



The State of Sustainable Coffee:

A study of twelve major markets

Daniele Giovannucci
with Freek Jan Koekoek

Copyright 2003

Daniele Giovannucci / 1006 South 9th Street Philadelphia, PA 19147 USA

All rights reserved. Dissemination of this work is encouraged and permission to reproduce select portions will normally be granted promptly. Please contact Daniele Giovannucci / 1006 South 9th Street Philadelphia, PA 19147 USA. E-mail: DPG@Consultant.com

The findings, interpretations, and conclusions expressed in this book are entirely those of the authors and should not be attributed to the publishing organizations or their affiliates. The mention of companies, products, and Web sites is for informational purposes only and does not imply any judgment or endorsement whatsoever.

Library of Congress Cataloging - in - Publication Data application submitted.

This book is printed on sustainably recycled paper in Colombia.



EDITORIAL COODINATOR

Héctor Fabio Ospina O. - CENICAFÉ- Colombia

DESIGN AND LAYOUT

Olga Lucía Henao Lema - CENICAFÉ- Colombia

DESIGN CONSULTANT

Audra Wilson-Max

PHOTOGRAPHY

Author: pages 43, 101, 122.

Coffee & Cocoa International: page 181.

Andy Fawkes (courtesy C&CI): page 27.

N. Giovannucci: back cover photo of author

Gonzalo Hoyos S.- CENICAFÉ- Colombia: cover

International Coffee Organization: pages 6, 28, 37, 54, 60, 73, 74, 86, 94, 109, 141, 154, 163, 172.

Ramacafe: page 132

Anne Marie Ruff (courtesy C&CI): page 49.

PRINTING

FERIVA S.A.

Cali - Colombia

July 2003



ISBN 958-97218-6-9

(The State of Sustainable Coffee: A study of twelve major markets)

2003



Contents

A. Foreword	7
B. About the Authors and Editors	8
C. Acknowledgments	10
D. Acronyms and Measures	12
Acronyms	12
Measures	13
E. Executive Summary	14
F. Methodology	24
Part I. Concepts and Overview	27
1. Introduction	29
2. Fair Trade Coffee	38
3. Organic Coffee	44
4. Eco-friendly or Shade-grown Coffee	50
5. Other Sustainable Coffee Concepts	55
Company programs	56
Social consciousness	59
6. European Markets Overview	61
The coffee market in the Nordic region	61
The coffee market in Northern Europe	62
The coffee market in the Southern Europe	63
Volumes	63
Trends	66
Key factors for further growth	69

Part II. Individual Country Summaries

	73	Significant supplying countries for sustainable coffees	105
		The French market structure	106
		Trends in the French market	106
		Constraints in the French market	107
		Key factors for growth	107
7. Sustainable Coffee in Belgium	75	11. Sustainable Coffee in Germany	110
The overall market context	75	The overall market context	110
The Belgian market for organics and fair trade	76	The German market for organics, eco-friendly and fair trade	112
Certification	78	Certification	113
Premiums	79	Premiums	114
Retail prices	79	Retail prices	115
Significant supplying countries for sustainable coffees	81	Significant supplying countries for sustainable coffees	116
The Belgian market structure	81	The German market structure	116
Trends in the Belgian market	82	Trends in the German market	118
Constraints in the Belgian market	84	Constraints in the German market	120
Key factors for further growth	84	Key factors for growth	120
8. Sustainable Coffee in Denmark	87	12. Sustainable Coffee in Italy	123
The overall market context	87	The overall market context	123
The Danish market for organics and fair trade	88	The Italian market for organics and fair trade	123
Certification	89	Certification	125
Premiums	89	Premiums	126
Significant supplying countries for sustainable coffees	90	Retail prices	127
The Danish market structure	90	Significant supplying countries for sustainable coffees	127
Trends in the Danish market	91	The Italian market structure	128
Constraints in the Danish market	92	Trends in the Italian market	129
Key factors for growth	92	Constraints in the Italian market	130
9. Sustainable Coffee in Finland	95	Key factors for growth	131
The overall market context	95	13. Sustainable Coffee in Japan	133
The Finnish market for organics and fair trade	96	The overall market context	133
Certification	97	The Japanese market for the eco-friendly, organics and fair trade	134
Premiums	97	Certification	136
Significant supplying countries for sustainable coffees	97	Premiums	136
The Finnish market structure	97	Retail prices	136
Trends in the Finnish market	98	Significant supplying countries for sustainable coffees	137
Key factors for growth	99	The Japanese market structure	137
10. Sustainable Coffee in France	102	Trends in the Japanese market	138
The overall market context	102	Constraints in the Japanese market	139
The French market for organics and fair trade	103	Key factors for further growth	140
Certification	104		
Premiums and retail prices	105		

14. Sustainable Coffee in the Netherlands	142	sustainable coffees	168
The overall market context	142	The Swedish market structure	169
The Dutch market for organics and fair trade	143	Trends in the Swedish market	170
Certification	145	Constraints in the Swedish market	171
Premiums	146	Key factors for growth	173
Retail prices	146	17. Sustainable Coffee in Switzerland	173
Significant supplying countries for sustainable coffees	148	The overall market context	174
The Dutch market structure	149	The Swiss market for organics and fair trade	175
Trends in the Dutch market	151	Certification	176
Constraints in the Dutch market	152	Premiums	177
Key factors for further growth	153	Retail prices	177
	155	Significant supplying countries for sustainable coffees	178
15. Sustainable Coffee in Norway	155	The Swiss market structure	178
The overall market context	156	Trends in the Swiss market	179
The Norwegian market for organics and fair trade	157	Constraints in the Swiss market	180
Certification	158	Key factors for growth	
Premiums	158	18. Sustainable Coffee in the United Kingdom	182
Retail prices	158	The overall market context	182
Significant supplying countries for sustainable coffees	159	The UK market for organics and fair trade	183
The Norwegian market structure	160	Certification	186
Trends in the Norwegian market	161	Premiums	187
Constraints in the Norwegian market	161	Retail prices	189
Key factors for further growth	164	Significant supplying countries for sustainable coffees	191
	164	The UK market structure	191
16. Sustainable Coffee in Sweden	164	Trends in the UK market	192
The overall market context	165	Constraints in the UK market	193
The Swedish market for organics and fair trade	165	Key factors for growth	195
Certification	167	19. References	196
Premiums	167		
Significant supplying countries for	168		



Sun rays on sacks of ripe coffee cherries

A. Foreword

The coffee world has changed dramatically in the last decade and a half. There is no doubt that at the beginning of the 21st century much of the world coffee economy is suffering under structural conditions that are unsustainable. The striking emergence of dynamic markets for certified organic, fair trade, and eco-friendly coffees firmly place the coffee industry at the forefront in developing innovative responses that are relevant to the difficulties of rural development and trade in developing countries.

Fair trade, organic, and eco-friendly products are, as the authors point out, neither a panacea nor the full answer - and much more needs to be done. They are, however, one of the few bright spots in an otherwise difficult coffee economy and provide considerable direct benefits to nearly a million coffee producing families. Through strict environmental and social standards, improved governance structures, better communication channels and price premiums, these initiatives help in the process of correcting for imperfections in the coffee market.

This report reveals the potential for growth in the burgeoning market for sustainable coffees in Europe and Japan. It also reveals some of the challenges facing such coffees as they make mainstream appearances. With the popularity of such initiatives increasing, so too does the potential for overlap and confusion between the different systems. The findings of this report allude to the importance of addressing such issues and developing a sector-wide approach to sustainability.

A common front to sustainability will be important not just for ensuring that the concept of sustainability is used to serve common ideals but also for setting the stage for widespread buy-in among consumers, industry and public policy makers alike. This snapshot of the industry, following on Daniele Giovannucci's groundbreaking study of North American markets, provides a critical foundation for determining what steps are likely to be most effective in ensuring the continued growth and effectiveness of such initiatives in providing a consistent stimulus toward the sustainable development of the sector.

