Promoting Sustainable Trade between the Netherlands and Colombia

A case study of coffee, bananas, flowers, sugar and palm oil

Report prepared by NewForesight with BSD Consulting
September 2011
NewForesight

Established in 2008, NewForesight is a strategy consulting firm focused on global development and sustainable market transformation. Our mission is to build market systems that inherently value sustainability in order to use market forces for positive impact. We are experts in systems analysis, transformation processes, sustainable supply chains, multi-stakeholder processes, strategic marketing, certification & traceability programs and access to finance models.

Our core consulting services include: Strategy consulting, (interim) project and program management, internal organizational restructuring, market research, business model development and analysis, training and executive coaching, certification and traceability services and setting up new sustainability concepts.

For more information please visit www.newforesight.com

BSD Consulting

Founded in Switzerland in 1998, BSD Consulting is a globally orientated and active consulting group. We work through our locally based offices in Portugal, Spain, Brazil, Chile, Ecuador, Colombia, Mexico, China, and strategic partners around the globe to foster sustainable approaches to business.

Present in Colombia since 1996, our consultancy work has focused on the development of sustainable value chains across Colombia, the development of public policies geared at sustainable trade, monitoring supply chains, developing capacities in producers, and creating sustainable supply chain management systems for local and international corporations. Enterprises also benefit from our consultancy services that aim at integrating sustainability into business processes, strategies and organizational culture.

For more information please visit wwwbsd-net.com
Acknowledgements

This report was prepared by NewForesight and BSD Consulting under contract of the Netherlands Embassy in Colombia between June-September 2011. Given the report’s focus on sustainable trade between Colombia and the Netherlands, NewForesight partnered with BSD Colombia to ensure comprehensive input from local-level actors in both countries. Research was conducted through desk research, workshops with Colombian actors and interviews with industry, NGOs and research institutions in both countries. As such we would like to thank the following organizations for participating in interviews and workshops (in alphabetical order);

Netherlands:
AAK, Agrofair, Ahold, Ahold Coffee Company, Bonsucro, Cargill, Chiquita, CSM Global, Daabon, Decotrade, Del Monte, Douque Coffee, Douwe Egberts Foundation, Dutch Flower Group, European Coffee Federation, Fair Flowers Fair Plants (FFP), TASTE, FloraHolland, Fyffes, FNC, GreenPalm, KNVKT, Max Havelaar/Fairtrade, Milieu Programma Sierteelt (MPS), MVO, Solidaridad, Rainforest Alliance, Shell, Suikerunie, United Coffee, Utz Certified, Vereniging Groothandelaren Bloemen.

Colombia:
Asocaña, Asocolflores, Augura, Bancoldex, Ceniflores, Ciat, Coffee Expert, Control Union Colombia, Daabon, Departamento Nacional De Planeación (National Department Of Planning), Ecom Trading, Empresas De Nariño, Fedepalma, Federación Nacional De Cafeteros (National Coffee Federation), Fincamar, FLO, Florverde, Fondo Biocomercio/CGIAR, Fundauniban, Grupo Chia, Ministerio De Agricultura Y Desarrollo Rural (Ministry Of Agriculture And Rural Development), Naturacert, Racafé, Providencia, Red Elcosierra, Sintrainagro, Solidaridad, Uniban, Utz Certified, Virmax.
Table of Contents

Acknowledgements ................................................................................................................. 3
Table of Contents .................................................................................................................. 7
Executive Summary .................................................................................................................. 7
1. General Introduction .......................................................................................................... 9
2. The Colombian Coffee: a Flagship Sector ......................................................................... 13
   2.1. Introduction .................................................................................................................. 13
   2.2. Sustainability Initiatives ............................................................................................... 13
   2.3. Coffee in the Netherlands ........................................................................................... 15
       2.3.1. The Dutch Coffee Market .................................................................................... 15
       2.3.2. Sustainable Coffee in the Netherlands ................................................................. 16
   2.4. Coffee in Colombia ....................................................................................................... 17
       2.4.1. The Colombian Coffee Sector .............................................................................. 17
       2.4.2. Sustainable Coffee in Colombia .......................................................................... 19
   2.5. Drivers and Barriers ...................................................................................................... 21
3. The Colombian Banana Sector: Sustainability and Pricing ............................................... 25
   3.1. Introduction .................................................................................................................. 25
   3.2. Sustainable Initiatives ................................................................................................. 25
   3.3. Bananas in the Netherlands .......................................................................................... 26
       3.3.1. The Dutch Bananas Market .................................................................................. 26
       3.3.2. Sustainable Bananas in the Netherlands ................................................................. 29
   3.4. Bananas in Colombia ................................................................................................... 29
       3.4.1. The Colombian Banana Sector .............................................................................. 29
       3.4.2. Sustainable Bananas in Colombia ......................................................................... 34
   3.5. Drivers and Barriers ..................................................................................................... 35
4. The Flower Sector: An Opportunity to Flourish ................................................................. 40
   4.1. Introduction .................................................................................................................. 40
   4.2. Sustainability Initiatives in the Flower Sector .............................................................. 41
   4.3. Flowers in the Netherlands ........................................................................................... 42
       4.3.1. The Dutch Flower Market .................................................................................... 42
       4.3.2. Sustainable Flowers in the Netherlands ................................................................. 43
   4.4. Flowers in Colombia ..................................................................................................... 44
       4.4.1. The Colombian Flower Sector .............................................................................. 44
       4.4.2. Sustainable Flowers in Colombia .......................................................................... 45
   4.5. Drivers and Barriers ..................................................................................................... 47
5. Colombian Sugar Sector: Potentially a Sweet Future ......................................................... 51
Executive Summary

The Royal Netherlands Embassy in Bogota has asked NewForesight in partnership with BSD Consulting to carry out a study that looks into the possibilities of promoting trade in sustainably produced agro-commodities. The study focuses on five such commodities: bananas, coffee, flower, sugar and palm oil. Barriers to and drivers for sustainable trade in these five products were investigated and recommendations formulated to address them. Specifically the study focuses on the potential for a cross-sector, multi-stakeholder platform in Colombia that would address such issues as a collective. The study concludes with a work program for such a platform.

Little coffee trade between the two countries currently exists, but the Netherlands and Colombia both have a wealth of experience in developing sustainable coffee trade. The coffee industry itself is now pushing for greater sustainability. Colombia’s other sectors can draw lessons from the experience of the coffee sector both in terms of sustainable production and institutional support. Colombia itself, in continuing to promote sustainable coffee, can help drive certification alignment through linking up with the IDH coffee platform.

In terms of certified volume, Colombia’s banana exports and the Netherlands’ banana imports are the largest of all five sectors. This is in no small part due to bilateral trade relations wherein an estimated 70% of Colombia’s bananas exported to the Netherlands are certified. Colombia’s banana industry particularly stands to gain from the Colombia-EU Free Trade Agreement (FTA). The industry itself, while having close ties to Colombia, remains a highly competitive and price-sensitive market. The Colombian banana industry thereby has a lot to gain in further promoting sustainable production if demands continue to increase.

Together Colombia and the Netherlands dominate the global flower trade. While there are a number of sustainable labels for flowers, the barriers to increasing certification lie in lack of market impetus. While direct bilateral trade relations are lacking, the two countries can and should combine efforts in getting flower certification off the ground. With the IDH flower program in Holland, and Florverde in Colombia, each country has the institutions to do this. A greater market for certified flowers will have to be created.

Colombia’s palm oil and sugar production stand to grow significantly over the coming years given the government’s drive for increasing biofuels through its oxygenation program. This has already lowered the country’s exports of both products. Despite the Netherlands not being a large recipient of either goods from Colombia, certification has the potential to access European markets through the continent’s Renewable Energy Directive. Lowering tariff quotas on Colombian imports through the FTA will also make sugar as a consumer good much more interesting for exports. Exports of both of these products will most probably remain of less relevance by comparison to Colombia’s internal consumption.
In the short term, creating a **convening platform** for cross-sector and multi-stakeholder collaboration can help leverage knowledge and experience from the more developed sectors in Colombia. In the long-term Colombia should drive towards promoting itself as ‘**Sustainable Colombia**’; the go-to country for sustainable agricultural products. This can help align cross-sector interests as well as attract investment and support from multi-sector industries, the retail segment and public institutions, including the Dutch government. A convening platform can build on addressing the parallels in the sector-specific barriers identified in this report. Consolidating data-gathering, research and problem-solving analysis at a country-level not only builds greater efficiencies within the country, but also becomes an easy reference for international actors to confer with. Colombia is currently one of the world’s leading producers of certified agricultural goods. A concerted effort to build collaborative efforts around a convening platform gives the country the opportunity to move from being a standard taker to a standard maker.
1. General Introduction

The sustainable paradigm
Increasingly, consumers are demanding that the products they buy are produced sustainably. They are no longer content with a consumption pattern that is detrimental to the world’s environment, or does not do justice to the social and economic conditions of producers. It is no longer accepted that only certain brands are bringing sustainable products on the market; instead consumers require companies to ensure that their entire range of products is sustainably produced. Consumers want to be able to rely on their brands to take their responsibility so they can enjoy a ‘no worry product’. Companies are recognizing that the market is changing and know they have to respond before a lack of response becomes apparent. Meanwhile, amidst climate change, rapidly developing new economies, market speculation, land scarcity and a rising population, competition over raw materials is becoming fiercer. Sustainable supply chains therefore become a way of securing access. Finally, companies have come to realize that sustainable production brings better terms of trade for them as well as the producer, through efficiency gains, higher yields, reduction of supply risk and so on.
Governments are starting to play into this trend. Some leading donor nations are investing in sustainable trade initiatives as they see how it solidifies their trade relationships and benefits the environment while bringing development to sourcing nations. These sourcing nations in turn are becoming aware that they can achieve a competitive advantage by facilitating sustainable trade, drawing investments and enhancing their trade relationships.

The Royal Netherlands Embassy and its drive towards more sustainable trade
In this context the Royal Netherlands Embassy in Bogota sees a mandate and an opportunity to increase not just trade, but sustainable trade between the Netherlands and Colombia. In securing access to raw materials for Dutch businesses and consumers lies the possibility of also benefiting the Colombian economy, its environment and producers of agro-commodities, aiding the country on its course towards more sustainable production. The bar is set high, as the Embassy seeks to make a systemic impact on the Colombian agricultural sector.
In the next four years the Royal Netherlands Embassy aims to set up sector-wide programs where coalitions of market parties, government and civil society organizations will collectively invest in the social, ecological and economic sustainability of their supply chains. The goal is to significantly increase exports of sustainably produced agricultural commodities from Colombia to the Netherlands. A bilateral multi-stakeholder platform is envisioned that unites Dutch and Colombian agricultural industry actors in moving the sustainable transformation of their supply chains forward to greater collaboration and mutual benefit.
To lay the ground for this ambitious project the Embassy asked NewForesight, in partnership with BSD Consulting, to identify the barriers and drivers for sustainable trade between the two countries, using the trade relations of coffee, bananas, flowers, sugar and palm oil as case studies. The request was to develop a framework for action that will define the work program of the multi-stakeholder platform in its first years.
Uniting the Netherlands and Colombia on the course towards more sustainable trade

This study concerns two nations that are at the forefront of making trade more sustainable. The Netherlands has long been a forerunner in promoting sustainable trade to ensure stable international markets while focusing on social and environmental development. The notion of consumer-consciousness has existed in the Netherlands for decades, becoming apparent with the founding of Max Havelaar (the precursor to Fairtrade) in 1988. Since then the market share of sustainable goods in the Dutch market has grown as consumers and NGOs have demanded better social and environmental standards for the production of consumer goods. Through both national and Europe-wide encouragement the drive for investing in sustainability down the supply chain has been picked up by major industry players.

The Dutch government is particularly active in promoting this, both as a member of the European Union, and through direct relations with partnering countries. Recently, a special organization was created under the umbrella of the Dutch government to facilitate sustainable market transformation: the Dutch Sustainable Trade Initiative (Initiatief Duurzame Handel – IDH). Similarly in research, institutes like Wageningen University are leading in the scientific quest for the improvement of conditions throughout the supply chain.

Colombia could be an important sourcing partner to the Netherlands, given its strong economic growth over the last ten years and its abundance of natural resources. The country is an important producer and exporter of agricultural products. With the exception of sugar, Colombia ranks within the top 6 of global exporters in all of the products assessed in this report. It plays a particularly important role in the global flower, coffee and banana sector (see figure 1.1 below). The Colombian agricultural sector as a whole is relatively advanced, with a wealth of organizations and research bodies focused on improving agricultural production. Furthermore, agriculture plays a vital role in the lives of millions of its people; production of agricultural commodities provides an income for rural workers and their families and plays a central role in ensuring social stability, especially in rural areas.

<table>
<thead>
<tr>
<th>Product</th>
<th>Global export rank</th>
<th>% of global exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cut flowers</td>
<td>2</td>
<td>12%</td>
</tr>
<tr>
<td>Coffee</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>Bananas</td>
<td>4</td>
<td>10%</td>
</tr>
<tr>
<td>Sugar</td>
<td>12</td>
<td>2%</td>
</tr>
<tr>
<td>Palm oil</td>
<td>6</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

Figure 1.1: Colombian exports 2008 by quantity.
(Source: FAO Stat, UN Comtrade. Latest available data)

Sustainable trade in Colombia has grown significantly over the last decade; initiatives were initially prompted by the private sector, where key players such as Nestlé, Kraft, Sarah Lee, Fyffes, Sainsbury, Marks & Spencer, Chiquita and Procter & Gamble supported the sustainable certification of producers in their supply chains under various schemes. The last five years have seen an accelerated growth in the volumes of certified products, mainly driven by sustainable production programs.
aligned to international standards, and led by Colombia’s main trade associations and producer organizations. This came in response to increased levels of demand from importers and conscious consumers abroad. More recently, export and competitiveness promotion agencies have started integrating sustainable trade into their strategies, and laying the ground for research, capacity development, public policy development, cluster-building and financing activities. Despite the varied domestic and international constraints, all of the five sectors have actors involved in certification processes and continuing research into lowering negative social and environmental impacts.

<table>
<thead>
<tr>
<th></th>
<th>Colombia exports / certified %</th>
<th>Colombia-NL trade / certified %</th>
<th>NL imports / certified %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>469,298 / unknown</td>
<td>7,957 / unknown</td>
<td>194,067 / 45%*</td>
</tr>
<tr>
<td>Bananas</td>
<td>1,723,300 / 33%*</td>
<td>123,000* / 70%*</td>
<td>208,463 / 42%*</td>
</tr>
<tr>
<td>Flowers</td>
<td>222,157 / unknown**</td>
<td>4,443 / unknown</td>
<td>86,836 / unknown</td>
</tr>
<tr>
<td>Sugar</td>
<td>694,000 / 1.4%*</td>
<td>839 / 95%*</td>
<td>10,950,000 / unknown</td>
</tr>
<tr>
<td>Palm oil</td>
<td>109,695 / 0</td>
<td>28,116 / 0</td>
<td>2,130,000 / unknown</td>
</tr>
</tbody>
</table>

Figure 1.2: tons exported, imported and percentage certified (latest available figures 2008-2010).
(Sources: UN Comtrade, FAO Stat, CBS, ICO).
* These figures are based on interviews with industry and calculated estimates.
** 1.3 billion certified stems were exported from Colombia in 2010. This figure is not available in tons.

The link between Colombia and the Netherlands is strong and spans cooperation in trade, energy and the environment. The Netherlands is the 3rd largest export destination for Colombia and its main destination within the EU. Trade has been increasing steadily over the past years; exports to the Netherlands rose from €478 million in 2006 to €782 million in 2010. But, as an overview of (sustainable) trade in figure 1.2 shows, despite Colombia’s global significance, trade in agricultural commodities between the two countries is small in most sectors – with bananas as a notable exception.

The study thus faced a challenge that was twofold. First, how to stimulate trade in these agricultural commodities, and second, how to make sustainably produced goods more important within those trade flows. We set out to do both and formulate recommendations that will unite the Netherlands and Colombia on the course towards more sustainable trade; the former as a leader in sustainable consumption and the latter as a leader in sustainable sourcing.

---

1 CBS 2011.
2 It is important to note that certified percentages in figure 1.2 do not come from databases but are based on interviews and proxy-based estimates. As such, they should only be interpreted as indicative of sector-trends.
Structure of report

The report is structured around the five sectors, followed by recommendations and an outline for a convening platform. Each chapter begins with a holistic overview of industry trends at a global level and its inherent value as a product. This is followed by an introduction to the sustainable initiatives most relevant to each sector. The Netherlands market is then addressed, after which the Dutch appetite for each certified product is described. This is complemented by an overview of the Colombian industry, addressing domestic production and exports alongside the major actors involved. Colombia’s sustainable production and export is then presented, after which each chapter concludes by reviewing and visually presenting the main barriers and drivers for sustainable trade from a Netherlands and Colombian perspective.

