

TRANSFAIR USA 2006 ANNUAL REPORT



Look for this Label!

A wide-angle photograph of a vast, rolling green field, likely tea or coffee, under a clear blue sky. In the distance, approximately fifteen workers are scattered across the landscape, each bent over and harvesting the low-growing plants. They are dressed in traditional clothing, with many wearing hats and carrying woven baskets on their backs or heads. The terrain is uneven and covered in lush green vegetation.

TransFair USA enables sustainable development and community empowerment by cultivating a more equitable global trade model that benefits farmers, workers, consumers, industry and the earth. We achieve our mission by certifying and promoting Fair Trade products.

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LETTER FROM THE PRESIDENT

Dear Friends,

In the western highlands of Rutsiro, Rwanda, near the beautiful Lake Kivu, children of the COOPAC coffee cooperative attend classes in a new community elementary school built with Fair Trade premium earnings from the sale of the co-op's coffee. Far away, in the green hills of northeastern Thailand, organic Fair Trade jasmine rice cooperatives invested in wells and tubing for a potable water system, bringing immediate improvements in children's health to their villages. And on another continent, in the tropical heat of southern Ecuador, more than 3,000 families in 42 remote communities now have access to free medical attention at a mobile health clinic funded by the El Guabo Fair Trade banana cooperative. I had the privilege of witnessing this program first-hand on my visit to El Guabo last year, and came away deeply moved by the struggles of the members of the cooperative and their dreams of a brighter future.

New schools, clean water, and healthcare, made possible by Fair Trade sales, are dramatically improving the quality of life for farming families all around the world. But when we visit the communities, what inspires us most are the hope, pride and dignity that blossom when such vital community investments are made by the farmers themselves. Behind every Fair Trade Certified™ product is a story of economic empowerment and community-led development, of farmers standing up and taking care of themselves. This sets Fair Trade apart from other development models, and continues to inspire the support of industry, consumers and philanthropists throughout the U.S.

2006 was truly a banner year for TransFair USA. By year's end, more than 600 companies had signed licensing agreements to sell Fair Trade Certified products, which could be found in 45,000 retail outlets around the country. Imports of certified coffee, our cornerstone product, jumped 45% in 2006, returning \$17 million in additional income to farmers in Africa, Asia and Latin America. Consumer demand drove significant growth in other certified products,

such as tea, chocolate and sugar, and we launched Fair Trade vanilla in response to growing demand from respected brands like Ben & Jerry's ice cream. Altogether, Fair Trade Certified retail sales for the year reached to an estimated \$750 million nationwide.

This growth and impact are a tribute to the farmers who worked so hard to deliver high quality products and to the U.S. companies who partnered with them to put their products on store shelves. But ultimately, consumers drove the dramatic growth of Fair Trade in 2006. According to National Coffee Association research, consumer awareness of Fair Trade coffee grew from 7% to 27% from early 2003 through the end of 2006, an increase of almost 400% in only four years. More importantly, over half of those who learn about Fair Trade take the next step and buy certified products with our label. Together, farmers, workers, U.S. businesses and consumers are taking the Fair Trade model to new levels, and all are benefiting from it.

Fair Trade is about empowerment and participation, about getting involved and lifting your voice to help make things better. In 2006, TransFair established a Coffee Producers Advisory Council to ensure that the voices of the producers we serve continue to be heard and guide us as we grow. At the Council's inaugural meeting in August, cooperative leaders from Latin America, Africa and Asia came together to share ideas for the future of Fair Trade certification in the U.S. market and to help develop new growth strategies. Needless to say, we all learned a lot from each other!

We also launched our Global Producer Services (GPS) initiative in 2006, helping farmer groups build capacity and become more suc-



cessful. Focusing initially on Africa, GPS raised funds and partnered with other NGOs to help coffee and cocoa farmers improve product quality, strengthen organizational and management capacity, and link more effectively to the U.S. market. Given my years in the field before coming to TransFair, I am incredibly excited about this initiative. I believe GPS will enable us to better leverage our unique role in the marketplace to help farmers access multiple sources of support, allowing them to accelerate sustainable development in their communities.

In this Annual Report you will read more about the accomplishments of the past year, and I trust that you, too, will be inspired by the stories behind the products—stories that demonstrate how Fair Trade farmers and their families are changing their lives, caring for the land, and building for the future. When we learn that farmers are able to send their young people to high school and even university for the first time, provide essential healthcare for their communities, and develop strong and confident leaders, we know that Fair Trade is working.

I am deeply grateful to our partners here in the U.S.—businesses, NGOs, activists and philanthropists—whose passionate support of Fair Trade has made our progress possible. Together, over the last eight years, we have delivered over \$100 million in additional income back to farmers and their families through a market-based model of empowerment. Together, we have educated and inspired millions of Americans to vote with their dollars for a better world. I am confident that, together, we can continue to build the Fair Trade market and movement into a global partnership that will ultimately transform the way we do business and lift millions of people out of poverty. Thank you for being part of this exciting journey.



All the best,
Paul Rice

FAIR TRADE PRINCIPLES

- **FAIR PRICE:** Farmer groups receive at least a guaranteed minimum floor price plus a Fair Trade premium, and an additional premium for certified organic products.
- **FAIR LABOR CONDITIONS:** Workers on Fair Trade farms enjoy freedom of association, safer working conditions, and fair wages. Forced and child labor are strictly prohibited.
- **DIRECT TRADE:** Importers buy from Fair Trade producer groups as directly as possible, eliminating unnecessary middlemen and enabling farmers to compete directly in the global marketplace.
- **ACCESS TO CREDIT:** Farmer organizations are eligible for pre-harvest credits of up to 60% of the purchase price for their crops, which can be invested in increasing capacity and improving product quality to ensure greater success with each growing season.
- **DEMOCRATIC AND TRANSPARENT ORGANIZATIONS:** Through farmer-owned cooperatives and self-organized workers' councils, Fair Trade producers manage community development projects and build organizational capacity.
- **COMMUNITY DEVELOPMENT:** Fair Trade farmers and farm workers invest Fair Trade premiums in social and business development projects like scholarship programs, quality improvement trainings, and organic certification.
- **ENVIRONMENTAL SUSTAINABILITY:** Harmful agrochemicals and GMOs are strictly prohibited on Fair Trade farms, in favor of environmentally sustainable farming methods that protect farmers' health and preserve ecosystems. Fair Trade farmers who produce certified organic products are guaranteed an additional premium.

WELCOME TO TRANSFAIR

TransFair USA, a non-profit organization, is the only third-party certifier of Fair Trade products in the U.S. and is a member of Fairtrade Labelling Organizations International (FLO). Based in Bonn, Germany, FLO is an umbrella organization that unites 20 labeling initiatives with Fairtrade Certified Producer Organizations in Africa, Asia, Latin America, and the Caribbean.

TransFair USA traces Fair Trade products from producers on the international Fair Trade Register to importers, manufacturers, and distributors in the U.S., and licenses over 600 U.S. companies to display the Fair Trade Certified™ label on agricultural products that meet international Fair Trade standards. The standards include fair prices and labor conditions, direct trade and access to credit, community development, and environmental sustainability, and industry compliance is verified using a rigorous audit system.

