



FAIRTRADE LABELLING ORGANIZATIONS INTERNATIONAL



# BUILDING TRUST

ANNUAL REPORT 2005 || 06



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# BUSINESS FOR DEVELOPMENT

“FROM NOW ON, YOU ARE NO LONGER SMALL AND POOR,” René Mendoza of Nitlapan imbues coffee farmers in Nicaragua, “but entrepreneurs of what will become prospering businesses.” Nitlapan gives credits to farmers who don’t really have anything, and the most critical success factor, according to René, is entrepreneurial spirit. “In the past decades, ‘development’ has become a matter of study, debate and policy, of dependence, charity and aid,” René told me some years back, “but as soon as you can produce something, it’s often quite simple, even if you’re very poor and struggling to survive. The trick is to start seeing yourself as a businessman, and to learn and get what you need to make your business a success. It’s the fastest way to development - without even having to use the tainted term.”

This is exactly what Fair Trade has been trying to convey: that the best way to give small-scale producers in developing countries a real opportunity towards a better life is to give them a fair chance to produce and market their products. Judging from FLO’s figures, in recent years, this message has been falling on fertile ground in Africa, Asia and Latin America. In 2005, FLO-Cert received over 400 applications from producer organizations for initial Fairtrade-certification. In 2005, the total number of certified organizations increased by 18% from 432 at the end of 2004 to 508 at the end of 2005. This figure includes both organizations of small-scale producers as well as plantations and factories in which the workers and management have formed so-called Joint Bodies that receive the Fairtrade premium payments. The Joint Bod-



LUUK ZONNEVELD || FLO MANAGING DIRECTOR

ies manage the investment of the Premium in social, economic and environmental projects. At the same time, they allow many workers to discover the advantages of becoming organized and working together to improve their lives. And in South Africa, the Joint Body is actually promoting entrepreneurship because it is linked to the government’s program to make black workers co-owners of plantations owned by whites. Plantations must be at least 25% black-owned to enter Fairtrade.

Of course not every producer or worker is born an entrepreneur. That’s why in 2005 FLO invested heavily in extending its local business advisory service. In particular, it entered into a strategic partnership with SNV, a major Dutch organization with 40 years of experience of providing business support in developing countries. Thanks to this partnership and to support from half a dozen other organizations, FLO could extend its network of so-called liaison officers from 9 to 15 by May 2006, supporting producers in over 35 countries.

Markets are what burgeoning businesses need most. **AGAIN IN 2005, MILLIONS OF CONSUMERS WORLD-WIDE SIGNIFICANTLY INCREASED PRODUCERS’ MARKETING OPPORTUNITIES BY BUYING SOME 1,1 BILLION € WORTH OF FAIRTRADE-LABELLED PRODUCTS, 37% MORE THAN THE YEAR BEFORE.** All product lines expanded their markets, especially Fair Trade coffee in the U.S. (+ 70,9%) and the U.K. (+ 34%), bananas in Austria (+ 46%) and sugar in France (+ 125%). Non-food products did well too: sales of Fairtrade flowers, newly introduced last year in Canada, Germany and Belgium

surpassed even the most optimistic expectations. Thanks to continued strong sales in Switzerland and the U.K., a total of 113 million stems of Fairtrade flowers were sold in 2005. Textiles and other products made from Fairtrade-certified cotton, sold in 2005 for the first time, have caught consumers’ enthusiasm. In fact, sales have been so successful that demand for Fairtrade cotton has been much bigger than supply, causing a scramble within FLO to find more organizations of small-scale cotton producers in West-Africa and Asia.

**IN THIS REPORT, YOU’LL READ SEVERAL STORIES ABOUT SMALLHOLDER ORGANIZATIONS THAT, WITH THE SUPPORT OF FAIRTRADE, HAVE BECOME THRIVING BUSINESSES.** There are many more examples. Just one, to whet your appetite: In the years of general Pinochet’s dictatorship in Chile, his government considered co-operatives as breeding grounds for communism, and they were severely repressed. But since Pinochet was ousted from power, small-scale producers have been re-discovering the potential and merits of joining forces. It led beekeepers in the middle of the country to form the Cooperativa Valdívía, which developed a highly successful honey business. Early this year, with the election of Michèle Bachelet as Chile’s new president, the co-operative had reason to celebrate, because one of Ms. Bachelet’s priorities is the development of small and medium enterprise. Twenty years ago, the co-op’s beekeepers were poor people struggling to survive. Today, they are seeking a meeting with Chile’s president to convince her to make Fair Trade a cornerstone of her promotion of small-scale business.