These conclusions are cumulatively drawn upon to provide sector-specific as well as overarching recommendations on how sustainability can be promoted. The overarching recommendations lay out what can be done to promote sustainability in a way that would address crucial needs of the collective sectors: e.g. a data gathering mechanism for sustainable trade. The sector-specific recommendations are presented on top of that, laying out trajectories towards increasing sustainable trade between Colombia and the Netherlands across a multi-year action framework. Actions are only suggested where such an increase can reasonably be expected. In many ways they are bound by a context beyond the reach of this study or those that commissioned it.

For the sake of brevity more detailed descriptive information has been moved to the appendix. By sector, a review of the supply chain and main Colombian actors is provided. Following this, a more exhaustive overview of EU trade and energy policies is provided. These continue to play a huge role in both conventional and sustainable trade flows. Similarly, Colombia’s biofuels policy is described to better understand the future of palm oil and sugar exports. Finally, a brief description of Colombia’s currency appreciation is provided as an overarching worry that is detrimental to the country’s export position. These external factors are referred to throughout the text.
2. The Colombian Coffee: a Flagship Sector

2.1. Introduction

Coffee is the second most important commodity in terms of volume and value traded in international markets after petroleum. The main coffee producing countries are Brazil, Vietnam, Indonesia and Colombia. Global coffee production has been growing at an average of 0.5% per year over the past ten years. Of total coffee production, approximately 73% was exported to external markets in 2009 and 27% consumed in local markets. The demand for coffee in North-America and the EU is growing slightly. At the same time there is a strong growth in demand in the coffee producing countries themselves; the demand for coffee within Brazil grew with 5% in 2009 compared to the year before. Brazil is the 2nd biggest coffee consuming country in the world after the US and before Germany (the biggest EU consuming country).

The price for green (i.e. unroasted) coffee on the world market has further grown to a record high in 2010 of over 140 dollar cents/pound compared to 40 dollar cents/pound in 2001-2002. The low prices in the 2001-2002 were the result of oversupply. Today’s high prices are mainly due to disappointing harvests in Colombia and other Latin-American countries as well as the increased global consumption.

2.2. Sustainability Initiatives

The coffee sector has always been characterized by numerous sustainability challenges, such as lack of good agricultural practices, low yields, low quality, lack of access to finance, unsustainable land practices, social injustice, environmental issues, and aging farmers. More recently the sector is faced with the serious effects of climate change, loss of biodiversity, and an increasing competition for land use for agriculture.

Because of the economic importance of the coffee sector, the persistent sustainability issues and the fact that coffee is a consumer commodity\(^3\), coffee was one of the first internationally-traded commodity sectors to see collective efforts to develop standards that address socio-economic and environmental concerns. The first voluntary standards that were developed to address these core socio-economic-and environmental concerns in the coffee sector were Fairtrade, Organic, and Rainforest Alliance. More recent similar initiatives are UTZ Certified (founded in 2002) and the 4C Association (founded in 2003). Following on the lead of these global initiatives, a number of private companies have also established their own criteria and monitoring and enforcement systems for sustainable coffee.\(^4\) Since then the coffee sector has taken a leading role in the development of sustainability initiatives.

---

\(^3\) A consumer commodity is a commodity which is recognized by consumers as an end product, and has an important function in their daily lives.

\(^4\) A few examples include Starbucks’s CAFE Practices, Nespresso AAA Quality Standards, Neumann Coffee Group Sustainability Criteria.
standard setting organizations, certification and round table verification models. The coffee sector serves as an example for many for other agricultural commodity sectors and some of the leading certification and standard setting models that are out there today.

**Global demand for sustainable coffees**

Certified sustainable coffee is no longer an inconsequential market niche. Especially in the last years the sustainable coffee segment has been increasing by about 20-25% each year compared to about 2% for conventional coffee. Supply of certified sustainable coffee is set to increase significantly in the coming years due to various buyer initiatives: Kraft, Nestle, and Sara Lee all have made commitments to increase sustainable supply in the future.

- The Nestlé Nescafe plan: in 2015 all direct purchases will meet 4C Association standards and in 2020 an additional 90,000 tons will meet Rainforest Alliance standards.
- Kraft: Kraft is working closely with Rainforest Alliance and has recently announced that their total volume will also meet at least 4C Association standards.
- Sara Lee: By 2015 Sara Lee will have 20% of its global annual coffee volume certified.
- IDH coffee program: The IDH coffee program aims to increase sales of sustainable green coffee from the current 8% to 25% by 2015 through a public-private cooperation involving the coffee industry, trade and export partners, governments, NGOs, trade unions and standard setting organizations.

**Global production of sustainable coffee**

Despite the rapid growth of these voluntary sustainability initiatives and the serious commitments from market players, the overall total market share for sustainable coffees still only accounts for approximately 8% of global green coffee exports in 2009 (which is estimated to equal 17% of total green coffee production). 76.5% of global sustainable produced coffee comes from Latin America and 59% of global conventional exports. With Vietnam the continent dominates sustainable coffee production.7

---

5 Pierrot et al (2010).
6 Potts, et al.
7 Ibid.
2.3. Coffee in the Netherlands

2.3.1. The Dutch Coffee Market

The Netherlands imported a total of 194,067 tons of green coffee beans in 2009 beans (see figure 2.2).\(^8\) 4.1% of this came from Colombia, compared to 7.1% in 2008 and 8.7% in 2007. The drop in both Colombian and general imports in 2010 is directly related to the loss in production in Colombia due to climate factors, disease, and the renovation project (see section 2.4).

![Figure 2.2: Total Dutch green coffee imports, including % Colombian imports](Source: KNVKT)

There is a natural limit to the percentage of Colombian coffees (not specifically sustainable) that can be sourced for the Dutch market. Colombian coffees are high quality Arabica coffees that are mostly used in (high quality) blends and specialty- and single origin coffees. The Dutch specialty market is relatively small. Compared to the global export market of which Colombia coffees represent 10%,\(^9\) the Netherlands imports a lower ratio of Colombian coffee.

**Consumer behavior trends**

The average Dutch person drinks on average 3 cups a day, 70% of which is consumed at home. The remaining 30% is consumed through out-of-home channels like the catering industry (30%), public services (13%), or the office (55%).\(^10\) Although coffee consumption in the Netherlands has been pretty stable over the past years, the consumption patterns are changing. Dutch consumers are putting higher demands on their coffee and are changing in their coffee drinking culture. More and more specialty coffees and single origins are demanded. This development is fuelled by the continuing growth of one-cup-of-coffee methods like bean-to-cup coffee machines, and coffee cups

---

\(^8\) Productschap akkerbouw, www.pa.nl
\(^9\) Faostat (2008)
\(^10\) KNVKT
and pad machines to 35% of total coffee packages.\textsuperscript{11} As a result there is a continuing growth in the number of specialty stores (25% increase from 2009 to 2010).\textsuperscript{12} Despite these impressive growth figures, the current specialty sector only represents 3% of the market.

**Main players**
The main player in the Dutch market is the multinational Sara Lee Douwe Egberts, which has a market share of more than 50% through supermarkets and the out-of-home markets. Douwe Egberts is the most popular A-brand among Dutch consumers. Other important players are Ahold Coffee Company and United Coffee (formerly known as Drie Mollen Holding), both of which supply private label brands to supermarkets. Some smaller players include: Peeze, Neuteboom, Simon Levelt, and Smit&Dorlas.

**2.3.2. Sustainable Coffee in the Netherlands**
The Netherlands has a long history of sustainable coffee. In 1989 Max Havelaar entered the Dutch market with Fairtrade coffee. In 2002 UTZ Certified launched its label in the Dutch market together with the private coffee label of Albert Heijn (which is 100% certified). Today the Netherlands is the global leader in sustainable coffee by market share. Approximately 45% of all coffee consumed in the Dutch market is certified sustainable.\textsuperscript{13} And this market share is set to increase significantly in the coming years due to various buyer and industry commitments:

- Ahold Coffee Company: All Perla coffee is already 100% Utz Certified.
- Sara Lee Douwe Egberts: Is committed to purchase 80% of its coffee for the Dutch market as Utz Certified by 2015.
- KNVKT: The Dutch branch organization for coffee and tea together with the Dutch coffee industry recently published a declaration of intent on sustainability in which it expressed its commitment to increase the share of sustainably produced coffee on the Dutch market to 75% by 2015.

\textsuperscript{11} KNVKT.
\textsuperscript{12} http://www.hbd.nl/pages/14/Winkels/Koffie--en-theewinkels.html?branche_id=51&hoofdonderwerp_id=28
\textsuperscript{13} Oxfam Novib.
Green procurement policy of Dutch government
The European Union has established guidelines and targets for ‘green’ procurement for all public tendering procedures (GPP and GSP; see Appendix VI). Within the current social criteria for coffee a distinction is being made between ‘generic’ and ‘additional’ social criteria. The additional social criteria have been split into two separate routes: ‘fair trade’ and ‘living wages’. In the Netherlands, the operationalization of the route ‘fair trade’ has resulted in a set of predetermined trade conditions: guaranteed minimum price, pre-financing, and a focus on small-scale farmers organized in cooperatives. With these criteria the Dutch government forces the choice for one sustainability initiative, namely Fairtrade.

This current interpretation of green public procurement by the Dutch government is a barrier for producers and coffee producing countries like Colombia that have invested in alternative sustainability models, such as Utz Certified, Rainforest Alliance, and 4C. At the same time, the Fairtrade model is less relevant for well-organized countries like Colombia (compared to African countries for example). With 16% of EU GDP being spent through public procurement, this will impact the sustainability market and turnover of (Colombian) sustainable coffees on the EU market under labels other than Fairtrade.

2.4. Coffee in Colombia

2.4.1. The Colombian Coffee Sector
Coffee is crucial to the Colombian economy; the commodity represents 16% of the national agricultural GDP. 553,000 families produce coffee with nearly four million Colombians depending on the crop. 95% percent of those coffee-growing families farm on plots of land, smaller than two hectares, as a family-run operation. Nearly 55% in fact has a plot of land smaller than one hectare, accounting for only 12% of the country’s production. On the other extreme of the spectrum you have the 1.7% of farmers with plantations, who account for nearly 23% of total production. Coffee is produced in over half of all municipalities in the country. Antioquia is the department with the greatest area of land dedicated to coffee production, followed by Huila and Tolima.

Exports and production
Colombia is the third largest producer of coffee worldwide with an average share of about 10.2% between 2000-2007, after Brazil (31.2%) and Vietnam (12.8%); followed by Indonesia (6.4%). In 2010 Colombia produced 8.1 million 60 kilo bags of green coffee. This was 14% more than the previous year, but less than expected and still significantly below Colombia’s historical production level. This drop in production in 2010 was due to an unusually dry climate, spreading of rust disease, and high prices of fertilizer. At the same time FNC has been implementing the Coffee

---

14 FNC.
15 Roldán-Pérez, et al.
16 ICO production database.
17 Ibid.
18 Only 35% of the coffee plants in Colombia are resistant to this type of disease
Renovation Project since 2008, which added to the drop in production. This program is focused on rejuvenating old coffee fields and planting young, high-density coffee fields instead. It is a much needed improvement after the years of underinvestment following the coffee crisis of the early 2000’s when yields were declining drastically. The downside however, is that production has declined substantially as fields go into renovation. This year as much as 15% of the coffee fields are out of production for a two-year period because of this program.\textsuperscript{19} Estimations are that by 2012 the FNC will have reached its normal production levels again, and from 2015 onwards production levels will even double those of 2010.\textsuperscript{20}

Even though the volume in 2010 was quite low by historical standards, the estimated total crop value was (at 2.3 billion USD) 27\% higher than in 2009 (see figure 2.3). This can be attributed to a global environment of high coffee prices, the relative scarcity of Colombian coffee in the market, and the FNC strategy to maintain relatively high coffee prices/premiums for Colombian coffee, positioning the coffee in the top quality segments.

\textbf{Figure 2.3: Total Colombian production and value of production.}
(Source: FNC)

The United States is the main destination of coffee exports from Colombia, buying 37\% of Colombia’s coffee production in the last five years (Canada – the other North American market bought 5\%); 38\% goes to Europe (with the biggest importer being Germany at 10\%); 16\% to Asia and the remaining 4\% to other regions. The greatest share of exports is being handled by the FNC. It was responsible for 34\% of the country’s exports; far more than distant rivals Colcafé (19\%) and Racafé (14\%). However, FNC data indicates their share of exports has been steadily declining from well over 50\% in 2000.

The value of the country’s coffee exports (green beans, roasted beans, instant coffee and coffee extracts) usually ranges between 1.6 and 2.2 billion USD, depending on coffee price cycles and export

\textsuperscript{19} Ibid.
\textsuperscript{20} Ibid.
In order to maintain Colombia’s position in the top quality segment the FNC offers a broad range of distinct coffees. By focusing on differentiation they ‘de-commodify’ the coffee, a strategy that has shown clear results; at the start of the decade only 9% of exports was made up of value-added coffee, while in 2010 31% of the export volume was either specialty coffee, processed or industrialized coffee.

**Colombian Coffee Growers’ Federation (FNC)**

The Colombian coffee sector is uniquely well organised. The FNC is a non-profit organization that was created to represent the interest of the Colombian coffee producers by acting as the face of Colombian coffee abroad and controlling and supporting the sector within Colombia, fully independent of the Colombian government. Through a levy on all green coffee exports, the FNC has created a National Coffee Fund. This fund is used to finance its Purchase Guarantee policy\(^22\) (84%), technical assistance to the producers and scientific research (4% of expenses). In addition the Fund’s resources are used to create and (co-) finance programs that are aimed at livelihood improvement of coffee producers (9% of expenses) or marketing and competitiveness-enhancing measures for the Colombian coffee sector (less than 1%). The Fund has initiated such programs with the Colombian government, regional governments and international aid organizations. (For more information on the FNC see Appendix I).

### 2.4.2. Sustainable Coffee in Colombia

In 2009 46.1% of total Colombian coffee production was certified / verified against one of the four major sustainability initiatives\(^23\). Taking into account that an estimated 17% of world coffee production is certified this makes Colombia a leading producer of sustainable coffees. Indeed it consistently ranks as a top three producer in all four main coffee certification programs.

27.41% - 4C*
"41% - 4C*"
12.25% - FairTrade
9.95% - Utz Certified
3.34% - Rainforest Alliance

**Year 2009: x1.000MT certified production (not sales)**

---

\(^{21}\) FNC.

\(^{22}\) Purchase Guarantee policy: A mechanism that guarantees coffee growers the purchase of their product at transparent prices and in cash payments at purchase points close to their farms for defined quality standards. The Purchase Guarantee Policy is based on the daily publication of a base price that is calculated using the market variables at the time of publishing.

\(^{23}\) NewForesight analysis, validated by the FNC. Only a part of this coffee is actually is being sold as sustainable, however, due to lack of demand.
Global Coffee Production in tons | 7,384,620
---|---
Total Colombia coffee production in tons | 485,888
% Colombia coffee compared to global | 6.6%

<table>
<thead>
<tr>
<th></th>
<th>UTZ</th>
<th>RFA</th>
<th>FT</th>
<th>4C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total certified production volume globally per standard</td>
<td>365,009</td>
<td>168,114</td>
<td>324,000</td>
<td>604,086</td>
</tr>
<tr>
<td>Colombia certified production volume in tons</td>
<td>48,364</td>
<td>16,206</td>
<td>59,519</td>
<td>133,201</td>
</tr>
<tr>
<td>% per standard total certified production volume of global production volume</td>
<td>4.9%</td>
<td>2.26%</td>
<td>4.35%</td>
<td>8.12%</td>
</tr>
<tr>
<td>% Colombia certified production volume of total production certified volume</td>
<td>13.25%</td>
<td>9.64%</td>
<td>18.37%</td>
<td>22.05%</td>
</tr>
</tbody>
</table>

Figure 2.4: Colombian certified production volume per sustainability initiative in 2009
(Source: calculated based on numbers from Potts, et al)
* Corrected for a 25% double certification overlap of 4C with other initiatives, based on estimations from Pierrot, et al

Note to figure 2.4:
- According to the FNC database (SICA) 20% of the producers are part of a sustainable standard initiative (certification and/or verification): 109,398 producers in total with 321,821 hectares under production, 1/3 of the total area in coffee. This includes double and triple certified.
- The FNC implements 83 capacity building programs to develop sustainable initiatives. At least 3 other programs from traders are known.

