



EQUAL EXCHANGE ANNUAL REPORT 2013

MARIO PÉREZ,
a coffee farmer and member
of COMSA Co-op in Honduras,
with a young coffee plant.
His farm has been severely affected
by coffee leaf rust.

See more from the field on p. 6-7.

**“WE HAVE BEEN LEADERS IN THIS FIGHT. AND WE HAVE HAD SOME
SUCCESSSES AND SOME FAILURES. WE HAVE HAD LOTS OF CHALLENGES,
BUT YOU WILL NEVER HAVE PROOF OF YOUR SUCCESS IF YOU DON'T TRY.”**

Margarito Lucas Miguel, below left, a member of Flor del Café Co-op in Quetzaltenango, Guatemala





Check it Out

Through our Charitable Contributions we gave away a portion of pre-tax profits to allied organizations like Fair World Project, Red Tomato, and the InterReligious Task Force on Central America.

Onwards & Upwards

By Rob Everts & Rink Dickinson, Co-Executive Directors

Expansion in products, alliances and geography drove much of our work and increased sales in 2013. On sales of \$56.1 million, after charitable contributions and worker-owner patronage disbursements, we realized net income before taxes of \$2.7 million.

We tried to match the urgent need for markets of small-scale farmers with products that our loyal base of accounts could competitively offer their customers. Organic cashews from India and El Salvador, organic mangos from Burkina Faso, and flame raisins from Chile were among those that reached store shelves and congregations in 2013. Some of these will succeed and some will fail, but through strong alliances with U.K.-based partners Tropical Whole Foods and Traidcraft, and growing relationships with the farmer co-operatives, we are sharing the risks inherent in building supply chains that actually work for small farmers.

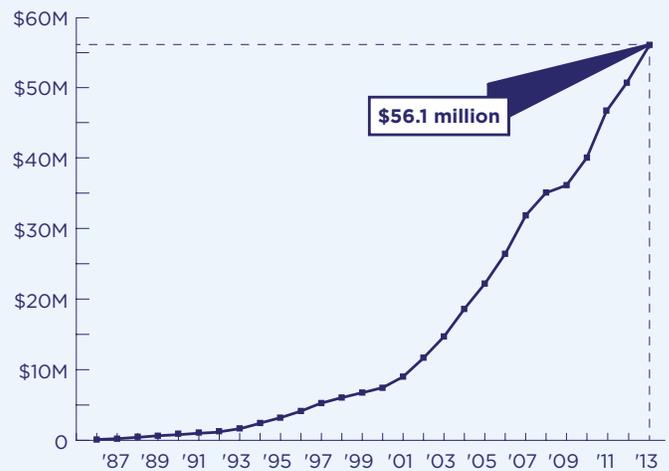
Another alliance that took more formal shape in 2013 was with our sister worker-owned, Fair Trade co-operative, Equal Exchange Trading (EET) in Edinburgh, Scotland. EET has helped us throughout our history, especially in connecting us with tea farmers, but has struggled in recent years. To keep the organization afloat, this year we invested in EET, joined their board, and took on a collaborative management role in hopes that together we can build the authentic Fair Trade market on that side of the Atlantic.

This year we also dedicated significant time to considering how best to grow our medium sized business with customers spanning the entire country. While we weighed a full move of the headquarters, we ultimately decided to expand our staffing and distribution centers in additional regions of the country to get closer to customers, while retaining significant operations in West Bridgewater, Mass. Plans will evolve more fully in 2014. Meanwhile, sincere thanks as always for being with us on this lifelong journey to bring equity and sustainability to the global food system.

OUR MISSION

To build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relationships between farmers and consumers and to demonstrate, through our success, the contribution of worker co-operatives and Fair Trade to a more equitable, democratic and sustainable world.

SALES GROWTH 1986-2013





A Partnership Across Borders

By Phyllis Robinson,
Education & Campaigns Manager

Rosa Guaman, Executive Director of Jambi Kiwa, an association of small medicinal herb producers in Ecuador, speaks at the third International gathering of FUNDEPPO.



The first Fair Trade, farmer-owned certification system, referred to as the Small Producers' Symbol (SPP, for its Spanish acronym), appeared for the first time last fall on Equal Exchange coffees in roughly 1,000 food co-ops and natural food stores across the country. Ten years in the making, the SPP represents small farmers' persistent attempts to ensure a more just trade system for farmers everywhere. The SPP is an exciting next step in the evolution of Fair Trade. No longer do producers

have to fight for representation within the Fair Trade system; they are now responsible for steering their own organization and making their own decisions in this new certification system, comprised entirely of democratically run, small farmer organizations.

For the past three years, FUNDEPPO, the non-profit organization responsible for launching the SPP, has held an annual international gathering in which producers, buyers, academics, and civil society organizations have come together to discuss the new certification system and how to best handle its implementation. Last year's gathering, held in Cusco, Peru, represented a tremendous step forward for the

SPP. In response to discussions over the erosion of principles and continual lowering of standards of Fairtrade International and Fair Trade USA, representatives of producer groups proclaimed, "The SPP is ours." This emphatic sense of pride and ownership over the new Fair Trade certification system was repeatedly voiced by small farmers during the two-day event. Momentum grew with an enthusiasm that was both deeply genuine and dizzyingly contagious. "Authentic Fair Trade is important to us," was their message.

