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Diploma Thesis

**Fair Trade Impact on Ethiopian Coffee Farmers based on Oromia
Coffee Farmers Cooperative Union**

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Declaration

I declare that I have independently done my MSc. Thesis on the topic “*Fair Trade Impact on Ethiopian Coffee Farmers based on Oromia Coffee Farmers Cooperative Union*” and all other sources used are indicated in the “References”.

In Prague, 29 August 2013 ----- Habtamu Serbessa (MSc)

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**Fair Trade Impact on Ethiopian Coffee
Farmers based on Oromia Coffee Farmers
Cooperative Union**

Abbreviation

CEG	The Coffee Exporter's Guide
ECTA	Ethiopian Coffee and Tea Authority
ECX	Ethiopian Commodity Exchange
ETB	Ethiopian Birr (currency)
FOB-price	Free on Board- Price
FOB	Free on Board
FLO	Fairtrade Labeling Organization
FTI	Fair Trade International
FLO-CERT	Fairtrade Labeling Organization- Certification
GNI	Gross National Income
GDP	Growth Domestic Product
ICAs	International Coffee Agreements
ICO	International Coffee Organization
IMF	International Monetary Fund
ICA	International Coffee Agreement
IFOAM	International Federation of Organic Agriculture Movements
ITC	International Trade Centre
KFCFCU	Kaffa Forest Coffee Farmers Cooperative Union
MT	Metric Ton
NGOs	Non Governmental Organizations
OCFCU	Oromia Coffee Farmers Cooperative Union
RA	The Rainforest Alliance
SCFCU	Sidama Coffee Farmers Cooperative Union
UK	United Kingdom
USD	United State Dollar
USAID	United State Aid
YCFCU	Yirgacheffe Coffee Farmers Cooperatives Union
SAN	Sustainable Agriculture Network

Abstract

Coffee is the world's most traded tropical agricultural goods, however in recent years it is increasingly difficult for coffee farmers to survive on their crops because of the price inflation. Ethiopian farmers are one of the victims from this unstable international coffee price. Fairtrade is a trading program based on fairness that claims to help farmers in terms of development by rising farmers' income and empowerment in communities. This thesis discusses how much truth lies in these statements especially for Ethiopian farmers that have a little access and knowledge for international coffee trade and price. There are four well known coffee cooperative unions in Ethiopia. Oromia Coffee Farmers Cooperative Union is one of them. Oromia coffee farmers' cooperative union has been used for the study purpose because of the majority coffee farmers are joined in this union. Ethiopia has grown coffee for a long time, in addition its achievement heavily dependent on export of coffee beans, and lately started to export fairtrade certified coffee, thanks to those coffee cooperative unions. Interviews with importer, managers, and the Oromia coffee farmers' cooperative union follow to find out the impact of the union in the coffee producing community. Based on the research conclude that fairtrade does bring profitable benefits to the farmers can be confirmed.

Key words: Coffee Certification, Cooperatives, Fair-trade, Oromia Cofffee farmers
Cooperative Union, Oromia, Ethiopia

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1. Introduction

Coffee is an edible commodity which is now widely used as a beverage. In addition in developed technology it has been used as input in some food processing industries has been increasing. In world trade business coffee is traded as commodity after petroleum around the world. In most developing countries coffee produced and exported into the world market, which is important source of hard currency for many of those countries. One of which being Ethiopia (Berhe, 2010).

Ethiopian economy built by agriculture and this particular sector on average, crop production makes up 60 percent of the sectors outputs, and livestock, and agricultural value added covers the rest 40 percent. In the country agricultural land is tilled by the small-scale farmers that dominated for 95 percent of the total area for agricultural use and these farmers are responsible for more than 90 percent of the total agricultural output. They practice rain-fed mixed farming by employing traditional technology and adopting for many years a low input and low output production system (Gebreselassie et al., 2009).

On the ground fact of the truth, coffee also grown by small-scale farms with limited and fragmented land holders with tiny access to inputs. Coffee is produced in various production systems, predominantly mixed planting with other crops and shade trees. For example, Corn, Potato, Sorghum, False banana and Chat (Khat) are just few plants that can find in the back yard of Ethiopian small land holders. However, owned large amount of coffee trees on the back yard, which is the sign of richness. So, in most case few or many trees are found in majority Ethiopian farmers. Thus, the majority of coffee production 90% comes from the smallholders (ECTA, 1999) while the rest is produced by large-scale producers' means state farms and investors.

In Ethiopia, many farmers are involved in the coffee industry. The reason is that the income of coffee is well understood by the farmers comparing with other cash crops. In this reason the Coffee sector is privileged with the advantage of receiving government help for infrastructure improvement, research, quality control systems financial and manpower contributions. The creation of the Coffee and Tea Authority proves this fact and one of its

objectives is to support the production and trade of coffee as well as research efforts (Aycheh, 2008).

Coffee plays an important role in Ethiopia's economy since early days. Coffee has exported since many years and about as many as 25 million of Ethiopian citizen depend on coffee for their living (ECTA, 1999). Above all, Coffee farmers' dependency on international prices along with a stagnation of the rural economy puts farmers in a vulnerable and exposed situation.

Coffee is consumed in the western part of the world, while 90 % of the coffee production takes place in the Southern part (Ponte et al., 2001). This is an important primary export commodity of developing countries. Coffee is big business around the world, but local Ethiopian small-scale farmers receive only a small part of the retail price and continue to engage in continuation farming without other options.

Farther more, in 1990s coffee producing countries received 10-12 billion US Dollars comparing with retail sales were around 30 billion US Dollars; the above number shows that the most part of the money goes into the retailer hands, by the end of 2002 the income of producing countries were managed to make 5.5 billion US Dollars and sales had increased to 70 billion US Dollars (Osorio et al., 2002).

In Ethiopia there are four coffee farmer cooperative unions. The first one is Kaffa Forest Coffee Farmers Cooperative Union which was established 2004. The union at the time has 17 primary cooperative societies. In 2012, cooperative members have reached 30 and have more than 7000 small land holder farmers as members of the union. In total farmers women coverage is up to 20 percent. The main goal was having good access to the international market without middle men and delivered by member primary cooperative societies directly in the international market to get better price (Volkman, 2008).

Sidama Coffee Farmers Cooperative Union (SCFCU) founded in 2001 in Sidama Zone of southern Ethiopia. The union has 39 cooperatives which represented over 70,000 farmers. According to the union website SCFCU has grown to represent 46 cooperatives and over 80,000 farmers mainly small land holders. Nearly all coffee produced by the union is shade coffee grown in low densities under the canopies of indigenous trees and enset (false banana), which is a staple food crop. Member of the union have been growing and processing fine Sidamo type coffee for more than 30 years, and are now exporting world famous product directly to overseas buyers.

Next is Yirgacheffe Coffee Farmers Cooperative Union which was established in June 2002. The Yirgacheffe Coffee Farmers Cooperatives Union (YCFCU), represents almost 44,000 farmers with more than 300,000 families according to “the union website”. Its 23 member cooperatives are all located in Gedeo, southern Ethiopia. In the area estimated little more than 62,000 hectares garden are devoted to coffee alone. The union handling washed and sun-dried coffee.

The main and important union in Ethiopia is Oromia Coffee Farmers Cooperative Union which was founded in June 1999 by 34 coffee producer cooperatives, coffee growers, processors, and exporters of the Oromia region of southern and western Ethiopia according to the union manager Mr. Meskela. The union's members are 115 cooperatives up to date. They grow coffee of the arabica species exclusively, and produce both conventionally grown and organically grown beans. Following the government policy that allowed coffee producers to export directly by passing central auction markets, OCFCU seized the opportunity and managed to penetrate the international coffee market and become owner of Fairtrade and Organic certifications and ongoing certification of Utz kapen and Forest Alliance (OCFCU, 2011).