In 2010 the FNC, which started its sustainable coffee program in 2002, sold 383,000 bags that were verified or certified by one of the main global sustainability standards. This is more than eight times as much as in 2008. More and more producers are adopting sustainable standards. In 2005 there were only 4,051 producers while by the end of 2010 there were 103,275 (see figure 2.5). The number of hectares increased from 15,000 to 296,000 over the same period. The FNC actively supports this move through various programs of quality management and improvement. Its value-added strategy profits from and benefits sustainable coffee production in the country. The specialty coffees that were sustainably produced generated the greatest value added.27

---

24 ICO production database.
25 Ibid.
26 Potts, et al.
27 FNC.
2.5. Drivers and Barriers

The coffee sector has traditionally been a leading sector in the realm of sustainability, with Colombia as a leading (production) country. It is mostly because of the FNC that Colombia has been able to successfully develop its sustainable production. That organization and the sector in broader terms show strong signals that the broader sustainability agenda will continue to be pursued.

Market drivers for growth sustainable trade

- **Major international sustainability commitments**
  
  The major sustainability commitments expressed by the leading roasting companies will boost global certified sustainable production and provide a driver for Colombian-Dutch sustainable trade. The ambition of the IDH coffee program to increase global sustainable coffee exports from the current 8% to 25% plays an important role in this.

- **Growth of Dutch specialty market**
  
  The growth in the number of Dutch specialty stores (25% increase from 2009 to 2010\(^2\)) and the consumption pattern moving towards more specialty and single origin coffees provide an excellent opportunity for Colombian coffee (being high-quality and mostly used in single origins and high quality blends).

- **High coffee price due to scarcity**
  
  Since the global coffee crisis in the beginning of the decade demand has steadily increased with around 2-3% per year. However coffee production has problems keeping up with the increasing demand. This has led to a situation of (structural) undersupply, lowering buffer stocks and consequently sharp increase in prices. High prices are normally a sign that commodity markets are

---

becoming a seller’s market rather than a buyer’s market. Structural scarcity and high prices are strong drivers for the coffee industry to integrate backwards in their value chains and get preferred access to their sources and invest in increased productivity and sustainability.

Drivers at origin for growth sustainable trade

- **FNC’s 86 years of focusing on sustainability**
  Since its creation in 1927, the FNC has created “an institutional model which allows coffee growers to turn their collective savings into public goods” from which they themselves benefit. Sustainability has always been present in the FNC programs: extension services, ensuring coffee growers receive fair / transparent prices, research and knowledge transfer, positioning Café de Colombia worldwide, as well as social well-being and environmental initiatives. Over the last decade, the FNC has consolidated its focus on sustainability. The strategic plan for 2008-2012 integrates key sustainable production issues and formulates a ‘Sustainability in Action’ program. In 2011 the FNC published its first sustainability report.
To a large extent it is thanks to the FNC that Colombia has a plethora of programs and initiatives to advance sustainable production / trade in coffee across a variety of issues. Focal points include everything from social and environmental issues to productivity enhancement and source of origin protection. In working on these programs the FNC has established important alliances and relationships with government agencies, international cooperation agencies and NGOs that will be key to continue advancing sustainable trade initiatives.

- **Strong trajectory with certification/verification schemes and specialty coffee programs**
  Since 2002, the specialty coffee program has been expanding and has made Colombia a worldwide leader in sustainable coffee production. 46% of Colombian production is certified sustainable, compared to 17% worldwide. The growth and experiences with various certification schemes obtained through this program will be of great relevance to advance sustainable trade in the future, both within Colombia and on a global scale.

- **Good reputation and management**
  The FNC has developed an innovative portfolio of legal instruments to defend the reputation of Colombian coffee and guarantee that Colombian growers will receive higher prices for their products (Protected Geographical Indications, Denominations of Origin and Certification Marks). As the market moves towards traceability and single-origin coffee, this would be an asset.

**Market barriers for growth sustainable trade**

- **Fragmentation of standards**
  Since the start of coffee certification Colombia has played an active role in implementing different sustainability standards, playing on its strengths of being well organized and having a culture of strong attention to sustainability. The sector has actively involved the certification standards and employed them to create differentiation possibilities for Colombian coffee. But the competitive nature of the standards led to a fragmented spectrum, resulting in inefficient use of resources and insufficient gains for the producer to continue his certified production.

**Barriers at origin for growth sustainable trade**

- **Climate sensitivity leading to loss in production**
  Colombian coffee production had dropped drastically from 750,240 tons in 2007 to 485,888 tons in 2009 due to climate factors and disease (and the renovation project – see final barrier). Because of this drop in production Colombian exporters were not able to meet their contracts, and Colombian coffee prices rose. As a result, buyers of Colombian coffee shifted to alternative sources (e.g. high quality Arabica coffees from Guatemala, Costa Rica, Papua New Guinea, and the better coffees from other Latin American countries and East Africa). When Colombian coffees become more competitive again, expectations are that export levels will come back to ‘normal’ again. Some of the buyers did indicate that a lack of expectation management regarding the loss of production has resulted in a dent in Columbia’s reputation as a trustworthy supplier. This is currently affecting business relationships.
• **High prices result in less incentives for producers to become certified**  
  In times of high international prices producers do not see the economic benefits of certification schemes as clearly (especially Fairtrade which guarantees a minimum price), and importers are not as willing to pay for price premiums as their margins are squeezed by all the new traders entering the sector.

• **Supply and demand imbalance**  
  Most importantly, there is a broad problem with matching supply and demand. A large majority of what is produced as certified/verified coffee gets sold as conventional coffee. This undercuts the incentive to produce it in the market.

• **Renovation program leads to significant drop in production**  
  Over the last few years the Colombian coffee industry has begun a massive overhaul to replant its coffee plantations. Coffee plants have an average life cycle of 20 to 25 years. It takes a new plant 3-6 years to reach its maximum production level, which then declines again in the final years. This process of replanting is taking place at different times and over different areas so as to spread the effects. But overall it is lowering exports. Exports are expected to reach ‘normal’ production levels again in 2012.
3. The Colombian Banana Sector: Sustainability and Pricing

3.1. Introduction

Among fruits, bananas currently rank as number one by export volume and value.\(^29\) As such it represents a valuable source of income for many thousands of farmers, plantation workers and their families in the developing world.\(^30\) In 2008 just over 17.1 million tons were exported globally. The greatest exporters in order of importance are: Ecuador, Costa Rica, Philippines, Colombia and Guatemala, together holding 72% of the market.\(^31\) Last year the US and EU together imported an estimated 76% of global banana exports. Chiquita, Dole and Del Monte control 60% of the world market, with Noboa and Fyffes controlling another 26%. Chiquita and Fyffes are the two most important suppliers of bananas to Europe.\(^32\)

Selling bananas cheaply is used by supermarkets to attract shoppers. This has lead to ‘price-wars’ in supermarkets.\(^33\) This has driven down prices so much that some estimate the banana to be a ‘loss-leader’, i.e. a product that supermarkets may even make a loss on to draw in customers.\(^34\) This competitiveness can affect pricing for both conventional and sustainable bananas. Through vertically integrated supply chains governed by the ‘top 5’ international suppliers, low pricing is pushed down the chain to producers and exporters. Suppliers typically establish long term contracts with independent local banana growers rather than invest in production themselves; this enables them to continue controlling quality, get the best terms in transportation, but avoid risks related to production.\(^35\) It also shifts responsibility for labor and environmental conditions to local producers.\(^36\)

3.2. Sustainable Initiatives

There has been considerable growth of certification of bananas over the past few years. Between 2007 and 2009 certification by the major labels drove the amount of exported bananas from 2 million to just under 3.5 million tons.\(^37\) Rainforest Alliance banana certification has grown from having no market coverage in 1997 to having 2.64 million tons certified in 2009. They now account for 75% of all sustainable bananas on the market and 15% of global banana exports in 2009. This is mainly due to its longstanding collaboration with Chiquita and other multinational banana companies.\(^38\) 20% of the plantations it has certified are in Colombia. Fairtrade certified banana sales

---

\(^{29}\) Potts et al.  
\(^{30}\) http://www.fao.org/economic/worldbananaforum/msf-history/beforewbf0/en/  
\(^{31}\) 2008 is the latest year of reliable comparable data from FAO STAT database.  
\(^{32}\) http://www.bananalink.org.uk/content/view/61/21/lang,en/  
\(^{33}\) Fairtrade.  
\(^{34}\) Based on industry interviews.  
\(^{35}\) http://www.unctad.org/infocomm/anglais/banana/chain.htm  
\(^{36}\) http://www.bananalink.org.uk/content/view/61/21/lang,en/  
\(^{37}\) Potts et al.  
\(^{38}\) Ibid.
have increased since 2003, reaching a peak in 2009 when over 300,000 tons were sold globally, representing 2% of the world market. 4% of all Fairtrade bananas are sold to the Netherlands market. Lower sales volumes in the three biggest markets (UK, Switzerland and USA) have caused a slight drop in 2010, while sales increases continue in other markets. 560,000 tons of organic bananas were grown in 2009, having grown considerably on previous years. SA 8000 and Global GAP do not measure amounts of goods produced on land they certify. Both are becoming increasingly common as baseline certifications to enter the export market; in the case of Global GAP it sets a quality minimum to enter the European market. They are both highly prevalent in the major exporting countries of Latin America and Caribbean.

Alongside certifications international forums exist that also address sustainable standards. The Global Social Compliance Program was launched in 2006 as a business driven global cross-industry platform to promote the exchange of knowledge and best practices to build comparability and transparency between existing social compliance and environmental compliance systems. This initiative came about as a result of retailers’ confusion, and producer’s exhaustion, at the myriad amount of often overlapping certification standards. At a more policy-driven level, the UN FAO agreed to host the World Banana Forum in 2009, a neutral platform where discussions can be furthered on social and environmental trade and production. All the major industry players along with civil society and relevant governments are members.

3.3. Bananas in the Netherlands

3.3.1. The Dutch Bananas Market

The European context

In the context of this study it is important to address the EU market as a whole; given trade regulations are designed in Brussels, not The Hague. Although imports vary, the EU remains the largest importing trade bloc in the world (40-50% over 2000-2010 trends). Figure 3.1 shows European banana import trends since 2000 are relatively stable until 2004, after which a rise in imports was followed by a decline over the last two years. This downward trend is expected to stabilize given that at the end of 2009 the EU completed negotiations on the “Geneva Agreement on Trade in Bananas” (GATB), which will enable a steady lowering of tariff rates to Europe on bananas from all of the major, and most of the minor, Latin American suppliers, namely Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru and Venezuela.

Similarly to the EU-Colombia FTA however (see Appendix VI), it is important to note that while negotiations are completed, the agreement must still be ratified. And while this is considered mostly a formality the procedural allowances take some time to percolate through to the market – hence the decreasing trend in the 2010 figures.

39 Campos, p19.
41 UN Comtrade database
43 http://www.bananalink.org.uk/content/view/487/122/lang,en/
Ecuador, Colombia and Costa Rica dominate the supply of European bananas, together constituting 60% of total supplies. The other 40% are spread out over the other six Latin American countries who are a part of the GATB (as well as a few other smaller suppliers in Africa and Asia). Colombia controls around 22% of the European supply on average, vying for pole position with Ecuador (see figure 3.2). This percentage has remained consistent even as absolute imports dropped (figure 3.1).

Given this relatively dominant position, Colombia also looks well-placed to gain an increase – in perhaps both market share and absolute volume – from the GATB as tariffs are lowered year-on-year. Colombia has already illustrated to be a highly competitive banana export industry given that as a non-ACP country, it is able to compete with former colonial and LDCs (Less Developed Countries) that are not subject to tariffs in exporting bananas to the European market (for details see appendix 6.1). As the GATB lowers it should therefore be able to increasingly compete on price with ACP countries that formerly enjoyed a greater buffer. In addition to this, when the EU-Colombia FTA takes
effect, it will in fact drop tariff rates to even lower levels for Colombia than for its remaining competitors in the banana industry. For example, under the GATB tariffs will be phased out to €117 per ton by 2016, while under the FTA Colombia will reach that tariff by 2014. Furthermore, the GATB has negotiated rates until 2017, while the FTA is agreed until 2020 (when Colombia will have reached a tariff rate of €75 per ton).

**The Netherlands context**
Practically all of the Netherlands’ bananas come through Antwerp’s harbor, which receives just under 50% of total EU imports. The Netherlands constitutes on average about 3% of total EU imports, or 200,000 tons, with 10-year trend averages of imports into the Netherlands being relatively stable (see figure 3.1). Given the Netherlands’ relative size of the European market and Colombia’s import percentage, the two countries are disproportionately important for one another; in 2010 123,352 tons of Colombian bananas came into the Netherlands, which constitutes 59% of total Netherlands imports, well above the 22% average of European market share that Colombia holds. From a Colombian perspective the Netherlands imported 6.8% of Colombia’s exports in 2010 (or 8.7% of Colombian bananas entering Europe). According to interviews with suppliers these figures are indicative of the average trend in previous years.

The Netherlands market is predominantly supplied by two of the larger global banana traders, Chiquita and Fyffes. Alongside Agrofair and Daabon, Dole and Del Monte (the other two major global players) supply smaller amounts. Del Monte and Agrofair supply very little from Colombia. Of all these companies only Daabon, as a Colombian company, actually owns plantations in Colombia. Chiquita sold off their land there a few years ago following the controversy of their involvement with paramilitary groups. Nevertheless, Chiquita maintains close relations with the producers that it sold its farms to, and Colombia remains an important source of Chiquita bananas. Moreover, since partnering with Rainforest Alliance in 1997 it is one of the longest-standing suppliers to source only from Rainforest Alliance certified plantations. Similarly, all of the farms Fyffes sources from must be Global GAP certified, in addition to a number of their own internally adopted standards. Fyffes also supplies a number of Fairtrade bananas to the Netherlands. Del Monte, and in particular Dole, work to supply certified bananas, although whether what they supply to the Netherlands is certified is not confirmed. All of Daabon’s supplies are Ecocert-certified, while Agrofair in principle supplies 100% Fairtrade bananas – although since 2009 they have not supplied Colombian bananas to the Netherlands market.

---

44 The details of the EU-Colombia/Peru FTA are explained in Appendix VI.
45 Bremerhaven is an important secondary port, receiving 17% of EU imports, given that Germany is Europe’s largest consumer of bananas. Source: Augura.
46 First, it is important to note that these figures are based on interviews and not derived from databases. Second, some suppliers emphasized that these figures are not completely indicative of the Netherlands’ actual consumption of bananas, as a small portion of these are shipped into the country to ripening stations, after which they are re-exported to other European countries. Specific figures of these re-exported amounts are not available although estimates are that they are only a small portion of total import figures.
47 This remains an ongoing dispute. http://www.cbsnews.com/stories/2011/05/31/national/main20067475.shtml
3.3.2. Sustainable Bananas in the Netherlands

The Netherlands consumer and retail preference for sustainable goods has grown over the last ten years. In bananas Rainforest Alliance and Fairtrade have made major increases in certifying bananas on supermarket shelves; it is estimated that as of 2010, 6.5% of bananas in the Netherlands are Fairtrade certified, while 35% come from plantations that are Rainforest Alliance certified, making a market share of 42% of total bananas in the Netherlands that meet a certain level of sustainable production. Reflecting specifically on Colombia-Netherlands relations, 70% of Colombian bananas coming into the Netherlands have either (and sometimes both) of these certifications. Organic bananas also appear on the Dutch market but in far lower amounts.

Supermarkets Spar and Attent both only sell Fairtrade-certified bananas, and in January 2010 Plus also agreed to do so, marking a major jump in Fairtrade-certified market share. Following a visit to Colombia, Plus also emphasized its preference in receiving bananas from Fairtrade-certified smallholder farmers. Albert Heijn sets the baseline at selling only Rainforest Alliance-certified bananas, while also recognizing the Fairtrade label. Most other retailers interviewed note that they are working towards improving the sustainability of all their products, not just specifically bananas.

Comparing this to other European retailers, most of the UK’s major retailers adhere to Fairtrade as a minimum standard (hence 60% of all Fairtrade certified bananas going to the UK), while all of the bananas sold in Switzerland meet the Fairtrade standard. Rainforest Alliance noted similarly increasing trends across the European market for their label. If Dutch retailers follow European trends, then they will continue to demand greater sustainability for their goods, including bananas.

Supermarkets are also developing their own sustainable label. Albert Heijn is marketing its “Puur & Eerlijk” (Pure & Honest) label as a supermarket-wide baseline indicating the product meets sustainable standards. This is partly because of their preference for less labels. Many Dutch retailers are active in discussing how to harmonize sustainability standards, using platforms like the Global Social Compliance Program (GSCP). The large variety of labels in the market for consumer goods makes marketing on the consumer end, as well as certification on the producer end, more complicated than it need be.

3.4. Bananas in Colombia

3.4.1. The Colombian Banana Sector

Banana plantations were heavily affected during the second half of the 20th century by social struggle in the country. Despite this the country’s production and exports have thrived. Today the Colombian banana industry is known for its international competitiveness, having built up a robust industry and strong market relations. Like most agricultural production, it was heavily impacted by the rains late

---

48Similarly to regular trade, it should be emphasized that these figures are based on interviews and calculated estimates, and are not derived from databases.
last year, depleting output and even causing some smallholders to go out of business. It is currently re-planting the areas affected.