And yet, challenges abound. While the SPP is exciting from a mission and movement perspective, certifications in general have not proven to be the most effective way to grab the hearts and minds of shoppers. We have only seconds to inform and educate; how do we convey the excitement of a small farmer-led movement through a vehicle like certification, which in and of itself is not the most vibrant of tools?

We don't know what the future will hold for the SPP symbol, or the other certification systems, for that matter. The way forward won't be easy, but the creation of the SPP offers us something palpably different, refreshingly authentic, and profoundly compelling. We believe that this fledgling new initiative deserves our full support.

There are now eight varieties of Equal Exchange bulk coffees that carry the colorful SPP symbol. As more and more producer groups join the SPP, Equal Exchange will continue to buy our products at the higher SPP prices and will continue to put the symbol on increasingly greater numbers of coffees. Through financial and staff resources, store trainings, articles, and other promotional materials, we are continuing to elevate the visibility of the SPP.

It's not a small task that the SPP producers have in front of them. Scratch that. It's not a small task that we have in front of us. The future of the SPP rests not just with the small farmer organizations; this is the new wave of Fair Trade. And like the old system of Fair Trade, from whose ashes the SPP has sprung, the beauty of Fair Trade is, and has always been, that it is truly a partnership across borders. And to reach its full potential, it will require that each one of us, from where we stand, do our part.



THE HISTORY OF AUTHENTIC FAIR TRADE: A COMIC BOOK

We have a new educational resource, available in both English and Spanish: *The History of Authentic Fair Trade*. In graphic novel format, we present a version of Fair Trade that is shared by many Equal Exchange colleagues, allies, and partners. We hope that by presenting this material in this way, it will help readers dig deeper into the complex Fair Trade movement. Download it for free at equalexchange.coop/comicbook



Gautam Mohan and Binod Mohan, from Tea Promoters of India, and the head monk of the Kurisumala Ashram in Kerala, India, at a tea garden.

The Small Farmers Tea Project in South India

By Rink Dickinson, President

At the end of the year, a small group of us from Equal Exchange visited tea farmers in Kerala, India, and can report positive changes in a small farmer tea operation through the Peermade Development Society (PDS), a Catholic NGO based in India that aims to help the rural poor, and Tea Promoters of India (TPI), a family-owned tea operation that is committed to small tea producers and is a longtime partner of Equal Exchange.

In 2004, PDS received a major investment to build a tea factory, to buy and process low quality tea leaves from small farmers in high quantities. By early 2010, the factory and operation were nearing failure. But this small farmer tea supply chain did not fold. PDS was able to bring TPI in as a full partner, changing the strategy, factory, quality systems and, ultimately, the culture of the PDS project, now reborn as the Small Farmers Tea Project.

They moved toward more investment, higher costs, and more processing steps done at a smaller scale, in search of a higher quality and a higher market price. It was a gamble, but not making these changes would have meant no chance for success. The fact that “Fair Trade” tea usually means large plantations with low costs, or controlled labor projects without democratic processes, selling at pathetically low prices, made the challenge facing the PDS farmers even greater.

During much of the same time period that Equal Exchange staff was out educating customers about authentic Fair Trade tea from small farmers, the leaders at the Small Farmers Tea Project were knocking on doors and talking with farmers about plucking better, higher quality tea leaves. The factory has increased prices for these higher quality leaves, above the already above-market price they pay. They also offer incentives for farmers to pluck their bushes more often; the more a tea bush is plucked, the more dense, productive and tender it becomes. All of these modifications are slowly making positive change.

The crop is more actively managed. Quality has improved. More farmers are selling leaves to the project. Debts of the past linger, but the factory is now operating successfully and sustainably.

We at Equal Exchange are dedicated to building authentic Fair Trade tea supply chains like this one. These tea products support small farmers, democracy, Fair Trade organizations, and ultimately, they mean tea drinkers can have real options. We still have a long way to go to reform the tea trade. The task is quite challenging. But the pieces are in place.



Left to right: Paul Mathew of The Small Farmers Tea Project, Phyllis Robinson of Equal Exchange, Binod Mohan of Tea Promoters of India, Rink Dickinson of Equal Exchange, and O.D. Wilson of The Small Farmers Tea Project, at The Small Farmers Tea Project processing facility in Kerala, India.



Jolly Sukumaran, an Adivasi tea farmer who delivers tea leaves to The Small Farmers Tea Project facility.



Clockwise from top: Jaime Gomez, the USAID Grant Program Manager at CONACADO, explains Dominican cacao genetics and grafting techniques to participants of the Productivity Exchange; Hildebrando Cardenas and David Contreras from ACOPAGRO and Oro Verde co-operatives in Peru, with Equal Exchange candy bars made with beans from their co-ops; Cristina Liberati, Equal Exchange USAID Grant Coordinator, looks at growth of new cacao pods, which sprout from the trunk.



Learning from Co-op to Co-op

By Cristina Liberati, USAID Grant Coordinator

ALWAYS SMALL FARMER GROWN

This year we launched two new 100g chocolate bars: **Organic Lemon Ginger Chocolate with Black Pepper** and **Organic Milk Chocolate Caramel Crunch with Sea Salt**, as well as two varieties of chocolate chips: **Organic Semisweet** and **Organic Bittersweet**. As with all of our chocolates and cocoas, these new products are made with fairly traded, organic ingredients from small-scale farmers.

