

# Standards as a new form of social contract? Sustainability initiatives in the coffee industry

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## Abstract

In the former age of national capitalism, the achievement of market fairness was embedded in a normative framework generated by government, labor unions, and perhaps religious authority. In the current age of global capitalism, new actors such as NGOs, industry associations and public–private partnerships provide the normative framework that corporations use for social legitimacy. In this context, standard-setting processes operate as new forms of social contract where the state, rather than being directly involved between the parties, provides a form of basic guarantee while (more or less accountable) NGOs and firms are in charge of hammering out the bargains. This article examines the dynamics of this new configuration through the case study of sustainability initiatives in the coffee sector. It addresses four questions: (1) Are these standards effective in communicating information and creating new markets? (2) To what extent do they embed elements of collective and private interests? (3) Is sustainability content actually delivered to their intended beneficiaries? and (4) What is the role of public policy in addressing their shortcomings?

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## Introduction

International trade has grown dramatically in the last two decades in the global economy, and trade is an important source of revenue in developing countries. These countries are estimated to generate more than thirty times revenue per capita from exports than they receive in aid – and aid flows are decreasing (OECD/DAC, 2002). Yet, most low-income countries still depend heavily on exports of primary commodities whose growth has lagged behind the growth of global income (UNCTAD, 2002). As a result, low-income countries account for a very low proportion of income generated through exports in the global economy.

International trade liberalization – through successive rounds of the General Agreement on Tariffs and Trade (GATT) and the establishment in 1995 of the World Trade Organization (WTO) – was supposed to open new trade opportunities for developing countries. The record in achieving this objective has been uneven. While tariffs and quantitative restrictions on trade have been lowered or eliminated, government subsidies to producers in developed countries (especially in agriculture) have remained at high levels. Furthermore, barriers of a different nature have become increasingly important in restricting trade, especially anti-dumping and safeguard measures, sanitary and phytosanitary requirements (SPS)<sup>1</sup> and technical standards (Henson and Loader, 2001).

The debate surrounding the protectionist effects of tariffs and quantitative restrictions to trade has produced a large literature. There is also considerable interest within the global policy community in theoretical and empirical work on the impact of standards on trade especially in relation to developing countries. However, most of the available research focuses on mandatory technical standards adopted in developed countries. The role of voluntary and private standards<sup>2</sup> that are used to certify products or production processes, define labels, and set codes of conduct has received less attention.

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<sup>1</sup> Sanitary and phytosanitary measures are designed to: (1) protect human or animal life from risks arising from additives, contaminants, toxins or disease-causing organisms in food; (2) protect human life from diseases carried by plants and animals; (3) protect animal and plant life from pests, disease or disease-causing organisms; (4) protect an importing country from the entry, establishment or spread of a pest (see Oyejide et al., 2000, 3).

<sup>2</sup> The literature on standards provides a number of different classifications. In this paper, we make use of the categories of mandatory, voluntary and private standards – but acknowledge their limitations. *Mandatory* standards are those set by governments in the form of regulation. These may affect trade flows by placing technical requirements, testing, certification and labeling procedures on goods. *Voluntary* standards arise from a formal coordinated process in which key participants in an industry or sector seek consensus. Voluntary standards may be introduced as a response to consumer requests, or as a result of initiatives led by NGOs or industry associations. They are usually verified through third-party auditing. *Private* standards are developed and monitored internally by individual enterprises. These distinctions however, are difficult to apply in regard to sustainability standards, not only because many voluntary and private standards are de facto mandatory, but also because at least one (organics) tends to cut across such classifications. The distinction between private and voluntary standards is also to some extent arbitrary, as private enterprises borrow parts of voluntary standards and vice versa. Notwithstanding these limitations, this classification has more analytical clout than the more rudimentary one distinguishing between public and private standards.

“Standards are agreed criteria... by which a product or a service’s performance, its technical and physical characteristics, and/or the process, and conditions, under which it has been produced or delivered, can be assessed” (Nadvi and Wältring, 2002). Standards are important for developing country farms and firms because they determine access to specific segments of the market (e.g., in defining forestry products that are sustainable), to specific countries (e.g., through regulation on food safety and technical requirements) and the terms of participation in global value chains (e.g., through matching quality standards) (see Nadvi and Wältring, 2002; Gibbon and Ponte, 2004; Ponte and Gibbon, 2005; Wilson and Abiola, 2003). On the one hand, standards set entry barriers for new entrants in a value chain, and throw new challenges to existing developing country suppliers. On the other hand, the challenge of rising standards provides the opportunity for selected suppliers to add value, assimilate new functions, improve their products, and even spur new or enhanced forms of cooperation among actors in a specific industry or country (Jaffee, 2003).

