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Environmental and Social Responsibility in the Coffee Industry:
A Case for Oaxaca, Mexico

A Thesis submitted in partial satisfaction of the requirements for the degree of Master of
Arts

in

Latin American Studies

by

Natalya Rimburg

Committee in charge:

Professor April Linton, Chair
Professor Alberto Diaz-Cayeros
Professor Richard Feinberg

2012

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The University of California, San Diego
2012

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LIST OF ABBREVIATIONS AND ACRONYMS

Abbreviation/ Acronym	Term
AMECAFE	The Mexican Association for the Coffee Production Chain (<i>la Asociación Mexicana para la Cadena Productiva del Café, A.C.</i>)
C.A.F.E. Practices	Coffee and Farmer Equity Practices
CB	Certification Body
CECAFE	State Coffee Council of Oaxaca
CEPCO	The Coffee Growers Association of Oaxaca
CLAC	The Latin American and Caribbean Network of Small Coffee Producer (<i>Coordinadora Latinoamericana y del Caribe de Pequeños Productores de Comercio Justo</i>)
CNSPC	The National Coffee System Production Committee (<i>el Comité Nacional Sistema Producto Café</i>)
CSR	corporate social responsibility
FAST	Finance Alliance for Sustainable Trade
FLO	Fair Trade Labeling Organizations International
FTMP	Fair Trade Minimum Price
FTO	Fair Trade Organic
GMCR	Green Mountain Coffee Roasters
ICA	International Coffee Agreement
ICO	International Coffee Organization
IFC	International Finance Corporation
ILO	International Labor Organization

IMF	International Monetary Fund
INMECAFE	Mexican Coffee Institute (<i>Instituto Mexicano del Café</i>)
NGO	nongovernmental organization
PPP	public-private partnership
SAGARPA	Mexico's Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (<i>la Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación</i>)
SAI	Sustainable Agriculture Initiative
SAN	Sustainable Agriculture Network
SEDAF	Secretary of Agriculture, Forest and Livestock Development (<i>Secretaría de Desarrollo Agropecuario y Forestal</i>)
SME	small and medium enterprise
TASQ	Tool for the Assessment of Sustainable Quality
TNC	transnational corporations
UCIRI	Union of Indigenous Communities of the Isthmus Region (<i>Unión de Comunidades Indígenas de la Región del Istmo</i>)
WB	World Bank

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ABSTRACT OF THE THESIS

Environmental and Social Responsibility in the Coffee Industry: A Case for Oaxaca,
Mexico

by

Natalya Rimburg

Master of Arts in Latin American Studies

University of California, San Diego, 2012

Professor April Linton, Chair

The purpose of this thesis is to investigate the corporate social responsibility (CSR) initiatives implemented by large coffee corporations and determine whether their practices could be applied to Oaxaca, Mexico's coffee growing region to improve that region's coffee sector. While Oaxaca has the topographic propensity to grow quality coffee, its success as a reputable coffee growing region has been stagnated. This project

indicated that Oaxaca is not prospering in high quality or niche coffee markets due to interrelated issues of inefficiency in the sector, high levels of poverty in coffee growing regions, lack of business training and agronomy education, and inconsistent aid from both state and federal governments. To make up for the region's shortcomings, it is recommended that Oaxaca look to CSR, which in part has been applied through nonprofit organizations' certification schemes such as Fair Trade USA, Rainforest Alliance or UTZ CERTIFIED.

This study recommends that Oaxacan farmers first look to systems that focus on farmer training and improving the quality and consistency of their coffee beans. It is then recommended that farmers seek out niche markets and certification schemes that reward farmers with price premiums. By distinguishing their coffee from the conventional coffee market, farmers may "de-commodify" their coffee, making it more valuable and less susceptible to the volatile coffee commodity market. The study also concludes that there is a need for a reform in the sector's auditing practices, and that civil society is a vital component for stimulating increased sales of ethically sourced coffee.

1. Introduction

Whether consumed at home, at a cafe, or in the office, there is no denial that coffee is one of the world's most omnipresent commodities. Currently, the coffee market is dominated by low grade roasted and soluble propriety blends sold by the transnational corporations (TNCs) Nestlé, Kraft Foods Company (Kraft), the Sara Lee Corporation (Sara Lee), and the J.M. Smucker Company (Smucker's). These four corporations dominate the global coffee market in sales¹, yet their top brands Folgers, Maxwell House, Nescafé, and Taster's Choice make no connection to the farmers that grow their coffee².

Millions of international and domestic consumers³ unknowingly drink Mexican coffee each year. In fact, Mexico fluctuates between being the fifth and ninth largest coffee producer in the world, and exports the majority of its coffee to the United States (*International Coffee Organization*). Since there are no or minimal export taxes⁴ on Mexican coffee, U.S. coffee brands like Taster's Choice and Folgers reap the benefits of buying Mexican coffee that on average is a mid-range priced arabica mild⁵, adding value to it (processing it, blending it, packaging it and branding it), and selling it at a

¹ The United States, followed by the European Union and Japan lead in coffee consumption per capita (*International Coffee Organization*).

² Nestlé's Taster Choice for example, has "smooth, mild roasted flavors made only from the highest quality beans and [is] masterfully blended" (*Nestlé USA*). The description has not even attempted to tell the consumer what region the coffee is from, let alone the country of harvest.

³ In a study conducted for AMECAFE by Ipsos Marketing, Mexicans were unaware if their coffee was domestic or international (*Encuesta de Hábitos de Consumo de Café en el Mercado Interno 2009-2010*).

⁴ The U.S. has zero tariffs on green and unprocessed coffee. During the Uruguay Round, the General Agreement on Tariffs and Trade (GATT) reduced agricultural subsidies with a 100 percent tariff reduction for coffee in the European Union and with a 50 percent tariff reduction in Japan (Ortiz Mena).

⁵ See prices paid to growers (*International Coffee Organization*).

significantly higher price as part of their propriety blends. While this practice benefits corporations, it underestimates Mexico's aptitude as a coffee growing nation.

In theory, lower end propriety blends are secret recipes concocted by the exoticism that is a developing country. In reality, these coffees' propriety blends are nothing more than a combination of lower end coffees, produced by countries like Mexico, whose mediocre tastes have been masked by twenty-first century technology and additives. Since the quality of Mexico's coffee is oftentimes inconsistent, the appeal of using it (in addition to a low price) is that given a natural disaster, political instability, low production rates or a preference for an even lower priced coffee (i.e. use robusta⁶ instead of arabica beans), a corporation is easily able to substitute Mexico's coffee for another region's without having too much difficulty in recreating the same taste.

In comparison, specialty coffee roasters like Starbucks and Peet's Coffee and Tea that sell high grade arabica coffee, sell a much smaller amount⁷ of the world's coffee because only "ten percent of the coffee traded can be differentiated according to various attributes of quality, including taste, origin and certifications" (*Coffee Barometer 2009*). The average coffee consumer leans toward average priced goods and is not a specialty coffee connoisseur. Consequently, very little, if any of these companies' foci are on specialty coffee production because by definition, specialty coffee earns a higher price.

⁶ The two most popular coffee plant species are the *Coffea arabica* (arabica) and the *Coffea canephora* (robusta). Robusta coffee is less tedious to grow than arabica, can withstand higher growing temperatures (24-30 degrees Celsius versus 15-24 degrees Celsius, generally yields more coffee beans per hectare (2300-4000 versus 1500-3000), can grow at lower altitudes (0-700 m versus 1000-2000 m), and can resist more fungi. Robustas produce a bitter taste while arabicas are more acidic. (*International Coffee Organization*)

⁷ Starbucks, for example, only buys two percent of the world's coffee, or 352 million pounds from twenty-five different countries (Carrell).

The profit made from coffee, especially non-specialty, is added value. On its own, such coffee is not worth a high price, yet with modifications, marketing and branding, it is made into a desirable product.

As a result of the market ebbs and flows that have affected the livelihood of millions of producers, Mexico, along with other exporting (and to a lesser extent importing) nations have proposed International Coffee Agreements (ICAs) that have intended to regulate how much producing countries could export. With less available coffee on the market, importing countries would have to pay producing countries a higher price for coffee. Among the importing nations, European countries favored quotas, while the United States, influenced by its corporations, proved to be the greatest impediment to the ratification of these agreements.

The United States, driven by a capitalistic spirit and corporate lobbying, refused to sign an ICA despite pressure from producing countries ("U.S. Failure to Join Coffee Pact Brings Protest by Latin Growers"). While the goal of an ICA was to curb overproduction and stabilize prices for producers, the U.S. spent years negotiating an ICA that was favorable to its own economy and corporations. On October 10, 1955, Henry F. Holland, the U.S. Assistant Secretary of State, stated that the final agreement "should 'not hurt [U.S.] consumers,'" but what was meant was that export quotas should not negatively affect U.S. corporations' profit margins ("U. S. Could Agree 'in Principle' To Coffee Pact"). Since the corporations' executives were influencing members of the National Coffee Association and the American Trade Organization, their endorsement was vital to getting Congress to approve an ICA (Krasner 508).

The U.S.'s drawn out deliberation process⁸ and unwillingness to compromise led to its unfavorable image among coffee growers: "If Americans pay a little bit more for their coffee, what does it matter? They are rich. But if the growers of my country [somewhere in East Africa] get a bit less it matters a great deal because we are poor. If we don't get a good price, our country has no future" (Stern). After years of negotiations, the U.S. government's reluctance to approve an ICA, influenced by their close relations to the major coffee corporations, ended in 1962⁹.

The 1962 ICA primarily focused on promoting fair¹⁰ prices to growers by equilibrating coffee supply and demand. Since the decade leading up to the ICA was characterized by extreme oversupply, the 1962 ICA's export quota adjusted the amount of available coffee in the market, thus increasing the price paid to the grower. The ICA also intended to encourage domestic consumption in producing countries and help them with their labor conditions and standards of living. By encouraging growth in their own countries, coffee producers in theory would become less reliant on the international system and would be better able to manage unforeseeable market fluctuations.

Along with equilibrating prices, the establishment of the 1962 ICA provoked global cooperation in the coffee industry and encouraged the foundation of an International Coffee Organization (ICO). The ICO, founded in 1963, aimed to alleviate the stress on farmers resulting from corporate dominance on the demand side, by again,

⁸ Logistically, to agree to an ICA, the U.S. Senate had to approve the agreement as a treaty, and it then had to be passed by both houses of Congress (Krasner).

⁹ While producing countries had agreements among themselves, they needed the support of importing countries to truly provoke change.

¹⁰ The idea of a fair price is arbitrary. What may be fair for a corporation may be perceived as unfair to a farmer and vice versa.

regulating the import and export markets with ICAs. Ironically, while the 1962 ICA helped farmers to receive higher prices, it also resulted in higher prices to coffee buyers, thus expelling smaller businesses from the market and encouraging the oligopolistic system that had already evolved¹¹, making corporations stronger. Despite one extension of the 1963 ICA, ICO members (mainly the U.S. on the importing side and Brazil on the exporting side) could no longer agree on export quotas, which resulted in the ICA's loss of power to enforce them.

By the 1970s, corporations had already accrued wealth and power by buying out smaller coffee companies, yet by investing in political lobbyists, they were “exert[ing] their influence in Washington as never before” (Barnet 109). The 1972 ICA was limited to administrative duties and the ICO was reduced to providing information about member countries. Subsequent ICAs included additional provisions and reintroduced the export quota system, but only when prices were too high or too low. (*International Coffee Organization*)

By not agreeing to limit the export quota of producing countries, the U.S. encouraged global overproduction of coffee because it led to low prices for the green (not roasted) coffee that they used in their propriety blends, consequently leading to higher profit margins for their products. Developed nations, spearheaded by financial institutions like the International Monetary Fund (IMF) and the World Bank (WB), which intended to help developing countries, along with powerful corporations that wanted to “weaken the

¹¹ In 1968, 68 percent of all coffee sales were dominated by six corporations: General Foods, Proctor and Gamble, Standards Brand, Hills Brothers, Nestlé (Swiss owned), and A & P (Krasner 503).

ability of producers in the South to organize commodity cartels,” lent money to non-conventional coffee producing nations to increase supply (Schaeffer 161). These institutions and corporations developed projects in Vietnam to help its economy. According to the World Bank, the increase in production was not the intent of the project, yet the resulting high yield of Vietnamese robusta coffee would lead to corporations’ substitution of Vietnamese beans for the formerly, higher grade and more expensive arabica beans in propriety blends. The additional 13 million bags of coffee led to oversupply and even lower coffee prices.

With high levels of oversupply yet again, exporting nations pushed one more time for export quotas with the 1983 ICA. The 1983 ICA allowed ICO members to export to non-ICO importing countries, like the Soviet Union, Middle Eastern countries and the Eastern Block (Eastern and Central Europe). In response, the U.S. refrained from approving the extension of the 1983 ICA because it claimed that those countries were paying half the amount that the U.S. had to pay under the ICA, and that the export quotas in general were limiting their supply. (Barlet)

Since the U.S. was dealing with its own issues of inflation and was on the brink of a recession, it was less tolerant of regulations that could further harm its economy. Without the U.S.’s support, the export quota system collapsed, and prices fell to a 14 year low of \$0.59 per pound ("No Progress on Coffee Pact"). Since then, ICAs have not stipulated export quotas in their agreements because all potential members could not agree on their terms. Instead, the ICAs have focused on increasing global coffee consumption, disseminating information regarding the industry, and developing coffee

producing regions with assistance from financial institutions. (*International Coffee Organization*)

While the termination of the export quota benefited corporations, it put more pressure on coffee producing governments. Corporations were able to drive prices of coffee even further down by collaborating with governments and financial institutions. Together, these public-private partnerships (PPP) created coffee development projects that would help to stimulate local economies. As an unintended result, these projects increased the production of low grade robusta, causing oversupply in the market. While these projects may have helped to reduce poverty for coffee farmers in countries like Vietnam and Brazil, they have negatively impacted the Mexican coffee communities (among other regions) because those robustas are replacing Mexican coffees in large corporations' propriety blends either in part or entirely (Renard).

In this sense, not only have corporations successfully managed to commodify coffee, easily exchanging one for another for a variety of reasons, but they have also commodified the farmer. Since the average coffee farmer, particularly in Mexico is a smallholder and owns approximately two hectares of land, coffee is one, if not the only, product grown as a cash crop. By disregarding the fact that millions of farmers in Mexico (and 50 other developing countries) depend on coffee sales for their survival, corporations have devalued the coffee producer's worth.

With the sector's deregulation and the increasing power of TNCs, critics in developed nations have created such hoopla about the exploitation¹² between the supply and demand sides that some of the original coffee buying corporations that refused an export quota system, have implemented corporate social responsibility (CSR) projects by partnering with nongovernmental organizations (NGOs) and financial institutions. U.S. corporations especially have been pressured to pursue CSR initiatives because the U.S. is supposed to carry a set of "[North] American values — values like democracy, freedom and respect for human dignity" that ensure that U.S. companies that conduct business in foreign markets are made responsible for ethical labor and land use practices, ultimately serving as an example to other nations (Aaronson 175). Yet, in the coffee industry, the U.S.'s corporate and consumer sentiments toward responsible behavior have dwindled behind Europe's.

Historically, corporations have not shown a level of genuine concern for their coffee producers. Moreover, when the idea of ethically produced products first surfaced the market, European countries like the United Kingdom, Germany, Belgium and Switzerland were the first to invest. Since TNCs and governments (that are influenced by corporations) are not likely to be motivated by intrinsic factors, corporations that have higher incidents of unethical behavior, and specialty coffee roaster Starbucks, whose ubiquity is paramount to that of any other coffee brand, have been more driven than their

¹² The term *exploitation* is used loosely in this thesis and is defined by how anti-corporate critics perceive the asymmetric relationship between coffee farmer and corporation.

competitors to help farmers using CSR marketing strategies, thus stimulating CSR projects throughout the industry.

Currently CSR projects are voluntary. A firm will choose to enforce a set of ethical practices if 1) its company has been previously scolded for irresponsible behavior, 2) third parties are pressuring the firm (particularly if other major players in the industry have already adopted such practices), or 3) creating such initiatives would ameliorate the company's image and consequently increase profits. Still, the lack of an established communal policy regarding foreign affairs and CSR allows for dubious behavior because a business cannot enforce something that is poorly defined or is entirely amorphous. What may be deemed as responsible behavior by one organization may not be by another, thus inciting controversy over CSR.

Participation in CSR is often seen as a competitive advantage, and is usually enough of a stimulus for many companies to get involved. There are few corporations that take a value-based approach to CSR by looking to their products and company's mission to create meaningful CSR projects that integrate a variety of stakeholders. For many corporations, CSR is merely a way of appeasing and silencing skeptical consumers by engaging in various social, environmental or philanthropic projects and then continuing on with business as usual.

Some corporations take part in corporate whitewashing (hiding questionable behavior, especially with CSR) and pay little attention to the communities and

environment that they affect apart from their CSR appointed projects¹³. As a result, there are CSR projects that do not commensurate with the attention that they receive. In contrast, other corporations in the coffee industry start CSR projects in regions stricken by poverty, where business efficacy, farm management, and technology are not to par and where there is still much to improve on both social and environmental levels (often utilizing third party certification schemes to fulfill their projects).

By investing in coffee growing communities from where they either already purchase coffee or plan to buy it from, corporations hope to improve the quality, consistency and marketability of a regional coffee to help increase their profit margins, while most importantly, assuring their critics that they are helping farmers. While CSR is a marketing scheme that is used to attract shareholders, projects that are focused on one or several needs of a coffee producing region are also to the producers' advantage.

Without market regulations in the conventional coffee commodity market, farmers will always be subject to the supply demand side of economics, thus requiring value based CSR projects and certification schemes that stimulate the economies of a particular coffee region and differentiate farmers. If farmers were distinguished by the type of coffee that they grew, such as specialty grade or certified coffee, which makes up a minimal amount of the total coffee market, then they would become an asset to the market and would be less susceptible to the market fluctuations.

¹³ On some occasions, CSR projects are one time investments that the company advertises for several years.

While anti-corporate critics argue that market deregulation has led to the unfair treatment of farmers, it has also led to the development of numerous CSR projects and initiatives that have positively shaped farmer lives and demonstrated which corporations have the best motives regarding farmer livelihood. If the system had always been perfectly equitable, there would have never been a need for corporations and NGOs to get directly involved and develop CSR projects that target business efficacy, education, health, and infrastructure. When ICA export quotas were intact, studies focusing on farmer income allocation were not conducted. There was no way of knowing how a farmer spent his money and if he reinvested a part of his income into coffee improvement. In light of CSR, corporations choose their investment with a motive in mind, potentially filling in some components of government and market inadequacies.