# FAIRTRADE SALES VOLUME 2004 II 2005

PRODUCT 2004 REAL II 2005 ESTIMATED GROWTH IN % II \* MT \*\* ITEMS \*\*\* STEMS \*\*\*\* LITRES

TEA \* 1.965 II 2.614 +33%

COFFEE \* 24.222 II 33.992 +40%

BANANAS \* 80.640 II 103.877 +29%

FRESH FRUIT \* 5.156 II 8.289 +61%

COCOA \* 4.201 II 5.657 +35%

SUGAR \* 1.960 II 3.613 +84%

HONEY \* 1.240 II 1.331 +7%

BEER \*\*\*\* 62.934 II 123.758 +97%

JUICES \* 4.543 II 4.856 +7%

RICE \* 1.384 II 1.706 +23%

SPORTBALLS \*\* 55.219 II 64.144 +16%

WINE \*\*\*\* 617.744 II 1.399.129 +126%

FLOWERS \*\*\* 101.610.450 II 113.535.910 +12%

DRIED FRUIT \* 238 II 306 +29%

COTTON \* 0 II 1.402 ++

OTHERS \* 611 II 833 +36%







# THE GOLD STANDARDS



**“GUARANTEES A BETTER DEAL FOR THIRD WORLD PRODUCERS”** the Fairtrade Certification Mark claims. But what a Mark stands for is directly dependent on its standards, the immovable criteria that inspectors have to verify among producers and traders before taking any certification decision. In the past year, especially for workers on plantations and in factories, FLO has been looking very critically at whether its standards really make good on Fairtrade’s claim of bringing empowerment and sustainable development to them. This led to a complete revision of the so-called “hired labour standard”.

FLO organized a very extensive consultation process, involving stakeholders: workers, trade unions, management of plantations, external experts, inspectors, certification staff etc. in order to identify the possible improvements and the necessary changes. The new Standards were finally approved by the Standards Committee in November 2005 and entered into force on the 1st of January 2006.

What are the main improvements? There are two: on the one hand, the new Standards will strengthen the role of the **JOINT BODY\*** and workers rights and, on the other hand, the use of the **FAIRTRADE PREMIUM\*\*** will be more transparent.

The new Standards require that management provide a better framework for the workers to be able to organize themselves in the Joint body. For example, it has to provide a space and resources for holding the meetings during work time. Also, the new Standards reinforce that workers can collectively bargain and negotiate via Trade Unions or directly with the management about their working conditions.

**“BEFORE, MANAGEMENT WAS SOMETIMES BEING ABLE TO INTERFERE IN THE DECISIONS TAKEN BY THE JOINT BODY. WITH THE NEW STANDARDS THIS CAN NOT HAPPEN ANYMORE” SAYS ANDREAS KRATZ, DIRECTOR OF THE STANDARDS UNIT.**

With the new Standards on Hired Labour Situations, the Joint Body is now accountable to all workers, including temporary workers. Accountability means that workers will know exactly how Fairtrade Premium money is being spent and how much money is allocated to each project. That is particularly important in the cases of High Premium situations, like in flower or banana plantations. “Now the Joint Body must be auditable, there must be a finance management behind. This will improve the transparency tremendously”, explains Andreas Kratz.

