producers who require it
- emphasise the idea of partnership between trade partners
- facilitate mutually beneficial long-term trading relationships
- set clear minimum and progressive criteria to ensure that the conditions for the production and trade of a product are socially and economically fair and environmentally responsible (Fairtrade, 2009a).

The Fairtrade criteria are defined by the Fairtrade Labelling Organizations International (FLO) – an umbrella group for various trade organisations in different countries. FLO Cert is an independent company which is responsible for the inspection and certification for the Fairtrade label.

Fairtrade certification offers producers a minimum price for a commodity; if the market price exceeds this minimum, the market price is paid. A social premium price is also paid on top of the minimum or market price, which is delivered to the producer groups, typically to invest in community projects. This premium is absolute and is not dependent on price or quality (Pistorius and Oppenoorth, 2008). Small-scale farmers who wish to participate in Fairtrade certification schemes have to be organised in groups, which must be democratically run and politically independent (Consumers International, 2005) – typically co-operatives. The Fairtrade certification scheme helps small farmers overcome problems

associated with lack of access to credit by ensuring that Fairtrade importers offer pre-financing to producer groups if requested. Some environmental considerations are implicit in the label – for example a ban of the most toxic pesticides and requirements to implement Integrated Crop Management as well as an encouragement to move towards organic practices. Fairtrade updated its environmental standards in July 2011, focusing on good agricultural practices (such as the proper use of water, fertilisers and pesticides and the protection of natural resources) and the health and safety of producers (Fairtrade International, 2011c).

Fairtrade's requirement that producers organise themselves into co-operatives as a prerequisite for certification makes it unique (Raynolds *et al.*, 2007). It has introduced some flexibility over the need for formal organisation – Fairtrade's contract production system in South East Asia temporarily certifies those producers not yet formally organised into democratic organisations where producers have a relationship to an organisation such as an exporter or an NGO. The aim of this is to help the producers form an independent organisation with an internal control system within six years.

Fairtrade has a core set of standards which differ for small-scale producers and plantations (which hire labour) and there are specific standards for individual products. Traders who buy Fairtrade certified products also have a set of standards they must comply with (Fairtrade Foundation, 2009c). They are audited against these standards by FLO. These standards include:

- pay a price to producers that at least covers the costs of sustainable production: the Fairtrade minimum price.
- pay a premium that producers can invest in development: the Fairtrade Premium.
- partially pay in advance if producers ask for it.
- sign contracts that allow for long-term planning and sustainable production practices.
- maintain traceability and record keeping systems to ensure they report sales and purchases accurately into the Fairtrade system.
- ensure subcontractors comply with the relevant requirements (Fairtrade Foundation, 2009c).

There are currently 827 Fairtrade-certified producer organisations in 58 countries. Over 1.2 million producers and workers are thought to benefit from the Fairtrade scheme (Fairtrade International, 2011a).

What are the costs of certification?

There are a number of costs associated with Fairtrade certification. These are:

- application fees
- initial certification fees
- renewal certification fees
- costs of implementing the standard itself – e.g. training, internal control systems

Small farmer organisations applying for a Fairtrade certification are charged a flat fee of €525 (approximately US\$668) for the application service (FLO-CERT, 2010).

The initial certification fee is charged once and has to be paid before the initial audit. The initial certification fee charged to a group of small-scale producers for certification depends upon the amount of work involved in preparing, inspecting and evaluating the inspection report. The fee varies according to the size of the organisation and type, which for small-scale farmers includes first, second or third grade and mixed organisations,³¹ the number and type of products, and whether or not the group has any processing facilities (FLO-CERT, 2011).

As an example, for second and third grade organisations the fee is calculated based on the number of member organisations included in the Fairtrade application. The fee charged by FLO-CERT depends on the number of products, processing installations and additional entities. A fee of €1,530 (US\$1,934) is charged for certifying the 'central structure' of the organisation. If there are any affiliated member organizations that are to be certified as part of the same application, additional fees apply (see Table 1 below) (FLO-CERT, 2010).³²

Table 1. Initial basic certification fee for affiliated member organisations (2nd and 3rd grade organisations)

Number of members	Total fees charged (€)
< 50	920
50-100	1020
101-250	1130
251-500	1230
501-1000	1530
>1000	1740

Source: FLO-CERT, 2010.

Small producers receive an invoice on an annual basis from FLO-CERT for an annual certification fee. This occurs regardless of whether or not an audit takes place (because the certification continues to be valid). The annual certification fee varies, depending on:

- The organisation type (1st, 2nd or 3rd grade)
- Number of members or member organisations

31. A first grade small farmer organisation is a legally formed small farmer organisation, which is able to contribute to the social and economic development of its members and its communities and is democratically controlled by its direct members. The majority of members of the organisation are small farmers. A second or third grade small farmer organisation is a small farmer organisation formed by small farmer organisations (members) which are legally affiliated to the second or third grade organisation. The second or third grade is democratically controlled by their direct members and provides central services for its members. A mixed structure is a small farmer organisation which has both individual small farmers and also small farmer organisations as legal members (FLO-CERT, 2011). See www.flo-cert.net for more information.

32. For more information see <http://www.flo-cert.net/flo-cert/65.html?&L=0>

- Number of products to be sold as Fairtrade
- The number of processing installations and additional entities other than processing installations forming part of the respective product handling chain owned/subcontracted by the organisation

€1,170 is charged as an annual certification fee for the central structure. Affiliated member organisations are charged as shown in Table 2 below:

Table 2. Annual basic certification fees for affiliated members (2nd and 3rd grade organisations)

Number of members	Total fees charged (€)
< 50	720
50-100	720
101-250	810
251-500	900
501-1000	1080
>1000	1250

Source: FLO-CERT, 2010.

FLO-CERT explains that it reserves the right to charge additional costs to the certification fees if travel costs related to the audit exceed 'normal' travel costs. FLO-CERT does not explain what constitutes a 'normal' travel cost. FLO-CERT may also send a second auditor where it deems it necessary (for example where it has to investigate a serious allegation). This additional cost is borne by the producer organisation and is charged on a time and expense basis (FLO-CERT, 2010). Organisations who are organic certified can receive a certification fee reduction of 12 per cent (FLO-CERT, 2010).

Fairtrade has established a Producer Certification Fund to assist producer groups that may find the costs of Fairtrade certification difficult to meet. Producer organisations can apply to this fund for a grant covering up to 75 per cent of the certification fee (Fairtrade Foundation, 2009b). However, Fairtrade also says that many groups receive assistance in paying their certification fees from commercial partners (for example, buyers or importers) or from NGOs or other partners.

What are the potential benefits and drawbacks?

Consumers International (2005) found that, when split between all the group members, the cost of certification for Fairtrade was relatively low compared to other certification schemes. This may reflect Fairtrade's focus on small-scale farmers. Its affordability does depend on the size of the co-operative, and on language barriers – for example in China and Vietnam, the need to translate materials is an issue. It is easier for larger farmer co-operatives, such as Dazhangshan in Jiangxi, China (see Section 4), to meet these certification

costs than it is for small farmer groups. In Yunnan, for example, it is difficult for small farmer groups to meet the costs of certification without external support. In some cases – as discussed later – the need to organise, both to obtain certification and to make the costs of certification affordable, may be unattractive to farmers for political or cultural reasons.

One conclusion that emerges from a review of research on Fairtrade is that the financial benefits from certification may be less important than its other, perhaps unanticipated, effects. Indeed, FAO (2003) argues that financial premiums are only a small part of the benefits accruing to farmers as a whole from the Fairtrade certification scheme. Other benefits include improved organisational processes, better bargaining positions, creditworthiness, economies of scale and improved quality of produce, which can be valuable for any market (FAO, 2003).

Ruben, in an impact assessment covering six countries and nine country-commodity combinations, rigorously analysed both Fairtrade and non-Fairtrade farmers and groups before and after Fairtrade adoption. The study found that incomes are not significantly higher for Fairtrade adopters unless farmers are both Fairtrade and organic, that Fairtrade encourages specialisation and reduced income diversification in most settings, and results in improved access to credit, better risk behaviour and greater willingness to invest for the long term. Ruben argues that the spillover benefits of Fairtrade such as improved relations with buyers and stable long-term contracts are more important than price advantages (Ruben, 2008). The study found that despite Fairtrade's objective of improving gender equity, its impact is fairly limited in terms of empowerment in Fairtrade organisations or greater roles for women in decision-making. Organic Fairtrade systems seem to show the greatest positive impact (Ruben, 2008).

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Fairtrade's minimum pricing

Fairtrade offers a minimum floor price to all producers to reduce market volatility and to try and ensure that the cost of production never exceeds the price received by producers. The minimum floor price only comes into force when the market price drops below that value.

The FLO has adjusted the Fairtrade minimum prices for Arabica coffee twice in recent years in recognition of the cost of producing to the Fairtrade certification standard. In 2010 the minimum price was increased by 15 cents per pound for both washed Arabica and Arabica naturals to US\$1.40/lb for washed Arabica and US\$1.35/lb for Arabica naturals. An organic differential is also given for those farmers with combined Fairtrade and organic certification. The organic premium increased from 20 to 30 cents/lb in 2010 (Fairtrade Foundation, 2011a).

Notwithstanding these two price increases, over time the market value of the Fairtrade premium or the minimum price paid to producers has significantly declined in real terms – especially when compared to the prices when the scheme began (Bacon, 2010a). Bacon argues that the US\$1.26/lb price (including the

social premium) established for conventional coffee in 1988 was worth US\$0.79/lb in 2010 (taking into account US inflation). He argues that put another way, the Fairtrade coffee price would need to be US\$2.29/lb to be equal to the 1988 value (Bacon, 2010a).

Bacon recommends that FLO conducts a systematic peer-reviewed quality study of the costs of sustainable production for Fairtrade producers and then adjusts prices to compensate for a lack of previous changes, while also creating an annual cost of living adjustment (Bacon, 2010a). The price, and premium, issue is important as for many farmers producing to Fairtrade standards incurs significant costs. Mixap examines the case of coffee producers in Laos, and suggests that the extra work that is involved in processes of initial selection, depulping, fermenting, washing, drying, sorting, hulling, grading and packing of coffee to meet Fairtrade standards is not worth the US\$0.34 extra per pound that farmers receive (Mixap, 2009).

Relative market prices are an important issue when judging the impacts of Fairtrade certification. The benefits are most evident when prices are low, as in the coffee crisis. Bacon's fieldwork in Nicaragua suggested that at the height of the coffee crisis the Fairtrade price paid to co-operatives was US\$1.26 per pound, while the price for conventional coffee paid to exporters was as low as US\$0.46 – Fairtrade prices were therefore almost three times higher than conventional prices (Bacon, 2010a). Bacon argues that Fairtrade certification played an important role in supporting livelihoods through a difficult period, even if it did not help farmers to completely escape rural poverty (Bacon, 2005). Indeed, other evidence suggests that Fairtrade can act as an important safety net when there are low market prices (Giovannucci and Ponte, 2005).

During times of high market prices, the Fairtrade price differential may be less significant. During these periods it can be more attractive for farmers to sell to conventional buyers who are likely to pay more quickly than the co-operative, which has to wait for payments from exporters, possibly six months after harvest (Bacon, 2010a). This kind of side selling can erode the relationships that Fairtrade producer organisations are able to build with buyers.

Evidence suggests that under some circumstances it is actually the roasters and retailers, rather than the farmers, who benefit the most from higher prices paid by consumers for Fairtrade coffee. Valkila *et al.* (2010) studied the distribution of benefits from Fairtrade and conventional coffees between producing and consuming countries. Their research showed that consumers in Finland paid considerably more for Fairtrade coffee than conventional coffee. As Table 3 shows, a considerably higher percentage of the final value of Fairtrade coffees stayed in the consuming country than for conventional coffees, although the price received by the producing country for the Fairtrade coffee was slightly higher. There are reasons why Finland is not necessarily typical as a consuming country (retail prices for conventional coffee are particularly low), nevertheless this case suggests that it

is possible for roasters and retailers to capture more of the additional value from Fairtrade products than the producers whom Fairtrade was designed to benefit. Valkila and colleagues argue that ‘consumers may be mainly supporting roasters and retailers with their purchases of “socially responsible” coffees instead of poor peasant farmers or labourers in the global South’ (Valkila *et al.*, 2010:1).

Table 3. Shares of producing and consuming country of retail prices of coffee per package of coffee (0.5 kg of roasted coffee) in € and as a percentage of retail prices in 2006

	Conventional coffee	Fairtrade
Average retail price paid by consumers	2.40	3.71
Freight and insurance	0.04 (2%)	0.04 (1%)
Fairtrade certification in producing countries	-	0.03 (1%)
Fairtrade license fee in Finland	-	0.10 (3%)
Share of producing country	1.15 (48%)	1.30 (35%)
Share of consuming country	1.21 (50%)	2.24 (60%)

Source: Reproduced from Valkila *et al.*, 2010.

Fairtrade’s premium

The Fairtrade premium is a sum of money paid on top of the agreed Fairtrade price for investment in social, environmental or economic development projects. At present the premium is US\$0.05 per kilo of Fairtrade seed cotton (Fairtrade International, 2009b), and US\$0.20 per pound of coffee (Fairtrade International, 2009c; Fairtrade Foundation, 2011a).

The use of the premium is decided upon democratically by producers within the farmers’ organisation. The premium is fixed by the FLO Standards Unit in the same way as the minimum price and remains the same, regardless of the price they receive for their produce. The premium fund is typically invested in education and healthcare, farm improvements to increase yield and quality, or processing facilities to increase income (Fairtrade Foundation, 2009a). A common misconception is that the premium has to be used on social projects. Money can be redistributed among members in the forms of loans, for example. Investments do however tend to benefit a wider segment of the local community than solely farmers and farm labourers. Mixap (2009) argues that in the case of Fairtrade coffee in Laos, the premium was primarily used to pay for coffee infrastructure which was necessary to meet the quality requirements of Fairtrade itself. Of course this infrastructure upgrading will have wider benefits, but, as Mixap argues, it will be several years before the premium is used for social development purposes such as supporting schools or clinics.

While in many cases the premium has an important development function, its impact is limited by being managed by a specially designated committee which can be poorly integrated with other community organisations such as NGOs, churches, and voluntary groups (Ruben, 2008). Similarly, Dolan (2010) found that, in relation to Fairtrade tea in Kenya, social tensions were generated by the creation of a parallel set of institutional structures (the premium committee) as demanded by Fairtrade.

Reducing price volatility

Participation in certification schemes can reduce farmers' exposure to price volatility (Potts, 2007). Potts argues that this is particularly the case in Fairtrade, which automatically improves price stability through the minimum price, although most certified coffees operating in niche markets have lower elasticities³³ than non-certified, conventional coffees, reducing volatility in demand if prices change. The potential risk-minimising impact for farmers through participation in certification schemes is lessened by the fact that typically 'only a small percentage of total coffee produced is actually sold through one or another labelling system' (Potts, 2007:25). Where certified sales can be maximised, volatility can be further minimised.

According to Potts, the ability of Fairtrade to minimise price volatility will be enhanced as the market for Fairtrade grows, and a higher proportion of what is grown is actually sold at Fairtrade prices, whereas for other certification schemes, price volatility may increase as the market for those certified products grows and becomes more mainstream (Potts, 2007). As certified produce becomes the norm, rather than a niche, customers are less prepared to pay a premium for it and downward price pressures may occur as customers and retailers look for the most competitive pricing. In contrast, as Fairtrade products become more mainstream, this is unlikely to have a negative effect on the value and premiums accrued by producers. This is a significant advantage, particularly if Fairtrade continues to move into the mainstream, as more producers will benefit.

Group formation and development of organisational capacity

Group organisation is the main prerequisite for participation in Fairtrade, and this may reap other benefits. These include knowledge sharing; sharing costs of training and extension services and the cost of certification; and improved market access by reducing transaction costs and making it easier to work with intermediaries, retailers and other value chain participants (FAO, 2003). A manager from a US coffee roasting company specialising in organic, Fairtrade and speciality gourmet coffees,³⁴ explains that one of the real benefits of Fairtrade is the group infrastructure it helps establish – which brings about improved communication, dialogue and transparency.

33. This effectively means that consumers are willing to pay more for these certified products than non-certified equivalents. Price elasticity refers to the effect changes in price have on the quantity of the good demanded. An inelastic product is one where changes in price have a relatively small effect on the volumes of product demanded.

34. Interview, May 2009.

Pistorius and Oppenoorth (2008) explain that Fairtrade brings about less tangible benefits such as transparency. The scheme encourages Fairtrade organisations to make annual business plans, cash flow predictions and strategic plans, which need to be transparent to all members.

If they are not well managed, farmer organisations can become costly and inefficient and absorb some of the value that should go directly to farmers. In this case farmers may be better off using private service providers to obtain the functions previously provided by an underperforming co-operative (such as investment, buying and transporting produce, and liaising with buyers). According to Weber, poor management of the export process by producer organisations can mean that significant costs erode the preferential Fairtrade price received by the co-operative, resulting in lower returns for growers (Weber, 2007). A co-operative structure can hinder quick action and decision making when market situations change.

Donovan echoes this, noting in a detailed and recent study of Fairtrade coffee production in Nicaragua that: 'Currently, Fairtrade pays from 20% to 30% more than the market price in Nicaragua. But after paying cooperative fees, transport, taxes (in addition to waiting three months for the final payment for the coffee), economic incentives for participating in fair trade are currently limited, which may lead producers to sell their coffee outside of the cooperative' (Donovan, 2010).

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Ruben, in an overview synthesising findings from a range of Fairtrade case studies, argues that in some cases, identification with Fairtrade objectives and processes by Fairtrade organisation members is not as high as might be expected. Information was not provided to members as well as it could be, and participation in decision making could have been better. Knowledge of Fairtrade principles and awareness of how Fairtrade premium funds are used was not widely spread among members (Ruben, 2008). These findings are echoed in recent research into Fairtrade coffee in Laos (Mixap, 2009).

Developing internal control systems

In order to meet the requirements of the Fairtrade standard, farmers need to establish internal control systems to facilitate traceability. These ICSs create a structure for the documentation, distribution and collection of useful information. They can be a challenge for small-scale farmers to develop, but the potential gains from doing so are also believed to be significant.

The management capacity of farmers' groups is a key determinant in just how powerful the use of an ICS and information can be. As one certification expert explains:

If you have good management you can use the internal control systems to measure production over time, to be able to project supply and production and relay this back to buyers. This used to be a stab in the dark but with these

predictions there is better information to give to buyers and more capacity to negotiate and say 'we have this much supply this year' can you buy it? Or we won't be able to meet our contractual obligations this year. The data from the ICS is what is really valuable. They can use it to help establish a better relationship between themselves and the buyers by establishing transparency. In the longer term, for very effectively managed groups, they can use this information to feed back into technical assistance in order to improve the quality of assistance.³⁵

Longer-term buying relationships and external support

A central aim of Fairtrade certification is to 'emphasise the idea of partnership between trade partners' and 'facilitate mutually beneficial long-term trading relationships' (Fairtrade Foundation, 2009c). Because there are potential gains to be had for both small-scale farmers and exporters and buyers it is hoped that all parties will see a mutual benefit to investing in the relationship and working towards its success. It is hoped that there are sufficient incentives (both from the perspective of corporate social responsibility and the bottom line) for businesses to co-invest with producers in certification (either directly through investing in certification costs, or indirectly through providing credit, technical assistance or other forms of support). Ruben argues in his comparison of Fairtrade and non-Fairtrade coffee producers in six countries that 'long-term delivery contracts and assurance of stable and large-scale markets are far more important Fairtrade features than the price advantage' (Ruben, 2008:43).

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A manager from a US coffee roasting company specialising in organic and Fairtrade certified coffee explains that:

Fairtrade also helps in terms of getting support from buyers. Lots of these buyers want to secure a long-term relationship with producers. Buyers want to know where their coffee comes from and Fairtrade helps with this traceability. This is the buyer's incentive for getting involved in longer-term relationships with Fairtrade producers. Buyers who do establish these long-term relationships often want to invest in training for the farmers, they want to help them achieve the highest quality coffee they can. They can support the farmers.³⁶

Historically Fairtrade was confined to producers who were already established in value chains linking them to markets. This prerequisite has since changed, but in reality certification is most successful for those who already have an established market linkage.³⁷ It minimises the investment risk involved in certification and increases the probability of co-investment from buyers or exporters in certification and external support (such as access to credit, technical assistance). As a result Fairtrade has a limited reach among the most remote and least organised farmers, although this criticism can be levelled at almost any certification scheme or standard.

35. Interview, 2009.

36. Interview, 2009.

37. The co-founder of the Committee on Sustainability Assessment (COSA) argues that 'It is essential that farmers are connected into a supply chain,' (Interview, 2009).

Group formation also allows farmers to attract other sources of funding besides those from exporters or buyers. If groups have the right structure, with democratic decision making and transparency, they are more likely to receive other sources of funding and support, which can help to deliver wider development gains.

Support for producers who wish to participate in Fairtrade certification schemes is also provided by the FLO's Producer Business Unit (PBU), liaison officers on the ground and, if financial support is needed, through the Producer Certification Fund. The PBU was 'set up in 2005 to provide Fairtrade-certified producers all the information they need to strengthen their businesses and seize new market opportunities. PBU officers also offer support and advice to producers facing marketing and export challenges. Within the PBU there are four Regional Managers, responsible for all developments within their assigned geographical area. Working with them are seven Regional Coordinators with specific country responsibilities' (Fairtrade International, 2009a). Liaison officers support the work of the PBUs. Since 2005 there have been 25 full-time liaison officers in 19 countries, including Vietnam, China, India and Indonesia. Their primary role is to offer information, advice and support to producers and provide them with market access and necessary market information. Information regarding production and relevant regional specific information is also fed back from liaison officers to the FLO (Fairtrade International, 2009a).

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Some commodities present specific challenges to developing effective long-term relationships. Tea is a particular case in point because it is generally sold through auction. In Kenya, tea is often retro-certified: tea produced to Fairtrade standards is purchased as conventional tea through the auction system and is later certified when it is clear how much can be sold as Fairtrade. Fairtrade tea only becomes such at the marketing stage (Dolan, 2010). This means tea factories do not know how much has been sold as Fairtrade until they receive the premium afterwards – this creates relations of 'hope and dependency rather than complementarity and interdependence' (Rajak, 2007, in Dolan, 2010:37).

What impact does Fairtrade have on poverty?

Poverty persists amongst Fairtrade producers

Even with price premiums and a minimum floor prices, many Fairtrade producers remain in considerable poverty. For coffee farmers in countries such as Nicaragua and Mexico, Fairtrade certification is not enough to radically change farmer circumstances; farmers simply do not produce enough from their small areas of land (Bacon, 2005; Valkila, 2009; Jaffee, 2007). Valkila and colleagues note that Fairtrade farms in Nicaragua often struggle to pay the minimum wage to hired labourers (Valkila *et al.*, 2010). Valkila comments: 'Fairtrade organic coffee production can increase farmer income in the case of low-intensity coffee production. However, the increase in income is very modest, because so little coffee is produced by marginalized farmers. Thus farmers remain in economic poverty despite being connected to Fairtrade organic markets' (Valkila, 2009:7).

In a major study of coffee farming communities in a poor region of Mexico during and immediately after the coffee crisis (2001-4), Jaffee found that 'Participation in fair trade markets brings many benefits – often significant ones – to member families; yet... it does not currently provide a sufficiently compelling alternative for many households, let alone constitute a solution to rural poverty, economic crisis, or ecological degradation' (Jaffee, 2007:198).

As discussed, Fairtrade prices are not always high enough to be transformational for producers (Bacon, 2010a; Jaffee and Howard, 2009; Jaffee, 2010). Bacon reviewed the experiences of three different groups of farmers engaged in differing production and marketing schemes (conventional, organic and Fairtrade) and found that Fairtrade was transformative and had a real impact on poverty for coffee farmers *during the world coffee crisis*, but since then both conventional and organic production methods have become more profitable (Bacon, 2010b). This report also found that other factors aside from certification were important determinants of levels of poverty and empowerment, such as state-sponsored agrarian reforms, participation in international NGO projects, improvements in female access to land titles and bottom-up collective organising. Participation in certified coffee markets does not necessarily promote gender equity, nor is it a panacea for rural poverty, hunger, and emigration (Bacon, 2010b).

Beuchelt and Zeller's quantitative survey of 327 randomly selected members of conventional, organic and organic-Fairtrade certified co-operatives in Nicaragua found that 'organic-fairtrade coffee certifications .. do not help northern Nicaraguan coffee farmers to earn a coffee income above the poverty line or to make them better off than their conventional fellow men' (Beuchelt and Zeller, 2011:1323). They do, however, warn of the potential for selection bias in their research and recommend that further causal econometric impact assessment is carried out to validate their findings. They conclude by recommending that 'the policy focus of government and donors should move from certification schemes to investments in the farm and business management skills of producers as well as the establishment of public extension and production support systems' (Beuchelt and Zeller, 2011:1323).

More Fairtrade is produced than sold

In 2004, 20 per cent of the global Fairtrade production capacity was sold at Fairtrade prices (Lewin *et al.*, 2004 in Consumers International, 2005). The State of Sustainability Initiatives reports that, of an estimated 324,000 tonnes of Fairtrade coffee produced in 2009, only 91,573 tonnes were sold as Fairtrade (SSI, 2010). This means that the economic benefits of Fairtrade certification are not being consistently or widely realised by all certified farmers. This has been a frustration for many producers. Riisgaard *et al.*, (2009) carried out fieldwork with Kenyan and Ugandan tea co-operatives and found that only 2 per cent of production could be sold as Fairtrade, resulting in considerable disappointment among farmers. One consequence of the oversupply of Fairtrade produce is that markets become very competitive and only certified farmers producing

high quality produce may be able to find buyers. In the case of coffee, organic certification on top of Fairtrade is another way to secure a competitive edge, and may be essential.

Weber argues, based on an analysis of Fairtrade coffee producers in Peru, that oversupply means that effectively a rationing system exists for Fairtrade. Producers need an export contract, to produce to a high quality and probably to be organic too. Furthermore:

The producer most likely to enter the FT market is a producer with capital, a willingness to assume risk, and who is not remotely located... For a producer's organization to promote the interests of its members it must have the capacity to compete in the coffee industry, FT or not. Included in this capacity are commercial contacts, knowledge of markets, ability to access capital, and experience in coffee processing, exporting, and quality control (Weber, 2006:4).

Fairtrade can deliver non-financial benefits

The financial benefits of participation in Fairtrade certification have to be considered alongside the non-financial benefits, such as the emphasis on learning and upgrading farming techniques. Fairtrade focuses on high quality markets (for example Arabica coffee rather than Robusta) which means the scheme explicitly excludes large numbers of small farmers who are engaged in growing lower-quality Robusta coffee in more peripheral areas (arguably many of these peripheral areas are better suited to growing more robust, lower quality coffee). That said, Fairtrade certification has also been found to improve the quality of coffee grown, increasing coffee's value and the value accrued by producers. Consumers International found that for Fairtrade coffee in Bolivia, the most important effect was 'the assistance of the Fairtrade premium in achieving quality improvements in the coffee and hence a reduction in the quality differential against the reference price at the New York Coffee Exchange' (Consumers International, 2005:27).

Ruben and Zuniga (2011) compared different certification schemes in Nicaragua and argue that Fairtrade has been good for the recovery of coffee systems after the coffee crisis through a certain level of investment, but that real quality and productivity improvements have been limited in comparison with other schemes such as Rainforest Alliance and CAFÉ Practices, although the study does not entirely compare like with like: see the discussion in Section 3.3.

Multiple certification can be advantageous

Certification for both Fairtrade and organic has become increasingly common; half of all Fairtrade coffee is also organic (Raynolds *et al.*, 2007). Jaffee (2007) argues that it is difficult for farmer groups to be only Fairtrade certified. These two types of certification increasingly overlap with one another in terms of their focus and certification criteria. For example, organic agriculture certification programmes are beginning to incorporate social criteria, while Fairtrade

programmes are placing a growing emphasis on the environment (FAO, 2008). The FAO also states that 'some industry analysts expect that the two sectors will grow exponentially in the next decade and that there will be increasing levels of cooperation and coordination between them' (FAO, 2008:7). This may involve joint auditing which would reduce inspection time and costs. In some instances there may be mutual recognition where for example Fairtrade inspectors recognise that an organic certified co-operative meets the environmental part of the Fairtrade standard.

What is the transformational potential of Fairtrade?

Fairtrade is seen by many in the coffee sector as having had a certain transformational impact on trade relations. According to Bacon, 'In several countries smallholder cooperatives have used Fair Trade as a tool to gain direct market access and wrestle up to 30 per cent of the coffee exports away from the transnational corporations and elite exporters that have controlled these channels since colonisation' (Bacon, 2010a:141). Bacon quotes a general manager of a large co-operative in Nicaragua as saying 'the small-scale farmers would never have been able to enter international trade if we didn't have the fundamental base to commercialise a part of our coffee with Fair Trade' (Preza, 2006 quoted in Bacon, 2010a:141).