The Oromia Coffee farmers Cooperative Union aims to find a reasonable and steady trading system by establishing a fair price for goods and direct market access for farmers in the region. It guarantees prices to cover the coffee producers' costs of production, finding the accurate timely international coffee price, and allow them to be beneficiary, in turn enables

improvement of their livelihood: the overall aim being social and economic development of the community (FLO, 12). Therefore, OCFCU has been selected for this thesis research to find out the fair trade impact on the local coffee farmers and to generate data for further study.

2. Literature Review

2.1. Coffee in Ethiopia

Coffee is said to have taken the name of Kaffa, the region where it was first discovered (Backman, 2009). Coffee in Ethiopia is not only an important export good but it is a part of the culture; about 50 % of the produced coffee is consumed domestically and there is even a cultural ceremony connected to it. Coffee is one of the most enjoyable events in any Ethiopian household. The coffee is taken through its full life cycle of preparation in live ceremonial manner. Coffee is called 'Bunna' by the Ethiopians (ECTA, 2009).

From the farmers back yard coffee is collected, processed and shipped to the auction center in Addis Ababa or Dire Dawa, where is the only auction centers found. Then exportation process takes place through the port in Djibouti. Fairtrade coffee has received permission to avoid middlemen to get a higher FOB-price from the Ethiopian Coffee and Tea Authority to bypass the auction and be directly exported through Djibouti, (Mekuria et al., 2007).

In 2003, world's coffee prices drop it lowest in 30 years, having fallen by 50 percent in three years. Globally coffee supply is estimated around 8 percent above demand and for that reason the world coffee prices decreased. The oversupply is often subjective by centralized political decisions - small scale coffee farmers are encouraged to grow more by governments keen to boost exports earnings. The local government encouraged by the IMF and the World Bank to produce more coffee without being made aware of the potential of terrible price falls (Global Exchange, 2002).

2.2. Coffee farmers profile

The land holding system or the government policy in Ethiopia is not simply an economic matter for the country's development issues. It is very much tangled with the people's culture and identity. For rural residents land is the primary means of production used to generate a livelihood for a family. It is also the main asset that farmers have to build up wealth and, what they can transfer in the form of wealth for their kids. So land has a big meaning for them (Nega et al., 2003).

In terms of coffee production the costs can be differing from farm to farm depending on the use of pulping machines, hiring additional workers as needed. Agriculture in most case is hold by traditional way means farmers use only organic "natural" and by any condition no use of chemical fertilizers or pesticides (USAID, 2007).

2.3. Coffee crisis on farmers

Since 1999, small scale coffee producers in Africa have confronted severely low export markets that are destroying their livelihoods, their children's future, undermining the unity of families, communities, and threatening environmental aspect. In the years 1999–2004, international coffee prices in lowest point which not experienced for a century, throwing thousands of family producers and rural workers into desperate struggles to hold on to their way of life (ICO, 2011/12).

Table 1: ICO Indicator and futures market Prices (Coffee Year averages 1996/97 to 2011/12)

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
2000/01	47.84	77.05	65.81	57.53	29.88	66.24	27.27
2001/02	45.46	63.74	59.21	43.72	26.85	52.36	21.83
2002/03	52.17	65.89	64.89	48.94	37.23	65.89	34.56
2003/04	57.77	74.41	73.51	62.07	36.37	73.24	33.16
2004/05	85.30	112.29	111.22	98.22	46.05	108.03	42.72
2005/06	91.44	113.04	110.84	100.86	61.45	108.17	54.61
2006/07	104.24	122.08	120.08	108.35	82.73	118.70	74.71
2007/08	126.67	145.79	142.98	130.44	106.36	140.37	98.28
2008/09	111.80	164.37	135.43	110.14	78.62	122.16	71.43
2009/10	134.41	209.90	176.46	138.17	73.85	149.06	66.74
2010/11	205.65	281.32	268.55	236.82	107.34	249.66	100.66
2011/12	169.82	222.95	206.77	195.77	102.41	197.84	91.38
% change 2010/11-2011/12	- 17.4	-20.7	-23.0	-17.3	-4.6	-20.8	-9.2

Source: ICO review 2011/12 (In US cents/lb *Average of 2nd and 3rd positions)

Looking forward to achieve less risk, more sustainable livelihoods and to preserve biodiversity in coffee-producing areas is complemented by alternative trade practices, of certification processes, and of the growth of organic, shade-grown, and Fair Trade coffees (Christopher et al., 2008). Most prominently in the case of Fair Trade coffee, where market access and quality standards are resolute by agro ecological practices, including social justice, participatory local governance, and a shared honest economy of fairness.

In the roasted and instant coffee markets, Nestlé and Philip Morris control 49 percent and, with the addition of Sara Lee, Procter and Gamble, and Tchibo, the top five groups control 69 percent of the market. International traders argue that roasters have gained increasing control of the marketing chain in recent years (Mohan, 2010). To explain the global coffee crisis, the matter of fact, namely that the crisis is not “global” but rather highly “localized” and one-sided, with the costs of adjustment excess, out migration, and income losses falling excessively on coffee producing developing countries. These new quality conventions offer small-scale coffee growers havens of shelter from the catastrophic decline in international coffee prices.

Thus, coffee growing regions, select producer cooperatives and associations, with financial and organizational support from and, have managed to gain access to the Fair Trade, organic, and shade-grown segments of the value chain. Coffee crisis also hurt individual producers and communities; thus, the depressed coffee market serves as a mechanism of social differentiation in coffee growing communities by threatening small-scale farmers with the loss of their livelihood and enforced to adopt the wage laborers (Christopher et al., 2008). The crisis also threatens larger, specialized plantations via indebtedness and bankruptcy, bringing lower wages and open unemployment for permanent workers and the loss of part-time income sources for smaller growers and their families.

2.4. Reasons for coffee crisis

2.4.1. Supply and demand

In 2001, the international coffee price packed up to 30-year lows, the lowest they have been in 100 years (ICO, 2003), creating hardships for millions of coffee farmers around the world. Production in 2001/02 was estimated at 115 million bags, compared with consumption of 106 million bags (Gresser et al., 2002). Forecasting of Brazilian harvest shortfall during the 2005

could bring supply and demand into faster adjustment; it is likely that resulting price increases will set off increased production that will once again send prices falling.

2.4.2. The Breakdown of the managed market

The coffee market altered radically in the year 1990 up to 2005. Until 1989, a Coffee commodity was traded in a managed market, regulated by the International Coffee Agreement (CEG, 2011). Countries in both producing and consuming agreed on fixed supply levels by setting export quotas for producing countries. The plan was to keep the price relatively high and stable, within a price group .To prevent oversupply, countries had to agree not to exceed their fair share of coffee exports. If, however, prices rose above the upper limit level, producers were permitted to exceed their quotas to meet the pour in demand.

Table 2: Ten leading producing countries in crop year 2010/11

(In thousand bags)

	Coffee Production	% share of world total
Brazil	48095	35.8
Vietnam	19467	14.5
Indonesia	9129	6.8
Colombia	8523	6.4
Ethiopia	7500	5.6
India	5033	3.8
Mexico	4850	3.6
Honduras	4326	3.2
Peru	3976	3.0
Guatemala	3950	2.9

Sources: ICO Annual Review 2010/11

Disagreement between members led to the effective breakdown of the ICA in 1989. Opposition from the United States, which subsequently left as a member, was a major factor. The ICA survives, administered by the International Coffee Organization (ICO), but it has lost its power to regulate the supply of coffee through quotas and to regulate price strictly. Prices for coffee are determined on the two big futures markets based in London and New York, with each market trading particular varieties and grades of coffee. The London market is the benchmark for robusta coffee, the New York market for arabica (CEG, 2011).

2.4.3. Brazil and Vietnam production

Brazil and Vietnam have reshaped the world's coffee supply. Before 1990, Vietnam was statistical low producer in the coffee world, just 1.5 million bags. In 1990s, with the government provided that irrigated land and subsidies to encourage resettlement by farmers into coffee production (Christopher et al., 2008).

