

The Effects of Fair Trade on Coffee Producers: A Case Study of Ethiopian Coffee Cooperatives

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The role of cooperatives has been reevaluated due to the retreat of governments from rural development behind economic liberalization policy in African countries. Coffee farmers' cooperatives have been reestablished in Ethiopia since 1999 and they have provided higher profits to coffee farmers than private traders partly thanks to premium fairtrade price and the price offered by private traders has also increased in line with the cooperative price.

INTRODUCTION

Coffee is a global commodity, with trade networks spreading worldwide. International exchange markets in New York and London largely determine coffee prices, making it difficult for producing countries, except for major producers such as Brazil and Vietnam, to influence world price formation. The international nature of coffee marketing and sales directly exposes coffee producers in developing countries to international price fluctuations.

By building solidarity between consumers and producers, fair trade programs aim to bring greater economic stability and empowerment to farmers. Although fair trade coffee currently comprises only 1% of the world coffee market, this percentage is growing along with rapid sales increases in the United States. While the common expectation is that fair trade should provide more income to farmers, few studies have evaluated the actual effects on farmers.

This paper examines the impacts of fair trade coffee, sold through coffee cooperatives, on Ethiopian farmers. Ethiopia is the world's eighth-largest coffee exporter, and although the country held only a 3% share of the world market from March 2006 to February 2007², coffee is a critical export commodity for Ethiopia.

This paper is organized as follows. The first section provides an overview of the world coffee market. The second outlines policies related to coffee marketing and cooperatives in Ethiopia. The research method and study area are introduced in the third section, followed by analysis of coffee cooperatives and unions in the fourth section. The fifth section discusses how cooperative activities have affected coffee farmers.

1. World Coffee Market: Oversupply and Changing Consumption

(1) World market overview

The world market for coffee is characterized by chronic oversupply. While coffee supplies have significantly increased due to technological improvements, demand has remained relatively stagnant in mature markets (Baffes and Varangis (2005: 297–299)).

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² ICO home page ('Exports by Exporting Countries to All Destinations').
<http://www.ico.org/prices/m1.htm>, accessed April 20, 2007.

However, within markets, consumption has been shifting toward polarization between high- and low-end products. In the high-end market, the share of value-added products has increased, as have shares of products linked to social and environmental concerns, such as fair trade and organic products. The low-end market has also grown due to improved technologies for roasting Robusta coffee, which is primarily used for low-priced coffee and instant and flavored coffee (Baffes and Varangis (2005)).

Ethiopia produces Arabica coffee, which generally sells for higher prices than Robusta. Ethiopia's coffee industry and government have thus sought ways to increase high-end sales of the nation's coffee through fair trade and sales of organic coffee.

(2) Fair trade

Within the world market, fair trade coffee holds only a small share compared to conventionally marketed coffee. For example, in Europe and the United States, fair trade coffee comprises only 1–2% of sales, with the notable exceptions of 20% in the United Kingdom and 6% in Switzerland in 2004 (Krier (2005: 80); Transfair USA home page³).

While the growth speed of fair trade sales have become slower in Europe, recent rapid increases in the United States expanded the total world volume of fair trade coffee sales by 40% from 2004 to 2005⁴. Another factor in the volume increase might be the fair trade labeling system introduced in 1988. In 1997, the Fairtrade Labeling Organization International (FLO) formed as an umbrella organization of nongovernmental organizations (NGOs) involved in fair trade. The FLO has worked to standardize fair trade labeling, systematize certification of producers, and make fair trade more visible to consumers by expanding the market to mainstream retailers such as supermarkets⁵.

