



FAIRTRADE
INTERNATIONAL

<u>Annex</u> - Consultation document: Review of the Fairtrade Prices for Coffee	
Consultation Period	12.12.2022 – 05.02.2022
Project Manager	Yun-Chu Chiu, Senior Project Manager, Pricing Tatiana Casagua, Project Manager, Pricing

This annex includes details and explanations to better understand the proposals from the consultation document for the Fairtrade coffee price review. The coffee consultation reviews the current Fairtrade Coffee prices for small producers and traders by inviting all coffee stakeholders to comment on the proposals enclosed in the consultation document.

Contents

1.	Summary of Cost of Production study 2022	1
2.	Methodology of price proposals	4
3.	Coffee market context.....	8
4.	Fairtrade’s Living Income work in Coffee	9

1. Summary of Cost of Production study 2022

1. Cost of Production Calculation:

Regarding the structure and methodology of the cost of production 2022 calculation:

- The cost of production study in 2022 bases on the data from the cost of production study in 2017, in which primary data was collected from 43 SPO involving 803 coffee farmers in key Fairtrade coffee origins. The data captured costs at farm level, at small producer organization (SPO) level, and export costs. For Peru, data collected in the Living Income study was used. For Ethiopia, small scale data collection was conducted in August 2022. For Peru and Ethiopia alternative data sources were used in 2022, since the cost of production study in 2017 did not collect data for Peru, and the collected data for Ethiopia was not sufficient for additional analysis.
- The data from the cost of production study in 2017 represent the costs occurred during the 2014-2015 crop. For Peru, the data represents 2021 crop. For Ethiopia, additional primary data collection took place, and it was supplemented with secondary data.



FAIRTRADE
INTERNATIONAL

- The process of the cost of production study in 2022 follows four steps: 1) Conducting literature review on coffee cost of production for the selected countries, 2) updating the cost of production data from 2017 by using economic indicators, 3) pre-validating the data with local experts and 4) final validation by national roundtables.
- Gross Domestic Product (GDP) deflator, as one of economic indicators, was used to reflect the changes in the inflation rate and local currency exchange rate to USD; local minimum wage was also used in some regional updates.
- The findings in the cost of production study in 2022 were validated and endorsed by the national roundtables, which compose of Fairtrade coffee producers, exporters, traders, Fairtrade representatives and research institutes.

Regarding organic coffee production:

- The cost of production study in 2022 found that organic production is characterized by lower yields and therefore, cost of production is on average higher for organic coffee than conventional coffee. The roundtable in Indonesia pointed out the lower productivity of organic coffee, which results in higher cost per kg of green been equivalent coffee. An interviewed expert reported that conventional coffee in Honduras has 10% higher yield, compared to organic coffee.
- Lower yields impact on the final cost of production. Organic coffee from Nicaragua was reported with high-cost increases by the national roundtable (136% higher than updated cost in 2022). In Uganda was found that costs of farm inputs increase significantly under organic production, when using coffee varieties susceptible to leaf rust and coffee berry disease.



FAIRTRADE
INTERNATIONAL

2. Structure cost of production study in 2017



Farmer Level

Overhead member costs
Establishment of coffee crop and replanting trees annual costs – Activities as soil preparation, fertilization and planting
Coffee crop management - Activities as weed management, irrigation, fertilization, pest control, pruning, harvest and transport field to processing facility
Coffee processing
Coffee packing and storage
Coffee transport – From processing facilities to SPO



Producer Organizations Level

Administrative and organizational costs
Overhead costs for coffee
Harvest costs
Transport costs from field to the processing facility
Coffee processing costs – Includes washing, pulping, fermenting, demucilage, drying, hulling, 2nd hulling, and management of the processing waste
Transport costs from the processing facility to the SPO
Packing and/or storage costs
Quality sort and control costs
Cost of transport to the buyer
Export costs

