



2017

Annual Report



SALES *by* PRODUCT CATEGORY

\$42.6M

COFFEE

\$13.5M

CHOCOLATE & COCOA

\$2.3M

TEA

\$9.2M

BANANAS & AVOCADOS

\$2.5M

FOOD & SNACKS

+ \$0.7 M, OTHER

\$70.8M

TOTAL



Renso Hernando Tapasco dries parchment coffee on a rooftop patio in the village of Pasmí, San Lorenzo, Caldas, Colombia.

FRONT COVER: Margarita Solano, AsoGuabo Farmer Member, and Jessica Jones-Hughes, Equal Exchange Produce/Oké USA, watch a banana harvest on Margarita's farm in El Guabo, Ecuador.

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.

Navigating Through Rough Seas

By Rink Dickinson & Rob Everts, Co-Executive Directors

2017 brought us something we had never experienced before: a modest sales decline of about 3% in our core products, coffee, chocolate, and tea, from the previous year. Clearly, we are not immune from many market trends swirling around us. From corporate food chain consolidation, to losses suffered by our key base of consumer food co-ops, to the connected accelerating trend of online food shopping; the competitive climate is undeniably difficult. Fortunately, our consolidated company sales rose just about 1% thanks to the outstanding performance of our produce arm, Oké USA (see pages 8-9).

At the same time, Fair Trade as a distinctive market segment has been commodified. Other social claims (“buy local”, “Non-GMO”) stake a higher claim to consumer “mindshare.” While there is no magic bullet solution, we are working hard to determine how to best adapt and chart a course that allows for continued market share growth for small-scale farmers.

Internally, enormous attention normally dedicated to building the business had to be steered instead to the complex and labor intensive implementation of our new Enterprise Resource Planning (ERP) program, the software that every aspect of our organization runs on. Given this overall context, we are happy to report that our profitability and cash positions remained strong. On revenues of \$70.8 million, after charitable contributions and worker-owner patronage disbursements, we realized a net income of \$1.4 million. And in no small part due to our outside investors, our debt-to-equity ratio remained an almost unheard of .67:1.

While one of our three substantial investments to rescue a sister Alternative Trade Organization failed, we are pleased to report that the other two have turned around dramatically. We are immensely proud of our fresh fruit subsidiary, Oké USA, which continues to grow in bananas and avocados. The more recent high-risk investment in La Siembra Co-operative in Canada has grown and turned a profit several years in a row now. Unfortunately, Equal Exchange UK was ultimately not able to get out from under a tremendous debt and declared insolvency. However, we were able to mitigate this loss, by successfully opening a wholly-owned subsidiary in the UK to maintain the brand and continue building authentic Fair Trade in that market.

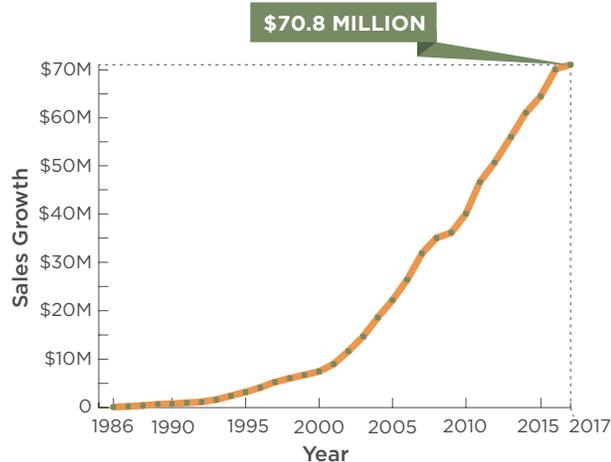
Finally, we continued to build our incipient model of citizen-consumer engagement in our co-op. Through dozens of events around the country and many more virtual meetings online, hundreds of people have joined the Equal Exchange Action Forum (see page 11). People from Texas to Michigan to Vermont have gotten to know each other and begin discussing and debating a range of issues connected to food justice, democracy, trade, and the environment. We are delving into questions, such as: what this model could be; how to invite people into the organization in a meaningful way; how to build power; and ultimately, how to make significant changes in our food system?

Thanks for being with us as we move into the next decade with change around us being the only constant.



Equal Exchange Co-Executive Directors Rink Dickinson and Rob Everts.

SALES GROWTH: 1986-2017



Rob Everts *Rink Dickinson*

"A new grinder, conveyance, and packaging machines may not sound like the most exciting things, but these all greatly increase our efficiency and capacity. Everything moves more quickly and cleanly, with fewer hands used for everything."



"The pretty amazing thing is that we, as worker-owners, have built this. It wasn't somebody coming in and telling us how it was going to be. It's very powerful to come in to work every day and say 'I had a hand in that.'"

—Ian McMillan,
Head of Production



"When I started, we had one roaster and one machine. Now we have six packaging lines in-house. We've definitely filled in the space! We had a band and I can remember a big party on the floor on our 20th anniversary in 2006. Now we've filled it all with stuff and machines. It's a lot more fun! (No offense to the band!)"



Keeping Production *HUMMING*

Equal Exchange spent more than \$2 million in 2017 purchasing and installing new equipment. Ian McMillan, head of production, reflects on these investments and what they mean for Equal Exchange.

Interviewed by Daniel Fireside

Ian began working at Equal Exchange as a temp worker in our Interfaith program (now part of Community Sales) in 2006. He was hired to a Sales position and then to Operations in 2008 just as the company began ramping up coffee production in our West Bridgewater headquarters.

"In early 2017 we installed a Case Packer. It forms a box, fills it with packages, and sends it on to be taped and put on a pallet. It used to take two people doing very repetitive work to do what this machine can do. This has allowed us to more effectively deploy our team across the production floor."

"Our goal has always been to bring 100% of coffee production in-house. These upgrades have helped us increase the amount we do here by about 50% in the past year, and have given us a level of control we haven't had until now. But we still have a ways to go as we learn our way around and start to put it all to the test."



**WATCH OUR NEW
MACHINES AT WORK:**
equalexchange.coop/packaging



New Small Farmer Support Program Through Directed Giving

By Carly Kadlec, Green Coffee Buyer



Coffee seedlings growing in the greenhouses at the CESMACH co-operative in Mexico.