However, some argue that as Fairtrade moves into the mainstream its principles are being diluted as mission-driven enterprises lose ground to market-driven firms that use 'Fair Trade labels largely as a vehicle to capture markets and certification as a mechanism to enhance traceability' (Raynolds, 2008:1090). There is a concern that becoming mainstream will mean that corporations are able to exert greater control over Fairtrade governance than organisations based in the South (Bacon, 2010a; Jaffee, 2010). Potentially this participation will mean the continuation of downward pressure on minimum prices in real terms, and resistance to the kind of significant increases in floor prices and premiums that would allow Fairtrade to make a more significant difference to producer livelihoods. However, it is also the case that participation by supermarkets and large roasters will lead to marked increases in sales of Fairtrade produce – as is probably already happening – addressing the current problem of only a limited percentage of overall Fairtrade production being sold as Fairtrade. Ruben argues that benefits in prices and wages are only found when Fairtrade becomes a sizeable regional player with 30 per cent or more of total regional production (Ruben, 2008). It could be that moving into the mainstream is the most effective way for these economies of scale to be captured.

Relationships with market-driven buyers are often associated with tough contractual arrangements, such as cases where buyers only agree to pay high prices for Fairtrade organic coffee if similar amounts are delivered at non-organic prices – even if it is also organic (Raynolds, 2008). Mission-driven or quality-driven organisations are likely to provide the 60 per cent pre-financing of the coffee contract price that farmers can request under FLO standards; market-driven

buyers are likely to refuse to buy from co-operatives that make these demands, thus undermining a key aspect of the type of transformational partnership that Fairtrade is supposed to promote (Raynolds, 2008). Raynolds also notes that: 'Market-driven buyers follow common business practices in their dealings with producer associations, withholding market information, competing with other buyers, and fueling competition between suppliers' (Raynolds, 2008: 1089). Similar findings emerge from Dolan's analysis of the Fairtrade tea sector in Kenya (2010).

More research is needed in these areas since these are important considerations for those looking at Fairtrade as a strategy for market engagement and livelihood improvement for rural producers.

Impacts on non-certified producers

The benefits to participating farmers need to be balanced with the impact on non-participants – does their position improve or not? Evidence on this is mixed. Maseland and De Waal argue that: 'Fairtrade may cause a negative demand externality for producers outside the Fairtrade cooperative. By partitioning the market in Fairtrade and non-Fairtrade products, demand for output of producers outside the Fairtrade arrangement is reduced, which forces them to lower their prices and reduce profits and income' (Maseland and De Waal, 2008:25). On the other hand, Jaffee argues that certification can have spillover benefits and result in improved production practices that may lead to better prices for non-certified neighbouring communities (Jaffee, 2007).

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3.3 Rainforest Alliance, UTZ Certified and CAFÉ Practices certification

Rainforest Alliance, Utz Certified and Starbucks' CAFÉ Practices certification schemes have emerged in recent years as a major force in coffee markets, and in the case of Rainforest Alliance and Utz, in tea markets. The new standards address some perceived weaknesses of the old standards such as a reliance on niche rather than mainstream markets and a relative lack of emphasis on product quality.

However, these newer standards are also criticised for confusing consumers and diluting the overall impact of standards, through weaker social and environmental criteria and less transformative objectives. Bacon, for example, argues that 'certification as a tool for producer empowerment is further challenged by the proliferation of certifications, such as Rainforest Alliance and Utz Kapeh, which offer lower social standards than Fair Trade and lower environmental criteria than organic certification' (Bacon, 2005:508).

One of the main challenges in assessing the merits of these new certification schemes, particularly for small-scale farmers, is the limited number of systematic studies available (studies that exist include Ruben and Zuniga, 2011 Riisgaard *et al.*, 2009; Lazaro *et al.*, 2008) compared to the literature on Fairtrade or

organic certification. This also means there is also a lack of literature comparing Rainforest Alliance, Utz and CAFÉ Practices with Fairtrade and organic. This may reflect the fact that these schemes have not been in existence very long, and, in the case of Rainforest Alliance and Utz, have only recently begun to work with small-scale farmers. A firm's internal scheme like CAFÉ Practices may also be more difficult to research and, because organic and Fairtrade labels are more visible to consumers, there is more interest from researchers in interrogating their strengths and weaknesses.

It is however important to understand the distinctiveness, impact, strength and limitations of Rainforest Alliance, Utz and CAFÉ Practices certification schemes, as they have grown quickly and now command 25 per cent of trade in the coffee sector, compared to Fairtrade's 2-3 per cent share (Ruben and Zuniga, 2011). These newer certifications have achieved a greater market share in part because they work with coffee estates rather than exclusively with small-scale farmers. Certification is arguably quicker to achieve on estates and can be scaled up more easily.

While all three certifications looked at in this section have different objectives, they share a similar approach to pricing. Unlike Fairtrade and organic they do not guarantee minimum pricing or the possibility of premium prices through entering niche markets, nor do they offer a social premium, although Utz Certified does encourage producers and buyers to negotiate a premium between themselves. Instead these schemes emphasise how the practices associated with the certification will improve productivity and quality and as a result it is hoped that farmers will be in a position to enter markets where they can capture better returns. Ruben and Zuniga, based on field research with coffee producers in Nicaragua, argue that:

The importance of guaranteed minimum prices and the payment of the FT premium become less important compared to the price premium that can be obtained based on intrinsic product attributes and improved production systems. The recent arrival of CAFÉ Practices, Rainforest Alliance and Utz Certified coffee in the *Segovias* region marks a new wave of market segmentation that enables especially the better performing cooperatives to engage in more profitable delivery contracts (Ruben and Zuniga, 2011:14)

Of course increased market segmentation also means increased inequalities. Such new schemes may well be better suited to farmers with better than average assets (land, labour, information, financial capital and organisational capital), than the poorest farmers.

As noted, documented evidence for the efficacy of these new schemes' model is limited. The following section reflects on the evidence that is available and introduces the main characteristics of the three schemes.

Rainforest Alliance

What is Rainforest Alliance certification?

The Rainforest Alliance scheme was established in 1987 by the Sustainable Agriculture Network (SAN). SAN is an NGO coalition of conservation groups and the Rainforest Alliance secretariat:

That links responsible farmers with conscientious consumers by means of the Rainforest Alliance certified seal of approval. Its collective vision is based on the concept of sustainability, recognizing that the well-being of societies and ecosystems is intertwined and dependent on development that is environmentally sound, socially equitable and economically viable (SFCI, 2009).

Rainforest Alliance is distinguished from Fairtrade because of its emphasis on how farms are managed, rather than how products are traded. Jaffee comments that: 'many in the Fair Trade movement view Rainforest Alliance certification as an inferior, competing standard' (Jaffee, 2007:223). However, Reynolds *et al.* note that: '[RA] social standards prioritize worker protection and are narrower, yet more rigorous in this area, than Fair Trade's producer empowerment oriented standards' (Reynolds *et al.*, 2007:10).

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Rainforest Alliance differs from organic in that its standards are based on integrated pest management which allows for some limited, strictly controlled, use of agrochemicals (Consumers International, 2005). It should not be seen as simply an 'organic-lite' option, as the scheme strongly emphasises ecosystem conservation, which is implicit in organic schemes, but not necessarily strongly articulated since the focus is on the individual farmer. For example, while Rainforest Alliance certification requires vegetation buffers to stop pollution from pulp run-off into rivers, this is not demanded by organic schemes; likewise requirements for a minimum number of tree varieties and percentage of shade cover are not necessarily specified in organic (Daviron and Ponte, 2005). The objectives of Rainforest Alliance certification are therefore different from organic agricultural certification, and it is tougher on certain environmental sustainability criteria than organic. Rainforest Alliance certification also focuses on other aspects of the farming system, including good social and labour conditions (Giovannucci, 2005). More information about Rainforest Alliance's standards (as administered by SAN) is given in Box 4.

Box 4. Rainforest Alliance's standards

1. Management system

Social and environmental management systems (according to the complexity of the operation) must be in place so that auditors can confirm that farms are operated in compliance with the Sustainable Agriculture Network standard and the laws of the respective countries. Most farmers find that such a system not only improves conditions for workers and the environment, but also results in better-organised and more efficient farms.

2. Ecosystem conservation

Farmers must conserve existing ecosystems and aid in the ecological restoration of critical areas. They can achieve this by taking steps that protect waterways and wetlands from erosion and contamination, prohibit logging and other deforestation, maintain vegetation barriers and prevent negative impacts on natural areas outside farmlands.

3. Wildlife protection

Certified farms serve as refuges for wildlife, and therefore farmers should monitor wildlife species on farms. This is particularly important for endangered species and their habitats on the land, which farmers should take specific steps to protect. This includes educating workers, prohibiting hunting and the removal of plants and animals from their lands, protecting nesting places, and either releasing captive wildlife or registering animals with the proper authorities.

4. Water conservation

The SAN standard requires that farmers conserve water by keeping track of water sources and consumption. A farm's practices and machinery may need to be modified — or new technology installed — in order to reduce water consumption or to avoid contamination of springs and rivers on and near the property. Farmers should have the proper permits for water use, treat wastewater and monitor water quality.

5. Working conditions

Farmers must ensure good working conditions for all employees, as defined by such international bodies as the United Nations and the International Labour Organization. The SAN standards prohibit forced and child labour and all forms of discrimination and abuse. Workers should be aware of their rights and of farm policies. They should benefit from legally established salaries, work schedules and any benefits required by the national government. If housing is provided, it must be in good condition, with potable water, sanitary facilities and waste collection. Workers and their families should have access to healthcare and education.

6. Occupational health

Certified farms must have occupational health and safety programs to reduce the risk of accidents. This requires that workers receive safety training — especially regarding the use of agrochemicals — and that farmers provide the necessary protective gear and ensure that farm infrastructure, machinery and other equipment is in good condition and poses no danger to human health. The SAN standard contains extensive criteria for establishing a safe work environment. This includes avoiding the potentially harmful effects of agrochemicals on workers and others, identifying and mitigating health risks and preparing for emergencies.

7. Community relations

The SAN standard requires farmers to be good neighbours and inform surrounding communities and local interest groups about their activities and plans. They should consult with interested parties about the potential impacts of their farm and contribute to local development through employment, training and public works.

8. Integrated crop management

The SAN encourages the elimination of chemical products that pose dangers to people and the environment. Farm managers must monitor pests and use biological or mechanical alternatives to pesticides where possible — and if they determine that agrochemicals are necessary to protect the crop, they are obligated to choose the safest products available and use every possible safeguard to protect human health and the environment.

9. Soil conservation

A goal of SAN's sustainable agriculture approach is the long-term improvement of soils, which is why certified farms take steps to prevent erosion, base fertilisation on crop requirements and soil characteristics and use organic matter to enrich soil. Vegetative ground cover and mechanical weeding are used to reduce agrochemical use whenever possible.

10. Integrated waste management

Certified farms are clean and orderly with programs for managing waste through recycling, reducing consumption and reuse. Waste is segregated, treated and disposed of in ways that minimise environmental and health impacts. Workers are educated about properly managing waste on the farms and in their communities.

Source: taken from SAN, 2011.

Rainforest Alliance is linked with Kraft, a major coffee roaster. At present Kraft Foods buys in the region of 29,500 tonnes of Rainforest Alliance certified coffee each year (Tropical Commodity Coalition, 2009). A former CEO of Kraft Foods is on the Rainforest Alliance board of directors (Bacon, 2010a).

Rainforest Alliance certification is concentrated on larger growers and estates where costs can be absorbed more easily and participants benefit from economies of scale (Giovannucci and Ponte, 2005). This may mean that its pro-poor impact is more limited than certification schemes which focus on small-scale producers. For example, there was only one Rainforest Alliance scheme for small producers in Africa between 2005 and 2007 and the group involved was subsequently decertified, according to Riisgaard, *et al.* (2009). Rainforest Alliance claim to be taking considerable steps to promote greater inclusion of small farmers and to change the perception that it only works with plantations or large-scale farmers. In Kenya for example, it has now certified groups of small-scale flower farmers as well as working with small-scale cocoa farmers in Ghana and Cote d'Ivoire. Rainforest Alliance state that: 'since 1992 more than 700 certificates for more than 70,000 farms – including small family farms of cooperatives, as well as plantations – in 29 countries... have met the Sustainable Agriculture Standard on more than 750,000 ha for 30 crops'³⁸ (SAN, 2011).

38. Argentina, Brazil, Chile, Colombia, Costa Rica, Côte d'Ivoire, Dominican Republic, Ecuador, El Salvador, Ethiopia, Ghana, Guatemala, Honduras, India, Indonesia, Jamaica, Kenya, Malawi, Mexico, Nicaragua, Panama, Papua New Guinea, Peru, Philippines, Sri Lanka, Tanzania, United States, Vietnam and Zambia.

Certification of farms for the Rainforest Alliance certification is carried out by Sustainable Farm Certification International (SFCI) – an independent international certification company. The standards themselves are established by the SAN.

Coffee retailers can use the Rainforest Alliance seal if 30-90 per cent of the production is certified and the percentage is specified. Other certification schemes require that 100 per cent of the final labelled product be produced in accordance with the demands of the certification system. The 30 per cent criteria has attracted considerable criticism as arguably it allows large corporations to be associated with the benefits of certification while only delivering a small proportion of sustainably grown tea or coffee in the final product. Hence the perception that companies like Kraft use Rainforest Alliance certification as a form of greenwashing (Jaffee, 2007). At the time of writing Rainforest Alliance had not received endorsement of ISO 65 best practices in third party certification. Bacon notes that: 'The Rainforest Alliance's decision to license the use of the RA label on products that contain only 30 per cent RA certified products (not 100 percent) may be holding up the pending application.' (Bacon, 2010a:140).

No minimum price is set for Rainforest Alliance certified coffees, but they usually receive a premium on the market, according to Ethical Corporation (2008, in Riisgaard *et al.*, 2009). In 2007 an effective premium of US\$0.14 per pound on top of the market rate was achieved. Bacon puts the average Rainforest Alliance premium at between US\$0.08 and US\$0.12 per pound (Bacon, 2010a). Higher prices are likely to reflect a perception that certification brings about better quality and improved traceability. In the sole Rainforest Alliance scheme in Africa, farmers found it hard to negotiate a premium for their certified coffee given high international market prices, and this led to them deciding not to recertify (Riisgaard *et al.*, 2010). Pre-financing is not necessarily available to farmers participating in Rainforest Alliance certification (Giovannucci and Ponte, 2005).

What are the costs of Rainforest Alliance certification?

Farmers pay a *per diem* and travel expenses for technicians and auditors to certify farms. Farmers are also charged an annual certification fee based on the size of their farm. Small-scale producers may organise an internal management system and seek certification as a group, thus reducing costs and administration (Rainforest Alliance, 2009a). However there is no formal requirement to form a producer organisation. Traders or exporters can hold the certification, and guarantee through their internal control systems that participating farmers meet the required standards. This means that producers can avoid the downsides of co-operatives, such as high costs and lack of accountability to members. Arguably this means that Rainforest Alliance certification can be implemented relatively quickly, and is less bureaucratic than Fairtrade. Some traders³⁹ have argued that it is easier for Rainforest Alliance to move into the mainstream, precisely because it takes less time for farmers to get certified than Fairtrade and because, unlike

39. Interview with an ethical trading manager of a boutique coffee and tea retailer, 2009.

Fairtrade, it is able to outsource its auditing and certification. However, as with other schemes, there is no guarantee that all of the potentially qualifying crop will be bought, and it may need to be sold at conventional prices.

Although the annual certification fee is based on the size of the farm, farmers can share part of the costs with funding agencies (Fairmatch, 2009a). Rainforest Alliance claims that 'as visits are performed by local organizations, the costs are often lower than other systems' (Rainforest Alliance, 2009a) but Consumers International found the Rainforest Alliance scheme to be the most expensive of several certifications. In 2005 one case study estimated that the costs of annual audits for Rainforest Alliance certified coffee was between US\$1000 and US\$5000 (Consumers International, 2005). This may make it harder for smaller producers to get involved. Similarly some of its standards and criteria reflect its origins in plantation-based agriculture. For example, compulsory training and standards on the use and storage of fertilisers, including requirements for protective clothing are not always relevant to small-scale production where input use is low.

What is the impact of Rainforest Alliance certification?

As noted above, there is only limited independent research on the impact of participation in Rainforest Alliance certification, particularly for small-scale producers. Its own documentation makes claims for the environmental benefits of certification. In Guatemala, conservation of the area's natural resources is evident when compared to nearby national parks. In the Rainforest Alliance certified area, less than 4 per cent of the forest cover has been lost, compared to 40 per cent in non-certified areas. In Nicaragua, pesticide use to fight the coffee-destroying borer beetle on a Rainforest Alliance plantation has been halted altogether and the pest has been dealt with effectively using 'good farm practices' (Rainforest Alliance, 2009b).

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Research by Ruben and Zuniga (2011) in Nicaragua, compares the impact of Fairtrade, Fairtrade-organic, Rainforest Alliance and CAFÉ Practices certifications at the farm level. Rainforest Alliance farmers were better educated, possessed more assets, had a more diversified income portfolio, and had smaller families than Fairtrade farmers. Rainforest Alliance farmers achieved higher yields than Fairtrade, and had a higher proportion of farmers producing high quality coffee. These improvements in production meant that Rainforest Alliance farmers got a higher coffee price on average and had a larger share of farmers achieving the highest premiums. Co-operative services delivered to Rainforest Alliance farmers were rated more highly than those received by Fairtrade farmers. Rainforest Alliance farmers showed greater evidence of women's engagement in production and household-decision making than Fairtrade. Side sales were less common for Rainforest Alliance certified farmers than for their Fairtrade certified counterparts.

These findings suggest that Rainforest Alliance certification gives farmers clear benefits, particularly in terms of upgrading and accessing the best market prices for the highest quality coffee. However, it is important to note that while all farmers in this study were small-scale, their household characteristics were not the same, and Rainforest Alliance farmers had started off with more assets and higher levels of education, factors which might explain their superior performance compared to Fairtrade and Fairtrade-organic farmers on certain key indicators. This study was also carried out at a time of high prices; it cannot be assumed that Rainforest Alliance certification would perform so well compared to Fairtrade in adverse market conditions. Pistorius and Oppenorth (2008), however, suggest that Rainforest Alliance certification has allowed producers to access niche markets, which have provided an important price premium when mainstream markets were depressed.

Utz Certified

What is Utz Certified?

Utz Certified (originally known as *Utz Kapeh* meaning 'good inside' in a Mayan language) was originally set up by the Dutch coffee company Ahold. The Utz Foundation is now an independent, non-profit foundation that has developed a certifiable code of conduct for growing sustainable coffee. In March 2007, Utz updated the name of its certifiable code of conduct from Utz Kapeh to Utz Certified to reflect the inclusion of commodities beside coffee, which was its original focus. Utz have finalised a code for tea and are planning to expand into cotton, through a link with the Better Cotton Initiative (BCI). Its tea certification pilots include both estates and small-scale tea producers, though the emphasis at present is strongly on estates. It has certified a group of 436 small farmers for tea production in India, and has started to work in Vietnam with Sara Lee, one of the world's largest food companies. In January 2010 Utz became a member of ISEAL Code of Good Practice for Setting Environmental and Social Standards (Utz Certified, 2011).

Utz certification is based on the idea of Good Agricultural Practices as specified by EurepGAP (and later by GLOBALGAP) and the guidelines outlined in the SA8000 global social accountability standard developed by Social Accountability International.⁴⁰ Good Agricultural Practice specifies standards for correct fertiliser use, weed control, pest and disease management and water use, food safety, and worker health and safety. The primary emphasis is on traceability and production practices and processes. According to Utz, their central aim is to 'establish a good production system and practices which leads to improvements and a higher price'.⁴¹ The standard is not as demanding in terms of social issues as Fairtrade, nor in terms of the environmental standards set out by the Rainforest Alliance or organic certifications. Utz certification demands adherence to national labour legislation and ILO standards. It is believed to be 'above minimum assurance because it is verified through independent third-party certification' (Giovannucci and Ponte, 2005:287). Utz Certified is regarded as

40. www.sa8000.org

41. Interview with representative from Utz Certified, 2009.

a 'mainstream programme that aims to deal with a large volume of coffee to make sure it is sustainable'.⁴² The record keeping system demanded by Utz is rigorous and subject to corporate auditing.

Utz certification aims to improve the terms of trade for producers but it does not intervene in price negotiations or set a premium as Fairtrade does. The argument is that giving producers detailed market information enables them to negotiate better prices and that a premium can be negotiated between buyers and sellers. Utz Certified's Track and Trace system is designed to improve marketing opportunities through use of web-based⁴³ tools. Producers can use this system to make sales announcements, find market information and use a document library. The Utz scheme is targeted at roasters and retailers, and particularly their demands for traceability, through rigorous record-keeping and auditing. It is less concerned with promoting the label to customers as a unique selling point (Consumers International, 2005). Indeed Utz argue that 'Utz is not that well known in the market because we want to be a guaranteed, independent brand for retailers, roasters and traders – not a marketing tool'.⁴⁴ The evidence from a survey in the Netherlands is that Utz has lower name recognition than Fairtrade but a larger market share (De Vries, 2010). Utz attempts to link producers to funding, through the funding offered by foundations set up by large coffee companies who are registered buyers in the Utz system (Pistorious and Oppenoorth, 2008).

As David Rosenberg explains:

Certification is geared to niche markets, involves a significantly higher price and is positioned to call attention to itself rather than the brand, with the result that the certification label overshadows the brand. Utz Kapeh, in contrast, is trying to support the brand starting from the fundamental premise that it is different from niche-positioned certification schemes: consumers expect professional coffee companies to take responsibility for their products and have minimal environmental and social standards. But they are not willing to pay extra for this (Consumers International, 2005:26)

Utz Certified operates a code of conduct that has three components: good agricultural and business practices, social criteria, and environmental criteria. The key features of Utz certification are set out in Box 5. Independent certifiers conduct annual inspections to ensure that producers and businesses comply with the requirements of the Utz Certified Code of Conduct (Lazaro *et al.*, 2008).

42. Interview with representative from Utz Certified, 2009.

43. According to the Utz Certified website: 'an Utz Certified coffee producer sells his coffee to a registered Utz Certified buyer. They negotiate the contract details and explicitly agree upon the premium that is paid for the Utz certification. The producer informs Utz Certified of this sale and the contract information by issuing a Sales Announcement in the Utz Certified Matching System. Upon receiving the Sales Announcement, Utz Certified assigns a unique tracking number to the contract. This unique Utz Certified number is sent back to the producer, who sends it onwards to the first buyer of the coffee. The unique Utz Certified identification number travels with the coffee through the whole coffee chain.' (Utz Certified, 2009).

44. Interview with representative from Utz Certified, 2009.

Box 5. Utz Certified certification assessment criteria

Good agricultural and business practices

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

Social criteria

- workers are protected by national laws and ILO conventions regarding wages and working hours
- safe and healthy working conditions
- no forced labour or child labour
- freedom of association and collective bargaining
- workers receive training in their own language about safe handling of chemicals
- workers receive protective clothing for the use of chemicals
- respectful treatment of workers
- access to health care for the workers and their families
- access to education for children
- access to decent housing
- access to clean drinking water
- freedom of cultural expression

Environmental criteria

- reduce and prevent soil erosion
- responsible and minimal use of agrochemicals
- implementation of Integrated Pest Management
- minimise water usage and environmental pollution
- minimise energy use
- optimise use of sustainable energy sources
- treatment of contaminated water
- protecting water sources
- no deforestation of primary forests
- use of native tree species as coffee shade trees
- protecting endangered species

Source: Utz Certified, 2012.

The Utz Certified scheme has been developed for both small-scale farmers and estates. There are different requirements for these two systems. Utz focuses on labour on estates while it focuses on 'the organisation and internal management of the groups' for small-scale producers.⁴⁵ There is no formal requirement for farmers to be organised into a group or have a buyer already established to qualify. A trader or exporter can hold the Utz certification, as long as they guarantee through an ICS that participating farmers meet required standards. However, group organisation can be beneficial for those wishing to become Utz Certified. One Utz representative explains that Utz is most successful where

45. Interview with representative from Utz Certified, 2009.

there is already an ethos of organisation or an existing co-operative and where 'involvement in groups is a real decision, supported by all individual smallholders, rather than a means to get benefits from certification'.⁴⁶

In 2008, Utz became the largest certification programme in terms of certified coffee available (De Vries, 2010). This shows a very rapid expansion since 2002, when the programme started. The figure of 308,000 tonnes of Utz Certified coffee available is certainly considerably higher than for other schemes. The high levels of available coffee may also reflect the fact that Utz works with plantations whereas in the coffee sector Fairtrade doesn't. A large share of purchases of certified Utz coffee is by major coffee companies, with Sara Lee (who own the Douwe Egberts brand) purchasing 40,000 tonnes of Utz Certified coffee in 2010 (Sara Lee, 2010 in Kolk, forthcoming). Ahold are also another major buyer of Utz coffee.

Despite this, in terms of actual sales, Utz comes out behind CAFÉ Practices, Fairtrade and organic. The difference between the volumes produced and those sold as Utz Certified is significant. A representative at Utz Certified gave two reasons for this difference.⁴⁷ She argued that Utz aims to maintain a ratio of certified coffee produced to coffee sold of 4:1. Firstly, some of the Utz Certified coffee produced will have multiple certification and will be sold under the auspices of another certification scheme, for example, Fairtrade. She claims that the difference in the amounts produced and sold therefore does not reflect a lack of demand for Utz Certified, as it can often be sold under its alternative certification. Secondly, she argues that they need spare capacity in order to be able to scale up quickly. If a mainstream roaster decides to have an Utz Certified supply, they are unlikely to engage with the scheme if supply can not be guaranteed. Utz is able to move quickly to train and certify farmers, with 400 trained technicians. According to De Vries, Utz works with over 100,000 farmers, 120 co-operatives, exporters and NGOs and has 12 field representatives (De Vries, 2010).

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An alternative perspective on the ratio of certified coffee produced to that sold is that it serves as a good indicator of the success of a scheme. A significant difference between the amount produced and the amount sold implies there is insufficient demand for the certified product.

What are the costs of Utz certification?

The cost of inspection for certification is determined by the relevant in-country certification body and is based on the time required for the certification inspection to take place. This will depend on the producer's situation and starting point. Where costs are unacceptably high, Utz can provide access to support services through the Certification Support Network (Fairmatch, 2009b). This network also offers support to farmers to improve their farming and business practices and to establish market access. Utz also offers support to buyers to market their certified products.

46. Interview with representative from Utz Certified, 2009.

47. Interview, May 2009.

Certification under the Utz Certified scheme was initially for large estates producing more than 10,000 bags of coffee per year (Consumers International, 2005). According to Neilson, large-scale units seem to have found it easier to meet the demands of the standard than small-scale farmers (Neilson, 2008). Two pilot projects with small-scale farmers were established in Ethiopia and Zambia in 2008 (Lazaro *et al.*, 2008). The experiences of co-operatives and small-scale producer groups from Kenya and Uganda suggest that private exporters and support organisations have a key role in facilitating the inclusion of small-scale farmers in Utz certification schemes (Lazaro *et al.*, 2008).

For many farmers the costs of meeting requirements for Utz Certified certification is relatively small, since they are already close to meeting the requirements of the scheme (Consumers International, 2005). However, three of the Utz Certified state-owned coffee companies in Vietnam found that the costs of meeting the requirements reached US\$40 per tonne of green coffee. This exceeded the higher price received for the Utz Certified coffee meaning that there was 'little apparent financial incentive to producers to opt for certified production' (Consumers International, 2005:37-38). Thus, the evidence on costs is somewhat contradictory, and for those who are not close to meeting the standard, the process of becoming Utz Certified may not be covered by the increased prices received for their products.

Indeed, Giovannucci and Ponte note that 'Utz Kapeh has a detailed Code of Conduct that explicitly outlines the numerous requirements that a producer must comply with but there is little mention of the responsibilities of the buyer toward the producer since these are limited and do not include any definite compensation for the producer's efforts at meeting the Code' (Giovannucci and Ponte, 2005:293).

Lazaro *et al.* (2008) explore sustainability standards and coffee exports from Tanzania. Whilst the geographical focus may limit its relevance, its detailed analysis of the benefits and costs or limitations of Utz Certified certification is very revealing and it is likely to have applicability elsewhere. They found that so far only large-scale farmers had managed to meet the costs of compliance with Utz certification in Tanzania. The limiting factors were the high costs of certification and the perception of inadequate price premiums for certified coffee. The schemes studied in this research were only achievable with 'the support of externally-financed projects' (Lazaro *et al.*, 2008:19). For the small-scale farmers studied, in particular, the research concluded that certification 'had unclear impacts on income and welfare; this is mainly due to the fact that most of the schemes are relatively new and that little research has been carried out on them' (Lazaro *et al.*, 2008:19).