TransFair USA currently certifies coffee, tea and herbs, cocoa and chocolate, fresh fruit, rice, sugar, and vanilla.



FROM DREAM TO REALITY: HOW FAIR TRADE MAKES A DIFFERENCE

JOAO'S STORY

In the Brazilian village of Poço Fundo, where a number of small, family-run coffee farms exist on tiny, 1–2 acre plots, a family's basic need for food, clothing, and shelter is always pressing. Meeting these basic needs is, of course, imperative, but as outsiders looking in, we often forget that these farmers have dreams and desires like the rest of us. When people are given the chance to turn a seemingly impossible goal into something tangible—a house, an education, economic stability—something special has happened: they can discover what it's like to actually live their dreams.

João Paula de Carvalho always dreamed of building a nice house to live in. For nearly 40 years, he grew coffee and worked his small bit of land, wishing for something better for his wife and family. João and his family lived in a 15x12 foot house made of scrap lumber, with a tin roof and dirt floors, and without running water or electricity.

In 1999, João and other small-scale coffee farmers in Poço Fundo, who faced similar problems of poor living conditions and barely subsistence incomes, decided to pool their resources to form COOPFAM (Cooperative of Family Farmers). With the strength of numbers, they believed they could find solutions to difficult obstacles. Within just a few years, COOPFAM had literally changed João's life.

Under COOPFAM, João converted to organic coffee and began selling into the Fair Trade market. As COOPFAM's reach grew, so did its market share. With the necessary tools to improve his coffee quality, and with higher revenues from emerging markets, new possibilities for João were suddenly within reach. João's family was able to build a barn to store the coffee prior to shipment to the co-op, and João built a comfortable, three-bedroom home with electricity and running water, a tile roof, and a porch. Perhaps the most powerful monument to his success is the fate of his old 15x12 foot house: João converted it to a storage shed and pig sty.

Fair Trade premiums have also made it possible for COOPFAM to establish a scholarship fund. With assistance from the fund, João's

oldest daughter, Ivania, is now the first person in her family to go to college. Ivania is majoring in education, and her dream is to return to the community to teach. "I wouldn't be able to do this without Fair Trade," she says. "When we were little, my mother told us that girls needed to go to work in the village after high school or get married and start a family. I never dreamed that I would one day be able to go to college."

João and his family put their hearts and souls into their work — and it shows in the high-quality coffee they produce. "I am very happy to fulfill this dream," says João. "Ever since I got married, I dreamed of building my own house." For João and countless other farmers, Fair Trade offers a more promising future for their families and communities, as well as for the precious land on which they live.

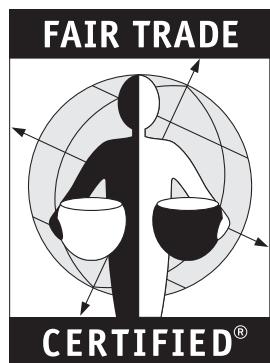


"It is difficult to say what is impossible, for the dream of yesterday is the hope of today and the reality of tomorrow."

Robert H. Goddard

THE IMPORTANCE OF FAIR TRADE CERTIFICATION

At the core of TransFair USA's mission is our commitment to help farmers and farm workers in developing countries gain leverage in the world marketplace, and Fair Trade certification provides the tools they need to succeed in it. The Fair Trade Certified™ label is a guarantee that strict standards were met, including (1) direct trade between producer organizations and importers; (2) fair prices—at



a minimum, an established floor price for most products; (3) access to credit from importers; and (4) support for sustainable agriculture. The standards reinforce increased social and economic stability, leading to stronger communities and to better stewardship of the land that is the primary source of their strength.

As consumer awareness of the importance of sustainable farming and more equitable trade increases, marketers have been quick to recognize its significance to branding and sales. It is important to recognize, however, that TransFair USA's Fair Trade Certified label is not a brand, but the end result of a rigorous inspection and monitoring system. The integrity of the label is backed up by annual farm inspections and third-party audits, ensuring that products have met Fair Trade economic, social, and environmental standards.

ON THE FARM

Fair Trade cooperatives and farms around the world are inspected annually by FLO-Cert, an international certification company offering Fair Trade certification services to more than 70 countries. FLO-Cert monitors producer organizations' adherence to Fair Trade standards and their capacity to manage social premium earnings for investment in local development projects, including schools, women's programs, healthcare facilities, and income diversification programs.

The FLO-Cert team also ensures farmer compliance with Fair Trade's environmental standards—standards that, among other criteria, ban GMOs, strictly control agrochemical usage and encourage natural integrated pest management.

To learn more about FLO and FLO-Cert, visit www.fairtrade.net.





IN THE U.S.

TransFair USA's certification team audits transaction between U.S. companies offering Fair Trade Certified™ goods and the producer organizations from which they source. This rigorous audit introduces transparency in Fair Trade global supply chains and ensures that strict Fair Trade standards were met.

FAIR TRADE CERTIFICATION IN A HIGH "C" MARKET

Fair Trade coffee farmer organizations are guaranteed a floor price of \$1.21/lb. for Arabica beans from Africa, Asia and Central America, and \$1.19/lb. for Arabica beans from South America and the Caribbean, plus a premium of \$.05 per pound. When the international commodity price (the "C" price) rises above \$1.21, the guaranteed floor price is the "C" price plus the \$.05/lb. premium.*

This premium is added to the purchase price and is used for social and economic investments in communities or cooperatives. The premium is a key feature of the Fair Trade system, offering farmers and workers the opportunity to decide democratically how to invest it.



*After June 1, 2007, the social premium increases to \$.10/pound for FTC coffee, and the Organic Differential for all certified organic coffee increases from \$.15 to \$.20/pound to reflect the higher costs of organic production and compliance.

Source: Nybot



FAIR TRADE AT WORK: JUANITA BALTODANO AND THE ASSOCIATION OF SMALL PRODUCERS OF TALAMANCA

For thousands of years, the Bribri people have lived in the mountains and Caribbean coastal areas of the Talamanca Region of southern Costa Rica along the border with Panama. Many of the Bribri remain there, maintaining an indigenous culture unlike any other in the country.

The Bribri live an agricultural life, cultivating cacao, bananas and other tropical fruits along with nearly 120 other crops that can be used for food, building materials, and medicine. Historically, extreme isolation and significant language barriers left the Bribri with little in the way of education, health care, and income (the Bribri have the lowest per capita income in all of Costa Rica). With the encroachment of large plantations and subsequent changes in local economies, these small-scale farmers became impoverished. Their cacao and banana harvests, which previously sustained them, had to be sold for extremely low prices, and elaborate, time-honored systems respecting biodiversity and environmental sustainability were upended by huge monocultural, chemical-dependent systems.

Juanita Baltodano, a third generation Costa Rican farmer living in Talamanca, realized the region needed a way to level the playing field against larger producers. Envisioning the potential benefit of joining forces, she and a small group of like-minded farmers came together to form the Asociación de Pequeños Productores de Talamanca (Association of Small Producers of Talamanca—APPTA) in July 1987. APPTA is an organization dedicated to bringing new levels of leadership and opportunity to local farmers, and it represents more than 40 communities in Talamanca. The strength of APPTA's approach lies in the commitment of its members to the time-honored agricultural production systems developed over centuries by the inhabitants of the region and in their determination to enter the market as a collective force.