Equal Exchange took an exciting step in 2017 by establishing a Donor Advised Fund (DAF) with RSF Social Finance. The initial funding of \$165,000 came from Equal Exchange's 2016 charitable contributions. A Donor Advised Fund can be thought of as a philanthropic savings account where the primary donor, in this case, Equal Exchange, can direct charitable giving through a regulated 501(c)(3) like RSF Social Finance. Equal Exchange is prohibited from using any of the funds for our own expenses, and we actually provide a great deal of staff and travel funding in order to keep overhead to a bare minimum.

We are using the DAF to fund projects with six core coffee partners: CESMACH, Triunfo Verde, and Comon Yaj Noptic from Mexico; Manos Campesinas from Guatemala;



Proud beekeepers at Triunfo Verde, Chiapas, Mexico.

ASPROCAFE Ingruma from Colombia; and Sol y Café from Peru. Over the next four years we will collaboratively and systematically focus our project work on this cohort of coffee-farmer co-operatives; key partners we identified during our 2017–2020 strategic planning process. We are using the DAF to pilot a model where we complement our trade relationships with development and grant-funded work in order to support our farmer partners in direct and immediate ways.

Reflecting on our work over the past 30 years, we know that long-term trade relationships, while essential and profoundly important, are not enough to counteract the historic inequality and marginalization of smallholder farmers. The work with our core group is a pilot program, and so far we have already funded six projects within a broad focus. At Triunfo Verde in Chiapas, Mexico, the staff designed a great beekeeping project aimed at helping farmers diversify their income sources. At Sol y Café in Jaen, Peru, the DAF dollars are going directly to increase the number of high-quality seedlings available to farmer members. The DAF work will continue throughout 2018 and beyond. We look forward to sharing exciting project updates as we keep innovating with our producer partners to create an economy we believe in.

To make a tax-deductible contribution to our Donor Advised Fund, go to

[equalexchange.coop/
donor-advised-fund/give](https://equalexchange.coop/donor-advised-fund/give)

and select "Equal Exchange"

Equal Exchange Named Sustainable Business of the Year

Equal Exchange was named the 2017 Massachusetts Sustainable Business of the Year by the Sustainable Business Network of Massachusetts, in the Eastern Massachusetts: Mid-Sized Business category.

The Massachusetts Sustainable Business of the Year Award is presented to leading local independent businesses in Massachusetts that are helping to build economies that are local, green and fair. A committee of leaders in the sustainable business movement in Massachusetts chose five winners based on local, green, and fair values. The award winners were honored at the annual SBN Winter Gala in Somerville, MA in December.

“SBN of Massachusetts is proud to have a trail-blazing and successful company like Equal Exchange be a leader in the Massachusetts economy and our community,” said Laury Hammel, Executive Director and Founder of SBN. “Equal Exchange is a pioneering venture that has had a worldwide impact from so many important angles: Fair Trade, worker-ownership, and the triple bottom line. The original vision of the three founders has continued to thrive over the years and

it has evolved in magical ways that ultimately have resulted in making a positive difference in communities all around the world and teaching sustainable businesses profound lessons.”

“We are grateful that the painstaking work we do to build supply chains that truly work for small-scale farmers and their co-operatives has been recognized by SBN,” said Rob Everts, Co-Executive Director of Equal Exchange. “SBN has been the driving force behind many advances in making business a force for good in Massachusetts, so we are proud to count ourselves a part of this network. In addition, SBN’s work to educate the broader community is consistent with our own redoubling of efforts to engage citizen-consumers in reforming the wider food system through the Equal Exchange Action Forum. Let’s all keep pushing ourselves to do even more going forward.”



WEBSTORE UPGRADE

Our webstore at shop.equalexchange.coop has seen us through a lot—five years and more than 140,000 transactions! But when we heard the version of the hosting platform we’ve been using would be discontinued, we knew it was time to upgrade. Online commerce keeps evolving, and we wanted to make sure that our new store was mobile-friendly, fast, and as easy to use as possible. After a long search and a thorough review of essential features, we chose Shopify Plus to host our new

webstore. We’re super excited about the stability, security, speed and adaptability of our new store. We’re also really thrilled about the modern design, and the foundation the new store provides us to continue offering you the



Products like our Organic Green Tea get an improved look.



Our new webstore design makes ordering easier.

best possible experience. Customers can rely on a simple ordering process and quick delivery of fresh Equal Exchange products, direct from our warehouse. If you haven’t yet purchased from our new store, we look forward to seeing you soon at shop.equalexchange.coop. Happy Fair Trading!

—Gary Goodman,
Digital Marketing & Sales Manager

Agricultural Co-operatives Sustaining Themselves Through Member Investments

By Julia Baumgartner, Co-operative Development Program Consultant & Cristina Liberati, USAID Grant



Historically, in the global south, many agricultural co-operatives were established as development projects and lacked long-term sustainability goals, especially financial ones. As a result, many co-ops are dependent on project funding and loans to survive. Co-operatives, like any other business, need capital to enable their businesses to grow. Both co-operatives, and the organizations that support them, have underestimated the capacity of small farmers to take ownership and lift up their co-operative businesses. Simply put, there is a deep-seated perception that small-scale farmers are too poor to invest in their organizations.

With support from the Co-operative Development Program (CDP), supported by funding from the US Agency for International Development (USAID), Equal Exchange set out to challenge this. In 2010, we began working together with six farmer organizations in Ecuador, the Dominican Republic and Peru, building member investment and savings programs. We have supported them with technical assistance, financial trainings, co-operative exchanges, and member education.

As a worker-owned co-operative ourselves, Equal Exchange understands the critical nature of “Member Economic Participation” (the third international co-operative principle) for the success of a co-operative enterprise. Members’ contribution to the co-operative’s capital base is called member equity, and when those contributions remain in their names, they become long-term investments.

