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Ethiopian Coffee and Fair Trade

-An empirical study



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Abstract

Fair Trade labeled products have become increasingly popular for western consumers in recent years. Fair Trade Labeling Organization International (FLO) claims to contribute to development by increasing profits to farmers and empowering producer communities. This thesis evaluates the economic impact of Fair Trade certification for small-scale coffee farmers in Ethiopia when world market prices for coffee are relatively high. Two cooperative unions are interviewed about Fair Trade and the coffee marketing chain in Ethiopia is described. A regression analysis based on primary data collected from coffee farmers, during a field study in Ethiopia, shows that Fair Trade certified farmers are economically better off. Fair Trade certified farmers receive a remarkably higher price than other farmers despite the fact that FLO does not claim to increase prices for farmers at a time of high world market coffee prices.

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Abbreviations

CPDE - Coffee Plantation Development Enterprise
CSA – Central Statistical Agency (Ethiopian)
ECX – Ethiopia Commodity Exchange
FLO – Fair Trade Labelling Organizations International
FOB – Free On Board
ICA – International Coffee Agreement
OCFCU – Oromia Coffee Farmers Cooperative Union
PC – Primary cooperative
SCFCU – Sidamo Coffee Farmers Cooperative Union

Conversions

1 USD=17 Ethiopian Birr (June 2011)

1. Introduction

Fair Trade Labelling Organizations International (FLO) claim to offer producers a minimum price and a price premium for their products so they can cover their production costs and plan their production, and not be afraid of being struck by fluctuating prices. The Fair Trade premium is intended to help producers to improve their quality of life through social projects. According to FLO the most common Fair Trade labeled product is coffee (FLO, 2011).

During the coffee crisis in early 2000's, world coffee prices fell to their lowest ever in real terms and producers had to take their children out of school because they could not afford the fees (Charveriat, 2001). At the same time the "latte revolution" was increasing consumer prices and roaster profits in the west. Fair Trade coffee fetched significant higher prices for producers than conventional coffee at this time, and helped certified producers to better conditions (Ponte & Daviron, 2005). Daviron & Ponte (2005) report that the Fair Trade minimum price for Coffee Arabica was almost twice the Free On Board price in 2003. Recovering from the coffee crisis, world market prices have increased dramatically the last couple of years reaching the highest levels since the 1970's (ICO, 2011). Valkila & Nygren (2009) report that Fair Trade's ability to provide a significant price premium largely depends on world market coffee prices.

Ethiopia is one of the world's poorest countries and is ranked 174 out of 187 measured by the human development index (HDI) (UNDP, 2011). About 45% of the population lives below the poverty line of USD1 per day (Petit, 2007). Coffee has, over a long period of time, been the most important commodity contributing with up to 50% of the country's export (CSA, 2011). The agricultural industry employs 80% of the population in Ethiopia. Ethiopia's economy as a whole, and an estimated 15 million Ethiopians, are highly dependent on coffee, and the prices paid for their coffee (Sida, 2011).

The aim of this thesis is to investigate whether Fair Trade labeled coffee contributes to better living standards for certified coffee farmers in Ethiopia. Are Fair Trade

certified farmers better off economically? Do certified Ethiopian coffee farmers live under better conditions when world market prices are higher than the minimum price offered by Fair Trade?

A field study in Ethiopia was conducted during a two-month stay from May to July 2011. Actors on the domestic coffee market were interviewed and studied to understand the Ethiopian coffee marketing chain. Group discussions and individual interviews were held with farmers in a semi-structured approach and both quantitative and qualitative data were collected. Regression analyses on primary farmer price data were carried out and the relevant literature on the subject was studied.

There were some limitations to the field study, which may have affected the results and conclusions of this study. Conducting interviews with farmers in Ethiopia requires permission from governmental offices. In some areas the farmers were informed of my visit in advance and the cooperative were expecting my visit. Therefore, the farmers were not always random and sometimes I was more or less assigned a number of farmers to meet. It is possible that these cooperatives assigned corrupt farmers to give me the information suitable for the cooperative or the governmental office.

Only a few farmers in each area were interviewed individually and the sample size is relatively small. A larger sample size could potentially have affected the results. The translators used in this field study were not professional interpreters and some discrepancies may have occurred during translation. The focus of the quantitative analysis is on wet processed coffee since this is the principal focus of Fair Trade. In areas where no facilities for wet processing are present, reported prices may be for dry processed coffee, and therefore, it is harder to draw conclusions from price discrepancies.