Box 6 is taken from Lazaro *et al.* (2008) and Riisgaard *et al.* (2009) who undertake a qualitative analysis of the costs associated with the adherence to Utz certification standards as well as listing some of the benefits. It is important to bear in mind that these will mostly be borne by the owners of the large-scale farms as these are the dominant agricultural system engaged in Utz certification or, in the case of the pilot small-scale producer projects, by exporters, contracting agribusiness firms or other external agents. At present, very few small-scale producers are involved in Utz Certified, partly due to the costs of adherence. Utz argue that the main costs involved in adherence to the scheme are technical assistance, monitoring and control. Utz cannot guarantee financial support, though they 'do give it where they can' and admit that 'in some programmes farmers have to pay for technical assistance themselves...inevitably standards also led to exclusion of some farmers'.⁴⁸

Box 6. Costs and benefits of Utz certification for producers

Costs of Utz certification as perceived by compliant producers and businesses

Management costs

- documentation for traceability
- cost of certification and loss of time during harvest
- close supervision of farms

Implementation of good agricultural practices

- costs of protection and preservation of river reserves
- foregone production from lands left as a buffer
- maintenance of nursery trees for transfer to the protected area
- irrigation water and equipment to ensure efficient use of soil and water
- waste disposal, including incinerators
- maintenance of stores for inputs; record keeping for chemicals

Social criteria

- costs of on-the job training
- cost of workshops for farmers
- employee salaries that comply with labour laws
- use of protective gear and signposts to warn of hazards
- improvements in quality of labour accommodation
- awareness raising about garbage collection to avoid pollution
- health checks for workers

Benefits of compliance with Utz

- employment for communities
- certification improves transparency between management and employees
- price premium and improved market access
- hygiene and household waste management improved

Source: Lazaro *et al.*, 2008; Riisgaard *et al.*, 2009.

48. Interview with representative from Utz Certified, 2009.

What is the impact of Utz Certified?

It is unclear whether the premium sometimes received by small-scale farmers for Utz Certified production is a result of meeting the standards specified by the certification scheme or a consequence of quality improvements: 'it is anticipated with Utz certification, smallholder farmers can also improve the intrinsic quality of coffee, which can result in coffee commanding higher premiums on the international market. Logically this is expected to enable farmers to achieve higher returns/incomes for their production' (Lazaro *et al.*, 2008:18). Riisgaard *et al* found that Utz premiums for coffee producers in East Africa were US\$0.05 per pound in 2007, and 0.06 per pound in 2008 (Riisgaard *et al.*, 2009). Nevertheless Utz does aim to be a mainstream certification scheme and one that works with Robusta as well as Arabica – 'because it is a mainstream programme we don't only want to deal with the top quality'.⁴⁹ Lazaro *et al.* (2008) argue that Utz certification is perceived by some producers as worthwhile when commodity prices fall as certification serves as a form of safety net.

Utz certification can be beneficial because it facilitates the application of new knowledge, management skills and technology that will strengthen the coffee producer's business (Lazaro *et al.*, 2008), although this may not be limited to Utz in particular – all certification schemes offer the opportunity for learning. Utz also improves the ease with which other certification and standards can be achieved, potentially increasing the benefits accrued by farmers from multiple certification: 'At the same time, producers that are already certified argue that once certified with one standard the cost of compliance with subsequent standards is lower or minimal, depending on the standard in consideration' (Lazaro *et al.*, 2008:3).

CAFÉ Practices

What is CAFÉ Practices?

Starbucks' CAFÉ (Coffee and Farmer Equity) Practices programme, initiated in 2001, is a corporate ethical sourcing scheme which evaluates the sustainable production of cherry and green coffee. The scheme is third-party verified, working in partnership with US-based Scientific Certification Systems, who carry out auditing for Starbucks. Reynolds (2007) argues, however, that CAFÉ Practices should be thought of as a first-party certification scheme, since it is designed and managed by the Starbucks company.

CAFÉ Practices has become an increasingly important player in coffee supply chains, and farmers looking to upgrade production need to consider it as an option. Over 120,000 tonnes of CAFÉ Practices coffee were purchased in 2009, a substantially higher amount than for the Fairtrade, organic, Utz or Rainforest Alliance certification schemes (Tropical Commodity Coalition, 2009). Starbucks sourced 65 per cent of its coffee from CAFÉ Practices in 2007 and aimed to reach 80 per cent by 2013, and 100 per cent by 2015. In 2009, 11 per cent of Starbucks' coffee was also Fairtrade certified and 4 per cent organic certified. The CAFÉ Practices scheme is a major player in several key coffee producing countries, including Indonesia. In 2010, an

49. Interview with representative from Utz Certified, 2009.

agreement was also reached with the Yunnan Academy of Agricultural Sciences in China to start a Starbucks Farmer Support Centre and use the centre to develop the Starbucks supply chain in Yunnan (Starbucks, 2010).

In Sulawesi and Sumatra – the key single origin regions of Indonesia, areas that are recognised as having distinctive coffees – the share of regional exports under the CAFÉ Practices schemes is now around 50 per cent (Neilson, 2008). Neilson notes that: ‘compliance with CAFÉ Practices is rapidly becoming a mandatory requirement of selling coffee from these regions’ (2008:1615).

CAFÉ Practices was developed by Starbucks because ‘none of the existing eco-labels were what we wanted’.⁵⁰ The scheme evaluates production according to four criteria: product quality, economic accountability, social responsibility, and environmental leadership. Product quality and economic accountability are prerequisites for participation in the scheme (TSPN, 2009). The scheme is designed to produce high quality coffee, whilst promoting ‘equitable relationships with farmers, workers and communities, as well as protecting the environment’ (Starbucks, 2011a). According to a Starbucks representative, ‘a prerequisite for participation in CAFÉ is the quality. As a result we don’t get growers jumping in to be certified as they have to be producing to a high standard. If someone wanted to get CAFÉ certified we would not be able to guarantee them a market’.⁵¹

Box 7. CAFÉ Practices evaluation checklist for farmers, processors and suppliers⁵²

1. Product quality – required

- green preparation- prerequisite
- cup quality- prerequisite

2. Economic accountability

Incentives for sustainability

- demonstration of financial transparency
- equity of financial reward

Financial viability

- financial viability

3. Social responsibility

Hiring practices and employment policies

- wages and benefits*
- freedom of association/collective bargaining
- hours of work
- [free from] child labour/discrimination/forced labour*

Worker conditions

- access to housing, water and sanitary facilities
- access to education
- access to medical care
- worker safety and training

50. Interview with a Starbucks representative, 2009.

51. Interview, 2009.

52. For more detail on each of the bullet points above, see: http://www.sccertified.com/retail/docs/CAFE_GUI_EvaluationGuidelines_V2.0_093009.pdf

4. Coffee growing – environmental leadership

Protecting water resources

- watercourse protection
- water quality protection
- water resources and irrigation

Protecting soil resources

- controlling surface erosion
- maintaining soil productivity

Conserving biodiversity

- maintaining coffee shade canopy
- protecting wildlife
- conservation areas

Environmental management and monitoring

- ecological pest and disease control
- farm management and monitoring

Coffee processing

Wet milling

- water conservation
- minimising water consumption
- reducing wastewater impacts
- waste management
- waste management operations/beneficial reuse
- energy use
- energy conservation/impacts

Dry milling

- waste management
- waste management operations/beneficial reuse
- energy use
- energy conservation/impacts

*Conformance with the required indicators necessary

Source: SCS Certified, 2007.

Applicants are evaluated through a points system and are awarded Preferred Supplier status if they score 60 per cent of the maximum possible points, and Strategic Supplier status if they score 80 per cent. These suppliers get preferential buying status and better contract terms (TSPN, 2009). For Strategic Suppliers a US\$0.05 per pound premium is paid for the first crop.

There is currently a lack of rigorous and publicly available data about the costs and benefits of the CAFÉ Practices scheme. It has been criticised for a lack of transparency in relation to supply chain relationships and prices paid to farmers. According to Reynolds: 'as with other corporate systems, this program suffers from a lack of transparency and critics suggest that it is best viewed as a self-diagnostic or even public relations tool' (Reynolds *et al.*, 2007:151). The fact that the standards and systems are owned by and created for Starbucks may be an important reason why full transparency or accountability on costs and impacts does not exist.

Although CAFÉ Practices has many standards, many of them are not compulsory. Only some standards are zero tolerance; for others farmers only need to be showing some 'progress' towards meeting the criteria. Many of criteria which are zero tolerance are simply about meeting minimum legal norms in the country of production, for example, not using bonded or child labour, paying the minimum wage, not discriminating according to race and gender and so on. None of the environmental standards are zero tolerance.

Economic benefits, price premiums and market linkages

Starbucks rewards growers depending on how well they perform against the CAFÉ Practices criteria listed in Box 7 above. There are no formal price premiums for farmers, except for the first year for Strategic Suppliers, nor any minimum prices in the event of a drop in market prices. Ruben and Zuniga (2011) surveyed farmers in Nicaragua and found they had higher yields and that more farmers obtained higher prices for coffee produced with CAFÉ Practices certification, compared to Fairtrade and organic certified coffee. This was largely due to improved quality achieved as a result of following the production specifications of the scheme, in particular following Good Agricultural Practices requirements. However, as noted in the discussion of Rainforest Alliance, farmers who had CAFÉ Practices certification in this instance had slightly larger farms than the Fairtrade and organic certified ones, and higher and more diversified incomes and more assets. It is impossible to say to what degree the CAFÉ Practices certification or farmers' pre-existing assets were responsible for improving yields and prices.

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Starbucks require transparency of pricing, but admit that this is not always possible:

To help ensure that farmers receive an equitable share of the purchase price paid by Starbucks, a requirement for economic transparency is included in most of our coffee contracts, including those contracts with suppliers who aren't yet participating in CAFÉ Practices. This provision requires our suppliers to provide proof of payments made and prices paid throughout the coffee supply chain, often going to the farm level. Although we make an effort to ensure we have such documentation for our contracts, the structure of the coffee markets in some countries makes this difficult (Starbucks, 2009).

The economic benefit arising from any price premiums also have to be set against the costs of certification, which can be significant for some farmers. Starbucks explain:

To be verified for CAFÉ Practices, a supplier or farmer must have an independent inspection conducted of their supply chain. As with other verification or certification programs, there is a cost involved for an audit, which may make it unaffordable for some farmers. This challenge can be addressed if suppliers plan in advance, and prepare materials to make the inspection process more efficient (Starbucks, 2009).

Nevertheless no other information is given about costs of certification and it appears that no financial support is given for the process of certification itself.

Once certified, there is no guarantee that farmers will have a market link to Starbucks. Existing suppliers are more likely to benefit from certification than producers who are yet to be linked to Starbucks. Becoming certified without a pre-existing link to Starbucks may therefore entail a degree of risk.

Farm management and internal control systems

Starbucks argue that farm management by small farmers in the CAFÉ Practices scheme has sometimes been a weak point. The voluntary nature of many of the standards included in the scheme is likely to be a key reason why compliance is not widespread. Starbucks explains that: 'small-scale farmers tend to score low on farm management indicators in large part because they don't typically develop annual work or business plans, things that are emphasized in CAFÉ Practices. Through our Farmer Support Centres, we're helping farmers develop plans for the steps they can take to make improvements in the more challenging or costly areas of CAFÉ Practices' (Starbucks, 2009a). Producers appreciate the agronomic technical support aspect of the CAFÉ Practices programme (Benzaken *et al.*, 2007).

Environmental and social impacts

Conservation International carried out a first phase evaluation of CAFÉ Practices in 2008 and found that 99 per cent of farms participating in the programme had not converted any natural forests to coffee production in the three years previous to the survey. Whether this leads to tangible benefits for farmers is unclear, but it may have had a positive impact on coffee quality through improve soil fertility in shade-grown coffee (Conservation International, 2008).

The Conservation International assessment is broadly positive, although lacking in detailed data for further analysis. It argues that CAFÉ Practices has been beneficial in ensuring that school age children who lived on small farms attended school (99 per cent of all farms ensured school age children attended school). According to the same assessment, 90 per cent of small farms provided habitable housing to workers, 80 per cent of large and medium farms (1400 of which participate in the scheme) paid their workers sick leave and 75 per cent covered medical expenses.

However, Renard (2010) presents a critical analysis of the impact of CAFÉ Practices based on in-depth fieldwork in Mexico. She disputes whether the scheme itself can really claim to promote socio-economic development of farmer communities, in the way that Fairtrade does. She argues that the scheme is primarily about securing quality supplies, as opposed to development: 'It is clear that for Starbucks the rating system of its CAFÉ Practices programme primarily seeks to guarantee the supply of quality coffee required by its coffee outlets, and places this imperative over the socio-economic development of the producer cooperatives' (Renard, 2010:6).

In the region she studied, farmers had developed co-operatives as a way to fight for a higher share of coffee prices, and as an alternative to the dominance of AMSA – a subsidiary of Ecom (a major commodity trader with a particular interest in coffee). CAFÉ Practices certification offered farmers higher prices, but gradually resulted in farmers leaving co-operatives because, according to Renard, it has stipulations against co-operatives performing functions for farmers in the supply chain. As producer organisations became weaker farmers ended up being more dependant on AMSA and Starbucks for technical support and access to markets. Advisors for CAFÉ Practices had opposed Fairtrade and organic certification and farmers were encouraged to leave the co-operative. Farmers feared that they had become more vulnerable to reductions in prices. One consequence of this was that many co-operatives broke free of the relationship with CAFÉ Practices and established new relationships with Fairtrade (Renard, 2010).

According to Renard:

Although the CAFÉ Practices programme initially assured producers a price higher than the international market price or what was paid by local traders, this price came at a huge cost. This cost included the loss of control over the production process and a progressive dismantling of the capabilities and competencies of cooperatives, up to the point of threatening their very existence, by individualising their accounts and incomes and by ultimately undercutting the price they received... Moreover, the model subjected the cooperatives to the very exporting company against whom they organized in the first place. That is to say, that even if there were economic gains to some degree, these were offset by deterioration in terms of social processes and 'empowerment' of the cooperatives with respect to market access (Renard, 2010:6).

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CAFÉ Practices has become a dominant force in key high-quality coffee-producing regions of Indonesia. This has resulted in an erosion of traditional marketing systems which played a variety of important local functions such as merchandising local produce and access to credit. Traditional institutions have, in contrast to the case presented by Renard, been replaced by co-operatives which, while not mandated by Starbucks, help to meet traceability requirements. Neilson argues that new supply chains associated with Starbucks create more competition at the local level, particularly in relation to meeting certification requirements, and result in less value being retained at this level than was the case in the past when traditional institutions were the interface with exporters (Neilson, 2008). This example and Renard's are individual case studies, and the conclusions they present need to be tested through further research.

3.4 Geographic labelling

In addition to the certification standards covered in this report, geographic labelling can be a useful approach to capture more value for producers in some circumstances. As with certification schemes, however, evidence on the benefits of a geographic labelling strategy is mixed.

Some agricultural products from developing countries sell for high prices in consumer markets in developed countries because of the location they come from. For example, Shirkina Sun-dried Sidamo coffee from the Sidamo region of Ethiopia, an area famed for distinctive coffee, in a country that is considered the home of Arabica coffee, has been sold for US\$26 per pound (US\$57.2/kg) by Starbucks (ECN, undated in Arslan and Reicher, 2010). Coffees from the Toraja region of Sulawesi, Indonesia can also sell for over US\$50 per kg (US\$22.7 per pound) in the United States (Neilson, 2007). While these speciality, gourmet coffees are highly prized in retail markets, returns to the farmers that grow them are often not particularly high. Ethiopian farmers have received around US\$1.45 per pound for the Sidamo coffee, and coffee farmers from Toraja have often been lucky to receive more than US\$1.60 per kg (US\$0.72 per pound) for their coffee (Arslan and Reicher, 2010; Neilson, 2007). This section considers whether developing countries can command high prices for products with particular origins or capture a greater share of the profit from existing highly valued products instead of it going to manufacturers and retailers – typically located in the developed world.

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Geographic labelling is one way of seeking to improve returns to assets, and could complement or act as an alternative to the certification schemes discussed previously. Recent decades have seen a growing interest among consumers in the quality of food products. This includes an interest in the characteristics of the place or *terroir* that give particular foods unique identities. *Terroir* is a concept with different definitions but essentially connotes a geographical area with certain special characteristics including natural conditions such as soils, vegetation and water quality, and particular cultures and production techniques that result in products with specially valued tastes and other attributes. According to Van de Kop and Sautier, 'A binding feature of regional products is their geographical origin and ecosystem specificity, which are reflected in the quality of the product. Moreover these natural factors combine with human factors to produce the unique characteristics of the end product. Locally-adapted production and processing practices are key' (Van de Kop and Sautier, 2006:89).

Daviron and Ponte (2005) argue that one commodity, coffee, is valued for both its physical attributes and its immaterial or symbolic qualities, such as the story that goes with it, the *terroir* it is associated with, or even where and how it is consumed. At the moment most of the value associated with symbolic or immaterial qualities is captured by actors closer to the consumption end of value chains, in the case of coffee, this means roasters and retailers. The challenge for development practitioners is to understand whether a greater percentage of this symbolic value might go to producers.

The emphasis on quality is seen in the rapidly growing market for, and proliferation of, single-origin (as opposed to blended or bulk) coffees and speciality teas. This can be seen as evidence of a process of decommodification – bulk commodities such as coffee and tea, cease to be entirely homogenous, interchangeable products, and become distinct marketed items, with varying characteristics.

This interest in place can complement concerns with the social conditions and trading relationships experienced by food producers in low- and middle-income countries and the environmental impacts of food production. However, an interest in sustainability issues is not an essential part of a concern with the qualities that go along with food or indeed other agricultural commodities from particular locations.

Options for geographic labelling

Geographic labelling is necessary for value to be created around an origin-based product. Labelling can be simply confined to branding and marketing based on the particular location a product is from. It can also entail formal legal protection. In the latter case geographic labelling is a form of intellectual property right protection based on an idea of quality associated with a specific place. As with other certification schemes, geographic labelling serves as a means to provide information to consumers, in this instance about the product's quality and taste.

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Geographic labelling can take two main legal forms. These are Geographical Indications (GIs) and trademarks. Geographical indication is the most common (Anders and Caswell, 2009). According to the World Trade Organization (WTO), geographical indications are 'Indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin' (WTO, 2009). Examples might include champagne originating from the Champagne region in France or Darjeeling tea, from India.

According to Dutfield:

Geographical indications (GIs) are a unique form of intellectual property. Unlike patents, copyright or trademarks, they are not themselves a discrete and universally accepted category of IP rights. Different countries may well protect them under specific geographical indications laws, as in the European Union. But they may otherwise – or additionally – be protected under a variety of other legal constructs (Dutfield, 2011:14:10).

Trademarks are similar to geographical indications, the difference being that a GI necessarily identifies a product with a particular territory, whereas a trademark identifies a product with a trade origin, which may be a place but is likely to be a company (Moran, 1993 in Dutfield, 2011). Typically a trademark has a single owner, unlike GIs which are collective, but ownership of a mark

can be shared by a group of producers – these are known as collective marks. Alternatively, an association may own a trademark but allow producers to use the mark subject to certain conditions established by the association. This is a certification trademark (Dutfield, 2011).

The only agreement addressing geographical indications from a global perspective is the WTO Trade Related Aspects of Intellectual Property Rights (or TRIPS) agreement (Schussler, 2009). As with trademarks, it is not possible to apply for a geographical indication or trademark that has worldwide validity. The TRIPS agreement sought to define the concept of GIs and ‘minimum international norms were identified for protection although the mode of protection was left open’ for national policymaking (Gopalakrishnan *et al.*, 2007:5). As a result members can design their own domestic legislation using the principles of unfair trade practices, trademark law or a combination thereof.

Under the TRIPS agreement, governments of all WTO member countries (153 countries as of July 2008, including China, India, Vietnam and Indonesia) agreed to set certain basic standards for the protection of GIs. There are, in effect, two basic obligations on WTO member governments relating to GIs in the TRIPS agreement; the former relates to commodities excluding wines and spirits (which are afforded a higher level under Article 23).

1. **Article 22 of the TRIPS Agreement** says that all governments must provide legal opportunities in their own laws for the owner of a GI registered in that country to prevent the use of marks that mislead the public as to the geographical origin of the good. This includes prevention of use of a geographical name which although literally true ‘falsely represents’ that the product comes from somewhere else.
2. **Article 23 of the TRIPS Agreement** says that all governments must provide the owners of GI the right, under their laws, to prevent the use of a geographical indication identifying wines not originating in the place indicated by the geographical indication. This applies *even where the public is not being misled*, where there is no unfair competition and where the true origin of the good is indicated or the geographical indication is accompanied by expressions such as ‘kind’, ‘type’, ‘style’, ‘imitation’ or the like. Similar protection must be given to geographical indications identifying spirits (Concept Foundation *et al.*, 2009).

Before protection under TRIPS is possible, countries need to have taken steps to protect the product nationally. In the case of Rooibos tea from South Africa, for example, measures to protect the tea nationally have not yet been taken, and so there is not yet any protection under TRIPS. This is partly due to complications in deciding what the product specification is and its link to origin, including agreeing on the production area and the specific name to use (Gerz and Bienabe, 2006).

Geographical indications or collective trademarks?

Which geographic labelling tool is most appropriate in a given situation depends on a range of factors. Colombia, for example, has trademarks on its coffee, but most significantly has GI certification in the EU for *Café de Colombia*. The Ethiopian government has used a trademark strategy, rather than a GI approach, in seeking to protect speciality Sidamo, Yirgacheffe and Harar coffees despite Starbucks' sustained opposition to Ethiopia applying any form of protection for their speciality coffee. Thirty countries have signed the Ethiopian Trademark and Licensing Initiative, and are allowed to use the coffees royalty free if they agree to produce an acceptable branding and marketing strategy.

The advantage of the trademark for Ethiopia is that it is controlled by the state, allowing the government the option to levy royalties for use of the trademark. With a GI certification system, the government must have the capacity to ensure traceability which can be a major challenge in countries where administrative capacity is limited. Light Years IP, the US law firm that advised the Ethiopian government, argued that with 95 per cent of Ethiopian coffee produced by 2 million farmers scattered over a large area, it would be very difficult to ensure that only beans grown in the speciality regions to a particular standard were marketed with the geographical certification. It would also be difficult to prevent unfavourable deals between farmers and powerful companies. On the other hand, giving more power to the state through a trademark system could be equally problematic where there is poor governance, as bureaucrats might take advantage of their positions to license beans not from the region, or even the country (Hughes, 2009) although there is no evidence to suggest this has happened in the Ethiopian case. Oxfam America played a key role in campaigning against Starbucks' opposition to the trademarking of Ethiopia's speciality coffee, believing that Ethiopia should be 'helped, not hindered' in 'trying to assert its rights and capture more value from its product' (Oxfam International, 2006). Oxfam argued that the trademarks could earn an expected additional US\$88 million per year for its coffee sector, 'making a vast difference in the lives of some of the poorest people in the world' (Oxfam International, 2006).

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In comparison with a trademark-based strategy, geographical indication is seen as a long-term investment strategy, requiring sufficient capacity to promote and maintain quality standards, and enforce compliance. The logistics and legal aspects of establishing a GI is laborious and does not always guarantee adequate protection. For example, more Darjeeling tea is sold than is produced (Economic Times, 2010) which implies a large market, but also that non-GI tea is being mislabelled, potentially diluting the overall reputation of the tea's taste and quality, with possible impacts on demand or price premiums in the long term. A trademark approach is a potentially a quicker option, although this may not create the right incentives to invest and improve the quality of the product.

Can farmers benefit from geographic labels?

In some cases geographic labelling has been a successful approach for a developing country: Colombian coffee is an often cited example. In the Ethiopia case the trademark recognition strategy has possibly resulted in income increases of 7 to 16 per cent per year (Arslan and Reicher, 2010). Successful use of geographic labels can result in spillovers such as tourism, improved linkages between farmers and consumers and the protection of 'biocultural heritage'.⁵³

Creating geographic labelling strategies offers several challenges and, success stories notwithstanding, the overall evidence for the efficacy of geographic labelling in developing countries is mixed. Schussler in a review of geographic labelling options argues that 'In most cases neither geographical indications nor trademark systems are able to secure for individual farmers the benefits of the higher price paid for single-origin coffee on the world coffee market. In the absence of other measures, profits are generally retained by other actors within the coffee chain (Schussler, 2009:172).

Neilson argues that the ideas of value associated with place in the geographical indication concept are socially constructed: 'Highly organized actors within in the supply chain are able to control the parameters of quality construction by using these selectively scaled geographic identities' (Neilson, 2007:189).

The boundaries of a *terroir* or region associated with a particular product are often imprecise and contested, and the heritage and tradition built up around particular practices and products are of course the results of human activity. In Indonesia, how areas are defined is critical – in the case of speciality coffees from Sulawesi, Indonesia, international coffee traders and roasters have been able to define territories broadly and vaguely:

Within Sulawesi, placenames such as 'Toraja', 'Kalosi', 'Rantepao'... 'Sulawesi' and the obviously fraudulent 'Mandheling' are used interchangeably without correspondence to defined growing regions, and to signify quality characteristics that may or not be related to real sites of production. Thus coffee bags are marked in Sulawesi warehouses with the geographical identities requested by global buyers. As quality standards or provenance specifications do not currently exist, selective misrepresentation or 'geographic fraud' is commonplace (Neilson, 2007:197).

Amounts designated as coming from the highly-desired Toraja region, for example, are far in excess of what is produced in the district.

53. The Biodiversity Convention defines biocultural heritage as: 'The knowledge, innovations, and practices of indigenous and local communities which are often collectively held and inextricably linked to traditional resources and lands and waters traditionally occupied and used by indigenous and local communities; including the diversity of genes, varieties, species and ecosystems; cultural and spiritual values; and customary laws shaped within the socio-ecological context of communities' (Convention on Biological Diversity, 2009).

Intellectual property mechanisms such as GIs and collective trademarks need to be designed appropriately. The definition of a GI product can have important implications for development. A narrow definition might incentivise uniformity (in terms of biodiversity) over diversity (Dutfield, 2011). Dutfield explains that 'in Mexico the drink Tequila made from part of the agave plant is protected as a denomination of origin. But only one plant variety, blue agave, was mentioned in the original GI specification. In consequence, other varieties have fallen into disuse over a large area of Mexico, and the GI specification caused intense pressure to meet increased demand' (Dutfield, 2011).

Laws do not in themselves create added value from geographic labels

It is possible for a government to create and implement a legal infrastructure for GIs and other geographic labels. This will not, however, lead inevitably to the capture of greater value from products marketed on the basis of origin. In Indonesia, some GI protection has been given under the Trademark Law, but as yet no GIs have been registered, despite the fact that speciality coffees from Indonesia are widely marketed in developed countries (Neilson, 2007). In addition to the creation of a GI system, considerable effort is needed to create and market a brand. Success in this area can be difficult for many reasons including misunderstanding of end markets or the difficulty of meeting food safety standards.

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In order to differentiate a product and hence access niche markets and command price premiums for it depends on consumers being aware of the area and its connection to the product in question and the value achieved as a result. 'In some instances niche marketing through origin labelling may require an extensive awareness campaign in order to capture the benefits associated with differentiation' (Bramley *et al.*, 2007:11).

At least initially, this might be easier to achieve in the local area. Local recognition is likely to be needed to gather enough momentum to market the product globally.

Geographic labels are costly to implement, promote and enforce

The use of geographic labels has been favoured by the developed world and particularly the European Union. It is likely to be easier for developed countries to use intellectual property rights such as trademarks and geographical indication because they are better able to absorb the costs associated with creating, promoting and enforcing geographic labels. Those opting for a geographic label-based development strategy may not foresee all of the costs. Anders and Caswell (2009), citing Rangekar (2004), argue that: 'Developing-country producers pursuing traditional production methods under GIs might face unforeseen costs. Supply-chain adjustments, new and added quality assurance schemes, and record keeping could result in prohibitively high costs for protecting GIs'. They conclude: 'Considerable market risk exists for new launches of geographical origin labels by developing countries. Finally, most resources have to be invested prior to the launch of GI labels, without assurance of rewards (Anders and Caswell, 2009:84).

Van de Kop and Sautier argue that to be most effective it is necessary to look towards existing supply chains to see where origin-based products could be established:

The first important policy conclusion derived from our case studies, is that origin-based products have been present for many years and have generally developed from endogenous supply chains with existing production organisations, quality regulations, and distribution channels. Policy interventions should in the first place pay attention to, and build from, existing collective practices of producers, processors, traders and consumers in these chains (Van de Kop and Sautier, 2006:92)

As noted above, creating, promoting and monitoring the use of geographic labels can require considerable government capacity, often in remote regions of the country. This may be difficult in many settings. Arguably it is easier to support a GI in a plantation-based coffee system such as in Colombia than in a small-scale producer based system where producers are geographically dispersed (Schussler, 2009).