1.1 Using Corporate Social Responsibility to Improve Farmer Livelihood: The Case for Oaxaca, Mexico

With a deregulated commodity market and fluctuating coffee supply levels, coffee market prices have reached such lows that coffee production has become a financially unviable activity for many Mexican farmers. Some farmers are able to diversify their crop supply with corn, sugar, or agave; yet, for those where crop diversification is not geographically and climatically possible, the solution becomes outmigration and a higher reliance on remittances. In some instances, when coffee farmers collect enough money, they abandon coffee production and buy a taxi, because that income is more substantial

and reliable (Jose). Of Mexico's top coffee producing states, Oaxaca¹⁴ could be viewed as an ideal case study for corporate investment through CSR initiatives.

Not only does Oaxaca already have the topographic propensity for growing high quality coffee, but it also has various undeveloped markets (organic, specialty and domestic) that have the potential to be capitalized on. While the coffee growing communities (much of which are composed of indigenous populations) have been known to rely on social networking to help fill in the state's shortcomings, there is still a void in the competency of the Oaxacan coffee market. Although there may be various mechanisms to support it, this project proposes that the Oaxacan coffee market can benefit from corporate partnerships.

1.2 Goals

The aim of this research project is to investigate the interplay between one of Latin America's largest exported agrarian resources, and U.S. coffee moguls' implementation of corporate accountability, paying special attention to coffee quality and productivity training. For the purpose of this project, I look at the dynamics of Oaxaca's coffee industry and the issues stagnating its success, and argue that given its potential in niche coffee markets, corporations can take advantage of this underdeveloped coffee growing region by collaborating with governments, NGOs and financial institutions to create symbiotic relationships. By addressing farmer needs, corporations can help

¹⁴ While the suggestions applied to Oaxaca can be used for other Mexican states and coffee regions, it is essential to first begin with a region that has higher levels of coffee productivity and less incidences of farmer uprisings. For example, Chiapas leads in both non-organic and organic production, and is also inhabited by large populations of indigenous communities, but Oaxaca has been more politically stable, particularly with its indigenous populations (Anaya Muñoz). Since the indigenous communities are vital to Oaxaca's coffee production, investors would be more likely to allocate funds to a more stable environment.

farmers to focus on the quality of their coffee, thus creating products that would be profitable for both producer and corporation.

This study is important for various reasons. It will examine the coffee commodity industry, determine pragmatic sustainability¹⁵ practices for Oaxacan farmers, and find ways in which they can maximize their potential in the coffee sector. Since coffee farming is an important activity to southern Mexico's agrarian sector, it is important to find ways to develop cooperation between governments, NGOs and corporations.

In my research, I also intend on addressing the following questions. Do specialty coffee shops that sell coffee do a better job of implementing CSR than the top four coffee selling corporations in the world, and if so, can they be used as prototypes for the rest of the industry? What role is the Mexican government taking to ensure that coffee farmers are surviving during profitable and unprofitable harvests? How invested are coffee corporations in the farmers' wellbeing (living wages, health, and educational opportunities)? Are Nestlé's and Starbucks' verification schemes comparable to NGOs' certification schemes, and which have the greatest overall benefits to producers?

In the coffee industry, profitable companies have been given bad reputations because they are financially successful. Yet, what makes them profitable? Is it because they subscribe to neoliberal philosophies of entrepreneurship? Are they taking advantage of farm workers? Is what critics perceive to be farmer exploitation a result of corporate actions or government agrarian policies? Are all corporations intrinsically compelled to

¹⁵ In this project, sustainability is defined as the ability to conserve culture, environmental resources, and social conditions, and maintain a particular level of income.

be unscrupulous, greedy and amoral, or is the development of CSR a result of a few public companies that set a poor precedent for all profitable businesses?

While there are studies that compare the advantages and disadvantages of certification schemes, there is little information about corporations' roles in encouraging value-based CSR behavior. Furthermore, while there are research papers discussing the various segments of Oaxaca's coffee industry, for example specific producer organizations, there is little cumulative information on the entire sector that encompasses the government, producer organization, NGOs and corporations.

2. The Politics of Mexican Coffee

In the late eighteenth century, the coffee plant was brought to Veracruz, Mexico for domestic consumption (Topik). Mexico's mountainous regions, high altitudes, shade grown areas, and wet and dry seasons were ideal for growing coffee, but unsuitable for industrialization. As a result, southern Mexico's economy would rely heavily on agriculture, and many of the indigenous peasants living in those areas would grow coffee as a cash crop.

As coffee consumption grew in developed nations between the 1880s and 1930s, producing countries were encouraged to grow more coffee for export (Topik). Coffee production spread to other southern Mexican states, including Oaxaca, and by the 1950s it would have enough agricultural impetus for the government to invest in the sector. Between the 1940s-1970s, Mexico's coffee industry grew with the import-substituting industrialization (ISI) model that emphasized expansion of Mexico's domestic market (Cornelius 105). Consistent with this model of internal development, the Mexican government created the Mexican Coffee Institute (*Instituto Mexicano del Café*, INMECAFE) in 1958 to help Mexican coffee producers with finances, technical development, price negotiations, and subsidized loans. It also connected them to a larger international market without the customary usage of a coyote¹⁶ that could cheat them of their profit. By 1982, the organization was composed of 282,629 producers of which approximately 65 percent were indigenous (Celis). It was especially popular among the

¹⁶ A coyote is a local negotiator that helps farmers to sell their coffee and obtain loans, usually at high interest rates.

indigenous communities because it gave them financial resources and access to a larger market, which they otherwise would never have had, particularly when living in isolated regions that form much of southern Mexico's coffee growing communities¹⁷.

Although INMECAFE helped to expand coffee production in Mexico, the rise of Mexico's debt¹⁸ and the difficulty it had in repaying its loans due to higher interest rates in lender countries, put a halt on domestic public spending and social development programs. With the 1982 appointment of Miguel de la Madrid Hurtado as Mexico's president, Mexican economic policies gravitated toward neoliberalism, changing the focus from domestic development to an open market, increased trade with reduced tariffs, and foreign direct investments.

As a former member of De la Madrid's cabinet, Carlos Salinas de Gotari's (1988-1994) administration piggybacked off of De la Madrid's administration and continued to pursue neoliberal policies. In one attempt to reduce spending on the public sector, Salinas's administration announced the liquidation of INMECAFE in 1989¹⁹, making producers responsible for all aspects of their coffee business. In essence, the dismantling of the institution was supposed to stimulate an open market competition for the coffee sector; however, since farmers were already organizing on regional levels in states like Oaxaca and Chiapas, the dissolution of INMECAFE facilitated the transition to state and producer led organizations (Snyder).

¹⁷ Before the construction of roads, Oaxacan farmers were inclined to sell to coyotes at a lower price because they were geographically isolated and did not have the means to transport their coffee to buyers.

¹⁸ As a result of low oil prices and excessive borrowing in the 1970s, Mexico's debt had reached \$60 billion by 1982 (Bruhn).

¹⁹ INMECAFE was officially closed in 1993.

When INMECAFE was dismantled, Oaxaca's governor Heladio Ramírez (1986 to 1992) hired the former director of INMECAFE Fausto Cantú Peña, despite having committed fraud²⁰, to help create the State Coffee Council of Oaxaca (CECAFE). CECAFE intended to support smallholders associated with the PRI and disempower alternative producer organizations by excluding them from CECAFE's assistance (Snyder). However, since this new institution only served a fraction of the Oaxacan coffee population, in 1989 non-PRI affiliated producers assembled to form the Coffee Growers Association of Oaxaca (*Coordinadora Estatal Productores*)²¹.

CEPCO is a comprehensive coffee organization that focuses on developing small coffee farmer communities (90 percent of their members have less than 2 hectares of land) and giving them access to a larger market. Without the support of a federal or state program, the cohesion within various groups in the coffee community was especially beneficial to small growers that alone generally have a difficult time selling their coffee to larger markets. By 1989, CEPCO recruited more than half of the small coffee farmers in Oaxaca, making it the most powerful producer run organization in Oaxaca to date. It also established sub-organizations to help with the various aspects of running and marketing a coffee business, like the Agricultural Marketing Agency and the State Credit Union of the Coffee Producers of Oaxaca. The Agricultural Marketing Agency of the State of Oaxaca, Inc. (CAEO) was established in 1990 and directly exports coffee.

²⁰ In 1978, Cantú Peña was put in jail for financial fraud and falsifying documents under INMECAFE (Vásquez Chagoya).

²¹ Even before the establishment of CEPCO, in 1988, independent producers organized the National Coordination of Coffee Growers (*Coordinadora Nacional de Organizaciones Cafetaleras*, CNOC), a nonpartisan organization that intended to negotiate with INMECAFE before its dissolution.

CEPCO also works to form medium to long-term relationships with trade partners. The State Credit Union of the Coffee Producers of Oaxaca (UCEPCO) helps producers to obtain loans. Finally, the Investment Financing, Credits and Saving for Economic Strengthening (FINCAFE) helps rural communities to develop themselves.

In the meantime, Ramirez's successor Dióodoro Carrasco Altamirano (1992-1998), a strong neoliberal, also used a populist agenda to gain the support of the peasant and indigenous communities. Like Ramirez, he also attempted to dismantle independent producer organizations. There was generally a tendency among governors to reinforce PRI groups and block all others in order to regain the political control of producers, particularly before a national election (Celis 44). When President Ernesto Zedillo was elected (1994-2000), he made the state coffee associations, as run by their current governors, responsible for producer support (Celis 29). Since the governments of José Murat (1998-2004) and Ulises Ruiz Ortiz (2004-2010) were both heavily corrupt, CECAFE became an unreliable institution for helping producers.

During Ortiz's appointment, the State Advisory for Coffee in Oaxaca experienced high turnover rates for its directors, several incidents of fraudulent activity, and misallocation of funds. Producing regions did not receive the money that they were publicly promised and directors and government staff never initiated development projects. While this organization is supposed to be Oaxacan coffee growers' immediate link to financial aid and developmental support, its lingering problem of corruption has obstructed any recent attempts to help coffee producers.

In 2007, Carlos Torres Avilés announced to have allocated 150,000,000 pesos to Mexico's 12 coffee producing states, however producers claimed that they never received the money ("Presenta Carlos Torres"). Under Oaxaca's 2004-2010 Sustainable Development Plan (*Plan de Desarrollo Sustentable*), Bernardo Barragán Salazar was appointed in 2008 to rebuild the coffee community's economy with a variety of projects, like encouraging ecotourism in rural regions that produce organic coffee. However, the needs of the coffee community were not met and the newly appointed director, whose appointment lasted for only six months, and his committee, faltered in their responsibilities to follow through with development plans.

In June 2008, after only six months of Salazar being in office, Tomás Baños Baños replaced Salazar. Despite Baños' experience as Secretary of Agriculture, Forest and Livestock Development (*Secretaría de Desarrollo Agropecuario y Forestal*, SEDAF), and director of the Institute of Training and Productivity for Work in the State of Oaxaca (*el Instituto de Capacitación y Productividad para el Trabajo del Estado de Oaxaca*, ICAPET), Baños, like his predecessor, was also shown to be inept. In 2009, Baños expressed his hopes for the upcoming agriculture cycle in which the federal and state governments were supposed to deliver 100,000,000 pesos worth of resources to the coffee growers (C. Garcia). According to Baños, approximately 50 percent (at least 50,000) of Mexico's coffee producers are already receiving assistance (Garcia, Antonio). What he failed to mention were his personal interests of supporting large organizations and paying little regard to smaller coffee farmers that already have a difficult time getting access to other forms of financial assistance. Only a quarter of coffee growers in Oaxaca,

those that have organized into collective groups, are benefiting from government provided resources, leaving the rest to look for non-coffee producing alternatives ("Los productores de café seguimos").

Not surprisingly, during the 2010 State Coffee Symposium (*el Simposio Cafetalero Estatal*), it was reported that the president of CECAFE committed various forms of administrative and economic fraud, stealing 3,500,000 pesos (approximately US \$ 257,163.77) of coffee growers' membership fees and transferring the money into a private account ("Se destapa la corrupción").

During Ortiz's time in office, there was very little assistance to farmers through CECAFE, despite the fact that it was considered the cornerstone or *piedra angular* of the state ("Designan a Tomás"). The sector's problems were barely discussed and concrete proposals to improve it were never offered, leaving the farmers to migrate or abandon coffee production (Shultz). While Baños did not deny that this sector relies on the state and federal governments' assistance, on several occasions he publicly averted the accountability onto the agrarian communities, claiming that their out-migration is in part to blame for the coffee sector's condition because it increases the cost of production for coffee farmers. He never, however, verbalized clear solutions to these problem or publicly recognized that poor management, underdevelopment in the sector, and inefficiency were at fault.

In the spring of 2011, the governor of Oaxaca, Governor Gabino Cué Monteagudo, announced his plans to help Oaxaca's coffee sector and increase its competitiveness, by giving 15,700,000 pesos (approximately US \$1,153,563) to Luis

Gustavo Galguera Sheremberg, president of the Coffee Production System Association (*Asociación Sistema Producto Café*), José Martínez Gregorio, president of the State Union of coffee producers (*Unión Estatal de Productores de Café*) and Raymundo Guzmán Guzmán, representative of the Union of Indigenous Communities of the Isthmus Region (*Unión de Comunidades Indígenas de la Región del Istmo*, UCIRI)²² in order to increase production and productivity of coffee and restore the coffee industry (Castaneda). By distributing this sum to various actors in the Oaxacan coffee industry, Cué washed his hands of his commitment to the coffee industry. Since the responsibility was now on those individuals and organizations, he was able to divert his attention to new projects.

In September 2011, Cué confirmed that 33,600,000 pesos (approximately US\$ 2,468,772) would be invested to improve the roads covering the commute from Santa María to Huatulco, Huatulco to Pluma Hidalgo, and Pluma Hidalgo to Copalita. While an investment in road reconstruction and safety is imperative for daily, business and tourist commutes, some coffee members in the Pluma Hidalgo community are outraged at how officials have already broken their promises to improve coffee plantations and integrate coffee farmers into the *Sistema Producto Café*, assist them with their land georeferences, and register them in the *Padron Nacional Cafetalero*, the national coffee registry system. These are the requirements that producers need to meet if they want to obtain support from the federal government. Instead of addressing farmer needs, the new

²² The UCIRI was established in 1983 as a democratic agricultural producing organization. It produces arabica grade coffee that it sells directly to roasters and communities. It is currently made of 55 indigenous communities in Oaxaca (*Unión De Comunidades Indígenas*).

administration has again diverted its attention. While the Governor acknowledges the importance of a coffee oriented project, he aborted it and 84 other projects required by SEDAF because the resources were not available at that time (Garcia, Archibaldo).

2.1 Federal Support

In lieu of INMECAFE, Mexico's Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (*la Secretaria de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*, SAGARPA) created The National Coffee System Production Committee (*el Comité Nacional Sistema Producto Café*, CNSPC) and the State Committees of the Coffee Production System (*los Comités Estatales del Sistema Producto Café*, SPC) in 2004, which work with the entire coffee supply chain to ensure transparency within Mexico's coffee industry²³. AMECAFE, the Mexican Association for the Coffee Production Chain (*la Asociación Mexicana para la Cadena Productiva del Café, A.C.*) is the executive branch of CNSPC and functions as the operator of several programs within SAGARPA.

These organizations are responsible for elaborating and evaluating strategies for the Mexican coffee sector's expansion, its current state, and its quality. Furthermore, they are supposed to establish the norms and procedural regulations for commercial transactions and contracts, and generate agreements between producer organizations, growers, marketers and government representatives to help define the characteristics and quantities of products, prices, forms of payment, and support. Their responsibility is also

²³ Lack of transparency is common within the Oaxacan government, as it occupies last place of 32 Mexican states in the Executive Branch's transparency and thirty-first place in the Legislative Branch's transparency (*Plan Estatal de Desarrollo de Oaxaca 2011-2016*).

to spread information about crop growth, production, marketing, transformation, industrialization, importation, price and consumption of products, byproducts, and agricultural supplies. Finally, they must find ways to conserve and improve natural resources and diminish environmental damage. (*Reglamento Interno del Comité Nacional Sistema-Producto Café*)

Since these roles are multifaceted and encompass the needs of both the producer and the market, in theory the Mexican coffee sector should be very efficient. However, the level of federal and state agrarian support fluctuates with each new administration, leaving projects unfinished. For this reason, CEPCO has become the most adept producer organization in Oaxaca.

Currently, CEPCO consists of 34 regional and community organizations, making it the largest producer run organization in Oaxaca. As the most influential coffee organization in Oaxaca, it has the market advantage in negotiating with domestic and international markets, and governmental and nongovernmental organizations. This is demonstrated by its numerous international customers including Equal Exchange, Globus Coffee and Royal Coffee in the U.S., GEPA and Wortform in Germany, and P. Jobin in France. (*Coordinadora Estatal Productores*)

In theory, CEPCO is the ideal state sized institution to replace INMECAFE, or complement CECAFE because it thrives off of the coffee community's solidarity and supports both fair trade and organic farming. It also provides access to credit, and through its own and third party certifications enables farmers to improve the quality of their coffee. However, according to several small Oaxacan coffee farmers, CEPCO is a

bureaucratic headache with its own set of complications and middle management, where the benefits to joining are minimal in comparison to what they could earn on their own by solely farming organic. In the Pluma Hidalgo region, several farmers expressed that there is little benefit to joining CEPCO because their own certified organic coffee pays them as much as CEPCO could, claiming that CEPCO in itself takes fees out for managing the farmers. These farmers expressed similar ambivalence toward the Fair Trade system. Instead of joining such groups, these farmers would have preferred that the state and federal governments commit to fulfilling their promises to assist small producers.

2.2 Applicable Corporate Social Responsibility Projects

The lack of continuous investment in particular coffee growing regions has led to high costs and low levels of production. In some cases the coffee plantations are between 40-60 years old. In other cases there have been a lack of diversification, technological innovation or farmers to care for the plants. Moreover, in many of these areas, farmers must rely on coyotes that charge high interest rates for loans to help with their production.