The market, for its part, has rewarded this effort positively. APPTA was certified by FLO in 1997 and has also gained organic certification. In 2000 the association began selling cacao into the Fair Trade market. The timing was excellent: a sharp uptick in demand for Fair

Trade products allowed APPTA to export 210 tons of dried organic cacao that year. APPTA soon began developing strategic alliances with other organizations and manufacturers to help with other aspects of the business such as marketing and processing cocoa products. Juanita notes the importance of these alliances for small farmers: "As small-scale producers, we can't do it all. We don't have the capital to invest in factories and processing facilities. Through strategic alliances we're adding value to our products."

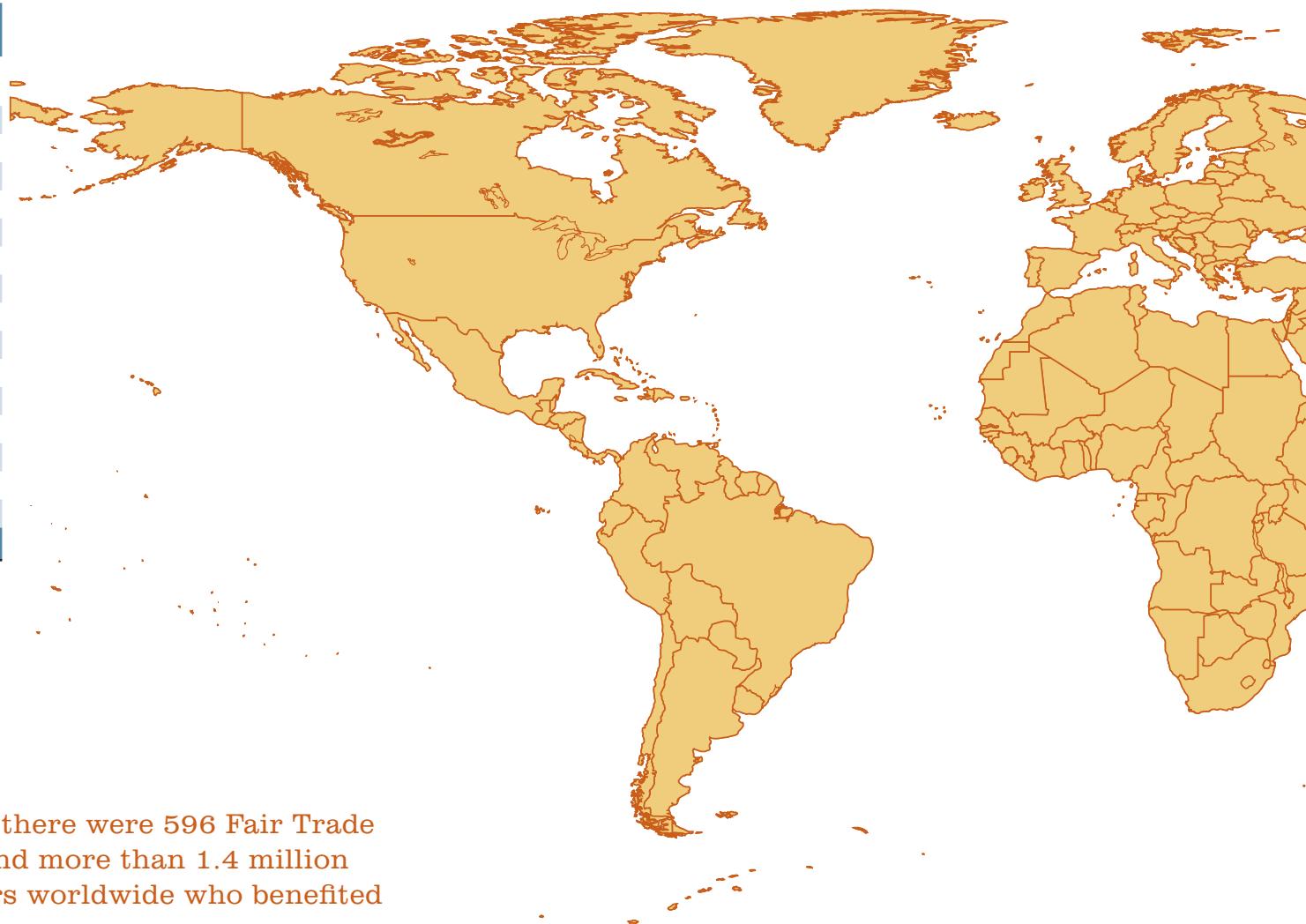
APPTA has added significant value to the lives of Talamanca's people. Today, 80% of its 1,100 producers are indigenous Bribri and Cabécar people, 38% are women, and the organization's efforts benefit more than one thousand families in the region. Most of APPTA's cocoa production is sold under Fair Trade terms, as well as large volumes of several tropical fruits, and the organization has plans for continued growth, with both business-focused and community-related goals. The association remains committed to conserving natural resources and protecting the environment, and agronomists work directly with members to assist them in their organic cultivation and crop diversification programs. As part of their integrated crop management approach, association members plant a variety of trees, not only to protect the land, but also to produce lumber for home construction as well as extract medicinal products from some species. Among the many results of APPTA's efforts is the fact that the Bribri have found a way to partner with their neighbors and thrive in the contemporary world, without abandoning their unique history and culture.

"Farmers can't take care of the environment on an empty stomach."