Clearance for banana plantations has caused the depletion of natural resources and forestry as well as water and soil contamination through use of agrochemicals and waste materials.\(^{49}\) There has been some turn-around of this through the certification process and further environmental awareness-building through exporter foundations’ educational programs. Use of agrochemicals and lack of protective equipment is causing health problems among workers and families, which are exacerbated by long working hours. To some degree these issues are being addressed by the exporter foundations’ programs and certifications which aim to improve well being of local communities, improve workers' housing conditions, and access to credit.

**Exports and production**

After coffee and flowers, bananas are the most important agricultural commodity in the country in terms of income. Last year Colombia exported 1.7 million tons of bananas,\(^{50}\) which constituted 85% of its production. On average over 66% goes to Europe, while 27% goes to the US market.\(^{51}\) Last year this generated around USD 700 million, representing around 0.4% of the country’s GDP.\(^{52}\) Ten-year trends show a steady increase in banana exports and are predicted to either stabilize or continue to grow given that the 2010 drop in figures are a result of the heavy rainfall lowering production, not a loss of demand (see figure 3.3). As an agricultural export product it plays a huge role; 36% of agricultural exports last year were bananas (excluding coffee which dominates exports).\(^{53}\)

![Figure 3.3: Total Colombian banana exports.](source: FAO Stat and UN Comtrade)

As a source of employment it is also very important. In 2009 the banana industry generated an average of 25,000 direct and 75,000 indirect jobs in the regions of Magdalena and Antioquia. "On

\(^{49}\) Potts et al.

\(^{50}\) Export bananas are known as ‘Cavendish Valery’, while ‘Banano criollo’ and in a lesser scale ‘Gros Michel, are produced for internal consumption. Plantain is also produced in Colombia for internal consumption and only a small percentage is exported.

\(^{51}\) Augura.


\(^{53}\) Augura.
average, a banana worker earns a monthly salary of COP$ 900,000,00 (around USD 520), 75% more than the majority of agricultural workers in the country\textsuperscript{54} and well above the 2011 minimum wage of COP$ 535,600 (USD 308).

Geographically bananas are grown in three areas; Antioquia, Magdalena and Guajira. Antioquia produces the greatest amount for export from large plantations and exports through Turbo, while Magdalena and Guajira have a blend of large plantations and smallholder farmers, and export through Santa Marta. By production, Antioquia is the most important region, producing about 75% of exports. This corresponds to the relative size of hectares each area occupies; of the total 47,212 hectares producing bananas as of 2011, 73% of this land is in Antioquia. Of the other 27% most is in Magdalena given that Guajira production of bananas only covers 1,889 hectares.\textsuperscript{55}

The difference of distribution in size of landholdings between the different regions is very great; in Antioquia 75% of farms are larger than 50 hectares, and the remaining 25% are between 5 and 20 hectares. By contrast, the region of Magdalena is characterized by a high concentration of small landholders, with about 65% equal to or less than 5 hectares, alongside 20% between 5 and 20 hectares, and 15% owning farms greater than 20 hectares.\textsuperscript{56} Overall, smallholders represent just under 50% of all producers. Figure 3.4 illustrates the overall distribution of size landholdings.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
Property size (ha.) & Number of producers & Type of producers & Total area & % Total area \\
\hline
< 20 & 403 & 46.5\% & 1,993,65 & 4.2\% \\
20 to 100 & 283 & 32.7\% & 16,861,17 & 35.7\% \\
> 100 & 180 & 20.8\% & 28,357,66 & 60.1\% \\
\hline
Total & 866 & 1,0001 & 47212,48 & 100\% \\
\hline
\end{tabular}
\caption{Sizes of landholdings (source: Augura).}
\end{table}

In Antioquia, a port has not been constructed and the two existent ship loading docks are owned by the exporters Uniban and Banacol. These exporters use the loading dock for their own exports but are also service providers for other exporters of the region. In Magdalena the port of Santa Marta is used for exports.

\textsuperscript{54} Augura presentation on Inclusive Business, June 2010.
\textsuperscript{55} ICA description of projects.
\textsuperscript{56} Augura presentation on Inclusive Business, June 2010.
Actors in the banana sector

Industry

Uniban is the largest exporter of a total of seven larger and smaller export companies in Colombia (see figure 3.5). 2010 figures indicate its dominance in the market, exporting 568,618 tons of bananas, or 42% of total exports. Banacol, with 25% of banana exports, is also a major player given that it is the largest producer of agricultural goods overall in the country.\footnote{Augura.} By region, Uniban sources from 42% of Antioquia, followed by Banacol and Banafrut. In Magdalena/Guajira however, the biggest exporter is Tecbaco with 30% of market share, followed by Banacol with 22%, and Banasan with 20%.\footnote{Ibid.} Uniban’s long-standing relationship with Fyffes (since 1975) has helped establish Uniban as the largest exporter. Fyffes is responsible for selling Uniban’s products in the European market (See Appendix II for a more detailed description of the major exporters).

![Figure 3.5: Exporter participation 2010](Source: Augura / BSD 2010)

Additional actors

Besides producers and exporters, the Colombian sector is comprised of different actors, namely trade associations, exporter foundations, research/investigation institutes and producer support services (see appendix II for detailed descriptions of each of these players). As the most important trade association Augura brings together exporters and “100% of banana producers in the region of Antioquia and 70% in the region of Magdalena.”\footnote{http://www.augura.com.co/index.php?option=com_content&view=article&id=60:sobre-augura&catid=1:novedades-del-home&Itemid=81} Besides consolidating banana sales in the export markets, Augura works together with exporter foundations such as Fundauniban and Corbanacol to promote responsible environmental practices and community well-being through the development of education, health and entrepreneurship-oriented programs. The banana investigation center Cenibano was created by Augura to provide technical support that is “adapted to local conditions, oriented to cost reduction and to increase the economic and environmental competitiveness of the Colombian fruit.”\footnote{http://www.augura.com.co/index.php?option=com_content&view=article&id=33&Itemid=54} Cenibano works together with exporters’ and plantations’ agricultural technicians to improve production practices in the farms. Producer support services such as FLO’s PSR help producers obtain and maintain their Fairtrade certification. Sintrainagro is the biggest labor

\footnotetext[57]{Augura.}
\footnotetext[58]{Ibid.}
\footnotetext[60]{http://www.augura.com.co/index.php?option=com_content&view=article&id=33&Itemid=54}
union for the banana sector, responsible for 91% of the total 19,170 workers in the sector. In Antioquia, 96% of banana plantation workers are unionized, while in Magdalena unionization is not popular among farm owners. According to Sintrainagro, the fear generated by the 1928 massacre is still deeply in-rooted in the local culture, leading workers not to press for unionization. Armed conflict and the high presence of paramilitaries contribute to this fear.

The main suppliers and actors listed above are active in promoting sustainable development in the banana industry; Appendix II provides a detailed overview of their support of sustainable programs, while the following case study illustrates a successful project that had the support of the Colombian government and the Netherlands embassy.

<table>
<thead>
<tr>
<th>Case study – Public Private Partnership in bananas**</th>
</tr>
</thead>
<tbody>
<tr>
<td>This Public Private Partnership was developed in the period of 2006-2009, through a partnership between Augura, the Netherlands Embassy in Colombia, government and private sector, traders and banana foundations such as Corbanacol and Fundauniban. Its objective was to “develop a program geared towards social and economic development, reducing the vulnerability of small banana and plantain producers in the regions of Uribá and Magdalena, increasing their competitiveness, improving the life quality of their communities, and generating employment and income opportunities based on a sustainable development framework.” In July 2011, the PPP entered a new phase, continuing until 2014 and geared towards producer and market strengthening. Fyffes has also become one of the partners of the program. Thus far the partnership has achieved the following results:</td>
</tr>
<tr>
<td>• 396 plantain producers benefited from the construction of a loading dock</td>
</tr>
<tr>
<td>• 251 banana and plantain producers benefited from certification and good agricultural practices implementation</td>
</tr>
<tr>
<td>• 2000 families acquired developments of infrastructure in their farms</td>
</tr>
<tr>
<td>• 357 families participated in the entrepreneurship and commercialization program.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results certification program:</th>
<th>Results Entrepreneurship program:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 467 small farms certified</td>
<td>• 5 ventures supported</td>
</tr>
<tr>
<td>• 70 farms with production infrastructure and agricultural best practices</td>
<td>• 180 secured jobs</td>
</tr>
<tr>
<td>• USD 2.9 million invested</td>
<td>• 130 created jobs</td>
</tr>
<tr>
<td>• 2400 direct certification beneficiaries</td>
<td>• 20 new products created</td>
</tr>
<tr>
<td>• 1782 certified hectares.</td>
<td>• 433 families who benefitted</td>
</tr>
<tr>
<td></td>
<td>• 2175 indirect beneficiaries</td>
</tr>
<tr>
<td></td>
<td>• USD 611,000 invested</td>
</tr>
</tbody>
</table>

---

**Sinaltraifu, Sintraexpoban and Sintravelaba are smaller unions that account for an additional 1,670 workers. Source: Augura

**Augura

http://www.augura.com.co/index.php?option=com_content&view=article&id=33&Itemid=54
3.4.2. Sustainable Bananas in Colombia

In 2009 Colombia exported 20% of the world’s sustainably certified bananas – which includes Fairtrade, Rainforest Alliance (RA) and Organic. At a total of 696,113 tons, 33% of Colombia’s 2009 exports were certified.

**Rainforest Alliance:** Based on estimations, RA-certified bananas accounted for 75% of certified bananas exported from Colombia in 2009, which corresponds to RA’s ownership of global certified bananas. This is mainly because of its long-standing partnership with Chiquita which demands that all of its bananas be RA and SA8000 certified. These figures correspond to 13,140 hectares and 154 producers that were RA certified in 2010. This follows an incredible growth rate since 2003 when only 1,033 hectares and 19 producers were RA certified. There is no public information showing the names of certified producers in Colombia or the markets where RA Colombian certified bananas are exported to.

**Fairtrade:** While Fairtrade does not measure the exact amounts of certified bananas from each country, a rough calculation of 2009 Fairtrade certified exports is somewhere close to 124,000 tons from Colombia. As part of an overall trend, certification of farms increased rapidly since the early 2000s and at the moment is relatively stable. There are currently 31 producers and 6 traders certified: Uniban; Proban (Proban is part of Uniban’s structure, responsible for purchasing produce coming from non-members of the company); Banafruit; Banacol; Banasan; Fruit Comercial Inc. As of 2008 Colombian banana plantations accounted for 58% of the global Fairtrade banana supply; small holders for 8%. Important for the Netherlands relation is that Plus, a large supermarket chain, recently committed to not only selling only Fairtrade bananas but also, following a trip to Colombia, emphasized their interest in receiving bananas specifically from smallholders.

**Organic:** at 50,400 tons, Colombian organic certified bananas accounted for 9% of global organic bananas. Like Fairtrade bananas, there has been a general increase in sales of organic bananas globally, and given interview responses, a portion of this increase came through greater efforts to certify Colombian farmers over the past few years. However, organic products are typically a niche market; currently 3% of global exports are organic certified. No interviewees mentioned that there was a much greater market opportunity for organic bananas than is already captured.

**Global GAP:** In Colombia there are 548 certified producers. In 2009, 356 operators certified in Colombia produced bananas.

---

64 Naturacert. See appendix for details.
65 Potts et al
66 Potts et al
67 Potts et al
3.5. Drivers and Barriers

Bananas are an almost perfect commodity. To consumers they are completely identical when it comes to origins or taste. Retailers often use bananas as a loss leader to promote low prices, resulting in highly competitive pricing in the market place. As a result there is a continuous pressure to further reduce costs in production. In the past this has lead to serious sustainability issues. Nowadays the sector is leading in terms of market penetration of certified bananas. With import tariffs expected to change through the FTA, Colombia is well positioned and organised to increase its market share of bananas and lead in the sustainability trend as well.

**Market barriers**
- Negative social and environmental history a sensitive risk
- Continuing price wars (bananas as loss leaders)
- Dominance of supply
- Fragmented standards

**Market drivers**
- Continuing demand for sustainable labels
- EU-Colombia FTA increasing market access
- Colombia’s strong reputation despite environmental impact

**Drivers at origin**
- Experience with certification schemes
- Robust network of support services
- Strong unionization

**Barriers at origin**
- Environmentally sensitive
- Dominance in export market
- Lack of information and negotiating power for small producers
- Old infrastructure

**Sustainable bananas trade between the Netherlands and Colombia**

**Market drivers for growth sustainable trade**
- *Steady increase in demand for sustainable labels*
Dutch retailers have shown an increasing interest in certified goods wherein certified bananas are becoming increasingly mainstream. While Fairtrade certification remains a relatively small market, it jumped last year when Plus supermarket decided to sell only Fairtrade bananas (all of which are from Colombia). This is however in contrast to overall trends in Fairtrade banana exports, which are tailing off. Despite this, Fairtrade noted it was confident this year would show an increase over last year. Chiquita has noted a steady increase in consumption of Rainforest Alliance bananas in the country. Given that certification at 42% is below the average of other European countries, the Dutch certified market still has the potential to grow.

- **EU-Colombia/Peru FTA Increasing market access**
  The GATB and EU-Colombia/Peru FTA suggest that Colombia has been able to negotiate a relatively strong position for itself in supplying bananas to the European market (see Appendix VI). Given the advantages it will gain over both ACP-countries and competitors in the banana industry with these trade agreements, Colombia could increase both its relative share and absolute size of the European banana market over the next nine years. And given the industry’s confidence in Colombia’s ability to increase its supply of sustainable bananas if needed, it may capture an even larger share in that segment.

- **Colombia’s strong reputation**
  As a historically large player in banana production and export, Colombia has a long-standing reputation for being able to deliver high-quality bananas that meet the standards demanded by EU regulations. Colombia has also played a major role in supplying the increasing demand for certified bananas in Western markets. As a result, buyers are generally satisfied with the Colombian supply of bananas. Testament to this is last year’s heavy rainfall which caused a massive depletion of banana yields in both of Colombia’s main areas of production, reportedly reducing banana exports by 25%. While this affected many of the smaller players involved, the banana industry remains confident of Colombian producers’ ability to bring production back up to levels of demand.

**Drivers at origin for growth sustainable trade**

- **Experience with certification schemes**
  By all accounts, Colombia is one of the leaders in building capacity among banana producers so as to become certified. Interviews conducted within Colombia as well as in the Netherlands generally indicated that Colombian farmers and plantation workers are able to move to certification when required to do so. The in-country experience of certification processes in the country thus far means that to continue to do so could take place with investments into existing programs and institutions rather than building entirely new structures.

• Robust network of support services
In addition to sustainable labels, there is a robust body of industry, government and support organizations in the country; Augura has worked together with the major exporters in the past to promote both production and sustainable initiatives, in addition to setting up the research institute Cenibanano. Augura and Fundauniban have developed sustainable development projects that benefit the whole banana region, not just the farmers and workers directly involved in production. Considering the conflict-ridden history of the banana regions in Colombia these projects have helped the community to develop together with the banana industry, minimizing the risks of unemployment (through income generation projects), exodus to more developed cities and tendency to joining any of the armed groups. The PPP launched in 2006 with the help of the Netherlands Embassy also showed considerable success which has encouraged the continuation of the program. Colombia’s banana industry indicates that it has the capacity to develop further sustainable initiatives in-house, and based within existing institutions and initiatives.

• Strong unionization
Sintrainagro represents over 91% of banana workers in the country and so holds considerable clout in dispute negotiations. Furthermore it has worked in promoting various labor and educational programs in addition to supporting certification programs like that of Fairtrade. Although there is strong resistance to labor unionization in the Magdalena region, overall the labor acts as a good channel for workers’ issues and rights.

Market barriers for growth sustainable trade
• The reputational risk of having a history of social and environmental problems
Colombia has come a long way since ten years ago in cleaning up country-wide internal struggles between government and rebel groups, especially in rural and remote areas where bananas are grown. Suppliers note that they are significantly more positive about the improving social stability, and so generally see it as a thing of the past. However, given the high profile of Colombia’s unstable history, the industry is very sensitive to any reports coming from the country, as it could cause consumers to question the veracity of sustainable claims, affecting the reputation of the country, the suppliers and the supermarkets.

• Price wars continue
Despite the introduction of certifications and discussions such as through the World Banana Forum, supermarkets and suppliers show little evidence of changing aggressive pricing competition that has been ongoing for years. Interviews indicated that even Fairtrade labeled bananas are sold at surprisingly low prices in the Netherlands.69 This suggests that supermarkets are demanding certification of bananas from the suppliers and producers, but are not prepared to take the consequence of that and pay the higher price for it.

