

THE COFFEE TRADER

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A FAIR TRADE SIMULATION IN TWO ACTS

Facilitator's Guide

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## ABOUT THE COFFEE TRADER

“The Coffee Trader” is designed to help participants identify the challenges faced by small-scale producers around the world by inviting them to act out a series of trading simulations. In Act One, geographically isolated small-scale farmers negotiate with coffee buyers under a series of parameters that illustrate the power imbalances inherent in many commodity supply chains. In Act Two, the parameters are redrawn to simulate a Fair Trade negotiation. In the facilitated dialogues that follow each act, participants identify and analyze both the structural challenges that small-scale farmers face overseas and the opportunities that Fair Trade presents to change the trading landscape.

(A variation on this approach for groups with more time and/or more general interest in agriculture, alternative trade and/or international development involves an intermediate simulation in which fewer variables are changed from Act One to demonstrate how effective, market-oriented interventions can dramatically improve the position of small-scale farmers even outside the Fair Trade system.)

The ideal group size for the simulation is at least 12 participants, organized into groups of six or more. The exercise is ideally conducted in a space large enough to permit the physical separation of participants so that none is within 6-10 feet of another. It requires no materials other than the roles that follow, markers and a flipchart for the facilitator to capture the group’s reflections.

## ACT ONE: CAFÉ, THE CONVENTIONAL WAY

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### SUMMARY & STAGING

#### Summary

Act One illustrates the plight of small-scale coffee farmers who lack vital information and resources and work in isolation from markets and one another. The simulation consists of a series of negotiations between small-scale farmers and a coffee buyer in which the power dynamics are highly skewed in favor of the buyer. It is a stylized experience that reflects many of the realities of the coffee trade for small-scale farmers.

#### Staging

The group must divide into small groups of no fewer than 4 people (6-8 or more is ideal). One person is identified as the buyer, and the remaining members of the group are farmers, who must physically separate themselves and are forbidden to speak to one another. The facilitator may wish to identify one person as an observer to help facilitate discussion in the plenary after the simulation.

After giving participants a minute or two to read their roles, the simulation begins. The buyer moves from farmer to farmer in a series of isolated negotiations. The facilitator may wish to enforce strict time limits on each negotiation (2-3 minutes) to ensure that every buyer has at least a few opportunities to negotiate.

At the conclusion of the allotted time, the facilitator brings the group to plenary to discuss the experience.

**ACT ONE: CAFÉ, THE CONVENTIONAL WAY**

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**Role: Farmer**

You are an independent small-scale coffee farmer living in the mountains of the República Cafetalera. You have three acres of land, two of which are devoted to coffee production. Coffee represents your primary cash crop, and your sale of coffee is the biggest source of revenue each year.

You have 1000 pounds of coffee to sell. Last year you sold for 90 cents per pound, and had a very difficult time feeding your family and meeting unexpected expenses during the year. This price was higher than years previous, but due to the rise in fuel and food prices your expenses have also become increasingly higher in recent years. You hope to get as much as you can for your coffee this harvest, but the price of agriculture tools, and fertilizers has doubled in the past two years and you are afraid that you will not have any money left over after expenses are paid.

With the proceeds from your sale, you need to pay off \$450 in debt to the folks who sold you seeds and tools and fertilizers on credit. You also have a host of immediate expenses that total \$200: medicine for your mother-in-law, shoes for your children and materials to repair your earthen wood-burning stove. You would like to send your three kids aged 11, 12, and 13 to school this year, but don't know whether you will be able to afford \$160 per child for annual school fees and uniforms, 480.00 total. In order to be able to pay off your debts, buy the things you need and send your kids to school, you need to make at least \$1,130.00 from the sale of your coffee. Whatever you earn above that amount you can put toward future expenditures on food, medicine, etc.

You think that you will have other opportunities to sell your coffee to another buyer this year, but you can't be sure. Since you don't have transportation to get your coffee to the town market, you need to rely on buyers coming out to your remote farm.

Good luck!

**ACT ONE: CAFÉ, THE CONVENTIONAL WAY**

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**Role: Intermediary**

You are a coffee trader. You live in a small town in the mountains surrounded by coffee-farming communities. You have a truck that enables you to travel from farm to farm in outlying regions during the coffee harvest to buy coffee that you will, in turn, sell to a processing mill.

You have capacity to buy and transport 100,000 pounds of coffee this harvest season. You are facing the challenge of high prices this year. Last year you bought coffee for .85 cents per pound or less, and were able to re-sell it to the mills for 1.00, making .15 cents per pound for a total of \$15,000. This year was a strong harvest, so there is an oversupply of coffee. This means that the mills will not pay more than .95 cents per pound. You are also spending more for gas due to high prices at the pump, so you need to negotiate the lowest price possible to generate the same earnings as last year.