\* **BODY THAT DECIDES HOW THE FAIRTRADE PREMIUM WILL BE SPENT. IT IS MADE UP OF WORKERS AND MANAGEMENT BUT WITH A MAJORITY OF WORKERS.**

\*\* **EXTRA PAYMENT ON TOP OF THE MINIMUM PRICE. IT HAS TO BE SPENT ON COMMUNITY PROJECTS.**







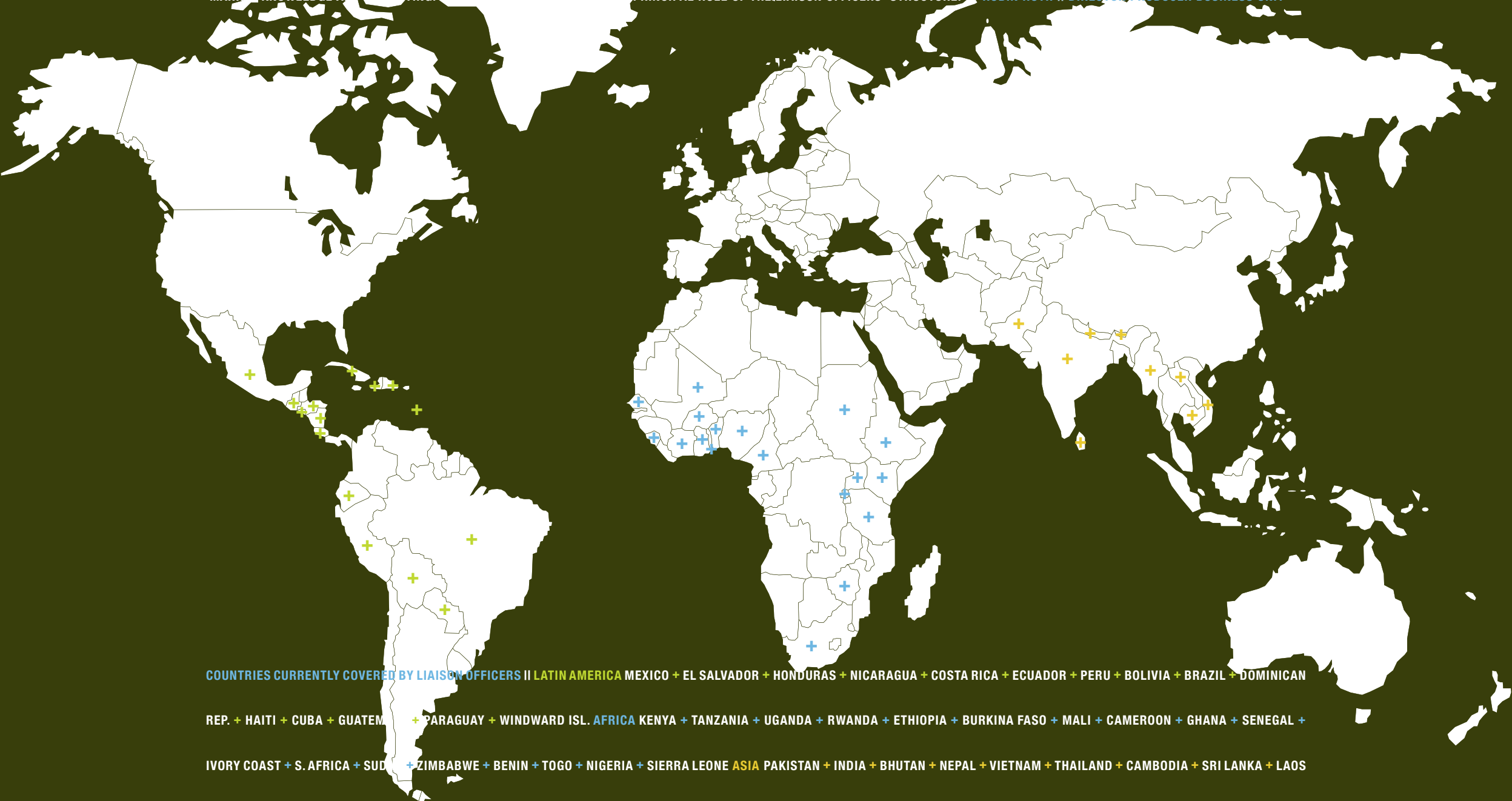








“ IN ORDER TO OPERATE ON THE INTERNATIONAL MARKET, MANY PRODUCER ORGANISATIONS, ESPECIALLY IN THE START-UP PHASE, IT IS ESSENTIAL TO RECEIVE SUPPORT IN THE FORM OF MARKET KNOWLEDGE AND MARKETING. THIS IS THE PRINCIPAL ROLE OF THE LIAISON OFFICERS' STRUCTURE. ” ROBIN ROTH II DIRECTOR, PRODUCER BUSINESS UNIT