69 A more in-depth study of pricing trends would be required to confirm this.
• **Dominance of integrated supply**
  The dominant actors further up the supply chain to Europe and the Netherlands make it difficult for smaller suppliers to play a larger role. Both Chiquita and Fyffes indicate that their supplies of Colombian bananas (conventional and certified) are stable at the moment and already constitute a large percentage of their imports. In other words, even if there is a greater demand for sustainable bananas, they might prefer to look for sources other than Colombia so as to manage risk. This dominance of the supply chain can therefore prevent smaller players that want to source sustainable bananas from Colombia.

• **Fragmented standards**
  Similarly to coffee, as more and more bananas are becoming certified with different certifications based on preferences and choices of suppliers, an excess in labels is causing an inefficient accreditation process as different labels largely require the same thing. This is causing a degree of cynicism at the base of the chain as rising costs of overlapping certification schemes lower returns.

**Barriers at origin for growth sustainable trade**

• **An environmentally sensitive market**
  Sustainable initiatives can be disrupted by environmental extremes such as has happened over the last few years, and particularly so last year with heavy rainfall. Given the banana industry’s price sensitivity fluctuations in supply directly affects price/kg. There is no structure in Colombia or other countries that buffers farmers against these price fluctuations. And given that these are predominantly poorer families with little long-term savings this can cause massive livelihoods problems.

• **Dominance in the export market**
  There is a great difficulty to establish direct linkages between sustainable importers and small producers / SMEs. The Colombian market has consolidated to a few big exporters, with access to economies of scale for purchasing inputs (agrochemicals, carton, labels, etc.) and monopolies on transportation infrastructure. Some of these players are vertically integrated down the chain or have commercial arrangements with big players in Europe, which challenges the establishment of new direct chains between importers and small farmers and makes it structurally unfeasible for small producers or SMEs to develop direct export capacities and negotiation.

• **Lack of information and negotiating power for small producers**
  Complementary to the previous barrier, supply chain dominance constrains resource-poor smallholders from exporting their own produce and they are therefore dependent on local exporters to inform them of the prices they will receive for their produce, as well as the volume that will be bought under the different contracts held by the exporter (Fairtrade, organic, conventional, etc.). The lack of a reference market price for bananas worldwide makes it hard for producers to understand if the prices they are selling their bananas for are fair. Long term
contract relationships and the low number of exporters in each of the regions leaves producers (especially the smallest ones not affiliated to the exporters) with little space to negotiate.

- **Old infrastructure**
  Due to the remote inland location of banana plantations, bananas have to be driven by truck, and thereafter loaded onto boats for export. Buyers note that old roads cause the loss of bananas through bruising, as do bottlenecks at the outdated ports when boxes are waiting at or close to ports are not being loaded quickly enough.
4. The Flower Sector: An Opportunity to Flourish

4.1. Introduction

Global consumption of cut flowers is conservatively estimated at USD 40 billion.\(^{70}\) Germany, USA, UK, France, the Netherlands and Switzerland (in order of importance) account for 80% of this (see figure 4.1).\(^{71}\) Demand for flowers is increasing, against the economic current. Global exports have been growing annually at an average rate of over 10%.

Colombia and Ecuador supply the North American markets, East Africa supplies Europe, Pacific Asia supplies Hong Kong and Japan, and China supplies its own internal market. This trade pattern is a logical consequence of consumers demanding the full range of flower products throughout the year, countering the natural seasonality of the product. The continuing shift to “the South” as the source of production is a result of developing nations being able to undercut developed nations in price (thanks to abundant land, lower labor cost, more suitable climate, etc.). Technological breakthroughs in refrigeration and air freight facilitate the move. A new upset may be in the making as China and India are aiming to quadruple their flower exports to USD 200 million.\(^{72}\) This development comes with new distribution centers in the Middle East and China, lowering transactions costs for distant producers and putting pressure on market prices overall.

The retail segment is highly concentrated. Globally, around 100 retail organizations control the market. Supermarkets are more (and increasingly) focused on maximizing volumes and logistical efficiency. This leaves room for specialty retailers to retain market share with innovative products and to supply specific products for all sorts of events. In addition there is the rise of the online sales industry. Generally speaking the EU market is, and will be, dominated by the specialized retail sector. Large retail chains are indeed gaining prominence but do not seem likely to overtake them in the near future.

Large retail chains have different logistics and often deal with exporters directly. To operate in this manner exporters have to be able to meet a more challenging (very precise) set of buyer demands in terms of uniformity, quality and quantity. In addition they require logistical sophistication and reliable long term supply engagement. The rise of these direct sales channels has resulted in drastic changes in distribution channels, whereby producers are integrating their supply chain.

---

\(^{70}\) Estimates vary, ranging as high as USD 60 billion.

\(^{71}\) Rikken.

4.2. Sustainability Initiatives in the Flower Sector

While the sector has not been exposed to major NGO or consumer scrutiny the sector is vulnerable to environmental (use of chemicals, water consumption) and social (labor conditions) criticism. Amidst the increase of consumer awareness on these issues the market has responded by developing environmental and social codes. While environmental certification had been around for a while, the foundation of social certification schemes in the flower sector was laid with the International Code of Conduct for the production of flowers (ICC). Started by European NGOs and Labor Unions this code is based on the International Labor Organization norms. It consists of 10 principals, ranging from freedom of association to environmental production, minimum wages and forced/child labor. The ICC was recognized by the Union Fleurs in 2000. FLP, FFP Fairtrade and ETI are all based on the ICC.

An estimated 50 to 75% of EU imports are produced under at least one social or environmental standard. Most standards are business-to-business (B2B) based. MPS-ABC (Milieu Programma Sierteelt), Global GAP and the Ethical Trade Initiative (ETI) are all B2B standards. MPS is the largest global certification organization for the flower sector alone. 3,500 companies are MPS certified with about 219 million hectares under production. It operates in over 50 countries. The organization is focused on improving the environmental reputation of the flowers industry, working mainly with the Dutch flower industry. As a result of the increased cooperation between trade companies MPS is currently faced with a lower number of customers (albeit bigger ones), and the organization is ever more focused on increasing its international scope and presence.

Global GAP is the second most important standard in the flower industry after MPS and is similarly focused on environmental and basic working conditions. A third standard, the Ethical Trade Initiative has some global significance and is of importance to the Dutch market. It is used to satisfy the social demands of retailers in combination with the environmental component of Global GAP.

Only a few standards are focused on consumer labeling: namely Fair Flowers Fair Plants (FFP), Flower Label Program (FLP), Max Havelaar/Fair Trade and Rainforest Alliance. Overlap between all these standards tends to be substantial. Supplying 5-10% of the market, these standards have not yet hit the mainstream. Fairtrade/Max Havelaar is the most important consumer standard in terms of sales. FFP and FLP sell much less. In the American market Rainforest Alliance is of some significance.

Through its consumer labels Fairtrade has become a significant niche player in the larger European retail chains (such as Carrefour) and in the US. With an estimated market share of over 5% it is easily the most significant consumer standard in international markets. The standard operates similarly to its approach in other industries, but in the context of the flower industry it is significant to note that the premium on the flowers is paid to the workers; not the owner of the farm. This prevents the standard from having a similar incentive for producers that it does in other industries.

Most Fair Flowers Fair Plants-certified producers are from the Netherlands but the standard has a presence among traders in Germany, Scandinavia, Central Europe and to a minor extent in other European nations. It also has a global but modest network of producers. The organization is governed

---

73 Rikken.
74 These are estimates based on market data analysis and interviews with these standards.
by a board consisting of representatives from producers, traders, unions and NGOs (mixed North- South). Producers can participate in FFP when they fulfill both environmental and social requirements. In terms of environmental standards the producer will be certified at the level of MPS-A and in terms of social standards they will meet the requirements of the International Code of Conduct (ICC). Flower Label Program is a consumer standard focused on flowers produced in Ecuador and consumed in Germany. As a standard it is highly similar to FFP, with whom they have a benchmarking arrangement. FLP has a presence on the German market, but even there it is small. Rainforest Alliance is not of any significance on the Dutch market but the standard has a sizable presence on the US market and is also present in the UK. There are also consumer standards focused on the environmental production only. Finally, some retail chains have their own consumer labels. The consumer standards of retail chains are gaining prominence. Based on widely accepted B2B standards they communicate the sustainability of the product on house brands. Tesco, with its Nurture logo, is an example of this.

In cooperation with MPS and FFP, IDH is planning to start a multi-stakeholder sustainable flower platform that will introduce a global, generic baseline and equivalence standard for sustainable production of cut flowers to harmonize the different standards and further increase the market demand for sustainable flowers.

4.3. Flowers in the Netherlands

4.3.1. The Dutch Flower Market

The Netherlands lies at the heart of the global flower trade. Even as producers in the Netherlands have been losing market share steadily to producers in Africa, Colombia and Ecuador, the Netherlands remains the largest exporter worldwide with an export value of 4.9 billion euro (42% of global exports). More than 95% of its export goes to EU countries. The Netherlands also remains the largest importer of flowers from outside the EU, and 67% of non-EU imports to Europe pass through the Netherlands.  

Key to the Dutch flower market is the auction, which fulfils a central role in the European flower trade, both as a market and a distribution channel. The merger of the two largest Dutch cooperative flower auctions (FloraHolland and Bloemenveiling Aalsmeer) has given rise to the world’s largest flower market: FloraHolland has a combined sales volume of about US 4.68 billion USD. 60% of imported flowers go through this auction. The volume that goes through the auctions is declining however, as a result of the rise in direct procurement by wholesalers and retailers.

Flowers are imported from three countries mainly: Kenya (165 million USD export value), Ethiopia (108 million USD) and Ecuador (44 million USD). Colombia is with 13 million euro in 2009, the fourth

75 VGB data 2011
most important country but at a distance. Colombia is considered to be in a lower quality segment than Ecuador (though gaining ground) while its flowers are more expensive than those from Africa. Another reason is the extent to which Colombia is focused on the US market globally and on the UK market within the EU. Colombian growers are not interested in selling their flowers on the auction either, as the price they fetch there too often ends up being below their cost price. Finally, the Colombian flower industry’s structure (with its vertically integrated supply chain) is ill-suited for the Dutch (separate supply chain) market structure. There are Dutch flower traders active on the Colombian market through collection hubs, but most of their product goes to the US or the UK.

Significant actors in the Dutch-Colombia trade relationship
There are three main actors in the flower trade between Colombia and the Netherlands: the Dutch trader association Vereniging van Groothandelaren in Bloemen (VGB); the Dutch flower auction FloraHolland, and the Dutch flower trader Dutch Flower Group – mainly through one of its members Intergreen.

The VGB is one of the dominant bodies in the global flower trade and holds the secretariat of the Union Fleurs, the International Flower Trade Association. Asocolflores is a member of Unions Fleurs and as such is in regular contact with the VGB.

Intergreen is the largest Dutch flower trader active in Colombia. It ships its Colombian flowers mainly to the UK. In addition it sources flowers for other members of the Dutch Flower Group, a consortium of 20+ Dutch flower traders, for export to other countries (mainly the US).

Currently the Dutch flower auction, for reasons stated above, does not play a role of significance in Colombia. But it has great ambitions in seeking to expand its interaction with Colombia, not so much as an auction house but as a provider of services in marketing and logistics.

4.3.2. Sustainable Flowers in the Netherlands
Estimates are that around 50% of the Dutch flowers traded on the Dutch market are certified under one standard or another. The main Dutch retailer (Ahold) and a few other ones indeed sell Fairtrade/Max Havelaar flowers; FFP has a presence as well. Standards are widespread in the B2B segment. But it is impossible to really know to what extent sustainably produced flowers end up on Dutch markets.

As there are hardly any MPS-certified producers and no FFP-certified producers in Colombia we can say with certainty that the volume of those certified flowers from that country will be close to zero. Rainforest Alliance flowers are only measured in terms of hectares under production, but as their volume is not big and their brand of flowers is not marketed in the Netherlands; here too the volume will likely be zero. Fair Trade/Max Havelaar finally, sources all its flowers for the Dutch market from Kenya. The Dutch Flower Group does source sustainably produced flowers from Colombia (certified as Global GAP/ETI) but they get marketed in the UK or US. This leaves the Florverde standard.

76 VGB data 2011
77 Based on interviews
Considering the presence of Florverde in the Colombian production spectrum it is not unlikely that some of these flowers end up on Dutch markets. That volume too, however, is unknown.

4.4. Flowers in Colombia

4.4.1. The Colombian Flower Sector
Cut flowers are one of Colombia’s main nontraditional exports, and at 8% of agricultural GDP its contribution to the nation’s GDP is substantial. The country is well-suited to the product and has been building on its strengths: it has consistently cool year-round temperatures (around 14°C), constant twelve hour photoperiods, fertile flat land, sufficient irrigation water, relatively cheap labor (compared to developed countries) and its infrastructure and geographical location position the country well to be the dominant supplier of the North American market.

The flower industry represents only 0.16% of the cultivated area in the country. With 5,600 hectares under production Cundinamarca (Bogotá Savannah) contains 76% of the country’s total of 6,800 hectares. Cundinamarca produces around 80% of total Colombian Flower production. Other important flower-producing regions are Antioquia (19% of total hectares) and Risaralda (Central/Western with 5% of the total). Small farms (less than 20 hectares) and medium-sized farms (less than 50 hectares) together account for 50% of exports; large farms of over 50 hectares, with greenhouse operations, account for the remaining half. The cut flower industry generates lots of jobs, and as a sector relatively more than other agro-commodities: 15 jobs per hectare (by comparison coffee generates 0.5 jobs per hectare). According to Asocolflores a total of 1 million people depend on the cut flower sector for income. The sector employed 172,082 people in 2010, of which over 90,000 directly. Interestingly, 60% of those are female. The sector provides 25% of all rural employment for women. Salaries are also relatively high as the sector is highly unionized and has extensive training and contract requirements.

The sector recently went through some difficult times however. The appreciation of the peso has seriously hollowed out the profitability of the Colombian flower sector as prices are denominated in dollars. In addition there were the highly unfavourable conditions in the recent years – mainly the torrential rains. The effect of the latter is estimated to have cut flower production by 10-15% and 60% of farms were affected. Asocolflores reported that in 2009, 27% of its associates had considerable revenue losses. Several large producers went out of business and 22,000 people working in the sector lost their job. Companies continue to reduce their workforces to cope with the sector’s current adverse conditions, and stories of labor regulations being avoided are increasingly heard.

---

78 Asocolflores (1)
79 Asocolflores (2)
80 Asocolflores (1)
81 Nearly 30% of the sector has collective bargaining arrangements and nearly 14% of the sector is unionized. This is nearly three times the national average. Source: Escobar, et al.
82 http://www.miamiherald.com/2011/04/26/v-fullstory/2188715/record-rain-in-colombia-threaten.html#ixzz1VvqX56GH
Exports and production
95% of Colombian flower production is exported. With 13% of world exports Colombia is the second biggest exporter in the world, after the Netherlands. The majority of these exports (78%) go to the US market, while 8% goes to the EU. Colombia is recognized for its high quality and variety of flowers. Over the past 10 years the industry has grown steadily, doubling its export value. It reached 1,240 million USD in 2010,\(^3\) with 222,157 tons of flowers exported.\(^4\) Export consist mainly of four flower varieties; roses, carnations, chrysanthemums and alstroemerias. In addition the country exports specialty flowers and fillers that are mostly used in mixed bouquets.

Actors in the flower sector
Asocolflores is the Association of Colombian Flower Exporters, created as a non-profit association to represent the sector abroad and within the country. It represents a collective of producers that is responsible for 75% of the sector’s exports. The organization’s main focus areas are access to markets, research, transport, the Florverde standard and various livelihood improvement programs. Untraflores is the National Union of Flower Workers. It is the industry union responsible for organizing the flower workers into successful collective bargaining arrangements. So far Untraflores has united five business unions with 1,000 members combined.

Ceniflores, or the Colombian Center for Innovation in Floriculture, was created by Asocolflores in 2004 to engage in and stimulate research and technological development. It focuses on agronomical research topics such as soil management and integrated crop protection as well as improving post-harvest treatment. ProfloRa is held in Bogotá every two years. It is not only the country’s but also the world’s main marketing/networking event in the flower sector. Over 1,500 international visitors from 40 countries participated in 2009’s tenth edition of the festival, with more than 300 exhibitors from different flower producing countries.

4.4.2. Sustainable Flowers in Colombia
In 1996 Asocolflores started Florverde, a Colombian flower standard, in response to international market requirements for exports. Florverde began implementing a general code of conduct and developed the Farm Program service, which helps farmers make more efficient use of resources, and improve worker conditions. The program gradually became a support service for all producers that wanted to implement sustainability standards. In 2002 it started offering a certification label which is

---

\(^3\) Escobar, et al.
\(^4\) Departamento Administrativo Nacional de Estadística (DANE).
fully benchmarked against Global GAP compliance standards. The Florverde label is granted by two independent third parties: Icontec International, accredited by ANSI in the USA, and SGS, accredited by JAS-ANZ in New Zealand. Figure 4.3 provides an overview of Florverde’s certification.