Juanita Baltodano

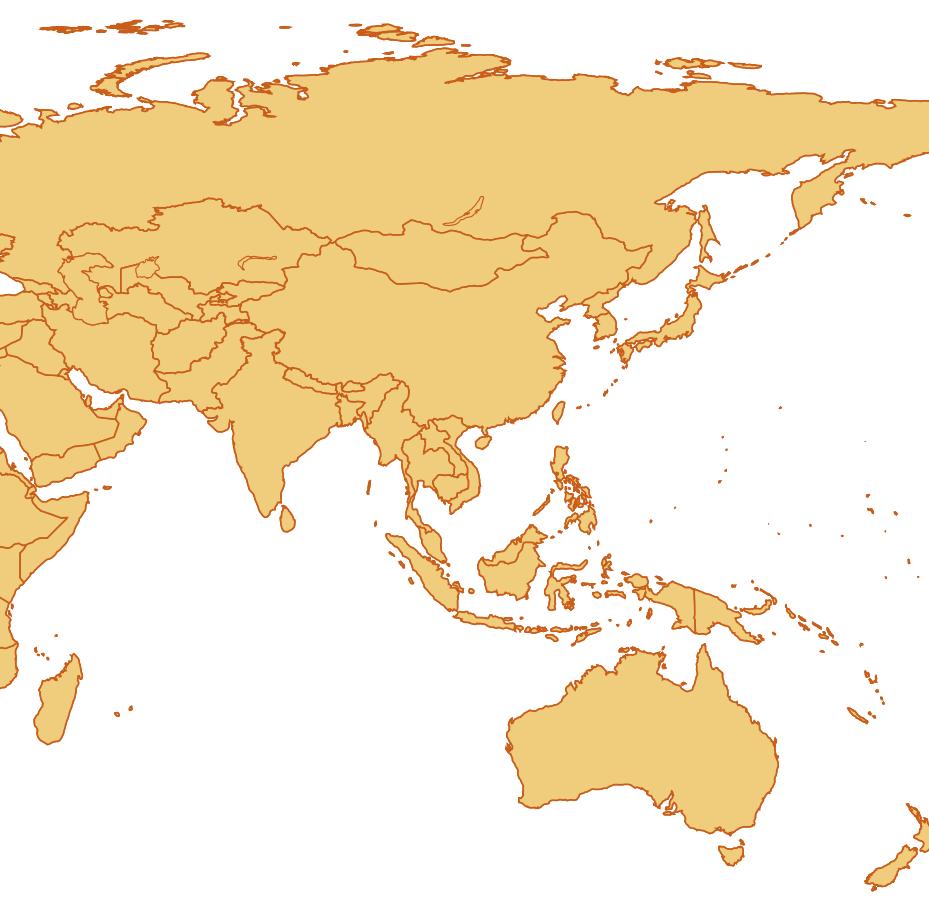
FAIR TRADE LINKS PRODUCERS, INDUSTRY AND CONSUMERS

New FLO-certified producer groups in 2006	
Country	Number of new producer groups
Brazil	1
Colombia	6
Ecuador	12
Ethiopia	1
India	2
Ivory Coast	1
Kenya	4
Laos	1
Mexico	5
Nicaragua	2
Peru	4
Rwanda	3
Thailand	2
Zambia	1
Zimbabwe	1
Total 46	



At the end of 2006, there were 596 Fair Trade producer groups, and more than 1.4 million farmers and workers worldwide who benefited from Fair Trade.

THE GLOBAL IMPACT OF FAIR TRADE



Number of FLO-certified producer groups (all products)					
	Latin America	Asia	Africa		
Mexico	53	India	50	South Africa	40
Peru	39	Sri Lanka	13	Kenya	24
Colombia	33	Thailand	9	Uganda	16
Guatemala	24	Pakistan	5	Tanzania	15
Bolivia	21	China	4	Ghana	10
Nicaragua	20	Papua New Guinea	4	Rwanda	10
Ecuador	19	Indonesia	3	Burkina Faso	9
Honduras	19	Laos	3	Mali	6
Brazil	18	Philippines	2	Egypt	5
Costa Rica	14	Vietnam	2	Ethiopia	4
Dominican Republic	14	East Timor	1	Ivory Coast	4
Argentina	11	Nepal	1	Senegal	4
Cuba	10			Zambia	3
Chile	9			Zimbabwe	3
Haiti	9			Cameroon	2
El Salvador	8			Malawi	2
Paraguay	6			Mozambique	2
Belize	1			Togo	2
Panama	1			Tunisia	2
St Vincent	1			Benin	1
Venezuela	1			Comoros Islands	1
				Congo Dem. Rep.	1
				Morocco	1
Total:	331	Total: 97		Namibia	1
			Total = 596	Total: 168	

Total producer groups by category that sell products certifiable by TransFair USA, 2006									
	Coffee	Cocoa	Bananas	Fruit	Rice	Sugar	Tea	Vanilla	Total*
Africa	32	4	1	47	1	3	26	2	116
Asia	12	0	0	0	0	2	54	6	74
Latin America	199	18	27	18	13	11	1	1	288
Subtotal	243	22	28	65	14	16	81	9	478

Source: Fairtrade Labelling Organizations International (FLO)

PRODUCER ORGANIZATIONS

	Number of Producer Organizations per Country 2002–2006				
	2002	2003	2004	2005	2006
Argentina				4	11
Belize	1	1	1	1	1
Benin		1	1	1	1
Bolivia	16	18	20	22	20
Brazil	8	11	13	16	16
Burkina Faso	1	1	2	4	9
Cameroon	1	1	1	3	2
Chile	5	5	10	9	9
China	2	2	2	3	3
Colombia	18	20	24	31	34
Comoros Islands		1	1	1	1
Congo Dem. Rep.	2	2	2	1	1
Costa Rica	7	7	9	12	13
Cuba	8	7	7	7	7
Dominican Republic	8	8	10	11	11
East Timor	1	1	1	1	1
Ecuador	6	8	8	8	18
Egypt	2	3	4	5	
El Salvador	3	3	3	8	6
Ethiopia	1	4	3	3	4
Ghana	3	5	7	10	8
Guatemala	18	19	23	25	23
Haiti	7	6	8	8	9
Honduras	20	19	19	19	19
India	23	24	33	37	49
Indonesia	1	1	1	3	3
Ivory Coast			1	2	4
Kenya	1	1	6	13	22
Laos				1	3
Malawi	1	1	2	2	2

Mali			5	3	6
Mexico	45	52	49	50	51
Morocco				1	1
Mozambique				2	2
Namibia					1
Nepal	1	1	1	1	1
Nicaragua	12	15	18	16	20
Pakistan	3	3	4	4	5
Panama				1	1
Papua New Guinea	3	3	4	4	4
Paraguay	4	4	5	6	6
Peru	16	22	28	36	37
Philippines	2	2	2	2	2
Rwanda	1	2	4	5	10
Senegal			1	2	3
South Africa		9	27	43	38
Sri Lanka	13	14	15	14	15
St. Vincent and the Grenadines	1	1		1	1
Tanzania	12	11	13	15	14
Thailand	3	9	9	9	9
The Windward Islands			1		
Togo				1	2
Tunisia			1	1	2
Uganda	17	16	16	15	15
Uruguay	1	1			
Venezuela	4	3	3	2	1
Vietnam	1	1	1	1	1
Zambia	1	1	3	3	3
Zimbabwe	1	1	1		3
Total	303	350	432	508	569

Source: Fairtrade Labelling Organizations International (FLO)

ON THE GROUND WITH GLOBAL PRODUCER SERVICES

Estimated Additional Income (AFI) to Coffee Farmers			
	2005	2006	% Increase 2005–2006
Total AFI (in dollars)	\$14,189,359	\$16,970,618	20%

The dramatic growth of the U.S. Fair Trade market, averaging more than 55% annually since 2000, offers tremendous opportunities for new as well as existing Fair Trade producers. TransFair USA's Global Producer Services (GPS) initiative was launched in 2005 to help farmers and farm workers take advantage of this growth and achieve greater benefits from Fair Trade by improving their market position, fostering secure, long-term trading relationships with U.S. business partners and enabling farming communities to sell more of their products on Fair Trade terms.

The initiative uses TransFair USA's network of industry and NGO allies to coordinate technical assistance projects and help growers overcome barriers in business by linking producers and industry. The GPS program also invites new suppliers to take advantage of burgeoning market opportunities where demand growth is exceptionally strong. In turn, Fair Trade producers offer improved quality, product availability, and customer service to their partners.

In July, 2006, GPS launched its first project in Côte d'Ivoire, the world's leading producer of cocoa, where millions of small farming families depend on the crop for their livelihoods. The Ivory Coast, wracked by years of civil war, is one of the poorest countries in the world, and stories of forced child labor and trafficking have shocked the international community. Through Fair Trade, Ivoirian farmers can access the necessary tools and resources to prevent labor abuses, overcome other challenges, and develop sustainable production methods. Currently working with two cocoa cooperatives, Kavokiva and Coopaga, the project continues to help small-holder cocoa producers improve quality and their business capacity

through training and technical assistance for pre- and post-harvest handling and processing.