The FLO has established several conditions to standardize labeling⁶. Of these, two in particular affect small-scale coffee farmers. First, producers have to establish a democratic organization aimed at social, economic, and environmental development. This condition means that organizations must form a general assembly to direct and monitor the democratic, participatory, and transparent nature of their organization, while also administering the export and usage of fair trade premiums and promoting social development. Another condition affects traders, requiring them to establish long-term and stable relationships with farmers and to set a minimum price that is substantially higher than the conventional coffee market price, adding a \$0.05 US per pound fair trade premium for social development (see Table 1 for details)⁷. Organically grown coffee receives an additional premium of \$0.15 US per pound. If the market price exceeds the minimum price, the market price will become the minimum price and the fair trade premium will still be added. This method of price setting is attractive to

³ Transfair USA home page ('2005 Fair Trade Coffee: Facts and Figures'): <http://www.transfairusa.org/content/Downloads/2005Q2FactsandFigures.pdf>, accessed January 31, 2007.

⁴ FLO home page: http://www.fairtrade.net/fileadmin/user_upload/content/sales_volumes_coffee.jpg, accessed January 31, 2007.

⁵ While the FLO handles a large share of the fair trade market, various approaches regarding fair trade are based on its concepts. Some criticize the labeling approach, contending that the standardized method enables multinational enterprises to become certified as fair trade organizations (Hotta, 2006; Tsujimura, 2006).

⁶ See the FLO home page for details: <http://www.fairtrade.net/standards.html>, accessed January 31, 2007.

⁷ The minimum price list was revised as of June 2007. The additional premium for organic coffee increased to \$0.20 US per pound and the fair trade premium to \$0.10 US per pound.

producers. For example, the \$1.21 US per pound fair trade price applied to Ethiopian washed coffee was 28% and 11% higher than the unit price for national export result in 2004 and 2005, respectively (National Bank of Ethiopia (2007: first quarter)). In this paper, I refer to trade through the FLO system simply as “fair trade” because most of Ethiopia’s fair trade coffee is sold with FLO certification.

Table 1 FLO: Fair Trade Minimum Price and Premium for Africa (as of January 2007*)

(US ¢ /lb)	Fair Trade Minimum Price		Fair Trade Premium
Type of Coffee	Conventional	Organic	Conventional and Organic
Washed Arabica	121	136	5
Non-Washed Arabica	115	130	5
Washed Robusta	105	120	5
Non-Washed Robusta	101	116	5

* The price list was revised in June 2007.

Source: FLO home page,

(http://www.fairtrade.net/fileadmin/user_upload/content/Coffee_SF_Dec_05_EN.pdf, accessed January 31, 2007.)

(3) Organic coffee

The market size for organic coffee is also small, comprising only about 1% of the total coffee market⁸. Applicants for organic certification must meet several criteria. Either individuals or organizations can apply for the certificate because the certification applies to agronomic conditions rather than social conditions, in contrast to fair trade certification. Organic coffee can be sold through both conventional marketing routes and fair trade routes. Consumers who choose fair trade coffee often prefer organic coffee to regular coffee, although the concepts underlying the production of organic coffee, including concerns for environmental conservation and health, differ from those underlying fair trade (Barratt Brown (1993); Furusawa (2004)).

Ethiopia is the second-largest exporter of organic coffee by volume, after Peru. In 2005, Ethiopia shipped about 9,000 tons, which represented 19% of world organic coffee exports and 6% of Ethiopia’s total coffee export volume⁹. The low cost of producing organic coffee in Ethiopia may explain its large export percentage. Most Ethiopian coffee is grown with few or no chemical inputs. Thus, often only the fee for organic certification is required for the coffee to be officially recognized as organic. Some say that no chemical inputs are needed because coffee is indigenous to Ethiopia and thus adapted to local conditions. The government has also introduced improved coffee varieties. Unfortunately, poverty may also play a role, as many farmers cannot afford to apply chemical fertilizers or pesticides (Coffee and Tea Authority (1999); Sherlock (2004)).

⁸ I calculated the export volume share of organic coffee as 0.9% in 2005 based on the volume of total coffee and organic coffee exports by member countries of the International Coffee Organization (<http://www.ico.org/asp/display2.asp> and http://www.ico.org/show_document.asp?id=1219, accessed January 31, 2007).

⁹ The data source is the same as in note 8.

