

A BRAZILIAN COFFEE CO-OP is working on a deal with the world's largest retailer. It may change the pickers' lives

For Wal-Mart, fair trade is more than a hill of beans

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POÇO FUNDO, BRAZIL — Rosevaldo Jose Pereira has never been to Wal-Mart. The name doesn't mean anything to the lifelong coffee farmer in this remote village in Brazil.

But Wal-Mart Stores Inc. knows who he is. And the world's largest retailer is changing his life.

Wal-Mart is in the midst of overhauling its tightfisted image to win over shoppers searching for more than low prices. That effort has taken the company that built an empire on the principle of high volume and low costs into previously uncharted territory, into the realm of trendy apparel and organic food.

Now, with the help of Pereira, it is embarking on one of its most radical undertakings to date: fair trade.

Pereira, 40, is part of a small co-operative of growers living here in the heart of coffee country, where the rolling mountains are lush with trees. The late afternoon sun is strong. Pereira wipes the sweat from his brow with his forearm as he works his six acres. Dirt is jammed deep underneath his fingernails. He has been picking coffee cherries since 5 a.m., stripping them off the branches with his bare hands. They will be dried, and eventually only the pit will be left—the coffee bean.

Pereira gets a premium for his harvest. His co-op is one of only seven in the country that is fair-trade certified, charging above-market price for beans because it meets certain social and environmental standards.

Wal-Mart is considering bringing Pereira's beans into its namesake stores. It would be a novel arrangement for a company infamous for squeezing pennies out of its suppliers—and a test of how deep its makeover will really go.

For Pereira, the deal could mean more money, new computers for the co-op or a bigger school for the village.

Pereira has a new house with tile floors and a spacious kitchen after a long day harvesting coffee cherries. He converted his old house into a fertilizer warehouse. His daughter Mariana Karina, 15, has braces on her teeth. Pereira has a cellphone.

But the deal would also inextricably bind the co-op's fortunes to the company from Bentonville, Ark.—putting all its beans, so to speak, in one basket.

Wal-Mart executives are planning to visit Poco Fundo at the end of the month before making a decision. It's part of the new corporate philosophy outlined by chief executive H. Lee Scott: "Doing well by doing good."

It is a work in progress.

Wal-Mart discovered Pereira and his co-op five years ago when Mark Hoffman, a buyer for its Sam's Club warehouse stores, visited Brazil on a scouting trip. There was nothing particularly philanthropic about his visit.

Hoffman travelled the world



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finding ways to buy products for less money. The Brazil list included beef, jerky, cashews and, of course, coffee.

Brazil produces roughly 30 percent of the world's coffee, exporting, in 2004, 26.4 million bags weighing 60 kilograms each. About half of that is grown in the southeastern state of Minas Gerais, known for its iron mines and orange-red earth.

Pereira's village is there, the farms connected by dusty dirt roads. Donkeys plod along the cobblestone streets of the town centre next to cars. About an hour and a half away is the air-conditioned headquarters of a company called Café Bom Dia.

Bom Dia is Pereira's link to the global economy, buying beans from the co-op and selling them to Wal-Mart. It counts itself among the five biggest coffee roasters and exporters in Brazil. Much of its production includes organic and fair-trade coffee from such growers as Pereira.

Bom Dia buys beans directly from farmers and roasts them, eliminating a middleman. The company, run by the wealthy Marques de Paiva family, also grows, roasts and exports beans from its own farm.

To Hoffman, that all meant one thing: cheaper prices.

Sam's Club already was selling fair-trade coffee from Millstone Coffee but wanted to work directly with Bom Dia to create a new line that could undercut the prices of the big names, controlling a supply chain from the ground up.

Supporting fair trade presents a paradox for Wal-Mart. It is a tacit admission that there is a point at which no more efficiencies can be squeezed out of the system without harming the people who make it work. Fair-trade beans are sold at a minimum of \$1.26 per pound, compared with the world average last month of 90 cents. But Wal-Mart is still determined not to pay more than it must.

The company has forged partnerships with hundreds of social and environmental groups to develop sustainability initiatives. TransFair USA, which certifies farms as fair trade, is working with it on Pereira's coffee. The Rocky Mountain Institute is helping reduce the fuel consumption of its trucking fleet.

When Hoffman tried to bring Bom Dia coffee to Sam's Club,

the first question he got was, "What are you getting rid of?"

The answer: Millstone Coffee, owned by Procter & Gamble.

The brand's Mountain Moonlight Fair Trade Certified blend sold on its website recently at \$8.99 for a 234- to 341-gram package of whole beans, or about 26 cents to 32 cents per gram. Bom Dia's fair-trade coffee sells at Sam's Club for \$11.77 for 1.1 kilograms—about 11 cents per gram.

"Just look at the cost," Hoffman said. "They couldn't come close to what we were trying to accomplish."

Hoffman's efforts to switch coffee began two years ago. Sam's Club is now Bom Dia's largest customer and one of the top three U.S. retailers of fair-trade coffee, TransFair USA said. The companies have an arrangement that displays both brands—Bom Dia's Marques de Paiva and Sam's Club's Member's Mark—on the packaging.

Pereira says his profit has doubled since the co-op became fair-trade certified, and he expects to sell his entire harvest of 40 sacks.

Fair-trade coffee is carried in about 1,000 Wal-Mart-brand stores. Store executives say a rebirth is occurring inside their no-frills headquarters. "Sustainability" and "trend-right" have entered the corporate lexicon alongside "everyday low prices." Chief executive Lee Scott drives a Lexus Hybrid.

It remains to be seen whether shoppers will buy the story.

The Organic Consumers Association posted a notice on the Web about the fair-trade and organic coffee at Sam's Club that urged shoppers to patronize independent cafes and roasters. Ronnie Cummins, the group's national director, said the most common complaints about Wal-Mart—that it runs out small businesses and lowers prices and wages to unsustainable levels—do not disappear just because of the merchandise changes.

Marketing consultant Simon Sinek of Columbia University said labels such as "organic" and "fair trade" may work against Wal-Mart because they are losing resonance with shoppers. "Wal-Mart is the absolute pinnacle of mass market appeal," Sinek said. "If Wal-Mart is selling it, then it's not a big deal."

Pereira's co-op depends on Bom Dia and Wal-Mart for fair-trade prices. For most fair-trade farmers, finding a willing buyer is the most difficult part of the process. About 35 percent to 45 percent of fair-trade-certified coffee is actually sold at fair-trade prices, according to TransFair USA. The rest goes for market value, undistinguishable from regular coffee.

If Wal-Mart has a change of heart, the effect could be devastating. Wal-Mart acknowledges that. "I think whether you say it or not, you're putting all of your eggs in one basket," Hoffman said.



On Rosevaldo Jose Pereira's farm, workers separate the leaves and twigs from coffee cherries, which will yield coffee beans. Pereira says profit has doubled since the co-op became fair-trade certified.

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