The paper begins with a brief presentation of coffee as a commodity, and background information about Fair Trade Labelling Organizations International (FLO) follows. Ethiopia and the importance of coffee in Ethiopia are thereafter described, and the marketing structure of coffee in Ethiopia is then more thoroughly explained.

Subsequently, the farmer backgrounds are presented, the data and results are discussed, and lastly, the conclusion of the study is presented.

2. Coffee as a commodity

Coffee is one of the world's most traded commodities, employing millions of people worldwide. 25 million households are estimated to depend on coffee cultivation. The producing countries are concentrated in the global south, while consuming countries are mainly in the developed west. Coffee is a traded commodity on major futures and commodity exchanges in London and New York (ICO, 2011).

There are two species of coffee: Arabica and Robusta. This thesis focuses on Arabica, which is the only kind of coffee cultivated in Ethiopia. Arabica coffee is very sensitive to diseases, frost and drought, and is best grown in tropical highlands (ICO, 2011).

During most part of the 20th century the coffee market was regulated through different International Coffee Agreements (ICA's) and supply quotas and prices were set. In 1989 the ICA was abandoned and coffee prices could fluctuate freely. As a consequence of giving up the supply quotas, stocks were released and prices decreased. The new free market led to higher price volatility. Frost or drought in Brazil, delays between planting and harvesting, and the possible oversupply in the absence of quotas are all factors contributing to the high price volatility. The coffee market can also be characterized by low price elasticity of both supply and demand. From the planting of a coffee tree it takes three years before the tree yields any beans. Coffee drinking is habitual and individual consumers tend to drink regardless of the price. The low price elasticity of supply and demand leads to long periods of oversupply with low prices and short periods of shortage with high prices (Daviron & Ponte, 2005). Fluctuations in prices make it hard for the typical small-scale producer to plan the production and rely on the income generated by coffee. After 2000 when coffee prices plunged, Gresser & Tickell (2002) reported that coffee farmers could not afford tuition fees and had to take their children out of school.

The futures price for Arabica coffee at the New York Board of Trade (NYBOT) is commonly used as a reference price for exporters and importers of coffee. A relatively small portion of coffee is physically delivered to NYBOT but the terminal

market plays an important role for determining the value of almost all coffee throughout the world (Gilbert, 2008).

The growing of coffee is not capital intense and therefore, is not characterized by increasing returns to scale. Generally, the coffee cherries, which contain two beans each, are picked by hand and machinery is not used. 70% of the coffee grown is cultivated on farms smaller than 5 hectares (Fitter & Kaplinsky, 2001).

Figure 1 shows the ICO composite price for the period 1998-2011. During the coffee crisis around 2000, coffee prices were lower than ever in real terms and reports of starving farmers from coffee producing areas were brought to attention. Since 2009, however, coffee prices have increased dramatically. According to the ICO Annual Report, the average price for crop year 2010/2011 was 2.06 USD/lb, the highest recorded since 1976/1977. The Fair Trade minimum price is 1.40 USD/lb (revised from 1.20 USD/lb in 2011), and thus far below current coffee prices.

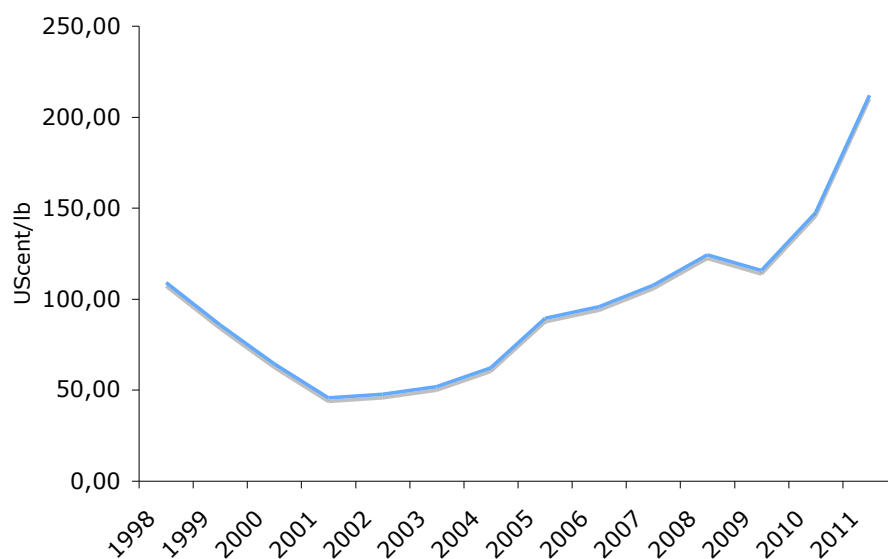


Figure 1. Calculated from ICO website in December 2011
http://www.ico.org/coffee_prices.asp

