

## Exporting Fair Trade Beans from Honduras to a US Market

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### Introduction

Common beans are Honduras' second most important basic grain crop after maize. As in all Central American countries, the Honduran diet is based mainly on corn and beans, the major source of protein for poor households. Most small-scale farmers sell their beans to middleman soon after harvest and receive a low price because the market is flooded. If bean farmers become certified as producers of fair trade beans and market their beans to a US food retailer, they would receive a 10% price premium.

### Objectives

This study was conducted to:

- (1) Determine if there was a demand for fair trade beans among up-scale US food retailers,
- (2) Identify the steps required for farmers to receive third-party certification as producers of fair trade beans,
- (3) Document the supply chain from the farmgate to the US retailer, including the costs associated with each stage of the supply chain,
- (4) Negotiate a purchasing contract (quantity, price, quality standards, and shipment date) with an up-scale US food retailer, and
- (5) Organize farmers to produce and delivery a shipment of fairtrade beans to a US food retailer.

### Methodology

The project was initiated in October 2009. In Honduras, the PIs: a) met with farmers in the Yoro Lake region who were members of a farmer association—which included 17 local agricultural research committees (CIALs)—to explain the initiative and identify farmers who were interested in producing fair trade beans, b) met with Honduran government officials, wholesalers, exporters, and USDA/APHIS staff to identify the stages of the supply chain and the requirements as each stage, and c) collected cost data required to estimate the cost of producing and shipping fair trade beans to the US.



*In the US*, the PIs: a) contacted various organizations that could provide third-party certification (Fair Trade Labeling Organization, FLO; Rainforest Alliance, International Marketing Organization, IMO) to determine their requirements for certification and associated costs and b) contacted various US food retailers to determine if they were interested in purchasing fair trade beans (e.g., Wal\*Mart, TransFair USA, Whole Food Markets) and to determine the process for negotiating a supply contract..

### Selected Results

The steps required to produce and export fair trade beans was far more complicated than initially anticipated.

**Farmer Interest.** Farmers in the Association expressed a strong interest in participating in the project. In addition, a local NGO (Program for Rural Reconstruction, PRR) agreed to serve as the project's facilitator. .

**Fair Trade Certification.** Initially, we planned to seek certification from FLO, based in Germany. However, before FLO would certify a farmer association as meeting its requirements, it had to have previously established "standards" for the crop to be certified and have set a "fairtrade price". Since no one had previously sought to sell fair trade beans, no "standards" or "fairtrade price" had been established. Consequently, upon the suggestion of Whole Food Markets, we contacted the International Marketing Association (IMO), which certifies farmer associations rather than a specific crop. IMO agreed to provide third party certification, subsequent to the Association completing a >50 page application (i.e., provide information regarding the Association's membership, governance, etc.), passing a IMO audit visit to verify information in the application, and paying a fee of \$2,700 for the audit visit.

**US Retailer.** The bulk commodity buyers at Whole Food Markets (based in Austin TX) were extremely interested in purchasing 20 mt (1 container) of small red beans from the farmer association, for delivery in January 2012—if the IMO certified that the Association met its "standards" and the farmers agreed to the price that Whole Food Markets was willing to pay.

**The Supply Chain.** Through visits to Honduran government officials, traders, wholesalers, brokers, shippers, and US-based food importers, the PIs documented the supply chain and the associated costs for moving the beans from the farmgate to the US Port of Houston (e.g., fair trade certification, farm gate price, cleaning, fair trade premium of 10%, bagging & packing at the Association level, brokerage costs, fumigation, bringing a container to the village and transporting it to the export port, Honduran customs & phytosanitary paperwork, sea transport to Houston, US customs brokerage fees, and transporting to Whole Food Markets' warehouse).

### •Estimated Supply Chain Costs (US\$/lb)

•IMO Certification	\$ 0.09
•Farmgate Price	\$ 0.60
•Fair Trade Premium (10%)	\$ 0.06
•Marketing/Processing	\$ 0.07
•Shipping to Houston	\$ 0.05

•Total Cost to WFM \$ 0.87

•(Note: Originally the farmers agreed to sell beans for \$ 0.60/lb)

**Sales Price.** In early 2011, the members of the Association agreed to sell 20 mt of beans to Whole Food Markets at a price of \$US 0.60/lb.

However, due to poor harvests in the past two seasons, the local bean price rose to unprecedented levels during the year; and the farmers expected the price to remain at this level throughout the year. Thus, in May, the farmers asked for a price of \$US 0.90/lb for beans to be delivered in January 2012. The PI contacted Whole Food Markets to ask if WFM was willing to meet the new price. While WFM offered a new price of \$US 0.75 they were unable to pay \$US 0.90/lb—given that they felt that after adding other costs and their markup, the retail price would be higher than what its customers would be willing to pay. Consequently, while negotiations were terminated, WFM agreed to reopen negotiations next year, if the Association reduced its requested price.

### Implications

**First**, fair trade certification provides an opportunity for farmers to receive a premium price for their beans. To negotiate a purchasing contract with a US food retailer like Whole Food Markets, the purchase price must be set at least 6 months prior to delivery. However, farmers are used to selling beans on the spot market—rather than forward contracting them. Thus, when future prices are uncertain farmers prefer to wait and sell on the spot market, hoping that the price will continue to rise.

**Second**, the process for obtaining fair trade certification is extremely complex. Thus, farmers require technical assistance to gain certification.

**Third**, as obtaining fair trade certification is very expensive (\$US 2,700/year) these costs account for a significant share of the final delivery price. Thus, the market is limited to up-scale US food retailer like WFM.

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