New types of standards are becoming increasingly important in international trade. Indeed the formation and utilization of standards is progressively “...undergoing a shift from being neutral market lubricants to also being tools of product differentiation. This implies a fundamental shift in the role of G&S (grades and standards) from just reducing transaction costs of commodity market participants, to serving as strategic tools for market penetration, system coordination, quality and safety assurance, brand complementing, and product niche definition” (Giovannucci and Reardon, 2000; see also Reardon et al., 2001). Increasing food safety concerns stimulate strong consumer market responses and are driving a set of quality-oriented and process-oriented changes in many markets (Giovannucci, 2000), particularly in the United States and Europe – and even many of the Asian and Latin American economies.

In the last decade or so, ever more awareness of the socio-economic plight of developing country farmers, increased interest in the health and safety of food, and scientific recognition that expansion of the agricultural frontier constitutes the greatest threat to global biodiversity (World Conservation Union and Future Harvest, 2001) have further popularized several agricultural sustainability initiatives. As a result, sustainability (or cause-related) standards have enjoyed a much greater recognition and a fast-growing market value. The concept of sustainability in agriculture usually refers to aspects variously referred to as economic viability for farmers, environmental conservation and social responsibility. Both existing and emerging standards seek to meet some or all of these needs. These are process standards that rather than just measuring the characteristics of a final product – typically assess the interconnected processes of production, agro-processing, and trade. In so doing, they attempt to cover the whole value chain from farmer to consumer.

In the following sections, we draw lessons from the study of coffee to address four significant questions in relation to sustainability standards: (1) Are these standards effective in communicating information and creating new markets? (2) To what extent do they embed elements of collective and private interests? (3) Is sustainability content actually delivered to their intended beneficiaries? and (4) What is the role of public policy in addressing their shortcomings?

## Sustainability standards in the coffee industry: communicating information and creating markets?

Coffee is one of the first internationally traded products where collective efforts were undertaken to develop standards on processes that address socio-economic and environmental concerns. Some coffees such as organic, Fair Trade, Bird Friendly, Rainforest Alliance, and Utz Kapeh are sold as certified coffee (see general characteristics in Table 1). Others are sold under sustainability initiatives that are designed by private enterprises – with or without third-party monitoring. A brief outline of the most prevalent process standards follows.

*Organic* coffee certification is based on a production management system that aims at promoting and enhancing natural soil activity and prohibits synthetically produced agrochemicals. It is based on minimal use of off-farm inputs and on management practices that seeks to restore, maintain and enhance ecological harmony. Accredited certification agencies monitor organic standards on production, processing and handling. In the last decade, its popularity in many major markets has brought this standard into the realm of public regulation.

*Fair trade* is defined as a “an alternative approach to conventional trade that aims to improve the livelihoods and well-being of small producers by improving their market access, strengthening their organizations, paying them a fair price with a fixed minimum, and providing continuity in trading relationships” (Giovannucci and Koekoek, 2003).

Smithsonian Migratory Bird Center’s (SMBC) Bird Friendly coffee and the Rainforest Alliance-certified are the two labels that offer certifiable standards for *eco-friendly* or *shade-grown* coffee. The latter refers to the way coffee has been traditionally farmed, that is under the shade of a diverse arboreal canopy. SMBC has somewhat stricter requirements for tree coverage and demands organic certification whereas Rainforest Alliance certification covers several other aspects of the farming system, including good social/labor conditions.

*Utz Kapeh*, originally set up by Ahold Coffee Company to serve its private needs, is now an independent foundation and has developed a certifiable code of conduct for growing sustainable coffee – primarily on the combined basis of the good agricultural practices of the European Retailer Group (EUREP-GAP) and the social guidelines outlined in SAI 8000. It provides a minimum assurance that basic conditions are met and is less rigorous than the previously mentioned certifications. However, it is a notch above the level of other initiatives providing minimum basic guidelines such as the ‘Common Code for the Coffee Community’ developed by GTZ/The German Coffee Association and the EUREP-GAP code for green coffee that are not necessarily verified through independent third-party certification.<sup>3</sup>

Finally, a number of private firms, which do not wish to adopt more rigorous and demanding standards, have devised their own sustainability guidelines for procurement practices. Parts of these guidelines may be borrowed from sectoral codes of

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<sup>3</sup> Basically, the Good Agricultural Practices section in Utz Kapeh and the EUREP code for green coffee are the same. Utz Kapeh includes additional social components and traceability.