In 2006, GPS expanded its work to include the East African coffee sector. In partnership with Texas A&M University, the GPS team entered into a strategic alliance to support Rwandan coffee farmers by providing cooperative development and market linkage services for four Rwandan coffee co-ops.

Cornerstone funding for GPS came from a Dutch social entrepreneurship foundation whose efforts are focused on using markets to alleviate poverty. The grant helped fund much of the GPS field work and staff, enabling the department to build a strong foundation for work across Asia, Africa, and Latin America.

In partnership with industry and both public and private-sector leaders, new programs in Brazil and Indonesia will be launched in 2007, and additional funds will be raised to help GPS continue leveraging the power of market forces to build strong organizations and improve the lives of producers and their families around the world.



EMPOWERING FARMERS: CHANGE BRINGS NEW POSSIBILITIES

Fair Trade is best known for delivering higher, more stable prices to farmers, thus improving incomes and leading to better quality of life in farming communities in the developing world. Fair Trade has consistently demonstrated a positive impact on the health and well-being of farmers, farm workers, and their families.

At its core, Fair Trade is focused on strengthening cooperatives and farm workers' organizations, so they can better serve their members, improve the lives of their families, and promote development in their communities.

“Fair Trade has shown us that development can come to our area because of our own hard work.”

Eno Nosare,

Highland Organic Agriculture Cooperative (HOAC), Papua New Guinea. HOAC's 2,600 member families have invested Fair Trade revenues in schools, health clinics, and infrastructure in their isolated region.

“These last years, our incomes have improved and most of our producers were able to buy a small piece of land. Fair Trade has also helped women to participate in the economy. We now have our own brand of coffee called ‘Café Femenino’ that has helped us earn respect and make important decisions that before were made by our husbands. Our opinions really matter now.”

Sabina Hernández,

a member of Peru's La Florida coffee co-op. La Florida has become a leader in women's empowerment in rural Peru. Women farmers market their coffee directly, and the cooperative supports community banks that provide microcredit to women entrepreneurs.



“Now that we have become a Fair Trade cooperative, we can begin to take action to reduce poverty here in our rural region.”

From a member of Coopaga, a cocoa cooperative in Côte d'Ivoire. Fair Trade has helped Coopaga's more than 2,400 member families improve education in rural areas and diversify the traditionally cocoa-dependent economy through microcredit projects.



“The premiums from Fair Trade sales have increased our income, and that has improved our status and allowed us to make our lives better. It is a wonderful situation — buyers get our excellent sugar, and we get clean drinking water and electricity. That's Fair Trade!”

Exford Dimo,

a sugarcane grower and board member of Malawi's Kasinthula cooperative. Along with investments in their business capacity, Kasinthula's members have invested in wells to provide safe drinking water and improve the public health in two local villages, and the co-op also financed the installation of electricity in a local village.

EVIDENCE FROM THE FIELD

A study conducted for TransFair USA by a research team led by Dr. Eric Arnould from the University of Arizona and Dr. Alejandro Plas-tina from the University of Nebraska highlights Fair Trade's positive impact on health and well-being in rural farming communities.

This study of more than 1,200 farming families in three of Fair Trade's most important coffee growing countries—Nicaragua, Peru, and Guatemala—represents an important international quantitative analysis of the impact of Fair Trade. According to the survey, Fair Trade farmers consistently earned higher incomes than their non-Fair Trade neighbors, experienced improved access to medical care and education, and generally had a higher quality of life.

Farmer Income: Farmers surveyed in Nicaragua earned up to twice as much as their non-Fair Trade counterparts. In all three countries studied, farmers reported significantly higher incomes. Fair Trade farmers surveyed in Nicaragua were nearly ten times more likely to have savings, and more than three-quarters of Fair Trade farmers reported that their quality of life had improved in the past three years. Fair Trade incomes also led to significant increases in housing improvements.

Education: Household income is significantly correlated with keeping children in school. In Peru and Nicaragua, children aged 6–13 whose families belonged to Fair Trade co-ops were more likely to be in school than children from non-Fair Trade families.



Health: Fair Trade farmers in Nicaragua were almost five times as likely as their non-Fair Trade counterparts to have access to medical treatment for malaria, and more than three times as likely to obtain medical care for the treatment of diarrhea, the second biggest killer of children around the world. In Guatemala, Fair Trade co-op members were up to three times more likely to receive medical care for a host of diseases than non-Fair Trade farmers, and 31 times more likely to receive medical treatment for dengue. In Peru, Fair Trade members were found to get 64% fewer colds than non-members, mostly due to improved housing and access to potable water.

Source: "Fair Trade Impacts on Educational Attainment and Health: A Three Country Comparison" published by the University of Arizona and sponsored by a grant from the Tinker Foundation (TFI), 2006.



The companies licensed to use the Fair Trade Certified™ label range from small, mission-driven coffee roasters to some of the largest transnational corporations in the world—and their numbers are increasing significantly as companies meet consumer demand for socially responsible products.

At the end of 2005, just over 540 companies were licensed to offer Fair Trade Certified products. In 2006, the number of licensees grew by more than 15% to 615 companies, including 70 new coffee companies, eight of which made a commitment to exclusively offer Fair Trade Certified products. Other new licensees included 14 tea companies, and seven companies were licensed to import and process vanilla, launched in 2006.

More than 45,000 retailers, including leading national and regional supermarkets, cafés, coffee shops, and college foodservice outlets now carry Fair Trade Certified products.



COFFEE LEADS FAIR TRADE SALES IN U.S. MARKET

SNAPSHOT: Fair Trade Certified Coffee

Pounds certified in the U.S.	1998–2006	2006	% Change Over 2005
	184,367,885	64,774,431	45%

Source: TransFair USA Fair Trade Almanac, 1998–2006

Fair Trade Certified™ coffee remains the fastest growing segment of the U.S. specialty coffee market. The Fair Trade share of this market nearly doubled in 2006, climbing to over 7%, with an estimated retail value of \$730 million.

Consumer awareness of Fair Trade among specialty coffee drinkers reached 20%—a 33% increase over 2005. The National Coffee Association reported in its 2006 Trends Report that Fair Trade awareness delivers the highest conversion numbers among certification labels: 56% of consumers who are aware of Fair Trade coffee also purchase it.

In 2006, nearly 65 million pounds of Fair Trade coffee were certified by TransFair USA. This represents a 45% increase over 2005, and marks 2006 as the year with the largest absolute growth since we were established in 1998. For its part, organic Fair Trade coffee

mirrored the increasing awareness and demand for organic foods in the U.S. Imports increased 94% over 2005, a record gain that accounts for 78% of all Fair Trade coffee volume.

In 2006, 243 farmer groups from 24 countries, including countries new to the U.S. Fair Trade market such as Laos, India and Kenya, earned nearly \$17 million in additional income as a result of the growth in Fair Trade Certified coffee. This increase brought the total estimated income earned by Fair Trade coffee farmers from the U.S. market to almost \$92 million between 1998 and 2006.

In 2006, imports of Fair Trade Certified coffee from Peru, the largest origin by volume, doubled, growing from 8.5 million in 2005 to over 16 million pounds. This represents the largest growth in imports from any country of origin in the history of Fair Trade in the U.S.

