

SAFE POLICY BRIEF No. 3:

'Sustainable Coffee' Exports from Tanzania

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1. Introduction

In the last two decades, there has been a tremendous fall in prices for traditional agricultural export crops in the world market. The price of coffee, for example, reached the lowest level ever recorded in real terms between 2001 and 2002.¹ This took place partly due to structural changes in the global coffee market, including production innovation in Brazil and booming supply from Vietnam, and partly due to changes in corporate strategies among the largest roasters, including the way in which coffee is blended.

In Tanzania, the fall in prices of traditional export crops resulted in a major decline in the value of exports. Contribution of coffee to total exports dropped in a particularly dramatic way (see Figure 1). These trends led to a general decline in the contribution of the agricultural sector to GDP and to lower rates of growth of the agricultural sector compared to other sectors in the Tanzanian economy. This is partly because of the low productivity and low value of agricultural exports, and higher growth in other sectors such as mining. However, sectors such as mining, in comparison to agriculture, have a lower impact on poverty reduction and on the incomes of the majority of the Tanzanian population. It is therefore still relevant to focus on prospects for improving the agriculture sector.

One of the possible venues for increasing the value of agricultural exports from developing countries including Tanzania is through sales to emerging, niche and value-added markets such as specialty, fair trade, organic, and Utz-certified coffee.

This policy brief is an overview of the trends in the standard certification initiatives in coffee with particular reference to Utz certification, the fastest growing sustainability standard in coffee. It highlights the challenges and opportunities for certification, together with a discussion of possible strategies for smallholders to enter this market.

¹ However, coffee prices have recovered, from an average auction price of 41 USD/50 Kg in 2002/03 to 89 USD in 2006/07.

The brief is based on perceptions of coffee producers and businesses on benefits and costs of compliance (see Boxes 1 & 2). This is an initial step in providing evidence to support decision-making on whether more plantations and/or smallholder groups should consider Utz certification or not. Further assessment of the costs and benefits will be undertaken to provide evidence on whether the possibility of extra premium and improved market access for producers and businesses justify the required extra investments for compliance.

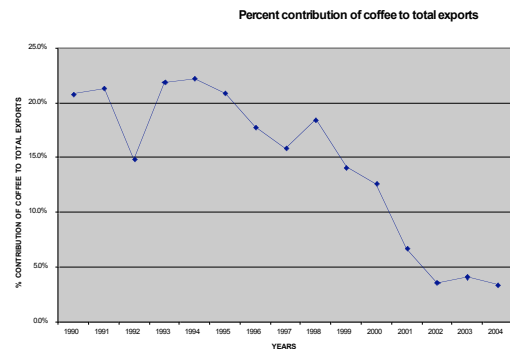


Figure 1: Proportional contribution of coffee to total exports in Tanzania (by value)

Box 1 Perceptions of costs of certification

Costs perceived by producers and businesses that are currently compliant with the Utz Standard are identified under three categories:

1. Management costs

- Documentation for traceability
- Certification
- Supervision of field operations

2. Costs that relate directly to the implementation of 'good practices'

- Preservation and protection of river reserves
- Forgone revenue from land areas that are left natural
- Conduct to ensure there is no deforestation
- Maintenance of tree nursery for protected areas and surrounding communities
- Irrigation water and equipment for efficient use of water and reduced soil erosion
- Safe disposal of hazardous wastes
- Maintenance of stores

Box 1 (cont.) Perceptions of costs of certification**3. Costs related to social criteria**

- On-job training for employees
- Workshops for social and environmental awareness among workers
- Employee salaries complying to labor laws
- Improvements of the quality of labor camps
- Protective gear for workers when handling fertilizers and agro-chemicals
- Annual health check-up for all workers
- Awareness creation in surrounding communities on collection and incineration of garbage to avoid polluting water streams;
- Signboards to keep people away from fields or premises that are potential hazards to human health.

Box 2 Perceptions of benefits of certification

- Producers and businesses offer regular employment opportunities.
- Certification creates transparency and openness between management and employees
- Saving of water resources due to use of efficient irrigation systems
- Premium price and relatively better market access
- A sense of discipline at all levels of management and labor
- Creates social responsibility for the workers and environment

2. Standards and developing economies

A standard is an agreed way of doing something. Standards are designed to address a wide variety of needs and goals. Requirements in industrialized countries for compliance to standards can be a barrier for developing countries to participate in trade and, more seriously, may lead to the exclusion of small scale producers in developing countries from global supply chains. While standard requirements may act as barrier to market entry, they can also help developing countries to upgrade their market competitiveness and improve agricultural practices. Nevertheless, complying with new standards entails costs, benefits, and changing levels of risks and uncertainty.

