



# FAIRTRADE AND COFFEE

Commodity Briefing

May 2012



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## INTRODUCTION

Around 125 million people worldwide depend on coffee for their livelihoods. This briefing offers an overview of the sector, explores why Fairtrade is needed and what it can achieve. We hope it will provide a valuable resource for all those involved with, or interested in, Fairtrade, whether from a commercial, campaigning or academic perspective.

### Fast facts: the coffee lowdown<sup>1</sup>

- Coffee is the most valuable and widely traded tropical agricultural product
  - 7.9m tonnes of coffee were produced in 2011, of which 6.2m tonnes were exported
  - Coffee-producing countries earned \$23.5bn from coffee exports in 2011
  - 25 million smallholders produce 80% of the world's coffee
  - Coffee provides a livelihood for a further 100 million people in coffee-producing countries
- 
- An estimated 1.6 billion cups of coffee are drunk worldwide every day
  - Global consumption has almost doubled in the last 40 years and is forecast to reach 9.09 million tonnes by 2019
  - Consumption growth in the last decade was led by producing countries (57%) and the emerging markets of Eastern Europe and Asia (46%)
  - The global coffee market, including fresh and instant, was worth \$70.86bn in 2011<sup>2</sup>
  - The UK in-home coffee market was worth £831m in 2010<sup>3</sup>
  - Five coffee companies control half the global retail coffee market – Kraft, Nestlé, Proctor & Gamble, Sara Lee and Tchibo<sup>4</sup>
  - Three coffee companies control nearly 70% of the UK retail coffee market – Kraft, Nestlé and Douwe Egberts<sup>5</sup>
  - Coffee growers receive 7%-10% of the retail price of coffee in supermarkets<sup>6</sup>
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- Global sales of Fairtrade coffee reached 88,000 tonnes in 2010
  - UK sales of Fairtrade coffee increased in value from £15.5m in 2000 to £194m in 2011
  - More than 530,000 coffee farmers from 28 countries benefit from Fairtrade coffee

<sup>1</sup> Unless otherwise stated, global coffee volume, value and consumption data throughout are sourced from International Coffee Organization (ICO) Monthly Coffee Market Reports, Statistics/Historical data and FAQs at [www.ico.org](http://www.ico.org). Dates may refer to calendar years or crop years, which, depending on origin, start on 1 April, 1 July or 1 October. Volumes are recorded in 60kg bags and have been converted to tonnes

<sup>2</sup> Euromonitor, quoted in *Analysis: Single-cup coffee sales seen growing*, 2 February 2012 [www.reuters.com](http://www.reuters.com)

<sup>3</sup> Coffee, UK, April 2011, Mintel (excludes coffee consumed out of home e.g. in cafés and restaurants)

<sup>4</sup> See footnote 26

<sup>5</sup> Leatherhead Food Research, *The UK Food & Drinks Report 2009*, October 2009

<sup>6</sup> International Trade Centre, *The Coffee Exporter's Guide 2011*, p. 246

# 1. COFFEE: GROWERS AND BUYERS

## Main producing countries

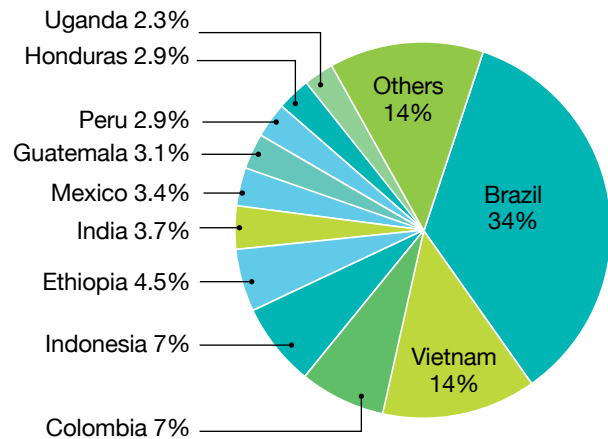
Global coffee production averaged around 6 million tonnes a year during the 1990s. Increased output from Brazil and Vietnam saw production grow to an average of 7.6 million tonnes a year between 2007 and 2011, peaking at a record 8.05 million tonnes in 2010.

Coffee is grown in more than 70 countries but over 60 per cent of the world's coffee is produced by just four of them – Brazil, Vietnam, Colombia and Indonesia.

Brazil has long been by far the world's largest coffee producer, growing an average of 2.5 million tonnes a year during 2007-11. Vietnam is next (1.1 million tonnes) followed by Colombia (560,000), Indonesia (560,000), Ethiopia (400,000), India (280,000), Mexico (270,000), Guatemala (230,000), Honduras (230,000), Peru (219,000), and Uganda (190,000).

Latin America is the largest regional producer with a 60 per cent share, followed by Asia and Oceania (27%), and Africa (13%).

Figure 1: Largest producers of coffee as % of world production, 2007-11

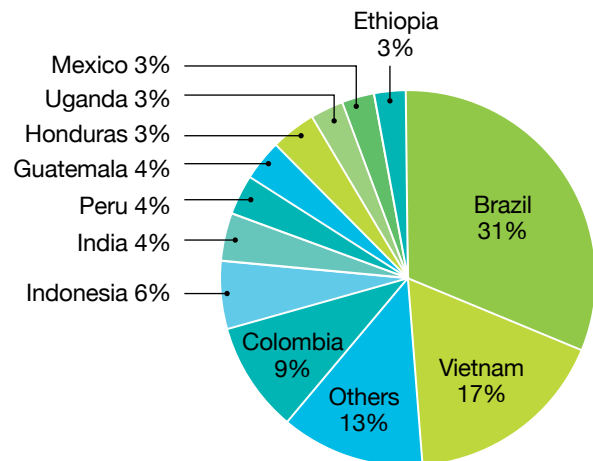


Source: ICO

## Main exporting countries

Coffee exports increased by 7 per cent to a record high of 6.2 million tonnes in 2011, with a value of \$23.5bn – up from 5.8 million tonnes in 2010, worth \$16.7bn. Brazil led with 2 million tonnes, followed by Vietnam (1 million), Colombia (464,000) and Indonesia (376,000).

Figure 2: Largest exporters of coffee as % of world exports, 2007-11



Source: ICO

## Main importing/consuming countries

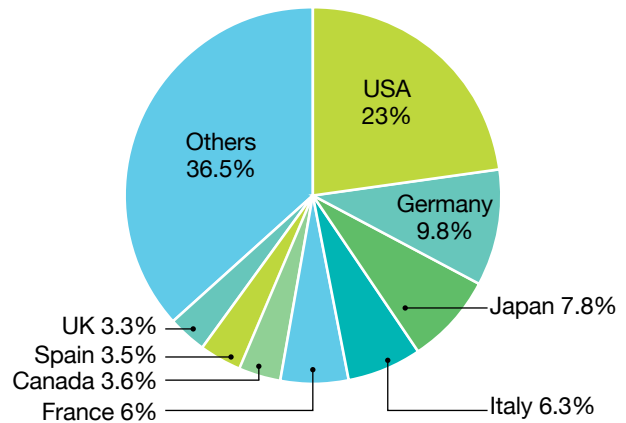
Global coffee consumption almost doubled over the last 40 years from 4.2m tonnes in 1970 to 8.1m tonnes in 2010, an increase of 91 per cent.

The last decade has seen steady growth of around 2.5 per cent a year, from 6.3m tonnes in 2000 to 8.1m tonnes in 2010 – an increase of 28 per cent. Consumption grew by 12 per cent in traditional markets such as Western Europe, Japan and the US, by 57 per cent in exporting countries and by 46 per cent in emerging markets such as Eastern Europe and Asia. However, the economic turmoil of recent years has slowed growth, leading the International Coffee Organization (ICO) to revise its forecast of global consumption by 2019 from 10.08m tonnes to 9.09m tonnes.

Coffee producing countries consume 30 per cent of the world's coffee, led by Brazil whose consumption reached 1.1 million tonnes in 2010. The remaining 70 per cent of coffee produced is traded internationally; the US is the biggest importer, averaging 1.27 million tonnes a year in the period 2006-10, followed by Germany (546,000 tonnes) and Japan (431,000 tonnes), while the UK imports 184,000 tonnes.

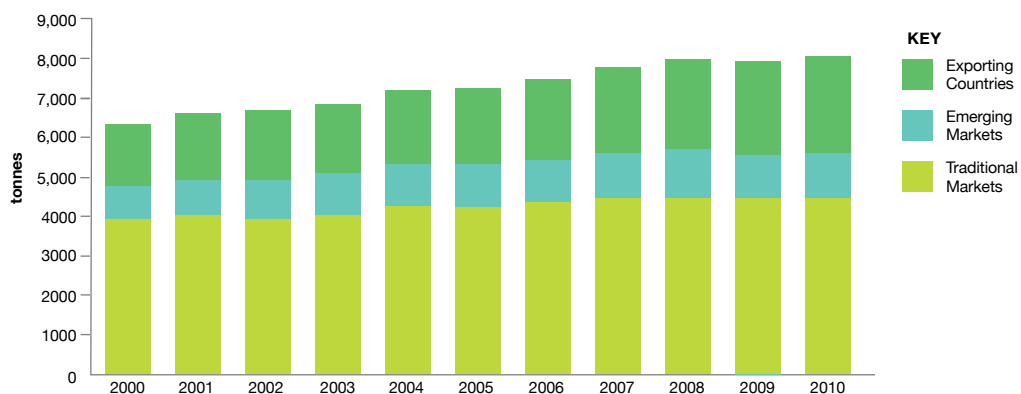
Finland had the highest per capita consumption over this period, each person averaging 12kg a year, followed by Norway (9.2kg) and Denmark (8.7kg). Americans consume 4.1kg a year and Britons 2.7kg, while Brazilians (5kg) are by far the leading consumers among producing countries.