3. Fair Trade Labelling Organizations International (FLO)

Fair Trade Labeling Organizations International (FLO) was established in Germany in 1997 to “unite labeling initiatives under one organization and harmonize standards and certifications” (FLO, 2011). The Fair Trade certification mark was launched to improve the visibility of the label and to simplify procedures for both producers and exporters. FLO was split into FLO and FLO-CERT in 2004. FLO sets the standards for Fair Trade and FLO-CERT inspects and certifies producers, and audits traders (FLO, 2011).

The fundamental idea of Fair Trade is to help producers improve their quality of life. By setting a minimum price for their products, it would help the producers to cover production costs and to live better off economically. The minimum price can act as a safety net when world market prices are below sustainable levels for the farmers. FLO’s vision is “A world in which all producers can enjoy secure and sustainable livelihoods, fulfill their potential and decide in their future” (FLO, 2011).

Fair Trade also offers a Fair Trade premium on top of the Fair Trade price. It is currently 20UScents/lb. Rather than being paid in cash to producers, the premium goes towards social projects such as schools, roads and water wells. The producers democratically decide how it should be used.

In order to be certified with Fair Trade, producer organizations need to apply to FLO-CERT. The certification is given to cooperatives or producer organizations and not directly to individual farmers. FLO-CERT certifies new producer organizations and audits the existing ones. There are a number of qualitative standards that need to be met with regards to organizational structure, traceability, management, and marketing (FLO-CERT, 2011).

Applying for certification incurs certain costs, including a first year fee and an annual fee charged by FLO-CERT. The fees depend on the structure of the producer organization and on the amount of individual producers within the organization. For a cooperative union with certification for 45 affiliated primary cooperatives, such as

SCFCU in this study, the annual fee would be 7420 Euro (assumed the average number of producers in each PC exceeds 1000 individuals) (Calculated from FLO-CERT webpage).

3.1 Economic theory and criticism of Fair Trade

Setting a minimum price above the world market price for a product encourages a higher production level than the demand for it. According to economic theory of supply and demand, an increased production pushes the market price downward due to the higher amount supplied (Perloff, 2007).

When the price of a commodity decreases due to lack of demand, producers need to adapt to the situation. In a well-functioning market economy, producers that have low production costs will remain in business, while those with costs higher than their income need to reallocate to other businesses where they can be profitable.

Differences in production costs may mirror technological advantages, economies of scale or other factors (Perloff, 2007).

By offering a higher price to producers who cannot sustainably produce at the current market price, the production will be higher than the demand and an excess supply will appear on the market. The excess supply will in turn push the market price further downward. The minimum price floor set by FLO is interrupting the signal of low demand to the producers. The theory suggests that the effect is that producers who should not be on the market are competitive at the expense of other producers, who will suffer from the lower price and in fact become relatively poorer (Johansson, 2009).

Coffee producers in poor countries are often small-scale producers and in times of financial difficulty, possibilities to relocate to other businesses might be limited. If Fair Trade represents only a small share of the market, it is unlikely that it affects the prices for other producers in the way described above. Therefore, it might very well be better to pay minimum price over market price so that poor producers and workers can cover their costs even though economic theory might suggest otherwise.

3.2 Previous research on Fair Trade

Previous research has been conducted on Fair Trade with different results and conclusions. Valkila and Nyberg (2009) studied “Fair Trade certification as a movement to improve the well-being of small-scale coffee growers and coffee laborers in the global south”. From their field study in Guatemala, they concluded that the ability of Fair Trade to provide a significant price premium largely depends on world market coffee prices. Participating producers and cooperatives were promoted with premiums for social development (Valkila & Nygren, 2009).

Bäckman (2009) studied Fair Trade’s impact on development in Ethiopia from a qualitative perspective and concluded that “Fair Trade has achieved what it is aiming to do” in the specific area studied. Fair Trade contributed to development by increasing profits to farmers and securing rights to producers.