Currently there is a proliferation of these standards and each standard has its own focus and requirements. Standards that influence or relate to the sustainability of the coffee sector include Fair Trade (including the Max Havelaar label), Rainforest Alliance, Organic and Utz-Certified. The demand for 'sustainable' and 'traceable' coffee is increasing (see Table 1 & 2).

Table 1: Growth of Demand for Selected Certified Coffees

Type of certification	Percent increase in 2006 over 2005
Fair trade	53
Utz Certified	25
Rainforest Alliance	106
Organic coffee	15

Source: www.thecoffeeguide.org

The increasing number of these standards and the demands they place on others in the supply chain are posing big challenges to actors in developing economies (including producers and exporters). These challenges are associated with three issues:

- Awareness of changes in coffee consumers' behavior;
- Understanding the standards that are developed with the intention of meeting new consumer demands; and
- The decision to comply with any of the standards.

Table 2 Estimated volumes of third party certified 'sustainable coffee' sold in 2006

Standard	Volume (60kg bags)
Fair trade	833,000
Organic	1,152,000
Rainforest Alliance-certified	453,000
Starbucks CAFE	1,174,400
Utz certified	600,000
Gross total¹	4,212,400
% of total coffee exports	4.6

Source: FLO, Utz, Giovannucci (2007), cited in <http://agritrade.cta.int/en/content/view/full/2509>

In this policy brief, Utz Certified is used as a case study to analyze these challenges in the context of the Tanzania coffee sector.

3. Utz Certified coffee standard

Utz Certified coffee is a worldwide certification programme for 'responsible coffee'. Coffee producers certified by the Utz Foundation comply with the Utz Code of Conduct. The Utz Code of Conduct covers three categories: good agricultural and business practices, social criteria based on the International Labor Organization Conventions, and environmental criteria. Independent certifiers conduct annual inspections to ensure producers and businesses comply with requirement of the Utz certified code of conduct.

Utz Certified originally focused on mainstream coffee traders and large plantations. However, recently, projects have been designed that focus on smallholder groups of farmers and cooperatives. Such projects in Africa exist in countries including Kenya, Uganda, Ethiopia and Zambia. An analysis of *smallholder*

farmers' participation in Utz certified schemes outside of Tanzania, suggests that certification:

- is carried out by exporters or cooperatives, not by smallholders individually
- is achieved with the support of externally-financed projects
- has enabled farmers to develop a relationship with the exporting companies, thus improving their market access
- has enabled farmers access to services such as extension, training and provision of inputs
- has had unclear impacts on income and welfare; this is mainly due to the fact that most of the schemes are relatively new and little research has been carried out on them.

It is important to note the absence of such initiatives for smallholder coffee producers in Tanzania.

4. Utz Certified and coffee industry regulations in Tanzania

Utz certification started in Tanzania during the early 2000s. The Utz Certified producers in Tanzania are all large scale coffee plantations of more than 50 ha under coffee. Currently, all Utz certified coffee in the country is Arabica. Adoption of the Utz standard and growth in sales of Utz Certified coffee from Tanzania has been very slow compared to other East African countries. The share of Tanzania's Utz certified coffee sales from African countries that export Utz certified coffee was only 0.7% in 2005. By mid-2007, it was 2.8%. All the coffee sales originated from certified coffee plantations that were certified in 2005 and the average premium was 5 US-ct. /lb of green coffee. Purchases of coffee from Tanzania as Utz Certified coffee has been increasing slowly over the past few years compared to other countries. By end of 2005 a total of only 18 Metric tonnes were purchased as Utz certified from Tanzania; however, by mid 2007 the quantity increased to 27 Metric tons (see figure 2)

