

Poverty Alleviation through Participation in Fair Trade Coffee Networks: The Case of CEPCO, Oaxaca, Mexico¹

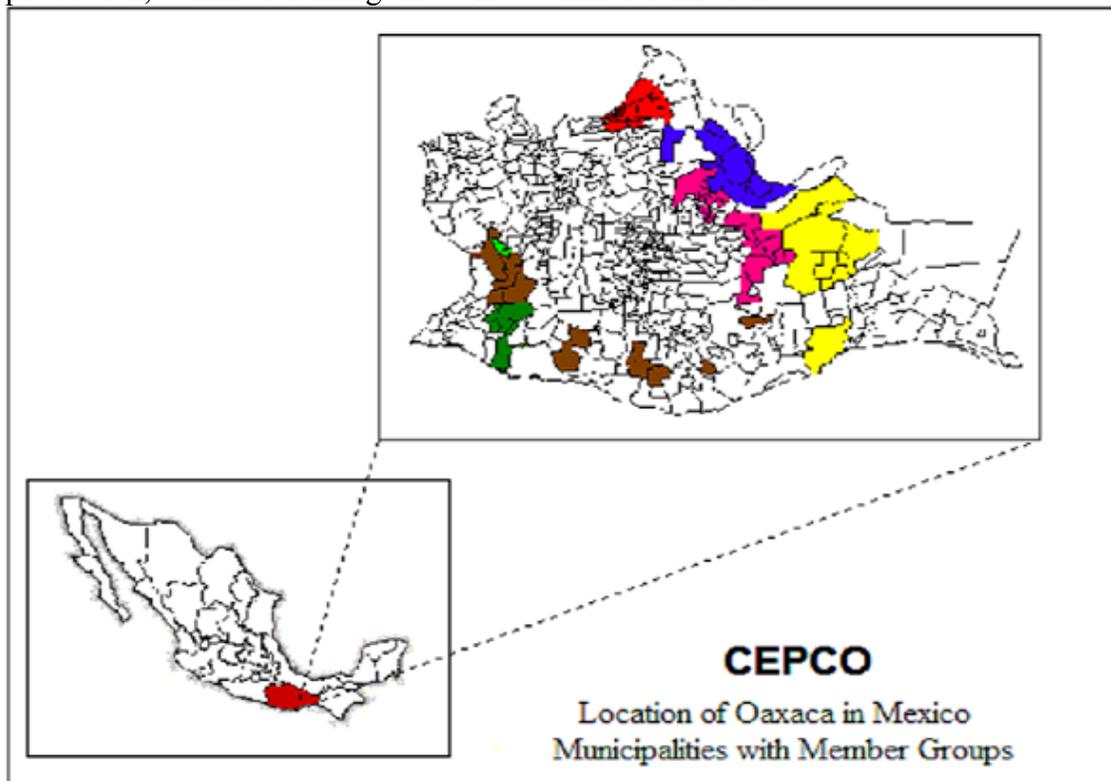
Coordinadora Estatal de Productores de Oaxaca (CEPCO)

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1) Participation in Fair-trade Markets: Historical Context

The Coordinadora Estatal de Productores de Café de Oaxaca (Oaxacan State Collective of Coffee Producers, CEPCO) was formed in 1989, coinciding not coincidentally with a worldwide crisis in coffee prices and the withdrawal of Mexican government support from the Mexican Coffee Institute (INMECAFE), which for decades had promoted coffee production, technical training and coffee commercialization.



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CEPCO brings together a diverse group of small coffee growers' organizations from all of the coffee producing regions of the state (Costa, Istmo Mazateca, Mixteca, Paploapan, Sierra Norte and Sierra Sur); some groups were newly created to join CEPCO and others were previously formed through INMECAFE. Currently there are 41 regional organizations and close to 16,000 producer members (See Appendix 1).

From the very beginning one of the priorities of CEPCO was to achieve direct exportation of their coffee, and for this reason the Comercializadora Agropecuaria del Estado de Oaxaca S.A. de C.V. (CAEO, or Agricultural Products of Oaxaca,) was formed in 1990.

After many years of work the small producers of CEPCO have achieved one of their primary goals: the appropriation of the productive, industrial and commercial processes. Many steps were needed to reach this position of relative success in the market, including:

1. Technical improvements in coffee production.
2. Direct access to market and price information.
3. Collection and transportation of coffee beans from farm to processing facility to port.
4. Industrial capacity to provide quality coffee processing.
5. Diverse financing systems.
6. Competitive marketing strategies.
7. Formation of public policies by and for the producers.

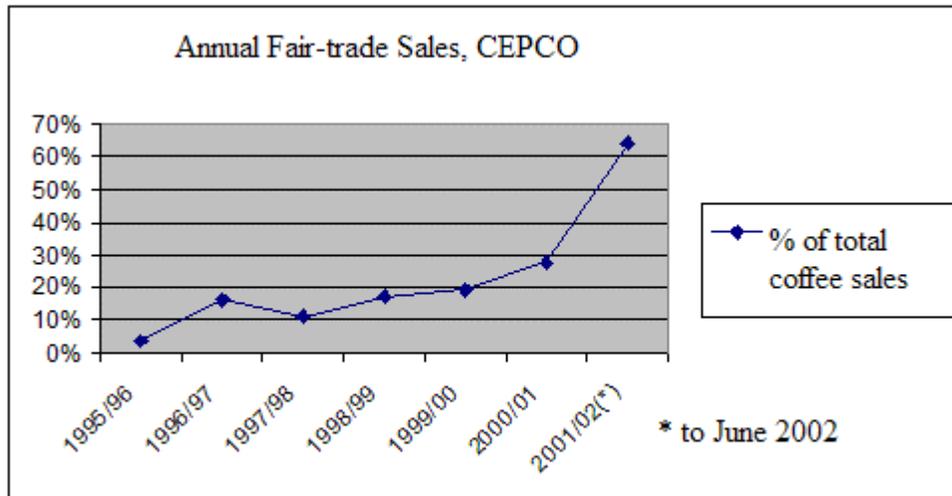
CEPCO became aware of an alternative fair-trade market in Europe through the assistance of other groups in Mexico that also belong to the Coordinadora Nacional de Organizaciones Cafetaleras (National Collective of Coffee Organizations, or CNOC).