Johansson (2005) is rather skeptical to the idea of Fair Trade. She claims that the label can help a few participating producers to better prices and conditions. However, on a larger scale, a system based on a fixed price floor, a social premium and standards is an impossible approach to give poor farmers better living and working conditions.

4. Coffee in Ethiopia

According to a common Ethiopian myth coffee inherits from Ethiopia. A farmer noticed that his goat became alert and sharp after eating the leaves of the plant now called coffee. The farmer found that he gained strength from eating the leaves and later, the coffee beverage was discovered. Unlike most other coffee producing countries, Ethiopia has a strong coffee culture and they consume a vast amount of the produced coffee themselves.

Ethiopian coffee is classified in four producing categories: garden, forest, semi-forest and plantation coffee. Coffee in Ethiopia is generally produced on small-scale farms. The farmers typically live in small houses built from clay, and they hold a hectare or so of land where they cultivate coffee among other plants and crops. Other crops and fruits such as maize, papaya, avocado and cabbage are usually grown for consumption in the household, while most of the coffee is sold to generate some income.

Coffee cherries are harvested in October through December when they are red ripe. Each cherry contains two beans. The beans can be wet processed or dry processed. Wet processing requires more facilities for washing the coffee than dry processing where the cherries are dried in the sun.

The coffee farmers in Ethiopia are typically arranged in cooperatives. In the villages there is often a primary cooperative present, which may be part of one of the large cooperative unions. In general, Ethiopia has a strong culture of cooperatives from its past communist regime.

The farmers may sell their coffee to the cooperative or to a local trader. The farmers do not have vehicles and cannot bring their coffee to local market places. They are dependent on someone coming to their homes to collect their coffee.

5. The Ethiopian Coffee Marketing Chain

There are generally two paths in the Ethiopian Coffee Marketing chain; one through Ethiopia Commodity Exchange (ECX); and other a direct export path through cooperative unions. Fair Trade certified coffee is only sold through the cooperative unions and is directly exported to different countries in the world.

5.1 Ethiopia Commodity Exchange

The Ethiopian Commodity Exchange is a market place in Addis Ababa where most coffee needs to bypass. It was established in 2008 to rationalize the marketing chain for coffee, and to create an efficient, reliable and transparent market place for buyers and sellers (ECX Annual Report, 2009).

Prior to the establishment of ECX, private traders collected the coffee from farmers. The private traders needed to hold a specific license to trade. They did not have warehouses of their own and their role in the market was simply to bring coffee from remote areas to the wholesaler (Petit, 2007). The wholesaler would then store coffee in warehouses and take it to auction in Addis Ababa or Dire Dawa, where it would be sold to exporters and retailers (Tilahun, 2011).

Following the implementation of ECX, the license for traders is no longer in existence and an effort has been made to remove private traders from the market chain. The wholesaler is supposed to collect the coffee directly from the farmers, thus eliminating one level from the chain. The authorities could not see that the private traders added any value to the chain. ECX is setting up local marketplaces near farmers to make the market more efficient (2011, Tilahun).

ECX has warehouses to guarantee the availability of coffee. Wholesalers take their coffee to the warehouses and receive a receipt. ECX also grades the coffee and ensures its quality. At the auction, buyers and sellers only know the grade and kind of coffee, not who produced it. ECX also ensures that buyers have sufficient funds available for trades at the auction (2011, Tilahun). There are several previous

examples of buyers not paying, coffee not being delivered from sellers, and farmers suffering from forged checks (farmer interviews, 2011). ECX has been implemented to eliminate these problems and to create a safe and secure market place to benefit for everyone. “Farmers are now better informed about prices at the ECX through mobile phones and radio and are no longer cheated” (Fantaye, 2011).

5.2 The cooperative unions

There are four cooperative unions established in Ethiopia, of which two were interviewed and studied: Sidamo coffee farmers cooperative union (SCFCU) and Oromia coffee farmers cooperative union (OCFCU).

The structure and regulations of the cooperative unions are the same. They are licensed to bypass the coffee auction (ECX) and can export their coffee directly. Under each union there are a number of Primary Cooperatives (PC's) with which the farmers can be members. PC's are typically named after the district in which it is active and the members are the local farmers in this specific area.

The PC's buy the coffee from its members at a price, set by the local market conditions (competition between cooperatives, local traders and wholesalers). When the union buys the coffee from the PC, they pay the current market price set at ECX for the specific kind of coffee. When the union sells the coffee to foreign importing companies, 70% of the net profit is paid back to the primary cooperatives. In turn the primary cooperatives, pay back 70% of their net profit as dividend to the farmers (Anebo 2011).