Table 1  
Main features of selected sustainable coffee certifications

Name	Actors or organisations setting the standards	Characteristics	Geographic and farm-size coverage
Organic	International Federation of Organic Agriculture Movements (IFOAM) and affiliated associations	Accredited certification agencies monitor organic standards on production, processing and handling; formally, IFOAM basic standards make reference to issues of social justice, but do not set requirements	Global, but most organic coffee comes from Latin America, especially Mexico; all farms
Fair trade	Fair Trade Labeling Organizations International (FLO) and associated Fair Trade Guarantee Organisations	Minimum guaranteed price paid to registered small farmers' organisations that match standards on socio-economic development; non-profit organisations set/monitor standards and mediate between registered producers and fair trade importers	Global, but a sizeable amount of Fair Trade coffee is bought also in Africa; only smallholders
Bird-friendly coffee	Smithsonian Migratory Bird Center (SMBC)	Minimum standards on vegetation cover and species diversity (in addition to organic practices) needed to obtain use of label; also covers soil management	Standard applied only to Latin American coffees so far; mainly estates
Rainforest Alliance-certified	Rainforest Alliance	Certifies farms on the basis of sustainability standards; covers environmental protection, shade, basic labor and living conditions, and community relations	Latin American countries only; mostly estates but also some cooperatives
Utz Kapeh	Utz Kapeh Foundation	Code of conduct for growing sustainable coffee formulated on the basis of the 'good agricultural practices' of the European Retailer Group (EUREP); includes standards on environmental protection and management, and labor and living conditions	Mainly in Latin American countries, but growing also in Asia (India, Indonesia, and Vietnam) and in Africa (Uganda and Zambia); mostly estates, but also some cooperatives

Source. Adapted from Ponte and Kawuma (2003).

conduct, and are seldom subject to third-party verification (Daviron and Ponte, 2005).

The sustainability standards embodied in Fair Trade, organic, and eco-friendly labels have been particularly successful at conveying a positive image to consumers. These labels are both familiar and generally available in the US and Canada (Givens and Jannasch, 1999; Rice and McLean, 1999; Giovannucci, 2001; Dimitri and Greene, 2002), and in Japan and a number of European countries (Giovannucci and Koekoek, 2003). In many of these countries, they have emerged from small niche markets to enter the mainstream distribution channels. However, they remain somewhat nebulous in terms of what they specifically communicate to mainstream consumers. Recent large-scale industry surveys in 14 major markets suggest that the specific characteristics of certifications are confusing to the coffee industry – and especially to consumers (Giovannucci, 2001; Giovannucci and Koekoek, 2003; Consumers International, 2004).

This confusion is most likely minimal within the historic market channel of gourmet and health food stores and alternative trade organizations (ATOs). Yet, as products bearing these standards enter into mainstream channels like supermarkets and foodservice, they are faced by typically less familiar consumers – who in turn are faced with a much larger selection of different products and considerable marketing messages conveyed by competing brands. Although these sustainability standards can be considered as new brands, they often lack the promotional drivers that typically establish brands. For most food products, differentiation usually focuses on five characteristics: convenience, health, flavor, quality/prestige, or price. Few of the sustainability certifications have managed to compete with the established brands' ability to convey powerful and persistent messages – not to mention their ability to secure large and prominent shelf space in supermarkets.

The messages of most certified coffee products are transmitted primarily through labeling and some advertising in print media that is targeted to a relatively small and receptive niche audience. Use of mass media for promotion, circulars, and coupons is still a relatively rare occurrence. Competition in mainstream markets is much sharper. Without considerable advertising and promotional expenditures, the opportunity to pass information on to consumers is significantly diminished. Regular supermarket shoppers spend on average only a few seconds deciding on a purchase. The result is a consumer, perhaps in a supermarket aisle after work, faced with a new and complex brand/label message on some form of sustainability. Under these conditions, the average consumer has little reason to switch away from a familiar brand and is unlikely to pay an often higher price for these coffees. One of the clear signals emerging from market surveys is that retailers in both the US and Europe would like to see simpler messages for consumers. They would also prefer single sustainability labels that cover both social and environmental aspects (Giovannucci, 2001; Giovannucci and Koekoek, 2003).