3. Background information of the SPOs who participated in the cost of production study 2017 for data collection

	Country	Arabica/ Robusta	Conventional / Organic	Washed / Natural	Cost of Production (FOB level) 2022, US\$/lbs
Latin America	Honduras	Arabica	Conventional	Washed	2.00
	Honduras	Arabica	Organic	Washed	2.54
	Colombia	Arabica	Conventional	Washed	1.35
	Colombia	Arabica	Organic	Washed	1.81
	Colombia	Arabica	Conventional	Natural	0.93
	Brazil	Arabica	Conventional	Natural	1.79
	Brazil	Robusta	Conventional	Natural	1.09
	Mexico	Arabica	Conventional	Washed	2.21
	Mexico	Arabica	Organic	Washed	2.45
	Nicaragua	Arabica	Conventional	Washed	1.70
	Nicaragua	Arabica	Organic	Washed	2.10
	Peru	Arabica	Organic	Washed	2.52
Africa	Kenya	Arabica	Conventional	Washed	1.79
	Ethiopia	Arabica	Organic	Washed	1.98
	Uganda	Robusta	Conventional	Natural	1.29
Asia	India	Robusta	Organic	Natural	1.57
	Indonesia	Arabica	Organic	Washed	1.72
	Vietnam	Robusta	Conventional	Natural	0.92



FAIRTRADE
INTERNATIONAL

	Country	Number of SPOs	Individual Producers	Conventional: Organic
Latin America	Honduras	3	16	1:2
	Colombia	13	82	5:7, 1 both
	Brazil	2	15	2:0
	Mexico	8	71	2:6
	Nicaragua	3	20	2:1
	Peru (2021)	4	90	4:0
Africa	Kenya	4	151	3:1
	Ethiopia (2022)	3	74	3:0
	Uganda	1	60	1 both
Asia	India	2	64	2:0
	Indonesia	3	60	3:0
	Vietnam	1	48	10
Total	12	47	751	27:15, 2 both

The cost of production figures in 2017 are aggregated at country level and rounded in order to keep the confidentiality of data from individual producers. The final figures in 2022 study were established by applying economic indicators, literature review and the results were endorsed by reaching the consensus of national roundtables. Please be aware the country average figures are calculated based on the SPOs in the same country who might have different production practices, e.g., conventional versus organic, exporting versus non-exporting, etc. For further information on the cost of production calculation, please contact Pricing Unit.

2. Methodology of price proposals

The establishment of coffee price proposals for this price review considers international coffee prices, current Fairtrade coffee prices and findings of the cost of production study in 2022. Therefore, the proposed values are calculated using three alternative procedures, which are discussed below.

1. Market Prices Long-Term Trends

This procedure uses data from the international nominal (i.e., observed prices not adjusted for inflation) coffee prices for Arabica and Robusta coffee for the last 30 years. The procedure is based on the estimated long-term trend in average nominal prices using statistical method called regression analysis. The regression models used the New York coffee prices data for Arabica coffee, and the London price for Robusta coffee.



FAIRTRADE
INTERNATIONAL

The underlying rationale for this procedure is to keep FMP prices and premiums “in line” with long-term trends in average coffee prices, which in turn reflects global long-term trends in coffee supply and demand.

Results of the statistical analyses showed an increasing trend on average nominal coffee prices, with a faster rate of increase for Arabica. In comparison with the current FMP and premiums, this procedure suggested an approximate 18% increase in Fairtrade coffee prices for Arabica coffee and about 12% increases for Robusta coffee. It should be noted that the proposals of new FMP, FP and differentials obtained using this procedure were in some cases “rounded” to facilitate discussion and analysis in the consultation paper.

2. Adjust over inflation rate

This procedure takes the current coffee FMP and FP and adjusts for inflation from 2011 (year in which the current coffee prices were set) to 2022. The rate of inflation used is that of the United States, as coffee is traded in USD. This procedure considers that money loses “value” through time due to inflation and therefore more money is needed year after year to buy the same basket of goods. Thus, the rationale for adjusting based on inflation rate is to allow farmers to buy in 2022 the same basket of goods they were able to afford in 2011 with the current values. Although, the inflation rate chosen is that of the USA, and other countries might experience higher rates of inflation, in the long term, exchange rates should compensate for differences in inflation between the USA and other countries.

This procedure using the inflation rate represents an approximate 30% increase in comparison with the current FMP and FP. Values were “rounded” to simplify discussion and analysis in the consultation paper. Adjustments based on inflation rates represented generally the highest values amongst all procedures discussed here.