The cooperative unions are located in Addis Ababa and are exporting coffee directly, bypassing the auction at ECX. The price received for their coffee is based on the NYBOT reference price. Premiums are added for attributes such as quality, Fair Trade and organic certification. The Fair Trade premium is dealt with separately and is used for community projects such as roads, schools, equipment and electricity. The dividend structure is government controlled and is the same for all cooperatives. Dividends to farmers are paid out on an annual basis at low season (Anebo, 2011).

5.3 Oromia Coffee Farmers Cooperative Union (OCFCU)

The OCFCU was established in 1999 and was the first cooperative in Ethiopia. It currently has 197 primary cooperative members and approximately 194000 farmer members. The objectives of the union are; to improve farmers' income by selling their coffee for higher prices; improve quality; increase productivity and sustainability; enable farmer negotiation power; and to stabilize the market. The union assists coffee communities in providing social services such as schools, health centers and clean water (Jena, 2011).

OCFCU exports all its coffees directly and does not bring coffee to the ECX. ECX, however, grades their coffee before export. Dessalegn Jena, Deputy General Manager (2011) for OCFCU claims that Fair Trade and organic certifications are very important for their producers and for the marketing of niched coffee. 28 of the primary cooperatives are Fair Trade certified and roughly 10% of the coffee produced is sold as Fair Trade.

Jena (2011) claims that 85 per cent of the farmers in the Oromia area are members of the cooperative. The area produces 65 per cent of all the coffee produced in Ethiopia however, only a fraction of that is being sold through the cooperative. Many farmers sell to local traders or dealers, both legally and illegally. Coffee may be illegally exported and there is also a vast amount of coffee being consumed directly in the producing areas. Jena (2011) estimates that about 50 per cent of the coffee produced will reach the market, conventionally or through the cooperatives. The total coffee production of OCFCU is estimated at almost 235,000 tons. Fair Trade production is estimated at 27,619 tons, which is roughly 10 per cent of the total production.

Nekemte (2011) claims that there is high transparency through the cooperative and records are kept on each farmer so that they receive the correct dividend every year. The premiums paid to the union for Fair Trade are used solely for projects in certified cooperatives area. The primary cooperatives discuss in the general assembly and communicate to the union what is necessary and what projects they want to conduct. The union will likely approve the proposal and arrange with bids for the contracts. Nekemte (2011) says that the union has previously paid out cash in hand to the

primary cooperatives but with poor results and, therefore, the union controls the progress in this way.

5.4 Sidamo Coffee Farmers Cooperative Union (SCFCU)

The Sidamo Cooperative union was founded in 2001. It has been certified by FLO for Fair Trade coffee since 2003. The cooperative consist of a union located in Addis Ababa and 45 primary cooperatives around the area of Sidamo. The cooperative union sells its coffee directly to companies in other countries mainly in Europe and the U.S. According to Anebo (2011), the cooperative is paid a minimum of 30 per cent more than the price they would get if they sold the coffee at the ECX.

Tsegaye Anebo (2011) claims that the Fair Trade certification is of great importance to the union and its farmers. When prices are low, the Fair Trade certification guarantees a minimum price. When prices are higher, the minimum price is not relevant but they do receive the Fair Trade premium of 0.20 USD/lb coffee sold. The Fair Trade premium is used for building roads and schools, equipment, and providing electricity.

Anebo (2011) explains that the high Fair Trade standards are difficult to meet. He explains that their buyers are for long term and they think ethically. The union consistently receives a higher price than the market price. SCFCU sells 80% of its coffee as Fair Trade so they are focusing on a narrow niche on the world market where Fair Trade consists of a very small percentage (Anebo, 2011).

Fair Trade contracts are carefully audited according to Anebo (2011). The premium is used for its designated purpose and there is high transparency through the structure of the organization.

5.5 Coffee Plantation Development Enterprise (CPDE)

Established in 1979, the CPDE is another alternative approach to the conventional marketing of coffee. Land was nationalized and plantations for coffee were established. CPDE currently holds 3 plantations in Limmu, Teppu and Bebeke. It is

government owned but the government plans to privatize the plantations (Hirpa, 2011).