**Figure 4: Largest importers of coffee as % of world total 2006-10**



Source: ICO

**Figure 3: Growth in world coffee consumption, 2000-10**



Source: ICO

## From bean to cup

### A brief history of coffee

Legend has it that the energising effect of the coffee bean was first recognised by a 9th-century goatherd in the Kaffa province of Ethiopia, where the coffee tree originated. Coffee was almost certainly cultivated in Yemen long before the 15th century when Sufi mystics reportedly drank it to keep awake during extended hours of prayer. The drink was spread by Muslim pilgrims and traders across North Africa and the Middle East, where Arabian coffeehouses became centres of political activity. The first UK coffee house was opened in Oxford in 1650, followed two years later by one in London. The Dutch planted coffee in Sri Lanka, India and Java in the late 1600s and later in South America. Within a few years Dutch colonies became the main suppliers of coffee to Europe, its production associated with colonial expansion and slavery. Coffee soon became one of the most valuable primary products in world trade.

### How coffee is grown

Coffee production requires little machinery but considerable labour for planting trees, weeding and harvesting. It takes four years for a coffee plant to yield fruit and five to six years to produce optimal yields.

There are two main types of coffee – arabica, which has a milder taste and tends to be more expensive, and higher yielding robusta, widely used in instant coffee and in stronger roasts. Coffee is a tropical plant requiring specific environmental conditions for commercial cultivation; ideal temperatures are 15°C-25°C for arabica and 24°C-30°C for robusta, with an ideal annual rainfall of 1,500-3,000mm; a dry period is necessary to stimulate flowering. Whereas robusta can be grown at sea level, arabica does best at higher altitudes and is typically grown in highland areas.

Rains trigger the blossoming of the coffee tree's white flowers and growth of the green fruit, known as cherries. After seven to ten months, depending on variety, the ripe, red cherries are ready to harvest. The harvest season lasts two to three months during which the cherries are picked by hand or by machine on some large plantations. Each cherry contains two beans which are removed from the fruit and dried using one of two methods:

- The *wet* or *washed* method produces better quality coffee and attracts higher prices and is mainly used for arabica. Cherries are often delivered to central coffee washing stations for post-harvest processing. Alternatively, many small-scale arabica farmers carry out wet-processing on the farm: the cherries are soaked in water to soften and then fed through a hand-cranked pulping machine that removes and separates the outer pulp from the beans.

After washing and fermenting, the beans are left with a sticky mucus layer and are laid out on racks to dry in the sun. The resulting parchment coffee, so called because of its dry, paper-like protective covering, is then delivered in bulk to a mill for 'curing' where the parchment skin is removed by hulling. Now known as green coffee, the beans are cleaned, sorted and packed ready for export.

- The *dry* or *natural* method is used for nearly all robusta coffee, and for arabica in Brazil and a few other countries.

The coffee cherries are spread out in the sun to dry on large concrete patios or on raised matting for up to four weeks. The dried cherries are stored then sent to the mill where the outer layers are removed by a hulling machine before cleaning, sorting and packing.



Sun-drying coffee, Ethiopia

### Making coffee

Coffee is tested for quality and taste at various stages of its journey in a process known as cupping. A trained taster or cupper, working in a cupping laboratory, can taste hundreds of coffee samples a day.

The beans are first evaluated for their visual quality then roasted in a small roaster, ground and infused in boiling water. The cupper assesses the aroma then slurps and spits out the brew to analyse its characteristics and flaws, its qualities for blending and to determine its correct roast.

Roasting and packing is mainly carried out in consuming countries. Green coffee beans are roasted at temperatures of 180°C to 240°C for eight to 15 minutes, depending on the degree of roast required – the less it is roasted, the milder the roast. As moisture is lost and the bean splits open, a chemical reaction converts starches into sugar, breaks down proteins and releases coffee oil, creating the flavour and aroma enjoyed by coffee drinkers.<sup>7</sup>

<sup>7</sup> International Coffee Organization, [www.ico.org](http://www.ico.org)

## 2. CHALLENGING TIMES FOR THE COFFEE SECTOR

The global coffee sector faces many challenges in the next decade including the continued global economic crisis, volatile coffee prices, shortages of coffee supply in key origins, rising production costs, reduced availability of land and labour, food security and poverty in coffee communities, and the impacts of climate change.

### 2.1. Background and recent developments

#### Economic importance

In 2011, an estimated 6.24 million tonnes of coffee were exported, worth \$23.5bn. Although this only represented a 7 per cent increase in volume from 5.8m tonnes in 2010, the value increased by 40 per cent, from \$16.7bn, as a result of prevailing high prices.

Coffee provides a livelihood for 125 million people around the world,<sup>8</sup> generating cash returns in subsistence economies and, providing much-needed rural employment for both men and women in the labour-intensive production and harvesting processes.

For many countries, coffee exports generate a significant proportion of national tax income and gross domestic product and are a vital source of the foreign exchange earnings governments rely on to improve health, education, infrastructure and other social services. Burundi relies on coffee for 60 per cent of its export earnings, Honduras for a quarter, Nicaragua for nearly a fifth.<sup>9</sup> In Ethiopia, 15 million smallholders, nearly a fifth of the population, depend on coffee for their livelihood – high global commodity prices contributed to record coffee exports in 2010/11 which accounted for 30 per cent of the country's total export earnings.<sup>10</sup> In Uganda, half a million smallholders produce coffee, the primary source of income for around 2.5 million people or 8 per cent of the population.<sup>11</sup>

#### Liberalisation of the coffee sector

From the 1960s until 1989, the coffee market was kept in reasonable balance of supply and demand in part due to the 1962 International Coffee Agreement (ICA) and subsequent agreements, signed by governments of producing and consuming countries. The ICA regulated much of global coffee trade through a system of export quotas and buffer stocks which largely maintained stable and remunerative prices to growers. The economic clauses of the ICA were suspended in

1989 because of abuse of the quota system and their incompatibility with prevalent free market economic policies. Controversial IMF and World Bank structural adjustment programmes (SAP) required governments of producing countries to privatise state-controlled industries such as the coffee sector and open them to competition from private traders ostensibly to improve efficiency. As a consequence, world coffee prices immediately dropped by half to less than 80 cents a pound. They remained low for five years until frost hit production in Brazil in 1994 and prices briefly surged above 200 cents. Three years later, prices rocketed to 270 cents a pound driven by strong demand, tight supply and low stocks, fuelled by intense speculator activity.

#### Coffee crisis 1999-2004

The 1980s and 1990s saw huge production increases in Brazil and especially in Vietnam where government investment in expansion of the coffee export sector catapulted Vietnam from an insignificant producer to the world's second largest producer after Brazil. The resulting oversupply of coffee heralded the coffee crisis of 1999 to 2004. As Figure 5 below shows, this disastrous period saw the price of arabica plummet to a 30-year low of 45 cents a pound in 2001 with devastating social, economic and political consequences for countries throughout Africa, Asia and Latin America. Export earnings fell from around \$10bn to \$6bn<sup>12</sup>, reducing rural incomes and trapping coffee farmers and their families in chronic poverty. Hundreds of thousands of coffee farmers were forced out of business, many abandoning their farms in search of work in cities or migrating to neighbouring countries, along with thousands of landless plantation workers.

8 ICO, FAQs, [www.ico.org](http://www.ico.org)

9 ICO, About Coffee/World Coffee Trade, [www.ico.org](http://www.ico.org)

10 Reuters Africa, *Ethiopia coffee exports hit record high*, 27 July 2011. 2010/11 coffee exports earned a record \$841.6m, nearly 30% of the estimated \$3bn total export earnings

11 Gerrit Ribbink et al, *Successful supply chains in Uganda: A study of three successful chains in the coffee, dried fruit and fresh vegetables sectors*, May 2005, p. 23

12 Oxfam, *Mugged: Poverty in your coffee cup*, 2002, p. 20; World Bank, *World development report 2008*, 2007, p. 136

## 2.2. Coffee prices

### Price volatility

Global coffee production varies from year to year according to weather conditions, disease and other factors, resulting in a coffee market that is inherently unstable and characterised by wide fluctuations in price.

This price volatility has significant consequences for those who depend on coffee for their livelihood, making it difficult for growers to predict their income for the coming season and budget for their household and farming needs. When prices are low farmers have neither the incentive nor resources to invest in good maintenance of their farms by applying fertilisers and pesticides or replacing old trees. When prices fall below the costs of production, farmers struggle to put adequate food on the table and pay medical bills and school fees – a major reason for children being taken out of school to contribute to the family income by working on the farm or in the informal sector. In recent years the price of arabica has swung from a 30-year low of 45 cents a pound in 2001 to a 34-year high of almost 309 cents in 2011 (Figure 5). Similarly, robusta crashed to 17 cents a pound in 2001 before climbing to 120 cents in 2011 (Figure 6).