A strict code in relation to how any origin-based product is defined (covering its taste, appearance and attributes) is more powerful in preventing unfair competition and the deception of consumers, than a more liberal code. A stricter code strengthens the image and characteristics of a product, reducing the differences between production processes of various firms (Bramley *et al.*, 2007). In order for successful marketing to be carried out, the product needs to be differentiated, tightly controlled and well defined – without this the impact of any marketing or promotional strategy will be limited.

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The role for corporations, traders and co-operatives

Another challenge with GI-based approaches to capturing more value for local producers is how to maintain appropriate levels of incentives for corporations who may be the primary actors in creating recognition for a particular area. It is arguable, for example, that the reputation of Ethiopian coffee in EU and US markets was greatly increased by Starbucks' marketing prior to the trademark case. Where a product relies on corporations for market access, either through advertising or distribution channels, then an acceptable share of value will need to remain with the roaster and retailer. If use of a GI does not offer advantages for a corporation it is likely that they won't promote it, and the desirability of a geographical origin may decline. It is possible to attempt to bypass corporate buyers and retailers, but this is difficult, and will probably make market opportunities very constrained.

In some cases, it may be difficult for farmers to benefit from a GI – they may lack awareness of the value of their product because of its link to place. Gopalakrishnan *et al.* (2007) argue that the majority of countries protect not only the interest of the actual producers of GIs products but also that of traders: 'in the laws of almost all the countries there is an over emphasis to protect

the interest of the traders when compared to that of the interest of the actual producers of the GIs products' (Gopalakrishnan *et al.*, 2007:6). Local speculators, traders and exporters may be more aware of the price and capture more value. One approach to tackling this problem can be getting farmers organised; co-operatives can play an important role as an intermediary, seeking a better deal for farmers in the value chain. However, organising farmers and creating and maintaining a functioning, efficient and effective co-operative is not always easy.

Bramley *et al.* (2007) argue that co-ordination in the supply chain is a prerequisite for the success of origin-based products and for the competitiveness of the firms producing and marketing it. For small-scale farmers, building strong organisational structures is a major challenge but is essential for maintaining, marketing and monitoring the geographical indication. Indeed Dutfield (2011) argues that if local producers sharing the same indication or mark are willing to stand together, they have much greater ability to protect their rights and interests than a single producer operating alone. Farmer group formation helps to ensure the product meets the necessary quality standards (presumably through peer pressure and group effort) to ensure the product's successful sale as a niche product and that the associated premiums are obtained: 'effective co-ordination allows producers to collectively devise a common marketing plan and to develop a competitive advantage around the product's specificity' (Bramley *et al.*, 2007:7).

It has also been argued by Gopalakrishnan *et al.* (2007), through their extensive case studies in Asia, that producers do not always have the cultural mindset conducive to legal protection of GIs at the community level, which has resulted in widespread use of GIs by members outside the community. As a consequence of the false use of GIs, the actual producers lose the ability to command higher prices through dilution of quality and ultimately weakened consumer trust.

Producers can't achieve geographic labelling by themselves

With sustainability certification schemes it may be possible for producers to organise themselves, identify an appropriate scheme, make contact with certifiers, raise any necessary funds, get certified and benefit from the advantages associated with it themselves. Although certification is likely to be costly and producers will often need external financial and technical support, it would be possible for them to manage without them. In the case of geographic labelling, action will definitely be needed at levels above that of the producer organisation. Taking the case of Ethiopian coffee, action was taken by the Ethiopian Intellectual Property Organisation, the Ethiopian Coffee Network, and Ethiopian producers to create the Ethiopia Fine Coffee Trademarking and Licensing Initiative. This was also supported by the UK Department for International Development. Registration of GIs in overseas jurisdictions, protection of trademarks and so on will all require co-ordination and commitment from the state. A geographic labeling strategy is unlikely to be successful if it emanates from producers alone, without networking with higher levels, to ensure widespread and high levels of active commitment and support.

Maintaining quality is essential

One reason for pursuing geographic labelling is to capture premium prices for particular products. Maintaining high levels of quality is essential if premiums are not to disappear. Poor quality growers are unlikely to be able to partake in GI certification. Similarly remote regions that do not have the specific conditions needed for quality products will not be able to reap the benefits of geographical indications. This is supported by previous research carried out by Teuber (in Herrmann and Maruhn, 2009) which finds that Marcala coffee gets a higher price compared with other Honduran coffees due to its better quality, but the reputation of the region alone does not yet yield an additional price premium. 'This major finding suggests that quality assurance is crucial in the first place for a region or country without a strong reputation. The protection of geographical indications will be more important for regions or countries with already well-established reputations' (Herrmann and Maruhn, 2009:17-18).

Who benefits from geographic labelling, and who might lose out?

According to the Commission on Intellectual Property Rights, the costs and benefits of GI (in a legal form) are complex, and comprehensive economic impact assessments need to be undertaken before any intellectual property-related obligations are introduced for developing countries:

The main economic benefit of geographical indications would be to act as a quality mark, which will play a part in enhancing export markets and revenues. But increased protection, particularly applied internationally, may adversely affect local enterprises, which currently exploit geographical indications that may become protected by another party. Thus there will be losses to countries producing substitutes for goods that become protected by geographical indications. A proliferation of geographical indications would tend to reduce their individual value (CIPR, 2002:90).

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If many countries or producer groups seek to capture market niches associated with GIs, it is possible that premiums will decline, reflecting price competition or consumer confusion in the face of a myriad of different geographic labels.

Good governance of the geographical indication or collective trademark is vital in determining the distribution of costs, benefits and risks among different stakeholders – if limited political interests dominate a GI, the poorest producers could be excluded which could lead to a decline of traditional practices and a reduction of biodiversity (Dutfield, 2011).

Giovanucci *et al.* (2009) identify four prerequisites needed to ensure geographical indications and trademarks are successful. These are: strong organisational and institutional structures to maintain, market and monitor the GI; equitable participation among the producers and enterprises in a GI region (this relates to both costs and benefits and decision-making); strong market partners committed to promote and commercialise the product over the long term; and effective legal protection including a strong domestic GI system.

3.5 Summary

This section has introduced the main sustainability certifications: Fairtrade, organic, Rainforest Alliance, Utz Certified and CAFÉ Practices, and has analysed the costs and benefits of geographical labelling. There is far more evidence on the costs and benefits of organic and Fairtrade than the newer certifications. The schemes have different purposes, and which certification makes sense for any given farmer group is likely to be highly context specific. For very poor groups it may be that Fairtrade makes sense; for *de facto* organic producers in an area where biocultural diversity is important and there is some external recognition of the production region (or *terroir*), then organic certification may make sense. For other groups, perhaps slightly better off, and connected to markets, the improvements in agricultural practice associated with the newer schemes (Rainforest Alliance, Utz Certified and CAFÉ Practices) may be a good option. In many cases multiple certifications may be a sensible strategy, as there should be no inherent contradiction between schemes, though there will be extra costs involved.

Key findings can be summarised as follows:

Organic

- Organic production offers many benefits in terms of the sustainability of the production system, local biodiversity, product quality and possibly food crop production.
- There is a difference between *de facto* organic producers and conventional producers. For the former certification means capitalising on what they are doing anyway, (although there are inevitably new skills to be learnt and additional requirements related to the record-keeping demands of the certification system), for the latter it may mean a drop in yields during a conversion period, and possibly lower yields over the longer term unless high levels of organic inputs are applied and new skills are mastered.
- The skills associated with organic farming are not easy to learn, and access to organic inputs and sufficient labour may be a challenge – organic agriculture is labour intensive and as a result higher labour costs may also be involved.
- Well-designed internal control systems are necessary to meet the requirements of certification schemes such as traceability. They are not necessarily easy to manage, but can be a tool for learning about production, quality improvement, and market access.
- Organic certification can be costly, and premiums are not guaranteed (unless combined with Fairtrade certification), although they can be high in some instances if the product is high quality. There is some evidence that for some coffee farmers premiums for organic produce do not cover additional production costs or make up for lost yields.
- External support for training in technical skills and certification costs may be necessary.

Fairtrade

- Fairtrade certification has played an important role at times of low prices, such as during the coffee crisis. For very poor producers, minimum prices and market access via domestic and international Fairtrade networks has been critical.
- Fairtrade premiums (and minimum prices) have lost value in real terms over time and need to be recalibrated if they are to make a substantial difference to producer livelihoods. In 2011, there was a small upward adjustment in Fairtrade coffee prices in response to this critique but some have argued that Fairtrade prices are still not high enough to be transformational.
- In some cases the share of the Fairtrade retail price going to producers is lower than for conventional products, although it may be higher in absolute terms. There needs to be better producer representation in Fairtrade governance structures to address this.
- Less than a quarter of Fairtrade certified produce is sold as Fairtrade (either due to insufficient market demand or because it is being sold under another certification scheme e.g. organic). To access markets producers need to be delivering high quality produce, have contacts with buyers and – often – another certification such as organic.
- In the case of coffee, Fairtrade demands the creation of a democratic small-scale producer organisation. This can build social capital, and be a tool for learning. Fairtrade tea and cotton standards include large private landholders' operations but often promote worker associations. In some cases however producer organisations can be cumbersome, costly to operate, and lacking in accountability or transparent benefit distribution mechanisms to members.
- The Fairtrade social premium in many cases has delivered social development benefits, in some cases these are less clear, and the premium has been used mainly for production infrastructure.

Rainforest Alliance, Utz and CAFÉ Practices

- There is little evidence on the social, economic and environmental impact of Rainforest Alliance, Utz Certified and CAFE Practices. More research is needed, particularly longitudinal research comparing adopters with non-adopters and across countries and different classes of producer. CAFÉ Practices is an internal scheme owned by a single firm, and may be more difficult to research.
- The schemes themselves differ from each other. Rainforest Alliance is much stronger on environmental issues than the others. Utz Certified offers access to high-specification traceability technologies.
- Rainforest Alliance, Utz and CAFÉ Practices are associated with actors with considerable market power (Sara Lee, Nestle Kraft Foods and Starbucks), who are attracted to the benefits that come from ethical markets, but whose core objective is to improve profitability and returns to shareholders. They are not as strong on social criteria as other schemes, and their basic aim is not to transform inequitable trading relations.

- These schemes have expanded in times of relatively high prices; how economic benefits for producers would stand up in a time of low prices is less clear.
- These schemes have expanded rapidly, and may be less bureaucratic in their certification procedures than other schemes.
- In some regions of certain countries, such as Indonesia, CAFÉ Practices certification has become virtually mandatory for market access. There may be benefits from this in terms of improved product quality and prices, however in some cases a reconfiguration of traditional production institutions has been associated with the spread of CAFÉ Practices and this has reduced producer autonomy, possibly circumscribed participation in other schemes and resulted in an unanticipated loss of functions played by traditional institutions, such as access to credit or marketing of other agricultural produce.
- These schemes offer no minimum prices and no guaranteed premiums and therefore do not address price volatility (a key challenge faced by many small-scale farmers) or inequity in the value chain as a primary objective. Certification costs can also be high. The schemes do however offer access to mainstream markets and may be associated with improvements in quality and productivity (through high-quality training in Good Agricultural Practices) that result in high economic returns over the longer term. However, this may be dependent on producers' access to additional support, training and finance. These benefits may exceed premiums from Fairtrade production.

Geographic labelling

- Geographic labelling is a potentially useful complement to sustainability certifications. It has been successful for Colombian and Jamaican Blue Mountain coffee, and appears to be offering some benefits for Ethiopia.
- Use of geographic indicators is one approach to geographic labelling; another is to use trademarks as has been done in Ethiopia.
- GIs require considerable investment from the state to ensure adequate enforcement and promotion. It may be useful to build up a GI locally before reaching out to overseas markets.
- Trademarks can be a useful approach where capacity of the state to enforce a GI is weak. However they will not necessarily result in more value returning to producers in the region.
- Balancing the interests of corporations and producers around a geographic label requires careful judgement. In some cases corporations have captured most of the benefits from geographic labels in developing countries, and have been obfuscatory about localities in a way that does not benefit producers. However, producers also need corporations to help build up the profile of a region, and secure access to markets.

Pro-poor certification with a focus on Asia

This section looks at the relevance of sustainability certifications to selected countries and commodities in Asia. These are coffee production in China, Vietnam and Indonesia; tea production in China and Vietnam; and cotton production in India. The section also illustrates how specific country contexts are key factors influencing whether certifications for particular commodities are likely to offer benefits for farmers.

4.1 Coffee and certification

Sustainability certifications have been most widely applied in coffee. Coffee was the first crop to be certified by Fairtrade and Utz Certified. It is now marketed with more sustainability labels than any other product.

This report considers the prospects for coffee certification in three countries, Indonesia, China and Vietnam. Of the three, Indonesia and Vietnam are major players in the international coffee market, particularly for Robusta coffee. In China, coffee production is not yet internationally significant, and has been mainly low-quality Robusta for use in instant coffee for the domestic market, although some higher quality coffee is now going into a multi-region Starbucks coffee, and some small-scale speciality coffees are now being produced.

As a result of deregulation, evolving corporate strategies and new consumption patterns, the coffee value chain has been significantly reshaped in the last two decades (Ponte, 2004). Between 1962 and 1989 coffee was subject to an International Coffee Agreement (ICA), in which export quotas were imposed to prevent oversupply and subsequent price fluctuations. Under the ICA regime, a target price (or a price band) was set, and export quotas were allocated to each producer, 'when the indicator price calculated by the International Coffee Organisation (ICO) rose over the set price, quotas were relaxed, when it fell below the set price, quotas were tightened' (Ponte, 2004:3). This broke down in 1989 and led to significant changes in the world market, including the break up of state marketing boards, which existed in many countries to buy and export coffee from producers and ensure that quotas were observed. The removal of quotas also meant that new producers entered the market including Vietnam, whose coffee production grew significantly.

During the ICA regime, the value chain reflected a balance of power between buyers and producers, with neither dominating. The coffee trade was regulated by the commodity agreement and a stable institutional environment was established, where the rules were relatively clear, change was politically agreed upon and income generation was spread fairly evenly between consuming and producing countries (Ponte, 2004).

Ponte argues that the post-ICA coffee regime is typically buyer-driven or, in the specific case of coffee, roaster-driven. Buyers and roasters are now able to set new barriers for entry for producers through quality demands and demands for constant supply of a variety of origins and coffee types: 'New requirements set by roasters on minimum quantities needed from any particular origin to be included in a major blend may also be interpreted as setting entry barriers to producing countries (Ponte, 2004:4).

After the end of the ICA, traders at the international level consolidated. Five companies came to dominate the trader landscape, handling 40 per cent of the total volume of green coffee traded worldwide. These were Dreyfus (France), ED and F Man/Mercon (UK), Esteve (Brazil), Neumann (Germany) and Volcafe (Switzerland). Roasters also consolidated as a result of mergers and acquisitions, with companies such as Sara Lee, Kraft/Phillip Morris, Proctor and Gamble, and Nestlé buying half of all green beans traded. In 2000, the top ten roasting companies accounted for 60-65 per cent of all sales of processed coffee (Consumers International, 2005).

There has been little vertical integration down the chain, with retailers or roasters not attempting to control their supply chain through the ownership or organisation of producers, particularly between roasters and traders. This is said to be a means of reducing risk through ensuring they are not dependent on any one exporter or international trader (Consumers International, 2005).

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Advanced blending technology allows ground coffee to maintain its distinct taste even if coffee origins change. Coffee from up to 35 different origins can be used in ground coffee at any one time. This also reduces roasters' dependence on a single origin, as origins can be easily replaced without affecting taste – also lessening the need for vertical integration.

The retail sector has also concentrated, leading to the formation of predominantly buyer-driven value chains. Retailers are attempting to shorten value chains by cutting out intermediaries, reducing transaction costs and risks.

Consumers are increasingly purchasing coffee 'out of home' in the cafés that dominate many a street corner in the Western world. Yet consumption of coffee has remained relatively constant whilst global production has continued to increase and has 'been awash with low quality coffee', leading to record low prices (Ponte, 2004:1). These prices have been particularly poor for producers, but not necessarily for roasters, who have been posting record prices.

During the ICA regime, the average proportion of income retained by producers was 20 per cent of the total and the proportion retained in consuming countries was almost 53 per cent. Between the collapse of ICA in 1989 and 1995 the income retained by producers dropped to 13 per cent. Meanwhile, roasters were able to maintain retail prices at relatively stable levels. Green coffee prices for

producers halved between 1999 and 2003 due to an oversupply of poor quality coffee (in the context of relatively stable consumption levels), whilst retail prices fell by only 15 per cent (Ponte, 2004). This suggests that profits increased for roasters over this period (Ponte, 2004).

Table 4 shows the changing world coffee prices and payments to producers between 1989 and 2005, covering the coffee crisis period. There is a particular fall in coffee prices and payments to producers in 2002, but a continued overall decline in coffee prices and payments to farmers and producer nations between 1989 and 2005. Coffee prices have since risen, however, with the first quarter of 2011 recording the highest quarterly average coffee price in the past three years – this was attributed to decreased supply due to weather events and increased demand (Paulsen and Anderson, 2011). There is little publicly available data on the average price paid to farmers since 2005.

	1989	1999	2002	2005
World 'C' price (US\$/lb)	1.29	1.20	0.47	0.95
Average price paid to farmers by middlemen (US\$/lb)	N.A	0.36-0.60	0.15-0.25	0.25-0.50
% of purchase price staying in producer nation	30	16	7	10-12

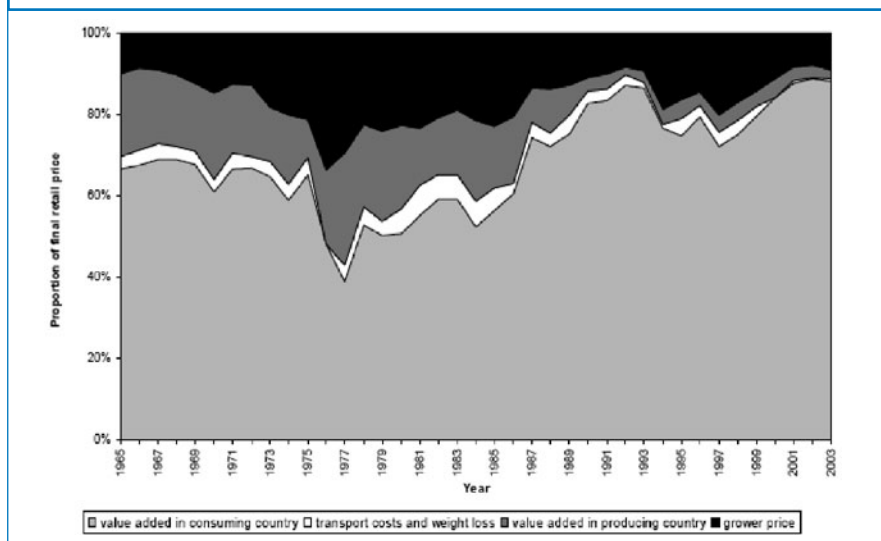
Source: Jaffee, 2007.

The distribution of power along the coffee value chain is now highly asymmetrical and explains the falling share of the price captured by producers. Power is particularly concentrated among a small number of buyers and roasters at the consumer end, while at the producer end, a large number of fragmented growers trying to earn a livelihood in a context of growing competition lack any power at all.

Figure 1 shows how the grower price for coffee relative to the total retail price has fallen over time, with a greater share of value being captured by those responsible for value adding (i.e. processing/roasting etc) in consuming countries.

A more recent feature of the post-ICA period has been differentiation in the coffee market, a key strategy to overcome falling coffee prices through product differentiation – based on region of growth, certification and standards. This has also led to significant price variations for coffee traded on the global market (Fitter and Kaplinsky, 2001). This price differentiation has not necessarily filtered down to small farmers. According to Fitter and Kaplinsky (2001), the spread of coffee prices has actually fallen for producers, implying that any price increases have been absorbed elsewhere.

Figure 1. Proportion of final retail price obtained by growers and value added in consuming countries



Source: Taken from Kaplinsky, 2004.

Value chain description

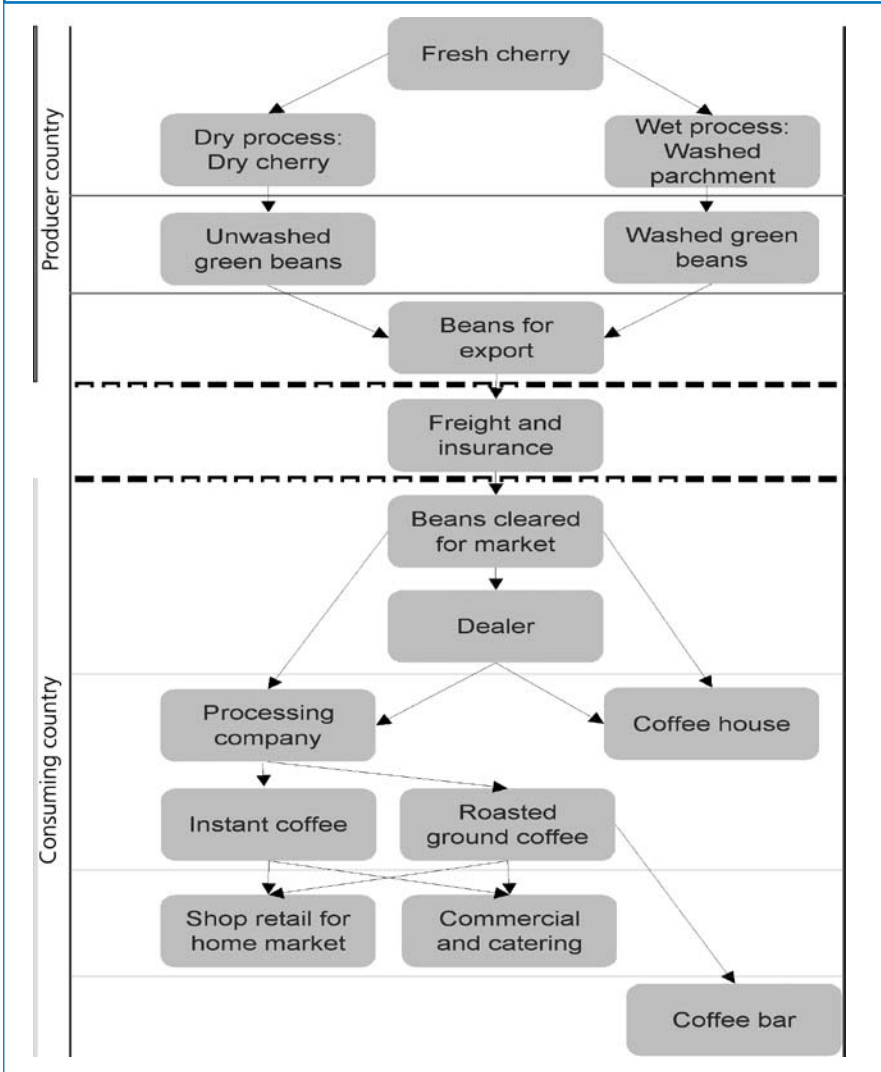
There are two main coffee species that constitute the supply of coffee in the value chain (see Figure 2), *coffea arabica* (Arabica) and *coffea canephora* (Robusta). Arabica accounts for approximately 60-65 per cent of supply and Robusta for 35 per cent (Consumers International, 2005). Arabica and Robusta differ in their taste, quality and in the growing conditions needed. Arabica is best grown at high altitude and has a much more refined flavour. Robusta is more resistant to diseases and produces a higher yield per tree. It flourishes at lower altitudes and gives a harsher, less refined flavour (Starbucks, 2011b). A high proportion of the high quality coffee is grown by small-scale farmers who produce in high altitude growing areas.

In Vietnam and Indonesia, Robusta dominates production, although in Vietnam policies to improve quality and not concentrate solely on quantity may see a shift towards Arabica production. Indonesia is also renowned for some of its speciality coffees. In China poor quality Arabica dominates, but some speciality coffees are emerging, particularly from Yunnan Province.

Coffee – Indonesia

Indonesia has the longest history of growing coffee of the three countries looked at in this report. It is a major producer of coffee on world markets and in 2009 was the third largest exporter of green coffee worldwide, exporting 510,189 metric tonnes with a value of nearly US\$822 million (FAO, 2011a). It competes with Vietnam in Robusta markets, but unlike Vietnam it is also an important

Figure 2. The structure of the value chain for coffee



Source: Fitter and Kaplinsky, 2001.

producer of high-quality Arabica and speciality coffees, and has GI status for at least one coffee produced in the country.⁵⁴ Indonesia is also the only country of the three where a range of certification schemes are in evidence, including Fairtrade, organic, Utz Certified, Rainforest Alliance, Common Code for the Coffee Community (4C), and Starbucks CAFÉ Practices. Smithsonian Migratory Bird Center 'Bird Friendly' certification is also being developed in Indonesia. Concern about deforestation in Sumatra has generated interest in sustainable coffee as a solution to clearance of forests for large-scale coffee growing.

54. Kintamani coffee grown in northern Bali.

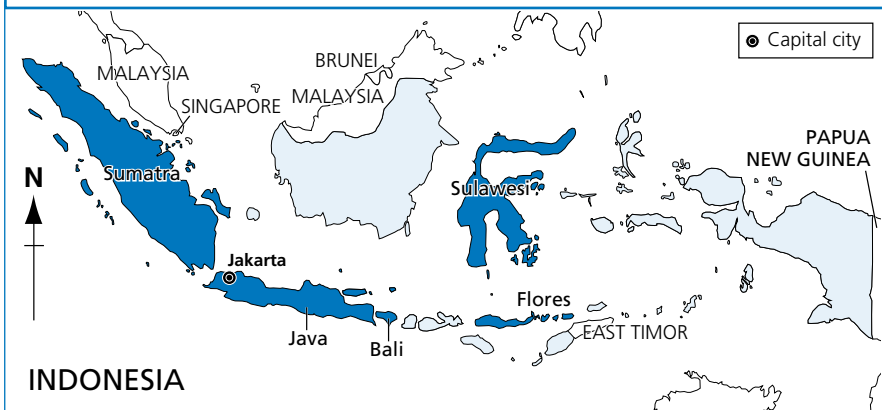
According to the International Coffee Organisation, Indonesian coffee production totalled 682,800 tonnes in 2009. The total coffee production area in Indonesia is 1.34 million hectares; with an average yield of 509kg/ha (ICO, 2009).

Coffee farmers in Indonesia are extremely poor and are small-scale producers (except for some plantations in East Java where coffee estates produce about 25,000 tons each year (Neilson, 2008)). As Arifin *et al.* comment, 'The average coffee farmer cultivates a one-hectare plot in an isolated region with poor access to social services, and with an income that oscillates between each side of the poverty line (depending on conditions in world commodity markets)' (Arifin *et al.*,2008:2).

The majority of Indonesia's coffee is for export of which approximately 86.5 per cent by volume is Robusta (ICO, 2011). Southern Sumatra is the major region for Robusta and here it is exclusively a small-scale producer crop.

Arabica, although less significant in terms of volume, has significant export value. Although it accounts for 10 per cent of production, it accounted for 33 per cent of national export value in 2004 (Neilson, 2008). Northern Sumatra is the most significant Arabica coffee growing area in Indonesia (see Map 1).

Map 1. Key coffee producing areas in Indonesia



Certified coffee in Indonesia is predominantly Arabica:

It is generally the case that speciality markets, where origins are far more 'knowable' to consumers and where symbolic value is more important, are more conducive to the value-adding processes associated with product certification. Speciality markets also demand greater corporate attention to reputation, brand management and risk minimisation. As a result, certification, traceability and private regulation and therefore much further advanced in the Arabica-producing regions of Indonesia than in the Robusta ones (Neilson, 2008:1612).

This then is the first factor to be noted in Indonesia – small-scale farmers in Robusta-growing areas may find it much harder to participate in certified coffee value chains.

As previously noted, we were unable to identify any existing research on the impacts of certification in Indonesia. Consequently analysis of the potential for pro-poor benefits from certification is based on a review of what is available (chiefly on coffee value chains in Indonesia and internet materials of particular brands and organisations that produce coffee) as well as a limited number of interviews with stakeholders in Aceh.