2. Policies Related to Coffee Marketing and Cooperatives

(1) Marketing policies

Economic liberalization policies began in 1991 in Ethiopia when the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) came to power¹⁰. In the previous regime, coffee marketing, pricing, distribution, and exporting were rigidly controlled by the government, and the situation depressed coffee production and merchant activities (Kodama, (2003)). While economic liberalization has brought market competition and increases in producer prices, it has also made actors in the coffee industry vulnerable to unexpected price fluctuations of the global market. Figure 1 presents historical changes in the export price of Ethiopian coffee and clearly illustrates the violent price fluctuations under the new system.

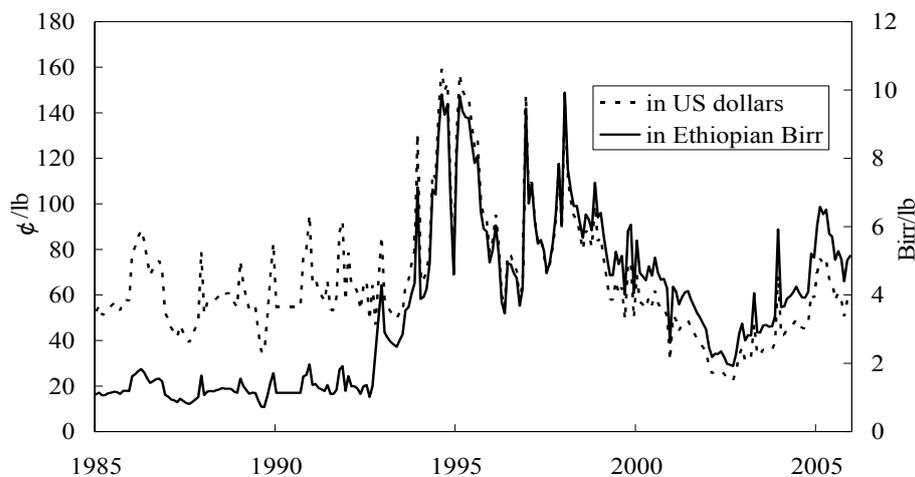


Fig. 1 The Price Change of Ethiopian Coffee Export Price

Source: ICO Home Page (<http://www.ico.org/asp/display7.asp>, accessed on Jan.31, 2007), NBE various years.

Although most government controls have been abolished, the auction system established in 1972 has been retained. The auction system, through which coffee beans from producers are graded before being sent to the exporter, is considered necessary because of the nation's poor information infrastructure (Kodama (2003)). However, as described below, coffee unions can bypass the auction system and export their coffee directly.

(2) Policies for cooperatives

Cooperatives were active under the socialist Derg regime that began in 1974 (Dorsey and Tesfaye (2005: 7)). Two types served rural areas: producers' cooperatives (PCs) and service cooperatives (SCs). Although PCs provided preferential treatment to members, the productivity of PCs was about one-third lower than that of private farmers (Dessalegn (1994a: 289)). The SCs focused on marketing and purchasing, dealing with agricultural inputs, credit, milling services, selling of consumer goods, and purchasing of peasants' produce. Whereas peasants welcomed the services provided by SCs, most

¹⁰ Economic liberalization policies were instituted in 1990 by the Derg regime as "the 1990 Economic Reform Program." However, the Derg collapsed in 1991, before the program had major effects.

of these cooperatives suffered from budgetary deficits and poor financial management (Dessalegn (1994b: 252–254); Fantu (1990: 70)).

The Derg regime halted cooperative activities in 1990, when the new mixed-economy policy permitted peasants to choose whether they would work for cooperatives or individually. Most peasants chose to reallocate cooperative lands to individual holdings (Dessalegn (1994b: 262); Gezachew (1994: 220–221); Tessema (1994: 211)).

In 1998, farmers cooperatives were formally revitalized by Cooperative Societies Proclamation No. 147/1998¹¹. The proclamation defines cooperatives as organizations “formed by individuals on [a] voluntary basis” that “participate in the free market economic system,” highlighting how the new cooperatives differ from those of the previous socialist regime.