**Figure 5: The arabica coffee market 1989-2011**



Source: ICE Futures US

**Figure 6: The robusta coffee market 1989-2011**



Source: London LIFFE

### **Futures markets and speculators**

Like other commodities, coffee can be traded in two ways: either physically bought or sold on the spot market, or traded on international futures markets. Arabica coffee prices are set at the New York Intercontinental Exchange (ICE) futures market and robusta prices at London Liffe.

The trading of futures contracts – a commitment to buy or sell a standardised quantity of coffee beans at a specified place and time in the future – is a tool used by commercial traders and producers to ‘hedge’ or protect against the risk of loss through future price fluctuations and exchange rate movements.

Futures markets are also used by financial institutions (e.g. hedge funds, investment banks, pension funds) and private individuals to gamble on the price of coffee. This speculation by non-commercial traders is coming under increasing criticism in the industry for distorting the market. Starbucks CEO Howard Schultz pointed the finger at financial speculators for the ‘tragic’ surge in coffee prices in 2010, telling a gathering of analysts and investors in New York: ‘This is financial speculation at its worst.’<sup>13</sup> This sentiment was echoed by Andrea Illy, Chief Executive of Italy’s Illycaffè, who said speculators have pushed the price of coffee to an unjustifiably high level and could be setting the sector up for a cycle of boom and bust in the next few years.<sup>14</sup>

As well as hedge funds and speculators, index funds are increasingly buying into commodities because of much better returns than equities.<sup>15</sup> The World Bank estimates a record \$450bn was invested in commodities in 2011 – more than three times that in 2006.<sup>16</sup> There is growing concern about the impact speculation has on the volatility of the prices of basic food commodities. In 2008 and 2010 record high food prices put staples like maize, wheat and rice beyond the means of the world’s poorest people, sparking food riots across more than 30 countries and increasing political unrest. In a 2010 briefing, the UN Special Rapporteur on the Right to Food said ‘a significant portion of the increases in price and volatility of essential food commodities can only be explained by the emergence of a speculative bubble. In particular, there is a reason to believe that

a significant role was played by the entry into markets for derivatives based on food commodities of large, powerful institutional investors such as hedge funds, pension funds and investment banks, all of which are generally unconcerned with agricultural market fundamentals.’ He went on to say ‘fundamental reform of the broader global financial sector is urgently required in order to avert another food price crisis’.<sup>17</sup>

### **How weather and climate change affect coffee prices**

Coffee trees require specific climatic conditions to produce an optimum crop. Production is often disrupted by adverse weather such as drought or frost which can affect the critical flowering stage that determines the size of the subsequent crop.

Production in Brazil, supplier of a third of the world’s coffee, has a huge influence on world prices. Weather conditions there are closely monitored and news of late rains or frosts echo around the world in minutes, with prices reacting accordingly. Coffee output in Brazil has a two-year cycle – a good crop is followed the next year by a smaller crop when the trees ‘rest’ – which can mean an output difference of as much as 900,000 tonnes or 30 per cent. Coffee stocks held in consuming countries will normally meet any deficit in the market but if it coincides with a significant fall in production in other countries then the market may face a shortage. International futures markets will react with higher prices which, in turn, incentivise growers to increase production to capitalise on those prices. These short-lived booms are usually ended when favourable weather conditions allow both supply and stocks to recover, typically leading to oversupply and a return to lower prices.

On top of these recurrent weather patterns, climate change is having an increasing influence on where and how coffee is produced in future and will be a huge risk for smallholders – a group who bear little responsibility for its causes but are the most vulnerable and least equipped to deal with it.

Climate change is causing higher temperatures, erratic rains or periods of drought which can affect the flowering stage, hinder the drying of harvested beans and reduce soil fertility. As confirmed by a recent study by the Natural Resources Institute,<sup>18</sup> these changes are

13 *Starbucks blasts speculation in coffee*, Reuters, 1 December 2010, [www.reuters.com/article/2010/12/01/starbucks-coffee-idUSN0115085320101201](http://www.reuters.com/article/2010/12/01/starbucks-coffee-idUSN0115085320101201)

14 *Speculators setting coffee up for boom-bust*, [www.commodities-now.com](http://www.commodities-now.com) 13 March 2011

15 Wall Street Journal, 8 December 2010

16 *Global Economic Prospects January 2012*, Global Commodity Market Outlook, World Bank

17 *Food Commodities Speculation and Food Price Crises*, Olivier de Schutter, United Nations Special Rapporteur on the Right to Food, Briefing Note 02, September 2010

18 *Climate Change, Agricultural Adaptation and Fairtrade*, NRI Working Paper, Natural Resources Institute, May 2010, [www.nri.org](http://www.nri.org)



likely to make some growing areas less or completely unsuitable for growing coffee, meaning production will have to shift and some farmers will have to exit coffee production and identify alternative crops.

The KDCU co-operative in Tanzania was Fairtrade certified in 1995 and has been a significant force in improving the lives of local communities over the past 20 years. But changing weather patterns are disrupting coffee growing, leaving its 17,838 members with a vastly reduced output of coffee beans, and a crippling drought since the start of 2011 has wiped out members' latest coffee crop. Anna Mlay, a coffee grower and personnel and administration manager at KDCU, said: 'In January we expected a lot of rainfall, which is normal and is needed to make the coffee shrub flower, but we did not get it. As a result, a large amount of our coffee did not flower properly, so we do not get the fruit. Many of the primary societies are reporting that small farmers are going hungry and cannot afford to send their children to school anymore. People depend on coffee here as there is little opportunity to grow other crops, because the climate is not very suitable.'

The incidence and spread of pests and disease are also likely to increase and affect crop yields and quality. Proliferation of the coffee berry borer, the world's most important coffee pest, in East Africa and parts of South America is predicted to push arabica production to higher areas where the pest doesn't flourish.<sup>19</sup> In Uganda the spread of coffee wilt disease has resulted in the destruction of 50 per cent of robusta coffee trees,<sup>20</sup> threatening the survival of the coffee industry.

With a potentially reduced area of production, the global market could be at risk of increased volatility should, for example, coffee production be regularly disrupted by more extreme weather patterns or the output of a major producer be hit by unexpected severe weather.

### **High prices forecast for 2012 and beyond**

Following the coffee crisis, prices recovered to around 150 cents a pound in 2007 before the global financial crisis of 2008 depressed commodity prices, sending coffee tumbling to 110 cents.

Prices gained momentum in 2009 and 2010 amid continued growth in global demand and declining stocks. They soared beyond 300 cents to a 34-year high of 306.15 cents in May 2011 amid concerns about short-term supplies of high-grade arabica beans – for the third year in a row production fell below expected levels in Colombia, the world's top producer of high quality arabica beans, hit by adverse weather related to climate change.

Prices remained in the 250 to 300 cents range throughout much of 2011, with intense speculative trading again blamed for driving the market artificially high. Then prices fell below 230 cents in October 2011 – not because of any change in the balance of supply and demand but because funds cashed in commodity futures contracts and other financial instruments as the fallout from the Eurozone crisis kicked in. Forecasts of a record Brazilian crop in 2012/13 and good harvests elsewhere in 2011/12 contributed to prices falling to around 200 cents in February 2012.

But market volatility is part of a bigger story: stocks are at historically low levels in consuming countries, labour costs and fertiliser prices are rising, exchange rate fluctuations are impacting on prices, and there is growing uncertainty about supply caused by unfavourable weather conditions in major coffee producing regions, which farmers are blaming on climate change. While shortfalls from Colombia, for example, can currently be replaced with coffee from other origins this is likely to become more difficult in the future. The ICO has forecast a 'tight' global coffee market in 2011/12, with a combination of a reduced crop of 7.6 million tonnes, low stock levels in exporting countries and buoyant world consumption pointing to continuing firm prices.

So while higher coffee prices are welcomed by farmers, they are also concerned that production and incomes will continue to be hit by unpredictable weather. Farmers in Uganda, for example, are experiencing higher temperatures, extreme rainfall, drought and unprecedented levels of pests, and fear that climate change could end arabica production within the next decade. With similar scenarios replicated around the coffee growing world, the coffee industry could be facing a global disaster unless farmers are supported in adapting to climate change.

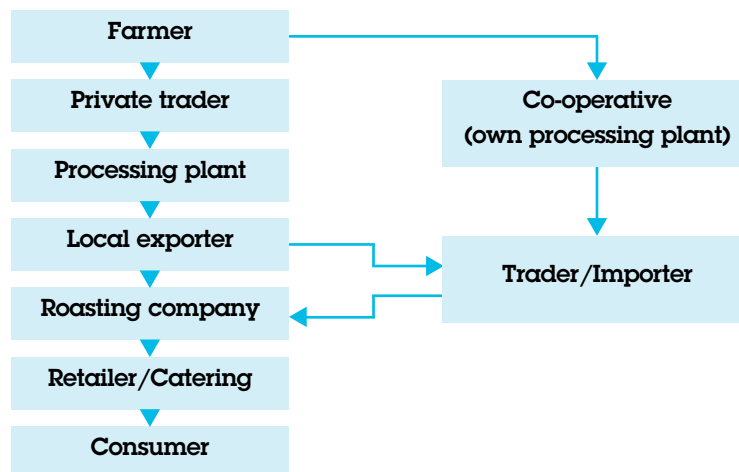
<sup>19</sup> Coffee Berry Borer, Climate Change to geographically affect production of Arabica coffee [www.AfricaScienceNews.org](http://www.AfricaScienceNews.org), 15 September 2011

<sup>20</sup> Uganda Coffee Development Authority, [www.ugandacoffee.org/index.php?page&a=15](http://www.ugandacoffee.org/index.php?page&a=15)

## 2.3 The coffee supply chain: who wields the power?

Coffee supply chains are often complex, with beans sometimes changing hands dozens of times on the journey from producer to consumer. Small farmers typically sell their coffee beans to local traders, often agents for big coffee millers and exporters, who transport the coffee to the processing plant. After processing, the coffee is sold by a local exporter to an international trader, from whom roasting companies then usually purchase the coffee and sell it to retailers, notably supermarkets, before finally reaching consumers.<sup>21</sup> Primary or village co-operatives purchase members' coffee and sell it in bulk to a processor or exporter, while regional co-operative unions purchase, process and export coffee on behalf of their member co-operatives.