3. Weighted average from cost of production findings

This procedure only applies for the FMP and uses the data obtained from the cost of production findings and calculates the weighted average of coffee production costs of each country for each coffee type; thus, the rationale is to pay coffee producers FMP close to their production costs.

The weighted average is calculated based on the Fairtrade coffee volume (i.e., quantity) per coffee category: washed Arabica, natural Arabica, washed Robusta and natural Robusta for Conventional and Organic types of production. As an example, if a country produces Arabica washed organic, the country and its volume is only considered for the calculation of the weights



FAIRTRADE
INTERNATIONAL

of that type of coffee. Similarly, production costs of countries with higher Fairtrade volumes sold are given a higher weight. The procedure considers average sold quantities of Fairtrade coffee between 2018 to 2020.

In general, this procedure suggests an average 26% increase in the FMP (relative to the current value), with a range from 12% to 44% depending on the type of coffee (lower costs increases for Robusta than for Arabica).

Note: since each procedure suggests a different price increase, in relation to the current FMP, FP and differentials, it is important to consider that procedures two (inflation adjustment) and three (cost of production) suggest higher increases than procedure one (long-term trends in average prices).

4. Price proposals by types of coffee

FMP conventional

WASHED ARABICA

The three procedures to calculate the new FMP resulted in the following options: 1.65 USD/lbs, 1.76 USD/lbs, 1.85 USD/lbs.

- The value 1.65 USD/lbs comes from the market price trends procedure, in which the analyses estimated a 18% increase in the Arabica coffee average price from 2011 until 2022. This value was found by applying an approximate 18% increase to the current FMP in 2011 (1.4 USD/lbs).
- The value 1.76 USD/lbs comes from the weighted average cost of production procedure, considering five producing countries: Honduras, Mexico, Nicaragua, Colombia and Kenya. Honduras, Nicaragua and Colombia are the countries with the higher contribution in Fairtrade volumes, representing together a total of 92% of the Fairtrade coffee volumes sold between 2018 to 2020 for this type of coffee.
- The value 1.85 USD/lbs comes from the inflation rate procedure, which corresponds to an approximate 30% increase in price relative to the current FMP

NATURAL ARABICA

Based on the cost of production findings, the three quantitative procedures used to calculate the proposed new FMP resulted in the following options: 1.60 USD/lbs (from market price trends procedure), 1.75 USD/lbs (from inflation rate procedure), 1.79 USD/lbs (from weighted average cost of production procedure).

These prices are on average 0.05 USD/lbs lower in relation to the proposed washed Arabica values and that aligns with the current price setting for washed and natural Arabica coffee.



FAIRTRADE
INTERNATIONAL

NATURAL ROBUSTA

Applying the procedures to calculate price proposals, the obtained values are 1.13 USD/lbs, 1.14 USD/lbs, 1.30 USD/lbs.

- The value 1.13 USD/lbs comes from the market price trends procedure, in which the analysis estimated a 12% increase in the Robusta coffee average nominal price from 2011 until 2022. Therefore, this value was found by applying an approximate 12% increase to the current FMP in 2011 (1.01 USD/lbs).
- The value 1.14 USD/lbs comes from the weighted average cost of production procedure, considering the following countries: Uganda, Brazil and Vietnam. Uganda is the country with the higher contribution for this type of coffee, representing 45% of the Fairtrade sold volumes between 2018 to 2020.
- The value 1.30 USD/lbs comes from the inflation rate methodology, which corresponds to about a 30% increase in price relative to the current FMP.

WASHED ROBUSTA

Based on the cost of production findings, the quantitative procedures used to calculate the proposed new FMP resulted in the following options: 1.18 USD/lbs (from market price trends procedure) and 1.35 USD/lbs (from inflation rate procedure). Due to the nature of low Fairtrade Robusta coffee farmers, there was no data available to calculate weighted average cost of production for conventional washed Robusta.

These price proposals are on average 0.04 USD/lbs higher in relation to the proposed natural Robusta values and that aligns with the current price setting for natural and washed Robusta coffee.

Fairtrade Premium

Applying the methodologies to calculate price proposals, the obtained values are 0.23 USD/lbs and 0.26 USD/lbs.