To help differentiate our chocolate and cocoa products from others on the market, this fall we kicked off an “Always Small Farmer Grown” campaign that includes an interactive virtual cacao farm. See more at equalexchange.coop/asfg



Equal Exchange is now halfway through our five-year USAID Co-operative Development Program grant. The grant work is a collaboration with cocoa and coffee partners, including CONACADO in the Dominican Republic, ACOPAGRO, Oro Verde and Norandino in Peru, and Fortaleza del Valle in Ecuador.

One of the great advantages of this program is that it provides us with the opportunity for increased co-op to co-op exchange, or *intercambios* in Spanish. In 2013 we were fortunate to bring all of our Peruvian grant partners together for a Coffee and Cocoa Cross-Sensory Workshop at the Norandino cupping lab in Piura, Peru. Together with Equal Exchange Coffee Quality Manager Beth Ann Caspersen, and TCHO Chocolate Maker Zohara Mapes, we tackled the difficult task of defining “fine cocoa” and devised a new tasting form, using many lessons learned and examples from specialty coffee. The form that we created was adopted for use at the Peruvian National Cocoa Quality Contest later in the year.

In July, CONACADO hosted our project’s first Productivity Exchange, bringing together all five of the co-ops involved in the project. We visited CONACADO’s model farms, evaluated technical assistance programs, discussed genetic selection of cacao varieties, and debated the virtues and vices of certification programs for farmers, co-ops and buyers. Each group presented on an area of strength in their co-op’s productivity program, and

on the last day of the event they were tasked with identifying one activity they learned about from their peers that they would apply when they returned to work. Since the event, the participants have organized at least three conference calls to continue the discussions that began in the D.R.

In the fall, we hosted two of the grant project coordinators from Peru, David Contreras and Hildebrando Cardenas. David is the Quality Manager at ACOPAGRO and Hildebrando is the General Manager at Oro Verde. The cocoa beans from these co-ops are the base of our candy bar line and new chocolate chips. During their visit they had the opportunity to interact with staff from local grocery co-ops, cafés and Equal Exchange worker-owners, giving us the opportunity to meet the people who make our chocolate possible, and the chance for them to see where it ends up.

One thing we are often tasked with in our grant work is to quantify the impact of our activities. With face-to-face meetings such as these, it is really hard to do that. Perhaps we can say that *one* nationwide cocoa grading system has been developed, that *one* small farmer productivity professional network has been created, or that the supply chain with *two* of our partner co-ops was strengthened. At the end of the day, however, those numbers do not even come close to demonstrating the depth and value of these *intercambios*.



Members of PRAGOR Co-op welcome Nicole Vitello (third from left) and Jessica Jones-Hughes (center) of the Oké USA team to an avocado farm in Tingambato, Mexico.



The Banana Team Takes on Avocados

By Nicole Vitello, Oké USA President

I could just say that Oké USA had a record \$4.3 million in sales in 2013, making it our most profitable year yet, and leave it at that. However, this would not do justice to the hard work done by farmers and consumers in the past year to change trade for the better.

The Michoacán province of Mexico is home to the highest quality avocados nature can produce. It is also home to drug cartels, violence, corruption, extortion and armed vigilante groups. Moreover, the dramatic increase in avocado exports to the U.S. is not necessarily empowering small farmers in Michoacán, who have been growing Hass avocados for the last 50 years. So when PRAGOR, a co-operative of 20 small-scale avocado producers, approached Oké USA to start a direct relationship, we understood that the need for authentic Fair Trade was immediate. From September to December 2013, Oké USA sold 531,900 individual Equal Exchange branded avocados, returning \$350,000 directly to avocado farmers.

Not without its challenges, the new avocado program supports the ongoing business of fresh bananas and banana puree, diversifying both our revenue stream and the reach that Equal Exchange can have in our global community. Now if we could just come up with a better name than Team Bananacado...

FOR THE LOVE OF FAIR FOOD



This year we introduced a new line of delicious dried fruits and nuts from around the world, doing what we first did for coffee in the '80s by linking consumers in the U.S. with the farmers behind their everyday foods. These days it's common for shoppers to know where their coffee comes from, but that hasn't always been the case.

Equal Exchange wants to make that connection with other foods in our co-ops, markets, congregations and homes. Why can't we also know where that cashew, mango and pineapple came from and about the lives of the farmers who grow them? We think you can, and what makes it possible is collaborating with Fair Trade groups like Traidcraft in the U.K., an organization that helped to build these alternative global supply chains and farmer networks that are in place today.

We also know we can't possibly sell food that isn't also delicious! I've been lucky enough to travel to Chile and speak directly with the farmers at MiFruta co-op who bring us the sweet, plump and delicious variety of Flame raisins we sell; these are definitely not the hard, dry, boxed raisins you had in your lunchbox as a kid. Each of these natural, healthful snacks is delicious and we hope you try them all.

Thank you for your support as we continue to expand what we do and keep your taste buds poised for more innovations, like Organic Strawberry Jam, Organic Marmalade, Rice Cakes, and Guatemalan Honey.

✧ Hope Kolly is Community Sales Product Coordinator



Rosa Moralez of the women's group, Canton Qua, harvests honey. The project is part of CIPAC Co-op in Guatemala.