By 2000, it had become the second coffee producer in the world, with 15 million bags, largely produced on small farm holdings. On the other hand Brazil is not a newcomer. It has long been the world's largest producer, but production has recently been boosted by changes how and where coffee is grown. Mechanization and technological use, intense production methods, and a geographical shift away from the traditional way into mechanization help increased yields (Christopher et al., 2008).

Table 3: Ten leading producing countries in crop year 2011/12

(In thousand bags)

	Coffee Production	% share of world total
Brazil	43 484	32.4
Vietnam	24 058	17.9
Indonesia	8620	6.4
Colombia	7 653	5.7
Ethiopia	6008	4.5
Honduras	5705	4.2
Peru	5581	4.2
India	5233	3.9
Mexico	4546	3.4
Guatemala	3840	2.9

Sources: ICO Annual Review 2011/12.

2.4.4. Lagging demand

Germany, USA, France, and Japan jointly consume over half of world coffee exports (ICO, 2005). At the same time as coffee production has grown rapidly, demand for coffee in the developed world has seen slow growth. The combination of oversupply, increased production, and lagging demand has created a severely imbalanced market which cannot simply be left to its own devices if supply and demand is to be brought back into line in the long term. The market makes no suggestions as to what farming families are supposed to live on while waiting through repeated price lows for the market to clear. However, the big coffee companies spend millions of dollars on advertising each year, but they have failed to stop rich consumers turning to alternative drinks.

2.5. The Coffee crisis today

All around the world, small-scale farmers face inflexible competition from large agribusiness. The bigger, faster, and cheaper mentality has created a supply chain dynamic that exploits the most vulnerable at the bottom of the supply chain, including small-scale coffee farmers and farm workers (Christopher et al., 2008). Regardless of price swings and market stagnation, transnational companies are increasing their control of the supply chain, squeezing out profits from producing countries and passing on costs to consumers. As a result, family farmers and farm workers are losing out as the gains from globalization shift to the top. If this persists, trade will continue to be a negative force in poverty reduction for export oriented economies.

On the other hand, the imbalance coffee market also allowed farmers getting bankrupt and on the hand roasters profiting and taking advantage on it. The market structure has been changed, along with the challenges that face small-scale farmers and farm workers, have led to a situation in which the profits from the coffee trade are extremely reaped by the coffee industry in the global North. While the coffee crisis has been devastating communities in coffee producing countries, and coffee has been a top prize market for the transnational roaster companies (Ponte, 2002). In addition coffee producers are far from getting a fair share of its profitability; even day to day producer countries have collectively been receiving a smaller and smaller share of the market's value.

According to (Ponte, 2004) around the year of 1990s, coffee producers went from earning 10–12 billion US dollars from a coffee market worth around 30 billion US dollars, to receive less than 5.5 billion US dollars of export earnings from a market that is value more than 70 billion US dollars (ICO, 2002). That represents a drop in their share from over 30 percent of the market to under 10 percent. Nowadays coffee farmers get two percent, if not less for the price of a cup of coffee sold in a coffee bar. They receive roughly six percent of the value of a standard pack of ground coffee sold in a grocery store.

Farmers face series of challenges, starting with the unstable nature of the international price for coffee. Some farmers complaining of having to accept the price and terms of trade offered by the trader and of having very little or any power to negotiate (FTI, 2013).

2.6. Certification of coffee

The main certification systems in coffee sector outlining: standards with organizational structures and operational scope, their activities including costs for certification and their markets. The main certification systems are organic certification that handled by International Federation of Organic Agriculture Movements (IFOAM), Fair Trade certification also managed by Fairtrade Labeling Organizations International, FLO, and Rainforest Alliance certification which uses the standards and systems of the Sustainable Agriculture Network, SAN (Christopher et al., 2008). In addition to these, the Utz Certified initiative is reviewed as an example of a new generation sustainable coffee certification system.

2.7. Organizational structure

The International Federation of Organic Agriculture Movements (IFOAM) was founded in 1972 to bring the organic movement together. In this day, it is a federation of more than 800 member organizations in more than 117 countries whose membership ranges from producers, retailers, non-government organizations, and educators. IFOAM's mission is "leading, uniting and assisting the organic movement in its full diversity" and its goal is "the worldwide adoption of ecologically, socially and economically sound systems that are based on the principles of Organic Agriculture". In terms of scope, IFOAM's standard setting and accreditation activities directly cover or indirectly influence most organic agriculture and certification activities around the world (IFOAM, 2012).

Fairtrade Labeling Organizations International (FLO) was founded in 1997 to bring together the various fair trade labeling initiatives in consumer countries. The first Fairtrade label was Max Havelaar in the Netherlands in 1988, according to (FLO, 2007). FLO's highest decision making body is the FLO Board, which includes representatives from national consumer countries, representatives of groups of producers in developing countries, and representatives of traders.

FLO is revising its governance structure to move toward more balanced stakeholder representation, in response to calls from producers for greater participation in decision making structures. Such calls are in line with the evolution of the Fair Trade certification movement, including increased capacity over recent years on the part of developing country producer groups to engage in FLO policy processes through the development and strengthening of regional Fair Trade producer assemblies (Christopher et al., 2008).

FLO-CERT was recently established to ensure self-government of certification activities. Focusing on smallholder producers with limited activities in hired labor situations, FLO's scope is self-limiting with respect to production types that are eligible for certification. In addition, the product range is rapidly increasing from a few commodities focusing heavily on coffee to over 50 product categories ranging from wine, fruits and juices to nuts, spices and cereals. FLO's task is to take the position of the poor and disadvantaged producers in the developing world, by doing the Fair Trade standards and by creating a framework that enables trade to take place under conditions respecting their interest (FLO, 2005).

The Rainforest Alliance (RA) is the secretariat for the Sustainable Agriculture Network (SAN), a coalition of environmental organizations in Latin America created in 1991 with a watchdog group in Denmark. SAN's mission is to integrate productive agriculture, biodiversity conservation and human development (Rainforest Alliance, 2011). Unlike FLO, SAN certifies both large and smallholder producers in tropical countries and works with the following crops like coffee, bananas, cocoa, citrus, ferns, and cut flowers (RA, 2011).

Utz Certification was founded in the beginning 1997 by the retail giant a hold with cooperation from Guatemalan coffee producers. The latter provided the name Utz Kapeh “good coffee” in the Mayan Quiché language. Utz Kapeh sees itself as a “partnership between coffee producers, distributors and roasters” whose mission is “to enable coffee producers and coffee brands to show their commitment to responsible coffee production in a credible, responsible, and market driven way” (Utz, 2011).

2.8. Coffee consumption in the world

Good coffee market has described how the consumption of coffee tends to increase with the rank of revenue per capita (Reis et al., 2012). This is why there is a widespread opinion of an oversupply of coffee in the world market today and suggesting that coffee farmers should cultivate other cash crops that are demanded on the world market today. For example, when looking at in Europe and the USA the majority consumers in coffee market “table 4” it is clear that per capital consumption is relatively stable in all countries, pointing at a saturated market.