In 1990 initial contacts were made with European groups that were buying fair-trade coffee (for example Twin Trading) and in 1992 a representative from Max Havelaar-Holland met in Oaxaca with the directors and advisors of CEPCO, explaining the overall idea of fair-trade and how the inscription process worked. After these initial contacts representatives from CEPCO participated in international coffee meetings such as the Specialty Coffee Association of America and Biofach in Germany.

Although no coffee was sold in the fair-trade market during the first few years, 13 regional groups from CEPCO became inscribed in the fair-trade registers in 1993. These 13 groups represent all the groups of CEPCO that were interested at the time; all of the groups that applied for inscription were accepted. The rest of the groups were given the opportunity to join as well but decided to wait and see the results of the first groups participation.

Although initially there were very high expectations, it soon became evident that simply being registered as fair-trade certified did not lead directly to export contracts. Many of the regional organizations did not make their participation in the fair-trade system a high priority after seeing that the percentage of sales possible in this niche were very low.

Below is a graph which shows the fair-trade sales of CEPCO from 1995/96 to 2001/2002:



2) Fair-trade Networks

As was mentioned above, CEPCO began to participate in the fair-trade system through contact with the small coffee growers associations of CNOC. Therefore CEPCO's membership in CNOC was one of the primary factors that contributed to its entrance into the fair-trade market. CNOC not only shared its experiences and knowledge with respect to the commercialization of fair-trade coffee, but since its inception in 1990 has fought with the national government for the recognition of the rights of small coffee growers.

CEPCO had no difficulties becoming certified first through Max Havelaar, and later through FLO, because it is an organization of small producers, most of them indigenous, with democratic structures and organization. The board of directors is elected every two years at a congress in which delegates from each member organization participate. There is also a monthly state level meeting in the city of Oaxaca in which all of the delegates participate as well. So CEPCO already had in place the fair-trade criteria of democracy and transparency, concepts which are also required from the regional member organizations, which include members of all ethnicities, religions and political tendencies.

One problem that was evident from the very beginning is that the fair-trade market is very restricted with respect to the number of organizations that participate. For example, GEPA from Germany and the other European companies bought almost exclusively in Mexico from the Frente Solidario (Ismán, La Flor de Café and Michiza) and UCIRI, the latter being one of the founding organizations of the Max Havelaar seal and the fair-trade concept. As a consequence of this closed system, CEPCO did not have immediate access to the fair-trade market even though they already had well established contacts with some organizations (Coalition of Ejidos of Atoyac, part of CNOC) and importers (Twin Trading) that were buying and selling fair-trade coffee.

Over time CEPCO increased its contacts within the fair-trade market both through work with the exporting business of CNOC (Promotora Comercial de Cafés Suaves Mexicanos) and through experiences gained exporting its own coffee. It gained a good record in completing contracts, handling large volumes, and producing high quality coffee. All of this, along with the increase in prices in 1994 due to the heavy frosts in Brazil, permitted CEPCO to first sell fair-trade coffee in that year, taking over contracts left by other organizations that preferred to sell their coffee in the conventional markets.

There are two important elements that allow CEPCO, and most likely the majority of the social organizations that participate in the fair-trade market, that allow them to continue within the fair-trade system: first, relationships of trust that have developed between the selling organization and the buyers (brokers-importers); and secondly the full completion of all the conditions of quality and delivery times included in the contracts.

It is important to mention the system of financing that CEPCO has used for the harvest, processing, and marketing of coffee because only in very rare occasions has it been necessary to use pre-financing. CEPCO has constructed its own financing system that does not rely on pre-financing.

In 1990 CEPCO faced a deficit of funds for the gathering and marketing of the harvest, and decided to form a fund made up of resources from the member organizations. These resources came from different sources (mostly savings and government programs), and were collected with the aim of distributing the money through projects programmed to correspond with the harvest season in the different geographical regions of the member organizations. This program became known as the *bolsota*, or the “big purse”, and successfully resolved the scarcity of capital for that year. After many years of effort, CEPCO has formed a credit union (UCEPCO) from these funds, beginning in 1995 with a capitalization of \$1,425,000 and currently with \$6,841,000 of capital.

One of CEPCO’s strengths is this self-contained credit system, which does not only serve the member organizations of CEPCO but also other organizations of small coffee growers in Chiapas, Veracruz and Puebla.

The financing and distribution of credit is based each year upon the annual program plan that is revised in the monthly community representative meetings. Credit is also available to the growers through the Action Fund (Banamex-Fomin, IDB) and the National Fund for Assistance to Social Businesses (Fonaes).

The credit union operates with a fairly simple system. In August or September each member organization presents a coffee delivery plan for the coming harvest. The technical staff of CEPCO analyzes the proposed plans and prepares a plan that includes all of the groups’ requests, and presents this plan for approval from CAEO, which serves as the creditor. Once approved by CEPCO, CAEO and UCEPCO, the proposal is presented to BANCRI, which actually provides the credit, for approval. Once approved, the community delegates present requests for funds that will meet the needs of their constituents for the month at the monthly meetings. The requested amounts do not

always coincide with the budgeted amount, as the exact figures depend on the current international market value of coffee and on the amount of coffee being harvested. Once all the coffee has been delivered and sold, CAEO finalizes the accounts with the amounts of coffee delivered for sale by each regional group. On the first Monday of each month the representatives of CEPCO, CAEO and UCEPCO meet in Oaxaca City to request more credit and to approve payments of money to the bank accounts of the members. The credit union provides copies of the payments to CAEO, which cancels the loans for each regional organization once their coffee has been sold. Each harvest cycle CAEO subtracts their operating costs from their sales and distributes the balance proportionally among all the members.