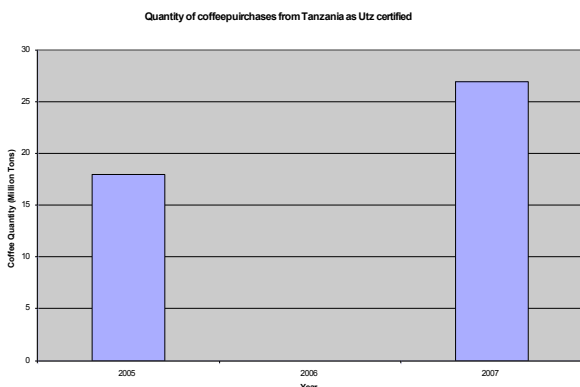


Figure 2: Quantity of coffee Purchased from Tanzania as Utz certified

The coffee industry in Tanzania is regulated by the Tanzania Coffee Board (TCB). However, focus on sustainability standards in coffee regulations is limited. TCB operates the coffee auction, but the coffee

regulations also encourage the production and direct export of high quality coffee. With a direct export license, coffee producers can bypass the auction and sell directly to buyers. There are no specific rules that guide the sale of sustainable coffee at the auction or that allow direct exports.

5. Challenges for coffee producers

The *first* challenge to coffee producers and businesses is to make informed decision on whether to comply or not to comply with any of the many standards.

To make such decision requires:

- Awareness of changes in coffee consumers' behavior
- Awareness that the growth of the sustainable coffee market is fast - representing 4% of total coffee exports in 2006
- Assessment of whether producers and coffee businesses can afford to keep out of these emerging markets

The perceptions of estate coffee producers in Tanzania who have not yet attempted certification indicate that, with the current conjuncture of high coffee prices, they are still conducting satisfactory business without certification. However, this may not be the case if prices fell, and given the rapid growth of sustainable coffee markets.

Smallholder producers and cooperatives that have gone for certification in other countries in East Africa have been facilitated by multinational companies, international organizations and or NGOs. The question for Tanzania is whether there is a conducive regulatory environment for such involvement.

The *second* challenge to coffee producers is to decide which of the many standards to comply with. One possible decision is for producers to comply with all standards in order to have a wider market access.

However the limiting factors with this kind of decision are:

- The costs of compliance and certification of each standard
- Covering the extra management costs, especially the cost of maintaining records as per requirements of the different standards; this requires specialized human resources and/or training of available personnel

At the same time, producers that are already certified argue that once certified with one standard the cost of compliance with subsequent standards is lower or minimal, depending on the standard in consideration.

The *third* challenge is how to meet the requirements for compliance to any of the standards that producers decide to comply with.

This requires:

- Evidence that premiums paid on sustainable coffee justify investments for compliance. Currently this is still not clear. Producers that are not certified are yet to be convinced that these investments can offer them satisfactory returns. Their argument is that even without certification they get premium price once they produce high-grade coffee.
- A conversion process in terms of production practices as well as documentation. Producers that are already certified acknowledge that this process requires resources investment including human, financial and time resources.

Evidence from Tanzania shows that only large scale estate farms have so far complied with the Utz standard. Smallholder coffee producers who are the majority are yet to respond to these demands. The experiences of cooperatives and smallholder producer groups from Kenya and Uganda suggest that private exporters and support organizations have a key role in making this happen. They also suggest that regulation should not hamper the export of sustainability-certified coffees.

6. Conclusion and policy recommendations

The main conclusions are:

- The coffee auction system does not have specific provisions for sustainability certified coffee
- The current approach in marketing Tanzanian coffee emphasizes coffee quality grades with little focus on current trends on certification and standards in coffee
- Compliance to standards requires some basic knowledge and skills on how to deal with environmental issues, social issues and record keeping necessary for traceability. Farms and producer groups should be encouraged to analyze critically the market prospects with sustainable coffee.
- Two arguments for certification are that:
 - It encourages production of high quality coffee that can fetch premium prices
 - It allows the application of new knowledge, management skills and technology that will strengthen business in coffee.

The main policy recommendations are:

- Revision of coffee export rules is recommended to make provisions for certified coffee.
- However, a point of caution is the possibility that large amounts of Utz certified and other sustainability coffee could undermine the auction system if allowed to be exported directly
- The coffee sector regulatory system should provide an institutional guide on coffee standards. The guide can be in the form of

information on existing standards, market outlet outlets and certification processes

- It is suggested that a broader approach in the coffee sector be adopted in Tanzania, where the current issues of standards relevant to social and environmental issues be integrated in the national coffee sectors improvement strategies.
 - Such a strategy should provide means for timely access to information relevant in the whole coffee value chain, and especially on standards and standards requirements, and financial services for investment and adoption of new technologies that are necessary for compliance with sustainability standards.
 - Such a strategy should also include special programmes for smallholder coffee producers, who produce a large majority of coffee in the country, since existing donor and NGO projects tend to be time bound.

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