Sustainable coffee initiatives have limited systems of monitoring and evaluation. Often, they cannot consistently and accurately document levels and distribution of benefits that accrue to various actors in the value chain. The messages to consumers

concerning their actual achievements are unclear, especially in relation to eco-friendly aspects (i.e., biodiversity benefits or improved soil tilth are intrinsically difficult to measure), but also in relation to socio-economic aspects. Sometimes, it is not clear exactly who receives even the most concrete benefits – such as remuneration or price premiums. These benefits can be lost or diluted along the value chain, or between the management and members of a cooperative. Other benefits are more easily detectable – such as educational programs, new infrastructure, health clinics, and employee housing. Nevertheless, these may be inadequately conveyed to consumers. Thus, they are underutilized as a tool for cementing relationships with existing buyers and for stimulating the potential purchases of new buyers.

Despite such difficulties, an increasing number of coffee companies – even the largest coffee industry players like Nestlé and Kraft – are adopting sustainability standards. Starbucks was the first multinational company to announce in 2002 that it had developed a preferred supplier system for green coffee purchasing.<sup>4</sup> In late 2003, Procter and Gamble, in response to direct shareholder pressure, announced that it was going to buy at least one million pounds of Fair Trade coffee in 2004. Kraft and the Rainforest Alliance announced a multi-year arrangement that includes the purchase of over 5 million pounds of certified coffee in 2004. Albert Heijn and other large European supermarket chains are reportedly using Utz Kapeh certification. Although sales for these products are certainly growing in volume, breadth, and range of distribution channels, much of the growth so far has centered on niche and upscale markets. These products are now being carried (or tested) in many supermarkets but, with rare exceptions, none has yet earned an important market share (Giovannucci and Koekoek, 2003).

Most actors engaged in the coffee value chain earn higher margins on sustainable coffees than on regular coffees. The price premiums paid to farmers vary considerably (see Daviron and Ponte, 2005), and there is some evidence that they are declining, particularly in the case of organics. Nevertheless, decades of premiums indicate that such standards have had some success in communicating their value to industry buyers and that supply is catching up with demand. Industry interviews in a number of major markets indicate that most buyers believe that paying a premium for certified sustainable coffees is acceptable and necessary (Giovannucci and Koekoek, 2003). A majority also feels that premiums will continue, even though there are likely to be some reductions.

### **Collective and private interests in the formulation and monitoring of sustainability standards**

Sustainability standards in the coffee industry have been developed for the most part within voluntary initiatives. These were characterized by some degree of collective formulation, but resided mostly outside the framework of public regulation.

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<sup>4</sup> This program is now called ‘Coffee and Farmer Equity Practices Program’ (CAFE). For more details, see Daviron and Ponte (2005).



They were first designed for small yet receptive niche audiences of cause-conscious consumers whose buying habits were at least partially motivated by concerns for the environment or the welfare of farmers (Giovannucci, 2003). The institutional framework for the development of these standards is a loose-knit coalition of NGOs. Organic guidelines, for example, began with farmers associations. Contemporary Fair Trade standards were developed by Alternative Trade Organizations (ATOs). Although active since the 1950s, they began codifying their mutually accepted standards in the 1980s – when they registered and certified the use of Fair Trade labels.

Given the increasing demand for products meeting new standards and the broad expansion of markets and competition, it has become increasingly necessary to ensure the credibility of the claims embedded in sustainability standards. All the major initiatives mentioned in the previous section have developed verification systems. Most evolved to independent third-party certification and eventually, at least for organic and Fair Trade, to international accreditation of the certification guidelines and even the certifiers themselves. Public regulation only became relevant when one of the largest of these certifications (organic) expanded beyond its core audience to reach more mainstream consumer markets. France, Denmark, and some states of the US were already regulating this sector by the 1980s. Competition and the ensuing concern over norms, labeling, and deceptive practices led parts of the organic movement to successfully request more widespread public regulation that is now in place in the EU, US and Japan. Some observers assert that regulation in some countries was also necessary as a political and fiscal effort to support or subsidize organic farming (Rundgren and Lustig, 2002).

The current verification systems are nevertheless less than ideal. Rarely are developing country producers active participants in the setting of standards. Even in organics, inspection standards vary considerably between different certifiers. Some do not regularly re-visit a certified operation. Fair trade certifiers often apply only minimal reviewing, and the accountability and transparency record of some cooperatives, especially if formerly government-controlled, has also been questioned (Ponte, 2004a). The two eco-friendly certifiers currently conduct regular visits, but this practice may become more difficult as the number of certified farms increase. Eco-certification builds in considerable flexibility with each of its clients because of biological differences in different environments, and allows significant leeway in fulfillment. While this may be pragmatic, it can also have negative repercussions to credibility. Other voluntary standards systems, such as Utz Kapeh, the EUREP-GAP green coffee code, and the ‘Common Code for the Coffee Community’ (GTZ/The German Coffee Association), have varying levels of international verification and credibility. The latter two are baseline guidelines rather than standards that are assessed through rigorous systems of independent verification.