**Figure 7: Simplified coffee supply chain**



The value of the global coffee market, including fresh and instant, grew 17.5 per cent to reach \$70.86bn in 2011,<sup>22</sup> while the UK retail coffee market was worth £831m in 2010.<sup>23</sup> The coffee supply chain has long been dominated by a small number of multinational trading and roasting companies:

- Four companies – ECOM, Louis Dreyfus, Neumann and VOLCAFE – control around 40 per cent of global coffee trade.<sup>24</sup> They have recently been joined by Olam International which describes itself as one of the largest suppliers of robusta coffee in the world.<sup>25</sup>
- As for roasters and marketers, five corporations – Kraft, Nestlé, Sara Lee, Proctor & Gamble and Tchibo – control around half the global market.<sup>26</sup>
- Nestlé dominates instant coffee with a market share of over 50% globally.<sup>27</sup> During 2006-08 Nestlé sold over £17bn worth of instant coffee worldwide, led by its 'billionaire brand', Nescafé.<sup>28</sup>
- In the UK Nestlé (42%), Kraft (19%) and Douwe Egberts (7%) account for 68% of the retail coffee market, with supermarket own-label products taking a further 17% share.<sup>29</sup>

<sup>21</sup> Anna Milford, *Coffee, cooperative and competition: The impact of Fairtrade*, Chr. Michelsen Institute, 2004, p. 5

<sup>22</sup> Euromonitor, quoted in *Analysis: Single-cup coffee sales seen growing*, 2 February 2012 [www.reuters.com](http://www.reuters.com)

<sup>23</sup> Coffee, UK, April 2011, Mintel (excludes coffee consumed out of home e.g. in cafés and restaurants)

<sup>24</sup> 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.

<sup>25</sup> [www.olamonline.com/aboutus/businessmodel.asp](http://www.olamonline.com/aboutus/businessmodel.asp)

<sup>26</sup> 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 Nestlé, 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

<sup>27</sup> Agritrade, *Executive brief: Coffee*, September 2008, p. 8

<sup>28</sup> *Nestlé management report*, 2008, p. 72, [www.nestle.com](http://www.nestle.com)

<sup>29</sup> Leatherhead Food Research, *The UK Food & Drinks Report 2009*, October 2009

Company profits from coffee sales are hard to establish since few multinationals disaggregate profits by product in their financial reporting. But it can be safely estimated that hundreds of millions of dollars in net profits are being made every year. For instance, coffee accounted for 11 per cent of Kraft Foods revenues of \$49.2bn in 2010, with two coffee brands – Maxwell House and Jacobs – each generating revenues exceeding \$1bn.<sup>30</sup> Clearly, coffee is a high-value, high-profit commodity for many food corporations.

### How much do coffee farmers earn?

But while coffee is clearly profitable for food companies, it's very different for the coffee farmers themselves. The share of the retail value of coffee retained by the producer has fallen over the decades – in the 1970s, producers retained an average of 20 per cent of the retail price of coffee sold in a shop.<sup>31</sup> Research during the coffee crisis found coffee growers received just 1-3 per cent of the price of a cup of coffee sold in a café in Europe or North America and 2-6 per cent of the value of coffee sold in a supermarket.<sup>32</sup> Following the recovery of coffee prices, farmers might now expect to receive between 7% and 10% of the retail price of coffee. A recent study<sup>33</sup> of the value chain for Kenya specialty coffee to the US showed that some 87 per cent of the retail cost of roasted coffee is incurred at the roaster and retailer level whereas the price paid to the grower represents around 7 per cent of the retail value. A similar calculation for mainstream coffee to Germany concluded that 84 per cent of the roast and ground retail value accrued to the roasting and retail segments. About 6 per cent went to processing cum export costs and intermediaries, leaving about 10 per cent of the roast and ground retail value for the grower.



Collecting coffee, Costa Rica

<sup>30</sup> 'About Kraft Foods', [www.kraftfoodscompany.com](http://www.kraftfoodscompany.com)

<sup>31</sup> Anna Milford, *Coffee, cooperative and competition: The impact of Fairtrade*, Chr. Michelsen Institute, 2004, p. 7

<sup>32</sup> Stephen Castle ('The real price of coffee', *Independent*, 27 October 2006) notes that of a £14 per lb retail cost for luxury coffee, an Ethiopian producer will get a maximum of £0.59. See also Fairtrade Foundation, *Spilling the beans on the coffee trade*, 2002, p. 4. A study commissioned by Oxfam in 2002 showed that coffee farmers receive one per cent or less of the price of a cup of coffee sold in a coffee bar. They receive roughly 6 per cent of the value of a pack of coffee sold in supermarkets. In Uganda, Oxfam found that farmers got less than this - 2.5 per cent of the retail price of coffee sold in the UK in 2001; Oxfam, *Mugged: Poverty in your coffee cup*, 2002, p. 21. See also Bart Slob, *A fair share for coffee producers*, SOMO, November 2006, pp. 130-1

<sup>33</sup> International Trade Centre, *The Coffee Exporter's Guide 2011*, p. 246

## 3. WHY FAIRTRADE IS NEEDED...

In addition to fluctuating prices and domination of the supply chain by a few large multinationals, there are many other challenges facing the average coffee producer. 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 businesses. Their farms are located in remote rural areas with increasingly erratic climatic conditions. Arabica production, in particular, tends to be located in mountainous areas away from paved roads, accessible only on foot or horseback by tracks susceptible to flooding, and where there is often little government investment in education, healthcare, transport, or the provision of clean water and access to electricity.

### 3.1 Rising farm and household costs

Coffee farmers endure a precarious existence faced with rising costs for food, fuel, transport and basic household necessities as well as school fees and medical bills. The record high prices for wheat, maize, rice and other staple foods following the 2008 global financial crisis were topped in February 2011 when agricultural production was disrupted by severe weather. According to the FAO, 'the cost of basic food staples remains high in many developing countries, making life difficult for the world's poorest people who already spend between 60 and 80 per cent of their meagre income on food'.<sup>34</sup> The costs of key farm inputs such as labour, fertilisers and pesticides are also rising – fertilisers were 43 per cent higher in 2011 than 2010<sup>35</sup> – and farmers lack the capital or access to affordable credit to invest in improving production or combating pests and disease.

### 3.2 Lack of technical support

Many individual coffee farmers survive on low incomes and remain trapped in poverty because of their small plots and low crop yields. Without access to technical agronomic support they are unable to boost incomes by increasing productivity or improving quality by replacing old trees or by planting hybrid varieties suited to changing climatic conditions.

### 3.3 Weak negotiating position

Poor access to information about prices and markets makes those small farmers not organized in producer co-operatives vulnerable to local dealers to whom they typically sell their crop as soon as it is harvested (since they tend to lack storage facilities); they have little bargaining power with which to get a better price.

### 3.4 Climate change, adaptation and diversification

Climate change related to global warming is a real and growing threat to the livelihoods of thousands of coffee farmers. They will have to implement appropriate adaptation and mitigation strategies to maintain their yields and incomes, such as supplementary irrigation, more efficient on-farm processing, and better farming practices such as terracing and planting shade trees to conserve water and soil moisture. In practice, many farmers will need financial and technical support to implement these measures which, in themselves, are also likely to increase their costs of production.

Farmers will rely on scientists to develop drought and disease resistant coffee varieties and will also need external support for longer-term strategies such as capacity building and diversification – in extreme cases, production may have to shift to higher altitudes with the right soil type and where there is adequate infrastructure.

This is not a realistic option for most coffee farmers, who instead may have to look at diversifying into other crops or activities. Diversification out of coffee is a risky strategy for smallholders constrained by a lack of land, finance and training. It is vital that they are provided with detailed market information, business support and training to devise a viable business plan.