The same financial structure is used for the commercialization of all coffee, including fair-trade coffee and coffee sold through other markets. All member organizations of CEPCO have access to this credit system if they are also shareholders in the credit union.

Each year the percentage of total sales that has been sold in the fair-trade market has been increasing. The fastest growing market segments in the last few years are organic coffee and fair-trade coffee.

CEPCO made its first sales of fair-trade coffee to A. Van Weely during the 1995/1996 harvest. This sale of two lots was during a harvest with very high prices, and some organizations in other countries failed to fulfill their delivery agreements with this buyer.

Although theoretically fair-trade coffee can be conventional or organic, since 1993 and 1994 this niche has specialized in organic coffee. UCEPCO could not sell its conventional coffee until an organic production program was started with 400 growers from the regions of Mixteca (Sociedad Cooperativa [S.C.] 21 de Septiembre and S.C. Mixteca Alta del Pacífico), Mixe (S. C. San Juan Metaltepec) and Sierra Sur (UPIZ Sur).

It was in the 1999/2000 harvest season that CEPCO achieved 20% of total sales in the fair-trade market, and also in that year the organizations that participated in the organic production program (31 regional groups have participated in the CEPCO organic program, and 28 currently are certified, representing approximately 6,000 producers) began to benefit from the higher prices obtained through organic sales. The interest of other groups in organic production also began to increase noticeably in that year.

In the table below can be seen the sustained increase in fair-trade sales that CEPCO has achieved:

Table 1: Summary of CEPCO Fair-trade Sales

| Harvest | 1995/96 | 1996 /97 | 1997/9 8 | 1998/9 9 | 1999/2000 | 2000/01 | 2001/02* |
|--|----------------|---------------------|---------------------|---------------------|------------------|----------------|-----------------|
| Organic Coffee (69 kg sacks) | 0 | 460 | 2125 | 4045 | 3940 | 5455 | 10785 |
| Conventional Coffee (sacks) | 880 | 2750 | 275 | 775 | 1550 | 275 | 1600 |
| Total (sacks) | 880 | 3210 | 2400 | 4820 | 5490 | 5730 | 12385 |
| % of Total sold as Fair-trade | 3.5 | 16 | 11 | 17 | 19 | 28 | 64 |

*As of June 2002

Note: coffee in transition to organic is sold as conventional

Source: data taken from CEPCO records

In addition to participating in the fair-trade market, CEPCO has focused its marketing strategy on accessing the specialty coffee segment of the market. This niche demands coffees of exceptional quality and significant price premiums above the market value. To achieve this goal CEPCO has created a number of brands based on the geographical origin of the coffees in various regions of Oaxaca, including “Putla/Mixteca”, “San Agustín Loxicha” and “Progreso”, among others.

CEPCO also maintains constant and direct communications with a portfolio of diverse clients, initially including Van Weely, Hamburg Coffee Co., Excelco and Royal Coffee, and in recent years also including NAF, GEPA and Equal Exchange. CEPCO has direct programs for the promotion of the fair-trade market with some of these buyers, which include visits to Oaxaca and the coffee producing communities from representatives of the buyers so that they have direct and precise knowledge of who they are buying coffee from.

There are also relationships of commercial loyalty with some clients (Royal Coffee, for example) that permit the negotiation of price premiums that, while perhaps not at the same level of fair-trade premiums, are still much higher than conventional prices. The relationship that CEPCO maintains with this North American importer stands out as one of the positive results obtained from participation in the fair-trade network.

While most producer groups base their fair-trade sales almost exclusively on relationships with European buyers, CEPCO entered the fair-trade market with a North American buyer, Royal Coffee. While Royal Coffee was not registered with FLO, it has always purchased coffee at preferential (fair-trade) prices from the cooperative. They have also always offered social premiums and pre-financing without officially belonging to any fair-trade initiative. When Transfair began to operate stably and permanently in the United States, and as the relationship of trust between the organization and the

importer became stronger, Royal Coffee became registered with FLO and began to participate actively.

Other important changes that have had significant effects on the fair-trade movement:

-The increased number of participants in fair-trade networks through the unifying effects of FLO, and the increase in participating roasters and importers from the United States and Canada.

-The unified actions of all the producer groups within FLO has resulted in increased producer influence in the decision making process and internal structure of FLO.

-Recent discussions among the organizations of small producers in different parts of Mexico have resulted in efforts to consolidate the supply of coffee to the fair-trade market.

3) Organizational Structure of the Cooperative with Respect to Participation in Fair-trade

The formation of the Oaxacan State Collective of Coffee Growers (CEPCO) represented both a risk and an opportunity for the small coffee farmer members. The small producers come from different organizational and ethnic backgrounds but all suffer from poverty and crises in their communities.

It was a political risk because joining CEPCO meant abandoning the traditional community power structure, dominated by *caciques* (strong-men), which limited them to one system for the production and marketing of coffee. But at the same time it offered opportunities to meet other producers in the same situation, to work together for mutual gain, and especially to confront collectively the “death sentence” declared by the Mexican state in 1989 for the economic and social life of the indigenous coffee growing communities.

CEPCO was formed based on two pre-existing organizational structures. First, the farmers organized themselves around abandoned associations, usually at the municipal or regional level, which were reinstated to give legal status to the new organizations being formed. Secondly, a new class of association was formed, called the “Unions of UEPCs.”²

Both processes had a common element: the direct incorporation of community representation from both the “old” and the “new” organizations at a regional level, which translated into increased participation from the grassroots level and that permitted, through communication, cooperation and intervention, the direct and daily participation of the farmers in the construction of their new cooperative.

² UEPCs are Unidades Económicas de Producción y Comercialización (Economic Production and Marketing Units), community-level organizations formed under INMECAFE but lacking legal status.