Individual (or groups of) firms are also developing their own independent purchasing guidelines or sustainability standards that suit their business needs. Such standards, that at first sight seem more private in nature than voluntary standards, often embed a collective element as well since they often draw from established codes of conduct or purchasing guidelines developed by NGOs or industry associations.



While these private efforts may be perceived as a step toward increased acceptance of sustainability measures by firms that are initially unable to meet certified standards, they may also portend a threat to sustainability, because nearly all private standards are diluted versions of existing sustainability standards. Most of these private guidelines are generally weak in terms of both the content of their standards and their methods of verification. Some observers classify these efforts as little more than deceptive marketing ploys.<sup>5</sup> The problem, however, is not just the fact that these firms adopt weaker substitutes to convey their sustainability efforts to their customers and shareholders. The greater danger lies in the possibility that their considerable marketing clout could generate consumer acceptance of modest or cosmetic standards, and subsequently erode more stringent (and internationally accepted) standards.

Private standards are a perilous undertaking because they typically have only minimal safeguards and eschew independent third-party verification. For example, one well-known company uses unqualified college students for verification. Another assumes that buying staff will ensure compliance even though it is not part of their job description. While this appears to be a clever shortcut to avoid more costly certification mechanisms, it could prove to be dangerously shortsighted – as shoddy verification practices could reflect negatively on a company's reputation. It is difficult to guarantee full compliance at all times, but rigorous checks and balances can reduce the likelihood of unethical behavior. The credibility of private systems is also brought into question when most (but not all) of them fail to include farmer participation (the supposed beneficiaries) in developing their codes of conduct and sourcing guidelines.<sup>6</sup>

As noted earlier, consumer confusion among various standards systems may limit further growth in the sustainable coffee market. At the same time, it could lead to a stimulus for public regulation. No producing country has yet moved to manage or regulate such standards. In most of these countries, sustainable standards are imported and have not been harmonized with national standards. The failure to adopt (and adapt) internationally accepted standards is particularly detrimental to producers. Without national policy and guidelines on these topics, producers are usually left to their own devices, with little or no support in terms of information and extension services. Consequently, the costs of search, adaptation, and even certification remain higher than they need to be.

### **Do sustainability standards deliver?**

In this section, we assess to what extent sustainability standards fulfill their portrayed goal of improving socio-economic and environmental conditions in coffee production and trade. This short analysis builds on our previous work on the subject

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<sup>5</sup> See Utz Kapeh Newsletter, November 2003.

<sup>6</sup> A notable exception is the Mexican Sustainable Coffee Council initiative with CERTIMEX being undertaken by the CEPCO and UCIRI cooperatives in Oaxaca, Mexico.

(Bradley et al., 2003; Daviron and Ponte, 2005; Giovannucci and Koekoek, 2003; Ponte, 2002, 2004a; Ponte and Kawuma, 2003; Giovannucci, 2001) and on other published research.<sup>7</sup> The literature on the subject suggests that farmers receive both direct and indirect benefits from sustainability standards (see Table 2). It is also evident that some of the necessary conditions to preserve local biodiversity are fostered by several of these certification systems (Rice and Ward, 1996; Perfecto et al., 1996; Greenberg et al., 1997), although it is not yet clear what the specific impact of these standards is on biodiversity. Many of these standards, however, provide no guarantee that direct benefits, particularly price premiums, necessarily reach farm laborers or local communities. Some of the most significant benefits are indirect or intangible – such as the strengthening of social capital (Robbins et al., 2000), or the improvement of community-cooperative governance structures (Giovannucci et al., 2000; Bradley et al., 2003).

The simplest way to assess a standard's impact on sustainability is to look at a farmer's economic viability by determining whether the extra investment and effort needed to gain certification pays off in terms of earning a *premium* over non-certified coffee. As we can see in Table 3, at June 2003 market prices, the highest premium among the standards systems for which information was available was by far offered in Fair Trade. The Fair Trade premium for Mild Arabica coffee is almost four times what can be obtained for organic coffee. It is nine times larger than the Utz Kapeh premium had it been applied at all.<sup>8</sup> In the case of Robusta coffees, the gap is even higher. These distinctions, however, relate to the current market situation and can be misleading: if market prices increase, the Fair Trade differential shrinks relative to organic; Utz Kapeh's premium is eliminated altogether.<sup>9</sup>