CPDE export 90% of their washed coffee directly to foreign importers, bypassing the ECX. Only the lower quality coffee is sold through ECX. CPDE is certified with UTZ Kapeh and some of the cultivated coffee is also organic. CPDE employs 8200 permanent workers and about 18,000 temporary workers during harvest season. They produce about 6 metric tons of coffee each year and their market share is 4-5 per cent of the Ethiopian coffee exports (Hirpa, 2011).

CPDE employs agronomists and other agricultural experts and manage their farms in an effective way. When trees get older, they replace them or trim them down to maximize the yield of cherries. They claim that their production is higher per hectare than small-scale farmers and that they also offer higher wages than small-scale farmers can offer laborers. The laborers also get access to facilities, such as health center, schools, accommodation etc (Kumlachew, 2011).

CPDE hold a solid base of about 20 returning customers each year from Japan, U.S., and Europe. The enterprise currently has no plans to expand, and therefore, it is not focusing on promoting itself or on gaining market shares. Instead, the government has decided that they should sell the plantations to private companies. According to Hirpa (2011), private plantations have a higher yield than both small-scale farmers and the CPDE.

6. Farmer backgrounds

The farmers interviewed during the field study were located in five districts. Haro, Dawa and Buture, which are situated in Oromia, and Telamu and Hantate, which are situated in Sidamo. In all areas except Buture there was a Primary Cooperative present. Two of the visited cooperatives (Telamu and Haro) hold a certification from FLO.

6.1 Haro

The Haro cooperative is a member of the OCFCU and has been Fair Trade certified since 2004. The area consists of circa 1300 farmers, of which 833 are members of the cooperative. Dividends to farmers are paid out on an annual basis, normally at low season when farmers are in greatest need of cash. The cooperative provides its members with agricultural inputs and offers credit. The premium received from FLO since 2004 has been used to build 12 water wells and 4 additional classrooms in schools. (Kedin, 2011).

Most of the farmers interviewed in the area are members of the cooperative. Non-member farmers explain that they have negative experiences from the cooperative during the communist regime. Corruption has been a problem and therefore, they are afraid to join.

All farmers interviewed in the area report that prices for red ripe cherries were up to 10 Birr/kg during harvest season 2010-2011, and 3.5-5 Birr/kg the year before. The dividend paid out is currently 0.5-0.75 Birr/kg. Non-members do receive dividend as well but less than the members.

Farmers in the area sell their coffee to both the cooperative and to local traders. In early and late season, the cooperative is not active and can compete. The farmers bargaining power is limited and they must sell to the traders at a low price. Farmers experience that the traders exploit the early and late season in this way.

6.2 Dawa

The Dawa cooperative located near Jimma is a member of OCFCU. They are neither Fair Trade certified nor hold any other certifications. Of the interviewed farmers, about half are members of the cooperative. The cooperative is suffering from forged checks received at the auction in Addis Ababa a few years ago. The cooperative had to obtain large credits from the bank to pay the farmers and now a large share of the income is being paid in interest every year. Local traders are active in the area and consistently try to out bid the cooperative.

The farmers reported that they were paid 6-10 Birr/kg during the last harvest season (2010-2011). The dividend paid to farmers is lower than in Haro and only members get paid. The participation in the cooperative is lower. Farmers are positive to the implementation of ECX, and they believe that the market is now more controlled, with things such as forged checks thought impossible at this time.

The farmers are not well aware of Fair Trade certification. However, one farmer reported that he had full information about Fair Trade and that the cooperative had requested OCFCU to be certified.

6.3 Buture

In Buture there is no active cooperative present. The village is situated just a few kilometers out of Jimma. Coffee and Chat are the main sources of income in the area.

All interviewed farmers sell their coffee to private traders since there is no cooperative at the local market. The farmers explained that the local traders are exploiting the lack of competition from a cooperative. The local traders discuss with each other and decide what price to offer the farmers. Farmers report that they get lower prices for their coffee than in other areas because of the cartel activity from traders but also because of the distance to pulping stations for processing the coffee.

Several farmers report that they are discussing creating a new cooperative together and investing in a pulping station to add value to their production. None of the farmers in the area are aware of Fair Trade. They are, however, aware of the implementation of ECX and are positive about it.

6.4 Hantate

The Hantate cooperative is located in Sidamo and is a member of the SCFCU. It has 380 members out of approximately 600 farmers in the area. Of the interviewed farmers, about half were members of the cooperative. The cooperative does not hold any certifications and does not have facilities such as pulperies for wet processing, thus, the cooperative buys only dry processed coffee from its farmers. All member farmers interviewed sell both to the cooperative and to local traders. Non-member farmers explain that there is no point in being a member since the cooperative is not strong enough to buy the coffee the already existing members are producing.