FAIR TRADE CASE HISTORY

Rwanda offers a prime example of Fair Trade's ability to promote stability and growth in regions affected by civil unrest. Coffee has long been Rwanda's largest export, but production plunged following the genocide of 1994. The Rwandan coffee industry was entirely controlled by government and foreign entities until 1994. COOPAC, a Fair Trade cooperative located in western Rwanda, is a leading example of locally-owned coffee enterprises and dem-

onstrates the potential of the Rwandan coffee market to benefit local communities.

U.S. imports of Fair Trade Certified coffees from Rwanda grew from 64,000 pounds in 2005 to more than 400,000 pounds in 2006—more than fivefold growth. The importance of Fair Trade, organic, and other specialty coffees to the economy in rural Rwanda cannot be overestimated.

FOCUS ON COFFEE FARMERS

FIRST MEETING OF TRANSFAIR USA'S COFFEE PRODUCER ADVISORY COUNCIL

TransFair USA is committed to ensuring that Fair Trade's most important constituents—farmers and farm workers—play a key role in the strategic development of the U.S. market for their products. In August, a group of ten leaders from coffee cooperatives across Latin America, Africa, and Asia came together in Costa Rica for the inaugural meeting of TransFair USA's Coffee Producer Advisory Council. The council gives farmers input into TransFair USA's market development strategies and provides a venue to address farmer concerns about Fair Trade's growth, competition from other labels, pricing, and technical assistance opportunities.

CONNECTING COFFEE PRODUCERS WITH MARKETS: THE SCAA CONFERENCE

The most important event for the global specialty coffee industry is the annual Specialty Coffee Association of America (SCAA) conference. SCAA sets the industry's standards for growing, roasting, and brewing. SCAA members include coffee retailers, roasters, producers, exporters, and importers. The annual forum offers farmers a highly focused venue for doing business with U.S. buyers, promoting Fair Trade, and engaging in valuable education and networking activities. In April, TransFair USA hosted a delegation of more than 100 farmers from 40 Latin American, Asian, and African cooperatives at the 2006 SCAA conference in Charlotte, North Carolina.

FAIR TRADE FORUM AT SCAA

TransFair USA's annual Fair Trade Forum provides both farmers and industry leaders with valuable skill-building and networking opportunities. Forum topics offer a range of critical information, from coffee quality assessment to risk management, and in 2006, the forum included its first Fair Trade coffee cupping (tasting and evaluation of specialty coffee). This event gave farmers the opportunity to sample four coffees from different origins and to learn from four expert specialty roasters how coffees are judged and selected according to their unique characteristics.

CUPPING PAVILION

Sixteen Fair Trade producers were selected to enter their coffees in the SCAA's annual Cupping Pavilion—a unique event where some of the U.S. specialty coffee industry's leading judges compared coffees from around the world. Fifteen of the contestants ranked among the highest-scoring coffees of their region. In the final round, cuppers compared coffees across all regions to choose the top 12 coffees worldwide. Four Fair Trade cooperatives made the final cut: Expocafé (an exporter in Colombia), CECOCAFEN (Nicaragua), Sidama (Ethiopia), and FEDECOCAGUA (Guatemala). With an impressive score of 87.78, Expocafé won the title of second-best coffee among all Cupping Pavilion contestants and CECOCAFEN, with a score of 86.47, came in third place. This is a remarkable quality achievement for each.

TEA

SNAPSHOT: Fair Trade Certified Tea

Pounds certified in the U.S.	2001–2006	2006	% Change Over 2005
	1,575,431	629,985	22%

Tea is one of the fastest growing Fair Trade Certified™ product categories. We certified nearly 630,000 pounds of tea in 2006, bringing the total volume of tea certified by TransFair USA to almost 1.6 million pounds. The U.S. market for Fair Trade Certified tea has enabled tea workers and smallholder tea growers in seven Asian and African countries to earn nearly \$570,000 in additional income to date—nearly \$245,000 in 2006 alone.

Fair Trade Certified tea was first launched in 2001, followed by Rooibos in 2005, and four herbal teas were certified in 2006: Chamomile (*Matricaria chamomilla*), Hibiscus (*Hibiscus sabdariffa*), Peppermint (*Mentha piperita*) and Spearmint (*Mentha spicata*). 92% of all Fair Trade Certified tea is also organic.

TransFair USA works with 83 U.S. companies—up from 67 in 2005—and a wide variety of brands that offer Fair Trade Certified specialty tea and herb products, including loose leaf, bagged teas,

FAIR TRADE CASE HISTORY

Koslanda Organic Tea Garden in Sri Lanka, located in the mountains of Sri Lanka's Uva District, is home to 596 workers and their families. Fair Trade Certified since 1998, Koslanda created a micro-lending program which allows workers to borrow money at a low interest rate. A portion of the Fair Trade funds were used to build new latrines, provide new roofs, and purchase gas cookers for the community, accomplishments which have improved the quality of life dramatically for workers and their families.

“Without Fair Trade, nobody would be able to buy sewing machines, gas cookers, and other things that improve our daily lives.”

*M. Wimalawathy,
Koslanda tea garden worker*



RTD bottled teas and chai blends, kombucha bottled teas, and foods containing Fair Trade Certified tea extracts, such as green tea mints, ice cream and nutritional bars. Fair Trade Certified rooibos and herbs offer caffeine-free options for consumers and countless ingredient opportunities for the culinary, nutraceutical and herbal supplement markets. A growing number of major specialty tea and herb importers are now licensed to distribute Fair Trade Certified products, providing a range of sourcing options.



TEA COMMUNITIES BENEFIT FROM FAIR TRADE

There are over 70 FLO-certified tea estates and small-scale producer groups in 11 countries in Asia, Africa and Latin America. For every kilo of Fair Trade Certified™ product purchased, the U.S. importer is responsible for paying the Fair Trade premium to an elected association of workers and management, called a Joint Body, at each tea estate. Through a democratic process, the Joint Body allocates the premium to areas of greatest need and is used for projects that benefit the entire community. Fair Trade premiums have financed new computer learning centers and educational scholarships, as well as healthcare programs that include nutrition, family planning, special medical needs, clean drinking water and toilets.



COCOA

SNAPSHOT: Fair Trade Certified Cocoa

Pounds certified in the U.S.	2002–2006	2006	% Change Over 2005
	3,771,601	1,814,391	75%

Cocoa imports, in keeping with consumer demand for high quality chocolate, have grown dramatically since we launched Fair Trade cocoa in September, 2002. In the first year, 16 companies were licensed to offer Fair Trade Certified™ semi-finished and branded chocolate products. In 2006, imports grew 75% and the number of cocoa licensees grew to 45, a 32% increase over 2005. 80% of Fair Trade Certified cocoa imports were also organic. 11 new cocoa licensees were certified during the year, and the number is expected to grow significantly next year.

“Fair Trade is a unique solution to improve our living conditions and struggle against abusive child labor. We will work together with the help of the Fair Trade network to improve the lives of our members.”