COUNTRIES CURRENTLY COVERED BY LIAISON OFFICERS II **LATIN AMERICA** MEXICO + EL SALVADOR + HONDURAS + NICARAGUA + COSTA RICA + ECUADOR + PERU + BOLIVIA + BRAZIL + DOMINICAN REP. + HAITI + CUBA + GUATEMALA + PARAGUAY + WINDWARD ISL. **AFRICA** KENYA + TANZANIA + UGANDA + RWANDA + ETHIOPIA + BURKINA FASO + MALI + CAMEROON + GHANA + SENEGAL + IVORY COAST + S. AFRICA + SUDAN + ZIMBABWE + BENIN + TOGO + NIGERIA + SIERRA LEONE **ASIA** PAKISTAN + INDIA + BHUTAN + NEPAL + VIETNAM + THAILAND + CAMBODIA + SRI LANKA + LAOS



# CONSUMERS II RETAILERS TRADERS II PRODUCERS

“OUR CONSUMER SPENDING CHOICES AFFECT PEOPLE'S LIVES AROUND THE WORLD. THE PRODUCTS WE ENJOY ARE OFTEN MADE IN CONDITIONS THAT HARM WORKERS, COMMUNITIES AND THE ENVIRONMENT. THAT IS WHY WE ARE DEMANDING HUMAN SENSITIVE PRODUCTS. I TRUST THE FAIRTRADE CERTIFICATION MARK GUARANTEES THIS SENSITIVITY.” [OLIVER PLATA FRANCO II](#)

[FAIRTRADE CONSUMER II GERMANY](#)













# FROM WORKERS IN PLANTATIONS TO INDEPENDENT FARMERS

FAIRTRADE, A BUSINESS FOR DEVELOPMENT II HEIVELD COOPERATIVE II SOUTH AFRICA

THE CEDARBERG REGION, ABOUT 400 KM NORTH OF CAPE TOWN, IS A DRY, SANDY AND ROCKY AREA. The first impression for the visitor is that nothing of value could grow in this climate. But this apparently infertile soil is the home of one of the most appreciated teas in the world, Rooibos, or red bush tea.

Rooibos is the blood of the people of the arid Cedarberg. Apart from extensive stock keeping, sheep and goats, the production of Rooibos is the only economic activity in the region. But not everybody benefits the same way from the production of the precious beverage. The social problems caused by

the Apartheid regime still remain. For decades, the majority population of the area was discriminated against and people were referred to as “coloureds”. Even though some had small farms of their own, their only option for a steady income was to work as cheap labour on the farms of the whites. The organization of “coloured” people into organizations like cooperatives was suppressed during the Apartheid regime and they had no access to the market in order to sell their small amounts of produce. Even after the end of the Apartheid regime and the first democratic elections in 1994, a lot of black smallholders in South Africa still do

not have direct access to the market and have to sell their tea to bad conditions to white wholesalers. Most of them still do not have export licenses or their own equipment for tea production.

The Heiveld Cooperative represents the first successful example of black ownership of an exporting business in the whole Cedarberg region. The cooperative, a group of small farmers who produce Rooibos and Wild Tea, started off – unofficially - in 2000 with hardly anything to work with, except the support of two NGOs and the dedication of its 14 founding members.











Between members there is increasing trust and mutual support. When necessary COASBA lends members money to buy equipment or medicines for their bees, with more time to repay than before. It has supported member households through periods of hospitalisation.

The coop is a member of Chile's national network of beekeepers and prides itself on high technical and sanitary standards. Joel explains about the achieved benefits in professional development and says: "Thanks to the Fair-trade premium we have improved our standards and were able to get appropriate advice and training. We have clearly gained national level recognition for our produce, and are now in the position to pass on our expertise providing advisory services for local beekeepers also outside the coop, along with programmes in basic beekeeping for the local municipality."

#### HONEY FROM SANTA BÁRBARA

COASBA's confidence is growing. At the heart of their future plans lies the small yet ultra-modern honey processing plant and laboratory they are building just outside the town with initial support from a regional non-profit foundation.