Equal Exchange’s own capital model has many layers. It consists of a combination of loans, retained earnings, Class A stock and Class B stock. The worker-owners’ member equity can be found in two of those layers. Each newly minted worker-owner at Equal Exchange is obligated to buy one share of Class A stock after successfully completing a one-year trial period. This stock comes with the right to vote in co-op decisions, and the right to either make nominations or run for a position on the board. The worker-owner body, as a collective, is also a shareholder of Class B stock. This stock is open to outside investors as well, but it does not come with voting rights.

Each of the producer organizations involved in the CDP worked to create a member equity or savings model that suited their own unique structure and context. With these programs, members create savings and invest in their co-op, and their business has working capital that allows it to grow



TOP: Daniel Rodriguez Vasquez of ACOPAGRO on his cacao farm. Each time he delivers product, the co-operative withholds 1% of his cacao bean sales and deposits those funds in his member equity account. **BELOW:** Miguel Antonio Rodriguez Rojas reviews his records with Oro Verde co-operative staff member Sheila de la Cruz.

KEEPING FAIR TRADE VALUES UP WHEN MARKETS ARE DOWN



Laura Bechard, Equal Exchange Chocolate Supply Chain Coordinator, with Adelio Ferreira Duarte of the Manduvira Co-operative in Paraguay.

Imagine you just heard the news that for the unforeseen future, your salary will be cut by 30 percent. It makes no difference that you've been working hard and doing your job to the best of your ability. The pay cut was determined by external forces beyond your control. What will this mean for your family? How will you plan for the future?

This is exactly the situation that cacao farmers faced in 2017. From the 2016 market high of \$3,211/metric ton (MT) of cocoa beans, prices dropped in 2017 to a low of \$1,809/MT. The average price over the year was \$2,002/MT—not much better.

Low prices, and price volatility in general, are just a few of the many challenges small-scale farmers face. But it's also why our chocolate work is so important. Even though Equal Exchange chocolate sales were down about 2% in 2017 (a minor bump in the road compared to difficulties farmers faced), we were able to purchase just shy of 1,000MT of cacao, sugar, and vanilla from farmer co-operatives. This translated into close to \$2,500,000 in purchases from our co-op partners, with above market premiums of \$700,000. In 2017, this made a real difference for our co-op and our farmer partners, giving them an alternative within an overall inhumane market. Knowing that our success has such a direct impact on the lives of our small-scale farmer partners keeps us focused on growing our sales and connecting with consumers who share our concern for the people whose livelihoods depend on our success.

—Dary Goodrich, Chocolate Products Manager



Alfonso Baldera of CONACADO addresses farmer members. In order to build confidence in their ability to manage members' contributions, farmer co-operatives and associations should develop clear and consistent communication strategies.

and reduce dependence on high-interest loans. Seven years later, these six organizations have grown their member equity accounts by 550% and have generated \$4.8 million through small farmer investments.

By going beyond our commercial relationships as co-operative businesses, our CDP work has opened our eyes

to the resilience of our partners and their capacity to incorporate innovative changes to their businesses. This is an ever important focus given the constant challenges farming co-operatives face. In the long-term, this type of farmer investment can create a healthy cycle with positive impacts for farmers, co-operatives, and their communities.



MAKING MORE ROOM AT THE TABLE

for Small Farmers in Produce

By the Equal Exchange Produce Team/Oké USA

2017 marked the third consecutive year of record sales growth for Oké. After setting an audacious sales goal of \$9 million, which meant almost \$2 million of growth over 2016's total of \$7.3 million, our strong team of seven moved \$9.2 million of bananas and avocados from the hands of small farmers to the homes of conscious consumers. In 2016, avocado sales were catching up with banana sales at \$3 million compared to \$4 million in bananas. This is also seen at grocery store level where bananas are still a produce department top volume item in pounds year-round but at a low price per pound. Conversely, avocados have become the produce department top money maker in sales margin even though they sell at a fraction of the volume of bananas. Welcome to our business model of pairing avocado and banana importing for the past five years.

In 2017, Equal Exchange bananas surprised us all with a sales surge to almost \$6 million due to an expansion of our East Coast distribution and sales. Avocados grew in geographical reach as we honed our West Coast program and solidified our sales of Mexican avocados in California through new distribution partnerships. As Jessica points out in her article, Fair Trade produce is HOT and as we all know by now all Fair Trade produce is not created EQUAL.

The weekly process of harvesting, packing, and shipping bananas in action at CEPIBO co-operative in Peru.



FAR LEFT: Jason Hollinger, President of Four Seasons Produce, a family-owned distributor in PA, trying his hand at harvesting bananas during a trip to Ecuador in 2017. Equal Exchange, Four Seasons and AsoGuabo banana co-operative have partnered to bring Equal Exchange bananas to the East Coast since 2008.

CENTER: The entire Equal Exchange banana supply chain together in Ecuador watching bananas being containerized, the last step before shipping off to the USA. In the photo are: Equal Exchange customers from Four Seasons Produce and MOMs Organic Market, a grocery retailer in the mid-Atlantic; Equal Exchange team members and AsoGuabo Banana co-operative GM and Board President.

RIGHT: Equal Exchange delegates celebrating after a friendly soccer match at a local school in Ecuador partially funded by Fair Trade social premium dollars.

Growth With Customers and Producer Partners

Each year is also an opportunity to grow with our customers and producer partners. With this goal in mind, in June 2017, Oké invited a delegation to travel to Ecuador to visit AsoGuabo Co-operative, Oké's oldest banana producer partner. Representatives included individuals from Oké and Equal Exchange; Four Seasons Produce, a family-owned produce distributor in Pennsylvania; MOM's Organic Market, a progressive independent chain in the Northeast; and AsoGuabo, a Fair Trade co-operative of 150 banana farmers in Ecuador. For over 10 years, these organizations have worked together to offer an alternative banana in a very conventional grocery landscape.

In Ecuador, we brought the entire supply chain together, from farmer to exporter to importer to ripener to distributor to store. In a conventional supply chain, these different players all operate in their own spheres, doing what they do best: growing bananas, exporting bananas, ripening bananas, distributing bananas, and selling bananas. During this week long trip, all the participants came together as equal partners, sitting together at the same table, to share their successes, challenges, and realities with each other.

The experience was a different way to build new connections within the many players of the banana supply chain, to celebrate our collective success and look towards the future. It's an experience that will stay with us as we continue to grapple with the question of how to truly build an alternative model in the banana industry.

