



The bean counters

Fairtrade has rescued Guatemala's coffee producers more than once, but they still face a daily struggle to survive. By **Lottie Davies**

Pace doesn't just mean the lack of war, but the opportunity to work and feed our families," says Francisco Vicente of Montellano, a small coffee plantation high up in the Sierra Madre of Guatemala. Since the end of the country's civil war in 1996, Vicente and his neighbours have been struggling to make a success of their plantation, with the help of Fedecocagua, one of the country's largest Fairtrade exporters.

But circumstances are against them. Two hurricanes in the last decade have devastated their crops, and equipment and coffee prices have been unreliable since the crisis of 1990, when the world price plummeted. Even though it is now high again, the co-operative movement is in difficulty. Last September, Hurricane Stan destroyed much of Guatemala's infrastructure and 15 per cent of the country's coffee crop, leaving 1,500 people dead and 14,000 homeless.

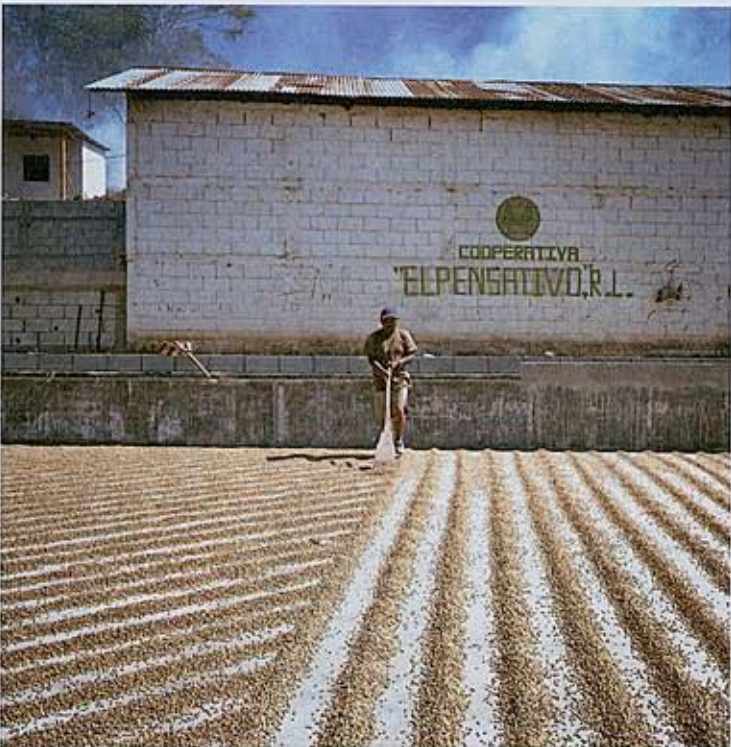
In 1987, 187 families from across Guatemala founded the town of Montellano, 7,000ft above sea level in the Chimaltenango area. These families, who had previously worked as labourers in the huge plantations or "fincas" that have dominated coffee growing in Central America for decades, were granted ownership of almost 80 acres of disused land with help from the National Campesino Movement, a peasant

farming body. "It was hard in the beginning," says Vicente. "The Campesino gave us only 30 quetzals [roughly £2.50] every 15 days to share between us all." Nevertheless, Montellano survived, even through the dual crises of 1998 – Hurricane Mitch and a record world low in coffee prices. A huge amount of crop was lost, and the price crash meant their small harvest fetched far less than expected.

The experience was repeated last year with Stan. Crops have been devastated and not only is the farmers' income dramatically lower than anticipated, but the damage also needs to be repaired with money they don't have. In Montellano, 50 per cent of the coffee was lost – in other parts of the country it was the entire crop. "The farmers have lost everything for ever," explains Seth Petchers of Oxfam International. "Where there were healthy plantations, now there are only dry riverbeds."

To add insult to injury, last month ash from the Acatenango volcano caused a huge forest fire in Chimaltenango. If the coffee plants were not burnt outright, they were smothered in soot. In Montellano the situation is potentially critical, and young men are beginning to lose heart and leave the plantation.