As also outlined in Proclamation No. 147/1998, the new cooperatives could have a layered organizational structure¹², which had not been allowed under the Derg. The four layers allowed are primary cooperatives, unions, federations, and cooperative leagues, although only primary and union levels have been formed to date (Dorsey and Tesfaye (2005: 9, 20)). The proclamation additionally defines the ratio of dividends for a cooperative organization and its members. Article 33 of No. 148/1998 states that the cooperative “society shall deduct 30% of the net profit” and “the remaining net profit shall be divided among members.” Therefore, the unions provide 70% of their net profit to the primary cooperatives, and the primary cooperatives provide 70% of their net profit, including the dividends from the union, to cooperative members (Dorsey and Tesfaye (2005: 29–30)).

(3) Coffee farmers cooperative unions¹³

Coffee cooperative unions have been established since 1999, and six are currently active. These new institutions are designed to organize the primary cooperatives and improve marketing efficiency. They thus play the role of service cooperatives, rather than producer cooperatives. Furthermore, unlike private traders, coffee unions can bypass the coffee auctions.

In the first stage of establishing coffee unions, the Ethiopian government recruited ex-government officials who had experience in cooperative activities and the coffee business, and supported their salaries for the union’s first 2 years. From 1998 to 2005, USAID and Volunteers in Overseas Cooperative Assistance (VOCA) also conducted development projects to assist the four initial Ethiopian cooperatives (Dorsey and Tesfaye (2005: 9)). While strong state involvement does not align with most Western concepts of cooperative and civil society development (Dessalegn (2002)), considering Ethiopia’s dearth of human capital and resources, state-made cooperatives were considered the best option.

Among the six unions, four include cooperatives that carry FLO certification and can offer high prices to producers, as of October 2006¹⁴. Fair trade certificates are granted to primary cooperatives, rather than to unions, and the number of certificate-holders is still

¹¹ In 1995, the transitional government that preceded the Federal Democratic Republic issued Proclamation No. 85/1994 titled “Agricultural Cooperative Societies Proclamation.” This proclamation was replaced by No. 147/1998 issued by the federal government.

¹² This was also permitted by No. 85/1994.

¹³ The following information on unions is mainly from the Oromiya, Yirgacheffe, and Sidama coffee farmers cooperative unions. I was unable to obtain information from the remaining three newly established unions.

¹⁴ FLO home page (‘Number of Fairtrade Certified Producer Organizations per country’): http://www.fairtrade.net/by_location.html, accessed January 31, 2007..

relatively small. As of May 2006, only 24 of the 165 cooperatives of the Oromia, Sidama, and Yirgacheffe coffee farmers cooperative unions had FLO certificates. In 2005, fair trade coffee comprised approximately 2% of the total national export volume¹⁵. While more primary cooperatives would like to obtain FLO certification, the application process is slow. Candidate cooperatives often lack the necessary administrative capacity, and the FLO has hesitated to issue a large number of certificates due to the limited market for fair trade products¹⁶.

3. Research Method and Area

(1) Research method

I conducted research in July 2006, at nearly the end of the 2005–06 agricultural year for coffee (October to September). Interviews were conducted with officials belonging to cooperative unions located in Addis Ababa and with 24 farmers in the Gedeo Zone of the Southern Nations and Nationalities and Peoples Region (SNNPR). I additionally visited and spoke with staff members of the Federal Cooperative Commission, SNNPR Regional Cooperative Promotion Bureau, the Gedeo Zone Cooperative Bureau, and the Ministry of Agriculture and Rural Development.

The 24 farmers in the Gedeo Zone were randomly selected; all were males except for one female. An official from the Gedeo Zone Cooperative Bureau accompanied me as a guide and translator.