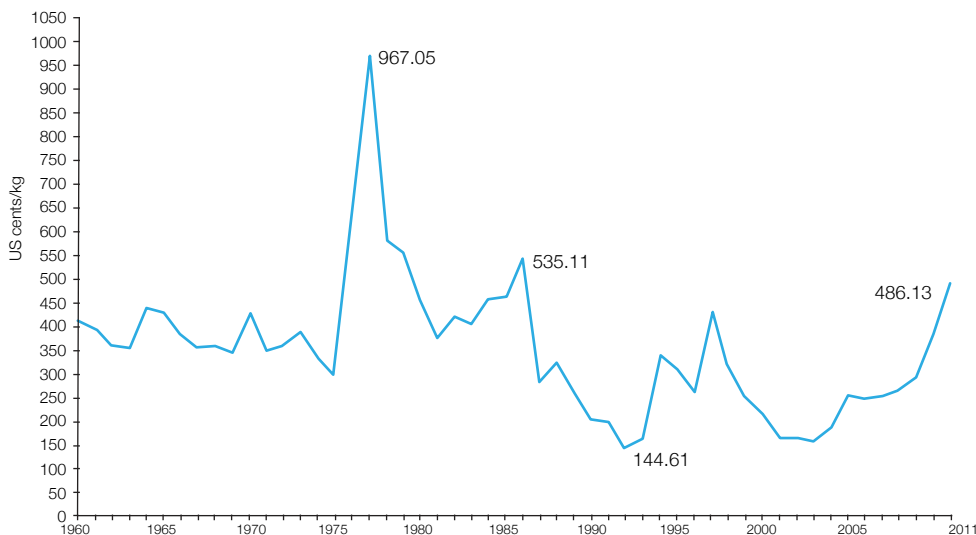
<sup>34</sup> FAO Initiative on Soaring Food Prices  
<http://www.fao.org/isfp/isfp-home/en/>

<sup>35</sup> Global Economic Prospects January 2012, Global Commodity Market Outlook, World Bank

### 3.5 Long-term price decline in real terms

Recent spikes in coffee prices in both current terms and real terms – adjusted for inflation – are contrary to the long-term downward trend in real prices which farmers have been exposed to for more than fifty years (Figure 8). Current high coffee prices are matched by corresponding increases in farm input costs which, coupled with devaluation of the US dollar, means there is limited real income growth for coffee growers.

**Figure 8: Arabica coffee prices in real terms 1960 - 2011**



Source: World Bank Prospects, commodity markets, historic data

### 3.6 Threat to coffee communities and coffee supply

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. As a result many farmers have neither the incentive nor resources to invest in replanting their fields or in purchasing expensive inputs necessary to produce a high quality crop. The cycle of low coffee productivity and poverty is perpetuated, so that younger generations who see no future in coffee are abandoning agriculture in search of better paid work elsewhere. Therefore, by failing to sufficiently support producers in their supply chains, coffee companies could be risking the future of their businesses.

## 4. HOW FAIRTRADE WORKS FOR COFFEE GROWERS

### 4.1 Background to Fairtrade coffee

The collapse of the International Coffee Agreement and subsequent price crash was a major factor in the launch of the first Fairtrade label, Max Havelaar, under the initiative of the Dutch development agency Solidaridad. The first 'Fairtrade' coffee from Mexico was sold into Dutch supermarkets in 1989. It was branded Max Havelaar, after a fictional Dutch character who opposed the exploitation of coffee pickers in Dutch colonies.

The Fairtrade Foundation was founded in 1992 to license Fairtrade products in the UK and promote Fairtrade to consumers, business and the media. The first Fairtrade certified products – Cafédirect coffee, Clipper tea and Green & Black's Maya Gold chocolate – were launched in 1994.

In 1997, the Foundation and partner labelling initiatives in Europe and North America set up Fairtrade International (FLO) to co-ordinate Fairtrade labelling at the international level. FLO ([www.fairtrade.net](http://www.fairtrade.net)) sets international Fairtrade standards, organises

support for producers around the world, develops global Fairtrade strategy and promotes trade justice internationally. Membership of FLO now includes 19 Fairtrade labelling initiatives covering 24 countries, two Fairtrade marketing organisations and one associate member, as well as three producer networks representing producers in Africa, Asia and Latin America & the Caribbean. The producer networks provide 50 per cent of representatives at the FLO General Assembly, making them half-owners of the global Fairtrade system.

## 4.2 How Fairtrade works in coffee

Fairtrade is best known for ensuring producers receive the Fairtrade Minimum Price – and for 15 of the last 22 years, when the global arabica price has often fallen well below the Fairtrade Minimum Price, it has ensured farmers can earn enough to cover at least the basic costs of sustainable production (Figure 9). According to Raymond Kimaro, former General Manager of Kilimanjaro Native Co-operative Union in Tanzania, it helped his small farmer organisation to survive while others around them collapsed. But it has long been recognised that Fairtrade supports producers in many other ways – from shared ownership of the global Fairtrade system and a voice in key decisions, to building stronger management at the co-operative level and building stronger producer businesses.

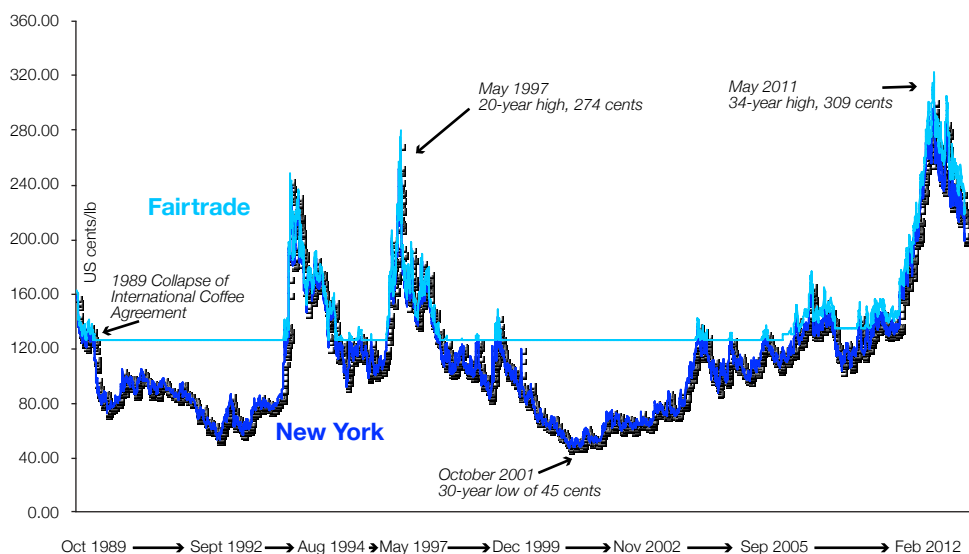
Fairtrade supports the development of a sustainable coffee sector by ensuring a fair price for farmers that provides the stability rural families need to survive and

plan for the future. When a co-operative sells coffee on Fairtrade terms, the standards guarantee that they will receive at least the Fairtrade Minimum Price set for coffee, and an additional premium for investment in community development projects. Fairtrade helps build long-term trading relationships that enable coffee growing communities to improve livelihoods through fairer terms of trade. Fairtrade also provides additional resources for producers to invest in business improvements and community development.

Fairtrade certification for coffee producers is open to small farmer organisations that are owned and governed by the farmers themselves and have a democratic decision making structure and transparent administration in place.

In order to be certified, producer organisations have to comply with Fairtrade Standards, the aims of which are to address and encourage the economic, social and environmental development of producers' families, communities and organisations. The standards include the Fairtrade Minimum Price. This is the minimum price that a buyer of Fairtrade coffee has to pay to a producer organisation. It is set at a level which ensures that growers receive a price which covers the average costs of sustainable production for their product. This acts as a safety net for farmers at times when world markets fall below a sustainable level, and when the market price is higher than the Fairtrade Minimum Price, the buyer must pay the market price.

**Figure 9: 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

© Fairtrade Foundation

Source: ICE Futures US/Fairtrade Foundation

Independent inspection by FLO-CERT ([www.flo-cert.net](http://www.flo-cert.net)) provides the scrutiny that motivates producer organisations (and traders) to actively and effectively ensure compliance and to progressively strengthen their organisations by developing and adapting internal systems and processes.

#### **Key provisions and objectives of Fairtrade Standards:**

- Fairtrade certified coffee is only open to small producer organisations that are owned and governed by their members
- A democratic decision making process must be in place, with all members having an equal right to vote
- 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 (e.g. education and healthcare, farm improvements to increase yield and quality, processing facilities to increase income)
- An extra 30 cents a pound for Fairtrade certified organic coffee
- Producer organisations can request pre-finance of up to 60 per cent of the purchase price. This is important for small-scale farmers' organisations as it ensures they have the cash flow to pay farmers at the time they deliver their crop.
- 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.
- Trade standards aim to encourage fairer negotiations, how best to agree contract prices, and reduce speculation.

### **4.3 Beyond price and premium**

The democratic and independent organisation of small producers is a key element of Fairtrade – firstly to ensure fair and transparent distribution of the Fairtrade Premium, and more generally to facilitate long-term processes of sustainable development and empowerment. Fairtrade Standards follow ILO Recommendation R193 on the promotion of co-operatives as a proven model that contributes to the socioeconomic development of farming communities. Therefore Fairtrade farmer organisations – co-operatives, associations or others – must incorporate co-operative principles including voluntary membership, democratic control, economic participation of members, autonomy and independence, and concern for the community.

Joining together in co-operatives enables farmers to pool resources, benefit from economies of scale and strengthen their position in the market. By working closer with their buyers, Fairtrade co-operatives can learn about quality requirements and consumer needs. They can invest additional income in processing and warehouse facilities to increase their share of the export price, in technical assistance to improve yields, in training cuppers to improve quality, and in skills training and better business methods to improve the efficiency of their co-ops. All of this investment enables co-ops to negotiate higher prices for their members, allowing them to lift themselves out of poverty through trade.

Small-scale producer organisations are not generally considered good credit risks by local banks. But co-ops that have contracts with Fairtrade buyers are in a much stronger position to negotiate crop pre-financing loans which give them the liquidity to purchase coffee from members at harvest time when funds are traditionally very low.

Fairtrade also directly supports producers in improving productivity and quality. At least 5 cents of the Fairtrade Premium must be invested in projects agreed by co-operative members to improve coffee productivity or quality. Measures to improve yields include training on agricultural practices, establishing nurseries, experimenting with new hybrid varieties, farm-level replanting and renewal, investment in equipment or infrastructure. Quality measures include training in post-harvest practices, investing in cupping labs and hiring or training cuppers – often the grown-up children of farmers.