In the case of shade-grown or eco-friendly certifications, there is no formal or standard price premium. Sometimes, the sustainability premium is hidden in the quality premium. In other cases, no extra premium is offered over similar quality coffees. With a few exceptions, no premium is paid to producers of uncertified shade coffee (Rice and McLean, 1999). Other sectoral initiatives, such as the EUREP-GAP green coffee code and the German Coffee Association/GTZ are not yet active on the ground, but are not likely to offer explicit premiums. Private standards initiatives or guidelines are inherently more difficult to evaluate because they are less transparent for external observers. However, it is clear that to date none of these explicitly

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<sup>7</sup> Among others, see Damiani (2001, 2002), Hopkins (2000), Jørgensen and Muller (2003), Raynolds (2002), Raynolds et al. (2004), Rice and McLean (1999), Mace (1998), Murray et al. (2003), Schmidt (2002), Tallontire (1999, 2000), Taylor (2005) and Waridel (2001).

<sup>8</sup> Utz Kapeh has a detailed Code of Conduct that explicitly outlines the numerous requirements that a producer must comply with but there is little mention of the responsibilities of the buyer toward the producer since these are limited and do not include any definite compensation for the producer's efforts at meeting the Code. Currently, the price for Utz Kapeh certified coffee is determined in the negotiation process between buyer and seller although earlier in 2003, Utz Kapeh had approved a system of variable premia specifically rewarding sustainability.

<sup>9</sup> For a sensitivity analysis of premiums in relation to changes in market prices, see Daviron and Ponte (2005), Ponte and Kawuma (2003).

Table 2  
Summary of impacts of selected sustainable coffee certifications

	Utz Kapeh	Organic	Fair trade	Shade-grown (SMBC and Rainforest Alliance)
Premium	Suggests paying a low premium only under certain market conditions but not mandatory	Premium paid (but overall levels of premium are decreasing in time)	High level of premium in current market; some premium always assured	No assured premium (but may be paid in certain circumstances)
Yields and quality	Possibly positive but limited	Short-term impact on yields may be negative; possibly positive impact on quality	Only indirect (and possibly positive) impact on yields and quality (through higher income, thus increased possibility of purchasing inputs and hiring labor)	Negative yield impact; positive impact on quality
Labor inputs	Moderately higher labor inputs	Higher labor inputs	Higher labor inputs linked to attending meetings, transport, coordination, etc.	Higher labor inputs
Other income impacts	Not known	Possibility of selling other organic products from the farm; income diversification	Possible indirect impact through establishment of new links with wider trade networks; possibility of selling other Fair Trade products	Possibility of selling forest by-products and fruit
Market access, networking	Number of buyers and markets are still limited, but increasing	Access to well-established and reliable market	Access to well-established and reliable market; technical assistance from fair trade importers; development of new networks of contacts among participants	Buyers and markets are still limited, but likely to increase

Extension, credit	Potentially better extension services from supportive NGOs and some buyers, but limited support from public extension services	Possibly more effective extension from field staff supported by NGOs and some buyers, but limited support from public system	Access to trade financing and traditional credit sources due to the improved financial position of cooperatives	More effective agro-forestry extension from supportive NGOs but limited support from public system
Organizational capacity; community impact	Strengthening organizational capabilities (if registration is done via farmer groups rather than individually)	Potential increase in mutual support among farmers to solve management problems in the farm;	Increased organizational capacity of participant farmers; access to training; strengthened ability of organizations to serve their members; community projects	Mutual support among farmers for forest management;
Environment	Limited environmental benefits	Potential adoption of new farming techniques to improve soil fertility as well as drought and erosion resilience	Very limited or non-existent	Improved biodiversity and agro-ecological conditions; enhancement of soil fertility
Risk, planning capabilities	Potential for some reduced pest management and social risks. Planning may improve	Risk reduction through reduced external inputs, no monocropping, improved soil resilience; planning may improve.	Better planning for coffee production and personal and household needs; guaranteed price reduces risk	Reduced pest management and social (Rainforest Alliance-certified only) risk; planning may improve

*Source.* Adapted from Ponte and Kawuma (2003) and Ponte (2004b). NB: we do not cover the EUREP and GTZ initiatives here because, at the time of writing, they were not operative.

Table 3

Premium levels for selected certified sustainable coffees

	Current market price (\$/kg green) <sup>a</sup>	Utz Kapeh premium (\$/kg green)	Organic premium (\$/kg green)	Fair Trade premium (\$/kg green)	Eco-friendly premium (\$/kg green)
Mild Arabica	1.47	0.15	0.35	1.30	ca. 0.12 – 0.40
Natural Robusta	0.68	0.00	0.23	1.65	n/a

Sources. Ponte and Kawuma (2003) and personal communication between Daniele Giovannucci and Rainforest Alliance and SMBC.