Néstor Osorio
International Coffee Organization

Jason Potts
International Institute for
Sustainable Development

B. About the Authors and Editors

Daniele Giovannucci, a former business executive, now consults, particularly in less developed countries, on how to reduce poverty and improve competitiveness through innovative and market-oriented strategies by utilizing his international business development and marketing experience. He serves as adviser to several international agencies and governments and as senior consultant to The World Bank Group. For comments or questions regarding this study he can be reached at dpg@consultant.com

Freek Jan Koekoek is an independent consultant specializing in food marketing and issues of sustainability. Formerly employed by the Dutch Fair Trade Assistance, he was responsible for the business development programs with coffee producers and purchasing strategies.

Several co-authors have made invaluable contributions to this work and were responsible for much of the primary research. They include:

Lukas Kilcher is Head of the International Cooperation Division at the Research Institute of Organic Agriculture (FiBL) in Switzerland. He works as a consultant on organic coffee projects in Latin America and is author of “Organic Coffee, Cocoa and Tea” (FiBL, Naturland, SIPPO 2002).

Alf Kramer is past president of the Specialty Coffee Association of Europe and the current principal of Remarc, a coffee consulting firm in Norway.

Yushi Sakuragi is Business Development Manager for the Green Marketing Institute, INTAGE Inc. in Tokyo and works extensively on ecopremiums, eco-labeling, and green purchasing.

Hidetaka Hayashi is President of the Hayashi Coffee Institute in Tokyo that provides information and consulting services to

both Japanese and international coffee companies.

Andy Carlton is the Producer Partnership Manager for coffee in East Africa with Twin Trading Ltd. in UK and works with producers and markets promoting development through trade.

Paul van den Berge is agricultural engineer with the Swiss Research Institute of Organic Agriculture whose specialties include the development of organic agricultural projects.

Simon Pare is Certification Manager (and ex Coffee Product Manager) at Max Havelaar France and a member of the board of Fairtrade Labelling Organizations (FLO) International.

Udo Censkowsky is an independent consultant specializing in organic agriculture and marketing

Anne-Laure Baillet works for CICDA, a French NGO specialised in technical and organizational support to small coffee farmers.

C. Acknowledgments

The authors take full responsibility for the content and any errors that may have occurred. The information and opinions herein are those of the authors and do not necessarily represent the official views of the publishers or the institutions that the authors represent.

The editor and the authors are indebted to a number of colleagues whose valuable contributions and open sharing of information has greatly enhanced this research.

These include the Fair Trade Labeling Organizations International (FLO) and the national Max Havelaar and Transfair organisations, IFOAM, and (in alphabetical order) Peter Brul (Agro Eco Consultancy), Norbert Douqué (Van Weely BV), Pablo DuBois (ICO), Ted Lingle and the SCAA, Flori Marin, Michael Opitz (EDE Consulting), Jason Potts (IISD), Neil Rosser (NKG Statistical Unit), Morten Scholer (The International Trade Center), Garth Smith (Optco), Pauline Tiffen (World Bank), Anneke Theunissen (FLO), Roel Vaessen (European Coffee Federation), Mick Wheeler, Mary Williams (Starbucks), Chris Wille (Rainforest Alliance).

A number of institutions and individuals have graciously supported this research. At the World Bank: Mark Cackler, Martian Raine, and Panos Varangis were instrumental in helping to finance a part of this effort along with Adolfo Brizzi who stimulated some of these coffee discussions and the subsequent research within the World Bank. Ina-Marlene Ruthenberg and Paola Agostini deserve credit for pioneering the interest in sustainable coffees at The World Bank and the GEF.

Nestor Osorio and Pablo Dubois of the ICO have steadfastly supported efforts toward more sustainability in coffee. Jason Potts at The International Institute for Sustainable Development has helped to both inform and support this work as has The Commission

for Environmental Cooperation's Chantal Line Carpentier. Thanks to the Trade, Environment and Development Program of the United Nations Conference on Trade and Development (UNCTAD) and the Trade, Employment and Competitiveness Program of the International Development Research Centre (IDRC) for financially supporting publication of the research. The Inter-American Development Bank's Bob Kaplan and USAID's Carol Wilson and Loren Stoddard helped to encourage an in-depth look at what coffee growers need from these markets. Special thanks to Arturo Arreola and Luis Villanueva of IDESMAC and to Bancomext for their generous contribution. A special thanks also to Verino, Antonietta and the "Fante's family": Eugenia Dantz, Mariella Esposito, Nick Giovannucci for their support.

A number of colleagues have made very important contributions with comments, research,

and proofing, etc.. These include (alphabetically) Jos Algra, John Aurtande, Jorge Botero, Sayuri Carbonnier, Dub Hay, Bryan Lewin, Erik Lykkeberg, Rob Mason, Kate Raworth, Anneke Theunissen, and Audra Wilson-Max.

Last, but certainly not least, the authors would like to thank the many hundreds of coffee companies that have taken the time to answer our numerous questions.

It is heartening that so many businesses, small and large, shared sensitive information in order to achieve a deeper understanding of these markets - markets that provide a beacon of hope for many coffee farmers who struggle daily with survival and sustainability. It is to those farmers in more than 50 countries and to the committed coffee industry professionals that support their efforts toward sustainability that we dedicate this study.

D.

Acronyms and Measures

Acronyms

ATO	Alternative Trade Organizations
CIMS	Sustainable Markets Intelligence Center (Acronym is Spanish)
ECF	European Coffee Federation
FAO	Food and Agriculture Organization of the United Nations
FLO	Fair-trade Labeling Organization International
GBE	Green Bean Equivalent
GIO	Geographic Indications of Origin
ICO	International Coffee Organization
ITC	International Trade Center (a UN body)
IFOAM	International Federation of Organic Agriculture Movements
ISEAL	International Social & Environmental Accreditation and Labelling Alliance
SAI	Sustainable Agriculture Initiative
SCAA	Specialty Coffee Association of America
SCAE	Specialty Coffee Association of Europe
SMBC	Smithsonian Migratory Bird Center
MAFF	Ministry of Agriculture, Forestry and Fisheries of Japan
VNKT	Dutch Association of Coffee Roasters and Tea Packers
UKROFS	UK Certification Authority for Organically Produced Foods
USAID	United States Agency for International Development



Measures

1 Euro (EUR) = 1 United States Dollar (USD)

1 metric ton (ton) = 2,205 pounds = 16.7 bags

1 bag of coffee = 60 kg = 132.3 lbs

1 kg of roasted coffee = 1.19 kg green coffee

1 kg of instant coffee = 2.6 kg green coffee

For ease of comparison we have used kg and metric tons wherever possible and we have also translated quantities to Green Bean Equivalent (gbe).

Since most price quotes for these coffees are internationally discussed as U.S. dollars per pound, we have kept the same convention except where retail market discussions are more appropriately quoted as Euro per kg.

Executive Summary

Introduction

Organic, eco-friendly, and fair trade coffees collectively referred to in this report as sustainable coffees fill a market niche that is not only rewarded with a premium price but can also provide other superior benefits that help producers improve their sustainability. These benefits are very much sought-after in producing countries because they can offer coffee producers distinct environmental and social advantages as well as a considerable direct economic impact measurable in millions of dollars.

Of course, these types of coffees do not necessarily guarantee sustainability nor are they the only path to coffee growing sustainability. While other types of coffee may also contribute positively to sustainable development, these three general types possess intrinsic qualities that most closely fulfill the balanced social, environmental, and economic requirements necessary for sustainability. They are also among the few that permit reasonable verification of their claims. For these reasons the use of the term “sustainable coffee” is a useful shorthand description and is not intended to imply that other non-certified coffees are necessarily unsustainable.