*Fulgence N’Guessan,
President of the Kavokiva Board, Ivory Coast*



SUGAR AND VANILLA

SNAPSHOT: Fair Trade Certified Sugar

Pounds certified in the U.S.	2005	2006	Total	% Change Over 2005
	271,680	3,581,563	3,853,243	1218%

TransFair USA first certified sugar in 2005 with three licensees: Wholesome Sweeteners, Alter Eco and Equal Exchange. Sugar as an ingredient was launched in 2006, and demand promises to significantly expand as manufacturers incorporate it into a myriad of products—from energy bars to beverages to cosmetics. Most Fair Trade Certified sugar is also organic, accounting for 91% of total imports in 2006.

SNAPSHOT: Fair Trade Certified Vanilla

Pounds certified in the U.S.	2006
	197,157

VANILLA LAUNCH EXPANDS INGREDIENTS MARKET

In mid-2006, TransFair USA introduced Fair Trade Certified vanilla. Vanilla is one of the planet’s most labor-intensive agricultural products, and it is subject to severe market price volatility and weather sensitivity. Fair Trade Certified vanilla thus offers dramatic opportunities to marginalized agricultural communities.

From first year imports, smallholder farmers’ organizations in India and Uganda earned over \$50,000 more than they would have through conventional channels. Industry interest in Fair Trade Certified vanilla has been overwhelmingly positive, with immediate interest from importers, extractors, and manufacturers using vanilla in their dairy products, beverages, and baked goods.

MARKET GROWTH OF VANILLA, COCOA AND SUGAR AS PRODUCT INGREDIENTS



In 2006, TransFair's composite products policy was revised to include specific label designations for Fair Trade Certified™ ingredients, including cocoa, sugar, vanilla and other products. This change enables U.S. manufacturers to include these Fair Trade ingredients in their products and promote them on packaging, while adhering to Fair Trade Certified labeling standards. We expect the ingredient business to grow substantially in 2007, as socially responsible companies at the forefront of this trend respond to consumer demand for products made with Fair Trade ingredients.

“Fair Trade has improved our members’ and farm workers’ standard of living. We now have the resources to help the community and care for the environment.”

*Jovanny Coronel,
El Guabo Treasurer, Ecuador*

SNAPSHOT: Fair Trade Certified Rice

Pounds certified in the U.S.	2005	2006	Total	% Change Over 2005
73,824	390,848	464,672	429%	

RICE

TransFair began certifying rice in the second quarter of 2005, with imports coming from two cooperatives in India and Thailand. 93% of all Fair Trade Certified imported rice is organic, including brown and white Basmati varieties.

RICE AND FRESH FRUIT

SNAPSHOT: Fair Trade Certified Bananas

	2004–2006	2006	% Change Over 2005
Pounds certified in the U.S.	21,214,450	5,718,360	-21%

BANANAS

TransFair first certified bananas in 2004, and more than 8 million pounds were imported into the U.S. that year. In 2006, just under 6 million pounds were imported, of which 94% were organic. \$1.2 million in additional income was returned to farmers.

We were disappointed with a 21% decrease in imports over 2005, but remain confident that the market for bananas will continue to grow and that logistical and other challenges will be resolved over the next few years.

SNAPSHOT: Fair Trade Certified Mangoes

	2004–2006	2006	% Change Over 2005
Pounds certified in the U.S.	710,942	456,699	216%

MANGOES

Mango imports from Haiti, Mexico, and Peru, although modest in total volume, increased significantly over 2005 to more than 450,000 pounds. In keeping with growing demand for Fair Trade Certified fruits, we expect to see continued growth next year and beyond.

“Now, with Fair Trade, we can invest in our fields to produce better quality fruit. It will allow us to have a water treatment system in our community and start a youth center for the kids to go to after school.”

*Eliete Fereira Da Souza,
Grupo N6 , Brazil*



FAIR TRADE MONTH 2006: DISCOVER FAIR TRADE

Fair Trade Month is TransFair USA's largest consumer outreach campaign. Every October, the month-long celebration is an opportunity for TransFair USA, retailers, and many grassroots organizations to spread the word about Fair Trade products—and the human faces behind them.

In October 2006, more than 9,700 retail locations took part in Fair Trade Month events. For participating retailers, the return on investment was notable: many saw sales increase more than 40% during the month and a sustained sales lift in the months following the campaign.

CONSUMERS GET THE MESSAGE

Increased publicity and in-store marketing opportunities during Fair Trade Month made significant contributions toward raising awareness of Fair Trade. More than 140,000 people visited the TransFair website during September and October, twice as many as during Fair Trade Month 2005. More than 20,000 people entered the Discover Fair Trade Sweepstakes to win a trip to see Fair Trade in action in Costa Rica. More than 100 websites linked to our site during Fair Trade Month. In print, Utne Reader and Alternative Medicine ran special Fair Trade advertising sections for manufacturers of Fair Trade products, and more than 140 college campuses were blanketed with Fair Trade Month promotional materials.

FAIR TRADE MONTH BRINGS CONSUMERS, ADVOCATES, AND BUSINESSES TOGETHER

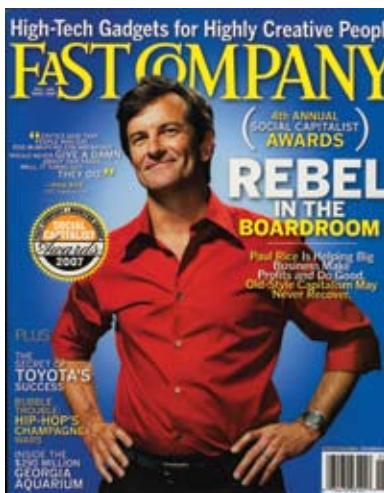
Along with retail events, Fair Trade Month 2006 provided many occasions for TransFair and the Fair Trade community to join forces. Fair Trade movement leaders, including the Fair Trade Federation, Co-op America, United Students for Fair Trade, ENGAGE, and Global Exchange hosted events or worked with TransFair USA to promote activities during the month. TransFair awarded small grants to retailers, non-profits, student organizations, and other community groups to develop activities of their own. These events attracted thousands of grassroots supporters all across the nation.

DISCOVER FAIR TRADE



FAIR TRADE IN THE NEWS

SOCIAL CAPITALIST AWARD



Fast Company,
December 2006

In December 2006, TransFair USA was named a Social Capitalist Award winner by Fast Company magazine and the Monitor Group for the second year in a row. The Social Capitalist Awards measure the innovation, social impact, and sustainability of organizations utilizing business tools and techniques to

address enduring social and economic challenges. TransFair USA is deeply honored by this recognition and proud to share it with such social entrepreneurship leaders as Grameen Foundation USA, Heifer International, and the Global Fund for Women.

In addition, TransFair USA CEO Paul Rice was featured on the cover of the December/January issue of Fast Company, and the magazine highlighted Fair Trade's growing mainstream prominence in an article titled "A More Powerful Path."

ETOWN E-CHIEVEMENT AWARD

In October, Paul Rice received an e-chievement award by National Public Radio's nationwide hit program etown. E-chievement awards celebrate "individuals who are working hard to make a positive difference in their communities and beyond."



BEANS & LEAVES

Gourmet Retailer, January 1

An increase in media exposure has helped raise consumer awareness of critical issues relating to the world coffee market.

THE GOURMET RETAILER®



GUILT-FREE VALENTINES?

