

An Evolution in the Coffee Aisle

Coffee farmers take the “next step” and sell directly to consumers

BY CATHERINE DILLEY AND THALEON TREMAIN

About 20 years ago, the fair trade movement took root in consumer food cooperatives around the country, primarily through the introduction of fair trade coffee. Led by Equal Exchange, the first “fairly traded” coffee to hit the U.S. market came from PRODECOOP, a farmers’ cooperative in northern Nicaragua, which took a gamble by selling their harvest on consignment to this startup in Boston. The risk proved worthwhile, and the two co-ops helped to pioneer an alternative model of international trade.

Fast-forward to 2009, and we find that the fair trade movement has matured. PRODECOOP has grown to be a model producer cooperative of 2,300 families, and Equal Exchange is a successful, profitable business with more than 75 worker-owners and annual revenues of \$34 million in 2008. The innovations they helped bring to market are now licensed and promoted by Transfair USA, the national certifier of fair trade products, which are found throughout the country in specialty as well as mainstream retailers. In fact, fair trade-certified products have become big business.

The next step for coffee farmers

The current fair trade-certified price for raw organic coffee is \$1.51 per pound—a small portion considering these “premium” beans often sell at retail for \$10 per pound or more. Is this “equitable trade” when the middlemen control such a large piece of the pie? If specialty coffee roasters and retailers both expect gross profit margins of around 35–40 percent, is there enough money to go around? Coffee farmers, even those selling their entire crop as “fair trade,” often do not make enough money to stay on the farm. A growing number of people believe that \$1.51 (often less than 20 percent of the retail price) is not a “fair” price for high-quality, organic coffee in today’s world.

If you were a small-scale farmer with great coffee, what would you do?

In 2006, building on the success of the fair trade movement, PRODECOOP, together with four other producer cooperatives in Peru, Ethiopia, Guatemala, and Mexico, launched a new business in the U.S. called Pachamama Coffee Cooperative, in order to market their roasted coffee directly to buyers. The farmer-owned co-op represents more than 140,000 families



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Left: Sofia Vanegas of Nicaragua is an entrepreneur proudly selling her fresh-roasted coffee directly to food co-ops in the United States.

Below: Directors Merling Preza (Nicaragua, standing) and Miguel Mateo (Guatemala) review financial reports. Pachamama’s board of directors is composed of five farmer representatives who meet annually to lead the cooperative and oversee management.

today and sells fresh-roasted coffee directly to U.S. grocery retailers for an average wholesale price of about \$6.50 per pound.

“Pachamama is an evolution, it is our company” says Merling Preza, general manager of PRODECOOP and co-founder of Pachamama. “We must sell more value-added products for our families to stay on the farm and to thrive.” By roasting and selling their best coffee wholesale to consumers, producers can control about 65 percent of their crop’s retail value, in addition to earning the profits—and pride—that come with ownership.

This is a significant step forward for these small-scale farmers, who are now selling a high-demand, finished product directly to consumers. When asked about emerging farmer-owned initiatives, Rob Cameron, the director of the fair trade standards agency FLO (Fairtrade Labeling Organizations International), responded, “Now that’s really exciting. That is the next stage.”

A cooperative movement, first and foremost

The members of Pachamama are well-known cooperative leaders of the fair trade industry. According to Raúl del Águila, the general manager of the COCLA co-op in Peru and a co-founder of Pachamama, “For fair trade to have a brighter future, it is necessary that there is real producer ownership of the fair trade system. Producers are now in the position to take greater ownership and responsibility in the development of fair trade and act as decision-makers and not merely beneficiaries.”

Three years after launching Pachamama, farmers are distributing their beans nationally



PHOTO COURTESY OF PACHAMAMA

from roasters in California and Wisconsin, selling directly to food cooperatives, natural food stores, and select cafés. This leap forward provides farmers with more income while allowing them to control their product from the farm to the customer. Because their members seek direct relationships with farmers, consumer food co-ops are Pachamama’s natural constituents. Together, they form an innovative cooperative supply chain.

Pachamama’s members invest their best organic beans in the company and receive 100 percent of the profits. All coffee is certified fair trade and organic, guaranteeing members a

minimum price of \$1.65 per pound. In addition to earning greater profits, farmers participate as decision makers, not just beneficiaries. One farmer representative from each producer group is elected to sit on Pachamama's board of directors. There are currently five directors representing the member co-ops (see box at right). The co-op's board of directors meets at least once annually to vote on major company decisions. Regular communication takes place with staff in the U.S. via email, Skype and telephone.

An efficient cooperative supply chain

Following on the success of farmer-owned initiatives such as Organic Valley and Cabot Creamery, Pachamama solves two big problems: it provides farmers with direct access to end-consumers in the United States, and it offers those consumers a more efficient way to support responsible growers, who then invest more in social programs and quality improvements, yielding still better coffee for the connoisseur.

This evolution has coincided with consumers' growing interest in their food. In fact, Pachamama is market-driven, answering the call from American coffee consumers, who have changed along with the industry as they learn more about their coffee and the people that produce it. Today, "quality" is not merely defined by cup characteristics, but also by the positive social impact of more direct and transparent trade with small-scale producers.

Pachamama represents an important next step towards an equitable and sustainable coffee trade. As the producers of a valuable commodity, coffee farmers are adapting by forming direct relationships with grocery buyers in the U.S. Otherwise, they will remain commodity producers that are dependent on those who control access to consumers in the North. Distributing and marketing in the U.S. is the natural progression for producers of such a valuable product.

And, of course, the food cooperative community also benefits from this progression in the coffee aisle. As Kevin Edberg of Cooperative Development Services writes, "We have to work harder to differentiate our product mix and use it to tell authentic stories about local agriculture, sustainable and organic production, and the impact of our customers' buying decisions. Featuring cooperatively produced products is one strategy that reinforces who we are and what we value." ("Let's Leverage Benefits for Producer, Consumer Co-ops," in *Cooperative Grocer*, Jan.-Feb. 2006: www.cooperativegrocer.coop/articles/index.php?id=630.)

What better way to do this than to partner with family farmers who have organized themselves to meet your coffee needs? It's a virtuous circle, and the entrepreneurs of Pachamama Coffee Cooperative are betting on the support of conscientious consumers. ■

Member Cooperatives of Pachamama

COCLA, Quillabamba, Peru. 8,500 family farmers.

PRODECOOP, Esteli, Nicaragua. 2,300 family farmers.

Manos Campesinas, Xela, Guatemala. 1,100 family farmers.

La Unión Regional, Huatusco, Mexico. 1,950 family farmers.

Oromia Coffee Farmers Union Cooperative, Addis Ababa, Ethiopia. 135,000 family farmers.



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