Table 4: Average per capital consumption in high income countries from 2002-2011

	In Kilograms										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Ave
Austria	6.9	5.3	7.3	5.6	4.4	6.1	6.5	6.4	6.5	8.0	6.8
Belgium	8.7	9.2	8.1	6.7	8.8	6.3	3.7	5.3	4.9	5.2	6.4
Denmark	9.0	8.1	9.4	8.8	9.1	8.7	7.6	7.4	9.3	8.7	8.9
Finland	11.2	11.1	11.9	12.6	11.9	12.0	12.6	11.9	12.1	12.3	11.7
France	5.5	5.4	4.9	4.7	5.2	5.5	5.0	5.5	5.5	5.7	5.4
Germany	6.2	6.9	7.6	6.3	6.7	6.3	7.0	6.5	6.8	6.9	6.8
Greece	4.5	5.1	4.7	4.7	4.6	5.5	5.3	5.2	5.3	5.5	4.6
Italy	5.4	5.7	5.6	5.7	5.7	5.9	5.9	5.8	5.8	5.7	5.6
Japan	3.2	3.2	3.4	3.4	3.4	3.4	3.3	3.4	3.4	3.3	3.2
Netherl.	5.9	6.5	7.3	7.1	7.8	8.4	4.8	3.2	4.9	3.7	6.3
Norway	9.1	9.0	9.2	9.6	9.2	9.8	9.0	8.9	9.2	9.7	9.4
Poland	3.4	3.5	3.6	3.6	3.1	2.4	2.6	3.2	3.4	3.2	3.2
Portugal	4.2	3.8	3.9	3.7	3.8	3.9	3.7	4.0	4.2	4.7	4.0
Russia	1.4	1.5	1.3	1.3	1.4	1.7	1.6	1.3	1.6	1.6	1.2
Spain	4.1	3.9	3.8	4.7	4.2	4.4	4.7	4.5	4.3	4.2	4.3
Sweden	8.2	7.9	8.2	7.7	8.7	8.2	8.3	7.3	7.9	7.3	8.1
Switzl.	6.8	7.0	5.9	8.9	7.5	7.9	9.1	7.7	8.0	8.2	7.4
Turkey	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.4
Ukraine	0.6	0.8	0.9	1.3	1.2	1.4	2.3	1.9	2.0	1.7	1.0
U K	2.3	2.2	2.5	2.7	3.0	2.8	3.0	3.1	3.0	2.8	2.6
USA	3.9	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.1	4.2	4.1

Source: Coffee consumption in importing countries, ICO, 2011

2.9. Fairtrade premium paid

Coffee farmers who connected with Fairtrade receive extra money in the form of a premium or quality of their product. This extra money come from a part of every export contract and that is paid by the buyer. The amount of 10 US cents/pound is passed for social and economic development in the local communities of the producers (FLO, 2006). These funds are to be used in the community for roads, new schools, building clinics and are accountable to FLO-CERT for the spending of the money.

On the other hand, FLO encourages the money to be used for training and education, infrastructure, productivity increases, environmental protection, and revolving funds for loans and micro-credits, but decisions must be taken jointly by all members after a thorough discussion on what is needed in the community (FLO, 2006).

2.10. Fair trade consumptions

Fair trade, as a system of exchange, is dependent on the willingness of consumers in developed countries to pay a price premium for the purchased product (Basu et al., 2007). This is subject to two opposite effects. The willingness increases with the reliability of the poverty aversion claims but decreases with the fear of relative deprivation of the poor producers not included in the fair trade program.

Table 5: Estimated fairtrade retail value in consuming countries numbers concern all certified goods values in million.

Country	2011	2012	Increase %
Austria	87.0	100.0	15
Belgium	72.0	77.0	7
Canada	195.0	199.8	3
Czech Republic	2.7	2.9	6
Denmark	62.5	74.9	20
Finland	93.0	102.7	10
France	303.3	315.4	4
Germany	340.0	400.5	18
Ireland	138.0	158.9	15
Italy	49.4	57.5	16
Japan	14.4	19.4	29
Luxembourg	6.2	7.5	21
Netherlands	119.0	147.3	24
Norway	43.8	53.6	23
South Africa	1.9	7.3	283
Spain	14.4	20.0	39
Sweden	108.5	134.3	17
Switzerland	219.9	264.8	20
UK	1.3	1.5	12 (billions)
USA	1.0	1.0	10 (billions)
Rest of World	39.4	74.7	89
Grand Total	4.3	4.9	12

Source: Fairtrade Annual Report 2011/2012

A market restriction on the consumption side is one of the problems that fair trade face, but business is nevertheless going well and sales from Fairtrade coffee are increasing in the world market. A high increase in sales is shown in the annual report by FLO in “table 5” shows that of good news for the communities who participated the coffee cooperative unions.

2.11. Ethiopian commodity exchange

The Ethiopian Commodity Exchange (ECX), a public - private enterprise, was established in 2008 with the help of USAID to reduce transaction costs and risk to growers, as well as to control foreign exchange. It started with export items like coffee and sesame, and grains, even for the local market. Almost the past five years, it has become a well-organized market institution where local buyers and sellers come together to trade, assuring quality, quantity, payment and delivery. It now handles about 90 percent of all coffee exports, and has its own laboratories and warehouses (GAIN, 2012).

Many farmers have benefited from the ease in marketing and better prices afforded by trading through ECX. However, there are some complaints by producers and traders. First, some growers object to the fact that trading through ECX is mandatory; by law all coffee must be traded either through ECX, through a cooperative, or by a commercial operation. Second, ECX handles coffee in commodity fashion, to the disadvantage of growers and buyers of specialty coffees (GAIN, 2012).

This has given an advantage to commercial farms and certain coffee cooperatives, which do not have to sell through ECX and are able to get premium prices by marketing or by production process (e.g., organic). In an effort to address this, ECX is taking steps now, working on a pilot project with Starbucks, to identity-preserve specialty coffee.

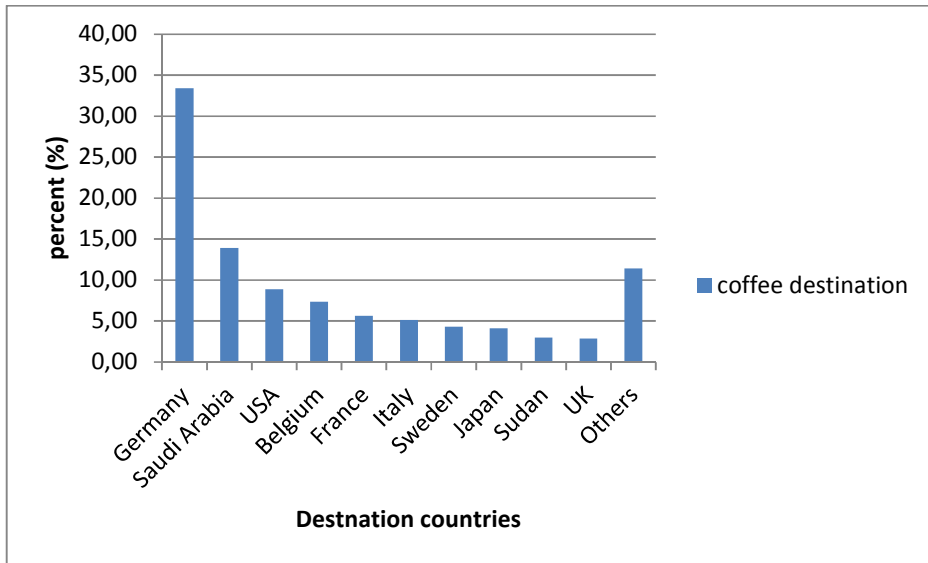


Figure 1: Ethiopian coffee Export by destination in tones 2010/11

Source: Ethiopian Customs Authority 2012

2.12. Oromia coffee farmers cooperative union

The government of Ethiopia permitted the formation of higher level cooperatives together and that were allowed to group together the cooperatives and to increase their market power on both input and product sales (OCFCU, 2011). According to the union web site an Oromia Coffee Farmers Cooperative Union had been established in 1999 by 34 coffee producer primary cooperatives in Oromia region using the above opportunity.

Following the government policy that allowed coffee producers to export directly by passing central auction markets, OCFCU seized the opportunity and managed to penetrate the international coffee market and become owner of fairtrade and organic certifications and ongoing certification of Utz kapen and Forest Alliance. Its member primary cooperative grew from the initial 34 to 197 to date total beneficiary as well increases (OCFCU, 2011). The central philosophies of OCFCU are: partnership, transparency, dialogue, accountability, respect, gender equality and sustainability in all its operations.