As with many Central American countries, the pull of the US is strong here – ten per cent of native Guatemalans already live in America, and



that can only increase as work dries up in the coffee fincas and sugar plantations.

Guatemala is fragmented and politically polarised, exhausted by years of violence. More than half the population lives in isolated rural areas with little access to education, healthcare or employment. Many coffee growers are indigenous people of Mayan origin, who historically – and more recently due to the civil war – have isolated themselves from the lowland population. Small co-operatives provide these vulnerable people with independence while promoting sustainability and ethical working practices. In the aftermath of Hurricane Stan, they helped their communities by distributing vital food supplies and they continue to connect the growers with buyers and organisations such as Oxfam.

The Fairtrade movement played a significant role in helping small farmers by paying above market prices during the crash of 1990 – when Vietnam, which had never grown coffee before, flooded the market with cheap beans and took the price below the cost of production in Guatemala and many other countries – and subsequent crises in 1998 and 2001.

For coffee to qualify as Fairtrade, the producers have to fulfil strict criteria in a lengthy and potentially expensive process. This is where organisations such as Fedecocagua have been

Clockwise from main: “hard bean” from the El Pensativo co-operative; Vinicio Alpuac (left), president of El Pensativo with vice-president Domingo del Pilar; and drying coffee on the patio. The beans have to be raked regularly

PHOTOGRAPHS: LOTTIE DAVIES

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assisting for many years, with technical advice and funding. Fedecocagua represents some 30,000 families within 150 co-operatives and exports 65 per cent of Guatemala’s Fairtrade coffee (roughly eight per cent of the world’s total). Productivity and quality have improved, while the farmers have a growing sense of confidence. Vinicio Alpuac, president of El Pensativo – “the thoughtful” – Co-operative says proudly: “We used to produce 600 sacks of strictly hard bean [very high quality] coffee and last year we produced 700.”

Fairtrade buyers currently offer growers a minimum price of \$1.26 (70p) per pound for conventional coffee and \$1.41 (79p) for organic – a guarantee that can often make the difference between continuing to grow independently or going back to labour on the larger plantations. So far, so good, you might think. But in today’s climate of high prices, the system doesn’t work.