- The value 0.23 USD/lbs comes from the market price trends procedure, taking 15% as an average of the predicted 18% increase for Arabica coffee and 12% increase for Robusta coffee. Therefore, the value was found by applying a 15% increase to the current FP from 2011 (0.20 USD/lbs).
- The value 0.26 USD/lbs comes from the inflation rate procedure, which corresponds to a 30% increase in price relative to the current premium.



FAIRTRADE
INTERNATIONAL

3. Coffee market context

The current Fairtrade Prices for coffee were established in 2011. The world market prices for coffee have fallen and surged significantly during the past years, resulting from a series of environmental, economic, and political events, the global pandemic, and the volatile nature of the coffee market. Coffee is one of the main Fairtrade products, in 2020 representing 47% of Fairtrade farmers (838,116). In 2020 it was produced 889,589 MT of Fairtrade green bean coffee, with a Fairtrade sales of 226,338 MT. From the total Fairtrade coffee volume, 63% is organic coffee. Regarding the generated Fairtrade Premium, in 2020 coffee represented €86,313,732.

Fairtrade coffee comes mainly from Latin America and the Caribbean region (CLAC), representing 84% of the produced coffee, being the top 3 countries Peru, Honduras and Colombia. More than half Fairtrade coffee sold is organic. From the total Fairtrade coffee sold, around 60% of the Arabica and 50% of Robusta are organic coffee.

Country	Number of SPOs 2020	Number of Farmers 2020	Total Fairtrade Production (MT) 2020	Total Fairtrade Sales (MT) 2020	Fairtrade Premium 2020
Peru	175	59,285	129,111	62,471	€ 24,099,331
Honduras	70	12,176	12,484	46,155	€17,859,262
Colombia	81	72,828	281,955	32,034	€12,193,680

General Coffee Production

Global coffee production is growing on average at 2% annual rate, with strong annual fluctuations with Brazil (Arabica Naturals and Robusta) and Vietnam (Robusta) being the driving forces with largest share of the overall production volume.

General Coffee Consumption

Global coffee consumption is growing at an annual rate of about 2%, with large difference across markets. The traditional markets are rather saturated, whereas emerging markets are seeing significantly larger growth rates.

The top markets for Fairtrade coffee in 2021 were Germany, the UK, Canada, France and the US. Switzerland and smaller emerging markets showed double digit growth in 2021.



FAIRTRADE
INTERNATIONAL

3. Fairtrade's Living Income work in Coffee

A living income is defined as sufficient income to afford a decent standard of living for all household members. It includes a nutritious diet, clean water, decent housing, education, health care and other essential needs, plus a little extra for emergencies and savings – once farm costs are covered.

Living Income Reference Prices are set as voluntary payments for buyers and supply chain partners. Fairtrade Living Income Reference Price for coffee have been set for Colombia, Indonesia and Uganda.

For more specific information, please refer to:

[Fairtrade Living Income](#)

[Colombia: Fairtrade Living Income Reference Prices for Coffee](#)

[Indonesia: Fairtrade Living Income Reference Price for Coffee from Aceh](#)

[Uganda: Fairtrade Living Income Reference Price Uganda Coffee](#)

Please note, the cost of production tool used for the Fairtrade Minimum Price calculation and the Fairtrade Living Income Reference Price calculations are not directly comparable as they are based on different assumptions and factors. In addition, different data sets were used. Both methodologies will be comparable in the near future.

The Fairtrade Living Income Reference Price is based on a minimum viable farm size, sustainable yields as productivity benchmark, cost of a decent standard of living (living income benchmark) and cost of sustainable production (in order to achieve above mentioned yields). Living Income Reference Prices are set as national or regional values.

The Fairtrade Minimum Price Cost of Production is based on the collection of data from farmers and Small Producer Organisations. It reflects the reality in relation to observed productivity and farm efficiency levels. Fairtrade Minimum Price for coffee has been set in a global scope for Arabica and Robusta coffee, conventional and organic, washed and natural. Fairtrade International acknowledges that improvements need to be made regarding cost of production data collection and is committed to improving its methodologies and tools for this purpose.