3. Objective

3.1. The main Objective

Coffee plays an important role in Ethiopia's economy for years. Approximately quarter of the population in Ethiopia depends on coffee for their livelihood directly or indirectly. The main purpose of this study is to evaluate, examine and identify the impact of fair trade on the Oromia coffee farmers' cooperative union. Considering the union ten years progress working with coffee farmers in the area used to examine fair trade impact on Oromia coffee farmers cooperative union members. Particularly the union ten years review and secondary data are the key element to gain the following outcome.

3.2. Specific Objectives

1. To evaluate the advantage and disadvantage of joining fair trade by the cooperative unions.
2. Assessing of fair trade impact on the livelihood of coffee producers in Oromia region.
3. To identify the Oromia coffee union profit and impact on development in the Oromia region.

4. Methodology

4.1. Background of research

In order to find out the fair trade impact on Ethiopian coffee farmers based on Oromia coffee farmers' cooperative union diverse research measures and steps were followed to come out visible result. Questionnaires are prepared to obtained data from Oromia coffee farmers' cooperatives union manager; also other important data from relevant literatures gathered.

The methods investigate the positive impact of fair trade on farmers and development. Interviewed subjects are general manager of cooperative and union, local managers, and importers involved in coffee production and trade market. Most interviews are documented by photo which is the only affordable evidence in terms of financial shortage for the research.

The whole idea of the paper is to evaluate fair trade in positive aspect, which is an improvement that attempts to put together social values into economic exchanges especially for rural farmers. The goal of fair trade is to aid in the sustainable development of expelled and disadvantaged producers that do not have any market accesses.

In this case the purpose of this paper is to explore the impacts of fair trade on coffee producing farmers in Ethiopia and their communities' advantage, drawing from case studies conducted in Oromia coffee farmers' cooperative union and from other reports and investigations. The study helps to make clear that on the ground effects of fair trade and also explores whether the principle goal of sustainable development in the Oromia region is being achieved through fair trade.

4.2. Study area description

Oromia is one of the Regional States in the Federal Democratic Republic of Ethiopia. It shares borderlines with all the Regional States in the country, except north part. The total area of the region is little more than 363,000 km², accounting for about 34.0 percent of the total area of the country. The region is endowed with diverse natural resources. It has abundant surface and ground water resources, forests and wildlife resources (Google country profile).

The major land use patterns include cultivation, forest of different types, woodland, bushes, wetlands, grasslands, barren and settlement areas. The largest proportion of land is under grassland land use type, 34 percent. The agricultural land covered by crops, seasonal and perennial that makes little over 28 percent that produce including coffee, chat, fruits. Other part of land use is forest which is cover almost 8 percent, woodland three percent, and exposed rocks and barren two percent (BoFED, 2008).

The total population of Oromia National Regional State is estimated 27, 158,471million (EPHC, 2007), which accounted 36.7 percent of the total country's population. In the Region the rural population is estimated about 23,788,431 which represent 87.8 percent of the total population of the region, while the urban population is 3,858,567, which accounts 12.2 percent of the total population in the national regional state, which shown that the region has dominated by rural population. In the region women make up about 49.6 percent, while men represent 50.4 percent.

4.2.1. Crop production

Oromia region like other part of Ethiopia diverse farming dominates the livelihood of the region. Land is important assets of households for production of crops and rearing of livestock. The main crops found in the region include maize, teff, wheat, barley, peas, bean

and various types of oil seeds. Coffee is the main cash crop in the Oromia region and accounts for 51.2 percent (BoFED, 2008) of the total crop production in the country.

Coffee is the major source of foreign exchange for the country accounting for 50 to 60 percent of total exports. Oromia accounted for 77.6 percent of coffee plantation as per the 1996 to 2000 plan assessment. Similarly, out of 53 districts known for Coffee production in the country 42 districts which covers 79 percent are found in Oromia, that showing the great resource base the region is gifted with. However, the sector is characterized by small scale farmers who are dependent on low input and low output rain fed mixed farming with traditional technologies dominate the agricultural sector thus the production fails to catch up with the rapidly growing population size and needs (BoFED, 2008).

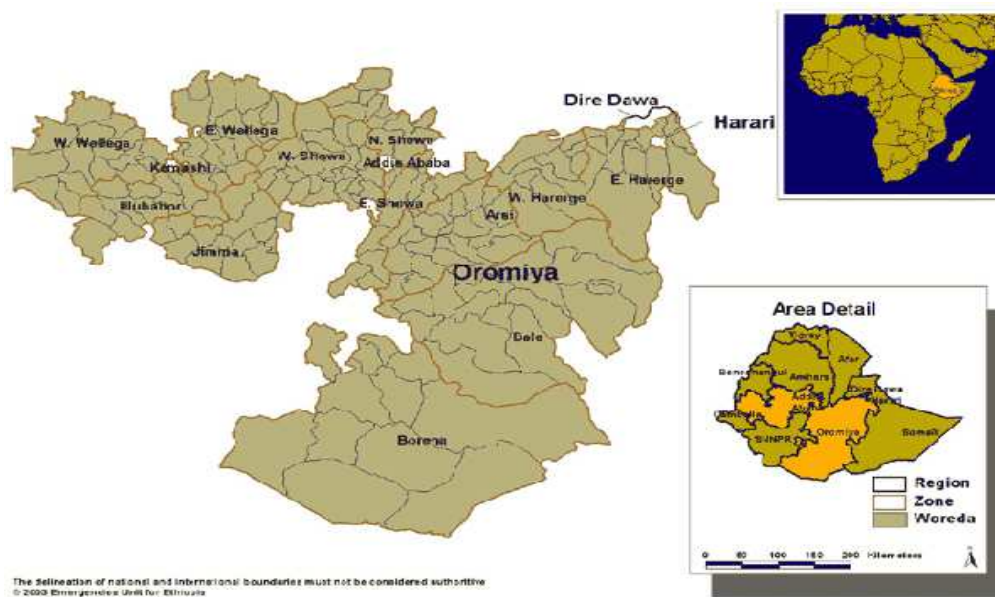


Figure 2: Map of Oromia region in Ethiopia

Source: Ethiopia country profile Google

4.3. Data collection

Before deciding the collection of data I had an opportunity to discuss with the manager of Oromia coffee farmers cooperative union Mr. Tadesse Meskela, and other societies to get their advice basing on my study objectives. Accordingly, the office provided for me with the list of information all over the countries cooperative unions and the management team also advised me to visit the Sidama Coffee Farmers Cooperative Union, which was the union, has been used for my B.Sc study purpose.

4.3.1. Sampling

Basing on the objectives of the study, research questions and advice from the Oromia coffee farmers cooperative union, I purposely selected Oromia coffee farmers' cooperative union in Oromia region for my Study. Further, with similar aim in selecting one of Oromia region coffee growing regions, and I was partly forced to focus on selected union that the union handling fair trade and organic coffee certifications. Out of four cooperative in Ethiopia OCFCU purposively selected for the following main reasons. These are:

- The cooperative participating in fair trade and organic coffee Certifications in wide range,
- The union covers one of the major coffee growing areas where the majority of farmers depend on coffee and ,
- Limitation of resources, time and finance.

When I was visiting the Union I have organized questionnaires that helped me for my survey during data collection. During my visit to the union head office that located just outside the capital city of Addis Ababa, I approached the administration to inform of the purpose of my study and to ask for assistance during my stay.

Discussion and questions to the union office and the management office is not a new phenomenon, the union was very happy with the objectives of my study and fully cooperated in providing all the data I needed even after the visit.

The key informants were drawn from different sectors and disciplines who were directly or indirectly involved in the area of the research topic. Those informants include, Ethiopia Commodity Exchange Office, I officially requested in written form to the office to provide me any valuable information regarding to my study (the official letter attached with my references), individuals in Addis Ababa with background on coffee certifications process, and some individuals with background in organic coffee.

The purpose of the key informant discussion was to get relevant data on the subject matter of fair trade however, the response from them was not sufficient enough as per my expectation. This is partly due to the infancy of fair trade and organic coffee certification in Ethiopia.