<table>
<thead>
<tr>
<th>Florverde Farm Program participation</th>
<th>Companies with Florverde certified products</th>
</tr>
</thead>
<tbody>
<tr>
<td>190 farms (124 companies)</td>
<td>115 farms (76 companies)</td>
</tr>
<tr>
<td>2,855 hectares</td>
<td>2,054 hectares</td>
</tr>
<tr>
<td>45,921 workers</td>
<td>33,561 workers</td>
</tr>
</tbody>
</table>

Figure 4.3: Florverde participation and certification in August 2010
(Source: Asocolflores (1))

1.3 billion stems of sustainably grown certified flowers were exported in 2010 under Florverde certification standards to other countries. The other sustainability standards do not have much of a presence in the Colombian flower sectors. MPS has a few farms that operate its standard, FFP none and FLO no longer has certified farms in Colombia either. Only Rainforest Alliance has a significant presence (see figure 4.4), which is understandable considering both the standard’s and Colombia’s focus on the American market. Florverde is currently working to integrate the Rainforest Alliance standard into their certification process with the help of NaturaCert, the Rainforest Alliance representative in Colombia. Florverde has also been working with the Ethical Trading Initiative since 2010. The next figures show the presence of Rainforest alliance in Colombia in terms of hectares and number of certified producers.

Figure 4.4: Rainforest Alliance in the Colombian flower sector
(Source: Asocolflores (1))

---

85 Asocolflores (1).
4.5. Drivers and Barriers

Colombia is the leading producer and exporter of cut flowers, the main market being the US. Current trade relationships between Colombia and Europe are weak. The sector is faced with sustainability issues and on a global level different standards are emerging. However, the process of moving towards sustainability and standard implementation seems to be halting in an early phase of maturity. This gives a Colombia-Netherlands axis the opportunity to take the lead.

**Market barriers**
- Weak signals keeping supply and demand low and no consideration of price differentials
- Lack of transparency in the market
- High shipping costs

**Market drivers**
- Traders and retail are starting to demand certification
- Dutch flower industry searching for stability and greater market access
- Potential increase in sea trade between Colombia and the Netherlands
- IDH Sustainable Cut flower initiative to establish platform

**Drivers at origin**
- The potential for Colombian specialty flowers (origin promotion)
- Florverde as a promising brand

**Barriers at origin**
- Florverde still an unknown standard

**Sustainable bananas trade between the Netherlands and Colombia**

**Market drivers for growth sustainable trade**

- *Traders and retailers demanding certification*

  Who are driving the demand for certification is clear; traders and the retail sector, using standards as a license to operate/deliver. All market parties agree that if the market is to move to mainstream certification it will be the mass retail industry driving it. To these retail chains social and environmental standards now are a way of managing reputational risk and a tool to assess the quality of the seller and his product. Specialty retailers do not seem very interested in standards for the time being.
• **The search for stability and the global ambition of the Dutch flower industry**

With the flower market as much in flux and prices and production as volatile as they are today, the Dutch flower trading and retail industry are constantly looking to expand their global reach but are struggling to do so. In fact, they are running the risk of losing ever more market share, as new markets rise and Dutch production continues to lose share against emerging producers. The Dutch market interest goes beyond the direct market link between Colombia and the Netherlands. The Netherlands has a position to defend as the mainport for flowers into Europe, which is by far the most important consumer market in the world. Colombian producers trading directly with Russia/Eastern Europe are a threat to this position. As such they will always seek to engage Colombia for its flowers to pass through Dutch channels.

• **Potential increase in sea trade between Colombia and the Netherlands**

Flowers are shipped to Europe as sea freight by Intergreen, but these ships go to the UK. Currently there is no established shipping route for flowers between the Netherlands and Colombia. Flowers do reach the Netherlands by ship from Ecuador. Considering that these flowers have to go all the way through the Panama Canal this is further proof of the potential for a route between Colombia and the Netherlands. Colombian flowers would avoid the channel and thereby save a significant amount of time.

Sea-trade from Colombia to the Netherlands was indeed started by FloraHolland in partnership with Intergreen in 2010. Wageningen University and the VGB are also involved in the project of bringing shipping technology for flowers to the next level. The auction consolidates cargo for various European customers and ships it in a charter freight model. The container takes 25 days to reach the market in Europe. In comparison, plane freight takes 2-3 days. But the cost savings are as high as 50%. And FloraHolland claims it now has the technology that makes the (constantly cooled) ‘sea flowers’ last longer in the vase than the (more erratically cooled) ‘air flowers’.

Sea trade definitely has potential, but it will take collective action to make it take off. The port infrastructure is currently ill equipped and the opening of boxes because of Colombian anti-smuggling restrictions seriously hampers the impact of the constant cooling. Most importantly: for the transportation mode to become mainstream large volumes are required. Dutch market parties would like to see more Colombian involvement in supporting the initiative.

• **IDH Sustainable Cut Flower Initiative to establish neutral platform**

IDH is due to launch a new sector program addressing sustainable standards in cut flowers. This will help support a neutral platform on which industry players from production, supply and retail can convene and develop sustainable standards in a pre-competitive environment.
Drivers at origin for growth sustainable trade

- **The potential for Colombian specialty flowers**
  The demand for flowers is becoming more sophisticated and an increasing pace of product innovation is demanded by consumers. In line with this development selling certain flowers as 'Made in Colombia' is considered to have potential. Similarly, in the wholesale industry there appears to be the possibility to sell 'Brand Colombia' flowers. Ecuador has demonstrated with its roses what the impact of such an approach could be. Ecuadorian roses, regularly sold in upgraded, branded packaging, have established themselves as a hallmark of quality in the markets.

  This could be a way for Colombia to diversify away from its African competition and regain market share in Europe or expand in other markets. While the flowers from Ethiopia and Kenya are of ever higher quality, they are not yet up to par with Colombia. This is not quite to the extent that it would be recognized as such by consumers but it leaves space for a marketing effort. If a branded approach is pursued now would be the time.

- **Cooperation between Florverde and International standards**
  Florverde is a promising brand and as such a driver for sustainable flower standards. It ensures compliance with strict international social and environmental standards from planting to post-harvest and is fully benchmarked with Global GAP. Soon it will also have Rainforest Alliance equivalence. And it could be benchmarked with MPS without any issues and perhaps with FFP as well.

  The two Dutch standard organizations, FFP (B2C) and MPS (B2B), both would like a partnership with Florverde to grant their flowers more international recognition on foreign markets. Once the Florverde standard would be benchmarked against these standards a Memorandum of Understanding would be signed and they could profit from greater market access by being sold under these standards in markets where this would give them a competitive advantage. It would also allow them to profit from the international marketing efforts of these standards. Both MPS and FFP are indeed in touch with Florverde but no concrete steps have been taken. Benchmarking should not be a problem as Florverde is based on the MPS environmental standard and the ICC social standard. A benchmarking arrangement already exists between FFP and FLP from Ecuador.

Market barriers for growth sustainable trade

- **Lack of price differentials and weak signals keeping supply and demand low for certified flowers**
  With standards for flowers just being introduced to the market, there is little commitment from farmers to meet certain standards. In the highly competitive flower market there is no premium on flowers produced under certification schemes. Good practices applied in the production process are not rewarded through a higher price by the importers or the consumers. Especially under the current economic climate buyers in the market are not willing to pay such premiums as they see no opportunity to pass the added cost on to the consumer. Nor are certified flowers at a

---

86 Fairtrade/Max Havelaar are an exception to this rule, but the 10% premium goes to the workers; not the producers.
competitive advantage. This is making Colombian producers hesitant to obtain any standards outside of what is directly required for market access.

- **Lack of transparency in the market for certified flowers**
  These two factors in turn are complicated by the fact that there is no clear information on supply and demand of certified flowers in the market. None of the standards has an idea of the volumes that are traded under their certificate, let alone how much ends up being sold by retailers or in the case of consumer standards how much is sold to consumers under their label.
  Three standards are visualized on the FloraHolland auction clock: MPS-ABC, FFP en Florimark. But this information is generally not passed on to further buyers by those procuring the flowers on the auction. Much of what ends up with specialty retailers passes through the auction. Most certified flowers do not pass through the auction and are sold directly to larger retail chains. It is however estimated that as much as 80% of auctioned flowers is MPS-ABC certified.87

- **Costs of shipping by plane**
  The prices of shipping flowers by plane have gone up recently, and they may continue to do so. This further discourages Colombian producers/exporters from shipping to far-away markets like Europe.

**Barriers at origin for growth sustainable trade**

- **Florverde certification, unknown brand recognition**
  In the international market Florverde is not yet recognized as the sustainability guarantee that it is. Florverde has certain recognition in the US and UK markets but not yet in the European market and is not even considered a sufficient standard there. Under the current arrangement Colombian flowers are certified for the European markets as Global GAP in combination with ETI.

---

87 Rikken
5. Colombian Sugar Sector: Potentially a Sweet Future

5.1. Introduction

In 2009, an estimated 1.7 billion tons of sugar were produced worldwide, of which only 29% was exported (the rest is consumed in the countries of origin). Approximately 79% of total production comes from sugarcane grown primarily in the tropical and sub-tropical zones of the southern hemisphere. The other 31% comes from sugar beet which is grown mainly in the temperate zones of the northern hemisphere. Generally the costs of producing and processing sugar from sugarcane are lower than those from sugar beet. In addition to sugar as a staple consumer good it is also increasingly being used to make ethanol, to be mixed with gasoline to make biofuel. While this option has existed for years, in the last decade there has been a huge policy-push in many countries to convert to biofuels, as a means to reduce national dependency on declining fossil fuels, and lower carbon emissions.

Because sugar is a staple good and price production varies immensely, the EU in particular has high tariff barriers which ensure the continued existence of its sugar beet industry. Despite it being the third largest global importer, it has long received criticism of these trade barriers (commonly known as the Common Market Organization). These protectionist measures cause an artificially high price within the EU. Some access to European markets is provided through the Generalized System of Preferences which allows for imports of sugar at lower tariff rates but the quotas are low relative to access provided through the EU’s Africa Caribbean Pacific (ACP) trade policy, and within this the Everything But Arms (EBA) agreements. ACP countries are granted greater market access as former colonial countries, while EBAs receive additional advantages as LDCs (Less Developed Countries). Yet despite the EBA’s official duty- and quota-free rule, an exception is made with sugar that prohibits full market access for these countries for protectionist reasons. Still, most sugar imports that come into Europe from non-EU countries come from ACP countries, with the exception of Brazil.

5.2. Sustainable Initiatives

While a variety of labels exist that cover sugar production, the sector has not seen anything like the success one can find in coffee and bananas. That being said, Bonsucro is a new label with a great degree of potential to become more mainstream; launched in 2010, Bonsucro is an industry-driven association that has developed a standard for sugarcane production with the aim to reduce its environmental and social impact. The standard was developed in response to a broad market interest in certified sugarcane, be it as a commodity product, a hidden ingredient or as part of fuel for transportation. Its members include a broad variety of international actors such as Shell, Coca Cola, Unilever, SuikerUnie and Cargill. Importantly, the Bonsucro EU standard is recognized by the EU’s Renewable Energy Directive as meeting the sustainability and traceability requirements as set

---

88 Elbehri, et al.
89 http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/
forward under the directive (for RED details, see appendix 6.3). When sugar is certified by Bonsucro, it can be sold as a physical item, or the ‘sustainability credits’ can be sold under their certificate trading scheme. It has already certified its first mill in Brazil and is looking to do so in Colombia later this year.

The Roundtable on Sustainable Biofuels (RSB) certifies all types of biofuels, whether it comes from sugar, palm oil, soy or any other source. As a generic standard for all biofuels RSB is, in respect to sugar as an ethanol source, a competitor to Bonsucro. However, it has not attracted as much market attention, as it doesn’t cover the whole chain of any of the ethanol-sourced commodities, and it is not as yet recognized by the EU RED.

Rainforest Alliance has certified a total of 26,000 hectares in Brazil and El Salvador, and has yet to begin any initiative in Colombia. Similarly for Fairtrade, while it has certified sugar production in Latin America, this does not include Colombia, mainly because of its low export supply. There are hundreds of different organic labels around the world that supply demand for a niche market to Western countries. Unlike the other labels described above, organic labels primarily deal with environmental issues and only marginally with social ones. In most sectors, organic certification represents a small amount, but is noted here as it represents the only sustainable connection between Colombia and the Netherlands (see chapters 5.3 and 5.4 for more details).

5.3. Sugar in the Netherlands

5.3.1. The Dutch Sugar Market

In 2010 the Netherlands imported just under 11 million tons of sugar. As a result of the EU tariff barrier, and added advantages like geographical proximity, over 90% of the Netherlands’ total sugar imports come from within the European Union. Most of it is sourced from Germany. Only 839 tons of that volume was sourced from Colombia (e.g. <0.01%). This is not surprising as Colombia is only granted a very small quota through the GSP and is not a member of the ACP agreements. Next to imports of sugar as an end product, the Netherlands and Europe also imports sugar as a hidden ingredient in processed food, and as ethanol. Currently the food and chemical industries that produce these goods are not able to track which of their goods coming into the Netherlands contain sugar from a specific country. However, none identified Colombia as a sugar source for European markets, noting that if they source from Colombia it goes to other Latin American or North American markets. In the Dutch market SuikerUnie is the only sugar company. It produces sugar as a commodity product as well as a hidden ingredient, but not ethanol for biofuels. 5% of its production comes from imported sugarcane, none of which comes from Colombia. The other 95% comes from sugar beet, which is partly grown in the Netherlands and is otherwise imported from other European countries.

---

90 The statistics and percentages are from FAO Stat, UN Comtrade and CBS databases.
5.3.2. Sustainable Sugar in the Netherlands

Interviews with Providencia sugar mill indicate that, thus far in 2011, 800 tons of organically certified sugar were imported from Colombia to the Netherlands (see 5.4.2 for details on Colombia). If 2011 Netherlands import are similar to those of 2010, then practically all of the Colombian sugar imported to the Netherlands will be organic. Fairtrade certified sugar exists in the Netherlands as a hidden ingredient within a variety of sweet products, such as chocolate sprinkles, chocolate bars and Ben & Jerry’s ice cream. These are relatively new introductions to the Dutch market and are seeing strong growth. This trend is also illustrated in other European countries, encouraging the organization to search for more mills which are able to meet their certification standards. Rainforest Alliance is unable to identify whether any of the plantations it has certified have produced sugar that appears in the Dutch market. Bonsucro is gearing up to have more certified sugar enter the EU market, but as yet the first certified mill in Brazil does not export to Europe. SuikerUnie, the major Dutch sugar company, is a member of Bonsucro and is interested in sourcing Colombian sugar. RSB is as yet not EU RED certified and so there isn’t a great interest in importing under their label.

5.4. Sugar in Colombia

5.4.1. The Colombian Sugar Sector

Colombia ranks 12th largest as global exporter of sugar, capturing 2% of the international market and representing 1.1% of total Colombian exports. All of Colombia’s sugar currently comes from Valle del Cauca, processed by 13 mills. Colombia has a natural advantage over other sugarcane growing countries in that its location and climate allows it to grow sugar throughout the year. Ethanol production has risen over the past years as a result of the Colombian government’s oxygenation program. The goal of the program is to increase the country’s domestic consumption of biofuels so as to lower its dependence on foreign imports and decrease pollution (see appendix 6.4). However, increased sugar production can exacerbate the sugar industry’s environmental impacts, whereby agricultural production is causing depletion of natural vegetation (and biodiversity) alongside soil degradation. Producers are also identified as making inefficient use of water as well as improperly disposing or cleaning the waste water. Finally, slash-and-burn techniques of land clearance cause air pollution.