Right: Valentino Ramos from Antofagasta Co-op used the Fair Trade social premium to buy material to build raised and covered drying beds.



June: **BOLIVIA**

Both **Antofagasta** and **Alto Sajama** provided us with great examples of small co-operatives that are implementing new technology and strategies to improve their overall quality. Co-op members decided to dedicate part of their Fair Trade premium to buying the necessary material to build raised beds for drying. Raised beds are advantageous because the coffee is at a lower risk of being contaminated by foreign material. In addition, drying coffee on a webbed or net-like material quickens the process—air circulation speeds up drying.



August: **PERU**

Above: *Equal Exchange Green Coffee Buyer Carly Kadlec with Armando Soncco, a coffee farmer and member of CECOVASA Co-op, with his wife and two of his daughters in front of his raised drying beds.*

Armando Soncco wanted to leave coffee farming for mining because he felt like farming wasn't a viable option for his family anymore. When Equal Exchange bought a microlot from his farm this year, Armando, a member of **CECOVASA**, was inspired by the news and decided to give farming another chance. Mining is an activity that has a deeply negative impact on the natural resources of an area: ecosystems are interrupted dramatically, altering food and hydrological systems that all local communities rely on; and perhaps most importantly, an element is permanently removed from the land therefore devaluing it over time.

I had the opportunity to visit Armando's farm above the village of Belén. I was the first buyer who had ever been there. Armando farms his land organically and invests in the long-term health of the soil, the surrounding forest, and the health of the plants. He cultivates something very valuable and sustainable to pass on to his three daughters.



October: **GUATEMALA**

Imagine just how hard it is to protect, grow, and nurture a coffee plant from seed to its first productive year. Then, once the plant produces fruit, the farmer must harvest that fruit and transform it into an exportable product—green coffee. Given the delicacy and intricacy of the process, coffee farming on the small farmer level is not always a walk in the park. When visiting **Chajul (Asociación Chajulense)** in the Western highlands of Guatemala, I witnessed the sheer destruction caused by the Coffee Leaf Rust fungus (*roya* in Spanish, pictured above). Family farms that two seasons ago had been full of beautiful coffee trees with abundant harvests stood barren and dying. It was a sobering experience and reminded me again of just how precarious life as a small farmer is in our current system.

The farmers in this area (a region predominantly populated by indigenous Maya-Ixil people) are extremely tough and in the last

40 years have weathered military occupation and a government-sponsored genocide. The members of Chajul have managed crisis after crisis since the organization was founded in the 1980s. Visits to our partners in challenging moments give us the opportunity to ask the group how we as importers and buyers can support them. The General Manager of Chajul, Arcadio Daniel Galindo, expressed that our solidarity as a trading partner was a fundamental way that we could continue to be allies.



Seven Months, 19 Co-ops

The newest member of our coffee team shares some highlights from her travels.

By Carly Kadlec, Green Coffee Buyer

Right: Todd Caspersen, Equal Exchange Director of Purchasing, talks with farmer members of ASPROCAFÉ Ingrumá in Rio Sucio, Colombia, about our quality incentive program.

November: COLOMBIA

I visited our partners in Colombia with Equal Exchange Director of Purchasing Todd Caspersen. We checked in on a program that Todd started working on with **ASPROCAFÉ Ingrumá** and their cupper, Angelica Arroyave Cordoba, called Organic Plus. It rewards co-op members for improving their coffee quality by paying a small premium on the coffees that hit above the 83 point mark on the cupping table. Angelica, the cupper responsible for rating the samples, is a Q Grader and has come to train in our coffee lab twice. The farmer participants in the program gave very favorable reviews of the program and expressed their desire to continue working to improve their quality with the hope that as they keep scoring higher in cupping evaluations, their overall income will go up. In this program, we have seen the benefit of both paying a premium for quality as well as listening to the farmers and responding to their needs: higher prices.



November: MEXICO

I visited **Comon Yaj Noptic (CYN)**—a small co-op of 193 members in La Concordia, Chiapas. CYN is a very interesting group for a number of reasons, but one of the coolest is that their name is in the local language of Tzotzil. In Spanish, that translates to *todos lo estamos pensando*, or “we are all thinking about it.” This group really is a thinking group. They have been working on community bird monitoring for the past five years, dedicating routes or transects where they carry out monthly bird counts to track native and migratory species. The data is available for a

Mexican conservation non-profit to use in its analysis of conservation efforts. CYN started this project in order to monitor how climate change and increased intensity of tropical storms and hurricanes in the past 20 years have impacted species diversity and ecosystems in their area. The project is an amazing testament to the passion and knowledge that the farmers have for the environment.

Above: Carly Kadlec with Agustin Mendez Lopez, Siro Mejia, and Leonides de la Cruz, in a newly converted area that will be reforested by a CYN farmer. Inset: CYN has been monitoring native and migratory bird species.



INDIVIDUAL FARMERS WHO SUPPORT THEIR FAMILIES BY WORKING THE LAND ARE THE VERY REASON WHY WE HAVE A SUPPLY CHAIN IN THE FIRST PLACE.