Oaxaca has the potential to profit off of its coffee market, however, its profitability has been disrupted by high corruption levels and low human development rates; these problems that have been embedded within Oaxaca's political system for decades. Oaxaca has been less politically volatile than its neighboring states and has received more state support for its coffee growers, yet, 96 percent of the 124 coffee growing municipalities correspond to the most poverty stricken areas of the state (Jaffee 60). According to Oaxaca's current governor, Gabino Cué Monteagudo and Oaxaca's

State Development Plan for 2011-2016, Oaxaca's political practices have tended to disregard society's demands, have abused power and have demonstrated corruption at all levels. Furthermore, they have shown monopolization of all means of communication, have hidden the government's public spending, and have disregarded human rights violations (*Plan Estatal de Desarrollo de Oaxaca 2011-2016*).

Coffee production is important to the largest coffee growing states in Mexico, but on a macroeconomic level, coffee is only .22 percent of Mexico's total commodities, and .06 percent of its total GDP (*International Coffee Organization*). Since other agricultural products are more financially viable to Mexico, coffee production will not be Mexico's highest priority. While it would be ambitious to propose a reform of the state's political system, especially as it is applicable to the Mexican coffee sector, corporations and NGOs, whose expertise is in coffee, can help to fill in government inadequacies concerning social, environmental and business efficiency as part of their CSR projects. The following sections outline the most significant problems affecting Oaxaca's coffee sector²⁴. While it will take years to resolve these issues, it would be in corporations' and NGOs' best interests to target these areas in their CSR activities.

Productivity

Oaxaca's coffee industry faces low levels of technology and high levels of inefficiency. First, little technology on small coffee farms has resulted in low coffee production levels in comparison to other coffee growing regions. Second, while access to

²⁴ Oaxaca's statistics are used when information could not be found for Pluma Hidalgo specifically. Numbers may be higher or lower for coffee growing regions in Oaxaca.

credit could be a solution to obtain higher levels of technology, many small farmers are unable to obtain loans because they have little collateral to offer to lenders.

Education

While low education and high disease rates are not unique to Oaxaca's coffee sector, improved education and healthcare are the most common requests made by coffee farmers: "As a farm owner I have provided housing to my farmers, and farmers get paid well, but they still need healthcare and education for their children" (Jose). With little investment in human capital, it is not surprising that Oaxaca places 31st in competitiveness and occupies last place in market efficiency, producing 58 percent less of goods and services than the rest of Mexico (*Plan Estatal de Desarrollo de Oaxaca 2011-2016*).

Oaxaca has the second lowest levels of education in all of Mexico. In Oaxaca, 13.8 percent of the population has no education, 61.6 percent has a basic education, 14.2 percent has completed high school, and 9.9 percent has obtained a master's or doctorate, as compared to the national averages of 6.9 percent, 56.1 percent, 19.3 percent and 16.5 percent respectively. Furthermore, only 47.1 percent of the 15+ year old population has an education beyond the elementary school level. Oaxaca places eight in the country for child enrollment in preschool and kindergarten (83 percent), third in the country for enrollment in elementary school (101.8 percent), and 21st in the country for high school enrollment (93.7 percent). Oaxaca has higher rates for abandoning school before completing a grade than the national average: it has a 1.6 percent dropout rate for elementary school (fifth in the country), and a 8.4 percent dropout rate for high school

(fourth in the country). Oaxaca also has the highest rate for failing elementary school, 7.8 percent, and one of the lowest rates for finishing high school on time, 74.5 percent (31st in the country). (*Perspectiva Estadística Oaxaca*)

Since coffee growing regions are in geographically remote areas, adequate education, healthcare, and infrastructure are even greater problems for isolated coffee growing municipalities like Pluma Hidalgo (located in the Pochutla region), which has a population of 3,060 people. According to the 2010 INEGI census, 30 people in total have either attended technical school, have graduated from high school, or have an undergraduate degree. Zero people have master's or doctoral degrees. The average education grade achieved for people 15+ is 5.1. ("Censo de población y vivienda 2010")

In Pluma Hidalgo, a farmer stated, "For six years, the government did not send a teacher to our community...They said that they didn't have anyone to send to this region" (Jose). When asked if it was an issue of language barriers and not being able to obtain a teacher that spoke the native indigenous language, the farmer responded that all the farmers in that region spoke Spanish so finding a teacher who speaks the language was inexcusable.

Infrastructure as an Indicator of Poverty

Of the 665 homes in Pluma Hidalgo, 23 percent of the population is living with dirt floors. The infrastructure of the homes is very poor and 24 percent do not have plumbing, 45 percent do not have drainage or a sewer system, 15 percent do not have electricity, and 65 percent do not have a refrigerator. ("Censo de población y vivienda 2010")

Health

Poor health may be a byproduct of poverty. Like education, healthcare is sparse in Oaxaca, especially in the geographically isolated regions that happen to be agriculturally based. The majority of Oaxacan residents do not have health insurance: 93.3 percent are uninsured for medical units, 94 percent lack insurance for outpatient services, and 72.9 percent are uninsured for hospital services. (*Perspectiva Estadística Oaxaca*)

In considering CSR projects, corporations and NGOs shall look at ways of improving education, productivity, infrastructure and health in Oaxacan coffee communities. By addressing issues from the bottom-up, farmers will be able to first take care of primary needs, and then concentrate on producing better quality coffee more efficiently.

3. Certification Schemes

As ethical consumerism continues to spread in the United States, businesses experience greater pressure to accommodate the demands of consumers that expect responsibly sourced products. To establish a better repertoire with conscience customers and fulfill CSR claims that address both social and environmental concerns, top coffee selling corporations in the U.S., like Nestlé, Sara Lee, Kraft, Proctor and Gamble, and Starbucks, and popular coffee brands like Green Mountain Coffee Roasters and Peet's Coffee and Tea, have partnered with NGOs such as Fair Trade USA, Rainforest Alliance, and UTZ CERTIFIED, or have developed their own verification system to appease at least one concern pertaining to producer livelihood, the environment, coffee sourcing, or labor standards.

Third-party certification schemes like Fair Trade Certified, UTZ CERTIFIED and Rainforest Alliance were designed to address one of many issues affecting coffee farmers in developing countries. Partnering with one of the aforementioned NGOs is one of the most effective ways for a corporation to engage in CSR. Since these certifications are already well established, a corporation is left to sample coffee and establish a quantifiable agreement with the NGO.

Corporations that choose to establish their own verification model might be responding to one of two motives: 1) the missions of already established certifications do not resonate with the corporation's values, or 2) the coffee that is certified by a particular certification scheme is not to the company's standards. Furthermore, after the initial

design and implementation steps, it may be more cost-effective for corporations to buy coffee from their own verification system.

While all of these schemes could help to improve Oaxaca's coffee sector, it is important to remember that Oaxacan farmers lack business and marketing acumen, and the skill to produce coffee more efficiently. Oaxaca's farming communities also generally lack quality education and healthcare, and adequate infrastructure.

3.1 Fair Trade USA

Fair Trade USA is a nonprofit organization and an independent third-party certifier of Fair Trade products in the United States²⁵. As one of the nineteen Fair Trade Labeling Initiatives for the Fair Trade Labeling Organizations International (FLO), Fair Trade USA is a member of the Board of Directors and other operating committees such as the Standards Committee. Both FLO and Fair Trade USA share the common mission of alleviating poverty and empowering producers by ensuring that democratically run farms and cooperatives receive a living wage for their Fair Trade Certified products through producer-buyer partnerships. Often, the free trade model does not accurately depict an equal exchange between producer, intermediaries, and retailers, and as a result, the fair trade system has created a "more equitable global trade model" that substantiates price premiums, provides micro-financing and negotiates long-term contracts and trading relations between producer and buyer (Fair Trade USA). While Fair Trade USA certifies a range of companies that produce apparel, cocoa, coffee, flowers, fruits, herbs,

²⁵ As of December 31, 2011, Fair Trade USA separated from the FLO.

vegetables, tea and wine²⁶, for the purpose of this project, only coffee will be discussed in detail.

Fair Trade Principles

Fair Trade USA has seven leading principles for its organization. The first and most distinct principle for the fair trade system is a fair price, which is particularly important in the coffee industry where sporadic market fluctuations have been known to govern the wellbeing of farmers. The Fair Trade Minimum Price (FTMP) ensures that farmers are able to cover the cost of production and develop their communities by building schools, providing healthcare for workers and their families, and creating childcare facilities and training programs for women and children. Furthermore, the FTMP has allowed producers to invest in the quality of their coffee by improving the infrastructure of cupping labs, farmer and staff training, equipment, and facilities.

Currently, the FTMP guarantees coffee farmers a minimum floor price of \$1.35 per pound for green (unroasted) natural (dry) arabica coffee, and \$1.01 per pound for green natural robustas when the “C” market price falls below the FTMP, and at least the “C” market price when it exceeds it. The Fair Trade premium pays \$0.05 more for washed arabicas and robustas. Farmers also receive a \$0.20 social premium (per pound of green coffee) that funds the cooperatives’ environmental and social projects. With the social premium, the total Fair Trade price is \$1.55 per pound for non-organic dry green coffee. Fair Trade Organic (FTO) green coffee receives an additional \$0.30 premium,

²⁶ The complete list of certifiable products can be found at www.fairtradeusa.org.

leading to a total cost of \$1.85 per pound for FTO green coffee²⁷. In 2009, the average price premium for Fair Trade Certified coffee was \$1.69 (*Fair Trade USA*).

The remaining six principles are not unique to the Fair Trade system and resemble those in other certification systems. The second principle states that workers must be guaranteed better working conditions and is an International Labor Organization (ILO) standard, therefore its inclusion in the list of principles is redundant. The third principle states that producers shall get access to a larger market. This principle holds true for all certification schemes because a certification gives the product a distinct trademark that distinguishes it from non-certified coffee, thus making it more competitive and appealing to the conscious consumer and company, hence the basis of the certification appeal. The fourth principle requires that all producers be given access to financial credit, particularly for the pre-harvest season and is shared by Rainforest Alliance, UTZ CERTIFIED and Starbucks. At the minimum, they are all members of the Finance Alliance for Sustainable Trade (FAST²⁸). The fifth principle is the promotion of farmer empowerment (a seemingly natural occurrence when farmers are trained and given the opportunity to earn more for their crop) and transparency (transparency claims are subject to audits and information provided to consumers). The sixth principle, community development, is also embedded within Rainforest Alliance's and UTZ CERTIFIED's framework.

While Fair Trade USA claims to have “one of [the] industry’s highest standards for sustainable agriculture and environmental conservation,” (the seventh Fair Trade

²⁷ In 2010, 62 percent of all Fair Trade Certified coffee imported to the U.S. was organic (*Fair Trade USA*).

²⁸ This organization is discussed under greater detail in “Rainforest Alliance: Financing.”

principle), these standards not only mirror those of Rainforest Alliance and UTZ CERTIFIED, but are less defined than Rainforest Alliance's. While neither FLO nor Fair Trade USA describes the specificities of these standards, they do claim that “[a]n estimated 30 percent of producer organizations invest a portion of their Fair Trade premiums in environmental initiatives” (Coffee Impact Report). Instead of having a list of specific guidelines for achieving environmental sustainability, each community plans their own sustainability initiatives as it seems fit in areas of environmental concerns such as protecting water resources, controlling erosion, diversifying agricultural, restricting the use of fertilizers and pesticides, and managing energy and waste.

According to the list of standards that FLO-CERT audits (below), neither the principle of community development nor environmental sustainability is audited. If there is no audit to verify how farmers are allocating their social premium (whether it is going toward community development and what percentage), and how the farmers are investing in their community's environmental preservation and improvement, how can consumers trust that these claims are legitimate?

Fair Trade USA's Principles, which take greater advertising precedent than FLO's audited standards, are intended to appease the inquiries of a very general, and maybe even uninformed consumer, but there is little substance to these principles. Upon greater inspection, it is obvious that except for the FTMP, their ideologies are not unrivaled.

Fair Trade Standards

Producers are required to comply with FLO's general list of standards (applicable to all Fair Trade Certified products²⁹) as well as any additional product-specific standard. The coffee standards consist of 1) certification; 2) traceability of all Fair Trade products, both physical (segregation from non-Fair Trade products during all of the production stages, proper labeling) and documentary; 3) clearly documented contracts (coffee producers decide on the terms of the price fixation between themselves and the buyers); 4) sustainable trade partnerships (for coffee trade, each harvest requires a sourcing plan or "outline of the potential quantities and qualities likely to be purchased during the year or season"); 5) availability of pre-financing; and 6) fulfillment with the Fair Trade pricing system (*Fair Trade International*).

Auditing and Fees

The auditing process for Fair Trade Certified products is twofold. Fair Trade USA audits U.S. distributors, importers and manufacturers quarterly and charges roasters a license fee of \$0.10 per pound of green coffee. FLO-CERT, an ISO 65³⁰ certified company that certifies Fair Trade products, is responsible for auditing producers for compliance with Fair Trade standards and collects the Fair Trade Certified application and auditing fees.

In 2004, FLO-CERT began to charge producers for Fair Trade certification due to a growing number of applicants³¹. Producers are charged € 500 (≈ US\$ 690) for the

²⁹ Cane sugar, cocoa, fruit juices, and tea are sometimes exempt from following these standards.

³⁰ International Organization for Standardization's agriculture standards (www.iso.org).

³¹ This fee model was approved by the FLO board's producer representatives (*Fair Trade USA*).

initial application fee and € 150 (\approx US\$ 210) per additional or new product. The initial certification fee has a daily rate of € 400 (\approx US\$ 550) (audits can take several days), and is based on the number of members in the producing group, products and processing installations. For producer organizations that have a large number of farmers, FLO-CERT conducts a group certification that includes the producer organization's audit and random audits of a sample group of farmers. Organic producers are rewarded with a reduced certification fee (auditor time spent onsite less 20 percent) (*Fair Trade International*). Since these fees can range from US\$ 2,500 to \$10,000, FLO has created a Producer Certification Fund in the form of grants that can cover the initial certification fee up to 75 percent of the certification cost, depending on the size of the farm. If there are many applicants, the size of the grants may be reduced so that more farmers may benefit from the grant (*Fair Trade International*).

While FLO claims to have a meticulous auditing and certification process for price and premium verification, third party verification for documentation, inside system-control and traceability protocols, the transparency and validity of FLO's auditing system are in jeopardy: "Fair Trade certified producers are audited at least once a year as part of a three year certification cycle ... the annual certification fee will always be invoiced by FLO-CERT even if for one reason or another no audit takes place in a specific year, as the certification continues to be valid" (*FLO-CERT*). When an audit does not take place in a given year³², not only are producers still charged for a service that they have not been

³² The organization has not made these reasons explicit. In a personal interview with a Fair Trade USA representative, political unrest was the only reason that could be confirmed.

rendered, but the FLO certification is still valid. In such a circumstance, FLO lacks transparency and misleads consumers. Without an audit to verify Fair Trade standards, the integrity of the program and product is at risk. Furthermore, since neither FLO nor Fair Trade USA makes producer audit scorecards accessible to the public, there is no way for a consumer to know to which and how many products this happens in one given year, unless the product is decertified and taken off of the market.

Partnerships

While Paul Rice, CEO of Fair Trade USA stated that “We [Fair Trade USA] needed to be stronger as an organization in communicating who we are and the cause that we serve in the face of a market that is still overwhelmingly indifferent to fair trade, in the face of a consumer body that is still largely ignorant to our efforts,” the Fair Trade movement has the greatest amount of certified producer organizations over any other certification scheme (*Fair Trade USA*). By the end of 2009, there were 865 certified producer organizations in 70 countries and 813 U.S. partners selling Fair Trade Certified products (*Transfair USA 2009 Annual Report*). Of Fair Trade Certified products, coffee, tea and produce are the most popular. With approximately 300 cooperatives in 23 countries, coffee is the most imported Fair Trade Certified product into the U.S. (109,795,363 pounds in 2009) (*Transfair USA 2009 Annual Report*).

Fair Trade USA has made Fair Trade coffee accessible to U.S. consumers by partnering with numerous small businesses and transnational corporations to develop lines of Fair Trade Certified coffee. Among the biggest companies are Archer Farms (Target), Dunkin’ Donuts Incorporated, Green Mountain Coffee Roasters, McDonald’s,

Millstone Coffee (Smucker's), Starbucks Coffee Company, Trader Joe's, Wal-mart Stores Incorporated, Whole Foods Market and the Wolfgang Puck Coffee Company. Fair Trade Certified coffee is also served in the U.S. Congress, U.S. House of Representatives and various universities across the U.S., including the University of California, San Diego. With its increasing number of partnerships, Fair Trade sales increased in the United States by 5 percent in 2009-2010 (*Fair Trade USA*).

Partnerships with TNCs like Wal-Mart give Fair Trade USA access to a greater market, yet some Fair Trade supporters have accused Fair Trade USA of acting hypocritically for collaborating with a company that claims to be very concerned about farmers' wellbeing³³, yet has a reputation for disregarding their domestic employees' human and labor rights (*Wal-Mart Litigation Project; Walmart Watch*). Fair Trade USA, however, maintains that "the Fair Trade Certification model cannot and does not attempt to monitor a company's broader business practices or motives for involvement in Fair Trade. In other words, Fair Trade USA certifies products, not companies." Fair Trade USA believes that if a particular company's partnership would put the integrity of the organization at risk, it would abstain from negotiations with that company. Moreover, their Corporate Engagement Guidelines states that the organization ensures that businesses do not exaggerate their participation with the organization and that they appropriately advertise the nature of their involvement with the Fair Trade certification system to prevent whitewashing. (*Fair Trade USA*).

³³ According to Lee Scott, Chairman of the Executive Committee of the Board of Directors of Wal-Mart Stores, "[w]e care deeply about the hard-working farmers who grow the products we sell. Fair trade helps us support a better living for those deserving farmers and their families" (*Transfair USA 2008 Annual Report*).

Further criticisms attack Fair Trade USA's integrity by claiming that the organization lowered its Fair Trade certification standards for Starbucks when it did not ask Starbucks to sign a Letter of Intent (LOI) that contains projected growth and marketing plans for Fair Trade Certified products (Jaffee 202; Talbot 207). Despite such concerns, the 2003 publication of Fair Trade USA's (then Transfair USA) Volume Guidelines for roasters, states that it "encourages coffee roasters to commit to converting at least 5 percent of their total green coffee purchase volume to Fair Trade within the first two years of launching labeled products," thus making a projected number a goal and not a requirement for any company, including Starbucks.