**OKÉ USA SALES GROWTH
DOLLARS AND POUNDS,
2013-2017**



BIG QUESTIONS AHEAD

While Oké continues to experience rapid growth, the industry overall has continued to expand. Recently, Jessica Jones-Hughes of the Equal Exchange produce team wrote about the growth of Fair Trade in fresh produce, encouraging authenticity as the industry transforms.

"Fair Trade produce sales have skyrocketed in the U.S. over the last five years—data from Fair Trade USA estimates that in 2015 alone, Fair Trade produce sales grew by 25 percent. Organic and Fair Trade have expanded beyond the natural food and co-operative grocery world and continue to grow in importance in conventional grocery stores...As Fair Trade grows in produce, how do we keep the original vision of Fair Trade alive? How do we assure that small-scale farmers can keep their seat at the table? At Equal Exchange, we ask these questions often. We debate about how we can remain true to ourselves and differentiate in a competitive market where consumers are making quick decisions...Staying true to the roots of Fair Trade is essential to having the biggest impact environmentally, economically, and socially. Just as the impact of one shopper deciding to shop weekly at their local food co-op makes a big difference for the store, so is the impact of Fair Trade on small-scale farmers. Knowledge is power, and asking questions of food companies, your store, your produce distributor, your importer, and your farmer is the only way to navigate and stay true to our authentic roots."

All produce is not created Equal.

Read the entire article including tools for thinking about food justice here:

[equalexchange.coop/
small-farmers-fresh-produce](http://equalexchange.coop/small-farmers-fresh-produce)



La Siembra and Equal Exchange worker-owners at La Siembra's new warehouse in Ottawa, Ontario, Canada.

Equal Exchange and La Siembra: Building the Co-operative Economy

By Kelly Storie, Director of Finance and Co-Executive Director of La Siembra Co-operative

La Siembra Co-operative is the owner of the Camino and Cuisine Camino brands of premium quality Fair Trade and organic food products. Along with other Fair Trade ATOs such as Ten Thousand Villages, Oxfam Quebec and Bridgehead, La Siembra helped pioneer the Fair Trade movement by importing the first containers of organic Fair Trade cocoa and sugar into the Canadian market. Today, La Siembra's Fair Trade activities extend to 9 countries and impact approximately 38,000 small farmers from 16 co-operatives.

With annual revenues over CAD 9 million, extensive market penetration in over 6,000 retail and food service locations across Canada, and a strong brand presence in the Canadian social economy, La Siembra has the unique opportunity to engage and educate consumers, activists and Fair Trade supporters, about the increasing consolidation of the Fair Trade and organic market and the impacts on small farmer livelihoods.

La Siembra and Equal Exchange share a long history of solidarity as ATO's and Fair Trade actors. In 2014 Equal Exchange made a significant investment in La Siembra to help support and enhance their common mission objectives and



Learn more at <https://camino.ca/>

preserve their workplace democracy. With this, both Equal Exchange and La Siembra have committed to the integration of their two co-operatives, and will move to capitalize on the strong brand identity and authentic Fair Trade mission both co-operatives bring to their respective markets and in support of small farmers globally.

From Trade to Action

By Frankie Pondolph & Danielle Robidoux, Action Forum Organizers

Since the creation of Equal Exchange over 31 years ago, people and relationships have always been at our center. Coffee, chocolate, tea, mangoes, cashews; these are the mediums which allow us to show the world that ethical supply chains are viable and that there is more than one way to do business. Radicalism lies within the Equal Exchange model: a supply chain that is characteristic of true democracy, cooperative learning, transparency, and respect for our planet and its people.

We at Equal Exchange have supported our producer partners abroad and have stood alongside them in their struggles to build a more sustainable trade system. We have intentionally committed time and resources to strengthening our internal democracy as a worker co-op. As we reflect on the organization and the model we have built, and the complexities that now define our world, we have come to realize that there is a missing piece: you. This insight led us to create the Equal Exchange Action Forum.

In an attempt to build a democratic food system which is truly transformative, it is not enough to focus on the buying and selling of a product; likewise, for true change to occur, involvement can not begin and end with a purchase. Voting with your dollar is not enough. Democracy takes effort, commitment, collective responsibility, passion, and trust. It is not always easy or straightforward, but it is necessary if we want to create a better world.

The Action Forum is an initiative through which we invite individuals to participate in our organization, more deeply than ever before. This process has been fluid and malleable. We are trying to find better ways to carry out our work; to be transparent and authentic about our successes, weaknesses, challenges, and visions. To do this, we hope to build a group of active participants who will do this work alongside us. In short, we want to change our way of doing business. Again.

This past year has been one of learning, connecting, and discovering a shared community and culture within the Action Forum group, now comprised of 4,000 people across the U.S. and abroad. We have gathered in breweries and shared a beer, convened in churches, presented in community spaces, had round-table discussions at food co-operatives, organized potlucks, and even sipped espresso with members at their kitchen tables. Our team has gone from the East Coast to the West, and many places in between. After 20 face-to-face meetings and 25 webinars we are grappling with the complexities of our food system and beginning to formulate innovative solutions, together as a community.

On June 9, over 100 individuals came together at Equal Exchange's first-ever People's Food System Summit. A milestone in our work to build the Action Forum, this event brought together people from all parts of our supply chain: Equal Exchange worker-owners, producer partners and allies, together with our Action Forum members. As a community,

we began to grapple with many food industry dilemmas and ways we could imagine building a better food system.

The first day of the summit we delved deeply into the corporate consolidation that characterizes our food system; the successes and failures of the Fair Trade movement; the effects of climate change from the perspective of our producer partners; and alternative buying models that opt out of the corporate system. The second day was spent building the foundation of our community and culture of democracy among members of the Action Forum. We debated and voted on proposals regarding the Action Forum's path forward, broke out into small groups to discuss how we can build tools and grow our community, and made a commitment to stay connected to continue this work, together.