(2) Research area: The Gedeo Zone

The Gedeo Zone is located in the southeastern Ethiopian highlands, 360 km south of Addis Ababa. Ranging in altitude from 1200 to 2993 m (Nerzy et al. (2000: 3); Tadesse (2002: 22)), the zone covers 1329 km² and has a population of approximately 821,000. The Gedeo Zone is one of Ethiopia's most densely populated zones, with 617.5 persons/km² (Central Statistical Agency (2006)).

Landowners generally cultivate small plots of only 0.3 ha on average. Coffee production comprises the largest portion of agricultural land (34%), followed by enset (31%), which is a main staple food of the Gedeo people (Central Agricultural Census Commission (2003: 148)). However, because farmers often intercrop enset, maize, avocado, and other crops in the same plot, the exact area under cultivation by crop type is difficult to estimate.

Gedeo is the main production area of the renowned Yirgacheffe and Sidama coffee types. The area ships out the largest volume of coffee of all of the zones of the SNNPR, accounting for 10% of the total volume sent to the Addis Ababa inspection center¹⁷.

The Gedeo people are the ethnic majority in the Gedeo Zone, making up 81% of the total population and 89% of the rural populations. Religious practices vary, with 43% of the population Protestant, 25% practicing traditional religion, and 22% Ethiopian Orthodox (Central Statistical Authority (1996)).

¹⁵ Based on unpublished data from the Oromiya and Yirgacheffe coffee farmers cooperative unions and the Ministry of Agriculture. Exact data were unavailable for the Sidama Farmers Cooperative Union.

¹⁶ Based on my interviews with unions officials on July 18 and staff from VOCA-Ethiopia on July 24, 2006.

¹⁷ Based on data from fiscal years 2004–05 and 2005–06 from the Ministry of Agriculture and Rural Development. These data do not include the shipment volume to the inspection center at Dire Dawa.

4. Yirgacheffe Farmers Cooperative Union and Its Primary Cooperatives

(1) Basic facts

The Yirgacheffe Coffee Farmers Cooperative Union (YCFCU), set up in June 2002, was the third coffee union to be established, following the Oromiya Coffee Farmers Cooperative Union (OCFCU) and the Sidama Coffee Farmers Cooperative Union (SCFCU). From its office in Addis Ababa, the YCFCU deals with 22 primary cooperatives made up of 43,794 coffee producers in the Gedeo Zone, SNNPR (data from July 2006). Of the 22 primary cooperatives, 5 have fair trade certification, including 2 that also have organic certification. Nine others have organic certification but lack fair trade certification.

The YCFCU has steadily increased its purchase volume from 437 tons in 2002–03 to 1,035 tons in 2004–05. Most of this increase has been attributed to the growth in fair trade coffee (YCFCU (2005)). More than half of the YCFCU's export volume in 2004–05 came from double-certified coffee carrying both fair trade and organic certifications. Coffee with only fair trade certification comprised 24% of the volume, while organic-only coffee and coffee without certification comprised 14% and 6% of the volume, respectively (YCFCU (2005); Table 2).

The YCFCU had earned premium prices from its fair trade and organic coffee, receiving premiums of 24% for double-certified coffee, 16% for fair trade coffee, and 22% for organic coffee compared to regular coffee prices in 2004–05 (YCFCU (2005)).

Table 2 Coffee Purchased by the Yirgacheffe Coffee Farmers Cooperative Union
(By type, 2004/05)

	Tons	% of total	FOB Price*1 (\$/lb, avg.)	New York C (\$/lb,avg.)	Addis Ababa Auction Price (\$/lb, avg.)*1*2
FT & Organic	581	56	1.412		
FT	238	23	1.318		
Organic	142	14	1.388		
Conventional	62	6	1.168	1.14	1.085
Total	1036*3	100	1.396		

Note: *1 Average price of Sidamo type and Yirgacheffe coffee type.

*2 Calculated based on \$1=8.6518 Birr as of 2004-05.

*3 The total is quoted from the source, rather than the sum of the numbers above.

Source: Yirgacheffe Coffee Farmers Cooperative Union (2005).

