

FAIRTRADE FOUNDATION COMMODITY BRIEFING: COFFEE

SUMMARY

The global coffee industry

- Globally, almost 8 million tonnes of coffee were produced in 2011, of which 6.2 million tonnes were exported
- Brazil, Vietnam, Colombia and Indonesia produce 60 per cent of the world's coffee
- 25 million smallholders produce 80 per cent of the world's coffee
- Coffee provides a livelihood for a further 100 million people in coffee producing countries
- The global coffee market – fresh and instant – was worth \$71bn in 2011
- Coffee producing countries earned \$23.5bn from coffee exports in 2011

Why Fairtrade is needed

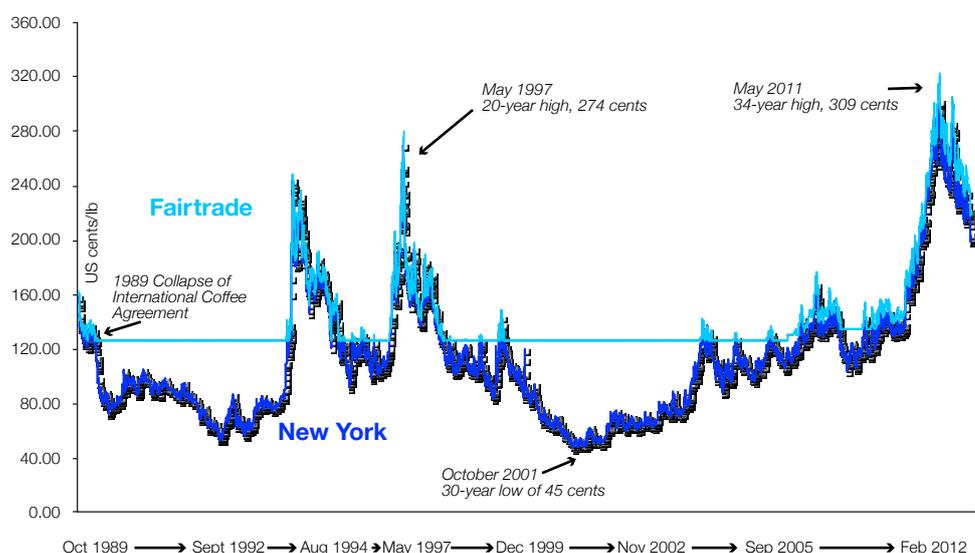
Coffee farmers are not getting a fair price

- Most of the money from the coffee trade is made in consuming countries after the beans have been roasted, blended and packed – coffee growers typically receive less than 10 per cent of the retail price of a packet of roast and ground coffee.
- World coffee prices hit a 32-year high of 309 cents in 2011, but coffee farmers are seeing little growth in their incomes in real terms. Traders, processors, exporters and government tax collectors all take their cut before farmers receive their payment and farmers are also faced with rising farm costs and household expenses.

Volatile coffee prices lead to economic instability for coffee farmers

- World coffee prices are set at commodity exchanges in New York and London.
- Coffee prices fluctuate significantly (Figure 1), often falling below the costs of production.
- This makes it hard for farmers to predict their income, budget for farm and household expenses, and provide for their families.
- Coffee production – and prices – are hugely influenced by weather. Favourable weather leads to high production which, when combined with low demand, pushes prices down. Conversely, adverse weather, low production and high demand push prices up.
- Speculators – index funds betting on price movements – add to price volatility.

Figure 1: The Arabica coffee market 1989-2012: comparison of Fairtrade and New York prices



NB Fairtrade Price = Fairtrade Minimum Price of 140 cents/lb + 20 cents/lb Fairtrade Premium
When the New York price is 140 cents or above, the Fairtrade Price = New York price + 20 cents

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Source: ICE Futures US/Fairtrade Foundation

Coffee communities urgently need development

- Coffee farms are often located in remote rural areas with insufficient access to clean water, education, healthcare, transport and electricity.
- Coffee farmers typically subsist on less than \$2 a day, growing food crops such as maize and supplementing their income from coffee with cash crops such as bananas, rearing livestock, casual labour and running small enterprises.
- They are faced with rising costs for farm inputs, food, fuel, transport, school fees and medical bills.