I joined the Equal Exchange coffee team as a green (unroasted) coffee buyer in May. During the remainder of the year I visited 19 coffee co-operatives and approximately 71 farms in eight countries. These groups represent over 70 percent of the groups from which we buy coffee, and their coffee represents over 80 percent of the coffee that we purchased in 2013. Our coffee team managed to visit 96 percent of our direct suppliers during 2013, representing over six million total pounds of green coffee that we purchased in 2013 from groups with a total of 135,000 farmers.

Despite these stats, it's individual stories that stand out to me. Each trip is not only a chance to set up contracts for the coming year, it's a face-to-face opportunity for Equal Exchange

and our partners to share concerns, achievements, challenges, fears, and goals. In order to strengthen our role as importer, roaster and vendor in the supply chain, we have to be a support on the ground for the farmers and co-operatives that are doing the lion's share of the work by growing and exporting the coffee.

I want to share some of the takeaways from these visits. The reasons for supporting our small farmer supply chain are abundant and diverse. Visiting farmers and hearing their stories about why our trade relationship is important to them remains the single most important part of my job—it reminds me every day that individual farmers who support their families by working the land are the very reason why we have a supply chain in the first place.



LYDIA
GUMUTINDO, UGANDA



HENRY
COCLA, PERU



ANGELICA
ASPROCAFÉ INGRUMÁ,
COLOMBIA



RODOLFO
CEPICAFAE, PERU



DAVID
CECOVASA, PERU



TIBED
CECOVASA, PERU

Brewing Up Connections

By Beth Ann Caspersen, Coffee Quality Control Manager

While we regularly bring coffee professionals from farmer co-ops to our headquarters for an intensive Cooperation in Quality seminar, this year we made it a goal to better connect baristas—the folks who sell and represent the delicious coffee we work so hard to lay our hands on—with coffee cuppers—the people that work so hard to get us these tasty little beans. The result: Cooperation in Quality 2013.

Our Cooperation in Quality activities usually focus on our work analyzing coffee in the laboratory, but this year we invited six seasoned cuppers to Equal Exchange for a scientific and hands-on approach to coffee preparation, while connecting these cuppers to U.S. baristas and connecting both of them to the end consumer. It was a deep and meaningful week.

“PREPARING COFFEE [THIS WAY] IS ALSO A RITUAL, WHERE THE CONSUMER SEES AND LEARNS TO VALUE THE WORK OF THE COFFEE PRODUCER AND EACH STEP OF THE SUPPLY CHAIN...I AM VERY PROUD OF MY COFFEE AND THANKFUL FOR THE OPPORTUNITY TO LEARN AND CONNECT WITH THE CONSUMER.”

Angelica Cordoba Arroyave of the ASPROCAFÉ Ingrumá Co-op in Caldas, Colombia, an Equal Exchange partner for more than 15 years.



STEP 1: Calibrate and Learn to Manual Brew

The six cuppers from Peru, Colombia and Uganda first participated in calibration sessions to help them better understand what we are looking for as specialty coffee buyers and why. We then took their experience a step further by introducing new and traditional manual brewing technology. Because at the end of the day, we all need to know what coffee drinkers look for in their coffee experience.



STEP 2: Connect Cuppers with Baristas

Each cupper worked to find the perfect brewing method for their origin coffee. As preferences formed in each of the cuppers' minds, our fourth day was spent working with local baristas, coffee shop owners, and Equal Exchange staff to further exchange ideas about the best way to prepare their individual coffees.



STEP 3: Serve Coffee to the Public

On a very chilly and rainy April morning, together we prepared and gave away cups of manually brewed coffee from the cuppers' home countries, cuppers directly handing their coffee to passersby. This will forever be our goal: to provide connections.



Now in Northwest Portland

By Wells Neal, West Sales Director



Above: Equal Exchange Operations Generalist Jennifer Pruess walks through our new 30,000 square foot warehouse in Northwest Portland.

In late 2010, the West Coast team felt poised to take on new challenges, having recently moved from a tiny, shared space in Hood River to an overly spacious, 10,000 square foot warehouse in Southeast Portland. As we exited the economic recession in 2011 it felt like caution and conservative thinking was the best path forward and the new warehouse felt decidedly big.

And yet as we entered 2012, it became apparent that we had underestimated our future needs for space. We did not anticipate how quickly new customers, new worker-owners, and a wave of new products would push us to the limits of functionality. We were now connecting more successfully with our local Portland customers, much of our coffee was being roasted locally, sales were strong everywhere in the West, and

we were shipping exponentially more boxes every day. Ultimately it became obvious: it was time to move again. The move process took about a year, and we are now happily ensconced in a wonderful 30,000 square foot warehouse in the Northwest Portland industrial area. Over the last three years, the West Coast team has grown from 13 worker-owners to 21, with more hiring in motion for

early 2014. We now have folks in Seattle, Portland, Sacramento and Los Angeles. Not surprisingly, the new warehouse again feels big. We're making plans to someday even bring manufacturing operations to Portland. We have a strong team and committed customers, and that's why we continue to grow.

Small Farmer Fund Report



Members of the 2013 PC (USA) delegation visit Tierra Nueva Co-op in Nicaragua. From 2007-2009, PC (USA) used its Small Farmer Fund to help Tierra Nueva members plant 388,000 coffee seedlings to replace old trees as well as 20,000 citrus and cacao plants to promote biodiversity on the farms.