So CEPCO began as a movement to have the voices of small farmers heard and to propose actions to confront the present crisis in coffee production. But in a short period of time it became a social organization made up of numerous groups of small producers, from all parts of the state of Oaxaca, who proposed the formation of a social business that would be able to collect, process and sell coffee; obtain and administer a system of credit; and promote community development projects, the participation of women, the diversification of productive activities and the struggle for indigenous rights (See Rosario Cobo, 1999). Although CEPCO began as an organization interested only in coffee, and the production of coffee has been its primary activity, its work throughout the years has been multifaceted, playing an important role in the peasant movement of Mexico.

The regional social organizations that belong to CEPCO are collective in nature, and are made up of the families from one or several nearby communities. Affiliation with CEPCO is not on an individual basis, but through regional organizations that represent an area with a common language. These regional organizations vary in size, economic status, politics and organizational structure. Within the diversity of these groups are principals, activities and programs that are shared among all.

The members come from 423 communities in 73 municipalities of the state of Oaxaca. The indigenous groups represented are nahua, mazateco, chinateco (from the mountains and the lowlands), zapoteco, serrano (from the south and the isthmus), mixteco (from the lowlands and the coast), chatino, mixe, zoque and tacuate. There are also women's groups that are active in production and service projects, representing 4000 women, both female farmers and immediate family of members. The cultural diversity of the membership of CEPCO allows us to label it a multiethnic and complex organization, with members from eight distinct cultures, each with its own language, customs and traditions.

There are three specific elements of the leadership and organizational structure of CEPCO:

1. The valuation, recuperation and support of fundamental aspects (decision-making, elections, delegation of power, etc.) of the organization and the community life of the indigenous communities serves to sustain the organization at all of its levels: local, regional, state and national.
2. The development of practices that are considered "the principles of the organization", which permit the normalization of both internal and external relations. These practices are plurality, democracy, autonomy, and administrative transparency (with respect to access to the permanent accounts of the cooperative).
3. The formation of a technical work team made up of regional managers and advisors. The technical team offers training and technical consulting to the coop members and develops management activities in marketing, financing and administration.³

³ The technical team started as part of Campo AC, and then became part of CEPCO. It has increased its abilities in the areas in which CEPCO has specialized: organic coffee production, organization of female coffee producers, financing and marketing.

The highest authority of the organization lies in the congress, which is made up of the elected delegates from each regional organization. The congress meets every two years to elect the State Directive, which is made up of a president, secretary, treasurer and a representative from each region of the organization (Mixteca, Mazateca, Sierra Sur, Sierra Norte, Papaloapan, Istmo and Costa).

In the time between congresses the decision making body of CEPCO is the monthly representatives' assembly. This monthly meeting is held with the participation of at least one representative from each regional organization in addition to the State Directive, the directive of the women's commission and the technical team. The Women's Directive is elected every three years in the state-level women's congress.

Decision-making and the dissemination of information about fair-trade and all other affairs, including commercialization, public policies, programs and projects, are accomplished in the Congress and monthly representative assemblies.

Everybody knows how the fair-trade pricing system works: buy/sell contracts between the producer organization and the importer or broker set the price at \$1.21/lb for conventional coffee and \$1.41/lb for organic coffee. An additional \$0.05 is added per pound for the "social premium".

Initially in CEPCO the fair-trade premium was distributed equally among all participating producers after discounting expenses incurred in the cooperative (see expense table). At the end of every harvest season the cooperative calculates the amount of coffee delivered by each producer in kilograms of parchment coffee. Based on this quantity each producer receives an adjusted price which takes into account the quantity of coffee delivered and the expenses incurred by the regional organization to which he belongs. The expenses for each organization differ depending on their size (number of members), location (distance from the processing facilities) and total quantity of coffee delivered.

This process was followed up until 2001 when it was decided in the monthly assembly, with the recommendation of FLO, that the "social premium" should not be distributed to the members but held in a separate account to be used collectively for projects or social activities that each participating cooperative would decide upon democratically in their regional assemblies.

It should be clarified that the price paid to the producers has always been calculated during the coffee harvest based on the following factors: international price in the commodity market of New York, price differential (positive or negative depending on type of coffee), currency exchange value (US dollar vs. Mexican peso), the coffee yield after processing, and fees for commercialization, processing and administration. The prices are still determined using this process, with a few alterations that will be discussed below.

In 1997-98 the representatives' assembly decided to incorporate a variable price system based on the geographical regions, which arose from quality differences in the coffee coming from different areas.

The grouping of regional organizations in zones was based on the following considerations: yield and historical percentages of coffee exported (average over many years) by each organization in coffee processed from parchment to green stage. In 1996-97 another variable in determining prices was added, this time related to the production of organic coffee. And finally in the most recent harvest it was decided to pay a different price for coffee in transition from conventional to organic, this price being slightly higher than the conventional price. In this case the coffee is actually sold at the conventional market price, the price premium coming from the funds of the cooperative and added as recognition for the effort put into the transition process.

Below is a table gives an example of how the daily prices are calculated, combining all of the factors described above:

Prices Paid at Delivery
Position: July 1
Date: July 11 2002
New York Market Price: \$53.40/100 lb
Peso x US\$: 9.7

| | Zone "A" | Zone "B" | Zone "C" | Transition | Organic |
|-----------------------------------|-----------------|-----------------|-----------------|-------------------|----------------|
| International Price | 53.40 | 53.40 | 53.40 | 53.40 | 53.40 |
| Price differential | 5.00 | 7.00 | 9.00 | 5.00 | 20.00 |
| Subtotal | 48.40 | 46.40 | 44.40 | 48.40 | 73.40 |
| T.C. | 9.70 | 9.70 | 9.70 | 9.70 | 9.70 |
| Equal | 469.48 | 450.08 | 430.68 | 469.48 | 711.98 |
| Less expenses | 152.35 | 152.35 | 152.35 | 152.35 | 190.85 |
| \$/ quintal | 317.13 | 297.73 | 278.33 | 317.13 | 521.13 |
| % Export | 90% | 80% | 70% | 90% | 90% |
| Export | 285.42 | 238.18 | 194.83 | 285.42 | 469.02 |
| National Consumption (x 46 kg) | 295 | 295 | 295 | 295 | 475 |
| Total expenses | 152.35 | 152.35 | 152.35 | 152.35 | 190.85 |
| Subtotal | 142.65 | 142.65 | 142.65 | 142.65 | 284.15 |
| % National sales | 10% | 20% | 30% | 10% | 10% |
| National | 14.27 | 28.53 | 42.80 | 14.27 | 28.42 |
| Export + National | 299.68 | 266.71 | 237.63 | 299.68 | 497.43 |
| Yield | 57 | 57.5 | 60 | 57 | 57 |

Each regional organization knows in which zone it is located, and has its own community or regional coffee receiving facilities. When coffee is delivered, the price to be paid is determined from the above table, which is provided to the regional organizations by CEPSCO continuously.