2017 was our launch year; a year of learning, engaging, experimenting and building a global community. As an Action Forum team, we got to travel to new places and meet amazing people who are engaged in their communities. As a community, we shared moments of both inspiration and wariness about the realities facing the future of food, and realized the need to elevate these stories. From enormous stark realities of climate change and political strife affecting our producer partners to market conditions consolidating—we have just started to thread together the alternative systems and creative thinking to combat these challenges as an Action Forum community. We learned about supply chains, shipping, pricing, and access. Through it all we had moments of joy and laughter and challenging moments of realizing the heaviness and complexity of growing, buying, selling, and consuming food.

We have just begun to build the foundation and tools for our citizen-consumer community and we certainly have a long path ahead. It is through this journey that we find the sacred places and people and communities supporting this work. We are looking forward to hosting more summits, events, and actions while continuing to learn, engage, and mobilize together in the years to come!



Analyzing the global food system at the 2017 Summit.



Join the Equal Exchange
ACTION FORUM

Go to equalexchange.coop/action-forum



Hana Musef and her family sift out leaves and stems after an olive harvest at her family's grove.



Nabeel Munmod Abu Ara, head of the Aqqaba Almond Co-operative in Jenin, shows the difference that irrigation makes. The almond trees on the left were part of a PARC project.



OLIVE OIL PROGRAM HIGHLIGHTS

- The Equal Exchange olive oil program started in 2011.
- We sell an average of 25,000 bottles of olive oil each year
- Equal Exchange is one of PARC's top 3 global customers

▶ WATCH VIDEO:

equalexchange.coop/olive-oil

Palestinian Olive Oil

The Struggle to Build Markets for Small Farmers Under Occupation

By Rob Everts, Co-Executive Director & Susan Sklar, Community Sales Manager

In October we made our second visit to the West Bank to visit our Palestinian suppliers of organic extra virgin olive oil. At Equal Exchange, we are more than familiar with the daunting challenges confronting co-operatives of small farmers growing coffee, cacao, and other products. Now add all the constraints of physical movement and access to water that are everyday realities for Palestinian farmers given the Israeli occupation of the West Bank. As we met with farmers, technicians, leaders, and students over the several days of our visit, we were thoroughly impressed by the scope of initiatives managed by our producer counterpart, the Palestinian Agricultural Relief Committee, or PARC.

Palestinian farmers face overwhelming odds. The already dry land that they work is getting more arid due to climate change. Though olive trees can produce with very little water, other crops such as wheat, almonds, and dates are limited due to the severe water limits imposed by the climate and by the Israeli government. Reusing and treating waste water is restricted, as is digging wells. Daily water usage also depends on who you are. There are about 2.6 million Palestinians living in the West Bank and about 700,000 Jewish settlers living there. If you are Palestinian, your allotment of water is 75 liters per person per day; if you are an Israeli Jew, living in a settlement, your allotment is 300-350 liters of water per day. Settlers are allowed to consume more water and pay less for it. Without water and land you can't talk about development in the West Bank. If agricultural projects could expand with increased water, PARC estimates that it could help provide 200,000 more jobs for Palestinians.

In addition, the separation wall, which itself annexed large swaths of the West Bank, also separates many farmers from their groves. Limited access times at the wall, compounded by the numerous checkpoints throughout the West Bank, prevent farmers from being able to employ the kind of agricultural practices that would maximize yields—and incomes. And every year there are attacks by settlers on farmers during the harvest.



Left to right: Al Reef General Manager Saleem Abu Ghazaleh, Susan Sklar and Rob Everts, near date palms at the filling station in Jericho.

While in the West Bank we visited olive farmers, picked olives in their groves, and observed the pressing process at the Mazare' Al Noubani co-operative near Salfet. Eighty-six members of the co-op use the press, plus four other groups that pay a fee for its use during harvest season.

We also visited an almond co-operative, a women's couscous co-operative in Jericho, and saw date palms and the plant where dates are processed and packed. These three products plus the traditional roasted green wheat "freekeh" and spice blend za'atar will be included in a pilot Palestinian Farmer Box project we will undertake in 2018.

Since our first visit to the West Bank several years ago we observed a number of improvements in infrastructure, including more modern olive presses and more stainless steel storage tanks at the community level. Also, while we hadn't been to Jericho before, we learned that the modern PARC date processing facilities that we saw were built over the past 3 to 4 years. Some of the couscous processing equipment we observed was also fairly new. PARC's leaders, with their drive and vision, have brought all of these advances to fruition together with other fair traders and international donors. These changes have empowered West Bank farmers to access foreign markets where demands for high quality organic foods and food safety requirements are increasing every year. This vital work contributes to the economic survival of Palestinian farmers.

CHARITABLE CONTRIBUTIONS

Fair World Project **\$15K**

New Economy Coalition **\$12K**

Project Equity **\$8K**

Inter-Religious Task Force on Central America (IRTF) **\$5K**

RSF Donor Advised Fund (DAF) **\$65K**
(see page 4)

Hesperian Health Guides **\$55K**

A contribution to support Hesperian's work, including a \$50,000 contribution to help the farmers of the Potong Tea Gardens (pictured below) who suffered income losses due to a national transit strike.



SMALL FARMER FUND 2017

Equal Exchange partners with a vibrant network of faith-based relief, development, and human rights organizations. In 2017, Equal Exchange generated \$69,300 to our partners through our Small Farmer Fund.

American Friends Service Committee **\$1,104**

Baptist Peace Fellowship of North America **\$716**

Church of the Brethren **\$932**

Catholic Relief Services **\$14,460**

Disciples of Christ **\$1,168**

Episcopal Relief and Development **\$1,526**

Jewish Fair Trade Project **\$777**

Lutheran World Relief **\$10,824**

Mennonite Central Committee **\$2,097**

Presbyterian Church (U.S.A.) **\$10,718**

United Church of Christ **\$5,051**

United Methodist Committee on Relief **\$10,198**

Unitarian Universalist Service Committee **\$9,724**

LEARN MORE AT:

equalexchange.coop/ee-and-you/congregations

Capital For Our Future, Not An Exit

By Daniel Fireside, Capital Coordinator

With growth slow at Equal Exchange this year, I've been able to spend time helping other co-operatives and mission-driven companies follow our capital-raising model. Several co-ops, including established organic food distributors and a Boston brewpub startup, have succeeded in selling non-voting preferred stock to outside investors.