(2) Primary cooperatives

Among the 22 cooperatives of the YCFCU, only 14 carry fair trade and/or organic certification. Considering that YCFCU purchases mostly certified coffee, it can be assumed that the remaining eight cooperatives having no certifications do little business with the YCFCU. As shown in Table 3, cooperatives with double and fair trade certification shipped nearly 30% of their purchased coffee to the YCFCU, while cooperatives with only organic certification and no certification shipped 6% and 3% to the YCFCU respectively. Thus, the relationship between cooperatives and the union varies based on certification. Cooperatives sell coffee not handled by the union through the auction system used by private traders.

Cooperatives with certifications associated with premium coffee receive larger dividends for their members, as shown in Table 3. Double-certified cooperatives offer dividends of 0.21 birr per kilo, twice more than the 0.09 birr offered by noncertified cooperatives. Because higher dividends create greater membership incentives, the ratio of active members (ratio of beneficiaries among registered members) is also higher. Noncertified cooperatives generally manage to sell their coffee by themselves through the conventional route, and even these cooperatives have secured profits for their members.

Table 3 YCFCU: Data for Primary Cooperatives under the YCFCU

Coop. by certificate type	#	Sales		Dividends				
		Avg. purchase (2004, tons per coop)	Est. % shipped to the YCFCU of total purchase *1	Avg. #. of beneficiaries *2 (2005, per coop.)	% of total membership *2	dividends (2005, birr)*3		
					avg. by coop.*4	avg. by member*2	per kg*4	
FT & Organic	3	673	29	750	46	140,730	188	0.21
FT	2	448	27	452	29	59,853	133	0.13
Organic*5	8	307	6	410	12	38,693	121	0.12
None*5	7	339	3	428	17	30,233	71	0.09
Total	20	387	13	492	24	55,706	122	0.14

Notes:

*1 It is assumed that certified cooperatives shipped all of their coffee as certified coffee.

*2 Five organic certified cooperatives are excluded due to lack of data on the number of beneficiaries.

*3 Dividends paid in 2005 were determined based on shipments in 2004.

*4 Three organic certified cooperatives are excluded due to lack of data on the number of dividends.

*5 One cooperative is excluded because it was a new member.

Source: Unpublished data from the Gedeo Zone Cooperative Bureau and a leaflet produced by the YCFCU.

(3) Limitations of the union and cooperatives

For both unions and cooperatives, the biggest problem is a lack of funds with which to purchase coffee. Transactions are often financed through bank credit, but if an organization cannot repay the loan, new credit cannot be obtained. Some cooperatives have been unable to buy any coffee in certain years because of their failure to repay previous bank loans. Although farmers are satisfied with the price offered by the cooperatives and are willing to sell more to them, cooperatives cannot buy all of the produce farmers have to sell. Farmers sell the remaining volume to private traders¹⁸.

The limited size of fair trade coffee market is another constraint on the expansion of cooperative activities. As described above, the YCFCU does not sell all of the coffee produced by fair trade and organic cooperatives. However, other unions have reported that they would have sold more fair trade coffee if more cooperatives had been certified as fair trade cooperatives. This implies that some competition is already occurring among unions for the fair trade market and that the YCFCU might be struggling to secure its share.

¹⁸According to the interview with VOCA-Ethiopia and a USAID press release (USAID Ethiopia: <http://www.usaidethiopia.org/info.asp?IID=19&CMID=22>, accessed February 5, 2007), the financial problem has been mitigated since the USAID Development Credit Authority (DCA) started the Long Guarantee Scheme for coffee in 2000. For details, see Dorsey and Tesfaye (2005).

5. Effects of Cooperative Activities on Coffee Farmers in the Gedeo Zone

This section examines the actual conditions affecting coffee farmers in the Gedeo Zone, investigating the following questions: who benefits from cooperatives, what kinds of benefits are received, and how do cooperative activities affect rural society?