### Technical Assistance Fund

The Technical Assistance Fund (TAF) is a grant scheme run jointly by the Fairtrade Foundation and Fairtrade Africa and funded by a Comic Relief grant to develop Fairtrade in Africa. It aims to equip Fairtrade certified producer organisations with the skills and capacity to effectively manage their businesses and participate in global trade. Since 2009, the TAF has funded training for 57 groups from 15 African countries.

## 4.4 The relevance of Fairtrade in a high-price market

Increased demand around the world for Fairtrade products is providing a market for new and established producers in the Fairtrade system. But high prices and fluctuating markets since 2010 are presenting significant challenges to the coffee co-operative sector, including those working in Fairtrade.

Prices for coffee have risen and harvests have been smaller than expected, creating intense competition on the ground for high quality coffee. This can have a detrimental effect on co-operatives and growers who are also suffering from high price inflation. Co-operatives that don't have access to affordable credit may lack the working capital necessary to secure sufficient volumes of coffee from members to fulfil their contracts. This is because many individual growers who live in day-to-day poverty may opt to sell to local traders offering high prices rather than sell to their co-operative. It is important that this does not undermine the co-operatives in the long term.

**Fairtrade International has responded by taking a number of concrete steps to help producer organisations, traders and roasters cope with market fluctuations and support them in maintaining and increasing sales, including:**

- Improving producer organisations' access to pre-finance and funding
- Reducing certification costs – a New Standards Framework for Small Producer Organisations simplifies and clarifies core requirements to reduce certification costs
- Providing mediation and advice in cases of contract default
- New trade standards to encourage fairer negotiations, clarify the role of price fixing and reduce speculation in contractual agreements
- Producer Helpdesk – risk management and contract advice helpdesk to support producers and traders, managed by independent coffee experts
- Facilitating training in price negotiation and risk management: training provided for more than 300 groups including 50% of co-operatives in Peru and 70% in Bolivia, more to follow
- Three-day coffee price risk training for 20 coffee societies from Kenya and Tanzania, conducted by the World Bank
- Price risk management course for members of 25 Colombian coffee co-operatives, part of commercial empowerment strategy
- Asia Pacific Coffee Forum held in Indonesia, provided training for all 70 regional coffee producers on quality, pricing, contract management and marketing, and the opportunity to meet importers and potential buyers
- Productivity training in Indonesia with TWIN and other partners.
- Coffee producers in Brazil launched the Fairtrade producer network BR-FAIR to represent all 21 Brazilian Fairtrade producers, supported by local institutions and government
- Guidance documents on risk management and quality/productivity.



## 4.5 Supporting producer organisations

FLO has formed partnerships with external organisations to provide services to Fairtrade farmer and worker organisations, including better access to financing, market opportunities and capacity building. FLO is investing in Fairtrade Producer Networks in Africa, Asia and Latin America, and in more than 45 local liaison officers to help producers meet Fairtrade Standards and to share best practice in farming techniques and organisational development. Fairtrade Producer Networks are also developing strategic partnerships with financial institutions, regional technical assistance programmes and government outreach projects. As part-owners of FLO, the producer networks provide four of the fourteen-member FLO Board of Directors.

A recent independent review<sup>36</sup> of the impact of Fairtrade over the last ten years highlighted the positive impact Fairtrade has had on capacity building and improving producer access to credit. It noted: ‘... Fairtrade capacity building activities have increased access to new export markets because of improved product quality, improved negotiating skills, and greater exposure to potential export partners and market information ... Fairtrade producers enjoy

*greater access to credit than their non-Fairtrade counterparts either through pre-financing by the buyer, credit schemes run by the organisation at advantageous interest rates or from traditional sources who viewed Fairtrade farmers as having a better credit rating due to their better incomes and long-term contracts.’*

Fairtrade environmental standards promote sustainable development and the implementation of good agricultural practices – sustainable water use, responsible waste management, integrated pest management, improving soil fertility, reducing energy use – that help farmers adapt to and mitigate the impacts of climate change. And the stable Fairtrade Price and additional Fairtrade Premium provide vital resources for farmers to put in place appropriate strategies: producers have invested the premium in planting trees to prevent soil erosion, planting shade trees to protect coffee trees from higher temperatures, constructing dams to conserve water, and implementing measures to reduce water use.<sup>37</sup> More broadly, Fairtrade has developed a climate change strategy that includes a Producer Support Programme to develop adaptation and mitigation projects.<sup>38</sup>



Coffee washing station, Rwanda



Coffee farmer, Indonesia



Picking coffee, Costa Rica

<sup>36</sup> A review of the impact of Fairtrade over the last ten years, NRI, March 2010, [http://www.fairtrade.org.uk/resources/natural\\_resources\\_institute.aspx](http://www.fairtrade.org.uk/resources/natural_resources_institute.aspx)

<sup>37</sup> FLO, *Climate Change and Fairtrade: Why Is It Time to Make the Links?* April 2010

<sup>38</sup> Fairtrade's *Producer Support Programme*, November 2011, [http://www.fairtrade.net/info\\_sheets.html](http://www.fairtrade.net/info_sheets.html)

## 4.6 How Fairtrade benefits farmers and their families

*'For us Fairtrade means conserving and improving our land and looking after the environment, it means improving the air that we breathe. It also means education for our children and access to health care for our families...it means better opportunities above all for women, opportunities to organise and take decisions. Fairtrade means that producers and consumers work together for a better life. Fairtrade is much more than just a question of money.'*

Blanca Rosa Molina, coffee farmer, President of CECOCAFEN, Nicaragua

### A

#### FAIRTRADE AND COFFEE IN PERU

CECOVASA co-operative is located in Sandia province, in the eastern Andes region of southern Peru. This coffee growing area is characterised by high levels of poverty as coffee farmers struggle on low incomes resulting from their high production costs, low yields and low prices. The population has limited access to basic services: 72 per cent don't have safe drinking water, 68 per cent have no electricity, 34 per cent have poor sanitation, and child malnutrition is as high as 41 per cent.

CECOVASA was founded in 1970 by coffee farmers who joined forces to find a better way to sell their coffee – until then farmers sold their beans to intermediaries, who typically paid less than half the market price. Today, the co-operative is so strong that the intermediaries no longer work in the area. It is one of the largest smallholder producer organisations in the country.

CECOVASA comprises nine village co-operatives and more than 5,000 members, primarily indigenous Quechua and Aymará peoples. It was Fairtrade Certified in 1993, which allowed it to export directly to US and European markets. Close to 50 per cent of CECOVASA's members produce organic coffee, thanks to an organic conversion programme started in 1997.

##### **Some of the benefits from Fairtrade are:**

- Thousands of families have been able to send their children to school
- They have built a cupping lab and implemented a quality control programme
- Purchased eight computers, five printers and three photocopiers for the offices
- Invested in farming equipment, including 40 coffee de-pulping machines, 1,000 pruning saws and three humidity scales, and has the resources to maintain the equipment in good condition.

The strength of the cooperative is apparent. In 2010 CECOVASA's Tunki coffee was awarded the prestigious Coffee of the Year title by the Specialty Coffee Association of America (SCAA), a world coffee authority and the largest coffee trade association. As Juan Sucaticona, coffee farmer and President of CECOVASA, said: 'Fairtrade is in our best interests – it offers us an above market price, which makes us work harder to produce better coffee.'

***'Fairtrade is a good idea and makes a big difference to us. It is marketing our coffee and giving us a fair price. And we know we are not being cheated.'***

Oliva Kishero, coffee farmer and treasurer of Gumutindo Coffee Co-operative Enterprises Ltd

Liberalisation of the Ugandan coffee sector in the 1990s led to the collapse of the traditional co-operative unions, exposed by their lack of commercial expertise in the new competitive environment. A proliferation of private traders entered the market, forcing down the quality and reputation of Ugandan coffee as well as prices paid to farmers. Gumutindo coffee co-operative was formed to improve the livelihoods of these farmers, who rely on coffee for their main income and who mostly live in mud and wattle houses without piped water or electricity.

Gumutindo – which means 'excellent quality' – was Fairtrade certified in 2004 and has grown to 10 village co-operatives with over 6,000 members and now sells over 90 per cent of its high quality organic arabica coffee to Fairtrade buyers.

A study for the UK government found that farmers in Gumutindo's supply chain received a number of benefits, including training to improve coffee quality, assistance to convert to organic production, access to transparent market information, exposure to new market opportunities and greater involvement in the company's operation which enhanced mutual trust and commitment.<sup>39</sup>



Oliva Kishero picking coffee, Uganda

The Fairtrade Premium has helped build coffee warehouses, contributes to community projects such as building a secondary school, extending a clinic, protecting natural water sources, constructing and repairing feeder roads, and has provided working capital to reduce the need for expensive loans.

<sup>39</sup> Gerrit Ribbink et al, *Successful supply chains in Uganda: A study of three successful chains in the coffee, dried fruit and fresh vegetables sectors*, May 2005, pp. 31-2

Since its establishment in 1999, members of Mzuzu Coffee Planters Co-operative Union were optimistic that increased production of their award-winning coffee would improve their incomes and standard of living. The co-operative worked hard to put in place the improvements needed to meet Fairtrade standards and was Fairtrade certified in 2009. Last year 150 tonnes of their crop of 450 tonnes of coffee were sold to Fairtrade buyers, bringing stable prices and additional premiums for community development.