When the coffee is delivered the farmer receives payment of the determined price in cash and a receipt that includes the preferred channel of commercialization chosen by the farmer: coffee sold with a fixed price or with a pre-liquidation price. In the first case the farmer accepts the price at which the coffee will be sold as the final price. In the second case decides to wait until the finalization of all contracts for that harvest season to find out if the market price increased in the period after the coffee was delivered. If the price has gone up the farmer will receive an added payment based on this “final adjustment”.

This second option can only be finalized once the entire commercialization process of coffee for the year has finished and when CEPCO has balanced their accounts with CAEO. If a given regional organization has profits, then in a regional meeting it is decided if the money will be divided equally among all producers or some of it reserved for community activities or purchases.

The following information is provided in the annual balance report provided from CAEO:

a. General Information

Dry parchment coffee received:

Dry parchment coffee delivered to the processing facility
Dry parchment coffee processed
Differences

Coffee Obtained After Processing:

% of export quality
% for national market

Total sacks of green coffee obtained after processing

b. Revenue

Total coffee sales revenue

c. Subtraction of coffee harvest loans

d. Subtraction of recuperation of program costs (Alianza, Pizca and Temporary Employment).

e. Subtraction of costs

-Processing costs
-Administrative costs
-Sales costs
-Taxes (Value Added Tax)
-Total Costs (including taxes)

f. Final balance (Revenue minus loans, recuperations and expenses)

g. Liquidation totals

In addition to the annual liquidation data, a separate liquidation calculation is made that takes into account the percentage of sales that were made in the fair-trade market, and in this the social premium per sack exported is calculated and the total revenue provided towards the social premium.

During the first ten years of existence CEPCO grew in membership, each year incorporating new regional organizations. In some cases regional organizations have separated into two organizations, one each for conventional and organic coffee production.

In the general assembly of the last two years it has been decided to only allow groups of new producers who have committed to organic production to join the cooperative. This decision has greatly reduced the growth of CEPCO.

Below are the requirements for new members:

- To be organized as a group of small coffee growers.
- To be free from debt from other organizations in the state of Oaxaca.
- To present a written request for admittance to the representatives of CEPCO.

This request is then considered at the general assembly. In the monthly assembly meeting a commission is elected to visit the requesting group, and determine if they are willing to join CEPCO under the agreed terms. Finally the commission reports its findings in the assembly and a final decision is made.

4) Systems of Certification and Quality

The first few years in which CEPCO participated in the fair-trade network required much work from the regional organizations because each group had to obtain individual registration with the fair-trade certifier, and this certification had to be renewed each year. The process of documentation was long and tedious, and this effort was not compensated with contracts to buy coffee at higher prices.

Beginning in 1996 CEPCO attempted to get a single certification for the entire cooperative instead of the process of each regional organization applying separately; at this time there were 18 separate organizations in the fair-trade registers that all made up part of CEPCO. After two years of discussions and numerous visits from representatives of FLO (formed in 1997 as an umbrella group for all the fair-trade initiatives) CEPCO formally presented a proposal for one certification for the entire cooperative. In 2000 this was approved by FLO, renewable after two years.

CEPCO was first involved in the specialty coffee market, followed by fair-trade and then a year later it entered the organic coffee market. As mentioned above, these last two markets are almost identical, because as time goes on the consumer who demands a fair-trade product also wants to buy organic coffee.

The certification processes for fair-trade and organic are complementary, but there still is a problem in the certification system: there is a difference in recognition of certification agencies between buyers in Europe and in North America. This means that European buyers prefer to buy coffee certified by European agencies and vice-versa.

At first CEPCO obtained organic certification through OCIA (Organic Crop Improvement Association), a North American agency, but their seal was not recognized

or accepted by the European buyers, who demanded certification through European agencies. For this reason CEPCO began in 1994 to also work with the Naturland-Verband Association for Organic Agriculture, based in Germany. This agency certified CEPCO farms through IMO-Control, and this seal was accepted throughout the European market. Some of the regional organizations have decided to obtain both certifications. But this double certification is very expensive, so not all organizations can easily afford to pay for both.

Based on the problem of high certification costs, especially the fact that the certification agencies are foreign businesses and charge in American dollars, various organizations (including CEPCO), together with interested academics, have in recent years promoted the formation of a Mexican agency for the inspection and certification of organic products. From this effort CERTIMEX was formed in 1998. This is a Mexican organic certifier that is overseen by IMO-Control from Switzerland and Chapter 6-OCIA-MEXICO, and which has been able to significantly reduce the costs of inspection, membership and approval of certifications.

In this way CEPCO has participated in the formation of local standards for organic certification and more recently in the formation of a system for the regulation of fair-trade in Mexico. At the same time, concerned about the quality of coffee produced in Mexico, CEPCO has been participating in discussions about the production of sustainable coffee and is a member of the Mexican Civic Council for Sustainable Coffee Production.

Confronting the current crisis in world coffee prices, CEPCO's most recent strategy for success in the market is to differentiate their coffee through a focus on total quality. This search for quality extends to all of the niches (organic, ecological, shade-grown, bird-friendly, and fair-trade) in which CEPCO participates as producer and exporter.