As the coffee industry experiences some of the lowest green bean prices of the past hundred years (in real terms), sustainable and other differentiated coffees are among the few receiving a more substantial remuneration and showing significant growth. Since very little is known about the market characteristics and trends for these coffees, this report concisely conveys the result of extensive research that was conducted over the course of 11 months from early 2002 through January of 2003.

This study specifically assessed the characteristics, quantities, and tendencies of trade for each of the sustainable coffees in the most important consumer markets in Europe and in Japan. The research

primarily covers: Belgium, Denmark, Finland, France, Germany, Italy, Japan, The Netherlands, Norway, Sweden, Switzerland, and the UK. It complements an earlier study of the U.S. and Canadian markets. The research team conducted interviews and discussions with buyers, traders, agents, trade associations, certifiers, and government entities, focusing particularly on those responsible for the trade in sustainable coffees, and also reviewed existing studies and reports on these markets as well as national and international databases.

What are sustainable coffees?

Sustainability is a dynamic continuum and can best be perceived as an ongoing process rather than a static achievement. Sustainability has been defined in several ways and this report uses the term in the generally accepted form of the international development community, stating that in order to achieve sustainability long-term

environmental, social, and economic needs must be met in an integrated manner without compromising the ability of future generations to meet their own needs.¹ Another useful definition states that “a sustainable producer shall meet long term environmental and social goals while being able to compete effectively with other market participants and achieve prices that cover his production costs and allow him to earn an acceptable business margin²”. Unfortunately, the coffee commodity market is driven exclusively by economic factors and, like all commodity markets, does not recognize, much less internalize into its prices, the very real environmental and social costs of production. The entire coffee industry benefits from some excellent initiatives currently working to both define and operationalize sustainable coffee standards. While it is at the forefront of other commodities in this regard, the mainstream industry still has a long way to go. Organic, eco-friendly, and fair trade are arguably the best attempts toward sustainable production practices

Figure E.1 A Characterization of Coffees



¹ Concurring with the Brundtland Report (1987) as confirmed at the Rio Summit (1992) and the Johannesburg World Summit on Sustainable Development (2002)

² Adapted from personal communication with Michael Opitz April 25, 2003.

that meet a number of the vital environmental, social, and economic needs of nearly a million coffee producers. They will not, however, necessarily resolve all of the current problems of nearly 25 million other producers and of the global coffee industry, many of which are rooted in large-scale structural and market deficiencies (Lewin & Giovannucci 2003).

Sustainability is an issue far broader than the types of coffee that are identified as ‘sustainable’ per se and that are measured in this report. There are in fact, a number of new initiatives that are distinct from the well-known organic, fair trade, and eco-friendly coffees that can also contribute to long-term sustainability in the coffee sector. Many of these can be characterized as corporate-driven endeavors that define sustainability somewhere between conventional practices and an improved level of sustainability companies feel they can reasonably achieve and pay for. The better of these initiatives incorporate independent third party verification and are very useful to producers while some others are little more than public relations gambits.

The marketing of coffees as sustainable is a relatively new idea for the coffee industry. For less than two decades they have been typically available in very small quantities from a handful of countries. In the past, these coffees were inconsistent in both their quality and their availability. Sales growth occurred almost exclusively within a relatively small core market of specialty retailers, social organizations, and cause-conscious consumers. In the last few years this has begun to change dramatically and these coffees are now at a crossroads with many opportunities in new, high-volume distribution channels.

The business for these coffees has recently grown quite robust at all levels of the supply chain. Sustainable coffees now involve 32 producer countries, many hundreds of producer organizations, dozens of specialized traders, more than 20 consuming countries, hundreds of

roasters, hundreds of brand-owners, and thousands of retailers. In some countries between 10 and 20 percent of households are regular buyers of these coffees.

Higher quality is the recipe for sustainability according to some who argue that a sustainable coffee culture can best be achieved through farmers that grow and sell high-quality products. Adequate quality is certainly an important component of a farmer’s ability to be competitive and minimum quality standards are a baseline necessity. However, many quality-oriented arguments tend to miss one or more critical points. In the absence of quality regulations, the market does not always reward superior quality and often bulks together the production of many growers into common lots where individual differentiation is lost. Commodity markets may require a minimum quality but similarly do not reward superior quality. Even when superior quality coffees are rewarded, this economic benefit is not necessarily translated into improved social or environmental benefits that are the other two pillars of sustainability. So while a quality output is important, it is equally important to consider the process of production and trading relationships in order to improve sustainability.

The importance of sustainable coffee

Fair trade, organic, and eco-friendly coffees occupy a market niche that is still small in volume - on average less than 2% of consumption in the more developed markets - but offers attractive benefits not only for about ¾ million farm households, but also for the entire industry in terms of increased sales from these coffees and greater profits all along the supply chain. Total global sales for 2002 - calculating conservative estimates of both certified and non-certified coffees that paid producers a premium and were sold with claims of sustainable production practices (i.e. ethical, eco-friendly, Utz Kapeh) -

were in excess of 1.1 million bags of coffee. With average sales growth many times greater than conventional coffees, these are among the fastest-growing market segments because they appear to be attuned with emerging consumer demands, increasing corporate responsibility, and heightened risk management along agricultural supply chains.

For coffee growers in many countries, coffee provides their sole source of cash income and so even modest premiums earned from differentiating their production can make an appreciable difference. At today's (early 2003) prices a producer that can sell double certified (organic and fair trade) coffee would double his income above the benchmark market price. Although many farmers producing certified coffees may earn somewhat less than double, they desperately need these price premiums and the opportunity to establish more direct personal contacts with importers and roasters. There are nevertheless, other features that can also be of great value to coffee producers. For many, their participation in these markets has provided important social and environmental benefits that contribute to local sustainability and stability.

Besides a direct economic benefit to many coffee growers, sustainable coffees provide additional intended benefits or positive externalities at the producer level in the field that go beyond a market advantage. These can include:

1. Improved natural resource management and biodiversity conservation
2. Crop resilience to weather and climactic risk
3. On-farm diversification and fewer external input costs reduce financial exposure
4. Community or organizational development and increased use of rural labor
5. Fewer health risks due to misuse of agrochemicals

Certain standards in particular offer further benefits like traceability and process management that can help prepare smaller producers to better compete in modern agricultural trade.

European and Japanese markets overview

Size & market share

The share of sustainable coffees in each of the 11 most important European coffee markets (2001 data by volume) ranges from a low of 0.3 percent to 3.4 percent. The overall average between the countries was approximately 1.6 percent while the weighted average was 1.1 percent. Preliminary 2002 data indicates that market share for sustainable coffees has grown further in most countries. Their 2002 market share in Japan is approximately 1.2 percent. Sustainable coffees have the highest market share in Switzerland and Denmark and are also strong in Sweden. In certain market segments they have a much larger share. For example, looking at just the roast and ground segment and not the instant coffee segment in the UK, would show that sustainable coffees have about a 10 percent share. Of course, roast and ground only represents a minor percentage of the total UK market.

Estimating total value rather than volume brings the market shares of sustainable coffees higher still, since sustainable coffees are on average more expensive than conventional coffees. The estimated value share of sustainable coffees in these European markets ranges from approximately 0.4 percent to approximately 5 percent. Individual segments could be considerably higher.

The 11 major European consumers combined to use more than 15.4 million kilograms of certified fair trade and approximately 11.2 million kilograms of certified organic coffees in 2001. Of these, 5.3 million kilograms were double

certified as both fair trade and organic indicating a net total of more than 21 million kilograms sold in 2001 (355,000 bags of green coffee). Japan added a total of only about 1.6 million kilograms in 2001 - an unusually low year. For 2002 the joint certified total in these 12 markets is estimated to have been about 27.7 million kilograms or 460,000 bags.