Revenue and Expenses

In 2010, Fair Trade USA received approximately 74 percent of its revenue from license fees, 19 percent from grants and contributions, 6 percent from in-kind donations, less than one percent (.002) from trade shows, and 1 percent from other income. In contrast, it spent 81 percent on the program, 12.8 percent on general and administrative costs, and 6.2 % on fundraising. Its total revenue of US\$ 9,068,925 versus expenses of US\$ 10,075,213 created a change in asset of US\$ (917,284). (*Fair Trade USA Financial Statements December 31, 2010 and 2009*)

Fair Trade USA's Separation from FLO

In September 2011, Fair Trade USA announced its separation from the Fair Trade Labeling Organization, effective December 31, 2011. While their missions evolved out of the same concepts of supporting democratically run farms and cooperatives, Fair Trade USA will be pursuing an alternate means to increase its sales of Fair Trade Certified

products in the U.S. With regards to the coffee sector, the new movement “Fair Trade for All” will now be certifying coffee plantations and reducing fees for roasters, making the first 20,000 pounds of coffee free (a savings of approximately \$2,000) and will be providing extra savings for those roasters that source 95% of their coffee from Fair Trade USA (“Why is Fair Trade Leaving”).

While this decision will likely increase the number of partnerships Fair Trade USA has, it may opt organizations like the Latin American and Caribbean Network of Small Coffee Producer (*Coordinadora Latinoamericana y del Caribe de Pequeños Productores de Comercio Justo*, CLAC) and cooperatives that are strongly opposed to the new plans to separate from Fair Trade USA. In the fall of 2011, The Red Café (a Fair Trade Certified buyer) and CLAC released a statement expressing their disapproval of the new changes: “The Red Café-CLAC reaffirms its position of indeclinable rejection to the certification of big plantations and contract by production with producers that are not organized...WE DO NOT SUPPORT THE CHANGES ANNOUNCED BY FAIR TRADE USA” (Preza). Similarly, in December 2011, the Mexican Coordinator of Small Fair Trade Producers, also part of the CLAC stated that this new plan is “no more than a neo-liberalization of Fair Trade. For that reason, we deeply regret that Fairtrade USA has definitively turned its back on the Fair Trade movement’s original principals and on the same small producer organizations that gave Fairtrade USA its strength” (Robinson). It is unlikely that such organizations will leave the Fair Trade movement entirely, but given a potential loss in income, it could motivate them to seek out other certification schemes.

3.2 *Rainforest Alliance*

Unlike Fair Trade USA, which is primarily focused on developing equitable trade through a premium and where environmental concerns are secondary, Rainforest Alliance's primary focus is on environmental preservation and biodiversity. From there, the organization is able to delve into arenas that build on sustainability, such as better harvesting and land management practices that in theory will lead to higher incomes for farmers (both small scale and plantation sized). The knowledge and skill that farmers acquire during the certification process "gives farmers a hand up, not a hand out;" once farmers have improved the quality of their farmland, they will be able to improve coffee quality and better compete in the global marketplace. By focusing on the three pillars of sustainability (economic, environmental, and social), Rainforest Alliance addresses farmer empowerment and poverty alleviation. (*Rainforest Alliance*)

Rainforest Alliance Certified

Rainforest Alliance Certified is a collaborated effort between Rainforest Alliance and the Sustainable Agriculture Network (SAN), a network of nongovernmental organizations that focus on preserving biodiversity and human development. In order to become Rainforest Alliance Certified, farms must first comply with and maintain at least 50 percent of the following principles: environmental and social management systems that aim to improve farm efficiency and organization by maintaining a high level of accountability and transparency of SAN standards; ecosystem and soil conservation, which include protection and restoration or reforestation, as applicable; wildlife protection; water conservation, treatment and quality; working conditions, as defined by

the ILO and the national government; occupational health that refers to emergency and safety training and a safe working environment; positive community relations; elimination, substitute and/or use of the safest available agrochemical; and integrated waste management.

Furthermore, farms must comply with at least 80 percent of total applicable SAN criteria and with the following 15 criterions.

- 1) Certified and non-certified products shall not be mixed in facilities, harvesting, handling, processing, and packaging or during transportation. All certified product must be identified and transactions must be noted. (Critical Criterion 1.1)
- 2) Farms must implement a conservation program that identifies, protects and restores existing aquatic and terrestrial ecosystems (including those unsuitable for agriculture. (Criterion Critical 2.1)
- 3) Farms cannot destroy any natural ecosystem (applicable from the date of the application). (Critical Criterion 2.2)
- 4) Wild animals cannot be captured, extracted, hunted or trafficked on the farm. If there are laws permitting hunting or fauna collecting and it is not for commercial purposes, cultural or ethnic groups may do so if the species is not endangered and if the agriculture and local ecosystem is not affected. (Critical Criterion 3.3)
- 5) Farms are prohibited from discharging wastewater that does not comply with legal requirements or water quality minimum parameters into natural water bodies. (Critical Criterion 4.5)

- 6) Farms are prohibited from depositing organic or inorganic solids into natural water bodies. (Critical Criterion 4.7)
- 7) Farms cannot discriminate in hiring or labor practices and must offer equal wages training, benefits and promotion opportunities to all workers. (Critical Criterion 5.2)
- 8) Workers must earn at least the legal minimum wage. “In cases where the salary is negotiated through collective bargaining or other pact, the worker must have access to a copy of this document during the hiring process. For production, quota or piecework, the established pay rate must allow workers to earn a minimum wage based on an eight-hour workday under average working conditions, or in cases where these conditions cannot be met.” (Critical Criterion 5.5)
- 9) Farms may not hire persons under the age of 15. (Critical Criterion 5.8)
- 10) Forced labor is prohibited. Extortion, harassment, sexual abuse, indebtedness, or any other type of threat cannot be used as a disciplinary measure, or to withhold any or all of workers’ benefits, documents, or salaries. (Critical Criterion 5.10)
- 11) All workers must use protective equipment when working with agrochemicals. This equipment shall be in good condition, reduce the contact with agrochemicals and comply with all applicable regulations. (Critical Criterion 6.13)
- 12) Farm management must consider the opinions and concerns of the local communities when discussing and implementing changes that could have an impact on the communities’ health, employment, or local natural resources and make all comments or complaints related to the farm’s activities public. (Critical Criterion 7.2)

- 13) Farms cannot use agrochemicals and substances that are not legally registered for use in the country, agrochemicals that are mentioned in the List of Banned and Severely Restricted Pesticides in the U.S. by its Environmental Protection Agency (EPA) or pesticides banned or severely restricted in the European Union, substances that have been banned globally under the Stockholm Convention on Persistent Organic Pollutants (POPs), substances listed in Annex III of the Rotterdam Convention on Prior Informed Consent (PIC), and all Pesticide Action Network Dirty Dozen. (Critical Criterion 8.4)
- 14) Transgenic crops shall not be introduced, cultivated or processed on the farm. (Critical Criterion 8.6)
- 15) Production areas must be appropriate (climatic, soil and topographic conditions) for the type of agricultural production planned. (Critical Criterion 9.5)

Rainforest Alliance Certified's environmental and social standards resemble those of other certification schemes and ideologies set by the ISEAL Alliance and ILO standards; however, in contrast to FLO, their list of standards is more extensive. FLO, on the other hand, does not audit any of the overlapping ILO or ISEAL standards.

Fees and Auditing

Rainforest Alliance Certified farms are audited by the Sustainable Farm Certification, Intl., an independent certification company. The Rainforest Alliance certification cycle covers a three-year period in which local auditors conduct annual audits to ensure that farmers are in compliance with the SAN standards. Sometimes, additional audits are performed to verify documentation and planning (the Verification Audit) or to investigate complaints (Investigation Audits). If producers want to be re-

certified, they must reapply during the third year for another three-year certification period.

On October 1, 2010, SAN began requiring that either the coffee importer or the first buyer if the coffee is sold in the producing country, pay a quarterly Participation Fee of US\$ 0.015 per pound of green coffee. Farmers, on the other hand, pay a *per diem* cost for the audits and technician travel expenses.

Farmer Financing

To help farmers acquire pre-harvest financing, Rainforest Alliance has partnered with the FAST, an international nonprofit organization that assists small and medium enterprises (SMEs) in developing countries to acquire financing. By partnering with financial institutions, producers, technical providers and nongovernmental organizations, FAST serves as an umbrella organization for producer associations whose needs often cannot be met by microfinance institutions or regular banks with high interest rates. Rainforest Alliance certified producers can apply for financing assistance at no cost and are matched with the financial institutions that satisfy their needs (e.g. pre-harvest, short term, and long term financing). (Benryane)

Price Premiums

Unlike the fair trade system that has established a designated minimum price and premium for coffee growers, Rainforest Alliance does not interfere in the trading relationships between farmers and buyers because it believes in farmer self-sufficiency, which is derived from skill and efficiency, rather than a prearranged price premium. In response to public scrutiny that Rainforest Alliance has received about its lack of

interference with price negotiations, Rainforest Alliance Media Relations specialist Anna

Clark replies:

The system that is putting an emphasis on price is missing a number of other critical elements that influence whether or not farmers get out of poverty. We see many farmers earning high prices and still failing. Successful farmers learn to control costs, increase production, improve quality, build their own competence in trading, build workforce and community cohesion and pride, manage their precious natural resources and protect the environment. (S. Amanda)

Once a farmer is able to improve his crop and land quality and efficiency, he can negotiate better terms for his coffee (*Rainforest Alliance*). Yet, this does not mean that the organization is ignorant of the trading that takes place between the farmer and the buyer. Rainforest Alliance has created an online market and traceability system where farmers can negotiate their prices, and buyers can trace the product along the entire production chain.

Partnerships

Rainforest Alliance sells its certified coffees to nearly 100 businesses including the Allegro Coffee Company (found at Whole Foods Market), American Airlines (coffee is 100% Rainforest Alliance Certified), Arby's, Caribou Coffee (all coffees and espresso are 100% Rainforest Alliance Certified), Costco, Gloria Jean's, the Holiday Inn, Peet's Coffee and Tea, Sam's Club, Wal-mart, and Kraft.

Revenue and Expenses

In 2010, Rainforest Alliance received 32.4 percent of its revenue from fee-for service (certification fees), 29.2 percent from government grants and contracts³⁴, 19.7 percent from the foundations and corporate grants, 10 percent from contributions and membership dues, 5.3 percent from other and 3.5 percent from special events. In contrast, it spent 43.9 percent of its earnings on its forest conservation program, 31 percent on sustainable agriculture, 6.9 percent on sustainable tourism, 6.7 percent on fundraising, 6.1 percent on education and communication, 3.1 percent on special projects, 1.4 percent on a climate initiative, and 0.9 percent on management and general. The total revenue of US \$ 35,626,290 versus its total expenses of US\$ 35,219,644 created a change in asset of US \$ 406,646. (*Rainforest Alliance 2010 Annual Report*)

3.3 UTZ CERTIFIED

UTZ CERTIFIED, formerly known as UTZ KAPEH, was initiated in 1999 with the goal of providing sustainably produced coffee to a larger market. Since its inception, it has extended its sustainability programs that focus on “managing risk, generating value and ensuring the long term viability of enterprises and the societies they operate in” to other commodities like cocoa, tea and palm oil (*UTZ CERTIFIED ‘Good Inside’*). In contrast to Fair Trade USA or Rainforest Alliance, UTZ CERTIFIED does not advertise to consumers (business to consumer (B2C) model), but rather directly to businesses (business to business (B2B) model). The organization believes that “brands should take

³⁴ Of the three certification schemes discussed in this chapter, Rainforest Alliance has the greatest revenue from government grants.

responsibility and also have the strength to address their consumers. [...] Only with free publicity and interviews do we directly address consumers, but always try to connect to our partners” (Hoogh). UTZ CERTIFIED attempts to build on a brand’s already established responsibly sourced coffee framework by targeting retailers and roasters rather than consumers, while still making an effort to communicate with consumers through direct email communication, and a consumer website that addresses frequently asked questions and raises awareness about the organization’s certification.

Code of Conduct

UTZ CERTIFIED uses the ISEAL Alliance Impacts Code as its basic framework for evaluating and monitoring its programs. The UTZ CERTIFIED Code of Conduct is based on ILO conventions and is separated into three parts: the Good Agricultural and Business Practices, Social Criteria, and Environmental Criteria. The Good Agricultural and Business Practices criteria states that farmers shall monitor and record business and farm practices, including the type and quantity of pesticide and fertilizer usage and the traceability of the products; set precise guidelines for accident and emergency procedures; properly train workers on safety and hygiene regulations (in their native language); and conduct annual audits. Under the Social Criteria segment, farmers must have protective clothing and gear for work with chemicals; access to clean drinking water, decent housing, education and health care for workers and their families; freedom of association, collective bargaining, and cultural expression; and shall be in congruence with the national laws and ILO conventions, particularly those that pertain to wages and working hours, safety and working conditions and child labor. The Environmental

Criteria prohibits forest deforestation; and encourages endangered species protection, using native tree species as coffee shade trees, minimizing environmental pollution and agrochemical usage, protecting water resources and treating contaminated water, integrating pest management, optimizing the use of sustainable energy sources, and reducing and preventing soil erosion.

Fees and Auditing

To cover operational costs (marketing, regional assistance, and traceability system), UTZ CERTIFIED administers a fee of \$0.012 per pound of green coffee that is charged to the first coffee buyer. Of the three certification schemes discussed, UTZ CERTIFIED has the lowest fees. Unlike FLO and Rainforest Alliance, farmers or producer groups are not charged for any part of the audit, but they must be registered with UTZ CERTIFIED before requesting an audit.

UTZ CERTIFIED accredits and trains their independent certifiers or the Certification Body (CB) annually. These CBs must also have either an ISO 65 (like FLO) or an EN 45011 European Standard accreditation. Since the CB is either local or works with local auditors (coffee is sourced from cooperatives, estate farms and producer groups from 21 different origins), *per diem* fees for CBs that are not permanent hires depend on the local cost of living and can vary greatly depending on local conditions. Generally, a single farm takes one to two days to audit, while group certification can take up to one or two weeks due to the Internal Control System (ICS), a quality management system that ensures that the UTZ CERTIFIED Code of Conduct is adhered to and takes several days to audit.

UTZ CERTIFIED does not charge a fee for every additional product to be certified, particularly because less than one percent of UTZ certificate holders have more than one UTZ CERTIFIED product; however, CBs often do charge a fee per certificate. Also, in contrast to FLO, if an audit does not take place, certification bodies cannot charge fees, and producers would be unable to receive a certification.

Price Premiums

According to market statistics referenced by UTZ CERTIFIED³⁵, most companies and consumers are unwilling to pay a premium price for coffee. Instead, consumers associate responsibility with particular brands that produce higher caliber and presumptuously ethically sourced coffee (UTZ CERTIFIED). As a result, the UTZ CERTIFIED Code of Conduct states that farmers receive a price premium for their coffee; however, the organization does not intervene in price negotiations between the farmer and the first buyer: “We believe farmers should be rewarded for their sustainable farming by means of a premium, but we also believe in the world market principle. This is the only way to reach structural sustainability for the long term” (Hoogh). Like Rainforest Alliance, which focuses on training farmers to provide for themselves instead of enacting a price premium, making training and quality secondary, UTZ CERTIFIED focuses on educating and training the farmer so that the farmer may in turn use his improved agricultural and operational skills to increase productivity, produce quality coffee more efficiently, and tap into new markets. As a result of such efforts, in 2010 UTZ CERTIFIED farmers received an average premium of US\$ 0.0569 per pound of

³⁵ The source for the market statistics was not cited; therefore it is unclear whether there is a bias.

arabica coffee and US\$ 0.0213 per pound for robusta coffee (an average premium of US\$ 0.0491 per pound for both types) (*UTZ CERTIFIED Good Inside Annual Report 2010*).

After receiving their UTZ CERTIFIED certification, coffee sellers enter their desired premium on an online UTZ CERTIFIED member portal, where potential buyers can access the information. All UTZ CERTIFIED members can access the online price premiums, displayed by country and region. With an auction system, the producing country, certified producers, and registered buyers negotiate the price premium (see Policy on UTZ CERTIFIED Premium and Administration Fee 2008, *UTZ CERTIFIED*). Furthermore, buyers can then trace coffee to its origin of harvest using an online real-time traceability system. When UTZ CERTIFIED coffee is sold, it gets a unique identification number that is continuously updated as it moves its way through the production and processing chain to its final destination.

Market Access

There are currently 21 countries, including Mexico, and 162,640 farmers (mostly smallholders that have organized into groups) that produce UTZ CERTIFIED coffee (*UTZ CERTIFIED Good Inside Annual Report 2010*). UTZ CERTIFIED is sold worldwide through regional brands and IKEA. In the U.S., it can also be found through the Java Trading Company and Dunn Bros Coffee.

Revenue and Expenses

In 2010, 60 percent of its income came from fees, 31 percent came from subsidies, and 9% came from contributions. In contrast, the NGO spent 52 percent on personnel expenses, 3 percent on office rent and services, 9 percent on sales expenses, 14

percent on travel expenses, 9 percent on office supply and equipment, and 13 percent on professional services.

3.4 Certification Scheme Value

Regardless of whether the collaboration between NGOs and corporations is genuine or strategic, the partnerships are reinforcements for coffee consumers. They may decrease poverty in developing countries, and potentially inspire TNCs to expand their lines of sustainable products, become more accountable for their all-around behavior, and lead them to participate in more development projects. Since “[m]any studies claim that consumers place a high value on corporate social or environmental performance in their purchasing decisions,” any large corporation can provoke change within its industry, not only with their particular choice of product but also because they indirectly raise the CSR bar for their competitors (Vogel 47).

Consumers may buy a particular coffee brand because it endorses and sells a specific certification scheme, but it is these organizations’ participation and affiliation with additional sets of standards that make these organizations credible. While these organizations have built their credibility with independent third party audits, their credibility is also aligned with the extent of their participation with other social criteria and certifications such as the ISEAL Alliance³⁶, the ILO conventions and ISO 65. Each additional layer of organizational participation contributes to the perceived strength (and

³⁶ Rainforest Alliance is a founding member of ISEAL. Currently, FLO, Rainforest Alliance and UTZ CERTIFIED are members of ISEAL.

the expected contribution and fee sum that these organizations need to raise, as these memberships are not free³⁷) that the consumer gives to these organizations.

If the lifetime of any NGO is not infinite, Oaxacan farmers are looking to these certifications to not only acquire a premium for a designated period of time, but also to gain skills that can benefit them if the NGO does not survive, or if their agreement gets dismantled. If there is no sign of legitimate audits, then farmers are unlikely to follow through with the decrees of the certification.

Since FLO is the only system that has enforced a minimum price and premium for its certified products, other certification schemes are oftentimes considered the ugly stepchild of certifications and are accused of being “low bar certification schemes” or of “deliberately avoid[ing] the sticky issues of low wages and commodity prices in developing countries” (Fair Trade Resource Network; *Transfair USA 2008 Annual Report*). However, without an equal investment toward management and farm training, price premiums alone are not a panacea because they do not address the grassroots problems of quality, management, and efficiency.