Learn more: equalexchange.coop/our-partners

Small Farmer Fund at Work

Equal Exchange partners with a vibrant network of thousands of faith communities working to make a difference, together. Through our Community Sales program, we partner with faith-based relief, development and human rights organizations and work with communities of faith as they learn about and promote Fair Trade. In 2013, Equal Exchange generated \$116,871 for our Small Farmer Fund through our 12 faith-based partnerships:

- Disciples of Christ** \$1,562
- American Friends Service Committee** \$1,486
- Church of the Brethren** \$1,363
- Catholic Relief Services** \$13,730
- Lutheran World Relief** \$37,877
- Mennonite Central Committee** \$2,678
- Presbyterian Church (U.S.A.)** \$16,114
- United Church of Christ** \$8,111
- United Methodist Committee on Relief** \$17,933
- Unitarian Universalist Service Committee** \$14,453
- American Jewish World Service** \$726
- Baptist Peace Fellowship of North America** \$840

Eyes to the Future

By L.J. Taylor

I continue to be encouraged by the dynamic group of leaders that sit at the Board of Directors' table. We are committed to making strides in communication, visioning, and support, for not only our business but also for all individuals at Equal Exchange. From the newest workers to our Executive Directors, we intend to provide stability and utility to each one.

This year we grappled with many challenges. We assisted our Executive Directors in navigating our investment in Equal Exchange U.K. (ultimately giving provisional approval on condition of a subsequent "yes" vote from the worker-owner body). We updated our Compensation Philosophy to strengthen the values of wage solidarity and work toward a living wage for all workers. These two examples were handled in an environment of cooperation, and with informed, innovative discussions.

This inspired the current Board of Directors to look toward the future. We are on a great path now, but how do we put systems in place to keep us there?

To that end we have done significant work in Board succession planning, goal setting processes, director mentoring, and training for future leaders. We are taking steps to ensure that as our business grows in capacity, so too does our Board. While we cannot see the entire path ahead, we plan to be equipped to ensure our future success. *∞ L.J. Taylor is Chair of the Board of Directors and is a Food Service Sales Representative*

THE SEVEN COOPERATIVE PRINCIPLES:

- | | |
|-----------------------------------|---------------------------------------|
| 1 Voluntary and Open Membership | 5 Education, Training and Information |
| 2 Democratic Member Control | 6 Cooperation among Cooperatives |
| 3 Members' Economic Participation | 7 Concern for Community |
| 4 Autonomy and Independence | |

What Makes Our Co-op Our Co-op?

By Andrew Driscoll

A few years ago someone said to me, "Once you know one co-op, you know one co-op." It couldn't be more true. At their core, all co-ops are intrinsically similar, and yet they are unique and distinct from one another, like snowflakes. It is the Seven Cooperative Principles that tie us all together, and it's what's within those seven principles that empower us to create our own, autonomous, cooperative visions.

So what makes our co-op *our* co-op?

For starters, at just over 100 worker-owners and counting, we are one of the largest worker co-ops in the country. Each of us has one vote and one share in the company. We, as workers, all have our individual job

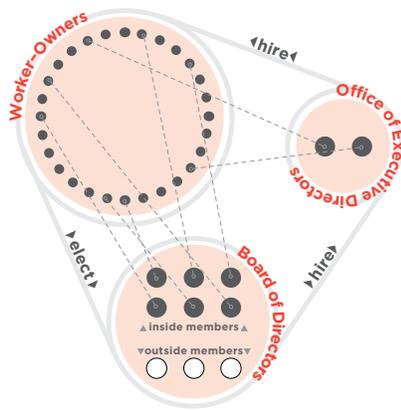
descriptions and the day-to-day tasks that come along with those. We, as owners, have the power to propose, amend and vote on our bylaws, to run for and elect our Board of Directors, and to run for and elect our Worker-Owner Coordinator (that's me). In addition to all of that, we are all financially invested in Equal Exchange, and distribute the surplus fruits of our labor and success equally among us.

This power that's been entrusted in our worker-owners on an individual level aids us on an organizational level in myriad ways. For one, it promotes the flow of ideas and feedback, as well as our ability to act upon them. Here's a recent example: our sustained success in the market has spurred our growth as an organization, leading to the creation of more Equal Exchange jobs and locations. This has been tremendously exciting for us and our mission, but it has also introduced new challenges, like maintaining a unified, informed and connected cooperative work culture. To grapple with this challenge, we created space in our governance model for a Co-op Culture Committee.

This new committee will collect and summarize feedback from our worker-owners, creating a platform to inform worker-owners and empower them to take action. This way, our democratic principles are maximized on the front end, through worker-owner input, and on the back end, through worker-owner action. And that is just one example of what makes our co-op *our* co-op. *∞ Andrew Driscoll is Worker-Owner Coordinator and is a Natural Foods Sales Representative*

AT JUST OVER 100 WORKER-OWNERS AND COUNTING, WE ARE ONE OF THE LARGEST WORKER CO-OPS IN THE COUNTRY.

Our governance structure:



Business Unusual

By Daniel Fireside

What does it mean to be a socially responsible business? Often a company earns a halo by doing one or two positive things—like giving some money away or polluting a little less. But when doing the right thing means lower profits, you know the answer will usually be, “Investors demand that we put profits first.” In other words: business as usual.