Raising capital from outsiders has always been a roadblock for co-operatives: co-ops are designed to be member-run democracies. Private investors want control in exchange for their money. However, by using our non-voting stock, investors can earn a reasonable return while the co-operative doesn't put its democracy up for sale.

I'm also in touch with a lot of mission-focused companies that are committed to ethical sourcing, environmental sustainability, and the fair and respectful treatment of workers. I hear all the time how these companies face many of the same struggles as co-operatives when they are raising capital. Traditional investors want control and the possibility of outside returns (usually ten times the original amount!). The only way

to get their money out (what's known as an "exit strategy") is to take the company public or, more often, to sell to a global conglomerate. The branding that consumers see often stays the same, but all those ethical and sustainable practices inevitably get lost. Even for those founders who don't want to go this route, the terms of that early financing will force their hands.

Equal Exchange's model values all of our stakeholders, including those who don't get to vote about our company business, such as farmers, consumers, the environment, as well as investors. But the limits we place on investment mean that we use capital at the service of our mission, not the other way around. The most important restrictions we have are only giving workers the right to vote on company matters, having a modest targeted return of 5% (with a range of 0-8%), and having prohibitions from ever selling the company for profit.

Sometimes I call it our "No Sell Out" strategy. We aren't looking for an exit. We're looking for ways to grow without ever compromising our mission.

WORKER-OWNER REPORT

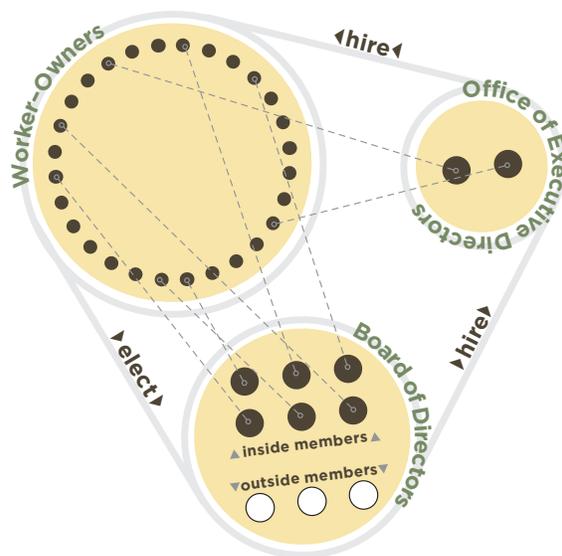
The Challenge of Growth

By Brendan Lee, Worker-Owner Coordinator

In 2017, Equal Exchange grew by 19 new worker-owners for a total of 127 co-op members spread across the country. Each new worker goes through a year-long process of work, training, and learning about the co-operative before coming up for a vote before the current members. Once in the co-op, worker-owners purchase a single share of Class A stock which entitles us to vote in our governance structure, run for and elect the Board, and have a claim to an equal share of profits and losses. We hold each other accountable to these duties by sharing common principles, values, and working toward a shared vision for Equal Exchange's future.

Despite our size and strength, our democracy still faces familiar difficulties. We're now spread out over large offices and warehouses in Massachusetts, Minnesota, and Oregon, and have more satellite offices than ever. As the business has grown in size and complexity, we often find it a challenge to devote the time and energy to the governance work that sustain us as a democratic co-operative.

Over this past year we've been experimenting with new technology and structures to encourage more participation



and leadership growth among our members. In the year ahead, we will be participating in the process to create a new company vision as we face new market and environmental challenges to our Fair Trade model. Change rarely happens in a straight line, especially in an organization that values participation and transparency. But our membership remains committed to carrying out the work we need to do to maintain a vibrant worker democracy at the core of this fantastic enterprise.

BOARD REPORT

Crafting a New Vision

By Becca Koganer, Board Chair

Three decades old and our company continues to strive for the exceptional. Our model is unique; and the momentum of over 125 worker-owner voices gives added strength to our mission. Despite our size and maturing age, the nucleus of our business contains unyielding values that continue to set us apart. I'm extremely proud to sit as the chair of this constantly evolving and forward-thinking organization that seeks to change the world while also recognizing it must change with the world.

This year marks a significant shift for Equal Exchange. Challenges driven by a landscape of ever-increasing corporate consolidation in our food system are impacting our business more than ever before. We lean on our long-term trade partnerships throughout our supply chains, and to ensure the

2016-2017 BOARD OF DIRECTORS

INSIDE DIRECTORS

Aaron Dawson Becca Koganer Sharyn McWilliams
Daniel Fireside Hilary Johnson Beth Ann Caspersen

OUTSIDE DIRECTORS

Beth Badger Kelly Storie
Dana Geffner

long-term success of our organization, recognize the need to be entrepreneurial in the rapidly-moving market that favors selling-out and profit maximization. Faced with shrinking sales, we're investigating new supply chains and products that will help us be successful in future years.

This year the Board of Directors decided it was time to recraft our organization's vision to guide us through this next phase of challenges and opportunities, ensuring that it aligns well with our mission that is the core of our identity. Our new vision will build on our radical past, bring together all our stakeholders, and help guide us as we continue to remake the global food system.

FINANCE REPORT

Coffee Down, Produce Up

By Brian Albert, Director of Finance

Although Equal Exchange as a stand-alone entity showed a decline in revenues for the first time in our history, the Consolidated Financials included in this year's Annual Report do show an increase of just over one percent above last year's consolidated sales. The decrease reported for Equal Exchange was mainly offset by a dramatic increase in sales of fruit by Oké USA, and the increase is attributable to the sales reported by Equal Exchange (UK) Wholesale, a wholly-owned subsidiary that began operations in the Spring of 2017. Sales in the UK for the period came in at just over £675,000, or nearly

\$900,000, giving us the increase of \$800,000 overall.

And while the decision to invest in companies like Oké and Equal Exchange (UK) are in a large part made in order to preserve the relatively small number of world players engaging in trade based on principals of authentic Fair Trade, it is good to know that these other creatures in our ecosystem can operate in a profitable manner while contributing to the growth of the movement and the top- and bottom-line numbers of the parent organization.