When critics theorize about price differences, the first conclusion that is often made is that farmers are paid less per pound of green coffee (approximately US\$ 1.35), than a corporation like Starbucks charges for a small cup of coffee (US \$1.65³⁸). Critics are quick to look at the obvious disparity without factoring the costs of operating a business like paying for their importers, roasters, marketing, branding, supplies,

³⁷ For instance, the ISEAL Alliance membership is € 2,000-15,000 per year.

³⁸ Price current as of January 2012.

employee training, and facilities. If farmers were able to process, roast, export and market their coffee, they would earn a higher price for it, yet this has only been possible in the case of few successful cooperatives.

Individual companies or set certification schemes choose whether they want to pay farmers an additional premium based on product quality and personal principles. Is it a corporation's responsibility to pay a higher price to coffee growers when the coffee does not merit a higher price, or is it the responsibility of domestic state and federal governments to subsidize crop production, ensure appropriate export taxes, and provide general support to coffee farmers?

As long as the farmer is getting paid at least the market minimum, it is not a coffee buyer's responsibility to inflate the price of green coffee, particularly when the coffee quality is undeserving of a higher price. Prices should naturally vary due to the aforementioned factors. With UTZ CERTIFIED and Rainforest Alliance, a price premium is a bonus for adhering to particular labor, environmental or business standards. With a system like Fair Trade, farmers are paid a set price, regardless of the coffee's quality, thus exaggerating the value of the coffee. In fact, many of those who find fault with the Fair Trade system state that Fair Trade products are often subpar to non-certified coffee.

Additional criticisms regarding certification schemes view the partial commitment to certification as a downfall. For example, companies must only have 30 percent of a product certified by Rainforest Alliance to use the Rainforest Alliance Certified label on their packaging. In comparison, UTZ CERTIFIED requires 90 percent of coffee to be

certified, and Fair Trade USA requires 100 percent certified coffee, making Rainforest Alliance's 30 percent requirement seem low. If a minimum of 30 percent is certified product, of what quality is the rest of the coffee? For some, partial certification is a sign of whitewashing, because companies are able to certify a minimum and claim that they have fulfilled their responsibility to consumers.

In theory, the fair trade system is guilty of a similar practice by allowing the same behavior; "[H]ow ethical is it for a company such as Nestlé to source (a small) amount of product on fair trade terms and for the rest of their coffee- and other product- sourcing to remain 'business as usual'" (Low and Davenport)? All of these certification schemes are only able to get companies to certify some of their total coffee supply (even Starbucks' coffee is not 100 percent certified by its own scheme), thus making the rest of that company's coffee supply chain questionable and open to scrutiny. Yet, like a for profit business, they still function as a competitive institution in the free market and "are seeking corporate partners who will help design, package, produce, promote, and distribute products to a marketplace" (Kotler and Lee 264). Even as nonprofits, their aim is still to market and sell their certification systems, so some commitment from corporations is better than none.

Specialty coffee roasters like Starbucks, Peet's Coffee and Tea, and Green Mountain Coffee Roasters all sell a variety of certified coffee. These companies are likely trying to attract a range of consumers by selling an assortment of certified coffees, while also testing consumer demand for certified products. On one hand, there may not be enough certified coffee to supply a large coffee brand's demand; on the other hand,

U.S. brands seem reluctant to certify their entire supply of coffee because binding contracts put limitations on their supply. In the U.S., brands are constantly trying to reinvent the same product to attract consumers. This is especially relevant to the coffee industry. As a result, corporations spend billions of dollars tweaking coffee blends, adding additives, repackaging the coffee, and advertising their *new* products. Beautifully packaged and flavored coffees that are supposed to taste like desserts (e.g. Folgers Gourmet Selections “Caramel Drizzle,” “Chocolate Truffle,” and “Vanilla Biscotti”), and powdered latte drinks that carry more non-dairy creamer and sugar than instant coffee (e.g. Maxwell House International line of flavored “coffees”) attract consumers.

Currently, it is difficult to assess the impact of these schemes, as audit scorecards are not available for the general public. Case studies also do not accurately depict the certifications’ impacts on farmers, as they are too widespread and do not encompass the general coffee farmer population, particularly for Mexico.

Despite the constant rebuttals and an obvious level of tension between these certification systems, in February 2011 FLO, Rainforest Alliance/SAN and UTZ CERTIFIED released a public statement that expresses their respect for each other’s unique approaches to reaching overall sustainability and upholding high labor and environmental standards³⁹. These NGOs also intend to cooperate on such matters to improve this sector.

³⁹ <http://www.isealalliance.org/news/historic-joint-statement-fairtrade-sanrainforest-alliance-utz-certified>

4. Coffee Corporations

Corporations have been using public relations techniques since the early twentieth century to gain consumer approval. The more the corporation was accused of acting like a “soulless leviathan,” the craftier it got. At one point, corporations, which are experts at marketing, referred to their increased concern for consumers and workers with “New Capitalism [that] sought to demonstrate that corporations could be good without the coercive push of governments and unions” (Bakan 17-18). By the time that neoliberal policies had taken full effect, globalization wavered between being a positive trend and a way in which corporations could exploit the poor. Growing accusations of corporate greed led many businesses (especially those that depend on a developing nation for some form of their final products’ production) to start CSR activities that in theory should counter some of the corporate criticisms.

In an era when corporations are increasingly being held accountable for how they do business in third world countries, and when consumers pay greater attention to the profit margin for large corporations, companies are engaging in more CSR. While each company has a distinct approach to achieving CSR, the motives behind their individual projects are unique. Since the U.S. government does not mandate businesses to develop CSR activities, businesses that create CSR are at an advantage because they are preemptively consoling consumers.

By evaluating various coffee companies’ CSR claims, this chapter will determine which companies have the most cohesive and meaningful approach to CSR, particularly in coffee growing communities, and which are simply using the term to emit an aura of

responsibility. In addition to unveiling the leaders of CSR, this chapter will also demonstrate which corporation and company mechanisms are ideal for partnering with Oaxacan coffee communities.

While there is much rhetoric surrounding the exploitation of coffee farmers by large corporations, what is often ignored is the fact that Mexican (or Central American) coffee farmers, unless partnered with a powerful cooperative like CEPCO (which is like a corporation in itself), are unable to produce a consistently good coffee, market it, and make a profit. Profitable corporations have the tools and capital needed to improve farmer livelihoods, which is precisely why the application of CSR is important for Mexican farmers.

4.1 The U.S. Coffee Market

The U.S. coffee market is primarily dominated by two sectors: the roasted and soluble coffees that are purchased for consumption in the home or office (Folgers, Millstone, Taster's Choice, Nescafé, and Yuban) and are usually of a lower quality because they are made with both arabica and robusta coffee beans, and the specialty coffeehouse market (i.e. Starbucks and Peet's Coffee and Tea) that sells freshly brewed coffee (made of arabica beans) tea, baked goods, and their branded retail products both in store and online.

Approximately 46 percent of household coffee consumption is Folgers (owned by Smucker's), followed by 25 percent Maxwell House (Kraft), 17 percent others like

Taster's Choice (Nestlé), Yuban (Kraft) etc., and 12 percent Starbucks⁴⁰ (*Coffee Statistics Report 2011*). In the specialty coffeehouse market, Starbucks leads the sector both domestically and internationally. While Starbucks has regional competitors such as Peet's Coffee and Tea and the Coffee Bean and Tea Leaf on the West Coast, and Tim Horton and Dunkin' Donuts on the East Coast (among other small business coffeehouses), these competitors' profits and brand recognition are unparalleled to that of Starbucks.

Each brand has its devoted consumers that buy a particular brand without asking questions about the product's production practices, but there are an increasing number of conscientious consumers (or followers stimulated by the media) that are beginning to question under what conditions the coffee was harvested, manufactured, and sold. Many of these consumers are activists for Fair Trade, organic or Rainforest Alliance certified products and are requesting that large coffee selling companies take part in more environmental and social initiatives. In order to satisfy consumer demands to integrate CSR within the coffee industry, some of the world's leading coffee corporations, Nestlé, Kraft, Sara Lee, Smucker's, Starbucks, Green Mountain Coffee Roasters and Peet's Coffee and Tea, have partnered with nonprofit organizations like Fair Trade Labeling International, Rainforest Alliance, and UTZ CERTIFIED, governmental agencies, or they have developed their own coffee sustainability program.

⁴⁰ While Starbucks and other specialty coffee shops have branched out and now sell their whole bean and ground coffee in supermarkets and retail stores such as Target, these coffees do not generate the majority of the specialty coffee shops' income.

4.2 Nestlé

Nestlé purchases and sells approximately 10 percent of the world's coffee beans ("Rainforest Alliance Joins"). Among the various corporations to be discussed, Nestlé has the greatest stake in Mexico.

Nescafé

Nestlé has demonstrated innovation in the coffee industry since its inception into the coffee sector in 1938. In the late 1930s, during high levels of coffee surplus, Brazil, as the world's largest coffee producer, was instructed to get rid of its low quality coffee to help balance coffee supply levels. Nestlé, already an expert in creating condensed milk, intervened and acquired Brazil's excess coffee, and applied a similar technique⁴¹ to produce soluble or instant coffee (*Nestlé*). Since the launch of Nescafé in 1938, Nestlé has gone on to develop several variations of its original instant coffee to meet worldwide cultural demands⁴². It is currently the worldwide leader in the instant coffee market.

To satisfy its needs, it sources its lower grade arabica and robusta coffee beans from Mexico, Cote d'Ivoire, Vietnam, Thailand, Indonesia and the Philippines (*Facts and Figures Nescafé Plan*). In Mexico, Nestlé controls 70 percent of the coffee market and purchases its coffee from Chiapas, Oaxaca, Puebla, Veracruz and Guerrero, the largest

⁴¹ Condensed milk is created by removing water from milk. In simplified terms, soluble coffee is made of coffee that has been freeze dried or that had its water removed.

⁴² While Nescafé and *Nespresso* are sold worldwide, the coffee products and marketing varies due to regional particularities. Nescafé's U.S. product line consists of Nescafé Clásico, "the leading coffee for Latinos in the U.S.;" the Nescafé Dolce Gusto coffee system that creates single serve coffee, lattes, espressos and cappuccinos; Nescafé Taster's Choice instant coffee; and Nescafé Café con Leche, an already sweetened drink that is "sweetened to the Hispanic palate" (*Nestlé USA*).

coffee producing states in Mexico. Furthermore, Nestlé buys 30 percent of Mexico's lower grade and robusta coffees (Renard).

Over the last ten years, Nestlé has invested CHF 110 million (approximately \$125 million) in coffee projects (*Nestlé*). While Nestlé does not provide an itemized list of its coffee project spending for the public, its partnerships have included Rainforest Alliance, the 4C (Common Code for the Coffee Community)⁴³, SAN, and ECOM Agroindustrial Corporation Ltd, an international commodity trader.

Nespresso

Nespresso is Nestlé's line of higher quality coffee that is made of 95 percent arabica and 5 percent robusta beans. The coffee is especially designed for its *Nespresso* espresso machines and is directed toward the luxury market. While this line of coffee may be of a higher quality compared to the other coffees that Nestlé produces, it is still of a lower quality than the specialty coffees produced by its competitors that use 100% arabica coffee.

In 2003 *Nespresso* partnered with Rainforest Alliance and SAN to develop the *Nespresso* AAA Sustainable Quality Coffee Program. As part of their own quality control process, *Nespresso* AAA created a self-assessment tool for farmers, the Tool for the Assessment of Sustainable Quality (TASQ), whose standards are similar to the Rainforest Alliance Certified criteria⁴⁴, but not as extensive. After completing the self-evaluation, farmers can attend an optional training workshop on farming practices, and

⁴³ The 4C is a network of coffee stakeholders that are seeking to improve standards, quality and efficiency within the coffee supply chain (*4C Association*).

⁴⁴ See NGO chapter for an in depth analysis of Rainforest Alliance certification criteria.

then agronomists evaluate the farms using the TASQ criteria. Once farmers meet the criteria, the program places the farm in one of four performance categories: underperforming, basic, emerging, and high performing. Farmers are then given a specialized action plan for attaining certification by *Nespresso* AAA. Using the plan, the program “periodically” (unspecified times) assesses farmer performance and if the farm demonstrates improvement, they are moved up one tier⁴⁵. However, it is not until Nestlé analyzes coffee samples and places the farm in an approved AAA cluster of farms that share common characteristics, that the corporation along with other organizations and government agencies begin to execute regional projects, in which farmers can reap the benefit of *Nespresso*’s AAA price premium, which on average is 35 percent higher than the coffee market price and 10-15 percent higher for similar quality coffee. In 2009, the *Nespresso* AAA initiative became part of a larger umbrella project, Ecolaboration, for Nestlé’s *Nespresso* line of coffee. In addition to focusing on coffee quality, the added components in Ecolaboration focus on creating recyclable capsules for the espresso machines, and reducing its carbon footprint.

By 2013, *Nespresso*’s Ecolaboration project aims to source 80 percent of its coffee from the *Nespresso* AAA Program and Rainforest Alliance Certified⁴⁶, covering approximately 80,000 farms in Costa Rica, Guatemala, Mexico, Brazil, Colombia, Nicaragua and India⁴⁷. It also plans to make 75 percent recyclable coffee containing

⁴⁵ Apart from moving up a tier, there is no indication that farmers receive any other benefit for improving their performance.

⁴⁶ Currently one of eight *Nespresso* coffee’s is Rainforest Alliance Certified.

⁴⁷ Information is current as of December 2011.

capsules, and engineer energy-efficient machines so that the carbon footprint for using the machines is reduced by 20 percent. (“Ecolaboration”)

Several years after *Nespresso*'s launch, *Nespresso* began to collaborate with other organizations. In 2007, the Nestlé Group (Nestlé, *Nespresso* and Nestec) partnered with the ECOM Agroindustrial Corporation Ltd. and the International Finance Corporation (IFC) to help more than 8,000 coffee farmers in Mexico and Central America to increase their Real Farmer Income (net income) over a three year period. Via several case studies conducted by *Nespresso*, it was concluded that farmers are unaware of their production cost and therefore only rely on price premiums instead of their net income to gauge success. As a result, *Nespresso* is working on encouraging higher levels of productivity so that farmers spend less on production while earning a premium for their coffee, resulting in a greater net income. With ECOM's and the IFC's combined \$25 million dollar line of credit, technical assistance and project consulting from the Rainforest Alliance and CIRAD (the [French] Center for International Cooperation and Agronomic Research for Development), this project focused on improving sustainable practices and providing farmers with access to credit. As of December 2009, 5,654 coffee farmers were part of *Nespresso*'s project cluster on sustainable business, 463 training sessions on sustainable business practices and productivity were given, 186,097 project plants were planted across four countries, and \$3.7 million were paid to producers whose coffee had been verified and sold by *Nespresso*. (“Sustainability-ECOM”)

Nestlé Overview

In 2010, Nestlé announced its plan to invest CHF 500 million (approximately US \$566 million) to new coffee projects: CHF 350 million in the Nescafé Plan and CHF 150 million in *Nespresso*. Under this plan, Nestlé plans to double its directly sourced Nescafé coffee supply, distribute 220 million high-yield coffee plantlets and train 30,000 farmers. By 2015, the Nescafé Plan intends to purchase only directly sourced green coffee that is compliant with the 4C standards. By 2020, it aims to purchase 90,000 tons of coffee for its Nescafé line that will be sourced according to the Rainforest Alliance and SAN principles. (*Nestlé*)

In addition to co-developing the Sustainable Agriculture Initiative (SAI)⁴⁸, creating the Nescafé Plan and *Nespresso* AAA, and participating in Rainforest Alliance certification, Nestlé has invested in projects throughout various coffee regions in the world. In Mexico, Nestlé collaborated with the government on the Micro-Region Supporting Program that helped to train over 1,500 coffee farmers in Tezonapa. In 2006, Nestlé partnered with the *Fondo para Niños de México* to establish the *Centro Comunitario Nestlé* (Nestlé's Community Center), which offers complimentary education and health services to farmers' children. In Veracruz, Nestlé helped to fund a coffee research center. In Chiapas, Oaxaca, Puebla, and Veracruz, the project is helping approximately 1,750 coffee farmers with "quality control, coffee berry borer management, alternative coffee drying techniques that reduce the impact on the

⁴⁸ SAI is a nonprofit organization that focuses on developing and implementing sustainable agricultural practice (*SAI Platform*).

environment, post-production best practices, direct commercialization, financing of coffee for organizations of producers and installation of greenhouses for Robusta plant⁴⁹ (“Rural Development in Mexico”). Nestlé has also been funding projects for the National [Mexican] Institute for Forestry, Agriculture, and Livestock (INIFAP) since 1993. Most recently, it has collaborated with the governmental agency and Agromod, a Mexican biotech company, to increase the production of arabica and robusta plants through somatic embryogenesis, and to make the plants more resistant to disease (*Grupo Agromod*). (Nestlé)

Nestlé has donated money to various projects, and many of its projects are value based, hence their coined term for their CSR program, "Creating Shared Value." While Nestlé does not completely discount traditional CSR and has used the term to reference its past projects, it has critiqued the way in which many corporations integrate CSR. Peter Brabeck-Letmathe, Chairman, S.A., feels that companies are made to feel guilty for running a business and therefore feel a need to give back to society. Alternatively, Nestlé created “Creating Shared Value (CSV),” a more competent form of CSR that is tailored to Nestlé’s mission of becoming the leader in health, nutrition and wellness. While the premise behind CSV is not *avant-garde*, the project is functional because it develops solutions for productivity and efficiency across its various sectors, ultimately creating a shared value for society.

⁴⁹ It also claims to have similar plans in the Philippines, Thailand, the Ivory Coast, Vietnam, China and Colombia (*Nescafé México*).

As a result of this philosophy, the partnerships and projects that Nestlé coffee brands have pursued, demonstrate an interest in resolving the underlying problems that the coffee supply chain faces. Nestlé partakes in a couple of certification systems and has created its own certification system for its specialty line of *Nespresso* coffee. Nestlé has also collaborated with various organizations, corporations and governmental agencies (SAI, Rainforest Alliance, the Mexican government, Danone, 4C, etc.) on research projects and case studies. Since Nestlé has publicly made its goals known, it is more likely to uphold its promises to its stakeholders who will keep the corporation accountable.