(1) Characteristics of members, nonmembers, and non-cooperative areas

Among 24 interviewees, 20 lived in an area where cooperatives are active. Fifteen were cooperative members, 5 were nonmembers, and 4 lived in an area with no cooperatives.

a. Members

Among the 15 cooperative members, 8 were part of double-certified cooperatives, while 7 belonged to noncertified cooperatives. Interviews revealed that most of the cooperative members had been members of the previous service cooperatives and thus had been allowed to join the current ones without making any additional payments. Members who joined the cooperative at the time of its establishment paid a lower entry fee than members who joined later.

The interviews revealed no clear differences between members of certified and noncertified cooperatives. Many people likely became members automatically, based on their background in the former service cooperatives, and obtained the member benefits at the time of joining.

b. Nonmembers in the cooperative area

Of nonmembers in the cooperative area, four of the five were children of members, while one female had not renewed her household's membership after his death.

The children of members claimed that they did not need to become independent members and pay the entry fee because they could ship their coffee to the cooperative along with their fathers' coffee. The average age of these nonmembers was 28, younger than the average age (42) of members (Table 4). In association with the generational difference between members and nonmembers, the nonmembers had smaller landholdings and thus produced less coffee.

The female coffee producer interviewed had lost her household's membership following the death of her husband. She had not asked for entry into the cooperative and had not been asked to join. Although this is just one example, it may suggest how female household heads are excluded from cooperative membership, although some female-headed households may use a son's membership.

c. Non-cooperative area

Farmers who have no access to cooperatives use private traders based near their fields. The nonmembers I interviewed were satisfied with the prices offered by private traders, noting that the traders paid prices equivalent to those paid by cooperatives in distant locations. Thus, access to cooperatives is influenced by geographical location. In the Kochole *woreda* (administrative ward), only 25% of producers belong to a cooperative; the *woreda* covers a broad area, only 26% of which is used to cultivate coffee.

Table 4 Average Data for Interviewed Farmers in the Gedeo Zone

	Age (n)	Education (grade)	Area*1 (ha)	Coffee (kg)
Cooperative Area				
Member	15	42	1.70	1,163
Nonmember	5	28	0.52	452
Non-Cooperative Area*3				
	3	48	2.5	3,168

Notes: *1 The production area differs from the 0.3ha of the census data (Central Agricultural Census Commission (2003)). The total farm area could have been underreported to the government, while the figure here may include land held by the family even that of independent sons.

*2 The weight is based on the conversion rate from sun-dried beans to fresh cherries.

*3 One out of the four was excluded since he was 84 years old and produce a large amount of coffee (5,000kg) unlike the other three producers.

Source: Field survey by author.

(2) Benefits to farmers

Overall, the cooperatives, and the newly created competition between cooperatives and private traders, have increased prices paid to producers. Farmers recognize the positive effects cooperatives have had. For example, when a cooperative has not been able to buy coffee due to lack of their working funds, the prices offered by private traders have dropped immediately.

In particular, cooperatives that purchase mainly fresh coffee “cherries,” have helped raise the price of this product used to make “washed” coffee (also called “wet-produced” coffee, prepared when the coffee fruit is still moist). This rise in price had helped poorer farmers, who often need immediate cash and must sell fresh crops before they are dry; in contrast, farmers who can afford the time and space to dry their crop can store sun-dried beans for an entire year (Kodama (2003: 173)). Therefore, the price of fresh cherries had tended to be lower than that for dry beans. However, in 2005–06, fresh cherries sold for 1.6–4.6 birr/kg, well above the price of dried beans¹⁹, which sold for 1.4–2.6 birr/kg (data based on my research in Yirgacheffe)²⁰.

a. Cooperatives with certifications

As shown in Table 3, cooperatives with double certification have enjoyed the highest dividends. However, fair trade still made up only 30% of the total coffee produced by

¹⁹ Fresh cherries are sold from October to December, and dry beans are generally sold after January. The international coffee price for natural Arabicas, which includes Ethiopian coffee, rose from \$0.94 US/lb in October 2005 to \$1.09 US/lb in February 2006, an increase of 16% (ICO home page: <http://www.ico.org/prices/p2.htm>, accessed January 31, 2007). Therefore, the higher price of fresh cherries did not result from the international price decrease during the dry bean season.