The European sustainable coffee markets are dominated by fair trade and organic, the former of which is the larger. Eco-friendly and shade-grown or bird-friendly certifications have just begun to reach Europe. In Japan, like North America, organic coffees are the dominant type and there is a considerably stronger interest in eco-friendly coffees that are demonstrating rapid growth.

Germany is Europe's largest market for sustainable coffees followed by the Netherlands³ and the UK. Some nations like Finland and Norway have shown less interest to date and their markets, like those of Spain, Portugal, Austria, and Greece are relatively quite small. Japan is one of the world's biggest coffee consumers and although its sustainable markets are still small they also include eco-friendly varieties along with the more typical organic and fair trade.

Distribution channels and formats

Distribution channels in all of the markets for sustainable coffees have expanded enormously in recent years. This is all being facilitated by an increasing number of traders, including some of the largest global players, who are getting increasingly involved in these coffees. The expansion has been particularly evident at the retail level where supermarkets and high-volume multiple store chains have joined the specialty retailers in this business. The mainstream retail channels that are beginning to provide these

coffees with much broader exposure to a greater range of consumers are far from being fully developed. Most of the mainstream retailers are recent entrants to this field and many only carry a nominal stock or selection of these coffees. With a few notable exceptions, promotional efforts for these coffees have been modest with very few firms willing to make strong commitments to promotional investments.

Many of the specialty retailers including coffee shops, fair trade stores, health food stores, and independent grocers have consequently seen their market share of sustainable coffee eroded as supermarkets expand their participation. There is a dramatic difference from country to country in the institutional or out of home channels for sustainable coffees and, judging by the success of countries like Austria and the Netherlands, many may have a considerable untapped potential in this area. These include restaurants, cafes, offices, government, healthcare organizations, and even vending machines.

Sustainable coffees are sold in a variety of different formats ranging from gourmet and single origin, to espresso, to mainstream or mass-market blends, and even soluble or instant coffees. Consequently, the market requires an increasing range of different coffee types and qualities and not just high-quality, high-grown, mild arabicas.

Certification issues

Although organic, eco-friendly, and fair trade coffees are distinct, it appears that the market often does not perceive them as such. There is growing evidence that consumers closely associate these coffees that have each accumulated a measure of both credibility and goodwill and do not always make clear distinctions between their unique characteristics.

³ The Netherlands' considerable import volumes are in part due to their position as a popular port of entry and they re-export a considerable portion of these coffees.

A number of retailers speculate that consumers would prefer to not have to choose between organic and fair trade and an increasing number of major retailers want to have coffees with both certifications. Indeed, approximately 44 percent of fair trade coffee production is now also certified as organic. This is dramatically up from 1 percent in 1996. Some retailers, and even some roasters, are already exploring such combined characteristics under their own private labels.

Not all of the production that is certified sustainable is necessarily sold by producers at a premium and, of the coffee that is shipped as certified organic, eco-friendly, and or fair trade, not all makes it into the consumer market as such. A portion, for various reasons, is sold as conventional coffee.

Producer countries

Firms indicate that an increasing number of countries now supply these coffees. The great majority come from Latin America where two countries stand out as the dominant providers: Mexico and Peru. All of the Central American producers are increasing their participation as are the Latin American giants, Colombia and especially Brazil. A late starter in this field, Brazil quietly began exporting organics in the 1990s and by 2004 will likely be one of the top producers rivaling Mexico's leadership in this category. Uganda, Ethiopia, and Tanzania lead the way in Africa while India, Indonesia, Papua New Guinea, and East Timor are the major Asian suppliers of sustainable coffees.

Trends in European and Japanese markets

Organic foods are achieving unprecedented global popularity and with half of sales occurring

in Europe, organic coffees there are also likely to benefit.

Eco-friendly coffees are closely associated with organic principles and are likely to also benefit from increased consumer consciousness of health and environmental issues. Organics appear to gain from a fundamental perception that they are healthier for the consumer.

Fair trade also benefits from the increasing awareness among consumers and buyers of how their purchasing power, when directed toward ethical trade, can impact both labor standards in developing countries and corporate social responsibility. Overall fair trade product sales⁴ have enjoyed steady volume growth of nearly 20 percent per year on average from 1999 through 2002. Fair trade coffee has also grown overall but at a slower average overall pace and with considerable disparities between countries.

There is a concern that in some of the more mature markets fair trade coffee may have hit a glass ceiling, unable to grow beyond its affinity with a more socially conscious but relatively limited market. New access to more promotion and distribution in mainstream channels like supermarkets could rapidly change this but has not yet materialized.

Average sales growth for sustainable coffees in recent years has easily been 5 times greater than that of conventional coffees in most of these markets. There are dramatic differences in growth between the different European countries and particularly between organic and fair trade that are not visible in the overall average growth of about 10 percent per year over the last three years. Firms involved with sustainable coffee generally predict modest growth in the near term and much more positive growth for 2004-2005. Double certified coffees in particular are expected to show the highest rates of growth. By 2004 the major European sustainable coffee markets are

⁴ Primarily coffee, tea, bananas, cocoa, sugar, honey, and orange juice

conservatively expected to grow by about 55 to 65 percent from their 1999 level. Although projections for growth continue to be positive overall, they are not homogenous across European countries. In Japan the recent interest in eco-friendly coffees on the part of some of the major roasters and large retailers could rapidly increase the availability of such coffees.

Over the last three years Sweden and Italy experienced some of the greatest growth overall with sustainable coffees and were surpassed only by France's 175 percent increase during this period. Switzerland, after several years of very strong growth, is the only country where sales actually declined, albeit slightly, in more than one year of the last three.

In fair trade coffees Germany and the Netherlands represent the greatest volume consumption but are stagnant whereas France, Norway, and Sweden posted the greatest rate of growth over the last three years even though all three countries started from a relatively small base. The greatest growth for organic coffees occurred in Italy, Sweden, and the UK. Germany, Sweden and Denmark were the top three volume consumers of organic coffee in 2001. Eco-friendly coffees are beginning to make their appearance in Germany and the UK but have developed no track record in Europe.

Prices and premiums

Retailers until recently had very little competition for these products and could afford to keep prices relatively high especially since some believed that lower prices might simply serve to substitute these for their existing business in parallel conventional coffees. This is clearly changing as more retailers and more brands offer these coffees and competition heats up. A small but increasing number of European retailers that carry these products are bringing their retail prices much closer to the level of conventional coffees. However, in most stores and most markets the difference is still considerable.

Organic green bean premiums show a considerable scale of variance but the mean range is approximately US\$0.15 to US\$0.30 per lb. While most of the industry feels that these premiums are justified, nearly half predicts that, as supply competition heats up over the next few years, these are likely to erode. Eco-friendly coffees typically range from US\$ 0.10 to US\$ 0.60 per pound although it is difficult to disaggregate certification premiums from quality premiums. For fair trade, most participating buyers pay at least the official FLO minimum prices while very few pay slightly more and some pay much less by operating outside of the FLO certification and registration system. With current market prices for arabica coffees, the FLO price translates to a fair trade premium of approximately US\$0.66 per lb above the "C" market rate for similar coffees produced in the conventional manner. Most, but not all, fair trade coffees are arabica.

Since some of the more popular origins for sustainable coffees like Mexico and Peru typically sell their conventional coffees at a discounted differential to the "C" price, actual sustainable coffee premiums, since these are often based on the "C", are therefore even higher than similar quality conventional coffees. However, the markets for such coffees are still relatively small, premiums are negotiable, and such margins may not remain at their current level.

Perceptions

Overall the industry is cautious but optimistic about the future. It recognizes that these sustainable coffees are not only important for the health of the coffee industry but also that these are no longer inconsequential niches. Some speculate that over the course of the next decade such coffees will become a strong rather than a marginal segment in the industry. As such, they could eventually become more of a competitive standard rather than a competitive differentiator.

There are, of course, different definitions of sustainability and it is not yet clear which of the concepts will turn into mainstream standards and which will remain confined to niches. In either case, it appears clear that organic, eco-friendly, and fair trade coffees are here to stay.