Time, February 13

FairTradeCertified.org helps consumers find chocolates made with responsible labor and eco-friendly practices.

MEDIA, PENNSYLVANIA: AMERICA'S FIRST FAIR TRADE TOWN

On July 8th, the small Pennsylvania town of Media declared itself the first Fair Trade Town in the U.S. The Fair Trade Towns campaign originated in the U.K., and has been very successful in capturing public attention and raising awareness of Fair Trade across Europe.



THE GOOD SHOPPER *O: The Oprah Magazine*, September

A shopping list of products that help change the world, including Fair Trade Certified™ coffee.



TASTES: DRINK GREAT COFFEE, FEEL VIRTUOUS TOO

Wine Spectator Online, September 30

Fast-food chains and big box stores are finding a conscience, at least when it comes to coffee.

Wine Spectator

FILM IS BEHIND-THE-SCENES LOOK AT FAIR TRADE COFFEE

NPR, October 25

Review of "Black Gold," a documentary that follows a group of Ethiopian Fair Trade coffee growers as they try to make a living. Farai Chideya interviews Tadesse Meskela, manager of the Oromia Coffee Farmer's Union and a subject of the film.





YOUR SUPPORT AT WORK

SUPPORTING TRANSFAIR USA

Supporting TransFair USA makes an enormous difference in the daily lives of family farmers and farm workers throughout the developing world. Through Fair Trade's price guarantees and its many outreach and training programs, hard working people experience real improvements in their quality of life. Following are some examples of the programs that can be made possible through the generous donations of our supporters.

\$5,000 PUBLIC EDUCATION AND OUTREACH PROGRAM FOR 1,250 PEOPLE

TransFair USA works throughout the year to educate students and the general public about Fair Trade and its benefits to farmers and farm workers around the world. Materials are shared through a number of programs designed to increase awareness and build advocacy for Fair Trade. These programs include House Party kits, Fair Trade Month outreach programs, and faith-based initiatives.

\$10,000 TRAINING FOR 50 COFFEE GROWERS AT THE FAIR TRADE FORUM

Every year, TransFair USA staff and industry leaders conduct essential training and capacity-building seminars for Fair Trade coffee producers at the Fair Trade Forum, held just prior to the Specialty Coffee Association of America annual trade show and conference. This program provides educational opportunities that help farmers increase their business skills in a competitive environment.

\$20,000 FAIR TRADE TOWNS PROGRAM

In the UK and Europe, hundreds of towns have already been designated as "Fair Trade Towns." To earn this title, the town council must pass a resolution supporting Fair Trade, and a range of Fair Trade products must be readily available in the town's shops, restaurants, and local workplaces. In July 2006, Media, Pennsylvania became the first U.S. Fair Trade Town. To mirror the rapidly growing consumer awareness across the Atlantic, small grants for capacity-building and organizational support will facilitate grassroots efforts in towns and cities across the U.S. working to achieve Fair Trade Towns status.

\$50,000 COFFEE PRODUCER COUNCIL PROGRAM

This group of leaders from Fair Trade cooperatives that export significant volume to the U.S. market convenes twice each year. The Council works to strengthen the relationship between TransFair USA and regional producer groups, and provides a forum for producers' input into TransFair USA's market development strategies.

\$100,000 CONNECTING FARMERS TO THEIR INTERNATIONAL BUYERS

Fair Trade invests in farmers' and workers' capacities, and then ensures that these investments pay off by linking growers to lucrative opportunities in the U.S. Fair Trade market. Every year, TransFair USA connects dozens of farmer delegations from the developing world with potential U.S. business partners. Many producers and farmers have never been to the USA, and they gain invaluable insights into business from meeting existing and potential customers, and from experiencing U.S. culture and customs firsthand.

\$250,000 FAIR TRADE CERTIFIED NEW PRODUCTS INITIATIVES

Looking forward, in 2007 Fair Trade Certified™ cut flowers will be available for the first time in the United States. As their products reach powerful mainstream outlets, tens of thousands of women workers across Latin America and Africa stand to benefit directly from this initiative. Fair Trade flowers are one in a series of important product launches bringing the benefits of Fair Trade to more and more communities each year. The New Products Initiative will support the next Fair Trade Certified product from feasibility study to product launch. It will also fund the necessary research to launch our first non-agricultural products in the U.S.



TRANSFAIR USA DONORS, FUNDERS AND PARTNERS

We are deeply grateful for the shared vision and generosity
of our 2006 donors, funders and partners.

VISIONARIES—\$100,000 OR MORE

Stichting Het Groene Woudt
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 Christopher Himes, CFO

Leadership team as of July, 2007

FINANCIAL SUMMARY For the Year Ending December 31, 2006

STATEMENT OF FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

ASSETS	2006	2005
Current assets:		
Cash	\$1,094,872	\$224,047
Investments	633,794	206,187
License fees receivable, net of allowance	1,125,875	953,405
Grants receivable	133,252	430,000
Other receivables	19,009	43,028
Prepaid expenses	72,558	22,403
Total current assets	3,079,360	1,879,070
Property and equipment, net	56,975	44,139
Other assets	24,353	10,126
Total assets	\$3,160,688	\$1,933,335

LIABILITIES AND NET ASSETS	2006	2005
Current liabilities:		
Lines of credit	\$50,000	
Accounts payable	62,318	39,277
Accrued liabilities	359,588	299,279
Current portion of notes payable	131,004	259,981
Total current liabilities	602,910	598,537
Notes payable, net of current portion	3,294,000	22,355,004
Net assets surplus (deficit):		
Unrestricted	(1,159,290)	(1,538,872)
Temporarily restricted	423,068	518,666
Total net assets surplus (deficit)	(736,222)	(1,020,206)
Total liabilities and net assets	\$3,160,688	\$1,933,335

SUMMARY OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Revenue and Support:		
Grants and contributions	\$685,026	1,054,949
License fees	4,521,391	2,932,784
Trade show support	68,414	138,060
Interest income	56,259	21,329
Net unrealized loss on investments	(5,889)	–
In kind donations	245,732	62,011
Total revenue and support	5,570,933	4,209,133
Expenses:		
Program	4,173,147	3,280,612
Management and general	737,269	507,564
Fundraising	376,533	363,182
Total expenses	\$5,286,949	\$4,151,358

The information on this page is summarized from the TransFair USA financial statements which are audited by Bregante & Company LLC. Copies of the completed audited financial statements are available upon written request.

LOOKING FORWARD



Here at TransFair, we're incredibly optimistic about the future of Fair Trade in the U.S. Every stakeholder is engaged in its growth—from consumers who vote with their shopping dollars to the thousands of retailers who promote and sell Fair Trade Certified™ products.

Trend data proves that awareness of Fair Trade is growing across all consumer groups, and that consumers expect companies whose products and services they buy to be socially responsible. We continue to strive to provide the greatest benefit to the farmers, farm workers and families we serve in the Global South, including supporting an increase in the coffee premium price in 2007.

To achieve our mission of certifying and promoting Fair Trade products, we plan to launch Fair Trade Certified flowers as a new product in 2007. We're also exploring new industries that make sense for us as an organization and for which consumer demand is high, including wine, textiles, and others.

It's an exciting time, and we look forward to partnering and engaging with you in the growth of Fair Trade.







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