The price in this area was reported to be 4-8 Birr/kg for last season (2010-2011). Both dividends and prices generally seem lower than in other areas.

6.5 Telamu

The Telamu Cooperative in Sidamo is a member of the SCFCU. It holds certification for organic coffee, and has been Fair Trade certified since 2003. It is the largest cooperative interviewed with 3318 members at the time.

The cooperative has 4 pulping stations for wet processing and 1 station for dry processed coffee. They also have five warehouses and a grain mill. The cooperative is strong enough to buy all the coffee produced by farmer members and almost all is washed. Dry processing is only used when the washing stations are working at full capacity during peak season (Tengula, 2011).

The premium received for Fair Trade has been used to build 1 warehouse, 63km of roads, part of a school, and food supplies during drought. The cooperative also offers services to its members such as credit and savings, supply of scarce consumer items and emergency transportation. ECX has recently set up a local marketplace in the village where wholesalers, farmers and cooperative representants can come together and trade (Tengula, 2011).

The farmers interviewed report that the prices paid for the last season (2010-2011) were 6-12 Birr/kg and 5-8 Birr/kg the year before. The dividend for last year was 1 Birr/kg sold to the PC and the dividend for this year is expected to be higher.

All interviewed farmers in Telamu are aware of the Fair Trade certification and are very positive about it. They claim to be better off than other coffee farmers. They are positive about ECX and believe that its implementation has brought awareness about prices both in the local market and at auction (Tengula, 2011).

6.6 Farmer Background Summary

In all five studied villages the farmers highlighted the importance of a strong cooperative. Everyone seems to agree that the cooperatives bring competition to the local market and push up the prices. If there is no cooperative active, local private traders will offer lower prices. The farmers do not have access to vehicles and cannot bring their coffee to a market, so they are dependent on who comes to their farms to bid on their coffee.

The Fair Trade certified cooperatives offer their members more assistance and services than the non-certified cooperatives. Agricultural inputs, credit and savings, an emergency vehicle and supply of scarce consumer items are examples of services offered by the Fair Trade certified cooperatives. The Fair Trade premium has been used to build water wells, classrooms and roads by the cooperatives to assist the farmers and the local community.

Almost all farmers in the study are aware of the implementation of ECX. Overall they seem very positive to it. Many farmers think access to information is better and that the implementation has affected farm gate prices positively.

7. Results

23 farmers were interviewed individually and the quantitative analysis is based on those observations. All interviewed farmers grow coffee as their main income. The farmers grow garden coffee and the annual production ranges from 900-6000 kilos of red ripe cherries. The prices the farmers are paid for their coffee is analyzed through regression analysis. The prices were reported in ranges due to differences of the price throughout the season. There is also a dividend, paid from the cooperatives during low season, which is based on amount sold to the cooperative.

7.1 Regression Analysis

Three regressions are carried out. Prices and dividends are expressed in Birr per kilo. The peak-season price, the early-season price and the dividend yield are treated as the dependent variable in the different regressions. Farmers in a Fair Trade cooperative and farmers in a non Fair Trade cooperative are treated as dummy variables. Farmers not in a cooperative at all, is the intercept.

Estimated equations

$$P_{high} = \beta_0 + \beta_1 * COOPONLY + \beta_2 * FT + \varepsilon$$

$$P_{low} = \beta_0 + \beta_1 * COOPONLY + \beta_2 * FT + \varepsilon$$

$$DIV = \beta_0 + \beta_1 * COOPONLY + \beta_2 * FT + \varepsilon$$

Table 1. Independent dummy variables

FT	= Member of Fair Trade certified cooperative
COOP ONLY	= Member of cooperative without certification
NOCOOP	= Not member in a cooperative (intercept)

Table 2. Dependent variables

Phigh	= Prices at peak season
Plow	= Prices in early season
DIV	= Dividend yield

Table 3. Frequencies of groups

	Frequency	Percentage
NOCOOP	11	47.8
COOPONLY	4	17.4
FT	8	34.8
Total	23	100

Table 3 shows that 8 out of 23, or 35% of the observations, are Fair Trade certified. 4 out of 23, or 17% of the observations, are members of a non-certified cooperative. 11 out of 23, or 48% of the observations, are not members in a cooperative.