Farmers are at the bottom of the global supply chain

- Many farmers harvest their coffee crop and sell it straight to local traders, often agents for processors, exporters or international traders.
- At best, farmers carry out primary on-farm processing and sell parchment coffee to their local co-operative for further processing and export as green coffee.
- A lack of market knowledge can leave farmers organisations with little power to negotiate with traders and vulnerable to being paid below market price.
- The lucrative roasting and packing activities are mainly carried out in consuming countries.
- Coffee is a highly concentrated market: four companies – ECOM, Louis Dreyfus, Neumann and VOLCAFE – control around 40 per cent of global coffee trade.¹
- As for roasters and marketers, five corporations – Kraft, Nestlé, Sara Lee, Proctor & Gamble and Tchibo – control around half the global market.²

Growing demand, uncertain supply

- Coffee production is increasingly being disrupted by the effects of climate change – the spread of pests and disease, higher temperatures, erratic rains or periods of drought. Some growing areas are likely to become less or completely unsuitable for growing coffee, posing huge risks to the livelihoods of smallholders – a group who bear little responsibility for the causes of climate change but are the most vulnerable and least equipped to deal with it.
- In contrast to the rock bottom coffee prices and surpluses of a decade ago, adverse weather in growing regions, rising consumption in exporting countries and tight supplies have led to recent record high coffee prices, with the prospect of much improved incomes for growers.
- But decades of unstable and low coffee prices have left a legacy of indebted farmers' organisations with scarce resources to invest in technical support for their members. Many farmers lack the incentive and resources to invest in replanting their fields or in purchasing expensive inputs necessary to produce a high quality crop and young people who see no future in coffee are abandoning agriculture in search of better paid work elsewhere.
- Therefore, coffee companies are risking the future of their businesses by failing to sufficiently support producers in their supply chains.

How Fairtrade works

Fairtrade supports empowerment of coffee farmers

Uniquely, Fairtrade empowers farmers to address key social and environmental challenges by ensuring a fair price and additional income to invest in agricultural improvements such as processing facilities to improve the price they receive for their beans or in community projects such as clinics, classrooms and clean water. Fairtrade also supports farmers to strengthen their co-operatives, provide members with technical and marketing services and implement programmes to increase yield and quality, enabling them to offer reliable, secure and sustainable supplies of coffee beans to coffee companies.

Key provisions and objectives of Fairtrade Standards:

- Fairtrade certified coffee is open to small producer organisations that are owned and governed by their members.
- A minimum price of 140 cents a pound for Fairtrade certified arabica coffee beans, or the market price if higher.
- A minimum price of 101 cents a pound for Fairtrade certified robusta coffee beans, or the market price if higher.
- An additional Fairtrade Premium of 20 cents a pound for investment in community, business and environmental projects.
- An extra 30 cents a pound for Fairtrade certified organic coffee.

- Pre-finance of up to 60 per cent of the purchase price.
- Promotion of long-term trading partnerships and equitable business relationships.
- Environmental standards promote sound agricultural practices focusing on minimised and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and water resources, no use of genetically modified organisms.
- Forced labour and child labour are prohibited.

Fairtrade's impact for coffee farmers

There are now 329 Fairtrade certified coffee producer organisations representing more than half a million farmers across 28 countries in Africa, Asia and Latin America.

They sold 103,000 tonnes of Fairtrade coffee in 2009/10, generating \$23.3m in Fairtrade Premiums to invest in projects chosen by their members.

- CECOVASA co-operative in Peru has equipped its office with computers, printers and photocopiers; a cupping lab has been built, a quality control programme put in place, and farming equipment purchased. As a result, farmers get higher prices for their award winning coffee and thousands of families have been able to send their children to school.

¹ World Bank, World Development Report 2008, 2007, p.136. In 1998, the two largest coffee traders (Neumann and VOLCAFE) controlled 29 per cent of the market and the top six companies controlled 50 per cent. After a series of company mergers, by the early 2000s, the top three groups controlled around 45 per cent; Agritrade, Executive brief: Coffee, September 2008, p.8.