With the proceeds from your sale, you need to pay off \$2000 in debt to the mechanics who repaired your truck on credit. You also have a host of immediate expenses, including new tires for your truck, that total \$600. You would like to build a new kitchen in your house that will cost you more than \$1,000.00 and you would like to build a small warehouse where you can store coffee that will cost another few thousand dollars. In order to be able to do all these things, and provide for your family you calculate that you can't pay more than .80 cents per pound for coffee.

If things don't work out with these particular farmers, you will have plenty of other opportunities to buy from other farmers. Since there is such oversupply this year, so you don't need to pay more than .75 cents this early in the season.

Good luck!

## ACT ONE: CAFÉ, THE CONVENTIONAL WAY

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### DISCUSSION NOTES

Bring the group back into plenary and solicit reactions from people who played both roles. Below are some suggested questions and priority themes you should work to elicit from participants.

#### Farmer Questions

- What was your **goal**?
- **What** happened? Did you sell your coffee/achieve your goal?
- **Why**/why not?
- **How** did the negotiation go? What was the **tone**? How did you **feel**?
- Did you make it clear that **the welfare of your family** depended on the terms of this sale? How did the buyer respond?
- What are the **consequences** of the outcome for you and your family?

#### Buyer Questions

- What was your **goal**?
- **What** happened? Did you buy coffee/achieve your goal?
- **Why**/why not?
- **How** did the negotiations go?
- What are the **consequences** of the outcomes for you/your business/your family?
- How did you **feel**?

#### Priority Themes

- **Information**  
Because coffee farmers work in isolation from population centers and markets, they rarely have access to the information, resources or services they need to compete effectively. The buyers, by contrast, are directly connected to overseas markets through their sales channels, and have up-to-date information about prices.
- **Lack of bargaining power**  
When coffee farmers work in isolation from one another, they have little to no leverage in negotiations. Unlike the farmers who *must* sell their coffee to survive, buyers can walk away from individual farmers with no adverse consequences for themselves, their business or their families.
- **Zero-sum negotiations**  
This is a classic case of zero-sum negotiation: the trader's gains are the farmer's losses, and vice versa. There is no incentive for either party to accede to the demands of the other, since every penny gained by one party is a penny lost by the other.

## ACT TWO: CAFÉ, THE FAIR TRADE WAY

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### SUMMARY & STAGING

#### Summary

Act Two simulates a negotiation between a cooperative and coffee company that participate in the Fair Trade system. Unlike the first act, which revolves around a struggle over the price of the coffee, Act Two is broader in focus—price is only one of several variables, and is less urgent to the farmers since the Fair Trade system guarantees that buyers pay coffee cooperatives a fair minimum price of \$1.25 per pound for all the Fair Trade coffee they buy. The simulation consists of a single negotiation between the elected spokesperson of a coffee cooperative and a Fair Trade coffee company trying to sustain itself as a business while also fostering the development of a worthy cooperative. It is a stylized experience that reflects many of the realities of the Fair Trade coffee system.

#### Staging

The group must divide into small groups of no fewer than 4 people (6-8 or more is ideal). One person is identified as the buyer, and the remaining members of the group are designated as farmers who belong to the San Ignacio cooperative. These farmers must elect one of their number as spokesperson to represent the group in negotiations with the buyer, although the representative can consult at any time with fellow coop members.

After giving participants a minute or two to read their roles, the simulation begins. The buyer and elected coop spokesperson begin to negotiate the terms of this year's purchase.

At the conclusion of the allotted time, the facilitator brings the group to plenary to discuss the experience.

## ACT TWO: CAFÉ, THE FAIR TRADE WAY

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### **Role: Elected cooperative representative**

You represent 80 small-scale coffee farmers who belong to the San Ignacio Cooperative. You all own small farms averaging three acres in size, two of which are devoted to coffee production. Coffee represents your primary cash crop, and your sale of coffee is the biggest source of revenue each year.

Ten years ago, coffee prices were at their lowest levels in a century. In an effort to improve your bargaining position with moneylenders and coffee buyers in this difficult market, a few of you—fellow parishioners at San Ignacio parish in town—banded together to create the cooperative. For the first few years, the cooperative was able to negotiate access to credit on better terms for its members, and managed to get a better price for its coffee since it offered buyers the ability to get a large amount of coffee through a single transaction, rather than going from farm to farm to get enough coffee to fill an export container. As more and more of your neighbors learned of these successes, they joined the cooperative. This expanded membership brought more production, more bargaining power and more success. Two years ago, the cooperative was able to invest in new technologies that helped to improve coffee yield and quality. At that time, the coop also applied for Fair Trade Certification. Then last year for the first time, the cooperative sold 20,000 pounds of its coffee (half a container) to Café Justicia, a Fair Trade company in the United States, for the guaranteed Fair Trade minimum of \$1.25 per pound—far more than other farmers in your region were earning and the most that anyone in your area had earned in many years. You deeply appreciated the opportunity to sell to Café Justicia—the first time your cooperative was ever visited or listened to by a representative of any coffee company.