INCOME STATEMENT

	2017	2016	2015
TOTAL SALES	\$70,899,000	\$70,079,000	\$64,505,000
Cost of Sales (coffee/tea/chocolate, roasting, packaging, shipping)	\$51,805,000	\$49,347,000	\$47,280,000
Operating Expenses (marketing, sales, administration, education)	\$17,202,000	\$17,093,000	\$15,391,000
Other Expenses (primarily interest on loans)	\$484,000	\$543,000	\$521,000
TOTAL COSTS	\$69,491,000	\$66,983,000	\$63,192,000
NET INCOME BEFORE TAXES	\$1,408,000	\$3,096,000	\$1,313,000
Taxes	\$288,000	\$1,572,000	\$658,000
Shareholder Dividends	\$838,000	\$823,000	\$677,000
ANNUAL RETAINED EARNINGS (reinvested in the business)	\$282,000	\$701,000	(\$22,000)

Equal Exchange, Inc. and Subsidiaries Audited Consolidated Financial Statements and Supplementary Information
 Years Ended December 31, 2017 and 2016.

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
CURRENT ASSETS:		
Cash	\$ 1,188,338	\$ 1,449,213
Accounts Receivable, Net	7,760,370	5,451,801
Inventory	23,214,910	22,224,038
Prepaid Expenses and Other	1,270,402	1,372,836
Prepaid Corporate Income Taxes	636,393	-
Deferred Income Taxes	<u>123,866</u>	<u>159,866</u>
	34,194,279	30,657,754
PROPERTY AND EQUIPMENT, NET	6,242,802	5,688,004
OTHER ASSETS:		
Intangible Assets, Net	4,421	4,826
Investments	262,611	220,857
Notes Receivable	<u>285,000</u>	<u>335,000</u>
	<u>552,032</u>	<u>560,683</u>
	<u>\$ 40,989,113</u>	<u>\$ 36,906,441</u>
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Notes Payable – Lines of Credit	\$ 6,243,093	\$ 2,727,569
Current Portion of Long-Term Debt	1,203,436	408,722
Accounts Payable and Accrued Expenses	3,850,216	3,470,846
Corporate Income Taxes Payable	10,334	543,758
Patronage Rebates Payable	<u>241,346</u>	<u>971,677</u>
	11,548,425	8,122,572
LONG-TERM LIABILITIES:		
Long-Term Debt, Net of Current Portion, Net of Unamortized Debt Issuance Costs	4,395,290	4,274,036
Deferred Income Taxes	<u>833,000</u>	<u>1,014,000</u>
	5,228,290	5,288,036
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	195,440	186,370
STOCKHOLDERS' EQUITY:		
Preferred Stock , \$1 Par Value; 9,999,500 Shares Authorized; Issued and Outstanding, 617,756 Shares in 2017 and 603,967 Shares in 2016	16,988,293	16,609,119
Common Stock , \$1 Par Value; 500 Shares Authorized, Issued and Outstanding, 140 Shares in 2017 and 137 Shares in 2016	444,916	429,286
Less: Subscriptions Receivable	(75,533)	(97,002)
Retained Earnings	<u>6,649,909</u>	<u>6,368,060</u>
Accumulated Other Comprehensive Income	9,373	-
	<u>24,016,958</u>	<u>23,309,463</u>
	<u>\$ 40,989,113</u>	<u>\$ 36,906,441</u>

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
NET SALES	\$ 70,899,311	\$ 70,079,497
COST OF SALES	<u>51,804,858</u>	<u>49,347,201</u>
GROSS PROFIT	19,094,453	20,732,296
OPERATING EXPENSES:		
Bad Debt Expense	12,567	51,524
General and Administrative Expenses	<u>17189,027</u>	<u>17037,452</u>
	<u>17,201,594</u>	<u>17,088,976</u>
EARNINGS FROM OPERATIONS	1,892,859	3,643,320
OTHER INCOME AND (EXPENSES):		
Gain (Loss) on Investment	2,393	(203,275)
Interest Income	72,618	81,494
Interest Expense	<u>(546,461)</u>	<u>(403,027)</u>
	<u>(471,450)</u>	<u>(524,808)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	1,421,409	3,118,512
INCOME TAXES (CREDIT):		
Current:		
Federal	312,564	1,352,539
State	<u>120,901</u>	<u>318,461</u>
	433,465	1,671,000
Deferred:		
Federal	(105,000)	(59,300)
State	<u>(40,000)</u>	<u>(40,000)</u>
	<u>(145,000)</u>	<u>(99,300)</u>
	288,465	1,571,700
EARNINGS BEFORE MINORITY INTEREST	1,132,944	1,546,812
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED SUBSIDIARIES	<u>(13,070)</u>	<u>(22,251)</u>
NET EARNINGS	1,119,874	1,524,561

**EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
NET EARNINGS	\$ 1,119,874	\$ 1,524,561
Noncash Items Included in Net Earnings:		
Deferred Income Taxes (Credit)	(145,000)	(99,300)
Depreciation and Amortization	1,205,353	1,117,029
Interest Expense	3,922	3,923
(Increase) Decrease in:		
Accounts Receivable	(2,308,569)	(848,212)
Inventory	(990,872)	(3,498,109)
Prepaid Expenses and Other	102,434	60,683
Prepaid Corporate Income Taxes	(636,393)	140,342
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	379,370	439,671
Corporate Income Taxes Payable	(533,424)	543,758
Patronage Rebates Payable	<u>(730,331)</u>	<u>790,669</u>
	(2,533,636)	175,015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(1,759,746)	(535,721)
(Increase) Decrease in Investments, Net	(32,381)	168,275
(Increase) Decrease in Notes Receivable, Net	<u>50,000</u>	<u>(35,000)</u>
	(1,742,127)	(402,446)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Notes Payable - Lines of Credit	12,633,444	14,162,544
Long-Term Debt	1,000,000	1,650,000
Debt Reduction:		
Notes Payable - Lines of Credit	(9,117,920)	(13,222,349)
Long-Term Debt	(87,954)	(1,395,615)
Increase in Minority Interest	9,070	17,651
Proceeds From Common Stock Subscriptions	85,684	57,916
Proceeds From Issuance of Preferred Stock	171,755	84,795
Proceeds From Dividend Reinvestment in Preferred Stock	533,499	519,301
Redemption of Preferred Stock	(326,080)	(610,972)
Redemption of Common Stock	(48,585)	(52,987)
Preferred Stock Dividends Paid	<u>(838,025)</u>	<u>(823,142)</u>
	4,014,888	387,142
NET INCREASE (DECREASE) IN CASH	(260,875)	159,711
CASH - BEGINNING	1,449,213	1,289,502
CASH - ENDING	<u>\$ 1,188,338</u>	<u>\$ 1,449,213</u>