The founders of Equal Exchange realized that even the most well-intentioned business organized by conventional rules would inevitably cut ethical corners: pay gaps skyrocket, multinationals offer fat buyouts, values get whittled away. Always with that same refrain, “The investors made us do it!”

Equal Exchange wrote its own rulebook. Profits are good, but must reflect that our model of Fair Trade works. If we maximize profits at the expense of values, we’ve failed. So we put in unorthodox restrictions, like wage solidarity, worker-ownership, never selling the company, and always putting the interests of the farmers first.

Because we don’t maximize profits, we’re free to do meaningful things like creating Fair Trade banana and avocado supply chains, importing Fair Trade olive oil from the West Bank, having the worker-owners of the company vote on major decisions, and guaranteeing high prices and affordable credit to farmer co-operatives even when market prices plummet.

And because we are committed to Fair Trade and organic practices, workplace democracy, and supporting small-farmer co-operatives, we need access to patient and friendly capital from investors and lenders who put a higher price on values than on financial return. Fortunately, we continue to grow alongside this community of committed financial partners.

∞ Daniel Fireside is Capital Coordinator

The Duck on the Pond

By Brian Albert

You may have heard the story of the duck on the pond. On the surface, everything appears serene and perhaps even effortless. The truth is that, just below the surface, there is a great deal of kicking that makes the graceful progress of the duck possible. It has recently occurred to me that our Finance and Administration team is like that duck.

On the surface, the numbers this year tell a story of a profitable entity with a rock-solid Balance Sheet. Behind the scenes there are a dozen or so people who are kicking away to help make that happen.

We have a team of folks collecting receivables that ensure great cash flow and decreased dependence on lines of credit. A small IT team works tirelessly to ensure that our systems remain scalable and accessible as we add locations and complexity to our structure. There are folks crunching numbers, working with investors, making sure that payroll is processed and bills are paid, and ensuring that we have the phones and supplies to perform our various tasks.

Over the course of the last year, it has become increasingly evident that as we grow in size and scope, we need to invest in some of those systems that have served us well up to this point. We have begun processes to reassess our banking needs, to upgrade our telephone systems, and have formed a committee that is focusing on potential changes to our IT systems to meet our needs for the next five-to-10-year period.

While the duck continues to make its steady progress, I would like to acknowledge those whose efforts make it appear so easy. ∞ Brian Albert is Director of Finance

INCOME STATEMENT	2013	2012	2011
Total Sales	\$56,141,000	\$51,046,000	\$46,820,000
Cost of Sales (coffee/tea/chocolate, roasting, packaging, shipping)	\$38,803,000	\$37,343,000	\$33,618,000
Operating Expenses (marketing, sales, administration, education)	\$14,310,000	\$11,800,000	\$11,350,000
Other Expenses (primarily interest on loans)	\$369,000	\$475,000	\$382,000
Total Costs	\$53,483,000	\$49,618,000	\$45,350,000
Net Income Before Taxes	\$2,658,000	\$1,428,000	\$1,472,000
Taxes	\$1,108,000	\$648,000	\$649,000
Shareholder Dividends	\$554,000	\$511,000	\$429,000
Annual Retained Earnings (reinvested in the business)	\$988,000	\$269,000	\$392,000



Equal Exchange, Inc. and Subsidiary Audited Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2013 and 2012

EQUAL EXCHANGE, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,129,025	\$ 489,817
Accounts Receivable	3,554,608	3,123,181
Inventory	15,730,476	14,698,437
Notes Receivable, Current Portion	3,230	131,836
Prepaid Expenses and Other	894,268	855,604
Prepaid Corporate Income Taxes	49,800	49,800
Deferred Income Taxes	<u>323,616</u>	<u>361,221</u>
	21,635,223	19,709,896
PROPERTY AND EQUIPMENT, NET	5,980,500	5,968,678
OTHER ASSETS:		
Intangible Assets, Net	6,041	99,140
Investments	494,910	83,360
Notes Receivable, Net of Current Portion	<u> </u>	<u>3,230</u>
	<u>500,951</u>	<u>185,730</u>
	\$ <u>28,116,674</u>	\$ <u>25,864,304</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes Payable – Lines of Credit	\$ 1,613,671	\$ 1,746,266
Current Portion of Long-Term Debt	2,152,851	1,536,277
Accounts Payable and Accrued Expenses	3,330,095	3,269,931
Corporate Income Taxes Payable	421,459	
Patronage Rebates Payable	<u>681,725</u>	<u>329,745</u>
	8,199,801	6,882,219
LONG-TERM LIABILITIES:		
Long-Term Debt, Net of Current Portion	1,670,000	2,301,539
Deferred Income Taxes	<u>1,030,000</u>	<u>990,000</u>
	2,700,000	3,291,539
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY		
	166,286	160,163
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$1 Par Value; 9,999,500 Shares Authorized; Issued and Outstanding, 418,562 Shares in 2013 and 399,948 Shares in 2012	11,521,896	10,999,389
Common Stock, \$1 Par Value; 500 Shares Authorized, Issued and Outstanding, 110 Shares in 2013 and 106 Shares in 2012	329,558	314,233
Less: Common Stock Subscriptions Receivable	(45,982)	(40,191)
Retained Earnings	<u>5,245,115</u>	<u>4,256,952</u>
	<u>17,050,587</u>	<u>15,530,383</u>
	\$ <u>28,116,674</u>	\$ <u>25,864,304</u>