Table 4. Descriptives dependent variables

	N	Minimum	Maximum	Mean	Std. Deviation
Plow	23	3.5	8	5.43	1.13
Phigh	23	5	12	9.33	1.97
DIV	23	0	1	0.45	0.35

Table 4 shows that the lowest reported price is 3.5 Birr/kg. The maximum is 12Birr/kg. Dividends range from 0 to 1 Birr/kg sold to cooperative.

Table 5. Regression analysis

	Phigh	Plow	DIV
INTERCEPT	8.27** (0.51)	5.00** (0.30)	0.18** (0.06)
COOPONLY	1.10 (0.99)	0.00 (0.60)	0.24* (0.11)
FT	2.48** (0.79)	1.25** (0.50)	0.66** (0.09)
<i>N</i>	23	23	23
<i>R</i> ²	0.33	0.29	0.73

Standard deviations are expressed in parenthesis

*= Significant at 5%

**= Significant at 1%

The Fair Trade coefficient (FT) is significant at a 1% level in all three regressions. Fair Trade certified farmers do receive a higher price than farmers outside of a cooperative. Farmers in a non-Fair Trade cooperative (COOPONLY) is significant at a 5 % level but for dividend yields only.

At peak season, Fair Trade certified farmers receives on average 2.48 Birr/kg more than farmers not in a cooperative. A Fair Trade farmer receives on average almost 30% more than a farmer not in a cooperative. Farmers in a non Fair Trade cooperative receive on average 1.10 Birr/kg or 13.3% more than farmers not in a cooperative. The COOPONLY coefficient is not significant though. The number of farmers in the group was only four and, therefore, it may still be of importance.

At early season Fair Trade farmers receive on average 1.25 Birr/kg more than farmers not in a cooperative. Fair Trade farmers receive on average 25% more than other farmers. Farmers in a non-Fair Trade cooperative do not receive a higher price in this regression.

In the regression with dividend yield as the dependent variable (DIV), FT and COOPONLY are significant at a 1% and 5% level respectively. Farmers in a non-certified cooperative receive on average 0.24 Birr/kg more and farmers in a certified cooperative receive 0.66 Birr/kg more, than the farmers not in a cooperative at all.

Farmers not in a cooperative at all receive on average 0.18 Birr/kg. The R^2 -value in this regression implies that 73% of the variation in dividend yield is explained by the two parameters in the regression.

The regressions clearly suggest that certified farmers receive a substantially higher price than other farmers. FLO does not claim to increase prices for certified farmers when world market prices are higher than the minimum price. In spite of that, certified farmers are economically better off. However, the regression may be endogenic, suggesting that the parameters in the model are correlated with the error term. In that case the FT parameter functions as a proxy for other qualitative variables that can affect a cooperative's possibilities to offer its members relatively high prices. As mentioned earlier, there are standards that need to be met and there are costs to obtain certification with Fair Trade. Cooperatives that have a strong organization, are not in debt, and are relatively well off, are more likely to obtain certification with Fair Trade.

8. Conclusion

The aim of this study was to investigate whether Fair Trade labeled coffee contributes to better living standards for certified coffee farmers in Ethiopia and whether Fair Trade certified farmers are better off economically.

Despite the small sample size, the quantitative analysis clearly shows that Fair Trade certified farmers receive a higher price and a higher dividend than farmers not in a certified cooperative. Thus, the interviewed farmers in Ethiopia who are certified with Fair Trade are better off economically than their uncertified colleagues.

It seems that, even when coffee prices are relatively high and the minimum price offered by Fair Trade is far below the world market price, certified farmers are still better off economically than non-certified ones. Not only do certified farmers receive a higher price for their coffee, with up to 30%, but they also enjoy a premium, which is invested in social projects benefitting both themselves and the local community.

The econometric model applied may, however, be endogenous. To become certified there are certain standards to be met. The cooperatives that are relatively well off have a greater chance of obtaining certification with Fair Trade. Weaker cooperatives, such as Dawa in this study, may suffer from debts or corruption, or not function very well. These factors cause farmer members to receive less for their coffee rather than the fact that they are not certified with Fair Trade. Other qualitative reasons than the certification could thereby explain the economic differences between different cooperatives.

We can conclude that the Fair Trade certified cooperatives in this study were relatively strong, and well functioning, and benefit their members through higher prices and higher dividends. Whether the cooperatives have become certified because they were already relatively well off, or whether they are well off because they are certified cannot be explained from the study.

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