The new facilities will make it possible to increase production, tap into the local market via a shop built on the premises, and improve the quality control and monitoring of diseases among the bee colonies in the region. Genetic improvement and training programmes are also being planned in partnership with two Chilean universities. Joel and Luis's ambition is for COASBA to become an independent international honey exporter selling throughout Latin America, Europe and even the Middle East.







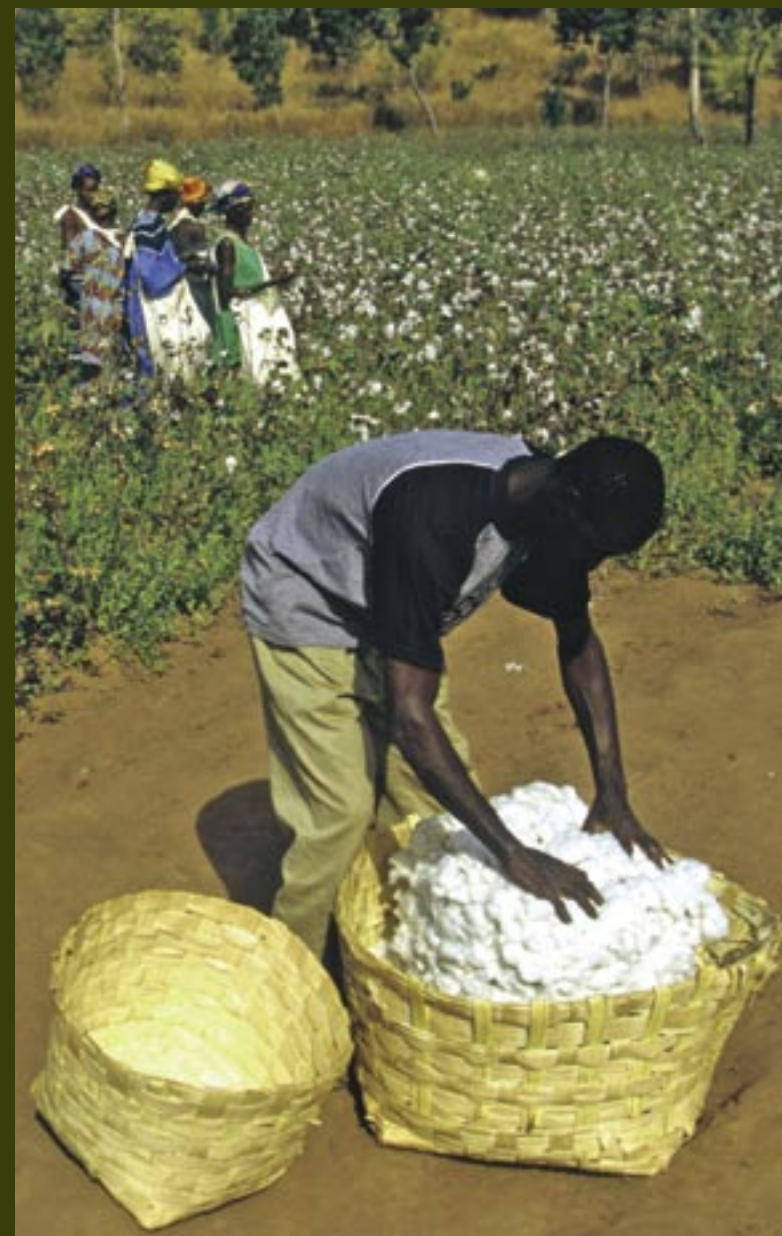




INCOME	2005	BUDGET 2005	2004
MEMBERSHIP CONTRIBUTIONS	1.333.982	1.239.215	890.245
EXTERNAL GRANTS FOR SPECIFIC PROJECTS	653.218	839.666	864.616
INTEREST EARNINGS & OTHER INCOME	1.546	--	1.263
	1.988.745	2.078.881	1.756.124
EXPENDITURES			
GOVERNANCE FLO INTERNATIONAL E. V.	251.963	281.036	360.178
FINANCE & CENTRAL SERVICE UNIT	530.004	473.395	447.314
STANDARDS UNIT	346.760	267.343	152.494
PRODUCER BUSINESS UNIT	622.981	611.107	528.220
REGIONAL LIAISON	185.809	446.000	65.922
CERTIFICATION PROJECT	63.334	--	--
SASA PROJECT	--	--	190.501
	2.000.851	2.078.881	1.744.629
BALANCE CARRIED FORWARD	-12.105	--	11.495