While the cause-related aspects of fair trade or organic are important differentiators in the marketplace, another aspect is just as important for farmer sustainability: consistency. The industry claims that sound trade relationships are always developed as a result of consistency in both the quality of the coffee and the business practices of the farmer or cooperative. These two types of consistency are perhaps the most valuable supplier characteristics that emerged from trade interviews and discussions. The highest quality is not always necessary, unless it is for the gourmet market, since average coffees are often needed as fillers in blends to keep cost low.⁵ While some buyers might bear a lower quality coffee, they have a very low tolerance for the increased risks of having an inconsistent supplier. There is some anecdotal evidence that sustainable production practices improve consistency, risk management, and overall quality; however, further research would be necessary to confirm this.

A strong majority of the roasters and importers involved with the sustainable coffee industry feel that the premiums paid for sustainable coffees in general are reasonable and justified. Some respondents felt that fair trade prices are too high considering today's low market prices. A number of the firms who balked at fair trade prices claimed to do so because they were not convinced that a significant portion of the benefits actually reached the producers.

Confusion about certification dampens the market

Confusion about certification schemes is more prevalent in some of the countries surveyed than

in others but the industry overall has a limited understanding. There is general concurrence among the industry everywhere that certifications and labels are confusing to consumers. The survey respondents who found the certifications confusing considered that there are a large number of terms and labels like organic, ecological, biological, fair trade, ethical, sustainable, and responsible that overlap and cause uncertainty. So even if people are familiar with the existence of these labels, they often may not know what they stand for. One could expect that a consequence of this confusion is a reduced willingness to pay for these coffees.

Organic labeling guidelines and the new government seals in countries like Germany and Japan will undoubtedly help consumers to more readily identify and develop a trust in certified organic products. Despite the introduction of regulations, inefficiencies between different government bureaucracies and the lack of unified standards concerning organic certification among different certifiers still cause confusion and inefficiencies in the coffee trade making it a source of conflict that comes up repeatedly in the industry surveys. Fair trade guidelines are not mandated by any law and there is increasing evidence of coffees using "fair" or "ethical" verbiage to sell products that are not FLO certified or otherwise independently verified.

Alternative certifications positive but potentially risky

There are a number of alternatives to the formal systems of sustainable coffees that this research is primarily concerned with. In many European countries and in Japan, solidarity groups lend support to coffee growers through the marketing of their products within a network of socially conscious consumers such as civic and religious groups.

There is increasing interest in meeting at least some sustainability criteria on the part of major

⁵ caution in regard to the quality is warranted in view of evidence from the ICO indicating that the use of lower quality coffees may be associated with declining consumption trends

coffee companies and some of the world's largest retailers. Some coffee companies, often in collaboration with NGOs or foundations, have independently developed their own private guidelines for sustainability that many perceive as positive and welcome signs. Several large companies indicate that such guidelines will be increasingly applied to their purchases over the next few years. The subsequent volumes could quickly dwarf the trade in organic, fair trade, and eco-friendly coffees.

There is, however, a considerable risk of causing confusion when companies offer coffees labeled with their own independent guidelines in the open market. There is a likelihood, particularly at the corporate level, of free riding on the reputation and the moral position of the well-established sustainable coffees. For example, registered fair trade participants are likely to suffer when the coffees marketed by these companies represent themselves as "fair" or "ethical" but offer only very modest price improvements or other benefits to farmers and may not engage third party verification of their practices. When corporate driven guidelines i.e. EUREP, are imposed on growers as a criteria of doing business, they can present a considerable burden and must be accompanied by adequate training and remuneration.

Challenges

Many would agree that the coffee industry is faced with a number of challenges and that overproduction is at the top of the list. It appears that the cycles of imbalance in supply and demand are inherent in current market structures and there are no easy or short-term solutions to this problem (Lewin & Giovannucci 2003). The consequences, of course, bear hardest on the producers but the resulting instability is ultimately also damaging to the rest of the industry.

a) The development of market-oriented approaches to foster the different kinds of

sustainable coffees is a relevant and critical challenge for the future sustainability of both coffee producers and the industry. At the same time, it is important for producers and policymakers to know that sustainable coffees are neither a quick fix panacea nor the answer to all the world's coffee problems.

b) These coffees are truly at a crossroads. In most European countries, consistent availability and improved quality have recently enabled much broader distribution especially to demanding multiple store operations like supermarkets. As mainstream retailers take over more of the business, consumers necessarily lose the personal attention of specialized retailers that, in most cases, introduced them to sustainable coffees. It will, therefore, become increasingly important to substitute this with branding, promotion, and advertising strategies. Without strong promotion and branding efforts, it will be difficult for any sustainable coffees to fulfill the promise of high sales growth in their new distribution channels where they compete with heavily advertised, low-priced brands. This represents a paradigm shift away from the traditional methods of marketing these coffees and while several roasters and wholesalers are beginning to build sustainable coffee brands, very few large European or Japanese retailers have done the same.

c) The credibility of sustainable coffees is built on trust and trust is assured by independent certification. As more firms adopt their own "sustainable" sourcing criteria for these coffees, it will be critical that they clarify or improve existing standards and certification systems rather than dilute these by adopting many varying standards of their own. Accredited third-party verification is essential in order to ensure compliance with claims and to reduce the considerable risk of losing public confidence that all market participants face.



d) Many sustainable coffees do not have strong brand recognition and the different certifications or labels can be confusing especially to a potential new consumer. Even many roasters and some coffee buyers are unfamiliar with the characteristics or reliability of such coffees leading some to reject them. Further education about the scope and the diverse benefits of sustainable coffees could pay substantial dividends if it is directed toward both consumers and the mainstream coffee industry.

e) New sustainability initiatives emerging from corporations, or with strong corporate backing, are likely to become increasingly prominent. While many of these are sound proposals that can help farmers emerge from endless cycles of poverty, others are not much more than risk management efforts to

ensure that companies are not exposed to attack for cutthroat purchasing practices. The latter merely offer a conscience soothing draught of “Sustainability Lite” while actually imposing new burdens on producers in exchange for only minimal new benefits.

f) Finally, the primary drivers for most sustainable coffees are premiums, but these may well be ephemeral. Clearly, sustainability cannot be built on these alone. It is important that both farmers and policymakers understand the greater long-term value of sustainable practices and facilitate their adoption, not just as part of a competitive market strategy, but also as part of a sound rural strategy to reduce risks and improve livelihoods for both farmers and laborers.

F. Methodology

The purpose of this study is to assess the characteristics, quantities, and tendencies of trade for each sustainable coffee in some of the most important consumer markets from early 2002 through January 2003. The information available today on sustainable coffees is at best fragmented and insufficient and at worst misleading and incorrect. No agency, government body, or trade association thoroughly tracks these coffees⁶ and many estimates are based on thin research or the judgment of a few traders.⁷

The following terms serve as brief and very basic definitions for the survey:

- ▼ **Organic coffee** is certified to be produced with methods that preserve the soil and without the use of synthetic chemicals.
- ▼ **Fair Trade coffee** is purchased directly from cooperatives of small farmers that are guaranteed a minimum pre-set contract price. A distinction is made between FLO-certified and other fair trade coffees.
- ▼ **Eco-friendly or shade coffee** is certified to be grown in shaded forest settings in a manner that is good for biodiversity, bird habitat, etc. (certified by Rainforest Alliance or Smithsonian Migratory Bird Center).

⁶ FLO does an excellent job of tracking the fair trade volumes of its registered members but not of all coffee that is considered fair trade.