Operations Director Bernard Kaunda said: *'Growing coffee is now seen as a very good business to be in, and being a part of Fairtrade gives farmers a lot of comfort as they are guaranteed a certain price. There are a lot of new farmers who want to get into coffee because of this.'*

But the farmers still face huge challenges in their fight for a better life. Climate change has wiped out nearly half of the 10 million coffee trees they have planted since 2003. Colder nights, hotter days and unpredictable rains combined with more pests and disease are affecting the union's 3,500 smallholder members very badly, according to Bernard Kaunda. *'We have not been able to quantify the loss to our members in terms of income, but it is tremendous when you consider how many coffee trees have died over the years. Instead of making a good income, the farmers are struggling to cope,'* he said.

Meeting Fairtrade Standards has supported the union in tackling the effects of climate change: farmers have planted shade trees to protect coffee bushes from the sun, terraced their fields to retain water and planted vetiver grass to combat soil erosion and conserve water.

Fairtrade Premiums have been used to improve local infrastructure by building bridges and accommodation has been built to attract teachers to the area for the benefit of the wider community. The union now plans to improve coffee quality by building a processing facility and providing new coffee drying tables. But members live with the uncertainty that further increases in temperature in the mountainous Mzuzu region could undo all their hard work.

The Gikanda Farmers Co-operative Society Ltd is located in the prime coffee-growing region of Iriaini, on the slopes of Mt Kenya, where its 2,800 smallholder members produce around 2,500 tonnes of coffee a year. Their high quality arabica coffee was classified Best of Origin from Kenya and awarded one of nine Coffee of the Year titles in the 2010 Specialty Coffee Association of America awards. Despite this, farmers' incomes are low, restricted by small yields from their plots of less than one hectare.

The co-operative was Fairtrade certified in 2006 and now sells a third of its coffee to Fairtrade buyers. This has enabled the co-operative to pay higher prices to its members which has contributed to motivating farmers to improve coffee husbandry and increase both the productivity and quality of their crop. Higher prices in turn have renewed interest in coffee farming among young people.

The greatest impact of Fairtrade certification has been the Fairtrade Premium, which has funded a number of farming and community projects and served to increase farmer loyalty and pride in their co-op. The premium has been used to part-fund the Kangocho Community Health Dispensary which provides affordable healthcare to the local community and is now used by up to 25 people a day who would otherwise have to walk 8km to the nearest dispensary.

A block of seven run-down classrooms at Thengeini primary school, infested with the parasitic flea known as jiggers, has been renovated and a block of 10 toilets built. Gatundu nursery school has been renovated and now has an office and two classrooms for 30 children each. A new laboratory and staffroom have been constructed for a secondary school in Gatundu, and renovated classrooms mean the school can now take in students who would otherwise have to travel long distances to continue their education.

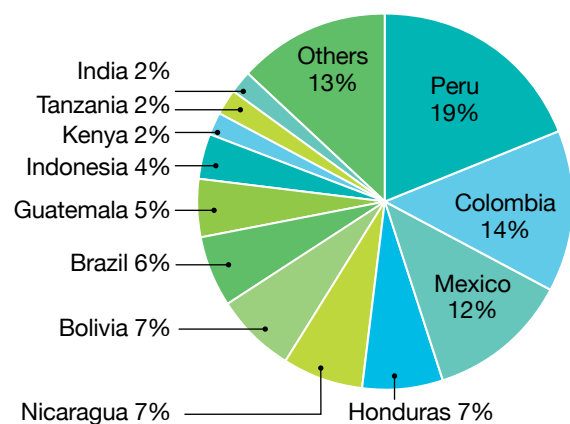
A new office building has been built for the co-op and facilities at its coffee processing factory have been renovated and extended. Farmers have been trained on the safe disposal of pesticide containers, the phasing out of certain pesticides and the increased use of manure instead of chemical fertilisers.

## 4.7 The growth of Fairtrade coffee producer organisations

In 2002 there were 175 Fairtrade certified coffee producer organisations. By 2011 this had grown to 329 organisations, representing more than half a million farmers across 28 countries: Bolivia, Brazil, Cameroon, Colombia, Congo DR, Costa Rica, Côte d'Ivoire, Dominican Republic, Ecuador, El Salvador, Ethiopia, Guatemala, Haiti, Honduras, India, Indonesia, Kenya, Lao PDR, Malawi, Mexico, Nicaragua, Papua New Guinea, Peru, Rwanda, Tanzania, Thailand, Uganda, and Vietnam.

**Figure 10: Fairtrade coffee producer organisations by country 2011**

**Total producer organisations 329**



Source: FLO

<sup>40</sup> Africa Now – Ethical Business Services, *Fair Trade Impact Assessment of Gikanda Farmers Cooperative Society Ltd*, May 2010

**Figure 11: Fairtrade coffee Producer organisations (POs) and members by region 2011**

| Region                    | POs        | Members        |
|---------------------------|------------|----------------|
| Africa                    | 32         | 294,000        |
| Latin America & Caribbean | 268        | 192,000        |
| Asia & Oceania            | 29         | 46,000         |
| <b>Total</b>              | <b>329</b> | <b>532,000</b> |

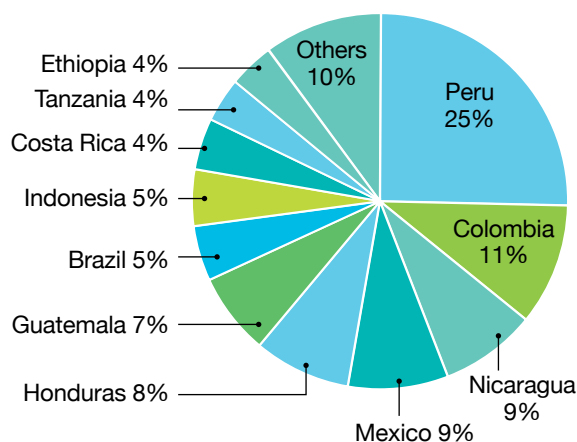
Source: FLO

Fairtrade certified coffee is grown on a total of 718,000 hectares. The average coffee plot is 1.5ha – ranging from less than 0.9ha in Africa and Asia to 2.9ha in South America. Producer organisations sold 103,000 tonnes of Fairtrade coffee in 2009/10, up 6 per cent on the previous year.

These sales generated €17.5m in Fairtrade Premium, a 30 per cent growth from €13.5m in 2008. Almost 60 per cent was invested equally in business development and production and processing at farm level. The remainder was spent on a range of health, education and community projects.

**Figure 12: Fairtrade coffee exports by country 2009/10**

Total 103,000 tonnes



Source: FLO

**Figure 13: Fairtrade exports by top five countries 2009/10**

| Country      | Tonnes         |
|--------------|----------------|
| Peru         | 26,300         |
| Colombia     | 11,000         |
| Nicaragua    | 9,500          |
| Mexico       | 9,000          |
| Honduras     | 8,600          |
| Others       | 38,600         |
| <b>Total</b> | <b>103,000</b> |

Source: FLO

## 5. FAIRTRADE COFFEE SALES

### 5.1 Is Fairtrade coffee changing the mainstream UK market?

#### Fairtrade pioneers sustainable coffee

Effective campaign strategies in recent years have exposed problems in commodity supply chains in developing countries, highlighting issues from workers' rights, child labour and climate change to the impact of production on local communities and the environment. As a result, consumers in Europe and the US are increasingly aware of the impact of coffee production on producers and the environment and have a growing expectation that companies

demonstrate their products have been ethically and responsibly produced. In a recent survey<sup>41</sup> 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.

Fairtrade was the first labelling scheme in the coffee sector, launched in 1988, with the objective of empowering producers to trade their way out of poverty. Fairtrade is unique in providing a minimum price that covers costs of sustainable production and acts as a safety net when prices fall below a sustainable level. Rainforest Alliance and IFOAM

41 GlobeScan June 2011

followed in 1995 to address core environmental issues in the sector. More recent initiatives, such as UTZ Certified and the 4C Association, broadly aim to ensure minimum standards across mainstream coffee supply chains. A number of coffee companies have also established their own certification systems for sustainable coffee, including Starbuck's CAFE Practices and the Nespresso AAA Sustainable Quality Program.

As a certification system developed to tackle poverty through trade, Fairtrade is unique in offering farmers a transparent and guaranteed system that includes payment of a minimum price and additional premium for the sale of their product. The Fairtrade Minimum Price is calculated to cover the average cost of sustainable production to protect farmers from volatile market prices. As discussed earlier, Fairtrade social and environmental standards address key pillars of sustainability, so combined with the economic support from the minimum price and premium, Fairtrade works with coffee growers in a truly unique way.

An internationally accredited (ISO 65) independent inspection body upholds Fairtrade standards and underpins the integrity of the certification system – as endorsed by a recent survey<sup>42</sup> which found that nine out of ten consumers trust Fairtrade, significantly higher than for any other ethical label. So purchasing Fairtrade goods gives consumers a powerful and credible way of addressing these concerns and reducing poverty through their everyday shopping.

Fairtrade is also unique as a certification scheme in being supported by a widespread, grassroots campaign, with over 500 local community campaigns in the UK alone as well as thousands of schools, universities and faith groups all campaigning locally in support of Fairtrade and the principles it embodies.