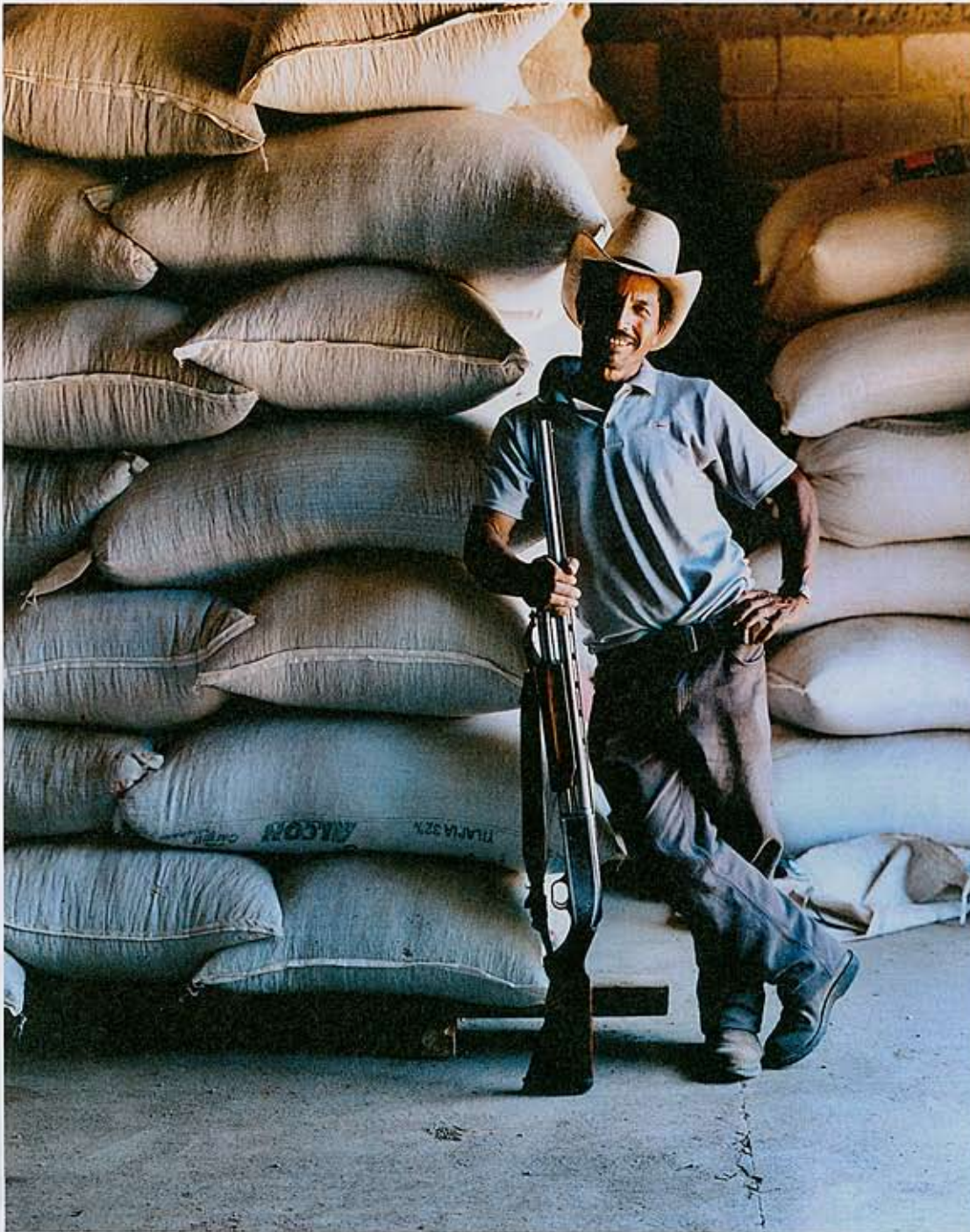
It goes something like this. A Fairtrade buyer guarantees a minimum price in return for the crop. This is fine while the market is weak, but when it’s booming, as it is now, the co-operatives are in a double bind. When the market price is high, they need to offer growers a high price themselves or they won’t fulfil their quota. These are small operations with no access to credit and tiny – or no – reserves of capital. Usually the co-operatives take the raw coffee, process it and sell it on to buyers such as Fedecocagua. Once they have been paid, they in turn pay the growers, which can take up to three months. Competing with them are local buyers known as “coyotes” who arrive with their scales and wallets ready to buy at the side of the road. These coyotes are indirectly funded by large companies and are in an ideal position to buy the beans immediately. If the growers are offered ready cash, possibly at a higher rate, they face an immediate dilemma. For people such as Susana Vicente and her five children, a typical farming family in Montellano, there is little logic in waiting to selling their crop to the co-operative. It comes down to whether they can wait to feed, clothe and educate their children – and the choice is a simple one.

Farmers try to remain loyal to the co-ops, but they live a hand-to-mouth existence. Someone like Alpuac knows how to grow coffee, harvest it and dry it for export – and how to bargain with local buyers. He knows if his coffee is good, but he doesn’t have the luxury of thinking long term and can’t afford to wait to sell it at a good price. Loyalty aside, most growers will sell to the highest bidder with ready cash, and that isn’t always the local co-operative.

To compete, co-ops either bring themselves close to bankruptcy by using meagre capital or take loans from federations such as Fedecocagua that they then struggle to repay. The federations want to bolster the co-operatives, but they are businesses, not charities, and you wonder how long they can continue to loan money with little chance of getting it back.

The co-operatives lose out when it comes to tax rebates, too. While the Guatemalan government encourages coffee exports with large VAT rebates for the exporters, the co-operatives can’t benefit because they don’t pay tax at source. Although Fairtrade dealers originally campaigned for this exemption, it has proved a double-edged sword – in a country with as many twists in its system as Guatemala, it’s not a simple equation. The farmer pays VAT when he buys his fertiliser, but is exempt from charging it when he sells his coffee. According to Ulrich Gurtner, general manager of Fedecocagua, a coyote will buy the coffee and sell it to an exporter with an invoice that includes VAT, while allowing payment to be delayed until the government pays the rebate. The resulting credit claimed by the exporter is split with the coyote, and in some cases exporters may create a fictional middleman in order to defraud the government.