⁷ A number of published and unpublished estimates were also evaluated or considered from various sources: International Trade Center of the United Nations Conference on Trade and Development (UNCTAD) (2001 & 2002), the European Specialty Coffee Association's Mick Wheeler (2002), Agro-Eco Consultancy (2001), The Organic Trade Association (2001), the Swiss Institute for Organic Research (2001), Cornell University's Caitlin Brady (2001) and Jean-Marie Krier for EFTA (2001), ICO (2000), Latin Trade (2000), Sasha Courville (1999), Sturdivant (1999), the International Institute for Environment and Development (1997).



To ensure the most accurate estimations possible requires a “triangulation” between different sources in order to ascertain the most reasonable estimates. The researchers for this study used a combination of: interviews and discussions with buyers, traders, agents, trade associations, certifiers, and government entities, particularly those responsible for the trade in sustainable coffees; a review of existing studies and reports on these markets as well as national and international databases

Nearly all of the data and tables used in this report are the result of primary research except where noted otherwise. The research focused on those coffees that are externally certified by independent inspection and certification agencies acting either within a legislative framework (organic) or on a voluntary basis (fair trade).

Very few coffees were found that were either certified as eco-friendly or shade-grown, although several smaller brands were found to market their coffees eco-friendly or shade-grown. Since some countries have considerable amounts of what could be categorized as sustainable coffee that is not externally certified within the frameworks mentioned above, these were integrated wherever it seemed clear that they had a history of meeting at least the basic certification criteria.

In order to better understand the market categorization of these coffees, and consequently their target audiences, we looked at three retail categories for each product. This was not feasible in every market since some of the categories are practically nonexistent in some countries while in others it is difficult to categorize coffees due to differences of opinion: for example, a roaster’s categorization of their coffee sometimes differed from a retailer’s marketing of that coffee. The three categories are:

1. **Mainstream blends** - mass-market with a tendency to be price oriented

2. **Differentiated Roast & Ground (R&G)** - gourmet, single origin coffees, premium blends, and specialty espresso

3. **Instant or soluble:** freeze-dried, granules, and powder including specialty mixes

To better understand the industry buying patterns we divided the main sales channels for sustainable coffees into three areas as well:

1. **Mainstream retail** (supermarkets, hypermarkets, large volume multiples)

2. **Specialty retail** (organic shops, specialist coffee and tea shops, cafes, fair trade and mail-order sales)

3. **Out-of-home or institutional market** (coffee shops, restaurants, workplaces, vending machines).

Increasing European cross-border trade means that import volumes by themselves say very little about the size of a national market’s coffee consumption. The coffee trade, including the sustainable segment, is organized internationally, and coffees are often shifted easily from one country to the next. This is especially true in these segments given that some countries have bureaucratic restrictions on the importation of certified coffees from developing countries and multinational retailers move inventory under their own packaging and brands.

Given the significant crossover in the distribution channels within and between EU countries, the study made clear distinctions among these market channels in order not to double count (i.e. not counting together the volume of the importer and also the roaster that he sells to). In some countries sales were tracked to the final consumer by tracing brand ownership. Brand owners - roasters, wholesalers, or retailers - supply either the retail market or the institutional market. For example, a roaster that produces a private label coffee for

a retail chain would not be a brand owner and therefore that sales volume would not be added to the total market volume. Investigators used counts in different channels as well as the estimates of professional traders to help confirm the data. Because these markets originally developed primarily among smaller businesses it was important to investigate more than just the large importers to ensure that the different channels of trade are accurately represented.

In Japan, the complex and sometimes opaque trading systems make it difficult to track or confirm trade information. Studies in this market have therefore depended somewhat more on the professional opinions of numerous direct and indirect actors in the Japanese marketplace.

Fair Trade Labeling Organizations International (FLO) monitors the fair trade market and most of the fair trade consumption estimates are based on their official data and reports. The overall coffee market data for each country was gathered from various sources, both public and private, and in particular relied on the data collected by the European Coffee Federation in its June 2002 European Coffee Report.

Industry interviews were conducted with selective samples that represent a cross-section of the industry including traders, importers, roasters, and retailers. These include almost all of the major buyers of these types of coffees.

The interviews covered the businesses that represent, on average, more than 85% of the market volume in each country.

Data are presented in kg of green coffee or their equivalent usually using the following standard ICO conversions:

1 kg of roasted coffee = 1.19 kg green coffee
1 kg of instant coffee = 2.6 kg green coffee

Finally, the researchers, consultants and affiliates were contractually obliged to regard all information related to individual firms as strictly confidential.

Any sensitive information is used strictly in aggregate form so as not to compromise the confidence and confidentiality of the many firms interviewed. Most of the data were collected between January and December of 2002.

Part I

Concepts and Overview



Raking coffee to dry



Preparing samples of green coffee

1.

Introduction

Perhaps more than any other form of agriculture much, although not all, of the coffee industry is striving to better meet the basic tests of sustainability: protection of the environment, social fairness, and a reasonable economic return for all members of the supply chain. Coffee, in comparison to many other agricultural activities, is relatively benign. It is a broad-leaved evergreen tree or shrub that in some cases is proven to effectively fix atmospheric carbon, preserve a reasonably high level of biodiversity, stabilize soils, and has even been noted as an effective economic support for many rural communities. A growing number of coffee producers, coffee companies, and NGOs are pioneering efforts to encourage the coffee industry to move toward even more sustainable practices.

The most commonly accepted general definition of sustainability is that adapted from the Brundtland Report and confirmed at the Rio Summit (1992) and the Johannesburg World Summit on Sustainable Development (2002). Paraphrased it states that sustainability means meeting the needs of the present without compromising the ability of future generations to meet their environmental, social, and economic needs. These three needs are sometimes also called the Rio Triangle and represent, to varying extents, the goals of organic, fair trade, and eco-friendly coffees which, for the purposes of this survey, are collectively termed “**sustainable coffees**”. These types of coffees are further defined and explained in subsequent chapters.⁸

Of course, these types of coffees do not necessarily guarantee sustainability nor are they the only path to coffee growing sustainability. While other types of coffee may also contribute positively to sustainable development, these three general types possess intrinsic qualities that most closely fulfill the balanced social, environmental, and economic requirements for sustainability. They are also among the few that permit

⁸ Certified biodynamic coffees, although distinct from organic and meeting even more rigorous standards, are, because of their relatively small volume, included here in the organic segment

reasonable verification of their claims. For these reasons the use of the term “sustainable coffee” is a useful shorthand description and not intended to imply that other non-certified coffees are necessarily unsustainable.

Sustainability is an issue far broader than the types of coffee that are the primary focus of this report. It could be argued that coffee, or for that matter most commodities, are inherently unsustainable from the producers’ point of view. Increasing competition and the growing standardization and interchangeability of agricultural products put enormous pressure on prices. This severely diminishes the feasibility of long-term investment in the environmental or social practices that would lead to more sustainable production. Indeed price pressures might explicitly preclude such practices except to the extent that they are demanded by the buyer in the form of organic or fair labor standards for example. Differentiated markets are one solution but their characteristics and volumes typically do not yet cover the needs and quantities of large parts of our consumer markets.

Some argue that sustainable coffee agriculture can best be achieved through farmers that grow and sell quality products. Through this they will be rewarded with better prices, with which they will be able to maintain and improve their farm, their agriculture practices, and in the end their standard of living. While quality is undoubtedly an important component of sustainability, experience proves that a single focus on quality is too simplistic. There are millions of quality producers whose coffee never earns a penny more and are typically mixed into lots with mediocre and even poor quality coffees. There are others who are interested in quality coffees but do not have the skills or the money to invest in pursuing them.

The realities of today’s coffee market channels mean that only a few small farmers have been able to independently develop high-quality methods and then seek out and access specific markets in which to sell their coffee. The necessary investment capital, technology, and market linkages are rarely available. These emerging channels that we call sustainable are viable ways to help provide these missing elements and to give small farmers market opportunities. The Sustainable Markets Intelligence Center (CIMS is its Spanish acronym)⁹ offers a directory of Latin American exporters of sustainable coffee. The recently launched non-profit does not yet offer a directory of potential buyers. Apart from private information gathered from studies like this that interview interested buyers, many potential producers of these coffees have difficulty finding a range of buyers for their products. As noted in the Table on page 31, this is only one of the distinct differences between typical commodities markets and these differentiated markets that include the sustainable coffees.