Although small-scale farmers dominate Indonesia's coffee production, they are generally not very organised, and are poorly positioned in value chains where coffee changes hands three or four times before reaching processing mills or exporters (Neilson, 2008). Co-operatives exist in Indonesia, but often a collector mediates between the farmer and the co-operative. Some co-operatives are as large as 8000 farmers. Some farmers may not even know they are a member of a co-operative (Arifin *et al.*, 2008). Farmers are highly reliant on 'first-stage' collectors who collect the coffee from the farm gate or through traditional village markets, and are responsible for marketing it (Neilson, 2008). The first stage collector plays an important role in overcoming market weaknesses such as offering credit to small farmers, in exchange for the exclusive right to buy the harvested coffee. Some have argued that the collectors' dual – and sometimes triple role, for they also sell rice, sugar and other necessities – can 'sometimes result in reduced farm-gate prices and...[contribute] to the impoverishment of farmers' (Neilson, 2008:1614).

Another consequence of these multi-stage value chains is that quality is often poor. A Starbucks representative commented that the company has 'Struggled to get the quality of coffee they want [from Indonesia]. There are too many intermediaries and the post-harvest processing is so bad. You see the beans sitting on tarps, out in the rain, getting damp. If the cherry bean goes straight to the mill then the farmer has lost any opportunity for value addition... its remoteness does not help.'⁵⁵

Value chain restructuring for coffee in Indonesia – farmer organisation

Traditionally, Indonesian farmers have not been organised into co-operatives or farmers' associations and have relied heavily on collectors to fulfil a marketing function. Increasingly though, some farmer co-operatives have been established, particularly in the Gayo lands of Aceh, in order for farmers to be able to participate in Fairtrade and organic certification – although group formation is not mandatory for organic certification, it is often far more practical for producers, for elements such as inspection and monitoring and a reduction in transaction costs (Neilson, 2008). Neilson argues that co-operatives are not necessarily a superior form of organisation in Indonesia and that many coffee farmers are reluctant

55. Interview with a Starbucks representative, 2009.

to organise. Those that have formed have been highly dependent on external development assistance; existing links to market, such as collectors, have been able to provide the same services 'such as hassle-free access to credit and simple marketing procedures' without the associated perceived high costs of dealing with 'bureaucratic and corrupt co-operative structures' (Neilson, 2008:1616).

The issue of farmer organisation within re-regulated coffee chains across Indonesia presents an interesting dilemma. On the one hand, traditional trade structures are ill-suited to both traceability and price transparency, suggesting the potential benefits of co-operative style producer organisations. In Indonesia the KUD [Koperasi Unit Desa – or co-operative] is severely affected by associations with...misuse and continued inability to provide farmer with acceptable financial services (Neilson, 2008:1616).

Again, although they are not required, co-operatives have re-emerged among farmers participating in Starbucks' CAFÉ Practices, due to the difficulties of 'adopting price transparency with traditional farmer-market systems' (Neilson, 2008:1616). However, members of these co-operatives are concerned over the potential for rent seeking by co-operative leaders. According to Arifin *et al.* 'None of the 135 coffee farmers randomly sampled in Aceh identified services such as credit provision, input supply or technical advice, as a benefit of cooperative membership' (Arifin *et al.*, 2008:6).

Neilson (2008) questions the value of promoting producer organisations in Indonesia where there are no supporting institutional frameworks to absorb the costs of organisation. The evidence also suggests that groups who self-organise and form endogenously are more successful and sustainable in the long-term. Typically these costs have had to be borne by external development organisations, such as the United States Agency for International Development (USAID) and the International Finance Corporation, although it may be possible in some cases to cover costs from coffee sales.

The first relevant certification of coffee in Indonesia took place in 1992 and was organic coffee from Central Aceh, produced by a government-owned mill. This mill was purchased by a US-based coffee trading company (Holland Coffee) which is supplied with coffee by a farmers' association which now also has Fairtrade and Utz Certified certification (Neilson, 2008). The certification picture in Aceh is becoming increasingly complicated as various certification projects have been set up by external agents, such as USAID and Forestrade,⁵⁶ as part of post-conflict development programmes and more recently reconstruction following the tsunami of 2004. Similar developments in the growth of certified coffee took place in the 1990s in East Timor, when a USAID-funded development programme established coffee co-operatives and set up processing facilities to wash and process the coffee (Ottaway, 2007). According to Neilson, 'In both Aceh and East Timor, substantial donor supports or international development co-operation has been critical to the development of farmer certification' (Neilson, 2008:1614).

56. www.forestrade.com

Farmers themselves, however, seem to have limited understanding of the merits of certification schemes with the possible exception of organic. In 2009, organic coffee should have commanded an annual premium of 500 Indonesian Rupiahs (US\$0.05) per kg⁵⁷ but research by Arifin and colleagues in 2008 found that only one farmer of a sample of 135 claimed to be receiving a premium for producing organic coffee (Arifin *et al.*, 2008). They claim that ‘Price premiums are clearly not finding their way to farmers in Aceh and can not be expected to be capable of changing farmer incentive structures.’ (Arifin *et al.*, 2008:6)

According to interviews carried out in Aceh, it seems that coffee farmers do not have enough information about the various certification programs. In many cases farmers will try to sell to the collector who offers the best price, and persuade them that they have met the demands of the certification scheme. Claims that coffee is being produced organically may be dubious. ‘Plaques are necessary due to the increasing requirement that certified farms be verified spatially so that individual farms can not be used to claim a membership base larger than reality. Despite these plaques, numerous such “organic” farms are routinely sprayed with herbicides.’ (Arifin *et al.*, 2008:8).

Exporter consolidation and upstream integration

Trade liberalisation has changed traditional trading relationships in Indonesia and resulted in a greater presence for foreign corporations in the sector and a ‘continued consolidation of international trader interests within the export segment of the value chain’ (Neilson, 2008:1616). Table 5 shows the share of exports now taken by a small number of foreign exporter companies.

Table 5. Exporter consolidation in the coffee industry in Indonesia

Role of foreign exporters in the Sulawesi Arabica industry		
Year	No. foreign exporters	Export share (%)
1997	1	26
2000	2	50
2003	3	49
2006	3	72

Source: Taken from Neilson, 2008.

Starbucks sources one-third of its green coffee from Indonesia; it has a particular interest in sourcing high quality coffee with distinct origins from parts of Indonesia. With 77 per cent of Starbucks’ coffee sourced under its CAFÉ Practices programme, and with 100 per cent to be certified by 2015, CAFÉ Practices represents a significant certification scheme in the country and is likely to have a significant impact on the nature and shape of the value chain for a portion of coffee farmers in Indonesia.

57. Interviews in Aceh, 2009. This is equivalent to US\$3 for a 60 kg bag of coffee.

CAFÉ Practices is encouraging upstream integration through its requirement that small-scale producers participate: 'they must be represented within a more vertically integrated entity, either as part of a Producer Support Organisation or as part of the supply network for a centralised milling facility' (SCS, 2007 in Neilson, 2008). Trading organisations who are working directly with organised farmers groups are also necessarily becoming involved in agricultural extension to small-scale producers.

Certification is costly for small-scale producers and in some cases these costs are borne by exporters who are keen to improve the value and premiums obtained for their coffees. In these cases the exporters hold the certification rights and are keen to recoup the costs of certification. This is often achieved through exclusive supply agreements, such as contract farming:

The integration of smallholders within vertical supply chains may entail increased farmer access to information, knowledge, and possibly credit, thereby facilitating upgrading and quality improvement. The advent of informal and formal contract farming arrangements, however, also potentially threatens the competitive buying environment found in many informal trade networks (Neilson, 2008:1618).

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Interviews for this project suggested that producers find it particularly onerous to understand the demands of different certification schemes. To tackle this, the donor-supported Aceh Coffee Forum (ACF) set up by Aceh Partnerships for Economic Development (APED), a donor and private sector partnership for development, provides a range of services to support the coffee industry in Aceh (see Map 2). The ACF produced a technical handbook guiding producers and traders on the requirements of different certification approaches. This type of intervention has been important in supporting the development of certification in Aceh. Other activities by the ACF to support the development of the coffee industry in the region include: developing a research institution, rehabilitating coffee plantations, running training programmes for farmers, providing a text messaging-based price information system, improving farmers co-operatives, developing microfinancing for farmers groups and small enterprises, and investing in road and seaport infrastructure.

In 2007 APED awarded US\$250,000 in grants to two business consortia bringing together coffee co-operatives and farmers, processors and exporters to improve different aspects of the coffee supply chain, including strengthening the management capacity of the coffee co-operative; upgrade machinery and equipment; and build links with a US speciality coffee importer. These grants have resulted in US\$10 million of coffee orders (UNDP, 2008).

KBQB – An Indonesian coffee co-operative

One example of a certified co-operative in Indonesia is the Koperasi Baitul Qiraat Baburraya (KBQB), a co-operative in Bener Meriah, Aceh, a key region producing high quality Arabica and speciality coffees. There are 8000 farmer members in the

Map 2. Aceh coffee producing region, Sumatra, Indonesia



co-operative. The coffee exporter CV Aridata Mandiri originally formed the co-operative with 63 farmers in 2002. There are now 121 sub-regional farm groups as part of the larger co-operative and 15 to 20 per cent of the members are women (Cooperative Coffees, 2011).

KBQB is certified for Fairtrade, Utz Certified, CAFÉ Practices and organic certification meeting US National Organic Program (NOP), Japanese and EU standards. Fairtrade coffees from the co-operative are marketed by Equal Exchange in the United States and Peace Coffee, among others. KBQB now has 10 per cent of coffee production for the key Takengon and Bener Meriah regions in Northern Sumatra.

KBQB farmers are based in the Gayo Mountains, 'a rich biological environment which includes areas of forest that are facing pressure from illegal logging and conversion to agricultural uses' (Root Capital, 2011). All of KBQB's farmers are organic certified and grow environmentally sustainable shade coffee (Root Capital, 2011). KBQB has been supported by the USAID Tsunami Areas Project,

implemented by the US based National Cooperative Business Association, and more recently received a US\$500,000 loan from Root Capital, a private sector organisation. KBQB achieved sales of US\$1.5 million in its first year of full operations in 2006 and then tripled its sales to US\$4.5 million in 2007 (Root Capital, 2011).

The co-operative also has a microfinance bank the Koperasi Kredit Maju Bersama (KKMB) Savings and Loan organisation that members can join. This credit helps with the rehabilitation of abandoned land, and is supported by USAID. The co-operative plans to extend loans for compost making equipment. Collectors can also access loans at 9 per cent interest per year for the development of infrastructure and pulping facilities. Since 2005, KPQB has also funded the construction of four pre- and post-natal clinics staffed by midwives located in the district's coffee growing areas (Root Capital, 2011). Starbucks has also financed health clinics as part of its programme of support for coffee farmers.

According to Root Capital, 'KBQB's relationships with buyers such as Starbucks and Royal Coffee enable it to offer the highest prices in the district, paying premiums as much as 20 per cent above the local market price for organic coffee. Its ability to deliver on Aceh's reputation for high quality coffee has attracted new buyers and KBQB expects to diversify from three customers in 2007 to six in 2008 to match its growth in membership and export volumes.' (Root Capital, 2011).

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The example of KBQB illustrates that participation in certification schemes appears to have had beneficial social and economic impacts in certain areas of Indonesia, and for one specific farmer co-operative, particularly where circumstances are favourable for production of speciality coffees or organic coffees. However, this study cannot comment on whether farmers who participate in certification with KBQB are definitely better off, what the socio-economic profile is of farmers who have joined the co-operative, and what the impact of KBQB has been on farmers in the area who are not part of the co-operative. Neither is it possible to obtain third-party verification of the benefits associated with the co-operative, such as use of the social premium on a range of services for the community, and extension of low-cost loans.

There is a need for more research on how certification may be delivering benefits for farmers in this and other parts of Indonesia in the context of changing international supply chains, where major coffee corporations are exerting more influence as buyers enforcing particular sets of standards. It would be useful for research to compare how certification might apply not only in areas where high-quality Arabica coffee is produced, and biodiversity hotspots such as the Gayo Mountains, but also areas of large-scale Robusta production. It is also important to understand how the Indonesian share of the global certified coffee markets is holding up in the context of changing economic circumstances, shifting coffee prices, and competition between different coffee producing regions.

Key issues for coffee certification in Indonesia:

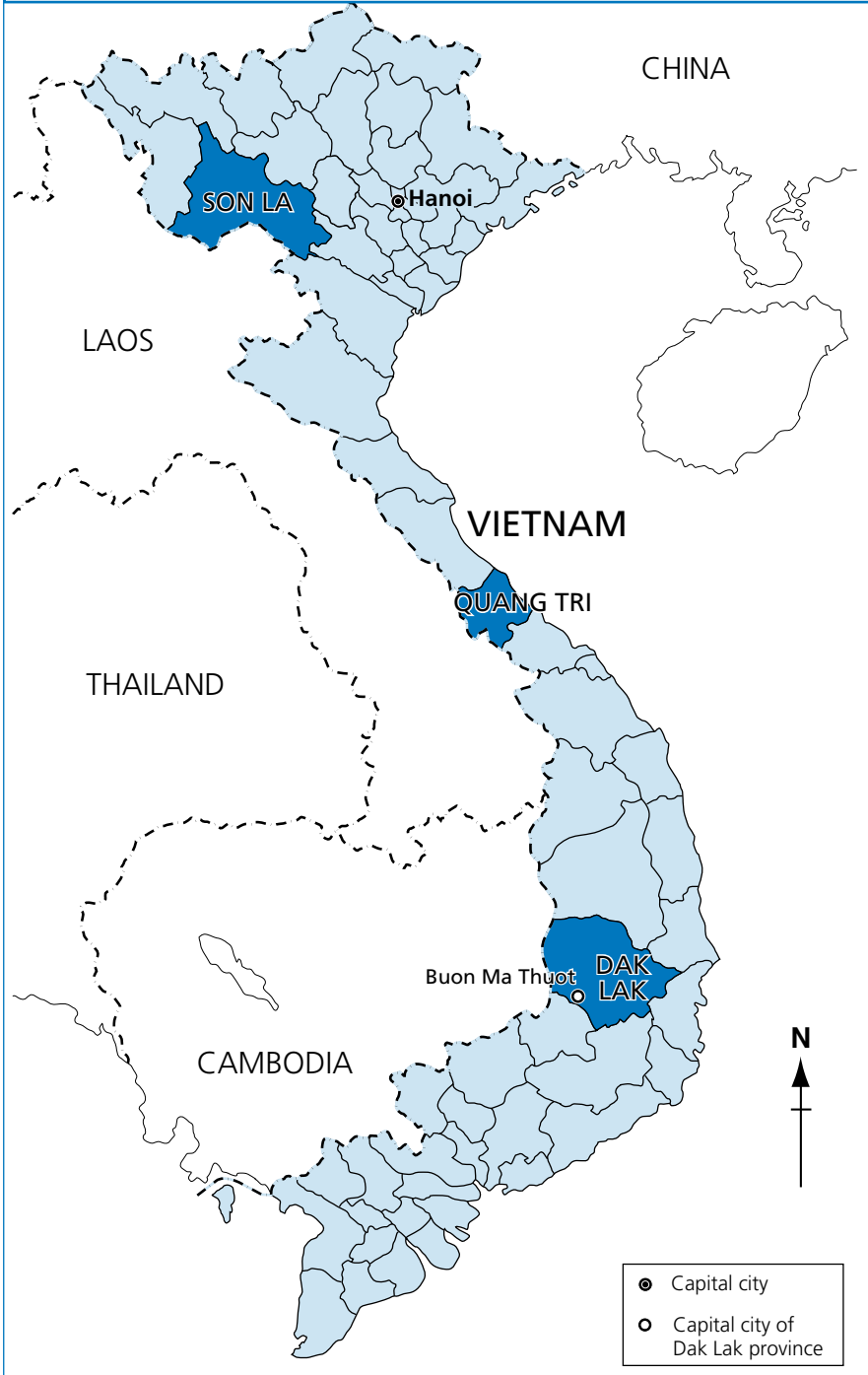
- Many certification schemes already exist in Arabica growing parts of the country. Farmers find it hard to understand differences between them.
- Farmers have not traditionally documented their coffee production processes or organised into groups, and resist doing so in some areas.
- In the most successful cases, donor organisations and key buyers have played an important role in providing training, covering the costs of certification and linking producers to markets.
- Successful co-operatives with multiple certifications appear to have delivered benefits to their members.
- The quality of production needs to be improved and groups that can do this are likely to be more attractive to buyers and secure better deals.
- There is limited evidence on impacts on rural differentiation, but it is likely that farmers in the best production regions, with the skills and capacity to meet the demands of group organisation for certification will be best positioned to benefit from participation in sustainability certification schemes. Those who do not have the skills and capacity, and who are in less favourable regions, are less likely to benefit.

Coffee – Vietnam

Vietnam is the second largest exporter of green coffee after Brazil in terms of quantity (tonnage) exporting 991,733 tonnes in 2007 worth US\$1.508 billion (data from FAO, 2011a). Coffee was Vietnam's fourth most important agricultural commodity by value in 2007.

Vietnam has been a major producer of Robusta coffees and competes with Indonesia and Brazil in this sector. Vietnamese coffee production expanded rapidly after market reform in the mid-1980s and is often cited as a major reason for the overproduction that contributed to the coffee price crisis of the 1990s and early 2000s. Expansion was associated with deforestation and severe environmental degradation, particularly in the Buon Ma Thuot region of the Central Highlands (see Map 3). The policy of the Vietnamese coffee industry is now to reduce coffee production and the size of the area planted and concentrate on quality (Nhan, 2005 in Consumers International, 2005), with 50,000 hectares now moving out of production. The aim appears to be to concentrate on accessing more profitable niche markets, either upgrading the quality of Robusta production, or encouraging production of Arabica varieties.

Map 3. Coffee producing provinces, Vietnam



Approximately 70 per cent of coffee production in Vietnam is carried out by small-scale farmers with farms between 0.1 and 10 hectares, with very few having plots as large as 10 hectares. Yields on these small-scale farms are thought to be higher than on larger state-owned farms. Some argue that small-scale farmers are reluctant to organise in co-operatives in regions where previous experiences of top-down collective organisation were negative. This could be a challenge for their engagement with modern export markets and also for certification schemes.

Certification schemes currently operating in Vietnam include Utz Certified (10 per cent of production is Utz Certified), Rainforest Alliance, Fairtrade and Common Code for the Coffee Community or 4C (ITC, 2011). Over 1000 farmers, covering 1600 hectares, are Rainforest Alliance certified, a small percentage of total production, but a significant development with major buyers such as Volcafé and ECOM, the Swiss coffee trader, interested in Rainforest Alliance coffee. The International Finance Corporation has also made a loan, and is co-operating with ECOM to support the establishment of a training centre for farmers to meet certification requirements for Utz, Rainforest Alliance and 4C standards. Fairtrade coffee is now also being marketed by the International Market and Investment (MDI) Joint Stock Company. As yet there is no organic coffee exported and nor is Starbucks' CAFÉ Practices scheme present in Vietnam, although at the time of writing Starbucks were 'looking towards investments in Vietnam'.⁵⁸

Production in Vietnam has been highly mechanised and intensive, with high planting density, high volume watering, heavy use of mineral fertilisers and no use of shade trees (Consumers International, 2005). Utz claims that its expansion in Vietnam has been associated with a shift to better agricultural practice, including more careful use of fertilisers, a reduction in pesticide sprayings and more efficient water use per tree (Utz Certified, 2010). The German donor GIZ is one organisation supporting training of Robusta growing farmers in Good Agricultural Practices, use of farmer field books as a basis for development of internal control systems, value chain management and support for 4C and Utz certification. Collectors are also trained in quality improvement (GTZ-MPI, 2009).

Examples of Fairtrade and speciality coffee from Vietnam are so far quite limited. MDI Company markets Fairtrade coffee using Arabica varieties sourced from ACEP (Advancement for Community Empowerment and Partnership, see Box 8), an NGO in mountainous Quang Tri Province in Central Vietnam and an ethnic Thai farmer group in the north western province of Son La. This coffee is popular with Japanese consumers. MDI markets coffee along with cashew nuts and tea and currently 90 per cent of its products are exported to Denmark, Germany, Hong Kong, Japan and the UK. The remaining 10 per cent is sold through a main shop in Hanoi, and 23 outlets throughout Hanoi province (Nguyen-Stevenin, 2010).

58. Interview with a Starbucks representative, 2009.

Box 8. ACEP Vietnam

Advancement for Community Empowerment and Partnership (ACEP) is a non-profit organization working with farmers groups and community organizations in disadvantaged parts of Vietnam. ACEP helped one farmer co-operative to get Utz certification for its coffee beans. The Utz certification cost US\$1500 for a certificate of Good Agricultural Practice (GAP). Organising the GAP application and setting up internal supervision systems were intensive processes for the co-operative and ACEP.

The co-operative was able to produce 40 tonnes of beans in 2008, and in 2009 sold this to an exporter who did not require any certification. Despite this the price received for the product was much higher than that received by rival producers because the quality of beans produced by the co-operative was so high. The ACEP director argues 'The product quality was much better. This was not because of the certification itself but because of the codes of conduct designed by the certification programme.'

ACEP are currently considering supporting the co-operative to get Fairtrade certification. However the director argues that this time he would only apply for Fairtrade certification in a second year after successfully applying codes of conduct in the first year before applying for certification. He argues that with Utz certification they were so focused on jumping through hoops, that they: 'forgot the very important part, how to take advantage of the certification programme. We did not have time to study and contact potential partners, so we had less chance to sell our product.'

Source: Authors' research.

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Vietnamese coffee has not had a good reputation with European buyers largely to do with flavour, explained partly by the use of Robusta beans. This kind of perception would need to shift for Vietnamese speciality coffees to secure a niche in European export markets. Farmers might have the scope to move into certified Arabica production for export, but they would be likely to need support by intermediaries to help identify markets, build the brand, and provide technical training in production and organisation.

There are no studies on the impacts of certification in Vietnam to date. However it is clear that the costs of Fairtrade certification are significant, currently standing at US\$2100 for growers and US\$4200 for processors, packers and wholesalers. As elsewhere, coffee exports need to meet international food safety standards. New companies targeting sustainable coffee markets such as MDI and ACEP work with poor producers but considerable technical support has been necessary to help these farmers meet certification and quality standards.

Key issues for coffee certification in Vietnam:

- There has been a rapid expansion of certification by Utz and Rainforest Alliance. External support for training may be necessary to build capacity among farmers to benefit from participation in these schemes.
- There is scope for Fairtrade certification and marketing of speciality coffees, but it is likely to need the support of skilled intermediaries to identify markets and ensure that standards are met.
- No studies exist as yet of the impacts of these certification programmes on poor farmers, and on poverty in the production regions.

Coffee – China

Large-scale commercial coffee production in China is a relatively recent phenomenon, although coffee has been grown in China for over 100 years.⁵⁹ The most important province for coffee production is Yunnan in south-west China, responsible for 98 per cent of Chinese production, 95 per cent by export value (YDRC *et al.*, 2011). Yunnan is the only province where Arabica varieties are grown (poorer quality Robustas have been grown in Hainan and Fujian). Yunnan is the fourth poorest province in China with 94 per cent of the population residing in mountainous areas. It is also home to 26 different ethnic minority groups.

In Yunnan, coffee is the second most significant agricultural commodity, after tobacco (tea is also increasingly significant) (InKunming, 2011). About 40,000 tonnes of green coffee are produced annually in Yunnan compared to 900,000 tonnes in Vietnam and 400,000 tonnes in Indonesia (YDRC *et al.*, 2011). The provincial government has encouraged an expansion of coffee production with planned investment of US\$450 million to 2020, and is promoting coffee as a key economic pillar for the province (YDRC *et al.*, 2011). The state envisions that the area of land devoted to coffee production will increase fivefold from 20,000 hectares at present to around 100,000 hectares by 2020, with a gross output value of US\$5 billion (YDRC *et al.*, 2011). Investment will be spent on training, land conversion and soil improvement, and construction of research centres. This state support for coffee production is an important driver which may create an opportunity for promotion of certification given the livelihood and environmental benefits that can be associated with participation in certification schemes.

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There are three major Arabica plantation regions in Yunnan: Dehong, Baoshan and Pu'er City. Dehong and Baoshan are close to the Chinese border with Myanmar, and Pu'er borders Myanmar in the west and borders Laos in the east (see Map 4). Today, nearly 70 per cent of China's coffee comes from new Catimor plants, a sturdy but poor-quality hybrid variety designed to combat the country's persistent problem with rust (Roast Magazine, 2005). Coffee exported from Yunnan is therefore currently of average quality and often consists of green beans for blends. However, the ten-year plan to develop the coffee industry in Yunnan anticipates that in the future the proportion of the provincial coffee harvest coming from high-quality Arabica varieties will increase (YDRC *et al.*, 2011).

The main focus of the Chinese coffee industry has been production of instant coffee for the domestic market. In recent years, however, export volume has increased. In 2009, China exported 32,000 tonnes of green coffee compared to 4300 tonnes in 1999, valued at US\$78 million, up from US\$7.7 million in 1999 (FAO, 2011a).

There were about 250 processing stations and 40 bigger coffee factories with an individual production capacity of almost 500 tonnes of coffee beans in 2009. Roughly 70 per cent of coffee beans will be directly converted to instant coffee

59. Various development projects have attempted to improve coffee production in Yunnan including a UNDP project with local government which started in 1988.

Map 4. Coffee producing areas, Yunnan province, China



by international producers such as Nestlé or local producers and processors (such as Hogood) for the domestic and international market. This means that the quality demanded and the prices paid to farmers are low, strongly limiting small-scale farmers' incomes. Coffee is a labour intensive crop, raising production costs for farmers. Long transportation distances to ports have also limited the competitiveness of Chinese coffee on the international coffee market.

However, Yunnan has considerable potential for speciality coffee, such as organic and Fairtrade certified coffee. Yunnan is the northernmost coffee production zone in the world.⁶⁰ Shade-grown coffees from this region could potentially have favourable and distinctive taste characteristics, and be of interest because of their origin. Some coffee farms are de facto organic, because of lack of production investment and their isolated locations. This means that the cost incurred in conversion to organic are effectively reduced, but may still be significant without NGO or private sector investment.

There are three main ways in which coffee production is organised in Yunnan:

- a. **Company and farmer production:** Farmers have long-term leasehold for their crop land, and provide coffee beans to a company and receive payment at harvest. The company provides logistics and technical support, and large-

60. Coffee-growing areas are normally situated between latitudes 26°S and latitude 22°N. However the peculiarities of Yunnan geography mean that coffee-growing areas are located up to latitude 25.5°N.

scale units of operation can reduce market risk for both companies and farmers. The balance of profit distribution between the company and farmers can vary markedly with this model, reflecting local power dynamics.

- b. **State farm** (and now-privatised former state farms) **and farmer model:** Farmers hire land from the state and submit coffee beans after harvest. The state farm (or former state farm) is in charge of management and marketing, deducting any costs directly from the profits. Remaining profits are shared with farmers. These production units may be as large as 2000 hectares.
- c. **Farmer model:** Farmers have their own land allocated by the village and organise production by themselves. Farmers either organise themselves in co-operatives or work with big companies or state farms to achieve economies of scale and avoid market risk.

At present there is almost no production of organic or Fairtrade coffee in Yunnan with certification for export. Rainforest Alliance and Utz Certified are currently not operating in China, although Rainforest Alliance claims that they are planning to work with coffee farmers in China in the near future.

Two enterprises produced organic coffee between 2004 and 2007 in Baoshan Prefecture (now City) in Yunnan. One case is that of Baoshan Yunda Coffee Industry Co., Ltd which organised small-scale farmers for organic production (see Box 9).

More recently, Shangrila Farms a small artisanal enterprise located in northwest Yunnan, began marketing Fairtrade and Green Coffee in Beijing in 2010. The company also produces organic coffees with domestic certification.

Box 9. Baoshan Yunda Coffee Industry Company

Baoshan Yunda Coffee Industry Company Limited (BYCI) is a subsidiary of Yunda Corporation, a Yunnan based company. BYCI was set up in 1998 to produce high quality coffee for the domestic, the Japanese, US and EU markets. From 1998, the company decided to produce 'Green Coffee' without use of chemical fertilisers and pesticides (not to be confused with Green Food, a sustainability scheme for domestic production in China which allows some use of agrochemicals). The company applied for organic certification in 2003 and the project continued for five years.

There were 163 households involved in coffee production. Each household was responsible for about 1 hectare of coffee production. Farmers took care of daily management activities such as fertilisation, irrigation, pest and weed control and harvesting. Technical training and production materials were provided by the farm. Each farm worker was paid US\$29 of pre-paid salary, and at the end of year, the profit from the enterprise (minus salary, production materials and harvest) was shared between the farm workers and the farm enterprise (50 per cent to each).

BYCI stopped production of certified organic coffee in 2007. This seems to be because prices for certified coffee were not as high as expected, and the company felt unable to continue to pay for certification, particularly when key members of staff left the organisation. It has not been possible to confirm what happened to the 163 producer households.

Source: Authors' research.