The proposal is to develop a concept that unifies all of the niches and achieves a commercial recognition that is based on a supply of coffee that includes the following:

- high quality specialty coffee
- organic coffee that protects the health of consumers
- coffee that allows the natural environment to be protected
- coffee production that sustains the life of the coffee-producing families

Together these qualities lead to what can be called "sustainable coffee".

Finally there are two projects to improve the quality of the coffee produced. The first is the conversion from organic coffee production to sustainable coffee production, a project funded with financing from the Mexican government and from the cooperative itself. The second project focuses on the improvement of quality through post-harvest processes, and is funded by CEPCO and Oxfam America (using their own funds and funds from the Ford Foundation and Starbucks).

5) Producer Opinions about Fair-trade⁴

⁴ Taken from interviews with producers from Sociedad Cooperativa (SC) Mixteca Alta del Pacifico, SC San Juan Metaltepec, the Union of Small Coffee Producers Chuxnaban, and SC Santa Maria Chilchotla.

Although the state directive and technical team of CEPCO have given much information to the regional representatives in the general assembly meetings about how the fair-trade system functions, from the interviews it is clear that this information has not been totally assimilated among the producers.

Various causes can be described for this situation:

-Although some of the regional organizations of CEPCO have been inscribed in the fair-trade register of Max Havelaar since 1993/1994, most producers were not aware of this until a few years later because the majority of them have not even sold one lot of fair-trade coffee.

-During the harvest the producer realizes that he is getting a higher price for his coffee; this premium, however, is associated directly with his regional organization or CEPCO and not with the idea of fair-trade as such.

-In the first years of fair-trade sales the social premium was included in the final price of the coffee, and for this reason it was not identified as a separate premium, and the producers only saw that there was a difference in prices between lots, without realizing why.

-The transmission of information takes place at many levels – from the state-wide organization, CEPCO, to the regional organizations and from the regional organizations to the producer. Although the directorate of CEPCO and the technical team take part in the various regional level meetings, it is likely that the concept of fair-trade has not been assimilated due to the sheer amount of information that is shared in these meetings.

-The two niches of fair-trade and organic coffee are very closely interwoven, and the two are strongly identified together by the producers. Organic production has a direct relationship with the work that the farmers do on their farms, so fair-trade gets subsumed under the idea of organic production.

-For the farmers it is the organization and the collective work done through it that allow them to receive higher prices, not some outside network or system of market relationships.

In the 2000/2001 harvest the regional organizations that had sold coffee in the fair-trade market began to distribute the social premium independently from the final price of coffee. It is with this change that many of the farmers became more aware of the existence of fair-trade, as they now had the responsibility of deciding how to use the social premiums as a group.

Also in this year the percentage of coffee that CEPCO sold in the fair-trade market increased significantly. It is hoped that for this year, the 2001/2002 harvest, the percentage of coffee sold in the fair-trade market will reach 65%, and that the level of knowledge and understanding among the producers about fair-trade increase dramatically as well.

For example, the Sociedad Cooperativa San Juan Metaltepec, one of the regional organizations, has 116 members with organic production or in transition. These farmers know that they received a “social premium” for their coffee in the 2000/01 season but

they do not have a clear concept of what fair-trade is because they associate the idea of price premiums with organic production.

The producers know that the price they receive for their coffee is directly linked to the quality of the coffee. Although this may seem obvious, it has been a slow learning process, promoted by the structure of CEPCO, which includes many coffee producing regions with different agro-climatic conditions, environments and altitudes.

On the other hand with time the producers are associating quality with organic production, because it is the organic parcels that are cared for more, where organic fertilizers, pruning regimens, and control of *brocha* is done. For this reason when the farmers think about getting higher prices they think about the work they have put into organic production. And this also explains the always increasing interest that the groups have for the organic program of CEPCO.

The regional organizations that have taken part in the organic production program tend to exclude those members in their organization who have not participated, because these non-organic members tend to be the least active and involved in the coop. Also it requires great and costly effort for the organization to continue receiving and processing both types of coffee, because they cannot be mixed during the processing and must be stored in separate warehouses.

In general the following conclusions about the levels of perception that the farmers have about fair-trade can be drawn:

- The base membership of the coop see that there is a clear price difference between commercializing their coffee at a regional level through the coop and selling their coffee to *coyotes*.

- The producers that have held leadership positions in the regional organizations have a greater understanding of the fair-trade network, its system of buying and price premiums and the social premium. Some of these producers have participated in educational and exchange tours to the United States, Canada and Europe. A Canadian organization, Carrefour Canadian International (CCI), arranges annual exchanges in which Canadian university students come to Oaxaca and live with member families, resulting in increased mutual understanding and cultural exchange. The goal is to increase the understanding for the need of fair-trade in Canada. Some men and women from CEPCO have also traveled to Canada, to learn about the way of life, work and organizations there.

Finally, all of the current and past members of the state directive and of the technical team have a very clear understanding of the fair-trade system, because they participate directly in the national and international meetings of FLO.

6) Benefits of Fair-trade Participation for Producers, their Families, Communities and Organizations

Benefits for CEPCO at the state organization level

In the current situation of low prices, in which the international coffee market is suffering a structural crisis, being able to maintain a significant percentage of sales in the fair-trade system represents a clear economic advantage for the members of CEPCO.

Although the process of market insertion and the growth of fair-trade sales have been fairly slow, it has been a steady and sustained process. Currently the ability to insure a significant percentage of fair-trade sales allows the cooperative to guarantee a higher price to producers for delivery of parchment coffee. Not only does this help to maintain the credibility of the cooperative among its membership—who during times of low prices “become discouraged and want to throw in the towel”—but also the credibility of CEPCO/CAEO as a viable producer-run social business through which the small producers can obtain a higher value for their primary product.

Although CEPCO has had to use the pre-financing options offered through the fair-trade system in only two occasions, it is an advantage to know that in difficult times this is available as an option.