SIGNED BY LUUK LAURENS ZONNEVELD || MANAGING DIRECTOR FLO E. V. || BONN, 15. APRIL 2006

THE SUMMARIZED ANNUAL ACCOUNTS HAVE BEEN PRODUCED ON THE BASIS OF INTERNAL DOCUMENTATION AND INTERNAL ACCOUNTANCY FOLLOWING GENERAL ACCEPTED ACCOUNTING PRINCIPLES TAKING INTO ACCOUNT GERMAN TAX LAW (KSTG) AND COMMERCIAL LAW (HGB). FOR MORE INFORMATION, PLEASE CONTACT THE FINANCES & CENTRAL SERVICES UNIT AT FLO INTERNATIONAL E.V.



## SUMMARIZED ACCOUNTS FLO INTERNATIONAL E.V.

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDING DECEMBER 31ST, 2005 || ALL AMOUNTS IN € (EURO)

ASSETS	12   31   2005	12   31   2004	LIABILITIES	12   31   2005	12   31   2004
FIXED ASSETS	71.833	63.035	EQUITY CAPITAL	154.490	361.845
INTANGIBLE ASSETS	6.667	9.023	SEED CAPITAL	36.740	48.845
TANGIBLE ASSETS	36.640	25.487	DEFERRED INCOME	117.750	313.000
FINANCIAL ASSETS	28.525	28.525			
LIQUID ASSETS	520.405	606.862	LIABILITIES	437.748	308.052
OUTSTANDING ACCOUNTS FOR SERVICES	236.454	153.513	PROVISIONS	83.400	62.054
OTHER ASSETS	99.490	228.421	LIABILITIES TO BANKS	15.886	--
LIQUID FUNDS	184.460	224.927	LIABILITIES FOR SUPPLIES AND SERVICES	190.724	103.236
			OTHER LIABILITIES, ACCRUALS AND DEFERRALS	147.738	142.762
TOTAL	592.237	669.897	TOTAL	592.237	669.89



## BALANCE SHEET FLO INTERNATIONAL E.V.

AS PER DECEMBER 31ST, 2005 || ALL AMOUNTS IN € (EURO)



ALL THE WORK DONE IN THE PAST COULD NOT HAVE BEEN CARRIED OUT WITHOUT OUR FINANCIAL SUPPORTERS. WE ARE VERY GRATEFUL TO:

NOVIB + EVANGELISCHER ENTWICKLUNGSDIENST II EED + SNV + MISEREOR + DEUTSCHE GESELLSCHAFT FÜR TECHNISCHE ZUSAMMENARBEIT II GTZ + FOOD AND AGRICULTURE ORGANISATION II FAO + FOUR ACRE TRUST + RUFFORD TRUST + DEPARTMENT FOR INTERNATIONAL DEVELOPMENT II DFID + COMIC RELIEF + FONDATION DES DROITS DE L'HOMME AU TRAVAIL II FDHT + HIVOS - COSTA RICA + INTERNATIONAL CHURCH DEVELOPMENT COOPERATION II ICCO + DEVELOPMENT COOPERATION INTERNATIONAL II DCI + CENTRUM FÜR INTERNATIONALE MIGRATION UND ENTWICKLUNG II CIM

FLO ALSO WANTS TO THANK THE INSPECTORS AND VOLUNTEERS ALL OVER THE WORLD FOR THEIR HIGHLY VALUED CONTRIBUTIONS. FINALLY, BUT NOT LEAST, FLO WANTS TO THANK ALL THE INTERNS WHO ASSISTED THE FLO STAFF DURING THE LAST YEAR.