Biofuel consumption

The Colombian government formally launched the increased use of biofuels in 2006 that introduced the policy of producing fuel based on 8% ethanol and 92% gasoline (for details see appendix 6.4). This ethanol is provided by five sugar mills that have been equipped with annexed distilleries since 2005, namely Incauca, Manuelita, Providencia, Mayaguez and Risaralda. Thus far the ethanol produced has all gone to meet domestic demand through this program, and so no ethanol made from Colombian sugar is currently being exported. As a result between 2005 and 2010 ethanol

---

91 Asocaña, p40 and 48.
92 Although as of July 1, 2011, the mix was increased to 10% ethanol blend - 90% gasoline in the west and south of Colombia (Valle del Cauca, Cauca, Narino, Caldas, Risaralda, Quindio, Tolima, Huila, Caqueta and Putumayo.
production steadily increased, adding to the amount of internal consumption of domestically produced sugar. Figure 5.1 indicates a drop because, with the 20% loss of sugar production due to instable weather conditions, the sugarcane sector temporarily suspended the gasoline oxygenation program to supply domestic demand for sugar for direct consumption, and as a food/drink consumer product.\(^\text{94}\) The distilleries are in the process of amplifying their production capacity, and by 2012 they will be able to produce enough to oxygenate 9.2% of Colombia’s gasoline. By 2015, 800 million liters of alcohol is aimed to be produced, making it possible to mix into 18.6% of the country’s gasoline.\(^\text{95}\) By 2020 the sector expects to expand production across an additional 175,000 hectares (or an 80% increase on current land use).\(^\text{96}\)

Exports and production

Following a trend of steadily increasing land cultivation for sugar production, last year saw 218,311 hectares used in the region.\(^\text{97}\) 24% corresponds to land owned by the mills, and the remaining 76% to more than 2,000 sugarcane growers.\(^\text{98}\) When compared to the other sectors in this study there are a relatively small amount of smallholders present in sugar production, while most comes from large-scale plantations (see figure 5.2).\(^\text{99}\)

While figures vary on average Colombia exports about 32% of its total production, which in 2010 came to just under 700,000 tons (see figure 5.3). Very little is exported to Europe as Colombia’s exports primarily supply the region; 60% goes to other countries in the Latin American and Caribbean region – Chile received 29%, Peru 13%, Haiti and the US 8% each.\(^\text{100}\) In 2010 the Netherlands imported 839 tons from Colombia.

\(^{94}\) Asocaña, p52
\(^{95}\) Asocaña, p25.
\(^{96}\) German Corredor Avella/ Cepal-GTZ-BMZ, p26.
\(^{97}\) Fedebiocombustibles, p1.
\(^{99}\) The 13 mills are Cabaña, Carmelita, Manuelita, María Luisa, Mayagüez, Pichichi, Risaralda, Sancarlos, Tumaco, RíoPaila-Castilla, Incauca y Providencia.
\(^{100}\) Asocaña, p46.
The internal market is prioritized over exports to ensure a stable supply of sugar for consumption. This, in combination with increasing biofuel consumption and environmental factors has caused the decline of sugar exports; the program was launched in 2006 and has since steadily been increasing the amount of ethanol derived from sugar. Other identified factors are because of the high volatility of international prices in 2010, alongside heavy rainfall lowering overall production in the same year. The combination of these factors could also explain the 2010 increase in imports of sugar to meet demand (see figure 5.3); at 184,311 tons, 2010 figures were the highest level registered in the sector’s history, and a 33% increase over 2009. Given that the industry is now recovering from the rainfall, production and exports are expected to increase again in 2011.

Because of Colombia’s consistently good conditions to grow sugarcane, the two annual harvests allow for year-round employment of about 265,000 people directly and indirectly; this can be broken down by the sugarcane industry employing 230,000 workers while the farming sector provides 35,000 jobs. While those in the industry generally receive a good income, in the agricultural sector there have been protests of wage discrepancies between sugarcane workers. This led to a 56 day strike in the second semester of 2008 where sugar cutters asked for the mills to employ them directly. The strike affected both sugar prices and ethanol prices and led some of the mills and manufacturers to halt operations for that period of time. The strike came to an end when bilateral negotiation between mills and cutters led to an increase in payment and better social conditions. Since then dialogue between mills and cutters has been crucial to avoid new conflicts. In the longer term the agricultural sector is also steadily losing jobs as plantations introduce more mechanization in the process.

101 Asocaña, p46.
102 44% of imports came from Bolivia and 39% from Brazil. Asocaña, p46.
103 Escobar, p21.
105 http://www.eltiempo.com
Actors in the sugar sector
In addition to the 13 mills, the sugar industry has a number of other players; there are four trade associations that represent the interests of member producers and mills. Asocaña and Procaña are the two largest of the four; Asocaña has been active in improving environmental and social production practices, as well as operating a price stabilization fund. Procaña’s majority of smallholders receive services and technical capacity building support.

Cenicaña and Tecnicaña are research institutes involved in technical development and sector-level collaboration. Of the 34 varieties of sugarcane grown in Colombia,\textsuperscript{106} 88\% of the cultivated area uses varieties developed by Cenicaña.\textsuperscript{107}

5.4.2. Sustainable Sugar in Colombia
Apart from Organic certification, which is, and will remain, a niche market, there is as yet no sustainable certified sugar production in Colombia. There is nevertheless a budding interest from the large mills; Asocaña announced that by 2030 “it would be the leader in the international agricultural arena due to its competitiveness, sustainability and generation of well being.”\textsuperscript{108} Currently 66\% of Colombian’s sugar production has adhered to the Global Compact,\textsuperscript{109} with an objective to increase this to 76\% by 2013.\textsuperscript{110} Asocaña also noted that Colombia has an interest in exporting ethanol but still needs to increase production to be able to have enough to comply with national demand and then be able to export. The government is stimulating production in other regions of the country to be able to achieve this goal.

Should Colombia want to export any ethanol to the EU for fuel consumption, it must adhere to the EU’s RED, which means meeting Bonsucro standards in the case of sugar; in 2010 the Brazilian certification company CERT ID Certificadora Ltda conducted pre-audits for 8 Colombian sugar mills (representing 78\% of the total sugar production and 72\% of ethanol production). In a majority of the cases the obligatory indicators are being complied with, and the compliance by some mills surpasses 91\%. The strategic goal proposed for 2013 is that 40\% of total cultivated areas are certified under Bonsucro (land belonging to mills and to suppliers), and that criteria compliance is above 85\% demanded to obtain certification.\textsuperscript{111}

Providencia is the only organic certified operator in the country (and has been certified since 1999). Of the 9,067 hectares belonging to the company (or 25,000 including external suppliers), 1200 hectares are under organic certification and 300 hectares under transition. The annual amount of

\textsuperscript{106} http://www.cenicana.org/publicaciones/serie_tecnica/serie_tecnica.php?opcion=18&menu=2
\textsuperscript{107} Asocaña, p17.
\textsuperscript{108} Ibid, p63.
\textsuperscript{109} The Global Compact is a UN managed platform to encourage greater transparency in businesses. To meet the standards businesses must provide a yearly report on compliance with 10 principles on human rights, labor, environmental management and corruption. It is voluntary and uncertified. For details see www.unglobalcompact.org
\textsuperscript{110} Asocaña, p65.
\textsuperscript{111} Ibid, p65.
organic sugarcane produced is 10,000 tons, or 2.2% of the company’s total production of 450,000 tons. 95% of the 10,000 tons certified organic is exported. According to interviews, in the first semester of 2011, 4,492 tons of organic sugar were exported, with 78% going to the EU. Within the EU the biggest market is Sweden with 45%, followed by Germany with 23%, and Holland with 8%. According to interviews with FLO, European markets such as Belgium and Germany are interested in sourcing Fairtrade sugar from Colombia. Thus far however, none of the small producer organizations in the country that produce sugar have shown an interest in certification. The Colombian sugar mills have shown an interest in Fairtrade certification, but cannot become certified as producers as the standards are only available for small producers. FLO is trying to understand the characteristics of the independent sugar suppliers of the mills to see if they comply with their definition of small producer and if they are organized into cooperatives/associations.

5.5. Drivers and Barriers

Colombia consumes most of the sugar it produces and looks set to only increase this trend as the oxygenation program consumes more in the form of ethanol over the next few years. Moreover, because of the EU’s high barriers to sugar, most exports go to countries in the region as well as the US, with very little entering EU markets. However, an incentive to build conventional trade relations between Colombia and Europe comes through the FTA, while a drive to build sustainable trade relations on top of that comes from the EU’s RED. Given that Brazil’s mills are not being Bonsucro certified as quickly as expected and preliminary assessments of Colombia’s mills to be Bonsucro certified are positive, there is good reason to invest in making at least some Colombian sugar sustainable.

Market drivers for growth sustainable trade

- **EU-RED and the fuel industry’s demand for sugar**

  Companies that are active in the fuel transport industry and supply to Europe have to meet the goals of the RED, which is that 20% of energy and 10% of the transport sector has to be renewable by 2020. This has led to an increased demand for goods that can be converted into biofuels such as sugarcane. Although other commodity sectors like palm oil and soy are also included and recognized in the EU RED, ethanol from sugar cane has most favorable conversion ratios and reduction potential than other crops. Plus its production seems less controversial than other food crops. This means that sugar production has a strong benefit from the drive towards biofuels.
The EU-Colombia/Peru FTA
Colombia was able to negotiate a lower-tariff quota for sugar of 62,000 tons under this agreement. This would imply a ten-fold increase over last year’s EU sugar imports from Colombia of 6,000 tons. Various actors involved in the sugar industry, from importers to certifiers, noted that this FTA will allow Colombia to compete on a more level playing field with ACP countries that currently benefit from lower import tariffs (both Colombian and ACP country sugar is cheaper than EU sugar, given EU protectionism). The Dutch sugar industry is already showing an appetite for imports of tariff-reduced Colombian sugar into the Netherlands. As a result it is interested in building relations with Colombian sugar mills. If the Netherlands maintains the same percentage of EU imports from Colombia it would end up sourcing 8,500 tons of sugar.

The demand for sustainably produced sugar
The FTA comes at a time when both the Netherlands and the EU more broadly are showing an increased appetite for products that are able to illustrate sustainable processes of production. Fairtrade and Rainforest Alliance are both looking to increase the amount of certified sugar. And under the Bonsucro initiative a number of its member companies have committed to either significantly scale up or only source Bonsucro-certified sugar within the next five years. Specifically, SuikerUnie sources sugar as a consumer good, while many other Bonsucro members are looking for certified sugar as a part of the obligatory goals of the RED.

With the interest among Colombian sugar mills to join the Bonsucro standard the rising demand for sustainable sugar could provide an impulse to Dutch-Colombian trade relationships. All the
more so since there are doubts in the market whether Brazil — the leading supplier of sugar and currently the only supplier of sustainable sugar in the world — can meet the growing demand.

In addition, Bonsucro certifications can be sold under a certificate trading scheme. Colombian sugar plantations are on the South-West side of the country, meaning physical transport has to go through the Panama Canal and so raise costs. Certificate trading can provide a cheaper alternative whereby Colombian producers can sell their virtual “sustainability credits” to buyers wishing to meet sustainability commitments, while they continue to sell their physical sugar cane to the conventional (domestic) market.

**Drivers at origin for growth sustainable trade**

- **Domestic buy-in to sustainable sugar**
  Asocaña, one of the most important sugar trade associations in the country, is aware that sustainability is vital for the survival of the sugar sector. Sustainability is already part of their annual strategic plan, leading to the implementation of initiatives such as becoming the representative for Bonsucro in Colombia and facilitating the certification of actors. In addition, it has developed a social program to benefit sugarcane harvest workers and the community as a whole, and is implementing initiatives to make the sugarcane industry less harmful to the environment.

- **Strong biofuel policy and commitment from Colombian government**
  The Colombian government’s biofuels program was set up partly with an intention to lower environmental impact and will drastically increase domestic production of ethanol. While this is primarily meant for the local market, if demand increases from the EU to supply certified ethanol as a renewable energy, this could offer the Colombian biofuel industry an excellent market for any surplus.

**Market barriers for growth sustainable trade**

- **Trade barriers and domestic production**
  Sugar is a staple good in every diet. This means that countries that produce sugar ensure domestic consumption demands are met before exporting. As such there are high barriers to trade which discourage sugar exports and encourage domestic trade. This reduces the effect of introducing sustainable standards into trade. Colombia indeed has its policies to keep most of the produced sugar in the country, as well as being confronted with trade barriers in other countries and regions.

**Barriers at origin for growth sustainable trade**

- **Colombian Oxygenation Program**
  Although as part of Colombia’s biofuels program it intends to expand production of sugar with the long-term view of increasing exports, in the short-term most production looks set to be used for either food/drink or to be converted into ethanol. As such the country will look much less to external markets and focus more on the domestic market.
6. The Colombian Palm Oil Sector: Need to Establish Trade Links

6.1. Introduction

Palm oil is a globally traded agricultural commodity that is used in 50% of all consumer goods, from soaps and detergents to breakfast cereals and biofuels. With an estimated global consumption of 46.8 million tons in 2010, palm oil is the world’s leading supplier of edible oils and fats due to its favorable average yield in comparison to its substitutes (e.g. sunflower or soybean oil). In the next ten years the global consumption of vegetable oils is expected to increase by more than 25% to 184.3 million tons due to demographic developments and improving purchasing power in developing countries like India, China and Brazil on the one hand, and as a consequence of increased use of palm oil as a raw material for biofuels on the other. Palm oil will play an important role in meeting this demand. With the highest oil yield per hectare palm oil is produced more efficiently in terms of land use than any other vegetable oil crop.

In light of this increasing demand, global palm oil production more than tripled in the past 15 years, from 15.2 million tons in 1995 to 46.7 million tons in 2010. More than 85% of palm oil is produced in Indonesia (47%) and Malaysia (39%). However, more and more palm oil is originating from other parts of the world. Production outside Malaysia and Indonesia grew from 3.2 million tons in 1995 to 6.9 million tons in 2010 and the expectation is that, with continuing demands, production will double by 2030 and triple by 2050.

In order to meet increasing demands palm oil production will continue to grow dramatically. However, the two biggest producing countries are relatively restricted in their growth potential. Malaysian palm oil production already stagnated over the past three years due to the limited availability of arable land. The areas with the most potential to develop palm plantations outside Indonesia and Malaysia are Brazil, Thailand, and Colombia. The expansion in Colombia, the largest palm oil producer in the Americas, is partly being funded by the United States Agency for International Development to resettle disarmed paramilitary members on arable land.

6.2. Sustainability Initiatives

In the context of increasing global palm oil consumption resulting in an expansion of oil palm plantation areas in the producing countries, sustainable sourcing has become an important issue. In response to increasing demand for sustainably produced palm oil, the Roundtable on Sustainable

---

112 OECD-FAO.
113 It is important to make a technical distinction here; both palm oil and palm kernel oil are produced from processing palm; it is however specifically palm oil that drives demand as it is used in human foods and for biofuels while palm kernel is used for other products (see Appendix 5.2 for supply chain details on processing).
114 USDA (1).
115 World Bank.
116 Esmiol, p4.
117 Woods Hole Research Centre.
Palm Oil (RSPO) was formed in 2004 and today, the RSPO has more than 450 members. In 2010 RSPO certified capacity equaled 2.3 million tons (about 5% of global production), of which 1.3 million tons were sold as certified (e.g. 56%).\(^{118}\) The UTZ Certified system offers RSPO certified sustainable palm oil through the models of segregation and mass balance.\(^{119}\) GreenPalm offers RSPO certified sustainable palm oil through a model of book and claim (e.g. certificate trading).\(^{120}\)

In a response to the RSPO the Indonesian government launched a new and similar certification scheme, Indonesian Sustainable Palm Oil (ISPO), in November 2010. The ISPO is similar to the voluntary RSPO certification, but with a notable difference: the ISPO has been developed by the government (as opposed to by international multi-stakeholders) and it is a mandatory standard to be implemented nationwide by all palm oil companies: non-compliance will be punishable by Indonesian law. Following the ISPO, the Malaysian government is reportedly now also developing its own certification scheme for sustainable palm oil.\(^{121}\)

### 6.3. Palm Oil in the Netherlands

#### 6.3.1. The Dutch Palm Oil Market

The Netherlands is the biggest importer of palm oil within the EU, and the third largest importer of palm oil in the world after India and China. In the period 2006-2009 Dutch imports of palm oil fluctuated around 2 million tons of which 78% was re-exported to other – mainly European – countries. The main sourcing countries for the Netherlands are Malaysia (57%), Indonesia (37%), Papua New Guinea (3%) and Ivory Coast (2%).\(^{122}\)

About 80% of the EU’s imports of edible oils, fats and oleo chemicals enter through the Port of Rotterdam. With a share of 60% palm oil products are the biggest contributor to this.\(^{123}\) In 2010 the Netherlands imported approximately 2.13 million tons of palm oil, of which 22% was used for domestic consumption.\(^{124}\) Over the past years, the domestic consumption of palm oil in the Dutch market shifted increasingly to food.

The palm oil processors in Europe are mainly located in the Netherlands, Germany and the United Kingdom. In the last decade the total production of processed palm oil in the Netherlands almost tripled to 1.8 million tons in 2009, which makes Rotterdam the main palm oil processing center of

---

118 RSPO (2010) [www.rspo.eu](http://www.rspo.eu)
119 Under the segregation model, supply chain actors keep certified sustainable palm oil (from mixed sources) fully segregated from non-certified (conventional) palm oil. Under the mass balance model, supply chain actors are allowed to mix certified and non-certified sustainable palm oil as long as the total certified volumes shipped never exceed the total certified volumes received.
120 This model creates a virtual market by providing tradable credits for the production of RSPO certified sustainable palm oil, independently of the physical product flows. It allows for the transfer of certified sustainable volume credits from the producer directly to the end user (think of the Green Energy trade or carbon emissions between countries).
122 MVO.
123 Port of Rotterdam.
124 MVO.
The key palm oil processors in the Netherlands are: AarhusKarlshamn (AAK), Cargill, IOI-Loders Croklaan, Sime Darby / Unimills, and Wilmar Europe. IOI, Sime Darby and Wilmar all have vertically integrated supply chains with their own plantations in Indonesia and/or Malaysia.