Another advantage of being in the FLO register is the increased circulation of information between buyers and producers, which offers the opportunity to make contact with new buyers (sending samples and going on marketing tours, etc.).

With respect to public government organizations, the fact that CEPCO sells in the fair-trade markets gives a certain prestige since it is assumed that the organization is subject to external monitoring and also demonstrates initiative and a capacity to enter new market niches.

The fair-trade system in general promotes a strategy of quality improvement among the producers, so participation in fair-trade has caused the organization to be more demanding with respect to quality, and to be more careful in the processing of coffee. The producers are required to be more cautious in production activities and pest control.

Benefits for the Regional Organizations

A variety of perceptions about fair-trade exist at the level of regional organizations due to the fact that some of them have been able to meet the fair-trade buyers demands - both in quality and organic coffee – and make sales while other organizations have not been able to enter the market. Also differences exist resulting from the particular structure of each organization. For example some groups have distributed the social premium among the members and others have used it for community projects.

In one of the organizations, SC Mixteca Alta del Pacifico, the fair-trade market is directly associated with organic production. One of the leaders of this group listed among the advantages soil conservation, higher yields, and the ability to participate in projects aimed at helping production: all of these advantages come from the organic production and not directly from participation in fair-trade.

In general the organic producers are the most active participants at all levels in the coop, not just in organizational and commercialization matters but also in their interest in receiving technical training through the network of community extension workers established by the organic production program of CEPCO.

Price stability and the higher prices that are paid to the producers were identified by the leadership of the regional organizations as the principal advantages of the fair-trade market. They also identified their ability as managers to offer the security of permanent and stable higher prices to all of the members as an advantage of “being organized” more than as a direct advantage of fair-trade participation.

SC Mixteca Alta del Pacifico decided to distribute the social premium among all of the members equally, while SC San Juan Metaltepec decided to use the premium to create a fund that can be used by the organization in an emergency, to pay for an unforeseen need, or to cover the costs of participation in different projects and programs for members (for example the women’s groups’ activities). Another group, SC Fuerza Organizada, used the social premium from the most recent harvest to buy a truck that will be used in transporting coffee as well as other needs of the organization and community. UPIZ-Sur decided in their assembly meeting to use the 2001 premium for a small local project. SC 21 de Septiembre, one of the largest regional organizations, is going to use the premium to remodel their regional warehouse, including improvements to office space and dormitories for the members to use.

Benefits for Producers

The most direct benefit is price. But, as discussed above in section, the interviews demonstrated a lack of knowledge about the connection between the price received for fair-trade coffee and the price of the other coffees. The producers definitely appreciate the higher price, but this is associated with their membership in the regional organization or in CEPCO, and not with the fair-trade market.

Membership in CEPCO allows them to participate in various projects, like the Sustainable Coffee program (for organic producers and those in transition), and to receive technical assistance that leads to higher yields. Technical assistance provided by the cooperative in depulping, fermentation and drying processes leads to the production of higher quality coffee. All of these factors lead to an increased self-esteem among the member producers.

Those producers who work with organic coffee, who have inspections and follow-up to their work, have improved their coffee production and are proud to show their fields to visitors. At the same time their confidence and participation in meetings is increased. The producers that have leadership roles in their regional organization tend to be organic producers, and the leaders of many of the organizations that have not started organic production have shown interest in joining the program.

Although the level of comprehension is not always perfect, the producers benefit from the opportunity to have more information about how their coffee is commercialized, information that the board of directors makes available at the end of every harvest season.

The families of the members have access to other services as well, such as microcredit, which is important for families that do not have access to formal sources of credit.

Benefits at the Household Level

Before discussing the benefits for households, it is important to point out that coffee production takes place in the context of a domestic peasant economy, where the average family has six people and the cultivation of coffee is based primarily on family labor. It is primarily the family that harvests the coffee and depulps it, processing the coffee from cherry to parchment stage. Parchment coffee is much easier to store and transport than the coffee cherries. This is an important consideration to keep in mind since the majority of the coffee farms and coffee producing communities are in extremely inaccessible and remote locations.

Coffee production takes place within the logic of the peasant economy, which has a deficiency in food production (especially corn) and in diversified sources of monetary income. Although coffee is the principal commercial crop and source of income, it is complemented with day-labor incomes, remittances from emigrants, government assistance and the sale of other minor crops.

It is also important to note that the production of coffee takes place in communities and regions that do not have all basic services and infrastructure. As has been noted by other authors, the coffee producing zones coincide exactly with a map of extreme poverty, areas that have been identified as high priority for assistance by the Mexican government. On a day-by-day basis coffee producing families face multiple needs in all areas of life - health, education, communications, transportation – which make their lives more difficult.

Given the relatively small percentages of fair-trade coffee that CEPCO has sold up to the 2000/01 harvest, the impact of increased incomes on the member families has not been very significant. However, participation in the fair-trade market has allowed them to continue growing coffee while many other farmers have abandoned coffee production, moving to the cities or transforming their land to other uses – pastures or *milpas* (basic grain production) – with dire consequences in social and ecological terms.

With respect to organic and transition coffee (although transition coffee is sold in the conventional market, CEPCO gives a small price premium to reward the work the farmers are doing), the substantially higher price permits the farmers to recoup the increased costs in family labor that organic production requires.

In some coffee producing regions it is estimated that there has been less out-migration of family members (principally adult males) among the families of coop members who produce organic coffee. With the very low prices of the last few years, even the higher organic prices have not been able to prevent substantial migration in some areas of traditionally high out-migration, such as Mixteca. But in this situation at least a part of the family of organic producers have been able to stay behind to maintain the fields and prevent the loss of certification.

Economic improvements will be more significant when the percentage of coffee sold in the fair-trade markets is larger.

Through the regional organizations, and in particular the women's groups of CEPCO, the families of coop members have access to complementary projects such as chicken and sheep production, vegetable production, bakeries, reforestation nurseries, and craft production. These projects help to directly increase food consumption or to increase family incomes. Some projects offer direct assistance to the communities as a whole, including the food stores, community pharmacies and bakeries.