² Figures reported by sources vary. The World Bank notes that the four largest roasters control 45 per cent of the market; World development report 2008, 2007, p.136. Other analysts write that two corporations, Kraft and Nestle, control 49 per cent of the roasting industry; the top five corporations control 69 per cent; Benoit Daviron and Stefano Ponte, The coffee paradox: Global markets, commodity trade and the elusive promise of development, Zed, London, 2005

- Gumutindo co-operative in Uganda has helped its 6,000 members to improve the quality of their coffee and convert to organic production. The Fairtrade Premium has been used to build coffee warehouses, construct a secondary school, protect natural water sources, construct and repair feeder roads, and provide working capital to reduce the need for expensive loans.
- Mzuzu co-operative in Malawi is tackling climate change by planting shade trees, terracing fields and planting grasses to retain moisture and combat soil erosion. Housing has been built to attract teachers to the area for the benefit of children in the wider community.
- Members of Gikanda co-operative in Kenya have renovated their coffee processing factory and are investing in improving quality and productivity. A new clinic provides affordable healthcare for patients who would otherwise face an 8km walk to the nearest dispensary, and schools have been renovated and extended, enabling them to enrol more students.

Fairtrade building public awareness

UK consumers are concerned about the impact of their purchases and want to be reassured that products from developing countries are ethically and responsibly produced. In a recent survey over 80 per cent of UK consumers said companies should protect the environment and ensure farmers and workers are paid fairly and have safe working conditions.³

Recognition of the FAIRTRADE Mark has grown to 77 per cent of UK consumers and nine out of ten consumers trust Fairtrade.⁴ So purchasing Fairtrade goods gives consumers a powerful and credible way of addressing their concerns and reducing poverty through their everyday shopping.

3 GlobeScan June 2011

4 TNS March 2011

5 Kantar, 52 weeks ending December 25th 2011

Fairtrade makes commercial sense

Businesses that work with Fairtrade are investing in long-term trading relations with producers to secure reliable and consistent supplies of coffee beans. By responding to consumer demands to treat suppliers fairly and respect the environment, businesses also put themselves in a win-win scenario in which doing the right thing enhances brand reputation. With its high consumer trust, the independent scrutiny of the FAIRTRADE Mark can play an important role for businesses in managing the reputation of their brands with consumers and in demonstrating their sustainability credentials.

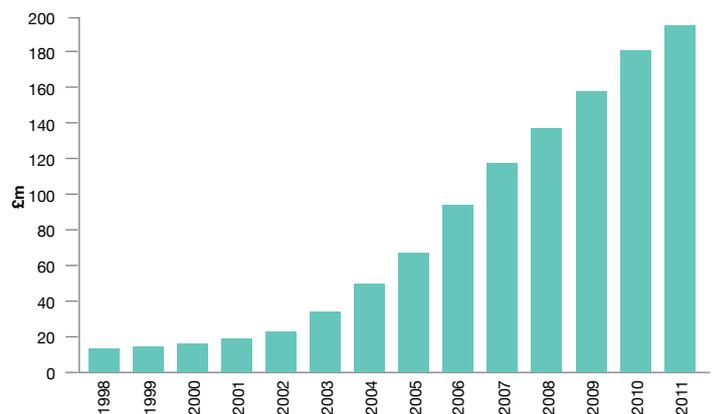
A growing Fairtrade coffee market

Global retail sales of Fairtrade coffee amounted to 88,000 tonnes in 2010, an increase of 19% on 2009.

UK consumers spent £194m on Fairtrade coffee in 2011 – a twelve-fold growth since 2000. Fairtrade now accounts for 24.7 per cent of the UK roast and ground market by value and 3.4 per cent of instant.⁵

More than 120 companies are licensed to market Fairtrade coffee and more than 1,200 products are available from retail stores and in cafés, pubs and restaurants.

Figure 2: How UK retail sales of Fairtrade coffee have grown (£m)



Source: Fairtrade Foundation

To read the full Fairtrade Foundation Coffee Briefing, visit www.fairtrade.org.uk/coffeebriefing

www.fairtrade.org.uk

Fairtrade Foundation, 3rd Floor, Ibex House,
42-47 Minories, London EC3N 1DY

Tel: +44 (0)20 7405 5942 Fax: +44 (0)20 7977 0101

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