There are generally three types of coffee buyers operating in Yunnan, with joint ventures the most significant by market share at present:

1. **Foreign investors:** These are international big coffee companies, such as Starbucks, Illy and Maxwell House (Kraft Foods). With the exception of Starbucks, which plans to grow coffee in Yunnan (Starbucks, 2010) these firms are not directly involved in production processes but offer some support with planting techniques in order to meet quality standards. They come annually to buy coffee beans.
2. **Yunnan-based companies:** There are a few relatively large and locally based coffee companies, such as Hongtian Coffee Ltd (based in Dehong). These firms have their coffee production bases and plant coffee to meet Nestlé quality standards.
3. **Joint ventures between multinationals and Chinese partners:** Nestlé is the most successful major international coffee company engaged in production in China and has a complete supply chain. It has introduced Catimor varieties, formulated a quality standard and provided training. It doesn't have its own coffee farms but engages in contract farming arrangements with local farmers. Nestlé claim to control 80 per cent of the coffee market in China (China Daily, 2010).

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Local coffee companies have not developed very effectively for several reasons, including a lack of international trade experience and familiarity with modern management techniques and strategies. Meanwhile, because Yunnan coffee has often been of relatively poor quality, firms such as Starbucks and Illy have until recently proceeded quite slowly with their coffee business in Yunnan. In 2010, the company agreed an MOU with Yunnan Academy of Agricultural Sciences and Pu'er city government to develop a Farmer Support Centre and coffee processing facilities. According to the CEO of Starbucks, 'Starbucks is proud to collaborate with the Yunnan government to share our coffee knowledge to help Yunnan continue to develop into a top-quality coffee growing region and bring the distinctive Yunnan coffee taste to our customers around the world' (Starbucks, 2010).

The link with a research organisation is interesting and suggests that Starbucks intends to work on improving the quality of Yunnan coffee, which to date has been a limiting factor for market development. Starbucks have also announced that they will invest in direct coffee production in Yunnan, something that the company has not done in the past (Starbucks, 2010). The company has also begun to market a coffee from Yunnan in selected Asian markets called 'South of the Clouds' (the meaning of 'Yunnan' in English).

Nestlé has been in China for nearly 20 years, opening the first instant coffee factory in Dongguan, Guangdong in 1992. Since then, large-scale coffee plantation techniques have been systematically introduced into Yunnan, especially in the Pu'er region, which was previously only a tea planting region. Nestlé nowadays buys

just one-fourth of the coffee harvest from Yunnan, but its stable local network and large purchasing volumes mean the company still has a very strong influence. In Pu'er, it purchases one-third of the coffee harvest. The price is low and fixed through production contracts with farmers. Nestlé provides a free coffee training course, which focuses strongly on improving quantity of production. Arguably the lack of emphasis on quality control and the promotion of intensive conventional planting techniques do not encourage the adoption of organic and Fairtrade certification. Nestlé have focused on maximising quantity in production, rather than prioritising quality. Use of a shade planting system has environmental benefits and possibly quality benefits, but is associated with lower levels of production. Nestlé appears to value quantity primarily and teaches local farmers to use a non-shade system to increase output. Much of the coffee produced is damaged by the sun, and low quality, but still good enough for instant coffee production.⁶¹

Nestlé promotes Catimor varieties in its demonstration farms, a hybrid Arabica variety, with large beans (bean size is part of the Nestlé quality standard). As a consequence pure Arabica varieties, such as Typica and Bourbon, are hard to find in Yunnan because of their low productivity and smaller bean size. Starbucks has been trying to find pure Arabicas in Yunnan with higher quality, but to date results have been disappointing.⁶²

In the future it is likely that a combination of organic and Fairtrade certification could be a sensible strategy for some small-scale coffee producers in Yunnan. Further research is necessary on agronomic performance of organic coffee from Yunnan, and economic feasibility given additional costs associated with certification and annual inspection visits from certification organisations, as well as possibly a decline in revenue during the conversion period prior to organic certification. External support for certification costs may be essential to make organic certification attractive to small-scale producers. It is possible that Green Food certification may be a useful interim step on the way to full organic certification. Additional income through Fairtrade certification can play an important role in helping farmers cope with the transition period. Until recently, however, there has not been a FLO representative in China. At the time of writing a liaison officer was being recruited which could potentially help with communicating the principles of Fairtrade and assisting groups with the application process.

Farmer engagement with certification schemes will only make sense if farmers are enthusiastic about coffee production and view certification as a sensible option. In compiling this section it has been difficult to find material indicating how farmers in Yunnan view coffee production: why they produce coffee, what challenges they face, and how they view certification schemes. This is an important area for future research.

61. Lu Chen, fieldwork data, 2009.

62. Lu Chen, fieldwork interviews, 2009.

Human resource challenges in dealing with certification schemes

Applying for and meeting the ongoing requirements of organic and Fairtrade certification schemes is a complicated process, which involves international communication, effective organisation and business management, production management, transparent use of premiums, product quality control and project management. These skills are challenging for small-scale farmers. Training courses can help up to a point, but partnership with other specialist intermediaries such as researchers from local research institutes is likely to be necessary. Training researchers in the requirements and procedures associated with different certification schemes could improve their capacity to play a catalytic role in bringing the potential benefits of certification to farmer groups.

It is likely that in the future the demands associated with any form of certification will become more exacting. In addition, scale is another key variable. Farmer groups over a certain size are much better able to deal with the transaction costs associated with Fairtrade and organic certification. However how to develop and maintain democratic values, transparency and participation in large associations is a serious challenge.

As discussed, one mode for coffee production in Yunnan is the company and farmer model. This model offers certain advantages for farmers. The company can reduce costs, achieve economies of scale, increase competition ability and obtain government support. However protecting farmers rights in decision making processes under the company and farmer model can be a challenge. This may particularly conflict with the demands for strong democratic farmer co-operatives required by the Fairtrade model.

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Key issues for coffee certification in China

- At the time of writing no certified coffee is being exported from China. Farmers' groups seeking to pursue certification would be pursuing a new path, with limited local experience to learn from. Most experience is emerging from small speciality projects run with expatriate support, such as Shangrila Farms who have organic certification for the local market. The large domestic coffee producer Hogood also has domestic organic certification.
- There is limited evidence on farmers' perceptions of coffee growing, why they grow it, what support they need, and how they view different certification schemes. This is an area where more research is needed.
- Chinese coffee has had a reputation for poor quality as there are technical problems with local Arabica production. This may be changing, with large amounts of state investment planned, and new research partnerships underway to develop varieties with quality traits adapted to agroecologies in Yunnan. Major coffee companies are taking a greater interest in Chinese coffee, which may in turn generate further interest, and encourage investments that improve quality.

- The local state sees coffee as an important economic pillar for Yunnan province. Support for appropriate certifications would fit well with the provincial government desire to promote coffee, and improve rural livelihoods.
- The domestic coffee market could be more important than export markets given the costs associated with certification and the size of the growing Chinese middle class with increasingly sophisticated tastes in coffee. However, this would depend on consumers increasingly recognising, and having confidence in, certification schemes and being willing to pay premium prices.
- Some coffee farms in Yunnan are *de facto* organic and may be in an advantageous position to pursue certification, although external support may be necessary to cover start up costs and address transport issues from these remote sites.
- Yunnan is an area of rich biodiversity, but faces serious problems of environmental degradation. The fivefold expansion of the coffee growing area envisioned by the provincial government is likely to be environmentally destructive unless measures are taken to mitigate harm, and encourage sustainability. Sustainable shade-grown and organic coffees are one option in this respect, and could find support with those interested in conserving Yunnan's biocultural heritage. Also, in Yunnan there are strong civil society organisations, high levels of environmental activism and progressive environmental governance in some areas. These are favourable conditions for supporting more sustainable coffee farming.

4.2 Tea and certification

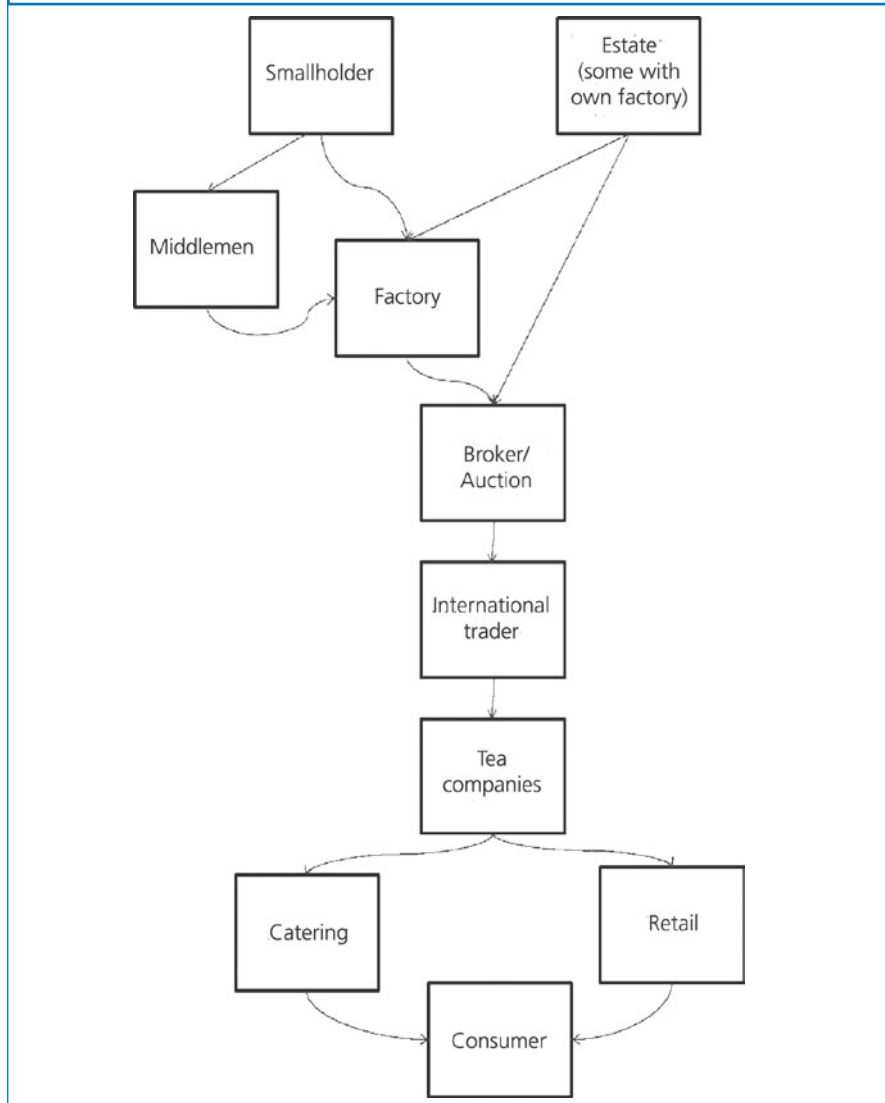
Market chains vary according to the type of tea (black, green or speciality tea) and the country context. Tea production starts in either a small-scale farm or a plantation. Typically if it is grown on a small farm it will sent to a bought-leaf factory, or in the case of plantations on a factory on site. According to Markets4poor, 'most of the world trade in tea (an estimated 84 percent in 1997) is channelled through auctions held in the major tea-producing regions' (2004b:28). An exporter will then export the tea to a tea company who would carry out the blending and packing. Producer countries generally export tea after only minimal processing. Figure 3 presents the value chain for tea.

Consumer markets are dominated by popular blended brands, which are estimated to make up 70 per cent of the market in the UK. Blends can contain up to 35 different types of tea to create a final homogenous product allowing tea company independence from any particular supplier (Markets4poor, 2004b).

In recent years a market for speciality teas has developed, similar to the market for speciality coffees. In China there are many different types of tea, and some of these have been prized for many hundreds of years. In this sense China is unusual in that the domestic market for Longjing tea from Hangzhou, or Pu'er from Yunnan is much more important than overseas markets. However, interest

from overseas markets is growing, particularly in the prosperous countries in Asia, but also to some extent in the European Union and United States. Over the long term, groups which invest in building production capacities and market connections could benefit from this. In Vietnam the situation is slightly different, as tea production has been dominated by low quality teas for bulk blends. Speciality teas do exist, however, and interest in them is likely to increase in the future. Potentially they may have advantages over China, where confidence in the credibility of organic certification or geographic labels can be a problem.

Figure 3. Diagram of the value chain for tea



Source: Adapted from Tropical Commodity Coalition, 2011.

The literature on certification for tea is limited, and concentrates for the most part on production of bulk teas from Africa and other parts of Asia. The report thus draws on other sources of information to reflect on the nature of tea value chains in China and Vietnam and the relevance of certification. In China production of certified tea for export already exists on a sizeable scale, although this is small as a percentage of total tea production. Companies such as Dazhangshan in Jiangxi are certified for Fairtrade and a variety of organic schemes, and are presented as a success story in the Fairtrade literature. Materials on the experience of other producer groups and the impacts of certification are much more limited, and there would be scope for a substantial research project investigating this. In Vietnam, some certified tea is produced, including speciality teas. The arrival of Utz certification for more mainstream markets also represents another opportunity.

Tea – Vietnam

In 2009, Vietnam produced 185,700 tonnes of tea making it the world's 6th largest producer. Approximately 45 per cent (82,416 tonnes) of this was exported generating just under US\$96 million (FAO, 2011a and b).

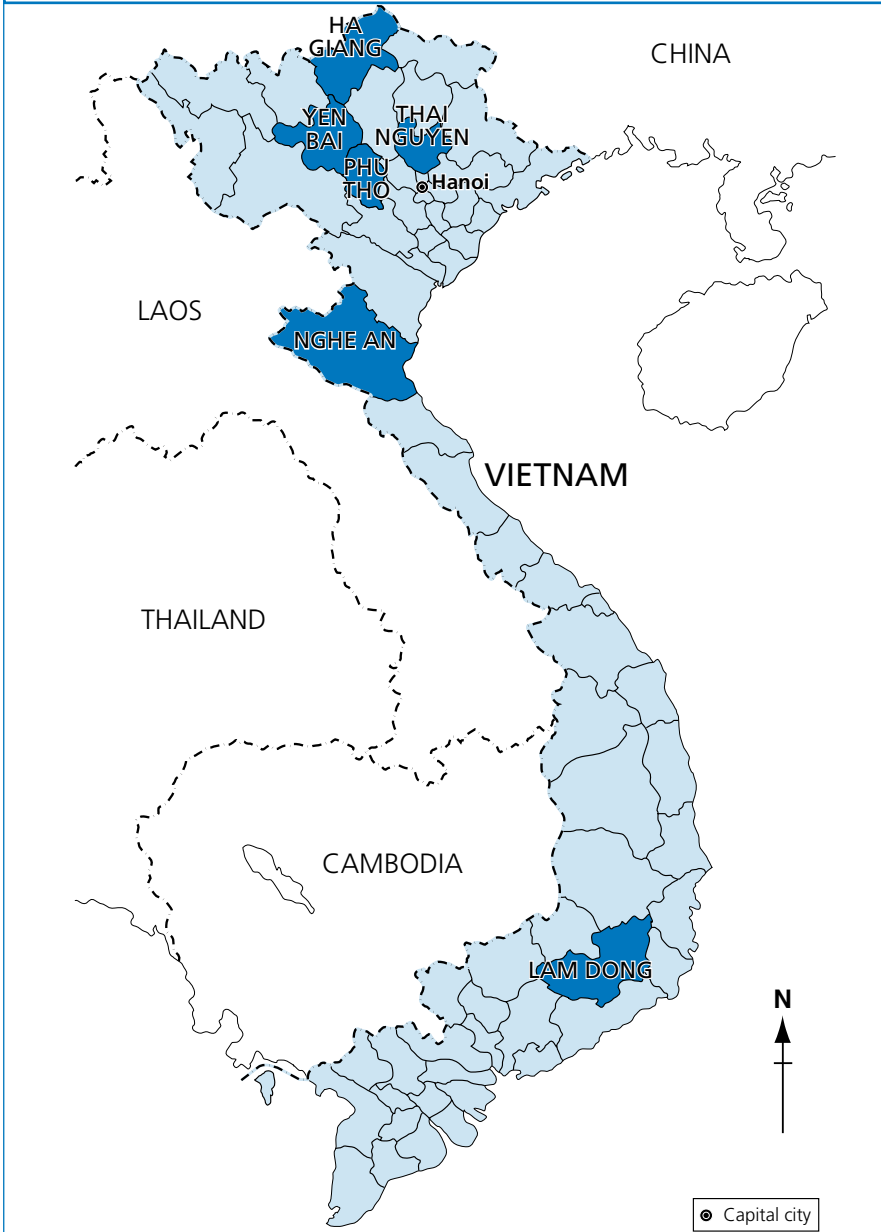
Tea is very important in Vietnam as a source of income and employment for small farmers living in remote areas of the country. This is particularly the case in the Northern Uplands of Vietnam – including Ha Giang, Yen Bai, Thai Nguyen and Phu Tho, North East South (Lam Dong Province) and North Central Coast (Nghe An province) (Agrifood Consulting International, 2004). In 2005, Phu Tho and Thai Nguyen, two of Vietnam's poorest regions, accounted for 30 per cent of all tea production (see Map 5). In these regions small-scale farming is the dominant production system (85 per cent small-scale production in Phu Tho and 80 per cent small-scale production in Thai Nguyen). Tea production has significant potential for poverty alleviation since it is planted mainly on small farms in poor areas and is heavily grown by ethnic minorities, requires few inputs and is labour intensive (Markets4poor, 2004a). Tea is one of the only crops suitable for growing in the poorest regions of Vietnam. Certification for export as a route for the rural poor to earn more from their assets is therefore highly relevant to Vietnam.

The tea sector in Vietnam is export oriented: in 2004, over 80 per cent of its production went to foreign markets (Agrifood Consulting International, 2004). Tea production in Vietnam has grown 10-fold over the last decade. Vietnamese tea is exported through the state-owned Vietnam National Tea Corporation (VINATEA), joint ventures and foreign companies and private companies.

Vietnam has a reputation for producing low quality, bulk, undifferentiated tea without labels or trademarks. Vietnamese tea is commonly blended, repackaged and/or processed in other markets, meaning there is little value added where the raw product is made. In 2003, 80 per cent of exports were destined for India, Iraq, Pakistan, Russia and Taiwan (Agrifood Consulting International, 2004). Despite this, Vietnam provides an increasingly sophisticated range of black, green and white teas which are of interest to specialist export markets: 'Snow Mountain Tea' is one example of a speciality tea for which there is likely to be considerable market potential.

Tea yields in Vietnam are also low, and much lower per hectare than Vietnam's main competitors, India, Kenya and Sri Lanka. In 2005, Vietnamese tea was selling at a 25-30 per cent discount on world markets relative to the world price (Markets4poor, 2004a). Agrifood Consulting International (2004) believes that the age of the tree gardens in Vietnam is partly responsible and that they

Map 5. Tea producing regions, Vietnam



would benefit from replacing older plants with newer varieties. Farmers also lack technical expertise, with inappropriate use of fertilisers and excessive pesticide use, with obvious negative impacts on human health and the environment. In some places previous negative experiences of top-down, state-led collectivisation may have led to a wariness of forming the farmer groups and co-operatives necessary for some certification schemes. This is not inevitable, however, and small mutual aid groups are very successful in some parts of the country (Rankin and Russell, 2006).

The reliance on bulk markets, which are not significant markets for certified produce, implies that diversification into new markets would be needed in order to reap any financial benefit from certification. Most of the value added to tea is done abroad. According to Oxfam International (2002), more than 80 per cent of value added is generated outside the producing nation. Improved brand development in Vietnam could increase the total value generated by tea.

Contract farmers

In Vietnam, contract farmers or worker farmers are linked to large plantation-based factories producing tea for export markets. They are under contractual obligations to produce for this factory and whilst this means they have stable demand, access to credit and technical assistance there is typically no price guarantee and the price paid may fall below the market price. This group has remained small due to problems with the producers and processors keeping to the terms of the contract when the market price changes. For contract farmers the major players further down the value chain are large processors such as VINATEA, foreign corporations, and joint ventures, whereas traders play a relatively small role. Contract farmers are linked in to longer-term relationships with buyers and are:

Captive to the ability of such downstream companies to conduct business in a profitable manner. Consequently such farmers are often negatively affected by often capricious and non-transparent standards set by processors when the market is poor. Moreover, worker and contract farmers linked to state-owned enterprises tend to overuse pesticides, downgrading the quality of the tea (Markets4poor, 2004a:24).

Unlinked farmers

Most tea farmers in Vietnam produce tea alongside other crops and livestock. Small-scale producers are unlinked in the sense that they are not formally integrated with other actors in the chain and their trading relationships are wholly market based (Agrifood Consulting International, 2004). Farmers may sell tea direct to processors, or to assemblers who sell it on to processors. They may carry out some basic processing at home and sell dry tea to assemblers. No support is given to producers by buyers and produce is sold on spot markets. Unprocessed tea is sold to traders or small processing units. Unregistered household processors are common in tea-producing areas. Processed tea from these households is sold to retailers or exporters.

Research by Agrifood Consulting International (2004) suggests that profitability is generally greater for the contract farmers, but this is not consistent across regions. For example, in Thai Nguyen, being an unlinked farmer is more lucrative than in Phu Tho. In Phu Tho production for export markets is more lucrative whereas in Thai Nguyen tea can sell at a premium for domestic markets because of its good reputation.

According to research carried out by Markets4poor (2004a), unlinked farmers face higher costs of production than contract or worker farmers, obtain lower yields and therefore receive lower profits. Unlinked farmers face a number of constraints. These include a lack of land, a lack of capital to invest in improving tea varieties, and a lack of technical assistance, labour or machinery to improve processing and inputs. Because of the risk of low prices, unlinked farmers lack the financial security to invest in their tea gardens because if prices drop they may be unable to pay any loans back or recoup their investment. They lack bargaining power and rely on traders and factories. As tea degrades shortly after it has been picked, their sale options are narrow. In addition, the lack of co-ordination between unlinked farmers and the rest of the value chain limits the transmission of information and market signals to make quality improvements.

Other producers

There are a small number of co-operatives in Vietnam. Most are located in Thai Nguyen province and were intended to improve farmers' bargaining position with buyers. In 2004, no co-operatives existed in Phu Tho. For co-operatives, marketing channels tend to be based on a contract with a buyer. Buyers then sell to retailers, or most commonly to exporters. This has remained a small but growing proportion of tea transactions, with most co-operative members preferring to sell on the free market.

Fieldwork carried by Markets4poor (2004a) concluded that co-operatives face many weaknesses including a lack of trading and marketing experience, and poor production and processing techniques which results in uneven quality, creating an important barrier to access to higher quality niche or speciality markets.

Certification could play an important role in promoting improved organisation of farmers for market engagement, thereby helping to overcome some of the constraints unlinked farmers face. Although previous research suggests the need for significant support, particularly to upgrade quality such as improved production and post-harvesting processing techniques.

There are currently three Fairtrade certified tea producers in Vietnam. According to the FLO liaison officer for Vietnam, in all three cases producer groups had been working with an exporter before getting certified. The exporters have had the role of identifying the market and ensuring the viability of Fairtrade certification. The main export markets for these teas are Europe, particularly Germany, Italy and the Netherlands, and also Hong Kong. There is as yet no Rainforest Alliance certification for tea in Vietnam, although this is planned. Sara Lee has started to market Utz Certified tea through its Pickwick brand; this will include Utz Certified tea from Vietnam in the next year or so.

Box 10. MDI company, Vietnam. Fairtrade certified processor and exporter

MDI is a company that works with 1000 small-scale producers in Vietnam. MDI export bulk and consumer-ready tea bags and coffee, primarily to Hong Kong, Taiwan and Japan. The company was the first in a developing country to be licensed to develop and sell Fairtrade products. MDI also work in organic tea but only with farmers who are not already using chemicals; the company claim the reason for this is that the conversion process would otherwise take too long and there would be problems with the short-term drop in yield. Echoing findings elsewhere, the Vietnam experience suggests that certification only makes sense if farmers are producing with a high level of quality. According to the MDI director the company only: 'works with those who are not getting the value of their product. The product has to be good already, or the potential to be very good.'⁶³ Conversely if the product is not good enough then certification won't help.

The MDI case also illustrates how appropriate intermediaries can play a critical role in linking farmers to buyers. MDI have a good understanding of export markets, and this has helped farmers they work with to reach those markets. There are clear financial advantages for farmers that are able to build a successful business relationship with MDI. In 2009, the market price for black tea was 3500 dong per kilogramme (US\$0.18). MDI pay 5-6000 dong (40 per cent above market price) to encourage loyalty and ensure that they are buying the best leaves.

MDI argue that for Fairtrade certification, groups also need to be dealing in reasonably large volumes to cover production costs. For example for groups of between 50 and 100 farmers certification costs are €2000. This means that groups would need to be producing at least 2000kg and making €1 extra on each kilogramme in order to meet costs. For many small-scale farmers it is a challenge to produce this much.

Source: Authors' research.

Key issues for tea certification in Vietnam

- Quality is essential; certification works for those who are producing to a high standard.
- Organic certification could be a good option for those who are not using agrochemicals, and farmers with technical knowledge on how to compost, or favourable access to organic inputs.
- Intermediaries can be critical in helping with marketing and identification of markets, as small-scale farmers are currently not well organised or informed about opportunities in relation to certification.
- Fairtrade certification is likely to require a large producer group to meet certification costs, unless there is external support.
- Following codes associated with certification schemes such as Utz Certified can help farmers access better markets.
- A focus on meeting the technical requirements of a standard needs to go hand in hand with work to identify potential buyers.

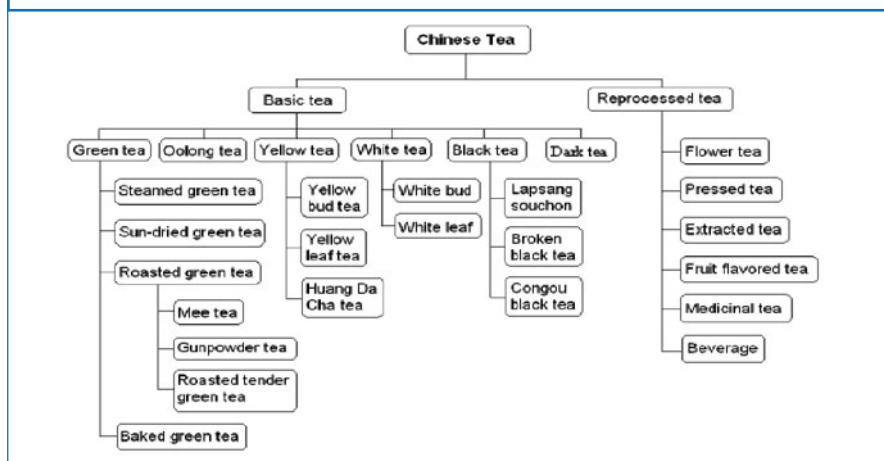
63. Interview with MDI Director, 2009.

Tea – China

China is the largest producer of tea in the world – producing nearly 1.4 million tonnes of tea in 2009 (see FAO, 2011b). China has 45 per cent of the world's total tea growing area (1.26 million hectares in 2004) and more than 80 million tea farmers (IFAD, 2003). Tea production has expanded rapidly over the last two decades, promoted by government policies to raise rural incomes. Unlike other major tea producers such as Kenya or India, tea in China is for the most part not produced on plantations but on smallholder plots, often as small as 0.2 hectares.

Unlike other tea producing regions, China's domestic tea markets are more important than its export markets (less than one-quarter of Chinese tea is exported). A very diverse range of teas are produced (see Figure 4). Chinese consumers are highly discriminating in relation to tea, with the very best teas selling for prices similar to, or even greater than, those for fine wines. Most of the tea produced in China is green tea, for which China dominates global production. Teas are not primarily associated with brands, but with particular regions which are production bases for these teas (see Box 11). Regions are also important in other tea producing countries, such as India but, while most tea produced in other major producing countries will ultimately go into a brand, in China this is not the case.

Figure 4. Classification of Chinese tea by Chinese researchers



Source: Chen, 2009.

Most tea in China is not certified, but there is a growing interest in certification primarily for the domestic market (such as Green Food) but also for export. In parts of China where conditions are favourable (either agroecologically for organic production or because of the reputation of a certain area), and where there is support from local government, farmers have been organised to participate in certification schemes. Some of these businesses have been relatively successful in terms of exporting certified tea. However, evidence of benefits for farmers is limited. More research is needed on these cases, to draw out lessons on benefits for farmers, and farmer perceptions and conditions that are necessary for success.

Box 11. The four main tea producing areas in China

Jiangnan – South of the Yangtse

This is the major tea base producing two-thirds of the annual yield. Zhejiang, Hunan, Jiangxi, the southern parts of Jiangsu, Anhui and Hubei. It produces green, black and flower teas.

Jiangbei – North of the Yangtse

This area includes Henan, Shaanxi, Gansu, the northern parts of Jiangsu, Anhui and Hubei. This area produces green tea.