#### **The commercial role Fairtrade plays for businesses**

With over 700 companies licensed to sell and trade in Fairtrade commodities in the UK, double figure sales growth year-on-year, and sales of £1.32b in 2011, there are clear commercial benefits for organisations to carry the FAIRTRADE Mark. They include:

- **Supply chain support** – assistance with the security of supply for the future
- **Producer partnerships** – brings buyers closer to their supply chain
- **Trading practices** – assists with changing buying practices to ensure growers are treated fairly and

organisations place priority on that within their buying processes

- **Marketing** – inclusion in a wider movement recognised and trusted by 77% of UK consumers
- **Brand** – a tool for improving brand perception through trust in the FAIRTRADE Mark and integrity of the Fairtrade system
- **Consumer communication** – offers consumer-facing ethical assurance, which is of increasing importance to the UK population
- **Sales Support** – Fairtrade can play a role in organisations' sales strategy.

We work in partnership with companies to help them integrate Fairtrade sourcing progressively into their overall ethical sourcing plans and organisational culture. Ben & Jerry's and Green & Black's are examples of where we have worked together in order that 100 per cent of their products are Fairtrade certified. Many retailers now offer 100 per cent Fairtrade products in their hot beverage categories such as tea and coffee. In the Out of Home sector, catering company Compass offers 100 per cent Fairtrade bananas and sugar while Peros specialises in supplying Fairtrade products to the foodservice industry.

*'Since 1997, Fairtrade has provided Matthew Algie with a framework for creating long-term sustainable partnerships that adds real value to the farmers we work with, our customers and to our business, while continuing to resonate positively with coffee drinkers.'*  
Ewan Reid, Technical Director, Matthew Algie, the UK's leading independent coffee roaster

Consumer demand – for more products to be available in more places – ensures that the distribution continues to spread and grow. An example is the recent strategic decision by LOCOG, the London Olympics organiser, to create a Food Vision which stipulates that all bananas, sugar, coffee and tea at Olympic venues in 2012 must be Fairtrade.

42 TNS March 2011

## 5.2 Fairtrade coffee sales continue to grow

### Global Fairtrade coffee sales

The total global coffee market was worth \$40bn in 2008 and is forecast to grow to \$48.75bn in 2012.<sup>43</sup>

Global Fairtrade coffee sales have risen exponentially since entering the market in 1989 and are still rising substantially year on year. In 2010, combined sales of Fairtrade roast & ground and instant coffee amounted to 88,000 tonnes, up 19 per cent, year on year. The global Fairtrade coffee market is supplied by 329 certified Fairtrade coffee producer organisations from 28 countries in Asia, Africa and Latin America.

### UK Fairtrade coffee sales

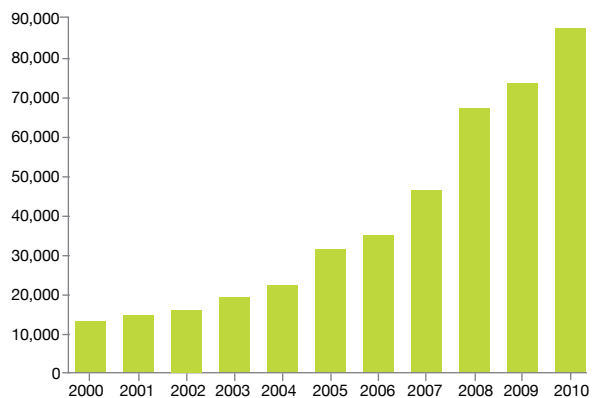
Around 70 million cups of coffee are consumed each day in the UK.<sup>44</sup> The total coffee market was worth £737.4m in 2009 and is forecast to grow to £880.2m by 2014.<sup>45</sup>

In 2011, UK consumers spent £194m on Fairtrade coffee – a twelve-fold growth since 2000, with sales totalling more than £1bn for the period.<sup>46</sup>

There have been many significant milestones since the UK launch of Fairtrade coffee in 1994. Fairtrade coffee became widely available to the catering trade following a campaign to target restaurants and institutions in 1997, with the House of Commons refreshment outlets notably switching to Fairtrade coffee. As supermarkets became increasingly involved in Fairtrade, Sainsbury's launched the first supermarket own-label Fairtrade roast & ground coffee in 2002, soon followed by the Co-op launching the first own-label Fairtrade instant coffee. In 2004, AMT Coffee was the first coffee chain to switch to 100 per cent Fairtrade and Marks & Spencer switched all the coffee in its in-store coffee shops to Fairtrade, followed by all their retail coffee lines in 2006. In 2008/09, the Co-op switched all own-label coffee to Fairtrade, Starbucks switched all espresso-based coffees in the UK and Ireland to Fairtrade and Sainsbury's converted its entire range of own-label roast and ground coffee to Fairtrade.

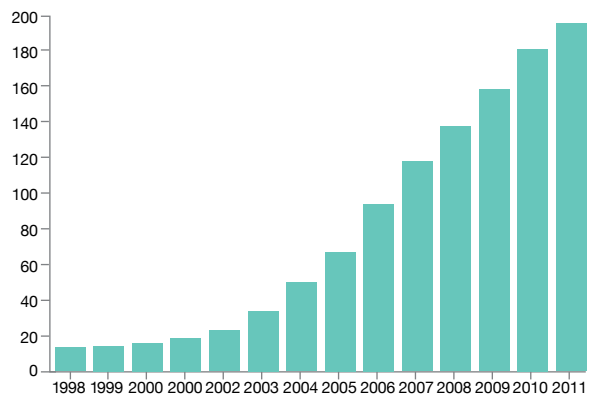
Fairtrade now accounts for 24.7 per cent of the UK roast and ground market by value and 3.4 per cent of instant.<sup>47</sup> More than 120 companies are licensed to

**Figure 14: How global sales of Fairtrade coffee have grown (tonnes)**



Source: FLO

**Figure 15: How UK retail sales of Fairtrade coffee have grown (£m)**



Source: Fairtrade Foundation

market Fairtrade coffee and more than 1,200 products are available from retail stores and in cafés, pubs and restaurants. Cafédirect, the pioneering 100 per cent Fairtrade coffee company, is the fourth largest roast and ground coffee brand in the UK and fellow Fair Trade Organisations Traidcraft and Equal Exchange market 50 coffees between them.

Much of the recent surge in sales is attributable to retailers such as The Co-operative, Sainsbury's and Marks & Spencer switching their entire range of own-brand coffees to Fairtrade, Tesco adding more Fairtrade lines and ASDA launching a new Fairtrade coffee range.

<sup>43</sup> Global coffee trends, focus on instant, Foodalert, Bord Bia, 25 June 2010, [www.bordbia.ie](http://www.bordbia.ie)

<sup>44</sup> British Coffee Association, Media/Fact Sheets at [www.britishcoffeeassociation.org](http://www.britishcoffeeassociation.org)

<sup>45</sup> *Hot Drinks in the UK to 2014*, Datamonitor December 2010

<sup>46</sup> Fairtrade Foundation, 'Facts and figures on Fairtrade', [www.fairtrade.org.uk](http://www.fairtrade.org.uk)

<sup>47</sup> Kantar, 52 weeks ending December 25 2011



## 6. CONCLUSION

Growing coffee has traditionally provided a precarious existence for the 25 million smallholders who grow 80 per cent of the world's coffee. A lack of government or private investment in their often isolated rural communities means many growers live in rudimentary conditions lacking basic amenities such as decent housing, clean water and electricity, with insufficient provision of healthcare and education, and poor roads and transport links. Income is closely linked to coffee production which is frequently disrupted by unfavourable weather. Financial events thousands of miles away and unconnected to coffee production affect the price they get for their crop. And now climate change is making livelihoods even more unpredictable.

Being organised in co-operatives strengthens the position of farmers in commercial activities. Selling on Fairtrade terms provides a more stable income, while the Fairtrade Premium can be invested in

building farm businesses, diversifying income to reduce dependence on coffee and in community improvements. Fairtrade offers security in good times and bad, and in addition to the price paid for their coffee, helps them to improve their crop, strengthen their businesses and build a stronger future for their communities.

With climate change threatening shortfalls in production and higher prices, it is more important than ever that manufacturers, retailers and consumers support coffee growers in ensuring a sustainable supply of a commodity enjoyed by millions of people around the world.

## WHAT YOU CAN DO

- Switch to Fairtrade coffee or keep enjoying Fairtrade coffee if you already do.
- Check out the huge selection of Fairtrade roast and ground, whole beans, espresso, decaf, instant, and freeze-dried coffees at [www.fairtrade.org.uk/products](http://www.fairtrade.org.uk/products).
- Support brands from dedicated Fair Trade companies like Cafédirect, Clipper, Equal Exchange and Traidcraft.
- Ask your supermarket to stock more coffee products carrying the FAIRTRADE Mark and to switch their own label coffee to Fairtrade if it hasn't already.
- Write and ask your favourite coffee company to switch to Fairtrade.
- Ask your workplace, local authority, schools, shops and cafes to switch to Fairtrade coffee
- Ask your friends and family to do the same.
- Support the World Development Movement's campaign to end the opportunistic speculation in commodity markets that causes dramatic rises and falls in the prices of staple foods – see [www.wdm.org.uk](http://www.wdm.org.uk)
- 'Like' us on Facebook <http://www.facebook.com/FairtradeFoundation> and follow us on twitter @FairtradeUK!

[www.fairtrade.org.uk](http://www.fairtrade.org.uk)

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