This year, your cooperative member can produce 80,000 pounds of coffee—just enough to fill two large shipping containers—and the going rate on the local market is about \$.90/ lb. The cooperative's goal is to generate \$94,000 in revenue, which it can achieve by selling one full container (40,000 pounds) of coffee at the \$1.25 minimum.

You are working to maximize your Fair Trade sales because for every pound of coffee you sell into the Fair Trade system, the company that buys it returns a small “social premium” to the cooperative that can be spent on community projects. The local health clinic was badly damaged in last year's storm—if the coop can sell half its harvest on Fair Trade terms, it will have \$4,000 in social investment money to repair the clinic and purchase some basic medicines. There are also some upgrades you would like to make to your coffee processing facilities that will help you produce higher-quality coffee—\$2000 in investments you will be able to make if you can sell another half-container at Fair Trade prices.

Good luck!

## ACT TWO: CAFÉ, THE FAIR TRADE WAY

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### **Role: Fair Trade coffee company owner**

You own Café Justicia, a small coffee company in Savannah, GA. You lived in a coffee growing community while you were a Peace Corps volunteer in the República Cafetalera, and you came to understand the importance of coffee to the livelihoods of poor farmers overseas. You are committed to selling only Fair Trade coffee to your customers, and are making every effort to establish direct and personal relationships with the farmers who grow your coffee, even though this commitment is expensive—not only do you guarantee a fair price to coffee farmers, but you also invest significant amounts of time and money in traveling “to origin” (as they say in the coffee business) to build strong relationships with your suppliers.

A friend from the Peace Corps who still lives and works in República Cafetalera tipped you off about this coop two years ago. After visiting the coop, you were moved by its story and impressed with the quality of its coffee, so you decided to buy 20,000 pounds of coffee at \$1.25 per pound and develop the “San Ignacio Special Reserve”—a limited line of custom-roasted Fair Trade coffee from this coop. Its sales were strong but not spectacular. You have a new promotional strategy for this coffee that you expect will lead to a significant increase in the amount of San Ignacio coffee you can sell this year from 30,000 to 40,000 pounds. You are committed to this cooperative and want to find a way to help them succeed, and are willing to invest in the relationship to make that happen, but you do not expect to be able to sell much more than 40,000 pounds (one container) of their coffee this year.

Good luck!

## ACT TWO: CAFÉ, THE FAIR TRADE WAY

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### DISCUSSION NOTES

Bring the group back into plenary and solicit reactions from people who played both roles. Below are some suggested questions and priority themes you should work to elicit from participants.

#### Cooperative Questions

- What was your **goal**?
- **What** happened? Did you achieve your goal?
- **Why**/why not?
- Were any agreements reached **beyond the buying and selling of coffee**? (Groups may seek creative solutions involving variables beyond price and volume, including collaboration on/funding for social investment in the community.)
- **How** did the negotiation go? What was the **tone**? How did you **feel** during the negotiation? How was this **different from the way farmers felt during the first act**?
- What are the **consequences** of the outcome for your community?

#### Buyer Questions

- What was your **goal**?
- What were your **constraints**?
- **What** happened? Did you achieve your goal?
- **Why**/why not?
- **How** did the negotiations go?
- **How** did the negotiation go? What was the **tone**? How did you **feel** during the negotiation? How was this **different from the way buyers felt during the first act**?
- What are the **consequences** of the outcomes for you/your business?

#### Priority Themes

- **Stability**  
The long-term commitments made by Fair Trade buyers to coffee farmers removes a significant amount of uncertainty from the equation and permits farmers the luxury of making long-term plans for their farms and families—a future orientation that we all take for granted.
- **Community**  
While individual farmers in this act are concerned about their own earnings, the focus migrates quickly to community-level needs when there is enough certainty that enough coffee will be sold at a fair price to ensure a sustainable livelihood.
- **Relationships**  
The company’s determination to make a profit does not undermine its commitment to foster the development of the cooperative and community. Given the commercial and personal history between coop and buyer, and the prospect of engagement well into the future, the prevailing spirit is one of collaboration and mutual benefit.
- **“Win-win” or “integrative” negotiations**  
This negotiation shows how Fair Trade can help to align the interests of producers and buyers. When coffee buyers invest in the people who grow their coffee, and more specifically in their social, economic and productive infrastructure, those farmers grow better coffee. When the buyers can sell better coffee to their customers in the United States, they benefit as well.