**Supplemental Disclosures of
Cash Flow Information**

	<u>2017</u>	<u>2016</u>
CASH PAID DURING THE YEAR FOR:		
Interest	\$ <u>542,539</u>	\$ <u>408,868</u>
Income Taxes	\$ <u>1,030,297</u>	\$ <u>986,900</u>
Schedule of Noncash Investing Transactions:		
Investment Gain on Foreign Currency Translation	9,373	-



Mark Dworkin and Melissa Young are filmmakers in Washington. After they featured Equal Exchange in their 2011 documentary *Shift Change*, they decided to become investors. They visited Equal Exchange's Boston café while promoting their newest film about worker co-operatives, *WEconomics: Italy*.



LEARN MORE AT:
bullfrogfilms.com

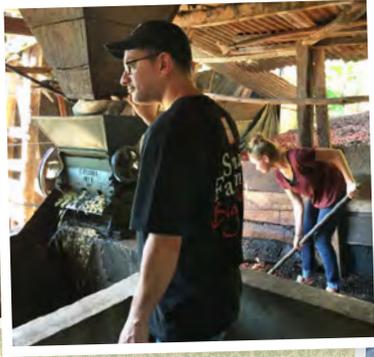
PHOTO CREDITS

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The Equal Exchange 2017 Annual Report can be downloaded at: equalexchange.coop/2017-annual-report

Where We Are

Equal Exchange staff spotted around the world (left to right): at our Boston café, on a producer trip to Guatemala, processing coffee cherries in Nicaragua, and at our new Direct Store Delivery warehouse location in Seattle.



OFFICES

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tel: 774-776-7400
50 United Drive
West Bridgewater, MA
02379

15 Campanelli Circle
Canton, MA
02021

OREGON
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3460 NW Industrial St.
Portland, OR
97210

MINNESOTA
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744 Vandalia St.
St. Paul, MN
55114

CAFÉ

Equal Exchange Café
tel: 617-372-8777
226 Causeway St.
Boston, MA
02114

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www.equalexchange.coop

Who We Are

Denise T. Abbott
Brian Albert
Jorge Alves De Pina
Bruno Alves
Juvenal Alves
Aristides
Rick Aronson
Rafael Aviles
Laura Bechard
Meridith Berman
Phil Berry
Renie Bithell
Terry Boisclair
Steve Bolton
Alison Booth Gribas
Jay Bouhov
Charlie Brandes
Earnie Bruce
Peter Buck
Joao Cardoso
Nick Carty
Beth Ann Caspersen
Todd Caspersen
Jenica Caudill
Cameron Chambers
Ann Cherin
Kate Chess
Megan Chisholm
Marlon Cifuentes

Dan Cobb
Elaine Comstock
River DeBellis Cook
Dominic Cortese
Zuleica Da Silva
Rachel Dana
Aaron Dawson
Victor Depina
Rink Dickinson
Stephanee DiMaggio
Domingos Do Rosario
Rick Doughty
Andrew Driscoll
Tyson Dube
Casey Enns
Rob Everts
Alex Farley
Bernardo Fernandes
Anna Marie Filiatreault
Sara Fiore
Daniel Fireside
Laurie Foote
Luke Fowler
Carlos Gomes
Valdumiro Gomes
Alfredo Goncalves
Gary Goodman
Dary Goodrich
Manju Gupta-Koley

Tyler Hall
Tom Hanlon-Wilde
Lee Ann Harrington
Marlene O. Harvey
Gabrielle Heath
Kevin Hollender
Meaghan Holmes
Sarah Hrisak
Derek Jamieson
Hilary Johnson
Kevin Jones
Marcus Jones
Daniel Joseph
Carly Kadlec
Bethany Karbowski
Levi Kaufman
Billy Knudson
Becca Koganer
Ashley Krant
Wayne Kritzman
Zachary Latimore
Brendan Lee
Cristina Liberati
Steve Lord
Peter Lynch
Leah Madsen
Timothy McGrail
Ian McMillan
Paul McPhee
Sharyn McWilliams
Greta Merrick
Ellen Mickle
Lynsey Miller

Gladys Minaya
Dylan Moore
Mike Mowry
Jessie Myszka
Liane Nadeau
Lincoln Neal
Wells Neal
Nicole Norman
James O'Donnell
Kimberly O'Donnell
Keith Olcott
Matthew Parent
Erik Parr
Yania Peralta
Karin Picarski
Frankie Pondolph
Richard Poole
Jennifer Pruess
Leif Rawson-Ahern
Cali Reed
Emily Reers
Jackie Rhone
Danielle Robidoux
Phyllis Robinson
Carlos Rodrigues
Jorge Rodrigues
Cara Ross
Lisa Russell
Elton John Sanches
Pedro Sanchez
Adam Schaeffer
Shawn Seebach

Carlos Semedo
Katie Sharp
Rick Shepard
Annie Sholar
Edson Silva
Betty Silveira
Susan Sklar
Rose Smith
Alyssa Soares
Mark S. Souza
Meade Sparks
Cody Squire
Forrest Sutton
Ashley Symons
Jill Taylor
L.J. Taylor
Rowland Taylor
Joaquim R. Teixeira
Mario Teixeira
Rachel Traver
Nakita Turner
Gideon Tunstall
Thiago Valle
Kat Vasconcellos
Dee Walls
Bryan Warchol
Rainey Warren
Kevin Whelan
Steven Whittaker
Cassidy Wilson
Mark Wohlgemuth
Lilla Woodham