Lingnan – South China

Guangdong, Guangxi, Fujian and Hainan. This is the key area for black tea, oolong tea and flower tea.

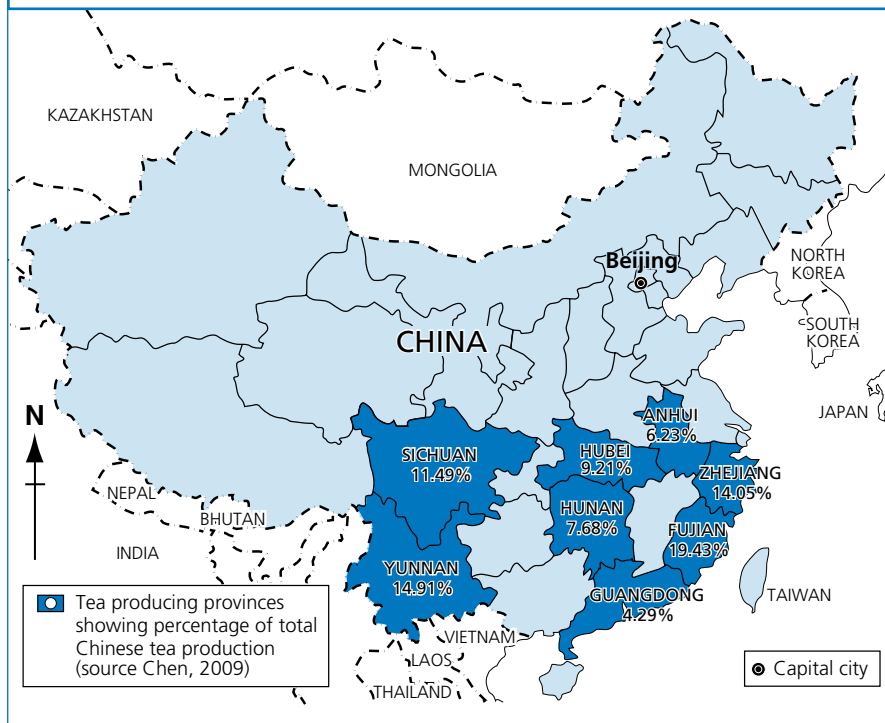
Southwest

This area covers Yunnan, Sichuan, Guizhou and parts of Tibet. This is the oldest area in China, with many species of tea. Home to Pu'er tea (in Yunnan).

Source: adapted from Chen, 2009 and IndexChina, 2009.

Map 6 shows tea output per province. Tea is produced by both relatively wealthy provinces, such as Zhejiang, Fujian and Guangdong (in the top ten wealthiest provincial level units) and poorer provinces such as Yunnan, which is ranked 30 of 31 provincial level units by income.

Map 6. Major tea producing provinces, China



Organic tea

Organic tea exports from China started in 1990 with the export of a green tea from Lin'an County in Zhejiang Province certified by SKAL, a Dutch certification organisation (IFAD, 2003). With the rapid development of international production and trade in organic foods, organic agriculture has since boomed in China (Zhang *et al.*, 2007).

Organic tea production for the domestic market is a growth area in China, with 300 companies certified as domestic organic tea manufacturers (Chen, 2009) and 20,000 tonnes of certified organic production a year, from a production area of 28,000 hectares.⁶⁴ Within the industry, new Japanese and EU regulations on maximum residue levels have focused attention on safety, and have provided a challenge for Chinese producers. Exporters are now interested in sourcing from hillside areas where pesticide residues are deemed to be less of an issue, due to lower levels of pest infestation. Poorer and more remote parts of China such as upland Yunnan fit this profile. China introduced new standards on maximum residue levels in 2005.

Development of the organic sector has been supported by the development of a range of national policies and regulations. Local certification is conducted by domestic certifiers such as the Organic Food Development Centre (OFDC), the first local organic certifier in China, set up in 1994 and accredited by IFOAM in 2004. In March 1999, the Tea Research Centre, under the China Academy of Agricultural Sciences founded the Organic Tea Research and Development Centre (OTRDC), which concentrates on the inspection and certification of organic tea production and processing. The OTRDC developed and issued 'The Organic Tea Certification Standard' and 'Organic (Natural) Tea Production and Processing Technical Rules' combined with the OFDC organic rules. At this time the China Organic Food Certification Centre was founded by the China Green Food Development Centre under the Ministry of Agriculture and was established as the first organic certification body registered at the China National Certification and Accreditation Administration. By the end of 2007, 28 organic certifiers had been accredited.

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A variety of international certifiers are now active in China. These include: the Institute for Marketecology (IMO) (Switzerland), ECOCERT (France), BCS (Germany), JONA (Japan) and OCIA (United States) each focusing on standards for different destination markets (for example, EU regulations, NOP in the United States and JAS in Japan). Almost all of the organic farms are certified according to EU and NOP regulations, one tenth of the tea farms also have JAS certification.

According to information from certifiers, around 100 farm/enterprises are certified for tea export, these farms represent one sixth all the organic tea enterprises in China. Most organic tea enterprises are focused therefore on domestic markets. Most of the export tea farms are certified by IMO, around 50-60 per cent of the total. Based on data from IMO, OCIA and ECOCERT, there were about 8000 hectares under organic tea cultivation and 8500 tons of organic tea was certified in 2008.⁶⁵

64. Figures are estimates based on data from the Organic Tea Research and Development Centre and key certifiers working in China.

65. Data collected by Qiao Yuhui, China Agricultural University.

Organisation of organic tea production in China

Currently, organic tea production in China is organised in three main ways. Some export companies have their own lands and operate according to organic principles, hiring labour for organic production according to company specifications. Other export companies rent land from farmers for extended periods, and then contract out the operation of the land to farmers under organic principles and under the control of the companies. In this case, all the production belongs to the company, the farmers earn only their salaries. Finally there is a third model, known in Chinese as 'companies plus farmers', where organic tea farmer associations or individual small-scale producers contract with foreign trade companies or food processing enterprises engaged in export.

For organic tea, most production is organised by companies according to the first or second model. The third model only accounts for 10 to 20 per cent of production. Information from organic tea enterprises and certifiers suggest that it is easy for organic companies to control the quality of tea farms using the first and second approaches. The conventional wisdom is that it is easier for companies to invest in new equipment and facilities, and secure market share through these wage labour-based systems.

For the future development of small-scale producer based models it will be necessary to build strong farmer co-operatives or associations that can meet the demands of certification schemes, deliver quality production and negotiate with buyers and other actors in supply chains. This type of model has been the exception rather than the norm in the organic tea sector in China to date, with the recent exception of the Manjing Tea Producer Cooperative.⁶⁶ Similar findings on the prevalence of companies organising farmers in the organic sector are found in research by Oelofse *et al.* (2010) on organic soybean and vegetable farmers in Jilin and Shandong provinces. They argue that it is extremely unlikely that farmers will organise themselves to adopt organic agriculture and pursue organic certification. The farmers they interviewed had limited understanding of the agroecological concepts underpinning organic agriculture, and were primarily motivated, quite reasonably, by organic production as an income generation opportunity: 'One can perhaps, therefore, consider that organic agriculture, in this context, is merely a convenient marketing channel for farmers, rather than a conscious adoption of sustainable agricultural practices founded on the principles of organic agriculture' (Oelofse *et al.*, 2010:1788).

The downside of lack of awareness of the agroecological principles of organic farming is that certification may not contribute over the long term to the sustainability of farming systems. There have also been many cases of fraud where non-organic produce is presented as organic. This erodes consumer trust in organic certification and may hinder prospects for organic exports from China. Arguably this is more likely where farmers have little interest in the agroecological principles underpinning organic farming and are solely driven by potential economic gains.

66. For more information see: <http://ourworld.unu.edu/en/the-tea-forests-of-yunnan/>

Fairtrade tea

There are currently only a small number of Fairtrade producers and traders in China (see Table 6 below). This may relate to the fact that until recently there was no Fairtrade representative in China, and the organisational demands of Fairtrade such as the need for a democratically organised farmer group to manage the Fairtrade social premium. Until recently this type of farmer organisation in China has been difficult to form and sustain. We have no direct evidence, however, that the slow growth of Fairtrade in China is linked to the democratic organisation requirements of Fairtrade.

Table 6. Fairtrade tea producers and traders in China

Organisation	Type
Dazhangshan Organic Tea Farmer Association	Producer
Graham Company Limited	Trader
Jiangxi Wuyuan Dazhangshan Organic Food Co., Ltd	Trader
Jiangxi Wuyuan Xitou Tea Farmers Association	Producer
Mannong Ancient Tea Association	Producer
Shenzhen Graham Organic Foods Company Limited	Trader
Wuhan YSBio Organic Int'l Inc	Trader
Wuyuan Xitou Organic Tea Co. Ltd.	Trader
Xuan En Yulu Organic Tea Association	Producer

Source: Fairtrade Network of Asian Producers (FLO) (www.fairtradenap.net/member-list/).

Rainforest Alliance is planning to work with Chinese tea producers, and Utz Certified now certifies tea but does not, as yet, cover any tea producers in China.

Case study of certified tea from Wuyuan, Jiangxi Province

This following section presents research data collected by China Agricultural University researchers in 2006 and 2009. Wuyuan County in Jiangxi Province produces a particularly high quality green tea (see Map 7). Wuyuan is located in the north eastern part of the Jiangxi Province, close to the borders with Anhui and Zhejiang. This mountainous area has become an important base for organic tea production over the last fifteen years.

The main crops in this area are rice, rape, tea and bamboo. To date only tea is farmed organically; other crops are managed conventionally in low-lying plain areas. The tea production area in Wuyuan is 10,000 hectares, of which about 33 per cent is organic. Xitou is part of Wuyuan and has a total production area of 427 hectares; half of this is organic and managed by Xitou Organic Tea Co. Ltd. Tea is grown on the hillsides and the average area for tea gardens is around 0.15 hectares. Tea gardens account for 13 per cent of the arable land. Organic tea production in this area began in 1996 as part of a poverty reduction project by Jiangxi Environmental Protection Agency. Xitou is an area where farmer incomes

Map 7. Wuyuan, Jiangxi province, China



are low. The farmers use traditional methods of cultivation with low levels of agrochemical input, especially for tea production and other forest products such as bamboo shoots.

The government in Wuyuan has played a leading role in organic tea development,⁶⁷ and this is undoubtedly an important factor in the success of companies from this area. The Xitou tea factory was run as public enterprise from 1999 to 2003. During this period the township government found that it was hard for them to develop the organic market, especially for export, and this led to a change in the management system. In 2004, the Xitou tea factory became a private company known as Xitou Organic Tea Company Ltd. The company now exports tea to EU and US markets. After 10 years with organic certification, an importer from the UK helped to establish Fairtrade certification, initially certified by Bio-equitable, and from 2005 by FLO.

Xitou Organic Tea Company selects tea gardens with good surroundings and buffer zones and contracts with the organic tea farmer on an annual basis. All certification costs are met by the company. The town government also provides support to help organise production. They arrange each village as a group and the

67. We are unable to ascertain whether the government supported organic tea development for health or environmental reasons, as well as the economic opportunity and perceived comparative advantage in economic production.

village leaders co-ordinate production. Progress in development of organic farming is an indicator for assessing the performance of town and village leaders each year.

Wuyuan Xitou Tea Farmers Association was established in 2004 to manage the Fairtrade premium funds from the certified tea. By the end of 2008 there were 600 members. Members have been trained in Fairtrade principles. The association is responsible for deciding how to use Fairtrade funds, part of which is used for general community development in Xitou town.

Economic benefits of organic tea in Xitou, Wuyuan County

An initial survey was conducted by a China Agricultural University team in 2006, interviewing both conventional and organic tea farmers. The survey showed that annual income per household from organic tea is about US\$180, and for conventional tea production only US\$70, making income from organic tea about 2.5 times higher than conventional tea (see Table 7).

Table 7. Income (RMB) of organic and conventional households in 2006; (1US\$ = 6.6 RMB)

	Organic household	Conventional household
Tea production income	1186	460
Tea production net income	767	196
Agricultural income	1689	669
Non-agricultural income	8916	11202
Total household income	10606	11871
Share from tea in total agriculture income	45.6%	26.9%
Share from tea in total income	7.2%	1.6%

Source: Professor Qiao Yuhui, China Agricultural University, Beijing.

In Wuyuan, however, off-farm income is the main source of income overall. In this rural area, household income comes primarily from remittances from young people who work in cities. Labour is scarce with mainly old people and children remaining in the villages. Although conventional tea farmers didn't earn as much as organic ones from tea either as a share of agricultural income or all income, they had slightly higher total incomes with a greater share of off-farm income in their overall income. The survey was not able to determine the relative incomes of organic and conventional tea farming households prior to adoption of organic farming in the area, and whether this was a key variable explaining in engagement with organic farming, as opposed to, for example, favourable location. The income from tea for the organic farmers, while not high, is nevertheless an important source of cash equal to a month of annual income. This was mentioned as important by female household members in particular, who prefer to remain in the village. Interviews suggested that were it not for organic tea, many more tea gardens would be abandoned.

Benefits from Fairtrade certification in Wuyuan

Between 2005 and 2008, Wuyuan Xitou Tea Farmers Association received a total of US\$200,000 in Fairtrade social premiums from FLO. The funds have partly been used to improve local infrastructure such as roads, street lights and cleaning facilities. A proportion of the funds were also used to improve primary processing factories in different villages, and in 2006 an organic agriculture demonstration farm was set up to grow other organic products. Every year support is provided for training and education of children from poor families. The farmer association has also contributed to paid individual healthcare insurances for tea farmers and helped with medical expenses for extreme medical cases. After the Sichuan Earthquake in 2008, Wuyuan Xitou Tea Farmers Association donated US\$14,706 to the disaster area (see Table 8).

While information on the Xitou experience is limited, it suggests that organic tea farming can be an important source of income for poor households. However in areas where there are alternative sources of income its appeal has always to be seen in the context of a range of options. Fairtrade certification appears to have delivered important social benefits in Wuyuan but it was not possible to obtain detailed information from farmers on the operation of the Farmers Association, its decision-making processes and appraisal of the effectiveness of the deployment of funds.

This case also illustrates the importance of having an effective intermediary organisation, such as the tea company which has helped organise production and identify markets. The government has also played an important role in supporting the creation of the company and encouraging the development of organic tea farming. This type of local government support appears critical in the Chinese context, although government involvement does not always lead to success.

In poor provinces such as Yunnan the validity of participation in certification schemes as a route out of poverty is a key issue. One question is whether tea farmers from Yunnan can learn from cases such as Wuyuan in Jiangxi. The two provinces have similar topographies in some areas and traditions of tea production, although Jiangxi is much closer to wealthy coastal markets. Future research could look in more detail at whether the successful experience of tea certification in parts of Jiangxi could be repeated with farmer groups in Yunnan, and what type of investments and conditions would be necessary for success.

Table 8. Use of the Fairtrade social premium by Wuyuan Xitou Tea Farmers Association (US\$)

Year	Local infrastructure construction	Education fund	Tea processing facility improvement	Health care	Demonstration organic base construction	Other*	Total
2005	7,313	588	2,008	0	0	0	9,910
2006	1,765	9,632	1,753	1,838	0	0	14,988
2007	10,401	17,353	5,526	1,103	6,810	0	41,193
2008	15,000	5,000	2,353	0	441	14,706	37,500

*Sichuan Earthquake disaster relief contribution in 2008.

Source: Professor Qiao Yuhui, China Agricultural University, Beijing.

Key issues for tea certification for export in China

- China is a major producer of teas, and some farmer associations are already producing for export with organic and Fairtrade certifications.
- Consumer awareness outside China of the diversity of Chinese teas and Chinese tea culture is likely to increase, with increased recognition of Chinese geographic labels and the very high quality speciality teas that are available in China.
- China has been associated with significant overuse of pesticides on commercial tea production. Policies on maximum residue levels have changed in line with the demands of major export markets; however, confidence in regulation and safety remains an issue. Organic production may be an alternative to concerns about pesticide use in conventional production
- Trust in organic certification is low in China, and cases of cheating organic inspection by mixing with conventional product are common. This could also affect international perceptions and markets.
- There are few examples of legally registered for-profit farmer co-operatives producing certified teas. Small-scale producer groups joined together in producer associations may struggle to secure political and bureaucratic support for successful negotiation of regulatory structures and certification regimes. Farmers will need help to strengthen the functionality and effectiveness of farmer co-operatives.

4.3 Cotton and certification

Interest in cotton certification has been driven by two main factors: low and volatile producer prices, and the high costs to human health and the environment associated with cotton production, particularly through excessive pesticide and water use.

World cotton prices at the time of writing were at an all time high, the first time they have been over US\$1 per pound since 1995, and only the second time since the American Civil War (Meyer, 2010). This follows a period of low prices: in the period from the mid-1990s onwards cotton fell to levels not seen since the Great Depression of the 1930s. In 2001-2, the world price was US\$0.43/lb, below the long-term average of US\$0.72/lb and was US\$0.55/lb for much of the 2000s (Bassett, 2010). Price changes are driven in part by fluctuations in production and exports from, key producer countries, such as India, Pakistan and China. These can be affected by adverse weather, an important factor in 2010 for China and Pakistan, and changes in demand for textile products in consumer markets. Domestic demand for seed cotton in key producing countries is an important variable, and cotton may only be exported from these countries when production of seed cotton is greater than domestic demand. Indeed India had an export ban on ginned cotton in 2010. Global price volatility has an effect not only on the economies of developing countries, but also on farmers, particularly where there is no producer price support (such as a guaranteed minimum price). The need for better and more stable prices for farmers has made certifications such as organic and Fairtrade particularly attractive.

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Global cotton value chains have changed since the end of the Multi-Fibre Agreement (MFA) which ran from 1974 to 2005, and governed world trade in textiles and clothing. The MFA imposed extensive quotas on the textiles and clothing imported from developing countries to developed countries. This was a means of protecting developed countries from cheaper products made abroad, particularly in the developing world where labour costs were lower. Inevitably this had a negative knock-on effect on the economies in the developing world. The World Bank estimated that the MFA cost the developing world 27 million jobs and US\$40 billion per year in lost export earnings. On January 1, 2005, the MFA ceased to be and the textile industry was brought under the jurisdiction of the WTO (Grandhi and Crawford, 2007). The end of the MFA has had a beneficial impact on countries such as India, because of their labour cost advantages. At the same time India has doubled consumption of cotton since 1995, as has China. Economic growth in these large countries is also increasing demand for textile products.

Cotton production in India

India has the world's largest area of planted cotton (9 million hectares) and in 2007-8 was the world's second largest cotton producer in the world (Wide Angle, 2009; Eyhorn *et al.*, 2007), after China and before the United States, producing 31.5 million bales as against 28 million bales during 2006-07 (CITI, 2009), or around

15 per cent of global production. Productivity in India is relatively low compared to other cotton regions. Over half of India's cotton production comes from the states of Gujarat, Maharashtra and Andhra Pradesh (Mohantry *et al.*, 2002).

Cotton production in India has historically been orientated towards promoting and supporting the textile industry. The State Agricultural Products Markets Act regulates the cotton market. The government has a minimum support price for each variety of seed cotton. If prices fall below the minimum price the government-run Cotton Corporation of India intervenes. Based on exchange rates in April 2009, price support meant that cotton producers in India were receiving US\$0.72 per pound compared to US\$0.55 and US\$0.58 per pound for international prices. The Indian government has supplied inputs to farmers for cotton growing at highly subsidised rates, including power, fertiliser and irrigation.

Sustainability of conventional cotton production

In India, cotton production represents 5 per cent of total agricultural land use, yet consumes 50 per cent of the pesticides used. Overuse of pesticides has a negative impact on biodiversity and soil quality, and is a concern for consumers in end markets, but it is the tragic pesticide-debt cycle that is the most prominent feature of pesticide use on cotton in India. The impact on vulnerable farmers has been well documented in mainstream media both within the country and in the international press.

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Reductions in pesticide use are associated with improvements in the health of farmers and their families. Pesticides have been used as a poison by desperate Indian cotton farmers trapped in debt, wishing to end their lives. The exact number of farmer suicides in cotton districts is disputed. Official statistics put the figure at 4500 for the cotton districts of Andhra Pradesh, Karnataka, Kerala and Maharashtra between 2001 and 2007. National Social Watch (a coalition of civil society organisations) puts the total at over 11,000 (Gruère *et al.*, 2008).⁶⁸

The Maharashtra cotton-growing region of Vidarbha is home to 3.2 million farmers, 90 per cent of whom have been heavily in debt, owing money to both government banks and local money lenders. In 2006, the BBC reported that a Vidarbha farmer committed suicide every eight hours. To address the situation the Indian Prime Minister announced the waiver of interest payment on loans to banks but many farmers had taken substantial loans at very high interest rates from private moneylenders too, and were not covered by this measure (BBC, 2006).

The Indian government has a relief subsidy in place to cover the debt owed by farmers to banks (but not moneylenders) up to a set amount so as to spare the families the additional burden of debt recovery after the death of a family member. However, this well-intended policy has led to a phenomenon of farmers taking

68. Farmer suicides might happen for a variety of reasons, and pesticides may not always be the method of choice. However indebtedness linked to high costs of inputs not being covered by low producer prices has been documented as a principal driver of farmer distress. If pesticides were not available possibly the consequences of extreme psychological stress would have been less serious in many cases: 'taking a pesticide bottle out of the house is like taking a gun out of the house', according to one informant.

their lives as they near the maximum debt coverage amount in an attempt to alleviate the burden on their families. Participating in organic or Fairtrade cotton certification could be one option for trying to escape the pesticide-debt cycle. Both Fairtrade and organic certification schemes are in evidence in India. Rainforest Alliance and Utz Certified do not currently certify cotton; although Utz Certified plan to work on cotton with the Better Cotton Initiative (BCI).

Organic cotton in India

Organic cotton was first grown on a trial basis in the late 1980s in response to concerns over the human and environmental impacts of pesticides and the rising costs of chemicals and fertilisers, whilst the prices paid for cotton fell over time. Growth in the market for organic cotton took off in the later 1990s, set into motion by a 'combination of social entrepreneurs, farmers and farming groups, NGOs and civil society' (Ferrigno, 2007:1). Organic cotton production was 0.1 per cent of total cotton production in 2004-5, increasing to over 1 per cent in the five years to 2009-10 (Textile Exchange, 2010).

India is by some way the world's largest producer of organic cotton, producing 195,000 tonnes in 2009-10. This was 81 per cent of the global total of 241,000 tonnes; an increase from 68 per cent in 2008-9 (Textile Exchange, 2010). Organic cotton production worldwide increased 15 per cent between 2008-9, and 2009-10 but in India, the increase was substantially higher, at 38 per cent. According to Textile Exchange, this growth reflects strong agronomic practice, economies of scale, and proximity to a large textile manufacturing base (Textile Exchange, 2010). Other regions growing organic cotton, including Turkey, West Africa and Latin America, have found it hard to compete with Indian prices. The Indian government is attempting to encourage cotton production in general as a way of increasing the prosperity of Indian farmers and creating a shift away from subsistence farming (Organic Exchange, 2008).

India is increasingly growing extra long staple cotton, prized for its strength and softness and sought after by manufacturers of higher-end apparel and textile products, to enter a sector with perceived higher returns. Textile Exchange predicts that organic cotton production in India will continue to increase significantly as 'Many new producer groups are entering the sector with large amounts of land currently in conversion from new and established projects. Over 100 groups are expected to be involved by this time next year' (Organic Exchange, 2008:23).

Madhya Pradesh is the leading region for the number of organic farms and the number of farms converting to organic. The region is home to 46 per cent of India's organic cotton farmers and 83 per cent of conversion farmers. Orissa is the second largest organic cotton growing region in India, with 29 per cent of organic farmers (and 7 per cent of conversion farmers), followed by Maharashtra with 22 per cent of organic farmers (and 9 per cent of conversion farmers). Orissa's state government has banned genetically modified (GM) cotton in the

state, which has arguably played a significant role in the production of organic cotton, whilst production in Gujarat and Andhra Pradesh is likely to be hampered by their governments' push for GM cotton (Organic Exchange, 2008).

Textile Exchange is seeing a slight increase in joint Fairtrade and organic certification with more projects saying they are looking for combined certification due to demand. This has also been the case with the apparel and home textile market (Organic Exchange, 2008). India is currently a global leader in Fairtrade certified cotton (Fairtrade Foundation, 2011b).

Future prospects for growth in the organic cotton sector are encouraging. Textile Exchange document that the organic cotton market has grown from US\$300 million in 2002 to over US\$4.3 billion in 2009 (Textile Exchange, 2010). In their 2010 report they claim:

We will see market growth continue at a minimum of 20 percent per annum with stronger growth of 40 percent or more in markets and programs that have both strong commitment and corporate support; especially when brands have made strong linkages for stable supplies of organic fibre. Value chain relations are now more important than ever (Textile Exchange, 2010:5).

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Fairtrade can support farmers through drops in the price for organic during periods of fall off in demand. There has been an oversupply at times in recent years and many new players are moving into organic cotton production. China has not concentrated on organic cotton, and production has been heavily dominated by GM cotton. The organic cotton niche in China appears to be growing (Textile Exchange, 2010).

Benefits from organic cotton production

Organic cotton is best grown through a farm system – it is not well suited to monoculture. The farm system includes crops grown in rotation, livestock, and other products both farmed and wild (Van Elzakker, 1999 in Ferrigno and Lizarraga, 2008). The entire farm system is often essential for the successful growth of organic culture with other crops providing green manure and ingredients for pest management (Ferrigno and Lizarraga, 2008).

Eyhorn *et al.* (2007) studied more than 30 organic and 60 conventional cotton farms belonging to one Maikaal BioRe project in Madhya Pradesh for the 2003 and 2004 seasons. They argue that organically cultivated soils were easier to plough than conventional soils, were less prone to waterlogging, and that cotton crops were better able to survive periods of drought. Organically cultivated soils also showed an enhanced range of micronutrients and improved soil organic matter (Eyhorn *et al.*, 2007). They argue that yields for conventional and organic farms were similar. This finding was unexpected given lower nutrient inputs on organic farms. It appeared that benefits from intercropping and rotations and nitrogen fixation, lower nutrient leaching, and improved nutrient use efficiency explained the strong performance of the organic farms (Eyhorn *et al.*, 2007).

Similar yields, and lower input costs (due to not using fertilisers and pesticides) and a 20 per cent price premium meant that organic farms were more profitable than conventional farms. Gross margins were 52 per cent higher in 2003 and 63 per cent higher in 2004 (Eyhorn *et al.*, 2007). Unexpectedly, labour inputs were not significantly higher for organic farming in this study. This is a finding that would merit more investigation as labour inputs are usually higher for organic farming, a key factor in determining the overall profitability of organic farms.

The findings of Eyhorn and colleagues are echoed in short fieldwork for this study carried out with farmers from Andhra Pradesh and Maharashtra producing for (and part-owning) the Zameen cotton company. Zameen farmers are Fairtrade and organic certified. The Fairtrade minimum support price means that in a bad market Zameen pays its producers more than competitors. In a good market, the payment is the same – thus Fairtrade acts as a safety net. The organic premium amounts to approximately 20 per cent over the conventional price.

The costs of producing cotton are a combination of required inputs and credit. The two are related: the more inputs are needed, the more credit is needed and consequently, more interest is charged. Zameen farmers do not use chemical fertilisers, so they save from 1500 to 3000 Indian Rupees per acre (US\$33 to US\$66) with the shift to organic. However, the initial drop in yields in early years after transition can be over 50 per cent.

Challenges to increasing production of certified cotton in India

Organic Exchange (now Textile Exchange) argue that organic production of cotton in India faces the following challenges: a lack of strong scientific research and development of organic farming techniques; a shortage of inputs to meet rapidly expanding demand, including a lack of non-GM cotton seed and insufficient organic fertilisers in some areas; impacts of climate change on growing seasons; weak availability of credit for production; and a perception that certification has not been sufficiently robust in some cases. (Organic Exchange, 2008, 2010b).

Another challenge is a possible drop-off in yields during the conversion period, and the costs of certification. Support may be necessary during these early stages, particularly for poorer farmers.

Ensuring farmers comply with organic conversions has also proved problematic with studies reporting high default rates of up to 40 per cent in the first year, and 30 per cent in the second (Eyhorn *et al.*, 2007). These were mainly better-off farmers who appeared to be using GM varieties or fertiliser in the hope of achieving higher yields without being detected. This is perhaps unsurprising given the dominance of conventional and GM cotton farming techniques in India. This suggests the need for greater dialogue with farmers to address concerns and communicate the purposes and demands of organic certification. It also confirms the need for a robust certification process that detects and discourages infringement of production and marketing requirements, and inspires confidence in the integrity of the organic supply chain.