<sup>a</sup> Prices refer to June 2003 (September 2003 NY “C” and LIFFE contracts).

recognize and remunerate the costs to the producer of achieving or verifying their standards.<sup>10</sup>

The *overall income impact* of sustainability standards on producers depends on the balance between the extra costs of matching these standards (including labor costs and the cost of certification) and the extra income earned from the premium plus/minus the impact of changing farming practices on yields and quality. In organic coffee, yields and quality tend to increase in areas where agro-chemicals were not used previous to conversion. In more intensive, agro-chemical production cases, quality may or may not improve, but yields often suffer (Ponte and Kawuma, 2003). Although prices for organic certification can be as low as \$50 per farmer,<sup>11</sup> in some cases they are extremely expensive for smallholders especially in countries where there are no recognized local inspectors or certifiers. The balance sheet for Fair Trade is often positive, since farmers do not pay for certification,<sup>12</sup> the minimum price is relatively high and the necessary changes in farming systems fairly limited. However, only 20% of the coffee certified as Fair Trade actually manages to be sold as such and the pressure increases for minimum prices to descend.

In shade-grown certification, the impact on yields in the short term is usually negligible and labor inputs tend to increase; yet, weeding becomes less costly, soil fertility improves, coffee trees tend to live longer, and coffee quality may improve. In some cases, efforts to improve working conditions enhance the quality of labor relations. There is anecdotal evidence that this leads to better productivity. Eco-

<sup>10</sup> Although the average price paid by Starbucks was well above the mean and nearly double the NY “C” market reference in 2002/2003, its preferred supplier system (CAFE) only partially links price to the sustainability criteria embedded into it. In this system, ‘Strategic Suppliers’ (those achieving a minimum of 80% overall rating) are awarded a one-year sustainability conversion premium of 0.01 USD/lb on all shipments that meet the CAFE program guidelines, but only during the first crop year in which the score is achieved.

<sup>11</sup> For the average Arabica coffee farmer, this can be recouped with the sale of 2–3 bags of coffee. For very small farmers, the economic benefit of certification may be marginal – although the benefits of organic processes themselves can be considerable especially in terms of lower cash costs for farm inputs.

<sup>12</sup> This situation may be partially changing with the establishment of a separate entity within FLO (FLO-Cert. Ltd) that will take care of certification. The new division of labor between FLO and FLO-Cert. is meant to provide more transparency in certification and auditing. National initiatives will continue partial funding of certification with their contributions. However, FLO-Cert. will also have to finance its activities with registration fees paid by traders and producer organizations.

friendly certification can be expensive to implement and neither of the two certifiers formally recognizes these costs as a minimum compensation expected from a buyer. Eco-friendly and Utz Kapeh have, more than other certifications, focused on larger growers and estates where certification costs can be more readily absorbed. Although all certifications support the minimum wage according to national labor laws, none (other than Fair Trade) guarantees a minimum price.

The process leading to some of the certifications examined in this paper can also serve to stimulate farm incomes *outside of the coffee economy*. By eliciting from producers requirements such as traceability and process management standards, farmers prepare to meet the demands of modern agricultural export trade. Organic and shade-grown certifications relate to an entire farm plot rather than coffee alone; thus, markets can be sought for other farm products. Shade grown certification stimulates re-forestation; therefore, income from the sale of forest products and fruits may increase. However, these possibilities should not be over-estimated.

Certification processes may also have *spill-over effects on adjacent communities*. In the case of organic and shade-grown certifications, this has been observed in terms of improving both farming practices and coffee quality among smallholders. In Uganda, for example, several industry observers mention that coffee quality and yields are improving even for non-participants who live in areas close to an organic coffee project. In Fair Trade, the main spill-over effect is achieved through community level projects that are financed with part of the Fair Trade premium (Ponte and Kawuma, 2003).

Although there are numerous benefits, there are nevertheless also some inherent shortcomings in sustainability standards. These weaknesses revolve, from the producers' side, around dependency, hidden costs, and vulnerability; from the buyers' side, they are linked to credibility threats. In some cases, standards can create new barriers to entry that threaten producers (particularly the poorest) with the challenges of additional costs, a steep learning curve of adaptation, and inadequate extension services. The process of certification can be a costly and sometimes lengthy exercise.