4.3 Sara Lee Corporation

Sara Lee sells a variety of international coffee brands⁵⁰. Douwe Egberts is a top coffee brand based in the Netherlands that sells a coffee making system used by hotels, restaurants and other foodservice operators; roast and ground coffee for the home; and flavored coffee beverages. In France Sara Lee sells *Maison du Café* and in Brazil it sells *Café Pilão*. Finally, Senseo is a single serve coffee maker and coffee (made from Central American and Brazilian coffee beans) sold to the U.S. and international market.

Sara Lee has been an advocate for UTZ CERTIFIED coffee since 2004. Currently, Sara Lee is the single largest buyer of UTZ CERTIFIED coffee and in January 2011, the corporation made a public commitment to increase its certified coffee supply to approximately 20 percent of its total coffee volume (at least 350 million kilos of coffee)

⁵⁰ In October 2011, Sara Lee announced that it would be selling the majority of its North American coffee and hot beverage business to J.M. Smucker. This transaction will not affect Sara Lee's partnership with UTZ CERTIFIED, as its Douwe Egberts brand will remain with Sara Lee. The deal is set to close in early 2012. ("Sara Lee Corp. Announces").

by 2015 (Sara Lee). Sara Lee's UTZ CERTIFIED coffee can be found in Douwe Egberts Good Origin Sustainable Coffees, in some of Senseo's worldwide coffees, and in its Maison du Cafe's L'OR brand. Sara Lee's sustainable coffee projects are managed by the Douwe Egberts (DE) Foundation and are in part funded by the Dutch Sustainable Trade Initiative (IDH).

4.4 Kraft Foods Company

Like Nestlé and Sara Lee, Kraft owns various international coffee brands. Gevalia sells ground and whole bean roasted blends, single origin coffees and flavored coffees in Denmark, Finland, Sweden and the U.S. In France, Kraft coffee brands include *Carte Noir*, *Café Grand'Mère*, *Jacques Vabre*, and *Velours Noir*. In the UK and Ireland, Kraft sells Kenco roast and ground coffee, instant coffee, and coffee created for coffee vending machines. Tassimo is Kraft's single-drink hot beverage system and is popular in Austria, Canada, France, Germany, Switzerland, the United Kingdom, and in the United States. Maxwell House is a popular brand both domestically and internationally (including Canada, China, France, Germany, Ireland, the Middle East, Poland, Russia, Taiwan, Ukraine, and in the United Kingdom).

Kraft's preferred coffee certification partner is Rainforest Alliance, with whom it began working in 2003. Currently, Kraft is the largest buyer of Rainforest Alliance Certified coffee. In 2010, Kraft purchased approximately 50,000 metric tons of Rainforest Alliance Certified coffee, helping more than 430,000 coffee producers in 12 countries and in 2009, Kraft purchased over 34,055 metric tons (approximately 75 million pounds) of Rainforest Alliance Certified coffee (*Kraft Foods Company Annual*

Report 2010; Kraft Foods Responsibility Report 2010). Kraft's Rainforest Alliance Certified coffee is also sold in many McCafés and McDonald's restaurants in Europe. Other lines of Kraft's Rainforest Alliance Certified coffees include Yuban (ground coffee and coffee pods) in the U.S., the *Medaille d'Or* brand coffee in Switzerland, the *Jacques Vabre Récolte Bio* in France, the *Gevalia Monsoon Storm* in Sweden, and in Tassimo's Kenco coffee sold in the United Kingdom and Ireland. Like Nestlé, Kraft also belongs to the 4C Association and is a member of the SAI.

While many of Kraft's European based brands engage in certifications, Kraft's Maxwell House brand in the U.S. has taken a philanthropic approach to CSR by partnering with Rebuilding Together, a nonprofit organization dedicated to providing affordable home ownership and rebuilding communities, and Wheel of Fortune. Together they have implemented their "Drops of Good" program. The aim of this program is to have consumers vote for one of the community centers listed on their website, so that ten centers can be chosen and given \$5,000 for renovations. Consumers can also nominate community organizations to receive a \$1,000 grant. With regards to Wheel of Fortune, Maxwell House will donate \$2,500 for each time that a contestant wins the Bonus Round between April 18, 2011 and December 31, 2011 for a maximum of \$200,000. While these donations will be beneficial to their recipients, this type of program is not synced with selling coffee and does not benefit the coffee producing community. ("Drops of Good")

4.5 *The J.M. Smucker Company*

Smucker's owns Dunkin' Donuts, Millstone and Folgers coffee. Unlike Nestlé, Kraft, and Sara Lee, Smucker's provides minimal information on its coffee sourcing practices and CSR activities for its three coffee brands. It is also the only company of the four that is not an active member of SAI. Of the three brands, only Millstone has a history of purchasing certified organic and Fair Trade Certified coffee. According to the *Coffee Barometer 2009*, in 2008 J.M. Smucker purchased 0.5 percent of the market share of certified coffees (Rainforest Alliance Certified, Fair Trade Certified, and organic). While Millstone discontinued its Rainforest Alliance Certified and some certified organic and Fair Trade certified coffees since the report was published, it still sells the Fair Trade Breakfast Blend.

4.6 *Peet's Coffee and Tea*

In the 1960s, Dutchman Alfred Peet, disappointed by the low quality coffee that was readily available in the U.S. took his coffee and tea industry knowledge and opened his first specialty coffee shop in Berkeley, CA. Unlike Maxwell or Hill Brothers, this specialty coffee shop, now known as Peet's Coffee and Tea, sold freshly roasted arabica coffees from high altitude coffee growing regions. While Peet's was not the first specialty coffee shop to open, its popularity inspired other specialty coffee shops like Starbucks, to whom Peet's supplied coffee beans during its first year in business.

Peet's sells a variety of arabica blends and single-origin arabica coffees from 23 different countries in Latin America, Africa and the Pacific using 30 different exporters, brokers, and growers. In 2010, specialty coffee sales made up 84 percent of its net sales,

and 83 percent of its 2009 net sales. Since Peet's focuses on obtaining, roasting and selling quality coffee, much of its coffee is from farms that it has been buying from for years. (*Peet's 2010 Annual Report*)

To ensure that the coffee communities that they buy from continue to be sustainable (are able to provide coffee for the long term), Peet's has engaged in a variety of CSR initiatives throughout its coffee growing regions, demonstrating that the needs of a coffee community are not solely financial. Peet's works with a variety of organizations to provide business, education, and health services to farming communities. It has partnered with Grounds for Health, a non-profit organization founded by the specialty coffee industry in 1966 that provides coffee communities in Central America and Mexico with health services, especially the prevention and treatment of cervical cancer. On the educational front, since 2006, Peet's has been sponsoring poor students until they graduate from high school (paying for teacher fees, student uniforms, administrative costs, and food) at the Kimssa School in Ethiopia. In Papua New Guinea, Peet's funded the construction of an elementary school, the Butterfly School, in 2006 in a coffee growing community. Peet's has also donated between \$10,000-24,999 to Technoserve, an organization that helps small business owners with financing, particularly with projects in Tanzania and Rwanda (*Technoserve*). Peet's also sells third party certified coffee including UTZ CERTIFIED, Fair Trade Certified and organic coffee. (Sustainability Peet's)

4.7 Starbucks

When the specialty coffee business erupted in the 1960s and 1970s with the opening of shops like Peet's Coffee and Tea, the Coffee Bean and Tea Leaf and the Starbucks Coffee Company, its emphasis was merely on selling high quality roasted coffee beans and coffee. However, when Starbucks hired Howard Shultz in 1982 and sent him to Italy for coffee research, he came back with ideas that would reform the specialty coffee sector.

[I] became enamored with the Italian coffee bar. The romance of the Italians and how they brought coffee to life, the theatrical presentation, the extension of peoples' homes- Then I realized that despite the fact that Starbucks did this wonderful job in educating people in Seattle about coffee, in a way they had missed what I thought was the most significant opportunity and that was the romance of the beverage and creating a sense of community in the store. And since Starbucks only sold whole beans or ground coffee for the home, I raced back from Italy with this wonder in my eye about recreating the Italian coffee bar in my own image and bringing it to America. (Howard Shultz, *Black Coffee*)

Starbucks is not just a vendor for specialty coffee; rather, it sells an all- encompassing experience where customers have an array of beverage (coffee and non- coffee) and food options to choose from, generally clean and comfortable seating and work spaces, dim lighting, cheerful music, customizable drink options (as of spring 2011, there are more than 87,000 espresso drink combinations), and consistently great customer service.

Starbucks' evolution makes it difficult to attribute the corporation to solely the practice of selling specialty coffee beans and coffee, and its annual revenue further support this fact.

In 2010, Starbucks' sales breakdown was comprised of 75 percent from beverages (any combination of milk, syrups, teas, espresso shots, powders, juices – drinks that may not

even include espresso shots), 19 percent from food, 2 percent from coffee-making equipment and other merchandise (coffee grinders, espresso machines, mugs, Starbucks bears, CDs, etc.), and 4 percent from whole beans (*Starbucks 2010 Annual Report*).

While Starbucks coffee sales do not amount to that of Nestlé, Kraft, Sara Lee or Smucker's, much of the misguided scrutiny toward the coffee industry is still directed toward Starbucks because they are a successful and ubiquitous company. In turn, Starbucks began to create and invest in more CSR activities.

As part of their CSR initiatives, Starbucks pioneered Shared Planet, a program that addresses ethical coffee sourcing, and environmental and social issues by integrating all of its stakeholders. Under this program's goals, 191,224 community service hours were logged by employees and Starbucks customers. By 2015, it hopes that customers and employees worldwide will reach 1,000,000 hours of community. This program is also focused on developing recycling solutions for their paper and plastic cups by 2012, implementing front-of-store recycling in their company owned stores by 2015, and serving 25 percent of beverages in their company-owned stores in reusable cups by 2015 (in 2010, 1.8 percent of beverages were served in reusable mugs or tumblers globally). In an attempt to conserve energy, Starbucks strived to reduce electricity consumption by 25 percent by 2010 in its company owned stores, but was only able to reduce its usage by 1.6 percent. As of 2010, Starbucks purchased renewable energy that was equivalent to 58 percent of the electricity used in the U.S. and Canada company-owned stores. Their new goal is to increase renewable energy to 100 percent by 2015. Starbucks also plans to

reduce its water consumption by 25 percent in their company-owned stores by 2015.

(Starbucks Global Responsibility Report Goals and Progress 2010)

C.A.F.E. Practices

In 2004, Starbucks and the Scientific Certification Systems, an accreditation body for auditors, and Conservation International, a nonprofit organization focused on environmental conservation, developed the C.A.F.E. (Coffee and Farmer Equity) Practices, a comprehensive model for producing sustainable coffee. Unlike Fair Trade, Rainforest Alliance or UTZ CERTIFIED certification systems, C.A.F.E. Practices⁵¹ is a verification process in which the supply chain is verified, but farms are not certified. This means that while there is some mandatory criteria that farmers must comply with, members along the supply chain can receive low scores on non-obligatory or “zero tolerance” indicators and still take part in the program.

First and foremost, in order to be considered for the C.A.F.E. Practices program, the quality and taste of the coffee beans must meet Starbucks’ standards. To ensure product quality, the arabica green coffee beans are inspected for particular attributes, size, uniformity, color, damage and mixture with foreign matter such as sticks or stones (specialty coffee standards for green coffee). After meeting these standards, establishing contracts with a verifier, and having supplier sites verified or sampled (medium and large farms are verified onsite, while small farms just need their coffee samples verified), suppliers are appointed a status that is based on their verification score.

⁵¹ For the purpose of this research project, the C.A.F.E. Practices program has been summarized. To read about the entire process, refer to the C.A.F.E. Practices Verifier and Inspector Operations Manual V4.4.

Secondly, the supply chain (farmers, cooperatives, mills/processors, exporters, etc.) must show economic accountability. These requisites state that there must be economic transparency by farms, mills, middleman, suppliers, and processors. Furthermore, the supply chain is evaluated for economic viability. Each entity within the supply chain is rated with comply, not comply, or not applicable for coffee invoice and receipt documentation; detail of coffee transaction (names, dates, measures and quantities); and records of payments.

Large and medium sized coffee farms⁵², farmers, processors (mills), producer support organizations (PSO) and suppliers are evaluated against the C.A.F.E. Practice's Generic Scorecard of 210 indicators that cover product quality, economic accountability, social responsibility and environmental leadership. Small farms, which in 2008 accounted for approximately 49 percent of all Starbucks purchases, are evaluated against the Smallholder Scorecard that contains 124 indicators (some indicators that are applicable to farms with a multi-functioning supply chain (vertically integrated) are not applicable to small farms). Indicators for all types of farms are verified by regionally based third party auditors. (*Assessment of the Coffee and Farmer Equity*)

The indicators are composed of the following requisites, listed in descending order depending on how much weight they receive during scoring (1-7). The number in parentheses represents the total number of points possible. In order for verifiers to determine the level of compliance with each indicator, verifiers conduct interviews,

⁵² Large farms are defined as having 50 hectares or more, medium sized farms have 12-49.9 hectares, and smallholder farms have less than 12 hectares.

review documents, and observe the sites to determine to what extent the indicators are met. In order to establish the level of “Social Responsibility” and “Environmental Leadership” met by the farm, the auditor interviews 15 percent (a minimum of three interviews and a maximum of 25) of the workers, who are segregated by the type of work that they do.

For the social responsibility category, auditors evaluate wages and benefits (7); child labor⁵³, forced labor and discrimination (7); access to housing, water and sanitary facilities (6); freedom of association (4); hours of work (time off from work, as stated by national laws, and paid sick leave for permanent workers) (4); access to education (4) and medical care (4); and worker safety and training (4). For the coffee-growing environmental leadership category, auditors evaluate the control of surface erosion (7); water body protection (5); maintaining soil productivity (5), disease and ecological pest control (5); water quality protection (4); maintaining coffee shade canopy and natural vegetation (4); water resources and irrigation (3); farm managing and monitoring (3); protecting wildlife (2); and conservation areas (2). For the coffee-processing environmental leadership category, verifiers look at water consumption minimization (4); reducing wastewater impacts (4); waste management operations (4); and energy conservation (4) for the wet milling process; and for the dry milling process, verifiers evaluate waste management operations (2) and energy conservation (2).

⁵³ “Starbucks will not accept direct contracting of any persons under the age of 14. Exceptions to this apply only to family or small-scale farms that do not regularly employ hired workers. We prefer that our suppliers hire no one under the age of 15. If local regulations stipulate compulsory education up to an age greater than 15, those regulations will apply during school hours” (Starbuck Coffee Company).

When the completed verifications have been surmised and assessed by Starbucks, suppliers that have met a certain level of criteria are assigned one of three C.A.F.E. Practices statuses. All suppliers that are granted a status must have met the product quality and economic accountability standards, and they must comply with the “Zero Tolerance” no child labor and minimum wage laws stated under the Social Responsibility category. A verified supplier is an applicant that had previously delivered coffee to Starbucks and met the aforementioned prerequisites, however, did not score at least 60 percent in each subject area. Verified suppliers are given their status for one year. A preferred supplier is an applicant that has achieved at least 60 percent, but less than 80 percent in each subject area and is granted this status for a two to three year period⁵⁴, assuming that there have been completed independent audits of the entire chain and that no changes within the given time frame have been made. Strategic suppliers have met 80 percent in each of the subject areas, and their status is valid for 2-3 years given the same stipulations as the preferred supplier. Strategic suppliers receive a sustainability premium of \$ 0.05 per pound of coffee in their first year and if they receive a 10 percent increase on their score within that three year period, Starbucks will pay suppliers an additional sustainability premium of \$ 0.05 per pound of coffee.

While strategic suppliers receive a premium of \$ 0.05, there is no guarantee from Starbucks that upon verification or after acquiring a particular status, that Starbucks will buy their coffee. Starbucks recommends suppliers to proceed with the verification

⁵⁴ Medium and large farms are verified by onsite verifications and are given a three year status. Since small farms only have to submit samples, they are granted a two year status.

process only if Starbucks has an interest and need for them. Unlike certification systems where there may not be a buyer that wants to use the certification, C.A.F.E. Practices recruits producers to participate in the program by either traveling to new or old coffee sites, or trying the samples that are sent in to Starbucks by longtime suppliers.

Starbucks' coffee buyers travel to both potential suppliers and long time suppliers in search of new coffee. Suppliers that are granted the "verified" status receive access to Starbucks' Farm Support Centers where agronomists can advise producers on quality and ways to improve long-term sustainability practices, such as productivity and efficiency. Even if there is no instantaneous economic incentive, there are consulting incentives and farmers may eventually have the opportunity to sell to the well-known brand.

In 2010, Starbucks sourced approximately 84 percent of its coffee supply under C.A.F.E. Practices and made a \$14.6 million commitment⁵⁵ to helping farmers obtain loans. Starbucks also purchases Fair Trade and organic certified coffees. In 2010, 7.9 percent of Starbucks' coffee supply was Fair Trade certified and 3.6 percent was certified organic. Furthermore, in March 2010 Starbucks switched its espresso coffee with Fair Trade Certified coffee in all UK and European Starbucks stores. (*Starbucks Global Responsibility Report Goals and Progress 2010*)

While Starbucks publicly states that it paid an average of \$1.56 per pound for premium coffee, it does not advertise the fact that it does not pay the farmers directly, but rather the coffee suppliers are expected to "pass on an equitable share of coffee revenues

⁵⁵ The commitment was made either by signed contract or public declaration (*Starbucks Global Responsibility Report Goals and Progress 2010*).

(i.e., financial rewards) through the supply chain to coffee farmers and processors” (*Starbucks Global Responsibility Report Goals and Progress 2010; C.A.F.E. Practices Generic Evaluation Guidelines 2.0*). Consequently, while this number is accurate, it does not depict what consumers want to know: How much are farmers paid?

According to Julie Anderson, manager of Ethical Sourcing/ Global Responsibility for Starbucks, Starbucks does not share the average price that farmers receive because there is a lot of variance in price due to factors like region or country of origin, quality, the coffee market, or the volume available. Starbucks does assure however, that each part of the supply chain receives an equitable share.

If buyers are ultimately paying coffee farmers the market price for their coffee, then buyers have fulfilled their ethical responsibility- to pay for a product based on its value, as set by the product’s inherent qualities. This is why there are two coffee markets: the robusta grade, lower quality coffee that receives lower prices than the arabica grade coffee which is of higher quality and takes more skill to produce. Higher coffee prices are inherent characteristics of specialty coffee, yet, corporations like Starbucks are reprimanded because other corporations like J.M. Smucker show little evidence for ethical coffee sourcing.