The term “quality” has several distinct connotations in the coffee industry. Quality as measured by desirable organoleptic or taste characteristics and free of physical defects is a common definition for coffees that are considered gourmet and are sold as single origin or premium blends. However, for the great majority of green coffees quality simply means an allowable number of defects and some very basic flavor characteristics since exceptional organoleptic or taste characteristics are not required for most blends. Such coffees only need to meet the basic parameters of the roaster/buyer and exceptional taste qualities are rarely rewarded. Finally, for roasted coffees quality is very much defined by promotion and brand perception as new industrial methods increasingly allow for substitution

⁹ www.cims-la.com

between different qualities and types of coffee under the same brand or label. Consequently, a brand positioned as “high-quality” may include coffees that many would consider to be of low quality.

Quality is a factor in many of the transactions that provide extra benefit to the average coffee grower. Today’s marketplace for green coffees primarily rewards quality and then, as a secondary consideration, the sustainability of the production and trade practices used to bring these to market or whether the coffee is organic, fair trade, or eco-friendly. Although secondary these are nevertheless important considerations that provide a window of opportunity for some of the world’s most vulnerable coffee producers. With these emerging sustainable markets, they can link more directly to buyers and have the opportunity to reinvest the premiums earned in developing better quality production.

Although the differentiated markets - of which sustainable coffees are a part - offer some

excellent opportunities for higher quality producers, it is quite clear that none of the quality niches will accommodate all of the production available.

Currently the entire differentiated or specialty market imports account for less than 10 percent of the developed consumer markets; however, these coffees represent an even larger percentage of profits. The U.S. specialty coffee market¹⁰ offers a striking example, accounting for about 20% of the volume but more than 40% of the total market value.¹¹ They are also distinct from conventional markets in some key positive and negative aspects. Differentiated markets typically offer higher prices and moderate competition but public support in the form of extension services, research or subsidies are hard to come by and the costs of learning, certification, and market access are typically higher.

See Table 1.1. Because these markets can lend themselves to small growers, they provide an excellent opportunity for them.

Table 1.1. Comparison of conventional and differentiated markets

Conventional	Differentiated
Commodity price pressures	Consistently higher prices
Reward for quality and price	Reward for quality and process
Easy market access	Limited market access
Intense competition	Moderate competition
Gov support: subsidy, ext, R&D	Limited government support
Broad market size	Very limited market size
Short learning & cost curve	Longer curve: certification, etc

¹⁰ This U.S. calculation typically includes other value added or differentiated coffees in addition to the expected gourmet and whole bean coffees. These include flavored, decaffeinated, prepared coffees i.e. ready to drink, and some specialty solubles.

¹¹ SCAA estimates 2002 U.S. Specialty Industry figures to be approximately US \$8.4 billion.

For coffee growers in many countries, this commodity provides their sole source of cash income and so even modest premiums can make an appreciable difference. This is particularly important at a time when, according to ICO estimates, 12 percent of the average supermarket price globally and less than 3 percent of the out-of-home price goes to the grower. At today's prices a producer that can sell double certified (organic and fair trade) coffee would double his income above the benchmark market price. However, these markets are still relatively small and such extra margins are unlikely to remain at that level for more than a few years as more and more producers enter the market. Some premiums are certainly expected to continue for the near to mid term. Unfortunately, many analysts only consider the economic or market aspects of these coffees and disregard other valuable features and benefits for coffee producers.

Value to producers

Even though organic, eco-friendly, and fair trade markets are still limited, the sustainable production methods that they encourage provide valuable additional benefits or externalities at the producer level in the field that go beyond such recognized advantages as higher prices and new market opportunities. Some examples include:

1. **Improved natural resource management** - an intrinsic part of organic or eco-friendly production is a practical understanding of the systemic or holistic nature of such farming that clearly implies a direct appreciation of the diverse forms of value, such as vital watersheds, sustainable logging, or a nontimber forest products that exist in the surrounding landscapes.
2. **Increased resilience** - the structure and tilth of organic soils are documented to better withstand adverse weather and climatic hazards such as drought and torrential rain. This is directly evidenced in reduce erosion and runoff and also in soils with superior moisture uptake, filtration, and retention.
3. **Increased rural self-sufficiency** - most natural production systems eschew monoculture favoring on-farm diversification that improves food security and the rotation/integration of on-farm inputs like compost and wood.
4. **Community or organizational development** - these are stimulated by the necessary associative approaches to soil, technology, and crop management in what are knowledge intensive rather than capital intensive production methods. Relationships with neighbors and community are often also important in organic or eco-friendly production systems for the purposes of joint marketing and the need to manage resources like water and pests like insects at the landscape or watershed level.
5. **Reducing financial risk** - natural production systems typically require fewer external inputs thereby reducing production costs and the necessity to borrow money in advance to pay for necessary inputs early in the production cycle. Methods of integrated pest management have been demonstrated in many cases to be effective, lower-cost, and intrinsically more sustainable in the long run.
6. **Reduced price risk for producers** - these products typically receive higher selling prices with less pronounced cyclical price changes and, in some cases, the more direct linkages to buyers as well as pre-arranged sales help improve access to both formal and informal (from the buyer) financing.
7. **More direct access to markets and market information** - most buyers of organic, fair trade, or eco-friendly products do not work through procurement systems with various middleman that are typical of

commodities but rather develop direct relationships with their suppliers and, in this manner, can facilitate higher remuneration to the producer as well as timely and targeted information that the producer needs to meet the buyer's exact requirements.

8. **Biodiversity conservation** - these production methods recognize and reward the existence of biodiversity in everything from soil microbes to the pest-predator balance of larger life forms and, in turn, these stabilize the rural environment and reduce the risk of widespread plagues and other consequences of a mismanaged environment.
9. **Increased use of rural labor** - fewer rural labor opportunities due to the advance of low - input production methods such as extensive livestock rearing or more efficient industrial methods such as mechanization, chemical herbicides, and intensive avian production mean that eco-friendly and organic methods typically replace capital investments with investment in human labor, thereby providing income for the landless and small farmers who can sell their services. The resulting opportunities can help to better stabilize rural communities and reduce urban migration.
10. **Fewer health and environmental risks due to misuse of agrochemicals** - the pervasive and long-term environmental destruction now recognized to be directly associated with agrochemicals like DDT - once considered safe but now banned from most industrial countries - is being transferred to developing countries. The World Health Organization estimates that, at a minimum, 40,000 people die annually from pesticides and a further 3 - 4 million are severely poisoned, especially in developing countries where the more toxic materials continue to be widely used and easily available.

Differentiating a product or service or adding value in the country of origin is no easy task.

The challenge for the coffee sector will be considerable and will certainly require active government participation, the support of civil society organizations, and facilitative alliances with private companies. Most coffee producers have a limited understanding of the quality - and process - oriented demands of the marketplace. For small farmers in particular, differentiating their output can involve considerable effort to adapt to more stringent requirements such as quality controls and chain of custody.

In recent years, with many organizations working on this topic, the knowledge about the production aspects of these coffees has increased considerably. Unfortunately, very little is known about the actual volumes, trends, and defining characteristics of these markets for sustainable coffees despite their importance to more than an estimated $\frac{3}{4}$ million coffee growers and many millions of consumers. In order to achieve a better understanding of these markets this study seeks to identify, explore and quantify some of their key characteristics and their current trends:

- ▼ the market participants
- ▼ the market channels and volumes
- ▼ the trends
- ▼ the premiums
- ▼ the requirements that producers must meet in order to participate

Ultimately this information should serve to help small producers to better assess and access sustainable coffee markets. Of course producers do not exist in a vacuum and this information is also geared toward the other members of the supply chain such as importers, roasters, and retailers who essentially make the market.