Colombian palm oil accounted for 0.9% of total Dutch imports. Dutch palm oil imports from upcoming markets showed a strong increase in the period 2005-2008. Imports from Colombia are on average relatively low at around 5000 tons, although in 2007 there was a steep rise to a high of over 25,000 tons in 2008. 2010 figures have since dropped back to 6,285 tons and are not expected to increase again, in part because of lack of supply as the oxygenation program drives up Colombian consumption (see appendix 6.4 for details). Palm oil from Colombia is bought occasionally to supplement own supplies.

6.3.2. Sustainable Palm Oil in the Netherlands

The Netherlands is a worldwide market leader when it comes to sustainable palm oil. From the beginning of the RSPO, Dutch stakeholders have played an important role in the design and development of the RSPO certification system. It is difficult to say how much RSPO certified volume (either through Utz Certified or GreenPalm) is currently on the Dutch market. However, there are some buyer and industry commitments – both international and for the Dutch market – that indicate the growing demand for certified sustainable palm oil:

- Unilever commits to sourcing 100% certified sustainable palm oil by 2015, and pledges to have fully traceable supply chains within Europe by 2012.
- Cargill announced that it will sell palm oil to certain countries from 100 percent certified sources by 2015 (U.S., Europe, Canada, Australia and New Zealand) and globally by 2020. The palm oil will be certified by the Roundtable on Sustainable Palm Oil (RSPO).
- Verkade has announced that by the end of 2011 all palm oil in Verkade biscuits will be from a sustainable source.
- Albert Heijn has decided to produce all private label products with sustainable palm oil.
- Companies including Mars, Cadbury, Sainsbury and Carrefour have committed themselves to start buying sustainable palm oil.
- In 2010, the Dutch market players have committed to sourcing only RSPO certified sustainable palm oil by 2015. This move was initiated by the Dutch Product Board for Margarine, Fats and Oils (MVO) and signed by the Association of the Dutch Margarine Manufacturers, the Dutch Food Retail Association, the Dutch Food Industry Federation, the Netherlands Feed industry Association, the Dutch Edible Oils and Fats Association, the Dutch Potato Processing Industry Association, and the Dutch Bakery and Sweets Association.

---

125 MVO.
126 FAO Stat.
127 Statistical figures from FAO Stat and UN Comtrade.
128 Utz Certified does not keep track of where the palm oil is consumed, it only registers sales up until the first refinery within the supply chain (which is often not within the final consumption market). Adding to that, trading houses are organizing their purchases from their centralized locations (often Switzerland) which makes it difficult to understand for which markets these purchases are intended.
Renewable Energy Directive
Under the Renewable Energy Directive 2009/28/EC of 23 April 2009 the European Commission has set the ambitious target for all Member States for reaching a 20% share of energy from renewable sources by 2020 and a 10% share of renewable energy specifically in the transport sector. The national target for the Netherlands has been set to 14% renewable energy by 2020. The Directive legally obliges each EU Member State to ensure that its 2020 target is met.

6.4. Palm Oil in Colombia
6.4.1. The Colombian Palm Oil Sector
Palm production covers a total of 385,998 hectares across different regions of Colombia. Hectare usage has steadily been increasing as the demand for palm oil is growing domestically due to the country’s biofuels goals (see appendix 6.4). The majority of the small producers are located in the North and in the Center of Colombia. The biggest producers are located in the “Llanos Orientales” (Eastern Plains).
The palm sector provides 47,855 direct jobs and 78,295 indirect jobs. The palm sector is highly labor dependent because of the low degree of mechanization. Associated Work Cooperatives (Cooperativas de Trabajo Asociado) are the most common form of employment for the palm sector. Due to the associative and enterprise oriented nature of the cooperative, its members are not protected by Colombia’s Labor Code, having to develop its own regiment that must be approved by the Ministry of Social Security. Although these kind of cooperatives function properly for the production of goods (as has happened in the banana sector), when it comes to service provision for third parties, some abuses from employers have been observed. This has become an issue for signing the US-Colombia FTA. Palm oil has a negative association in parts of the country as it has become associated with broader social unrest, as well as specific industry-related issues such as questions about land ownership and concentration of the industry among a few companies. This is in addition to problems similar to most plantations such as human health and pesticide use.
Positive impacts are that planting palm on land previously used for raising cattle helps regenerate the land. Over recent years various parts of the industry have also been more proactive in improving production and processes. Like most agricultural production, palm oil was affected by the heavy rainfall in 2010, whereby 40,000 hectares of land were flooded, affecting production, infrastructure and sanitary conditions of production.

129 http://ec.europa.eu/energy/renewables/index_en.htm
130 As a share of gross final energy consumption Source: Eurostat (with normalized hydro) & (for 2009) EurObserver 2009 (www.euroobserver.org).
131 Fedesarrollo database.
132 Associated Work Cooperatives are defined as “nonprofit organizations composed of associated individuals (that are simultaneously managers, financial contributors and workers) who collectively develop economic activities (professional or intellectual) producing goods, works or services to meet the needs of its members and the community.” Source: Ministry of Social Protection.
133 http://www.lasillavacia.com/elblogueo/blogverde/15899/el-estigma-de-la-palma-de-aceite-en-colombia
134 Colombian National Department of Planning, p24.
135 Fedepalma, p2.
Exports and production

Colombia is Latin America’s primary producer of palm oil and the 5th largest in the world.\textsuperscript{136} While palm oil production has remained steady at about 780,000 tons over recent years, its export has dropped drastically as the Colombian government has begun to ramp up its goals of producing biodiesel (see figure 6.1). In 2010, palm oil exports totaled 109,695 tons, showing a decrease of 54% in relation to 2009 sales of 235,923 tons.\textsuperscript{137} 2010 saw a 14% increase over 2009 in domestic sales, whereby exports only count for 27% of total sales (the other 73% going to the national market). Biodiesel consumption is not only encroaching on exports but also on traditional domestic markets such as edible, balanced food sources, soap and paint.\textsuperscript{138} 2010 main palm oil export destinations were Mexico, UK and Venezuela. Palm kernel oil, although a much smaller market overall, remains noteworthy given the Netherlands’ relevance for this. Total exports of palm kernel (as a final product or in a processed product) remains consistent at around 37,000 tons per year on average, of which 8,221 tons came into the Netherlands.

Biodiesel

As detailed in the general regulatory section (see Appendix 6.4) Colombia began the push for use of biodiesel in 2008, for which the Ministry of Agriculture has already invested around USD 36 million in financial incentives to strengthen agricultural development.\textsuperscript{139} Figure 6.1 indicates the impact this is already having on imports versus domestic consumption. The program estimates to almost triple the amount of land used to produce palm oil by 2020, introducing 703,259 hectares for the production of palm oil for biodiesel. The intention is to upscale production to both supply domestic demand as well as increase exports.\textsuperscript{140}

Impact of palm industry

Palm production is primarily a large-scale industry with over 68% of total cultivation taking place on plots of land 200 hectares or larger. There are however a number of smallholder farmers in the

\textsuperscript{136} http://www.fedepalma.org/palma.htm
\textsuperscript{137} Interview Fedepalma.
\textsuperscript{138} Fedepalma, p2.
\textsuperscript{139} The ‘Incentivo de capitalizacion rural’ is a monetary contribution made by FINAGRO (Fondo para el financiamiento del sector Agrario) to agricultural producers that are developing a new investment project, so that the activity can be modernized to improve productivity, competitiveness, sustainability, and decrease risks. Source: German Corredor Avella/ Cepal-GTZ-BMZ, p9.
\textsuperscript{140} German Corredor Avella/ Cepal-GTZ-BMZ, p8.
industry as well. The government supports them through a project called “Apoyo Alianzas Productivas” (Support for Productive Alliances)\textsuperscript{141} with the objective to “link organized small producers to the private sector (traders, industries) to develop medium and long term projects.”\textsuperscript{142} In the palm sector, producers in the alliances have an average area of 11 hectares each; totaling over 60,000 hectares throughout the country and covering 15.9% of market share (this does not include all small palm producers in Colombia).
As a high level of investment is needed to prepare, establish and maintain the plantation and the production infrastructure during the first three or four unproductive years, it is very hard for small producers to succeed as producers if they do not have external access to financing mechanisms and external support. In fact, “the number of small-scale palm producers is increasing because the cost of the first few years is covered by various state financing schemes. However, in the end, some of them fall into debt.”\textsuperscript{143}

<table>
<thead>
<tr>
<th>Case study – Public Private Partnerships in palm oil\textsuperscript{144}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three year (2010-2013) partnership between the private entity Promotora Oleoflores S.A. (Hacienda las Flores), Municipality of Tibu, Fedepalma, WWF and the Dutch Embassy.</td>
</tr>
<tr>
<td>Overall objective: Strengthen 11 producer associations located in conflicted and poverty afflicted territories through technical and social assistance.</td>
</tr>
<tr>
<td>Desired outcome: Improvement in the quality of life of a total of 900 directly and 3,030 indirectly involved families in palm oil production through the implementation of the social-environmental label RSPO as a model for sustainability for the palm oil sector.</td>
</tr>
<tr>
<td>Results so far: In a very short period of time, the project has been able to structure organizations under principals of transparency and efficiency. Part of the project’s goals is to prepare organizations for RSPO certification, generating the need to structure formal processes of work at all levels, and leading to the construction of efficient management mechanisms at the agricultural, administrative, economic, social and environmental levels.</td>
</tr>
<tr>
<td>Total project costs: USD 4,103,521</td>
</tr>
<tr>
<td>Total provided by Dutch Embassy: USD 1,962,860</td>
</tr>
</tbody>
</table>

\textsuperscript{141} The “Alianzas Productivas Project” originated from a pilot project linked to land reform. It was designed by Colombia’s National Department of Planning, but promoted and executed by the Ministry of Agriculture and Rural Development, in coordination with de Departmental Agricultural Secretaries, SENA, mixed corporations (Corpoica), Regional Managing organization (OGRs) and other actors, with the financial and technical support of the World Bank. Source: Departamento Nacional de Planeación, p1.
\textsuperscript{142} Maria Juliana Ramirez Jimenez/Ministry of Agriculture and Rural Development: Power Point Presentation on: “Proyecto Apoyo Alianzas Productivas.” http://www.slideshare.net/guestec8f04/alianzas-productivas-presentation
\textsuperscript{143} Mingorance, p13.
\textsuperscript{144} BSD.
Cost of production

Colombian costs of production are higher than its main global competitors Malaysia and Indonesia. Between 2003 and 2008 the cost of production in Colombia increased by 13.2%, while in Malaysia growth was 6.7% and in Indonesia 2.9%. The main factors causing the difference in costs are related to extraction, plantation maintenance, harvest and transport. Costs are mostly determined by capital cost (32%), labor (31%) and fertilizers (18.4%).

6.4.2. Sustainable Palm Oil in Colombia

Roundtable for Sustainable Palm Oil

In 2004, FEDEPALMA became a member of RSPO and was responsible for adapting the standards to the Colombian reality (including issues such as armed conflict, money laundering, land ownership and labor-specific issues). Cenipalma, Alexander von Humboldt (biology research institute), and WWF were responsible for the technical support in the process.

Due to high certification costs and low compensations for standard implementation, producers geared towards the national market do not see the value of certification. Criteria requirements are hard to be implemented, especially for farms that do not have the proper management systems required for certification. Some farms have realized though, that standard implementation does benefit the organization as a whole, especially to avoid greater damages when affected by environmental phenomena such as floods. And while farmers are pragmatic in saying that if there is a market for certified products they will adapt, Fedepalma believes that by 2015 less than 50% of the farms will be certified.

The only producer certified RSPO in Colombia is the nucleus C.I. Tequedama, owned by the Daabon Organic Group (certified in November 2010), producing 22,000 tons of certified crude palm oil per year. The intention is to sell all of this as certified to the export market (mainly to Europe), but this has as yet to happen in practice. Daabon’s palm production is also certified Organic (Japan, Europe and USA) since 1992 and Global GAP certified.

Rainforest Alliance

There are as yet no Rainforest Alliance-certified plantations in Colombia. According to Fedepalma and Naturacert (RA certifier in Colombia) some Colombian palm oil producers, including Daabon, have shown an interest in Rainforest certification, and pilot programs with small producers have already begun.

---

146 For additional details see Armando
148 Interview Daabon Organic
6.5. Drivers and Barriers

Colombia’s palm oil production is the biggest in all of Latin America, but plays a much smaller role in terms of global exports (<2%). This is especially so over the last few years as an ever-increasing amount is going into producing biodiesel for domestic consumption as part of the country’s oxygenation program. Moreover, the Netherlands imports practically all of its palm oil from Malaysia and Indonesia, with which it has close trade relations. Colombia’s production costs are also much higher than those of these two countries, making its palm oil uncompetitive in the international market. There are nevertheless small amounts of certified palm oil that come from Colombia. With internal support from Fedepalma certification of palm oil could be increased. An incentive for this would be to engage in “certificate trading”, whereby Colombian producers could sell virtual “sustainability credits” but would continue to sell the physical palm oil on the domestic market (e.g. for fuel purposes).
Market drivers for growth sustainable trade

- EU regulation on Renewable Energy
  The EU Directive on Renewable Energy (see appendix 6.3) provides a strong driver for sustainable palm oil for biofuel purposes. The RSPO has applied for formal recognition as a voluntary scheme under the EU RED with the European Commission. To present the RSPO has not (yet) been formally recognized.

- Increasing global demand for palm oil
  In the next ten years the global consumption of vegetable oils is expected to increase by more than 25% to 184.3 million tones. In order to meet this demand palm oil production will need to grow dramatically. However, the two biggest producing countries are relatively restricted in their growth potential. Colombia is seen as an area with the most potential to develop palm plantations together with Brazil and Thailand.

- Major sustainability commitments by industry
  The major sustainability commitments expressed by the leading companies Unilever and Cargill and the Dutch industry (see chapter 6.3.2) will boost global certified sustainable production and thus (could) provide a driver for Colombian-Dutch sustainable trade.

Drivers at origin for growth sustainable trade

- RSPO certification for external markets
  While only a small percentage of production is RSPO certified, companies like Daabon, and those included in the RSPO PPP (see case study), can and should remain an example to others as to the benefits of becoming certified for international markets. This could create long-term incentives for the time and when Palm oil exports pick up again.

- Support for Productive Alliances
  The government’s program to support smallholders has had a large degree of success, enabling them to secure 15.9% of market share. Certification programs like Fairtrade have an interest in certifying both large plantations and smallholders. This can create an incentive for certification programs to enter the Colombian palm oil market to address the portion of exports as yet not certified.

- Improving standards internally
  Although not related to trade and exports, the increased public investments in the palm oil industry and their clear intentions to improve social standards could be used by the trade associations and labor unions to campaign for better conditions. Similarly, the environmental threat of tripling land-use over the next nine or so years could be used to be ensure greater awareness of what Colombia stands to lose if the program does not enforce its own sustainable standards properly.

Market barriers for growth sustainable trade
Minor market relevance for Colombian palm in the Netherlands

The Netherlands, being the biggest importer of palm oil within Europe, only imported 0.9% of total imports from Colombia. This percentage of Colombian imports is even smaller relative to the overall global production capacity per country. 85% of all Dutch palm oil imports come from Indonesia and Malaysia. Most of the Dutch trading houses have vertically integrated supply chains with their own plantations in Indonesia and/or Malaysia. Palm oil from Colombia is bought occasionally to supplement their supplies.

Colombian palm oil is not competitive

Colombian palm oil is said to be less competitive on the international market. The cost of production are higher than those of the most efficient producers in the world (Malaysia and Indonesia) due to deficiencies of the oil palm companies in implementing available technology and optimizing factors of production (access to land, credit, supplies and technical assistance), the small production volume, and the geographical spread of the plantations. Other contributing factors include Colombia’s poor competitiveness in terms of safety, transport and logistics as well as the exchange rate and capital costs.

Barriers at origin for growth sustainable trade

Greater internal consumption

The oxygenation program to promote greater use of biodiesel is currently depleting exports, and thus interest in trade-related sustainable standards, in the internal market. While the government intends to increase exports over the coming years through increased production, the trends indicate that internal consumption is the priority. This does not make Columbia appear a promising trade partner.

RSPO standard stricter for Colombian production

The Colombian RSPO version is stricter than the international standard, not giving producers different time periods to comply with certain criteria at different times. This provides a disincentive for farmers and companies in Colombia to become certified.