Furthermore, price volatility has been a factor of coffee supply levels in the market. When countries like Brazil that produces both arabica and robusta beans, and Vietnam, which solely produces robusta beans, produce copious amounts of coffee, the price of coffee drops. Is it the buyer’s responsibility to inflate the value of coffee? If however, price was not to be used as a marker for helping farmers, then the coffee

industry would have to look at other factors to determine the effectiveness of CSR policies. In comparing Starbucks CSR practices to other companies, Starbucks has contributed to the coffee sector both domestically and internationally through Shared Planet projects, C.A.F.E. Practices, connecting farmers to loan opportunities, and other miscellaneous projects.

4.8 Green Mountain Coffee Roasters

Green Mountain Coffee Roasters (GMCR) is a specialty coffee roaster in the U.S. that was founded in 1980 by Robert Stiller. The company finds its supply chain through trade shows, particular project interests, and networking. It sources its green coffee beans from cooperatives, farms and estates in Latin America, Africa and Indonesia, primarily through outside brokers (Rost).

GMCR is not only a leader in specialty coffee sales, increasing its net revenue by nearly 50 percent for the last three years, but is also an industry leader for CSR. Early in its operation, GMCR upheld high company morale for environmentally friendly coffee production, and within its first ten years, it launched organic coffee, started a recycling program, and started to use oxygen dioxin-free, oxygen-whitened coffee filters. It continues to support this principle by supporting renewable energy sources with its solar display on top of its distribution center, using biodiesel in some of its trucks, and using recyclable materials in its products' packaging.

Currently, GMCR donates 5 percent of its pre-tax revenue to environmental and social causes. Some of their initiatives in the supply chain communities include Grounds for Health (preventing cervical cancer), Root Capital (providing financial support to

farmers), and Coffee Kids (microcredit and education). GMCR also supports third party certification. In 2010, GMCR purchased the world's largest quantity of Fair Trade Certified coffee, 26 million pounds. Approximately 27 percent of all of GMCR's 2010 coffee purchase was Fair Trade certified. (Green Mountain Coffee Roasters; Green Mountain Coffee Roasters Annual Report 2010).

According to Winston Rost, Farm Relations Manager at Green Mountain Coffee Roasters, investments in coffee communities are strategic: GMCR's country of origin team, led by Rick Peyser, Director of Social Advocacy and Coffee Community Outreach at GMCR, determines where there may be future coffee growth, which region is becoming a better source for coffee, or where they want to purchase more coffee from, and then invests in those communities (Rost). Moreover, GMCR has participated in research in its supply chain to determine community needs. In a study conducted by the International Center for Tropical Agriculture, the organization discovered that approximately 67 percent of the research participants from Nicaragua, Guatemala, and southern Mexico, were unable to maintain their normal diets for three to eight months of the year. As a result, GMCR collaborated with local co-ops to help farmers diversify their small farms, so that the food could be used for both consumption and sales to local markets. Dealing with malnutrition is a priority for GMCR because it has found that the best quality coffee that GMCR purchases are from communities with reasonably high qualities of life. Yet, if farmers are unable to put food on the table, they are unable to invest in coffee, and the coffee quality suffers. (Peyser)

In the case of Mexico, GMCR planted trees to provide additional sources of income and diversify food supply, and implemented a cancer prevention program (Grounds for Health⁵⁶) that focuses on screening cervical cancer, for which malnutrition is one of ten leading causes (Peyser). GMCR has also taken part in microfinancing programs in which they have donated \$5,000 to eight groups of sixty four participants to help with financial planning and training. Currently, 10 percent of GMCR's coffee is purchased from Mexico, most of it coming from Veracruz. According to Rost, GMCR enjoys doing business with Mexican coffee farmers because the coffee is priced reasonably.

4.9 Conclusion

In 2008, 6 percent of world coffee sales came from programs like 4C, Starbucks C.A.F.E. Practices, *Nespresso* AAA, Rainforest Alliance Certified, Fair Trade Certified, and UTZ CERTIFIED (Table 1). In 2008, Nestlé, the leading coffee company in the world, purchased 2.7 percent of the contributing market share of certified coffees (13,000 tons *Nespresso* AAA, 2,000 tons FLO, and 6,000 tons of 4C). In comparison, Kraft purchased 4.1 percent of the market share (29,500 tons of Rainforest Alliance Certified coffee and 1,000 tons of 4C certified coffee), Sara Lee purchased 4.5 percent of the market share (20,000 tons of UTZ CERTIFIED and 400 tons of 4C certified coffee), Smucker's bought 0.5 percent (1,500 Rainforest Alliance Certified/ FLO/ Organic) and Starbucks purchased 76.5 percent of the market share of certified coffees (120,500 tons of

⁵⁶ Between January 2010 and June 2011, GMCR donated \$50,000+ to Grounds for Health, the highest sum of all of its supporters, while Peet's Coffee and Tea donated between \$10,000-24,999 (*Grounds for Health*).

C.A.F.E. certified, 9,000 tons of FLO, and 4,500 tons of certified organic coffee)⁵⁷.

(*Coffee Barometer 2009*)

While Starbucks prefers its own program to other certifications, in the last few years, it has also become one of the largest buyers of Fair Trade Certified coffee in the U.S. Kraft purchases the most amount of certified coffee from Rainforest Alliance, and Sara Lee buys most of their certified coffee from UTZ CERTIFIED. Smucker's has dabbled in purchasing certified coffee, however currently only sells one Fair Trade Certified coffee through their Millstone brand.

Table 1: 2008 Purchases of Certified or Verified Coffee by Top Corporations

	Fair Trade Certified	Rainforest Alliance	UTZ CERTIFIED	Starbucks C.A.F.E. Practices	Nespresso AAA	Organic
Nestlé	2,000				13,000	
Kraft		29,500				
Sara Lee			20,000			
J.M. Smucker	1,500					
Starbucks	9,000			120,500		4,500

Notes:

1. Some of C.A.F.E. Practices, Rainforest Alliance and FLO coffee supply is also certified organic.
2. The data for this chart was gathered from Coffee Barometer 2009

⁵⁷ These certification partners are particular to the coffee sector. For other agricultural products that these corporations may buy, they may partner with a different certification system.

While some of these certified coffee sales can be attributed to U.S. purchases, most are a result of the European consumer consciousness that is more adamant about advertising and producing sustainable and pesticide free products. Consumer demand drives sales, and while that demand is evident in Europe, it has lagged in the U.S. In comparing Kraft's and Sara Lee's European brands to their U.S. counterparts, the European divisions innovate, advertise and sell more certified coffees. For example, in 2011 Kraft's European coffee brands committed to sustainably sourcing 100 percent of their coffee supply by 2015 (Kraft Foods May 2011). Starbucks uses Fair Trade Certified coffee in their espresso based drinks in the UK and Europe. Sara Lee's strongest advocate for coffee CSR is Douwe Egberts in the Netherlands (coincidentally, UTZ CERTIFIED, their preferred certification partner is also based in the Netherlands). While Nescafé has a large U.S. consumer base, if a consumer wants coffee sourcing information they are directed to Nescafé's UK website.

On one hand, there may not be enough certified coffee to supply a large coffee brand's demand; on the other hand, U.S. brands seem to be reluctant to certify their entire supply of coffee because binding contracts limit the type of coffee that could be purchased and put limitations on how much their product line could be modified, thus threatening the bottom line.

Starbucks, and Nestlé (on a smaller scale), resolved these problems by creating their own ethical coffee sourcing programs and in a sense, have outsmarted the critics that demanded more proof of ethical behavior. Since these corporations' verification programs are audited by a third party, these programs are as legitimate as any other.

Moreover, they now have a unique authority in the industry because they have implemented their own programs. They have created personalized standards that are to their advantage and have disregarded those that they feel are unsuitable to their mission (e.g. focusing more on training than set price earned for a pound of green coffee). While skeptics can analyze the validity and impact of the programs, they cannot ignore the fact that Nestlé and Starbucks have pledged a commitment to producing responsible coffee through their own standards and with their CSR projects.

U.S. consumers are driven by different motives, and for those driven by ethics, there are plenty of options; however, all CSR is not created equally. Many of these corporations engage in both value based and philanthropic CSR projects, yet which create the most value for producers? Of the seven corporations discussed, the U.S. subsidiaries belonging to Sara Lee, Kraft and Smucker's perform worse with regards to implementing CSR projects than the leading specialty coffee brands. Nestlé, Starbucks, Peet's, and GMCR, which is growing at an exponential rate, are the leaders in the coffee industry not solely because they sell more coffee than their competitors, but also because they invest in a variety of CSR projects that take into account a variety of stakeholders.

Furthermore, they have made public commitments to future projects. Nestlé and Starbucks may be two of the most scrutinized corporations, but they are also the ones that have addressed their problems and moved forward.

5. Conclusion

Corporate social responsibility can refer to many things – sound labor practices, environmental stewardship, community engagement. But at bottom, it is about the private sector accepting responsibility to help grow the pot for everyone – more mutual responsibility that will in the long run benefit sustainable enterprises. Because when we see what can be done for the entire economy, it really depends on a partnership. If you pit the government against the private sector, that’s a lose- lose proposition. (Clinton)

The easiest way for a corporation to engage in corporate social responsibility in a relatively meaningful way is to act as a philanthropic agent and donate money to nonprofit organizations that are already helping coffee producers with education, health, finances, or the environment. While these types of projects are helpful to farmers, if they are limited to a onetime donation, or if the donors do not provide training to farmers on the utilization of these resources, these donations will be insufficient in promoting ongoing economic, environmental, and social growth. Furthermore, such donations are beneficial in resolving the issues of low education, poor health or lack of financing once they have surfaced, but these types of contributions do not always prevent the same problem from reoccurring.

Specialty coffee corporations like Starbucks, Peet’s Coffee and Tea, and GMCR have diversified CSR portfolios and have taken part in a variety of CSR projects and CSR certification schemes. Not only have they addressed consumer demand for Fair Trade and organic coffee, but they have chosen philanthropic projects in regions where they would like to purchase coffee from in the future. Moreover, all three of these corporations likely buy all or the majority of their coffee under special contracts that pay

higher than commodity market prices. GMCR, Peet's and Starbucks have also demonstrated more ingenuity in pursuing CSR projects, are growing rapidly, and are consistently sourcing new coffees.

In contrast, the top four TNCs that sell low-grade coffee have taken part in certification schemes, but primarily in Europe. Sara Lee for example buys large quantities of UTZ CERTIFIED, yet only for its European counterpart Douwe Egberts. Similarly, Kraft's Rainforest Alliance purchases are only to be found in its European brands (with one exception of its U.S. Yuban), and at European McDonald's.

Nestlé is a unique case for low-grade coffee CSR. Nestlé has strategically partnered with the Mexican government's statistics institute, INEGI, has donated money and resources to philanthropic causes to help farmers and their children, and has collaborated on numerous coffee industry standards (e.g. SAI, 4C). By partnering with a variety of different entities in the sector, Nestlé is more likely to convince governments to limit regulations that could hurt its production and profit margin, particularly in Mexico.

It has been shown that European brands are more likely to invest in CSR projects than their U.S. counterparts, and thus have a greater influence on their government regulations. In the U.S. however, the four largest corporations that sell coffee are engaged in little value based CSR and are therefore unlikely to lobby for CSR as a mandatory standard. Given the persuasion that takes place on behalf of U.S. corporations and international coffee regulations in what is commonly referred to as revolving door policies, it is important for U.S. consumers to drive the demand for ethically produced coffee.

The Organization for Economic Co-operation and Development (OECD) outlines “voluntary principles or standards” for environmental and human rights policies, yet the operative word in its characterization is “voluntary” (*OECD*). While there have been numerous recorded human rights violations, some companies still do not acknowledge CSR, even when legal action can and has been taken⁵⁸. Moreover, many laborers in developing countries are unaware of their own civil rights because their governments do not enforce or acknowledge them (Aaronson). What is left then is a corporation’s personal decision to engage in CSR. This is particularly why only specialty coffee shops in the U.S. diversify their CSR portfolios; they need farmers to produce good quality coffee, and so they create incentives for them.

5.1 Recommendations for Oaxaca

Corporations have taken part in a variety of CSR ventures. Some have given money to charitable causes to feign responsible behavior. Others, like GMCR, Nestlé and Starbucks work with financial institutions, governments or NGOs to create projects that address farmer needs. While most types of CSR activities could be beneficial to Oaxaca’s coffee sector (and other similar coffee producing regions), it is essential to look at projects that address issues from the bottom up.

The recommendations in this chapter are based on the assumption that the Oaxacan coffee farmers are literate. Given the complexities involved in establishing a

⁵⁸ Since the 1980s, the number of human rights cases that have been brought to US courts on behalf of the Alien Tort Claims Act (originally executed in 1789) has increased, yet the ratio of claims to laborers seems to be unsubstantial because there has not been enough legal leverage to permanently instill CSR. The ATCA, which hears “cases [that] involve allegations of direct or indirect complicity in overseas human rights violations,” has been criticized by corporations that conduct business in foreign countries because the number of cases has been steadily increasing not because of actual human rights violations, but due to the US’s ability to award a large sum of settlement money under this act (Aaronson 179).

business, acquiring certifications and loans, and complying with all necessary regulations, it would be extremely difficult to successfully proceed with the recommendations without having experience in the field, or at least a high school education. High levels of experience in the coffee sector can be substituted for low levels of education, however, illiteracy will complicate bureaucratic processes.

Furthermore, these guidelines are intended to be used by cooperatives or producer groups, because a single family farm would be unlikely to draw the attention of a prominent corporation. Once established, these groups can apply for export licenses and sell their coffee directly to domestic and international roasters without using intermediaries.

1) Farmer Training: Quality and Productivity

In discussing applicable projects, it is important to consider that Oaxaca is most in need of training and education to improve the productivity, quality, and consistency of its coffee. Only then can they integrate themselves in a variety of niche markets and become desirable to investors. This can be achieved with both small and large scale training projects. For example, on a small and local scale, individual communities can come together to institute educational programs focused on agronomy (production and quality of crop and soil), production costs, and increasing coffee yields. By engaging the community on the importance of promoting a sustainable coffee community, and appealing to the producers on a cultural, social and economic level, they are more likely to retain individuals that are committed to producing quality coffee.

On a larger scale, it is important for Oaxacan farmers to attract investments in the form of PPPs because this will lead to diversified sources of capital. Mexico is competing with countries like Costa Rica, which because of its successful ecotourism sector and high quality coffee, attracts foreign investments. With a variety of investments directed toward at least one of its successful coffee growing regions, the Mexican government would more likely tend to the needs of its entire coffee sector.

2) Access to funds to improve technology and infrastructure

In order to be more efficient, farmers need access to funds to improve their technology and infrastructure. Farmers, however, should only be given loans through providers that require loan education and financial advising as criteria for obtaining a loan⁵⁹. This could include training on money management and savings. Certification schemes generally partner with organizations like FAST, and corporations partner with NGOs like Technoserve to provide loans to farmers. The more vertically integrated the farmer is along the production chain, the less he will rely on intermediaries to sell his coffee, thus eliminating fees to middlemen.

Coffee producers generally fall in the category of a SME and can therefore, in collaboration with private firms, apply for funding from financial institutions like the Inter-American Development Bank (IDB), the WB, the Global Environment Facility

⁵⁹ In some cases, loans may not be the best solution for farmers, especially if the farmers are first time borrowers and are not taught the repercussions of borrowing and defaulting on their loans. Some farmers borrow from various loan institutions so that they may purchase better farming technology or diversify their food supply; however, if their crops are not profitable, if they mismanage their money, or if they just meet the basic needs poverty line, they remain victims of borrowing and owing, never making enough to subsist off of their own means. Debt could be the cause of multiple factors: the harvesting period and the time that farmers receive their full payment do not coincide; steep interest rates; poor weather conditions; and loans used for education or medical bills, as opposed to caring for the coffee crop (Lyon 253).

(GEF), and Multilateral Investment Fund (MIF). According to Renard, these institutions are more likely to invest in an industry that supports a certification scheme, because the growth for certified versus conventional coffee is more sustainable.

After addressing these essential criteria, it is important for Oaxaca to integrate into niche markets that reward farmers with premiums that range from US\$ 0.05-0.50 per pound of green coffee (Table 2). While farmers are oftentimes motivated by how much of a premium they will receive from participation in certification schemes, it is recommended that Oaxaca first seek out those niche markets and certification schemes that primarily reward farmers for coffee quality. In such a way, farmers will distinguish themselves from the general commodity market that is oftentimes apathetic to farmer needs. While improvements in quality are likely to lead to sustainable growth, these recommendations are to be seen as long term investments because it can take up to three years to comply with all requirements. While some farmers may be discouraged by such a plan, it must be understood that quick returns that do not first look to quality are not sustainable.

Table 2: Certification and Verification Value for Producers

	Costs for farmers to consider	Costs to roaster/importer/first buyer	Premium (or average price paid)	Frequency of Audits	ISO 65 Certified Auditors	Access to Larger Markets
Fair Trade Certified	Application fee, initial certification fee/auditing (daily rate). Fees can range from US \$2,500 to \$10,000.	licensing fee of \$0.10 / lb. of green coffee	\$1.55 for certified non-organic or \$1.85 for organic	Annual in a three year cycle. If the an audit does not take place for a given year, producers are still charged for the service and their certificate is still valid.	YES	U.S. brands: Archer Farms (Target), Dunkin' Donuts Incorporated, Green Mountain Coffee Roasters, McDonald's, Millstone Coffee (Smucker's), Starbucks Coffee Company, Trader Joe's, Wal-mart Stores Incorporated, Whole Foods Market and the Wolfgang Puck Coffee Company. Fair Trade Certified coffee is also served in the U.S. Congress, U.S. House of Representatives and various international brands
Rainforest Alliance Certified	annual fee, <i>per diem</i> auditing costs, technician travel expenses, and annual fee	quarterly participation fee of US\$.015/ lb. of green coffee	Negotiated between farmer and buyer. RA does not interfere.	Annual in a three year cycle	not specified	U.S. brands: Allegro Coffee Company, American Airlines, Arby's, Caribou Coffee, Costco, Gloria Jean's, the Holiday Inn, Peet's Coffee and Tea, Yuban and Maxwell House (Kraft) and various international brands
UTZ CERTIFIED	auditing fees	US\$.012/ lb. of green coffee	Negotiated between buyer and farmer. average of US \$0.057 per lb. for Arabica coffee and US\$0.0249 per lb. for Robusta coffee	Annually. If a producer does not get audited there is no fee and the certification is not valid.	YES	Ikea, Java Trading Company, Dunn Bros Coffee, and various international brands
C.A.F.E. PRACTICES	not specified	n/a	\$1.56 average per /lb. of green coffee	1-3 years depending on status	n/a	Limited to Starbucks brand coffee, but can be found in Starbucks cafes and numerous retailers
NESPRESSO AAA	not specified	n/a	35% higher than the coffee market price, and 10-15% higher for similar quality coffee	"periodically"	n/a	Only available to Nestle's Nespresso line of coffee

3) Specialty Coffee Market

One possible market that Oaxaca shall look to develop is its specialty coffee market. Mexico, in comparison to its neighboring countries Honduras, Guatemala, Costa Rica, and Panama, has fallen behind in the specialty coffee market of its mild arabicas. According to William McAlpin, in the specialty coffee market, “the premium is based on getting something of value. Specialty coffee itself is innately supportive of people producing coffee because that premium flows all the way down the chain. You’re not going to get anyone to produce great coffee unless they’re rewarded for it” (*Black Coffee*). Farmers that grow specialty coffee have higher production costs, but those costs are also compensated with higher premiums. In a system like Fair Trade, there is no guarantee that the higher earnings will be applied to improving coffee quality.