Some analysts claim that the widespread use of genetically modified, insect-resistant GM cotton causes problems in some situations (Bingen, 2008 in Bassett, 2010), particularly where the nature of the farming system means it is difficult to have adequate refuges around the GM crop, meaning that cross-pollination with non-GM varieties is more likely (although the NGO Helvetas who support organic cotton projects in various countries argue that it is possible to have adequate buffers in smallholder systems [Helvetas, 2010]). This is a factor in India, where 65-75 per cent of cotton is GM, and where rules on separation distances are not sufficiently clear. Efforts are now under way to scale up production of high quality non-GM cotton seed.

In January 2010 the German edition of the Financial Times reported that 30 per cent of organic cotton being used by companies such as H&M and C&A tested positively for the presence of GM cotton. It was alleged that the origin of the fabric was India. This report has been strongly criticised by both Helvetas and Textile Exchange but it is acknowledged that there may be problems with contamination and failure to detect GM cotton in supply chains (Organic Exchange, 2010b). These issues have to be addressed to maintain buyer and consumer confidence in the quality and attributes of organic cotton. APEDA (Agriculture and Processed Food Products Export Development Authority), the key government certification body for organic exports, have recently developed a TraceNet system to track and trace certified organic cotton. It is anticipated that this will greatly reduce fraud.

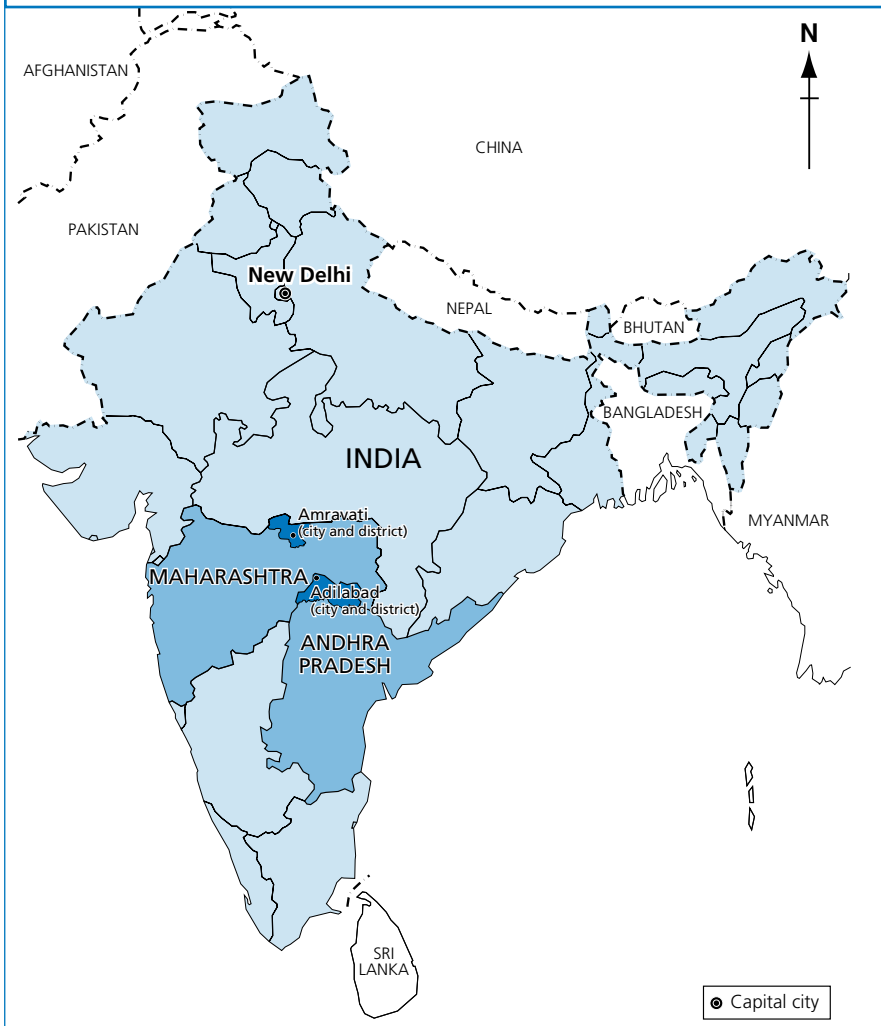
Case study of the Zameen Organic Cotton Company

The next section discusses lessons emerging from a case study of the Zameen company and farmer network, visited and studied for this report. The Zameen company is 50 per cent owned by farmers producing cotton.⁶⁹ The company also builds links across the value chain, particularly through the Alok Textile company, and it sells organic cotton to H&M and others. The Zameen strategy has been to try and build interest in cotton as the raw material from which textiles are derived, and in the stories of farmers producing cotton – in the process overcoming the disconnect between cotton production and branding and marketing of high-value textile fashions in developed country markets. This attempt to create and capture intangible value associated with a commodity echoes the debate around geographic labels and speciality coffees. How successful it will be in the long-term and how many firms and farmers will be able to benefit is something that will only become clear in time.

Zameen means 'earth' in Hindi, India's national language. The company buys organic and Fairtrade cotton from small producers relying on rain-fed agricultural systems in Maharashtra and Andhra Pradesh, regions that comprise the so-called 'suicide belt' of India (see Map 8). All the farmers who produce for Zameen are shareholders in the company, and have Fairtrade certification. These producers are

69. The next largest owner of the company is Aavishkar, a socially-oriented venture capital fund, which has around a 30 per cent share in the company.

Map 8. Districts and states in India where Zameen Biocotton company operates



amongst the most marginalised in the country. Producers are organised in a multi-level organisational structure; on village level they are organised in groups of 20. About 10 groups form a local cluster and seven clusters are organised into a regional association. The producer organisations are assisted by AOFG (Agriculture and Organic Farmers Group), an NGO and partner of the project, which works on capacity building for producer organisations and provides technical and certification support to farmers. External donor funds are channelled through AOFG. The national project office (NPO) is the project administration office of AOFG. It revises and screens the project plans of the producer organisations. The NPO is responsible for reporting to Rabobank and Cordaid, the donors that have been supporting the farmer organisations during the start-up phase.

A Mutual Benefit Trust manages shares in the company, and all owners have to agree on new investors. The Zameen company has been investing in institutional and organisational development to improve farmers' awareness of their rights as shareholders. The experience means that producers are now taking on stronger roles in management of the value chain and ownership of the value chain ('chain management' and 'chain ownership', (KIT *et al.*, 2006)).

The non-producer owners of Zameen started the business with a triple bottom line, of people, the planet and profits: to improve the life options and situations of poor producers in the region; to improve the soil and water quality through organic practices such as building up organic matter using natural, non-chemical fertilisers, composts and natural pest control mechanisms; and to manage a profitable company that increases the income of producers through both organic/Fairtrade production and through shareholding in the company itself. Zameen is in its fifth year of operation. Many lessons on scaling up the Indian bio-cotton sector can be learned from examining Zameen's business model, challenges and success factors. Some lessons are also relevant for other commodities and certification programmes in different parts of Asia. Box 12 outlines some of the key recommendations about how to make certification and certified value chains benefit marginalised producers.

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Box 12. Recommendations for successful replication of the Zameen model

Several lessons can be drawn from the case of Zameen. Key recommendations to consider are:

Plan for the start-up period

The costs incurred in the start-up period for a bio-cotton company are significant both in terms of initial yield loss, organisational preparations and extension to name just a few. The start-up period is intensive in terms of learning, getting the right systems in place and the ecological adaptations related to shifting from conventional to organic production. The cost of support in the initial three years of an organic cotton company in India replicating the Zameen model is estimated at US\$500,000. Over the past four years, Zameen has revised and experimented with its investments in value chain relationships, finding an effective ICS structure and setting up farmer-paid extension services. Zameen's innovative business model has created space for more like-minded companies to emerge in the sector. However, capacity building will always be needed both initially and on an ongoing basis to keep producers functioning optimally.

Investigate and seek out institutional support

Zameen's farmer-shareholders have taken advantage of conducive government policies such as subsidies and support from multiple levels within the Indian government. The producer organisation AOFG helps farmers to tap into these resources. As AOFG is an Indian NGO with a mission to support organic producers across India, it will be able to support emerging bio-cotton companies following Zameen's example. It can now build on its experience with Zameen when working with other producers and other companies.

Ensure that there is government support

In Amravati District, in Maharashtra, the government is strongly in favour of organic farming. Public funds have been used to repay producers' debt and subsidise organic inputs like pheromone traps and sticky and light traps as well as high-tech pest control, although not including seeds.

Pay attention to context

Farmers are interested in working with Zameen for many reasons, not least to increase their income. However, the complex and fraught context in the suicide belt of India has had a significant impact on farmer motivation to produce organic cotton. Organic offers an alternative to a system which has been socially destructive. The context was ripe for Zameen to enter with an alternative that addressed key concerns, fears and challenges in the region and that people could identify with.

Keep a cap on farmer group size

In India a group of people can be an economic unit without complex bureaucracy, so long as membership is below 20 people. This institutional limitation is a positive thing for Zameen farmers in that 20 is a manageable size for a farmer group. When the group reaches 20, new members form their own group. Even in a context where there was not an official limit to the number of farmers that can make up the smallest unit of the organisational structure, whether the group size is manageable at the community level should be a consideration.

Plan for drop-outs

Organic farming is hard work and knowledge intensive and certification requires skills and capacities beyond just the field. Not all farmers who enthusiastically begin will continue through the difficult transition years. Both at the group or community level as well as the individual farmer level, drop-outs are bound to occur. In the Zameen case, one cluster had 450 members in 2007-8, 233 in 2008-9 and then was up again in 2009-10. This needs to be seen as a part of the integration process.

Seek both organic and Fairtrade certification

India has seen an oversupply of illegally certified organic cotton that has driven down the price and to some extent undermined the organic model, although measures are now underway to address this (such as new requirements set by APEDA). When farmers sell at harvest they enjoy a very slight premium (e.g. 8 per cent), but one month later, the organic price can be the same as the conventional price. The need for cash compels farmers to sell. Fairtrade can be an important tool to combat price volatility. Organic is only powerful in the supply chain when there is more demand than supply.

Combining Fairtrade and organic creates more economic, social and ecological possibilities than either certification alone. The Fairtrade premium is essential in early transition years before farmers receive an organic premium for the price of the cotton, but is also necessary for the organisational development associated with an ICS. In more established producer organisations, Fairtrade can be important as donors phase out support: in the Zameen case, the social premium replaced donor funding of extension services and also provided capital for community projects, as well as improvement of organic cotton farming practices.

Maintain a robust internal control system for certification

The approval committees for producers consist of presidents of the groups in the region. The approval committee oversees non-compliance and issues related to certification. Farmer monitors in one community are trainers in another. These internal inspectors play a critical two-pronged role, both providing capacity development of producers in their own communities and ensuring that the system is working through inspection for non-compliance. Zameen's ICS is a robust multi-levelled construction that could be replicated in other contexts.

Build strategic relationships with big traders

In terms of market trends, supplying lots of cheap organic cotton for big buyers such as C&A or Walmart can be strategically important. However, the longer-term goal needs to be to raise awareness to get these same buyers purchasing Fairtrade.

Remain open to unconventional models for farmer businesses

NGOs in particular tend to be biased towards farmer-led models of development. Rather than being an endogenous model, however, Zameen set up producer organisations and engaged farmers in a process that led them to become shareholders, and capture greater benefits from their production. The economic driver was a successful development stimulus for producers. However, the context was also important, with markets hungry for an alternative to conventional cotton.

Prioritise multi-level learning and information sharing

Zameen prioritises learning and can be considered a 'learning organisation' – or in this case, a learning company. From Farmer Field Schools at the production level, to training for farmer group leaders, to innovative projects nationally and internationally, it is clear that the company actively seeks to be at the cutting edge. The resulting web of learning and relationships is a strength.

Constraints to replicability

- While organic cotton production is possible and provides a multitude of benefits to farmers and the environment, the system would fall apart if there wasn't a market for it at a good price.
- Conventional producers benefit from hidden subsidies on chemical pesticides and fertilisers. This creates unfair competition that disadvantages the organic sector.
- Until now, there have been no Indian university or vocational diploma courses on organic production, and nor is anyone taught about Fairtrade in their formal education. This makes it extremely hard for Zameen to find qualified staff; they must retrain their staff for the organic Fairtrade world.
- Illiteracy is a challenge for Zameen, particularly in Adilabad, the tribal area of Andhra Pradesh. This will remain an issue for any organisation working with small producers or marginalised groups.
- In India, certification is managed by APEDA, which is part of the Ministry of Commerce & Industry. There appears to be an inherent conflict of interest for an agency that is charged with promoting exports to also certify producers, and therefore sometimes have to turn down non-compliant ones. The government's Bureau of Indian Standards may have been a better choice of third-party certification body for organic production as this perceived conflict of interest weakens the system. A more reliable regulatory framework would help the sector enormously.
- For the moment, APEDA accredits certification bodies working in India and is harmonised with the EU. This means that APEDA creates the protocol for organic audits. There have been some cases of malfunctioning certifiers, including international certification bodies, which have not been dealt with in an effective or transparent manner. The uncertainty or perception of possible corruption has a negative impact on the image of organic cotton.

Key issues for cotton certification for export from India

- Rigorous internal control systems, inspections and management of supply chains are necessary to maintain trust in the credibility of certified organic cotton.
- Availability of non-GM seed can be a challenge. Effective segregation of organic non-GM cotton from GM cotton in the supply chain is important.
- If organic markets for rotation crops can be developed, the overall profitability of cotton farmers will improve.
- Support is needed for conversion periods, to cover initial drop-offs in yields, and mastery by farmers of organic practices such as composting and crop rotations.

Conclusions

This report has looked at the evidence for using participation in sustainability certification schemes for export as a tool to improve the livelihoods of poor and marginalised farmers. The schemes examined were organic, Fairtrade, Rainforest Alliance, Utz Certified and CAFÉ Practices, as well as the option of geographic labelling for improving returns to production of agricultural commodities in economically marginal parts of developing countries. The study has also examined the relevance of sustainability certifications to exports from four Asian countries for three commodities: coffee, cotton and tea. In each of these cases, for the designated commodities, particular opportunities and challenges exist in relation to pursuit of certification as a development strategy.

There is a range of peer-reviewed and grey literature on certification but the quality of work on agri-export certification varies. Many studies are based on small samples (only one country or a limited number of farmers), and do not consider counterfactual evidence. There are many more studies on certified coffee than tea or cotton. Studies are also limited by the year(s) in which they are carried out. At times of low prices, for example during the coffee crisis, certifications such as Fairtrade perform far better against conventional, non-certified production than they do in times of higher prices. There are more studies looking at organic or Fairtrade certification than looking at the newer more corporate certification such as Rainforest Alliance, Utz Certified and CAFÉ Practices. Most studies of sustainability certification schemes concentrate on Latin America, and to a lesser extent Africa. There are very few good studies of experience with certification in Asia, and arguably none that can be considered to be impact studies. This means that the study of potential gains or challenges associated with certification for international markets from Asian countries has to be based on an analysis of value chains for the selected commodities in those countries, also taking into account socio-economic and agricultural factors.

Studies on certification also tend to look at the costs and benefits for participating farmers. Evidence of the impacts of certification schemes on those who do not participate (and the reasons why they didn't) is limited. The focus of this study has been on the pros and cons of investing in certification for sale in international markets; however these wider impacts should not be ignored. There is evidence that certification increases rural social and economic differentiation because farmers who do best from certification are not the poorest, but are those who have some capital, whether social, financial, natural and/or physical. These farmers are able to organise, have the capacity to invest and carry some risk, are probably already linked in to export markets, and are already producing fairly high quality produce. They may farm in areas with relatively better infrastructure such as roads and irrigation and access to market information. Strong external support from development organisations, businesses, or government, can help farmers who do not have these advantages, but it is difficult and is often not successful.

Poorer households in a co-operative may also gain benefits from certification, even if better-off households gain more in absolute terms.

Certification needs to be understood in the wider context of changes in global agri-food systems. Commodity production and exchange was largely regulated by states nationally and internationally. These systems have for the most part collapsed for a variety of reasons, and private regulation by agri-food businesses has filled the void (Muradian and Pelupessy, 2005; Giovannucci and Ponte, 2005; Daviron and Ponte, 2005; Mutersbaugh, 2005). The aims of such regulation are to secure supplies of profitable, safe and quality produce that facilitate increased market share. Standards and certifications specify how farmers are able to participate in markets. They are by definition exclusionary, in that farmers who do not meet standards cannot participate. Certification also puts most of the costs of compliance onto farmers. Many case studies show that farmers have to invest a lot of time and money to meet the requirements of certification schemes that are often subject to change, and risk possible decertification through inadvertent non-compliance.

Compliance can bring significant benefits, but they are not inevitable. Certified produce may not find buyers; for most schemes only a minority of what is produced under the certification is sold as certified produce. Premiums, where they exist, can erode over time. In the case of Fairtrade, minimum prices and premiums have not kept pace with inflation. Certification therefore has inherent limitations. As currently devised it is far from what a just system of production and exchange would look like if created from scratch. Nevertheless, different certification schemes can offer real benefits for farmers conditions, as discussed below.

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Certification is a means for small-scale farmers to upgrade their production system and can be a very successful tool for doing so. Certification can improve productivity, reduce costs and increase quality, all of which can lead to financial benefits and increased profits. In addition certification can be a successful means for farmers to diversify their markets and to establish longer-term relationships with trading partners based on co-investment and collaboration. However, it is important to bear in mind that the conditions under which certification will be a viable option for farmers are highly context specific, depending upon the nature of the original farming system employed by farmers, their existing links to markets, the ways in which they are organised, whether they can access external support and how developed the certified market is for the commodity in question.

In many cases, certification can be a powerful safety net for farmers, both in terms of the improved buying relationships they may have established and higher prices compared to conventional farming (and minimum prices in the case of Fairtrade) in times of low commodity prices. This safety net appears to have held up well during the economic downturn, with the possible exception of organic certification where premiums appear to have declined for coffee from some markets, in Latin America in particular.

Indeed, although the global economic recession has had an impact on the rate of market growth for some certification schemes, notably organic, the evidence suggests that growth is still the dominant trend and in many cases is still significant. Large businesses and brands have continued to adopt certification schemes for some of their leading food lines (e.g. Cadbury's Dairy Milk, Nestlé's KitKat and PG Tips) despite, or perhaps because of,⁷⁰ the recession. If this trend continues, and as yet it shows no signs of waning, the market potential for certification schemes is significant. The impact of moving into mainstream markets is uncertain, particularly with regard to price premiums. Fairtrade is the most immune from potential downward price pressures as a consequence although the long-term decline in value of Fairtrade prices is important.

Despite the potential benefits of certification, it is, by its very nature, exclusive and it is not likely that all farmers could achieve it in its current state. Even schemes that aim to be mainstream, such as Rainforest Alliance and Utz Certified, do not deal on a large scale with low quality produce or with small-scale farmers. For many marginalised farmers, certification is only likely to be successful where there is already, or is potential for, quality or well-branded produce and where support from exporters, buyers or NGOs is available for investment in the costs of certification or the training needed. They also need access to markets and even once achieved, certification does not guarantee sales. As Consumers International (2005) argues, certification merely allows good producers to differentiate themselves from poor performers, but has limited impact on the behaviour of poor performers.

Many conclusions can be drawn about certification in general and these are discussed in further detail below, with particular recommendations about prerequisites for successful engagement with sustainability certification. In addition varying conclusions about different certification schemes were presented in Section 3.

5.1 Recommendations for successful engagement with certification

1. Certification's key benefits are not necessarily financial in the first instance

The developmental and learning benefits from certification may far outweigh the financial benefits. Anecdotal evidence suggests that the farmers who engage with certification most successfully are those who are not driven by price premiums but who consider the developmental, or indeed environmental or health benefits, to be the most compelling reasons for engagement.

70. Many analysts suggest that the recession has undermined people's faith in big businesses and, consequently, retailers and looking to reduce their reputational risk by investing in 'sustainability' and third party verification of this sustainability.

2. Establish market access first

Certification is typically most successful when farmers are already linked to markets and can use these links to obtain support and co-investment for certification. To minimise investment risks, it is highly recommended that farmers identify existing or potential buyers who recognise the value in certification and can serve as a market link for certified produce. Certification is unlikely to create market access for those who are not currently linked to markets. The total cost of certification can be very high. Certification without a guarantee of a market is a high risk strategy.

Farmers also need to be realistic about the volumes they can sell to certified markets – some produce is likely to go into non-certified markets. There can be a danger that farmers go into certification based on information about segmented or niche markets, only to find out later that what they are producing is not actually what buyers want, and that there is no demand. On the other hand, selling into multiple markets can be an effective means of market diversification.

3. Get external support

It is very rare for certification to be adopted successfully without external support, whether in the form of financial support for the costs of certification and auditing or for meeting the certification requirements themselves, technical assistance, help with marketing, guaranteed market access or help to get organised. This is notwithstanding the fact that the decision to explore certification as an option might emerge from within the group. Giovannucci's (2005) study argues that in India support for small-scale producers to participate in certification schemes came from NGOs or the private sector and more recently from the government. According to one informant, 'You need effective local institutions to "get to" local farmers. This could be universities, local government and so on. You need to hit local institutions to get farmers up and running with certification and support needs to remain at the ground level. This is where there needs to be a nexus of investment'.⁷¹

Exactly which forms of external support are important will depend on the specific constraints faced by any given set of farmers. In some cases it may be that financial support is most important, in others it may be that support with organisation is more significant and finance is not the primary problem.

4. Farmer organisation is vital

Group organisation is essential for certification. While not all schemes require it, without group organisation the costs of compliance and certification are prohibitive, economies of scale cannot be achieved and transaction costs for developing links to markets are likely to be excessively high. Indeed, evidence suggests that group organisation of small-scale farmers is vital for any effective link between them and markets to be established. Certification is no exception.

71. Interview with co-founder of COSA, May, 2009.

Groups of farmers can also implement monitoring systems to reduce the costs of auditing and inspections by an outside agency, as they can inspect a sample of farmers rather than each individual farmer. Having an organisation that encourages mutual assistance, co-operative action, and learning about sustainability is also important.

The nature of group formation may vary, particularly from country to country. Some reports have suggested that there has been resistance from farmers to participation in registered farmer co-operatives in parts of Vietnam and Indonesia, for example, because of cases of corruption involving co-operatives (Markets4poor, 2004; Neilson, 2008). Emergence of farmer co-operatives is underway in China, but has not been straightforward due to government demands that co-operatives have only technical or commercial functions, depending on the nature of the registration they have with the government, and not advocacy functions. It is important that co-operatives are accountable to their members and monitored to ensure efficiency; without this there is a risk of excessive costs and that profits or premiums will not be invested wisely.

Giovannucci argues that strong organisational structures are essential, based on an example in China where group formation was not in existence and certification was therefore impossible:

These [groups] are vital for disseminating information, supporting farmers through the early adaptation processes that encouraged many to undertake conversion, as well as for continuity and successful marketing. It has been argued that operating on a small scale within the partially privatized common property regime [means that] Chinese farmers are too poor, too weak and too isolated to embark on conversion to organic agriculture and some form of collective organisation is necessary to reach a minimum efficient scale of production and marketing (Giovannucci, 2005:16).

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This is supported by Ferrigno and Lizarraga who argue that 'Strong farmer organisations and participation can benefit production by helping motivate farmers and drawing on their experience and knowledge. Most successful projects we have studied involve some form of formal or semi-formal farmer structure and/or a strong element of social/community/ family cohesion among farmers' (Ferrigno and Lizarraga, 2008:6).

Farmers in strong groups tend to be in better bargaining positions, particularly with regard to negotiating prices and contracts, tend to require far less external support and can generate ideas and sustain production more easily. However, IFAD also argues that promoting farmer organisations is worthwhile to increase the likely success of small-scale producers' participation in certification schemes: 'programmes and projects that promote the adoption of organic crops among small farmers should include interventions to strongly support farmer organisations' (IFAD, 2003:xiv). Group formation can help to ensure compliance

for all growers in the group and helps to prevent fake organic production – a growing problem according to IFAD (2003) supported research.

A question for the future is whether certification schemes themselves need to adapt and find new ways of working with individual farmers. In some cases, this would be better suited to the realities of small-scale farmers, particularly where farmers are not organised (and most are not), and where organisation is particularly difficult for historical, cultural or other reasons. These new forms of certification would need to bring some of the capacity building to replace that which can come with organisation, to individual farmers.

5. Internal management and control systems are vital for successful engagement with certification

Internal management and control systems are necessary for getting certified, and are vital for continued, successful engagement with certification. Group formation is meaningless without the relevant management capacity, processes and procedures in place to enable the group to audit and maximise benefits from economies of scale. Effective management organisation is important for monitoring certification and production, ensuring compliance, and using information to improve the farming or group system and maximise benefits from certification. Management organisation, however, does not need to be excessively complex or complicated.

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6. Improving product quality improves market access

Quality produce is key for successful engagement with certification for export. In many cases it is not known and, except in the case of Fairtrade, impossible to tell whether any price premiums are associated with certification itself or the high quality produce that is typically expected and sold by the certification scheme. Quality demands do vary, however, with organic and Fairtrade often associated with high quality products, whereas some Utz Certified and Rainforest Alliance certified products, being aimed at mainstream markets, are less strongly associated with high quality criteria. The process of certification is also a key means of improving quality of produce.

7. Domestic markets may be more important than export markets

The focus of this research has been on certification for export, and not on the relative merits of exports and domestic markets. Any group looking at export opportunities, however, should balance these against any opportunities for supplying local markets. As a process of 'supermarketisation' occurs in the developing world, quality produce, and standards in general, will become more important. Certification will help farmers to be 'ahead of the curve' when changes occur in the retail industry in their domestic markets, as consumers become increasingly aware of issues with quality, safety, traceability and sustainability and come to understand and have confidence in certification schemes. For geographic labels, domestic markets can be significant and may

also be the most straightforward to implement from a marketing perspective. Selling into both domestic and export markets can be a useful strategy for market diversification.

8. Multiple certification can be advantageous

Adopting a second certification after a first certification has been achieved, or getting certified domestically before adopting international certification can be beneficial in terms of guaranteeing market access and strengthening buying relationships. The certification schemes are not mutually exclusive in their conditions or market niches. Farmers converting to organic, where conversion periods can be lengthy, can find it advantageous to adopt Fairtrade at the same time, in order to benefit from its premiums and the minimum price, whilst working towards meeting organic standards. This can improve the sustainability of farmers' income. It may be essential to have organic certification as well as Fairtrade to secure market access, because of the oversupply of Fairtrade produce and competition between producers to attract buyers. Evidence suggests that as farmers meet one set of standards for certification, the process of complying with further certification schemes and standards becomes much easier and requires less investment. Multiple certification also offers a source of market diversification, and can therefore act as a risk management strategy for farmers. However, the costs of achieving multiple certifications, such as the cost of certification itself, or of the audits, may be a barrier for some farmers.

Multiple certification also allows farmers to make the most of the emerging market trends towards multiply certified goods. Industry experts believe that convergence of schemes is necessary and is likely to occur. According to one analyst: 'there will be a convergence of certification schemes...there are only so many schemes and standards consumers can look at before they crack – there needs to be some convergence.'⁷² If so, multiple certification would enable farmers to pre-empt these trends.

9. Farmers should participate in the governance of certification

Over the medium to long term the degree to which farmers and civil society organisations are able to participate in the governance of different certification schemes will influence how much they can deliver sustainability and development benefits. This includes participation in the setting of standards and prices and their revision. Meaningful participation will contribute to the design of relevant and fair standards. It is important to ensure that private sector influence over certification design is balanced with accountability to small-scale producers and their representatives. Excluding farmers and civil society organisations from decision-making processes could reduce the transformative potential of certification.

72. Interview with ethical trading manager of a boutique coffee and tea retailer, 2009.

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Pro-poor certification: Assessing the benefits of sustainability certification for small-scale farmers in Asia

Enabling small-scale farmers to engage in global markets for their produce is a pressing issue for many countries. Sustainability certification schemes such as organic, Fairtrade, Rainforest Alliance, Utz Certified and CAFÉ Practices can help small-scale farmers access new export markets. But do certification schemes and labelling strategies for products from particular geographical areas deliver benefits to poor and marginalised farmers? Using a review of the evidence and new case studies, this report assesses the relevance of certification schemes for coffee, tea and cotton farmers in China, India, Indonesia and Vietnam.

Certification may help some farmers reach more lucrative markets and gain greater returns for the tea, coffee or cotton they produce. It can help them improve their skills, and understand about quality, markets or learn new production techniques. But the high costs and exacting demands of certification can also exclude the poorest farmers in favour of those who are better off and already organised. Poorer farmers are more likely to lack the information, skills, capital and networks they need to improve their bargaining position. These farmers need carefully targeted support from external agencies such as governments, NGOs, the private sector or the certification bodies themselves if they are to see the benefits of certification.

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