With the right dynamics, the efforts needed to meet sustainability standards can create a virtuous circle of empowerment and organizational strengthening. In other cases, farmer organizations find it difficult to maintain cohesion if the expected benefits do not materialize in the short-term. For many, the hidden costs of marketing, coordination (e.g., time spent in meetings, transport), uncertainty, and the limitations of collective action may significantly decrease the overall net benefits of certification efforts and threaten the existing governance structures in cooperatives or associations. If a standard becomes the *de facto* purchasing criterion, then most farmers will have to comply and will incur the same difficulties mentioned above (costs, learning curve, extension). Furthermore, as these criteria become a widely accepted standard, there may be an increasing unwillingness among buyers to pay extra for such achievements – leaving farmers with higher costs of production and compliance burdens with no direct financial incentive.

## **Conclusions and public policy implications**

In the former age of national capitalism, the achievement of market fairness was embedded in a normative framework generated by government, labor unions, and perhaps religious authority. In the current age of global capitalism, new actors such as NGOs, industry associations and public–private partnerships provide the normative framework that socially responsible corporations use for social legitimacy. Standards are thus being set outside the classic boundaries of governmental and inter-governmental authority and through amorphous alliances of corporations, NGOs, and civil society groups that tend to reach agreements on the model of collective bargaining (see also [Messner, 2002](#); [Gibbon and Ponte, 2004](#)). As the boundaries between public and private good are becoming increasingly blurred, the challenge of maintaining equity and transparency lies in the balance of power between corporations and civil society groups, and in their increasing willingness to work together.

Sustainability standards are becoming increasingly important in defining the content of traded agro-food products. These standards can erect new entry barriers, but they can also facilitate upgrading and increase value added to products exported from developing countries. Unlike the slower deliberation of most mandatory standards, voluntary and private sustainability standards are evolving quickly in response to the changing needs of global trade. Certification systems and private initiatives on sustainability can in theory facilitate more direct relationships between producers and consumers and a better flow of information on markets, prices, and customer demand for sustainability content. If a premium is paid, they can also improve the distribution of value added in a value chain to the advantage of producers ([Daviron and Ponte, 2005](#)). If they included producers in the standard setting process, sustainability systems could provide a more equitable forum for governing relations and activities along the value chain than what is provided through the market alone. Yet, the distinction between sustainable and mainstream markets is becoming increasingly blurred. In the coffee industry, for example, large commercial roasters have entered the sustainability realm and are trying to achieve recognition while minimizing costs. Also, if developed country actors decide alone what is included in standards and how they are measured, the impact of sustainability initiatives is likely to remain limited. Although some sustainability certifications may yield substantial benefits for producers, power relations may remain essentially unaltered if producers are still on the receiving end of key decision-making processes.

In order for standards to work for developing country producers, the following four factors must be assured: (1) transparency and clarity of the standards and their requirements; (2) effective participation by developing country producers in key decisions over standard setting and monitoring procedures; (3) reasonable access; (4) just compensation for the efforts required of producers to meet and monitor elevated standards. The brief analysis carried out in this article (see more details in [Tables 1 and 2](#)) suggests that these factors are not always addressed, and when they are, sometimes not adequately. Most standards and their certification procedures are not sufficiently transparent. Smaller producers may find it difficult to understand or meet certain standards, particularly those that are geared toward plantations. Some Latin



American producers have reasonable access to information and certifiers while other regions suffer in this regard. As larger buyers increasingly mainstream these standards, some may become de facto entry barriers that require considerable resources in order to be met. While some sustainability standards do pay a premium, their levels are highly disparate and, with the exception of Fair Trade, never assured. Supply and demand clearly dictates the level of premiums. This effect has been particularly noticeable with organics for which premiums have steadily eroded over the last five years. However, the market alone neither takes into account nor rewards the valuable public goods that can be generated through sustainability standards. A strong case can be made for public–private mechanisms for setting minimum premiums in sustainability initiatives. Yet, sound public policy cannot be built exclusively on the lure of an increased premium. It must also facilitate the communication of a number of less tangible, but nonetheless valuable, benefits of sustainable practices (Giovannucci and Koekoek, 2003).

Is there still a clear role for government? While NGOs and other civil society organizations can at least partly represent the needs of growers in less developed countries, their capacity to ensure a certain level of fairness is limited by their resources and the scope of their mandates. We can conceptualize standard setting processes as new forms of social contract where the state, rather than being directly involved between the parties, provides a form of basic guarantee while (more or less accountable) NGOs and firms are in charge of hammering out the agreements. Governments can in light of the increasing clout of ever larger corporations help ensure that the voice of producers is heard. With balanced inputs from corporate, civil, and governmental sources, sustainability standards can play a key role for addressing inequalities – and indeed genuinely fomenting sustainability – in the coffee trade and even more broadly in international trade.

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