When CEPCO needs to use trainers or other personnel in the programs that they are managing, the members and their immediate families are used whenever possible (for example community extension agents for the organic program, community promoters for assistance in the women's groups, personnel to staff processing facilities, etc.).

Community Benefits

In general the direct benefits to the community from the sale of fair-trade coffee are not significant, due to the relatively small amounts of coffee that CEPCO has been able to sell in this niche of the market.

If there are indirect benefits it is in the communities where organic coffee predominates, due to the increased demand for labor that is paid for with higher prices obtained for organic coffee.

As has been mentioned above, the organizations that are part of CEPCO can also participate in projects that are not directly related to coffee production, processing and commercialization. These projects include food stores, community pharmacies, stationary stores and tortilla shops. Most of them are implemented through the women's groups and offer new service and cheaper prices to the communities.

The social premium, the use of which is decided in the regional assembly meetings, also has indirect effects on the communities: in some cases the premium has been used to

remodel the storage facilities and offices of the coop, facilities that are also used for community activities and events. In the examples where transportation, including pick-up trucks or larger trucks, has been purchased the vehicles also are available to the rest of the community for use at prices much lower than is common for the area.

The benefits of organic production are obvious as well. The general health of the environment is demonstrated through improved soil conservation and water management practices as well as the increased consciousness about the importance of conservation in general. One example is the increased importance given to maintaining diversity in the tree species used for shade in the coffee plantations. Other community members have seen the benefits of organic production with respect to increased yields, the regulations that prevent contamination of the environment, and higher prices. There are now bee-keeping projects in some organic coffee farms, and in the future the honey produced will also be certified as organic and fair-trade as well.

Problems and Solutions

The problem or weakness that was most commonly mentioned in the compilation of this report was the low volume of sales from which fair-trade still suffers and the need to promote aggressive propaganda and information campaigns in both the national and export markets so that the market grows.

This is a problem that not only affects CEPCO but all small coffee producers. For this reason the coop is actively pursuing a policy of sustainable coffee, a coffee of the highest quality, so that the small producers can sustain themselves and achieve a dignified life through coffee while at the same time respecting the environment.

At the international level CEPCO is always working to encourage more small farmers to participate in an active and unified manner in the fair-trade market. In this way the concerns and interests of the cooperative are always clearly represented.

It is important that the new initiatives include some large companies - Carrefour⁵, Neumann and Starbucks – which some producer organizations and FLO have proposed be considered very thoughtfully and carefully. What implications will their participation in the fair-trade market have on prices given that they have proposed following the general fair-trade principles without officially registering with FLO?

This possibility can be considered for the most part as a success for the fair-trade movement and for the work of FLO in particular, which has expanded the market niche to such a degree that large commercial groups that work in specialty markets and with large distribution, are now interested. The benefit would be the growth of the market, but the arrival of these giants also brings risks that both the producers and the already registered fair-trade buyers should consider. At risk is that fair-trade will simply become a market

⁵ Leading distributor in Europe, with supermarkets in France, Spain, Belgium, Italy and Switzerland among other countries, and also present in other markets including Argentina, Chile, Brazil, Colombia, Mexico, China, Thailand, Indonesia, South Korea.

with higher prices and not include the respect for all of the policies and ideals that go with it.

To fortify the fair-trade system it is important that broader and stronger alliances with consumers be formed through permanent information campaigns. All of the participants in the market chain must take part, especially the brokers, importers and all of the coffee industry that exists in the North.

Currently it is the responsibility of the small coffee farmer to maintain certification within the fair-trade system, and the only direct cost is to welcome the inspector and answer his questions. Because of this FLO pays all of the costs of inspection, and it is not clear that in the future FLO will be able to continue assuming this cost. For this reason CEPCO has proposed, along with other producer organizations, that the certification process be unified. This means that the organic inspectors should be trained and authorized by FLO to be able to carry out fair-trade inspections as well. In Mexico, CERTIMEX would be able to do this, simplifying and making cheaper the current inspection process.

Mexican society is highly stratified, and for this reason the niche for fair-trade in this country is almost entirely in large cities like Mexico City, Monterrey and Guadalajara. CEPCO and other producer organizations, both coffee producing and others, are working together to create a fair-trade network at the national level.

Within CEPCO, at all levels of participation from the state level to local assemblies, there is a need to improve the understanding of what the fair-trade market is. The interviewees have suggested that all facets of the fair-trade system be incorporated as a permanent theme in the training and technical assistance aspects of the organic production program.

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Appendix 1: Regional Organizations of CEPCO

A.A.L. de Huautla
ASAPROM
Café del Milenio SSS
Campesinos Unidos San Juan Mazatlán
Federación SSS Zapata Vive
Frente Unificador Mazateco
Fuerza Indígena Mazateca SSS
Huapino'g SSS
La Humildad SSS
LII Café Santo Tomas Texas
Prod. Libres SSS Chuxnaban
S.C. COCAE
S.C. Fuerza Organizada
S.C. La Luz de la Chinantla
S.C. San Juan Metaltepec
S.C. Tierra Maravillosa
S.C. U.P.I.S. Lalana
S.C. de Productores 21 de Septiembre
S.C. La Itundujia
S.C. Mixt. Alta del Pacifico
S.C. Kong'oy
S.C. San Francisco Jayacaxtepec
S.C. Zapoteco del Sur
S.P.R. Xanica
S.P. Santiago Lachiguiri
San Bartolomé Loxicha
San José Progreso
San Juan Tabaa
Soc. Prod. Agrop. La Mixteca
U.C.C. Sector Ixtlan
U. de Prod. Mixteca Alta SSS
U. de Prod. Mazatecos Loma Santo Tomas
U.P.C. Chuxnaban
U.P.C. Santa Maria Chilchotla
UCOCAM
UPIZS Sur
UPROQUEMIX
URCAMA
Zona Costa Unión de Ejidos