#### FLO'S BOARD OF DIRECTORS II JUNE 2006

BARBARA FIORITO II CHAIR OF THE BOARD + PAUL RICE II CEO TRANSFAIR USA + VICTOR FERREIRA II DIRECTOR MAX HAVELAAR FRANCE + VICTOR PEREZGROVAS II GENERAL MAGANER UNION MAJOMUT II MEXICO + IAN BRETMAN II DEPUTY DIRECTOR FAIRTRADE FOUNDATION + MIGUEL DE CLERK II DIRECTOR MAX HAVELAAR BELGIUM + JENS ERIK DALGAARD JENSEN II MAX HAVELAAR DENMARK + MR. GEETHAL PEIRIS II GENERAL MANAGER KOTAGALA PLANTATIONS LIMITED II SRI LANKA + JEAN-LOUIS HOMÉ II INDEPENDENT BOARD MEMBER + RAYMOND KIMARO II KILIMANJARO ATIVE COOPERATIVE UNION LTD + MR. GILMAR LAFORGA II DIRECTOR OF COAGROSOL II BRASIL + MR. LEO GHYSELS II OXFAM WERELDWINKELS II BELGIUM + MR. RICK PEYSER II GREEN MOUNTAIN COFFEE ROASTERS

#### FOUNDERS OF FLO

FLO WAS FOUNDED IN 1997 BY THE 14 NATIONAL INITIATIVES WITH THE AIM TO WORK TOGETHER ON 1 II DEFINING INTERNATIONAL FAIRTRADE STANDARDS, 2 II CERTIFYING AND AUDITING PRODUCER ORGANIZATIONS AND TRADERS INVOLVED IN LABELLED FAIRTRADE AND 3 II PROVIDING SUPPORT TO PRODUCER ORGANIZATIONS THAT NEED EXTERNAL HELP.

#### CURRENT FLO STAFF II JUNE 2006

FLO INTERNATIONAL E.V. CHRISTELLE AYGLON + MARIAN BEAUJON + MONIKA BERRESHEIM-KLEINKE + GELKHA BUITRAGO + GUILLERMO DENAUX + ALFRED ELBERTSE + CORNELIA HALM + NADIA HOARAU-MWAURA + XAVIER HUCHET + ROBERTUS VAN HOUT + KARIMAH HUDDA + DOROTHEE JUNG + CHRISTINA KLEE WOLFF + ANDREAS KRATZ + MATTHIAS KUHLMANN + TATIANA MATELUNA ESTAY + MARTINA MECKEL + ARISBE MENDOZA ESCALANTE + KAREN NEMES + ANDREAS NUBEL + NICOLE PETZ + VERÓNICA PÉREZ SUEIRO + CECILE PHILIPPART + ROBIN ROTH + ALEXANDER TOLEDO + HA TRAN + FRANK VIERHEILIG + LUUK ZONNEVELD

FLO CERT GMBH EDUARDO BLUHM + VANESSA BAUMES + FRANK BRINKSCHNEIDER + FELIPE CARRERA + LARA CHRISTOPHER + ANNE MARIE EUZEN + ADA GARCÍA + STÉPHANIE GAYMARD + MAIKE HOEPKEN + NATHALIE HOWARD + ANTJE KACHEL + CHRISTIAN KOEHN + SILKE KOHLSCHMITT + JUDITH KRIEGER + PIETER LOUW + CLAIRE MAGRAS + EVI MATEBOER + INES MAYORGA-BECK + RÜDIGER MEYER + LILIANA MORERA + OSE NIELSEN + ANDREA PÉREZ + CRISTIANA REHO + SIMONE ROTHE + ROCIO SANZ + PETER SUSBAUER + TILL WILLE + WENDY YEGON + JOHN YOUNG IN COSTA RICA VIVIAN ALAN + URIEL BARRANTES + ANA MARGARITA CUEVAS + LUIS ANTONIO ABARCA IN INDIA DILIP K. CHANDY

EDITED BY VERÓNICA PÉREZ SUEIRO + SIMON HOLLER STATISTICS ON PRODUCER AND TRADERS MIYAKO TAKAHASHI + CLAIRE MAGRAS PHOTOS BY FAIRTRADE MEDIA II WWW.FAIRTRADE-MEDIA.DE + BEAU BUREAU KOMMUNIKATIONSDESIGN II WWW.BEAU-BUREAU.DE DESIGN BY BEAU BUREAU KOMMUNIKATIONSDESIGN II COLOGNE II WWW.BEAU-BUREAU.DE PRINTED BY PRIMA PRINT II COLOGNE II WWW.PRIMAPRINT.DE







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