4) Organic Coffee Market

The next niche market of interest to Oaxaca, is the organic coffee market. Since many of Oaxaca’s coffee growing regions are environmentally sensitive areas and many producers lack the necessary funds for agrochemicals⁶⁰, Oaxaca has evolved to produce large quantities of organic coffee (Lewis and Runsten 278; G. Hernandez and Ford; Pay). Organic coffee is produced in 47 municipalities of Oaxaca by approximately 6,176 producers, making it the second largest organic coffee producing state in Mexico after Chiapas (*Plan Estatal de Desarrollo de Oaxaca 2011-2016*). Currently, “organic production represents less than one percent of all agricultural production [... and] generates around 10 percent of the gross domestic product in the agricultural sector with

⁶⁰ Fertilizers and pesticides used to be supplied by INMECAFE (Jaffee 50).

revenues of approximately 300 million USD a year,” conveying that there is enormous potential for expansion of its organic cultivation (Salcido). Mexico may benefit off of the organic coffee market, particularly by exporting to the U.S. whose close proximity could be seen as a comparative advantage⁶¹, in relation to Peru, Ethiopia or Brazil, the other top organic producing countries.

While many producers are already growing organic coffee⁶², they are still several bureaucratic steps away from achieving an official certification by a reputable organization like Certimex, one of Mexico’s accredited organic certifiers. Producers may initially be hesitant to convert to growing organic coffee or get certified because of the tedious process (see Jaffee) and because auditing fees are expensive, however, the certification process in itself would help to improve the quality of their coffee and eventually lead to price premiums.

The transition to organic coffee could also help producers to acquire other certifications that have greater marketing leverage like UTZ CERTIFIED, Rainforest Alliance or Fair Trade, because some of the requisites for organic coffee certification, like environmental preservation are also pertinent to those certifications. In fact, of the 2010 Fair Trade Certified producers, 65% were also certified organic, 6% were also Rainforest Alliance Certified, and 5% were also UTZ CERTIFIED farmers (*Monitoring the Scope and benefits of Fairtrade: Third Edition, 2011*). Organic certifications can be gradual

⁶¹ This is assuming that it takes less time for the U.S. to receive coffee from Mexico, than from a country that is farther away

⁶² Benefits for organic coffee farming include biodiversity of plant and bird species, environmental and resource conservation, increased worker and consumer safety, and a reduced cost for not having to use expensive agrochemicals.

steppingstones to these internationally accepted certifications, especially since “typically the first producers to go for certification are those whose existing practice is already close to the standards required by certification” (*From Bean to Cup*). These additional certifications would be complimentary to growers and limited to a contractual time period. In the event that farmers did not reap the desired benefits from having additional certifications, they could still fall back on organic farming certification, without committing to an indefinite period of time to auditing fees for other certifications.

The importance of capitalizing on the organic coffee market lies within the fact that global demand for organic products is increasing 20-30 percent a year (Salcido). In 2009, 3.7 percent of all food sales were organic (*Organic Trade Association*) demonstrating that consumers are becoming more aware of how the food that they consume impacts themselves and the environment. Moreover, of the certification and verification schemes discussed, organic certifications may be the least confusing for consumers. Even Fair Trade organic fared better than conventional organic in 2010, with 62% of the coffee sold also being certified organic (*Fair Trade International*). On average, organic coffee consumption has a growth rate of 29 percent per year, while the conventional coffee industry has a projected 1.5 percent growth rate per year (*Organic Trade Association*).

Since the TNCs Nestlé, Kraft, Sara Lee and Smucker’s dominate the coffee market, to make an impact in organic consumption and sales, these companies would have to purchase and sell more certified organic coffee. Nestlé has already demonstrated that conversion to organic has increased sales in other sectors; its food and beverage

sectors grew 5.8 percent in the Americas, 5.0 percent in Europe and 13.1 percent in Asia, Oceania and Africa (“Nestlé Nine-month Sales”). There only needs to be one successful case among the four to encourage organic movement with the U.S.’s leading coffee brands.

Furthermore, since Mexico exports 85 percent of its organic coffee production, only 15 percent of organic coffee remains in Mexico, signifying that Mexico can market more of its organic coffee domestically (Santiago). While the price of organic foods in Mexico can be up to 30 percent higher than their non-organic counterpart, the low-middle class consumer may be drawn to organic products through celebrity or public figure endorsements. The organic movement can also be promoted within universities.

5) Increase domestic consumption of higher quality coffee

It is necessary to conduct more consumer studies that target a variety of coffee and non-coffee drinking demographics to understand why consumers are or are not drinking coffee and what influences them to make their purchasing choices in Mexico. The ICO recommends researching primary reasons for non-consumption, consumption trends, purchasing habits, demographics and potential employment opportunities (*International Coffee Organization*).

Currently Oaxaca produces four times as much robusta coffee as it does arabica (*Plan Estatal de Desarrollo de Oaxaca 2011-2016*). Since coffee in Mexico can be sold with up to 30 percent additives without having any indication on the label, coffee drinkers in Mexico are generally drinking low quality coffee that is likely filled with additives that act as binders, fillers, and thickeners (Renard).

Furthermore, in Mexico, foreign green (unroasted) coffee cannot be imported due to potential infection of a foreign plant disease. In theory this would lead to the assumption that Mexicans would have to consume domestically grown coffee. The National (Mexican) Association for the Coffee Industry (Asociación Nacional de la Industria del Café, ANACAFE), which works with businesses that produce coffee for Mexico's consumption, has received importation permits from the Mexican Ministry of Commerce allowing it to import coffee from South America and Vietnam (primarily lower grade robustas), under the basis that there is not enough domestically produced coffee to fulfill the needs of its firms. These companies have also bypassed this regulation by importing those coffees under the semi-roasted category. (Renard)

In order to encourage domestic consumption of higher grade coffees, coffee producers could attend regional festivals and events and sample their coffee to the public. They could also send samples to specialty coffee shops in Oaxaca and Mexico. By engaging the community and increasing demand for specialty grade coffee, the need for lower quality coffee, particularly from other regions will be offset.

6) Tourism

In 2010, 95 percent of Oaxaca's tourists were Mexican nationals and only 5 percent were international travelers. Oaxacan tourists primarily arrive in Oaxaca by bus (56.2 percent), car (21.8 percent), and plane (21.8 percent). In 2010, \$ 193,500,00 was invested in Oaxaca, of which 66.2 percent came from national businesses and the rest from foreign investments (primarily from Canada and Spain). The majority of the investments went toward regions already designated as tourist locations: 43.1 percent

went toward Huatulco, 20.1 percent to Oaxaca de Juarez, 8.2 percent to Puerto Escondido and 3.9 percent to Istmo de Tehuantepec, and 3.5 percent to Santa Catarina Juquila. Of these locations, all but Oaxaca de Juarez produce coffee. On average, visitors spend an average of 2.6 days in Huatulco, more than in any other of the mentioned locations (*Plan Estatal de Desarrollo de Oaxaca 2011-2016*).

By creating tours for the coffee sector and encouraging the development of ecotourism, visitors would be prompted to stay for a longer period of time in these already tourist designated areas. Unlike other coffee growing countries that advertise their coffee industry to tourists (for example, Costa Rica), Oaxaca does not, a decision made by the government tourism office: “I contacted the tourism office in Oaxaca but they said that tourists were not interested in coffee. So this is why we don’t have a tour for coffee” (Jose). Despite the claim that a coffee tour would not be a financially viable activity, a government report recently published that tourism is the first source of income for Oaxaca, and sales from the coffee industry is second (*Plan Estatal de Desarrollo de Oaxaca 2011-2016*). Yet these figures have not motivated tourism officials to combine the two sectors and create a coffee tour. Presently, the only advertised coffee tour in Oaxaca offers tourists a combined coffee farm and waterfall tour, but the farm visit is actually a hoax. What this tour fails to tell tourists is that the coffee farm is no longer operating and that the coffee sold at the end of the tour comes from a different farm. Coffee connoisseurs would recognize the difference, but naive tourists are led to believe that they are visiting a real farm.

5.2 Auditing and Transparency

Corporation and NGO Audits

The first and second chapter of this thesis have discussed some of the largest coffee corporations' and certification organizations' initiatives to help coffee producing communities. As mentioned in the NGO chapter, many of these organizations' and corporations' auditing practices are questionable (sample sizes of farms, FLO charging producers and granting them their certification even when an audit does not take place, and scorecards not being accessible to the public). Neither Rainforest Alliance nor UTZ CERTIFIED specify to what the coffee growers premium is likely allocated. Starbucks does not advertise the fact that it does not pay the farmers directly, but rather that the coffee suppliers are expected to "pass on an equitable share of coffee revenues (i.e., financial rewards) through the supply chain to coffee farmers and processors" (*C.A.F.E. Practices Generic Evaluation Guidelines 2.0*). Consequently, the average prices that corporations and NGOs publish generally highlight what the supply chain receives as a whole, but they do not depict how much intermediaries receive, and therefore, how much the farmers are paid.

Furthermore, it is imperative to consider that some of these NGOs' studies on the effects of their certification or verification program are funded in part or entirely by the corporations that are buying their certified products, thus potentially posing a conflict of interest and unfairly skewing the impact of the certification system in published data.

Auditing in Oaxaca

Interviews have suggested that the auditing system in the Oaxacan coffee regions is flawed and the results of audits are subject to higher powers' self-interests. Several Oaxacan coffee shop owners that source beans directly claim that the results of audits can be easily manipulated in whomever's favor, especially when the audits are conducted on a sample population of 10-15 percent, as is common with larger producer groups. One coffee shop owner claimed that it is easy to lie to auditors and hide behavior that would be deemed unacceptable by ILO conventions like child labor. Audits are sparse and subject to manipulation. This may be partially attributed to the fact that there do not seem to be a sufficient quantity of reliable auditors, and that auditors have also been found to be negligent. Given Oaxaca's high corruption and low transparency rates, these findings are not surprising. It is the responsibility of auditors to be impartial, and when this component is lost, there is no reliable way to assess CSR claims.

Without the guarantee of diligent audits and accountability on behalf of auditors, producers, certification schemes, governments and corporations, it is difficult to determine the validity of CSR claims. This makes the assessment of certification schemes difficult. Therefore, while companies and organizations may claim to have enacted various CSR practices, consumers are not guaranteed the thorough enactment of these claims since the results of corporations' audits are not publicized.

CSR claims imply the initiation of a project, but they do not guarantee that the project will be implemented or fulfilled unless a company specifically publishes a report stating the effect of their CSR project (e.g. case study that has discussed its results).

Proposing An Effective Auditing System

The difficulty in proposing an effective auditing system for such a study, is its multilateral nature. While audits in producer countries are conducted by domestic auditors, it is the responsibility of the NGOs or corporations to hire reputable and trained auditors. The complexity of this issue is also a result of the voluntary feature of CSR. Since CSR is not mandatory, governments do not have to implement obligatory regulations involving its projects' auditing. If however, certification schemes or CSR were to become a requirement for corporations, then the U.S. could propose a system similar to that of Brazil's⁶³, where corporations' CSR practices are audited at random (throughout the entire CSR chain) and dispersed to the media for public awareness.

5.3 Civil Society

This study has demonstrated that the state and federal funds that were designated for Oaxacan producers were not delivered. While much of the scrutiny has been placed on corporations, many critics fail to acknowledge the producing country's preexisting socioeconomic state and level of government involvement in the agrarian sector. Without a government that is invested in the wellbeing of its coffee farmers, a corporation or organization cannot be made responsible for profiting off of its trade partners, because the social and economic problems had likely been in existence prior to their partnerships.

⁶³ In 2003, the Brazilian government started an anti-corruption program of its municipal expenditure of federally transferred funds. To promote transparency, it drew a national lottery, and at random chose the municipality that it would audit. The results of the audit were then published by the media and its results would generally have an impact on the way in which the public voted for its next mayor. (Ferraz and Frederico)

Generally, consumers are quick to blame profitable corporations for the social and environmental problems producing countries incur, because of an already existing asymmetry of power between those countries. They forget that a developing country is *developing* as a result of its own operating inadequacies. From a foreign perspective, non-Mexican citizens cannot feel entitled to force the Mexican government to change, but they can pressure public corporations to release information and be responsible for encouraging thorough and transparent audits. In the case of Oaxaca, one of the poorest states in Mexico, corporate critics shall not overlook the fact that even if the auditing had been competent in Oaxaca, corporations alone could not resolve the economic and social problems that face coffee communities with certification schemes and case study projects. As Jaffee points out, civil society must influence governments and institutions to make some of the aforementioned changes (10). It is then the responsibility of consumer activists to not only recognize a country's state of being, but to also propose solutions and engage in social movements.

If the government does not put boundaries on corporate transactions (domestic or international), particularly if they influence regulations, then it is allowing the corporation's behavior. Corporations are merely the middle man between consumer and governments, aiming to maximize their returns in any way that they can. What in turn can the Mexican government do to increase accountability?

First, it has to abide by its own regulatory system. If the government cannot demonstrate a commitment to its own legislation, then it cannot set a precedent for regulatory compliance by firms. It also has to be willing to negotiate with corporations,

create stronger consequences for breaches in contracts, business, environmental and labor codes, and be accepting of the idea that it may lose funds or accounts from its corporate partners. If however, the government is complacent with its manner of tending to business, then the responsibility turns to consumers.

While there has been enormous push for corporate responsibility, there has to be a transition to consumer responsibility. Consumers determine the products placed on store shelves. If a product is not supported by a consumer, then it is discontinued. If consumers want to impact the types of products manufactured by corporations, then they have to buy or demand those products. Ignorance is not an option for enacting positive changes within the industry. It is the consumers' responsibility to perform their own due diligence and make a choice that will impact the future products on the shelves.

In the case of coffee, if consumers want corporations like Nestlé and Smucker's to stop producing propriety blends of low grade coffee, then they must advocate for a change in the buying culture. To state that consumers have no choice, that they merely buy what is projected upon them because of what they see in the media, is an inexcusable argument. In an era when there is a plethora of easily accessible information, there is no excuse for consumers to not conduct their own research on certification schemes and coffee brands and to disperse the information to others (for example, at universities). While corporations have substantial marketing budgets, effective advertising is not a valid justification. Just because a corporation is capable of reaching a wider audience and appealing to the masses, does not imply that the masses have to buy in a zombie like fashion.

Consumers must research and act. While the higher prices of specialty and certified coffees may initially discourage potential buyers from buying coffee that focuses on improving economic, environmental and social conditions, the growth rate of these certified coffees has been exponential. The consumption of certified coffees generally begins with academia, especially at U.S. universities, and then spreads to the general public through various forms of media and with celebrity endorsement. Furthermore, it is a small sacrifice to pay for enacting change in not only the coffee industry, but also in other agricultural commodities that have been mimicking and adopting organic, Rainforest Alliance, Fair Trade and UTZ CERTIFIED trends.

If the empathetic appeal is lacking with consumers and there is a complete disregard for farmers that are thousands of miles away in developing countries, then consumers can examine this mission in another manner: the interconnectedness of everyday life, and how it connects to people on a personal level. Every day, consumers ingest hundreds of toxins from the environment, the products that they consume, and those that they put on their bodies. Many U.S. residents are concerned about an influx of illegal immigrants and a loss of jobs. Tropical rain forests and species are disappearing, there is an immense concern for climate change, and people are getting cancers for which the prescription drugs and treatments are expensive. While coffee (or agricultural production in general) is not the root of these problems, it demonstrates that the world moves in a circular motion. Dangerous pesticides and insecticides are used in non-organic farming. Manufacturing facilities used to process coffee and packaging material can influence the level of carbon emissions in the environment. Rainforests are cut down

in some areas because corporations are building industry or hotels, and farmers without jobs are making their way to the U.S. Change has to start somewhere, and instead of solely blaming governments and corporations, consumers can respond to these interconnected issues by voting with their dollar.

5.4 Proposals for Future Studies

This study has proposed mechanisms for increasing yields of high quality arabica coffee in Oaxaca, Mexico. However, the ICO, the Common Fund for Commodities (CFC), and several other partners are producing studies on how to increase the quality and quantity of robusta coffee worldwide (*International Coffee Organization*). The organization is also conducting studies on how it could increase consumption of robusta coffees in Europe. What are the motives of the international coffee community in promoting robusta growth and what are the implications for arabica coffee farmers?

To further influence ethical consumerism in the coffee industry, more studies on production costs of organic farming and certified coffee farming shall be conducted to determine both the economic and social effects on the farmers. For example, can farmers continue to farm organically for decades to come, or will the soil be unable to support commercial level yields of organic due to decreases in nitrogen potassium levels (Auld)? Which of the certification movements will thrive and which will falter? Will the Fair Trade movement in the U.S. lose its appeal given Fair Trade USA's separation from FLO?

It is also important to pursue studies like those implemented by Nestlé's Ecolaboration project that found that farmers gage their economic success on a premium that they receive instead of their assets and revenues less expenses (real income).

On a scientific level, will Nestlé's involvement with the biotech company Agromod lead to new developments in coffee harvesting? Can new scientific technology be a threat to farmers, who could be replaced by technological efficiencies? Also, considering the climate change, will high quality arabicas grown at high altitudes be at risk due to increased temperatures (*Climate Change and Coffee*)?

Finally, given the contemporaneous nature of this project, it will be beneficial for future scholars to compare and contrast NGOs' certification schemes and corporations' verification schemes, when all data from annual and financial reports is available and consistent on an annual basis.

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