4.3.2. Observation

Having an opportunity to visit some part of Oromia region personally helped for data collection methods and has been used for this study fulfillment. Observation is one way of validating some of the data, in this case fully involved in all the process of the data gathering and it was an opportunity to find out in practice what has been reported by the union about the impact of fair trade and the communities' achievement in terms of fair trade. For reference purpose during observation time some pictures were taken to document physical evidence while verbal data was noted.

4.3.3. Data analysis

Microsoft Office Excel 2007 employed to examine and arrive at conclusions. In qualitative data analysis, discussions from key information and Oromia coffee farmers' cooperative union discussion are grouped and then checked for validity and reliability all the way to the conclusion. This means if some ideas stand out from the average respondents, the issue will be analyzed and obtainable if necessary otherwise that data will be avoided altogether.

5. Result

The following results have been analyzed to conclude the impact of the union.

Table 6: Share of Ethiopian exports of organic and various coffees in global market, 2011/12

Countries	Percent (%)
Honduras	30.2
Ethiopia	15.4
Mexico	11.4
Nicaragua	10.4
Colombia	8.4
Indonesia	8.0
Others	16.3

Sources: ICO Annual Review 2011/12

Table 6 shows that Ethiopia covers 15.4% global coffee market export next to Honduras 30.2% and followed by Mexico 11.4% coffee export. Ethiopia is developing country in which agricultural production is the backbone of the economy from this Ethiopia earns its large share of income by exporting coffee. As the international coffee organization indicated that Ethiopian world's coffee share is significant. The production of coffee in Ethiopia is solely covered by individual farmers who need to be supported to increase their production in different mechanisms and international organizations. The price of the coffee in the global market can directly affect the life of the producers in household level.

Table 7: Number of member cooperatives dividend earned in ten consecutive years from Oromia coffee farmers cooperatives union after joining fair trade.

S/No.	year	Members received dividend
1	2001	8
2	2002	20
3	2003	22
4	2004	30
5	2005	85
6	2006	78
7	2007	110
8	2008	101
9	2009	120
10	2010	140
	Total	714

Source: Review of 10th year anniversary OCFCU, 2011

The data describe on table 7 showed us that as the awareness of the cooperatives in Oromia coffee farmers union locality increased they become the members of the union that benefited from fair trade. The number of cooperatives in this union boosted from 8 to 140 as a member in one decade. If we see the first two years that is in 2001 and 2002 the number of member cooperatives increased from 8 to 20 means 150 percent.

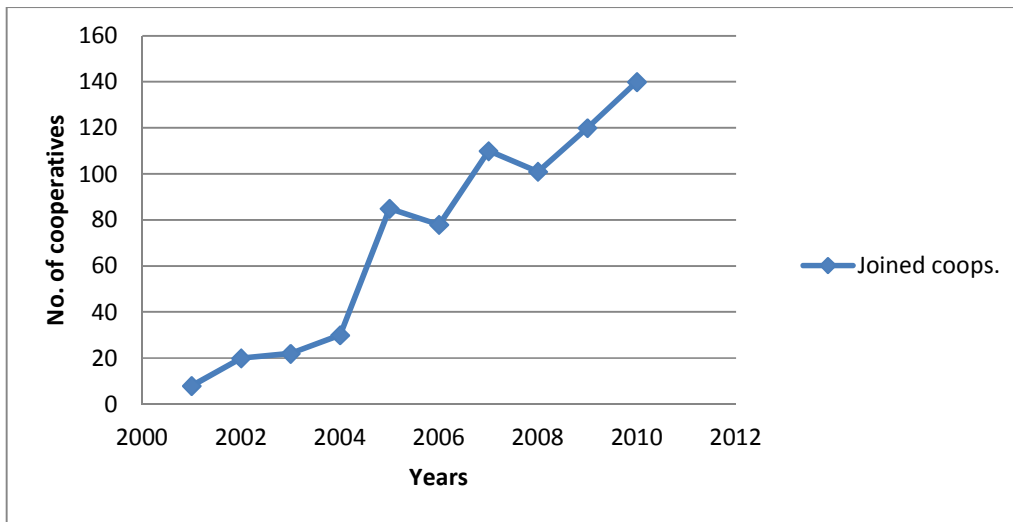


Figure 3: Number of cooperatives joined from 2001 to 2010 in fair trade union

The data describe on figure 3 showed us that as the awareness of the cooperatives in Oromia coffee farmers union locality largely increased they become the members of the union that benefited from fair trade. The number of cooperatives in fair trade in this union boosted highly as show on the above figure from the year 2000 until 2010.

Table 8: The total amount of money earned in each year by member cooperatives after they joined fair trade

S/No.	year	Members received dividend	Total dividend paid (ETB)	dividend	Average income per cooperative(ETB)
1	2001	8	262,855	76	32,856.88
2	2002	20	1,527,137	44	76,356.85
3	2003	22	3,208,053	52	145,820.6
4	2004	30	3,580,761	4	119,358.7
5	2005	85	2,270,598	19	26,712.92
6	2006	78	2,485,947	0	31,871.12
7	2007	110	6,966,548	0	63,332.25
8	2008	101	11,716,614	0	116,006.1
9	2009	120	31,478,157	0	262,318
10	2010	140	30,584,457	0	218,460.4
	Total	714	94,081,127	0	131,766.3

Source: Review of 10th year Anniversary OCFCU, 2011

Table 8 indicates the potential contribution of fair trade in increasing the income of the member cooperatives as it promotes the increment of cooperative membership that is useful for the bargaining effect in production of coffee as union and supply more coffee to the market. The first year income for each cooperative is increasing from 8 members earning low (32,856.88 ETB) to high (262,318 ETB).

Table 9: Maximum and Minimum dividend paid to member cooperatives from Oromia coffee farmer cooperatives union

S/No.	Year	Maximum Dividend (ETB)	Dividend Paid	Minimum Paid (ETB)	Dividend
1	2001	79,018	53	3,972	29
2	2002	278,419	99	3,492	-
3	2003	563,553	34	27,796	60
4	2004	589,517	30	14,250	37
5	2005	154,329	67	71	80
6	2006	205,714	0	1,290	-
7	2007	339,925		1,194	-
8	2008	-	-	-	-
9	2009	824,023	8	6,431	8
10	2010	927,526	0	7,720	0

Source: Review of 10th year Anniversary OCFCU, 2011

Table 9 has shown us the maximum and minimum income gained in each year as a dividend share for the member cooperatives. Thus, fair trade is a platform that can not affect the internal member income share but simply smoothen market opportunities to the union.

Table 10: Member Cooperatives Dividend Paid (Member cooperatives, Minimum, Maximum, Total) by Oromia Coffee Farmer Cooperatives Union from 2001 – 2010

S/No.	Year	Members received dividend	Total dividend paid (ETB)		Maximum dividend (ETB)	paid	Maximum dividend (ETB)	Paid
1	2001	8	262,855	76	79,018	53	3,972	29
2	2002	20	1,527,137	44	278,419	99	3,492	-
3	2003	22	3,208,053	52	563,553	34	27,796	60
4	2004	30	3,580,761	4	589,517	30	14,250	37
5	2005	85	2,270,598	19	154,329	67	71	80
6	2006	78	2,485,947	0	205,714	0	1,290	-
7	2007	110	6,966,548	0	339,925		1,194	-
8	2008	101	11,716,614	0	-	-	-	-
9	2009	120	31,478,157	0	824,023	8	6,431	8
10	2010	140	30,584,457	0	927,526	0	7,720	0
	Total	714	94,081,127	0				

Source: Review of 10th year Anniversary OCFCU, 2011

Table 10 comprises the overall data that shows the above discussed fair trade effect on the increment of member cooperatives in Oromia Coffee Farmers Cooperative Union, moreover, fair trade impact on income towards member cooperatives.