²⁰ Sun-dried and fresh cherries differ in weight due to the drying process. According to FAO estimates (http://www.coffee-ota.org/3_7_property.asp, accessed January 31, 2007), sun-dried beans lose 64% of the weight of fresh cherries; therefore, in Yirgacheffe, farmers assume that 1 kg of dry beans is equivalent to 3 kg of fresh cherries.

these cooperatives; therefore, while these farmers are not fully protected from international price fluctuations, the premium price of fair trade coffee provides a buffer to some extent.

Fair trade certified cooperatives have to conduct social development projects utilizing fair trade premium fund. One fair trade certified cooperative I visited had invested in several projects jointly with private traders because the amount of the premium fund was not enough for their independent projects. The projects included bridge construction and improvements to the electrical infrastructure. Currently, many cooperatives still struggle economically and can play only small roles in social development projects in their local areas. However, it is still too early to conclude how cooperatives will contribute to local development if larger funds can be obtained from the sales of fair trade products.

b. Cooperatives without certifications

Cooperatives without certifications sell their coffee at the auction center used by private traders. As Table 3 indicates, these cooperatives still manage to provide dividends to member farmers in addition to the initial purchase price, which equals the price offered by private traders. Cooperatives might squeeze their margin for farmers, unlike private traders, although in reality the situation is quite complex.

In expectation of dividends, farmers tend to sell their better-quality coffee to cooperatives rather than to private traders. Therefore, the coffee offered by the cooperatives might receive a better score at auctions compared to the traders' coffee. One farmer reported that he carefully selected coffee for sale to the cooperative. In contrast, he did not care about the quality of coffee he sold to private traders, even putting stones or leaves in coffee bags sold to the traders, because the traders did not establish long-term business relationship and were generally not as concerned about quality. However, cooperatives without fair trade certification are vulnerable to international price fluctuations, even if they have better-quality coffee. While international coffee prices have been increasing since 2003, further long-term study is needed to predict how these cooperatives would fare if international coffee prices were to fall.

(3) Cooperatives and rural society

The activities of coffee cooperatives have not brought about dramatic changes in social structure, but they have had some general, wide-ranging impacts. While financial constraints have prohibited cooperatives from purchasing all the coffee that farmers wish to sell, the competition presented by cooperatives has raised the purchase price offered by private traders.

Prices for fresh cherries have particularly increased, a situation that has helped lower-income farmers. In areas served by cooperatives, a large economic gap does not appear to exist between cooperative members and nonmembers. Many nonmembers are the sons of members and receive benefits from the cooperative by sending their coffee to the cooperative with their fathers' shipments.

However, economic gaps are apparent at the regional level, between cooperatives with fair trade certification and those without, which remain vulnerable to international price fluctuations. Currently, these differences are not dramatic, as fair trade coffee still makes up a small percentage of Ethiopia's overall coffee sales, but as the production and sale of fair trade coffee increase, these regional gaps could become larger.

CONCLUSION

This paper examined fair trade coffee and its impacts on farmers in by examining the role of coffee cooperatives in Ethiopia. By increasing competition, the activities of coffee cooperatives have generally increased the prices paid to both member and nonmember farmers.

The export volume of fair trade coffee has also increased and has helped buffer fair trade coffee farmers from international price fluctuations. However, fair trade sales are still limited, and thus the benefits to farmers have been relatively small and diluted. Although increased fair trade sales could provide more income to farmers, regional economic gaps might also widen, dividing members of fair trade cooperatives from those whose cooperatives have been unable to obtain certification. Such a situation may lead to social discontent, particularly if international coffee prices fall. Moreover, fair trade certification is not a guarantee of market success because cooperatives must then compete in the global fair trade market as well as with private traders.

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