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
NET SALES	\$ 56,140,856	\$ 51,046,384
COST OF SALES	<u>38,803,018</u>	<u>37,343,411</u>
GROSS PROFIT	17,337,838	13,702,973
OPERATING EXPENSES		
Bad Debt Expense (Recovery)	4,646	(28,828)
General and Administrative Expenses	<u>14,305,839</u>	<u>11,828,711</u>
	<u>14,310,485</u>	<u>11,799,883</u>
EARNINGS FROM OPERATIONS	3,027,353	1,903,090
OTHER INCOME AND (EXPENSE):		
Interest Income	12,497	4,420
Interest Expense	<u>(381,875)</u>	<u>(479,088)</u>
	<u>(369,378)</u>	<u>(474,668)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	2,657,975	1,428,422
INCOME TAXES (CREDIT):		
Current:		
Federal	730,113	340,000
State	<u>300,000</u>	<u>162,000</u>
	1,030,113	502,000
Deferred:		
Federal	77,605	150,000
State	<u> </u>	<u>(3,725)</u>
	<u>77,605</u>	<u>146,275</u>
	1,107,718	648,275
EARNINGS BEFORE MINORITY INTEREST	1,550,257	780,147
MINORITY INTEREST IN EARNINGS (LOSS) OF CONSOLIDATED SUBSIDIARY		
	<u>8,455</u>	<u>(559)</u>
NET EARNINGS	1,541,802	780,706
RETAINED EARNINGS, BEGINNING	4,256,952	3,987,139
PREFERRED STOCK DIVIDENDS PAID	<u>(553,639)</u>	<u>(510,893)</u>
RETAINED EARNINGS, ENDING	<u>\$5,245,115</u>	<u>\$4,256,952</u>

SPOTLIGHT ON:
COLUMBIA FALLS JUNIOR HIGH SCHOOL, MONTANA



**RAISED \$12K IN PROFITS WITH THE
EQUAL EXCHANGE FUNDRAISING PROGRAM**

Every three years, the student council at Columbia Falls Junior High School in Montana hosts a school-wide fundraiser. In 2013, it was time to raise money again and so they turned to the Equal Exchange Fundraising Program.

Leslie DiMaio, a teacher at the junior high school and also the faculty adviser for the student council, served as coordinator for the fundraiser. Through student-led education and promotion efforts, the 215 fundraising participants (about 40 percent of the student body) raised over \$34,000 in sales, earning the school around \$12,000.

“We are not an affluent community, but one with a great deal of heart,” DiMaio said. “Our student efforts showed that heart.”

The money supports prizes for top fundraising participants, community donations, and contributions to school activities. For example, the student council recently donated \$2,000 for a new garden. They will also contribute to school spelling and geography bees, math competitions, and the talent show.

DiMaio said she appreciated being able to present students and the greater community with fairly traded and organic products that have a strong mission. “We didn’t just solicit junk or [sell] bad chocolate,” she said. “The fundraiser really emphasized the understanding of supporting our own community, but also supporting communities around the world. It really broadened perspectives for our students, staff, parents, and community.” *~ Ashley Cheuk is Social Media and Website Manager*

PHOTO CREDITS

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EQUAL EXCHANGE, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS
OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 1,541,802	\$ 780,706
Noncash Items Included in Net Earnings:		
Deferred Income Taxes, Net	77,605	146,275
Depreciation and Amortization	1,032,262	947,815
(Increase) Decrease in:		
Accounts Receivable	(431,427)	(274,118)
Inventory	(1,032,039)	418,604
Prepaid Expenses and Other	(38,664)	(55,266)
Prepaid Corporate Income Taxes	49,800	(49,800)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	60,164	1,071,129
Corporate Income Taxes Payable	421,459	(271,632)
Patronage Rebates Payable	<u>351,980</u>	<u>(46,637)</u>
	2,032,942	2,667,076
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(947,705)	(848,652)
Disposals of Property and Equipment, Net	1,721	
Decrease in Intangible Assets	(5,001)	(4,998)
Increase in Investments, Net	(411,550)	(40,000)
(Increase) Decrease in Notes Receivable, Net	<u>131,836</u>	<u>(61,017)</u>
	(1,230,699)	(954,667)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Notes Payable - Lines of Credit	9,165,741	11,834,213
Long-Term Debt	1,350,000	100,000
Debt Reduction:		
Notes Payable - Lines of Credit	(9,298,336)	(13,551,139)
Long-Term Debt	(1,364,965)	(132,239)
Increase (Decrease) in Minority Interest	6,123	(5,161)
Proceeds From Common Stock Subscriptions	31,494	36,159
Proceeds From Issuance of Preferred Stock	236,450	178,712
Proceeds From Dividend Reinvestment	349,333	322,772
Redemption of Preferred Stock	(63,276)	(231,055)
Redemption of Common Stock	(21,960)	(21,390)
Preferred Stock Dividends Paid	<u>(553,639)</u>	<u>(510,893)</u>
	<u>(163,035)</u>	<u>(1,980,021)</u>
NET INCREASE (DECREASE) IN CASH	639,208	(267,612)
CASH - BEGINNING	<u>489,817</u>	<u>757,429</u>
CASH - ENDING	\$ <u>1,129,025</u>	\$ <u>489,817</u>



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