Table 11: OCFCU coffee processing machineries and production capacity

Type of Machineries	Quantity
Sorting machinery	1 (7tons/hr)
Pulpers	56
Hullers	16

Source: Oromia Coffee Farmers Cooperatives Union 10th year Anniversary, 2011

The above table 11 illustrates locally used coffee processing machinery which is very important in the union members' coffee processing process. Pulpers and Hullers are found closest to the union coffee producers village ever before. The aforementioned equipments are used to produce for all types of coffee that are premium, specialty, washed and unwashed.

Table 12: Oromia Coffee Farmers Cooperative Union production capacity

Production capacity	250,000 tons/ annually from these 46,000 tone/organic 25,000 tone/fair trade (10%)
Covered Land	420,000 ha.
Warehouses	71

Source: Oromia Coffee Farmers Cooperatives Union 10th year Anniversary, 2011

The above table 12 illustrates the union coffee production capacities on the region. The total harvesting coffee annually is about 250,000 tones. Organic coffee also covers about 46,000 tones. From this total amount 10% is included in fare trade. The union also has 71 warehouses all over the region which is very important for its member to protect their coffee harvest from unconditional weather.

Table 13: Premium from Fair Trade Sales in OCFCU from 2004 – 2010

Year	Total Prepaid (ETB)		Maximum (ETB)		Minimum (ETB)		Beneficiary cooperatives
2004	884,332	00	297,944	24	2,221	-	11
2005	1,673,812	00	462,340	20	16,098	40	11
2006	2,722,422	00	542,152	00	44,174	00	11
2007	2,345,288	00	240,596	00	44,174	00	28
2008	4,714,508	00	418,521	00	28,066	-	28
2009	7,350,992	00	694,411	00	17,417	00	28
2010	8,959,910	00	1,158,880	00	20,674	00	28

Source: Oromia Coffee Farmers Cooperatives Union, 2011

Table 13 shows the union premium from fair trade sales started from the year 2004 and the income of the joined cooperative members increased. The beneficiary cooperative also increased from 2004 to 2010.

According to (Milford, 2004) the fair trade premium is now 1.41 USD per pound sold. This amount includes approximately 15 cents for the premium granted with organic certification and five additional cents for the premium reserved for the investment in community development projects. Few cooperatives associated with the union used the fair trade premiums to build a system to treat ill and diseased plants, a warehouse for storage and to purchase 50 machines to wash their coffee beans. Several programs to improve quality have also been put in place. As well, the Union invests in the promotion of coffee production in order to extend its sales to new markets.

Table 14 The benefits of the Fair Trade in the community

A) The development of schools

Sectors	Name of Project	No. of project Accomplished	Number of beneficiaries
Education	Primary school (1-4)	11	2,860
	Additional Class room	27	5400
	Up Grading(1-4) to (1-6)	4	520
	Up Grading(1-6) to (1-8)	8	1,040
	Up Grading(1-8) to (1-10)	2	260
	New High school	3	780

The above table 14 A, illustrates that from the benefits of fair trade schools have been built in the community. The numbers shown three high schools and many elementary and middle schools have built using the fare trade benefits.

B) Other various development work in the community

Health	Health post	8	56,000
	Occupied medical equipment	3	21,000
	Clinic maintenance	1	7,000
Water Development	Spring development	48	4,800
	bore hole	3	300
Bridge	Bridge	3	21,000
Office Construction	Office	4	4,000
Flour mills	Flour mills	5	5,000
Total		130	129,960

Source: table “A and B” Oromia Coffee Farmers Cooperatives Union, 2011

The above table 14 B illustrates of the benefit of fair trade. The benefit helped for the construction of a number of clinics, and for the purchase of medical equipment and supply of clean water. Furthermore, it assisted to offer care to farmers, their families and the community.

6. Discussion

6.1. The impact of Income Increasing

In the Oromia region the coffee producers have been receiving dividend which they earned in the last ten consecutive years from Oromia coffee farmers cooperatives union after joining fair trade. The income or the dividend increase the coffee production system also increase in the local community. On the other hand farmers have enough income means they can have materials for the production purpose. The increase of income also allows them to have a better life style. The efforts employed to improve their environment, the quality of their products and receiving higher coffee price on the market are also among the reason of increasing income.

6.1.1. Farmers self-sufficient

As per its mission, to make its members economically self-sufficient and enable families feed themselves through maintaining the quality of coffee production, increasing farmers' incomes and strengthening the capacity of the organization, the union has transformed lives of its members in many aspects. Besides allowing coffee producing communities to benefit from the current international coffee trend, the union represents real access to socio-economic rights of its members.

The Union has been able to be networked with inspecting and certifying bodies. Accordingly, it has established networks with Fair Trade Labeling Organization International, Specialty Coffee Association of America (SCAA) and Eastern Africa Fine Coffee Association (EAFCA). In fact, all cooperatives are operating under the Fair Trade principle. Hence, the Union has been selling Fair trade registered cooperatives coffee since 2002. The Fair trade coffee of the Union is still on sale by many fair trade roasters and retailers in many coffee consuming countries.

As a result of the relentless effort of promoting and facilitating growth, processing and supply of high quality organic Arabica coffee, some 28 most performed primary cooperatives out of the total 197 cooperatives comply with FLO and organic standards. Hence, this compliance has increased market access enabling member farmers obtain the premium price.

6.2. Benefits of the communities from fair trade

The benefits of the Fair Trade of course, helped for the construction of a number of primary schools and additional classrooms, clinics, and for the purchase of medical equipment and supply of clean water. Furthermore, it assisted to offer care to farmers, their families and the community.

The purchase of a grinding machine to reduce the costs associated with the grinding of coffee beans; the purchase of coffee washing stations, which have increased the quality of the products and many more were also achieved as a result of the revenue from fair trade coffee. As part of social service program, the union has also constructed additional, potable water facilities and bridges as well as installed coffee processing and drying machines to the farmers.

6.3. Trade mark “Organic Oromia”

Having organic coffee gives some transaction costs and can be the main sources of entry barriers to organic certification. Moreover, the reduction of agrochemical inputs as a result of the coffee crisis may make possible the transformation from conventional to organic production and thus increase competition in the organic coffee sector (Christopher 2008). In fact, current premiums are covering transformation costs, but not much more, according to some analysts. Not with standing these problems, there is evidence showing that in some cases adopting an organic certification has had positive effects on farmers’ environmental and economic performances.

Joe Riemann, Ethiopian coffee distributor to food cooperatives in Minnesota, has labeled on vacuum packed bags of coffee beans he sells as “Organic Oromian”. According to Riemann, the idea to label organic Oromia began at the showing of the documentary film, “Black Gold” about Oromia coffee farmers in Ethiopia. “When the movie flickered off and the lights went back on, the room exploded with passionate talk. It was emotional and heartwarming; many people started sharing stories about their lives in Ethiopia. The movie had created a space for them remember and share (OCFCU 2011). They talked about living in Ethiopia and the families they left behind. I was really touched. I didn't expect that,” Riemann says.

The Union has also accomplished commendable work in securing the rights of names which would allow farmers capture more value from the trade, by controlling their use in the market and thereby enabling them to receive a greater share of the retail price. Thus, Ethiopia’s coffee industry and farmers could earn equal return. Aware of the fact that better brand and supply management in the country and strategic promotion will clearly help create higher returns for everyone in the coffee chain, the Union has made remarkable achievements in this regard.

6.4. Cooperatives capacity and market

The international price improvement lately provide some relief for small-scale, family farmers and coffee farm workers, however the dynamics of the coffee market have not shifted in ways that guarantee long-term stability for those small scale coffee farmers who need it badly. At the macro level, a shift from a managed market to a free market, along with increasingly unbalanced supply-chain power that favors multinational buyers and roasters, has created an environment in which small-scale family farmers cannot compete the market (Christopher et al., 2008).

On the other hand of the farm level, lack of access to farm credit, over-dependence on a single source of income, inability to access markets directly, farmer organization weaknesses, worsen supply-chain, and power imbalances leave farmers helpless to the coffee market's repeated price fluctuation.