Much of the system appears to be unregulated and tax evasion is often considered the norm. If this kind of dishonesty is really commonplace, ►



► it would mean that exemption for the co-operatives puts them at a disadvantage. They are unable to enjoy the fruits of corrupt practice and cannot compete with those who do.

According to Gurtner, some 70 per cent of Guatemala's internal coffee trade is done "informally". He claims that larger producers often declare only a proportion of their crop sales – from which they receive a rebate – and sell the rest under the table. So besides receiving rebates, they don't declare sufficient sales to generate a taxable profit, leaving the small farmers and co-operatives paying out at the bottom of the pile. "The government imposes fewer taxes than it refunds," says Gurtner. "In the end it is fraud and tax evasion by a small group of people." In the first two months of this year, according to the Guatemalan Tax Administration Office, the government has paid back some 1,500 million quetzals (£115m) to coffee exporters – more than it has received in revenue.

In times of crisis, Fairtrade provides a safety net for producers like the farmers of Montellano, but is the model sustainable in its current form? Coffee prices are rising and there is a commodities boom across the board – but does this mean Fairtrade is becoming redundant? Coffee is a fiercely competitive business, so it's doubtful whether companies such as Fedecocagua can continue to subsidise the co-operatives and keep themselves in profit at the same time. Ironically, demand for ethically traded coffee is greater

Clockwise from above: Domingo del Pilar poses proudly with his shotgun and some of the 700 sacks of coffee processed at El Pensativo last year; the road to Montellano; Susana Vicente and her five children, who depend on the co-operative system

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than today's supply because of increased interest from multinationals, yet those who produce it aren't able to take advantage.

Individual growers and small co-operatives don't have the resources to form a long-term strategy. The coffee market – the second largest legal commodity in the world after oil – will always suffer from boom and bust, and Fairtrade will always be at the mercy of these fluctuations unless there are fundamental changes. Fairtrade is the only voice for the small farmer and it's just not loud enough. It only makes up half of one per cent of the world's market, and if its ground support weakens it may become quieter still.

There is hope, though. The International Coffee Agreement (ICA), last settled in 2001, is due for renegotiation in 2007 and is an ideal opportunity for reform. The agreement will affect producers worldwide and could give small farmers access to market information, credit and support, allowing them to compete on a level playing field with the corporate sector. Price instability creates numerous challenges for the coffee market and Fairtrade is only one part of the solution. The key is allowing Fairtrade organisations to take part in the ICA negotiations, and there are signs that this is happening.

Gerardo de Leon, chief executive officer of Fedecocagua, has been invited to sit on the board of Anacafe, Guatemala's national coffee association. He will join the growing ranks of co-operative representatives giving small farmers a presence alongside the big boys. "This is crucial to the survival of Fairtrade coffee in Guatemala,"

says Leon. Oxfam's representative, Petchers, agrees: "It is essential for the survival of small farmers that they have representation on the world stage. Without organisations like Fedecocagua these farmers would have no voice at all."

He explains the market has to be regulated so prices consistently cover the costs of production. "The market is cyclical," he says. "The price of coffee has gone up since 2001, but we have every reason to think it will go down again." If it does, and co-operatives have sunk in the meantime, there will be no safety net for the most vulnerable producers.

In Montellano, there are decisions to be made. Usually the men leave town between the end of harvest in March and the beginning of the rainy season in May to earn cash from labouring work. This year they need to stay and repair hurricane damage, replant, remove silt and prepare the plantation.

If they stay, they may not be able to feed themselves and their families during the next few months. If they don't stay, the crop next year could leave them worse off.

For these families, the difference of a few cents in the coffee price can mean the difference between working their own land or leaving for the fincas. Chatting over a meal of refried beans and tortillas, Vicente says: "Guatemala hasn't yet reached the peace and equality which it needs." He knows that for the sake of his village, it needs to reach it soon. ■