Mr. Meskela the OCFUCU manager said on our discussion, one of the central challenges of small-scale farmer organizations is competition with exporters who have financing, infrastructure, risk-management tools, wide market knowledge, and existing contracts. This combination of capital, infrastructure, and experience allows exporters to reduce their cost of goods and achieve economies of scale. Add to this dishonest, unaccountable traders and the result is a highly competitive and unfavorable environment for smallholder organizations, especially emerging ones.

6.4.1. Cooperative difficulties joining the union

Many small-scale producers are still unorganized or joined with small cooperatives that have relatively little economic or political power. These organizations need more long-term financial and institutional resources in order to set basic organizational structure. The farmers who belong to these organizations also face the most difficult obstacles due to the remoteness of their location especially in Oromia region and many developing countries.

They lack transport and communication infrastructure, education, and experience in business practices which is Key for the world coffee market access. Some may have rich community traditions of cooperation that can be strong foundations of collective action, but organizational strengthening and alliance building is still direly needed.

6.4.2. Little access for risk management

Traders in most case use some tools to manage the natural risk in commodity trading. These tools have not been generally available to smallholder organizations due to limited access to

information and training which I absorbed from my study coffee producing region. For example, numerous smallholder organizations have heard about risk management, but they express a lack of understanding of how these tools can be used. This represents a key barrier one another therefore, access to organizational capacity building and training is essential in order to create opportunities for small-scale farmers to compete in the market.

6.5. Farmers need to have alternatives other then coffee

Most recent analyses of global and regional coffee markets campaign measures of output diversification as a means to sustain rural livelihoods and reduce farmers' dependence on coffee as the principal cash crop. Moreover, in many rural areas in Ethiopia, there are few, if any, alternative crops that can match the attractions that coffee holds for small-scale producers, as well as its long productive cycle and its characteristics as a profitable asset and a store of value.

For some farmers, diversification means expanding into new roles in the supply chain, such as coffee processing and marketing, in order to increase value. For others, diversification means access to viable sources of income to complement coffee production, such as intercropping with other cash crops. Without other options some small scale farmers are forced to diversify by cultivating some countries call it illegal drugs "Khat" but the very well known income for many farmers and export for the Ethiopia government. By saying that, a better alternative would be for initiatives that help farmers create diverse income portfolios that best match their individual situations.

6.6. Power of farmers on international level

When an international forum addressing the coffee crisis: for example, ICO legitimate small scale farmer and farm worker organizations typically have limited participation in these debates. Participation of delegations from coffee producing countries does not necessarily mean that small scale farmers or farm workers are represented. Some organizations on

commodities and coffee do exist, to represent those farmers but there are still many obstacles to the participation of these marginalized groups in international debates. These barriers include language, ability to travel to international meetings, and skilled human resources who can monitor situational developments at the global scale.

Addition into that, before the remoteness of these coffee producing communities was difficult to overcome, reason need to travel to them was difficult, and international communication was close to impossible. It is not a surprise that these limitations produced a system of control by a few large transnational corporations and it was a system where farmers were not aware of the quality of their coffee beans and international coffee price. Nowadays somehow it is a better condition for coffee producers to understand the multiple levels of transactions that take place to deliver the cup of coffee to the consumer so that they can find ways to improve their position in the market to ask their price.

Today over 4,000 small-scale producer groups in more than 50 developing countries participate in fair trade supply chains (Barham et al., 2010). More than 5 million people in Africa, Latin America, and Asia benefit from fair trade terms. It is therefore not appropriate to draw general conclusions about the impact of fair trade from an analysis carried out on just one of this study. However, this analyzed giving an indication on whether the partnership with OCFCU was a good choice for fair trade and whether the joint impact of fare trade with the union has had a positive influence on joined farmers.

Generally, the livelihood of coffee grower member farmers is improving than ever before as a result of the union's effort to improve coffee production and campaigning to get fair price at the international market as well as expansion of market information. In the past, the Ethiopian coffee farmers were not benefiting more from their coffee because they had no market information and were selling their products at low price to local traders.

7. Conclusion and Recommendation

Conclusion

To address the needs of the small scale farmer and to create feasible alternative trade networks, people need to know where their coffee comes from, and who produced it using which practices. Producers to bargain for better prices need information about who drinks and where go their coffee and the functioning of the larger coffee market to determine which ways they can pressure it.

However, the above result provided interesting evidence to the fair trade debate that fair trade has positive impact on the small scale coffee producer in developing countries especially in Ethiopia. In the case of the observed Oromia region farmers, my main conclusion is that fair trade relationship seems to be associated with superior capabilities, economic and social well-being, but also that more can be done on the human capital side. Fair trade is definitely responsible for the creation of an additional trade channel, crop diversification, and provision of in kind services including technical assistance that really could be the back bone of the industry.

The observation showed that the fair trade impact on Oromia region farmers is crucially determined by the application of certain criteria, especially price premium, price stabilization, and including technical assistance. The combination of all this reduces farmers' risks and seems to create positive effects on price, living condition satisfaction, and other relevant socio-economic indicators.

However, fair trading would be more transparent, more efficient and more equitable if price were to be re-established as the decisive criterion for buying decisions, without neglecting the central role of social standards. Currently, the price premium paid by consumers is probably paid not only for better social conditions, but also for lower production efficiency. By establishing a competitive environment for delivering social standards as well, more welfare for producers in the South could be delivered at a lower price.

Overall, fair trade in Oromia cooperatives has achieved what it is aiming to do and being a trading enterprise, this proved to be stronger in Oromia coffee farmers' cooperative union and contributes to progress by in search of greater equity in international trade that rising absolute, relative income of farmers and securing the rights of producers good working conditions.

Recommendation

It is good to have a power in the Fair Trade movement, for example, strongly clear the principle of individual and collective empowerment through the formation of democratic producer cooperative and participatory, transparent norms of governance. Access to the Certified Fair Trade market thus is conditional upon the success of parallel processes to build local organizational and administrative capacity for collective decision making.

In turn the above processes strengthen producers' ability to negotiate collectively with buyers, acquire knowledge of specialty markets, and undertake investments in processing facilities to improve the quality of their coffee and add value. Such knowledge, and the collective empowerment it represents, fosters internal coping mechanisms that defense livelihood vulnerability against external shocks.

The Ethiopian coffee industry has many obstacles however in this study finding the government should do better on the following area:

- Access into the market for farmers who do not want to join the local unions,
- Support for farmers in terms of coffee quality,
- Finding Price risk management for producers in the time of world coffee market crisis,
- Arranging simple supply chain for coffee producers from farm to port of discharge.

Finally, it is important to have access for voiceless rural area coffee producers' potential empowerment with the coffee drinker to break down the barriers of trade and empowerment follow for those individuals and groups to achieve their self-defined goals.

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In the Thesis the USA Dollars and Ethiopian Birr “currency” can be converted as follow.

1 US Dollars \approx 19 ETB

9. Appendices

Appendix 1 - Questionnaire Conducted to Oromia Coffee Farmers

For the Partial Fulfillment of MSc, I am kindly requesting you to provide accurate and genuine information so that, I can be able to make appropriate conclusion based on your information. Thanks in advance for your faithfulness.

1. What is OCFCU?
2. How many members are in the union?
3. What benefits are they getting being organized?
4. Total capacity of coffee production in the Union?
5. What is the position of the organization?
6. Comparing local consumption and national market supply, which one is higher?
 - o Domestic consumption
 - o Supplied to the national market
7. Are there any capacity building and financial supports that union supply to the farmers for coffee processing?
Yes No
8. Do you think the farmers do care about their coffee quality?
9. Are there any measures undertaken to promote organic coffee production?
Yes No
10. Can you tell me about the OCFCU establishment?
11. What is the objective of the union?
12. What is the structure of the union?
13. What is the achievement of the union and current states?
14. Fair trade and OCFCU?

Appendix 2 - Photos taken by Author at the study area with the OCFCU manager and farmers.