This information should also serve the governments, NGOs, and international agencies that fund or facilitate coffee policies and projects

to ensure that these are in accord with the current realities of the markets. In particular, the study provides critical background information for improved multi-stakeholder collaboration and cooperation towards sustainability at the global level.

This document begins with an overview of the most significant sustainable markets in Europe and then treats each country individually for a more in-depth analysis. The countries are listed in alphabetic order and Japan is included as a separate chapter.

Each country assessment is based on the results of qualitative research methods used during the interviews, and represents the responses and attitudes of the importers, processors, distributors and retailers of sustainable coffees. Each country report summary is divided into eight parts:

1. **Overall Market Context** briefly outlines of the size, primary characteristics and recent trends of the overall country market
2. **Market for organics and fair trade** covers the volume and primary characteristics of these specific markets
3. **Certification** issues for that specific market
4. **Premiums** typically paid in that market and future expectations
5. **Significant Supplying Countries**
6. **Market Structure** describes the channels of distribution
7. **Market Trends** indicates the key trends that influence organic and fair trade coffees and shows projections to 2004
8. **Market Constraints and Opportunities** looks at the key near and mid term issues

The North American picture

This study covers all the major global markets for these products with the exception of North America. Earlier studies of the North American markets have already yielded detailed information. The Sustainable Coffee Survey of the North American Specialty Coffee Industry is the largest ever of its kind and based on thousands of extensive industry-wide interviews. This entire Sustainable Coffee Report can be accessed at: www.scaa.org (English) and www.cec.org/coffee (also in Spanish and French).

The study notes that the market is already very aware of these particular coffees with 95 percent of the firms contacted being knowledgeable about at least one or more types of sustainable coffee. More specifically:

- ▼ 99 percent were aware of organic coffee
- ▼ 83 percent were aware of fair trade coffee
- ▼ 76 percent were aware of shade coffee

Millions of consumers are also catching on. According to the U.S. National Coffee Association, in 2001, 31 percent of consumers of conventional commercial coffee were aware of organic coffee. About 51 percent of the consumers who are daily or weekly drinkers of specialty or gourmet coffee were aware of organic coffee and 13 percent - that's 8 million people - say they purchased organic coffee at least once. About 12 percent were aware of shade grown (eco-friendly) coffee. Not only are people aware of these coffees but also they are willing to pay more for them.

This is not surprising considering the customer profile of a sustainable coffee drinker: affluent, educated, and cause-friendly.

Taken in aggregate, from retailers to importers, 56 percent of the enterprises surveyed claim to

sell organic coffee while 37 percent claim to sell fair trade coffee and 34 percent shade coffee. Approximately 70 percent of those enterprises surveyed sell one or more types. As in Europe, many North American consumers prefer easy availability and one-stop shopping, i.e. supermarkets, for their food needs. But European supermarkets have been quicker to catch on. Many North American supermarkets, apart from the smaller high-quality chains, either do not stock sustainable coffees or present only one, often as a single origin or blend, and usually organic. This is beginning to change as some of the major chains are now testing eco-friendly coffees in several parts of the U.S. and as the major Canadian chains expand their sustainable selections.

The growing U.S. specialty coffee industry is very optimistic about its future. Although by volume it represents less than 20 percent (depending on exactly what is measured) it accounts for more than 40 percent of the coffee industry's total revenues. Total U.S. retail sales of specialty coffee beverages were \$6.6 billion in 2002 while retail sales of specialty coffee beans reached \$1.8 billion. It is one of the few segments of the coffee industry that has shown consistent and notable growth. According to the International Coffee Organization (ICO) and the Specialty Coffee Association of America (SCAA), most potential specialty coffee markets are far from saturated. Specialty coffee sales consistently outpaced conservative growth projections of 5 to 10 percent per year throughout the last decade. 2002 growth estimated at 7%.¹²

Members of the coffee industry are even more optimistic about the future of sustainable coffee. In 2000 most firms experienced either similar or increased sales of sustainable coffees compared to 1999. About half expect sales to increase over the next two years and almost none project

decreases. Those who project increased sales, on average estimate 27 percent growth over the next two years.

Substantial price premiums are currently earned for all three of these sustainable coffees and most companies feel that such premiums are reasonable. Nearly 9 out of 10 expect price premiums to continue for at least a few years. Fair trade coffees fetched the highest premiums followed by organic and then shade.

Although there is considerable promise, the North American sustainable market is new and its value is still relatively small. Including coffees that are not certified but are marketed as sustainable, i.e. bird-friendly, market value in 2000 was estimated at \$180 million - \$200 million. The estimated market for 3rd party certified sustainable coffees was approximately \$152 million at retail. Unpublished data clearly indicates that growth rates have been very strong for both 2001 and 2002. Fair trade, for example, showed import increases of 45 percent and 55 percent respectively for the U.S. and Canada in 2002.

The larger and more mature organic market appears to have grown a bit less than 15 percent and the shade certifications, although not measured, are clearly more visible in the marketplace as high-profile companies like Ben & Jerry's feature them and as major traders like Neumann and Volcafe pledge their support.

Setting the standards

There are now a number of initiatives addressing sustainability in distinct ways within the coffee sector. While most of these initiatives are advancing, so far they have generally been unable

¹² The Economist. The labour market. June 14 - 20, 2003 page 26

to effect change on a widespread basis in the vast majority of the coffee industry. This is because neither the initiatives nor the coffee industry have found ways to adequately integrate market realities with sustainability issues.

Nevertheless two things are clear for the first time: First, the industry, with only a few notable exceptions, is accepting that it must take some realistic steps toward sustainability. Second, it is accepting that ideal approach for doing this is to implement clear, credible, and verifiable standards.

The question remains, which standards? The more corporate driven-initiatives set the standard relatively low in order to achieve quick business acceptance. The established standards are more difficult to achieve but have much stronger credibility among consumers.

Although some have stated that consumers can be swayed with sufficient corporate marketing - it is unlikely that any company today would want to face public accusations of greenwashing or inadequate measures of corporate social responsibility. Too many major brands have been bruised by such battles.

Attempts are already underway to establish a global reference standard for sustainable coffee. A group of major NGOs, The Consumers Choice

Council, established its Consensus Principles for Conservation Coffee two years ago. Starbucks adapted some of these for its own use and was the first large company to implement sustainable sourcing guidelines. Now GTZ and the German Coffee Association are working to develop their own common code. EUREP is developing another standard. Leading corporations like Neumann Kaffee Gruppe and Nestlé are also working on standards. Although NGOs continue to be at the forefront of sustainability initiatives, a number of corporations are now also very involved. These private initiatives could easily become much larger than today's accepted sustainability certifications.

Since many companies would use such a standard to validate their brand, the flurry of discussions in order to try and meet different needs is understandable.

However, in order to advance sustainability consumers must ultimately be willing to pay for it and they will only pay for it if the standard is clear and appealing. The industry is clearly headed for a shakeout of the many initiatives. It is likely that the survivors will a) have true international credibility with farmers, their representatives, and consumers; b) be verified by independent certification; and c) will be simple and accessible enough to satisfy both the farmer's and the corporate bottom line.



De-pulping fresh coffee cherries by hand

2.

Fair Trade Coffee

Fair Trade is an alternative approach to conventional trade that aims to improve the livelihoods and well-being of small producers by improving their market access, strengthening their organizations, paying them a fair price, and providing continuity in trading relationships.

Fair trade coffee is purchased directly from cooperatives of small farmers¹³ that are guaranteed a minimum contract price. This minimum price is the best-known, but not necessarily the most important feature. Fair trade seeks to establish interactive trading partnerships that are based on dialogue and transparency. Buyers are expected to provide at least partial short-term trade financing when necessary and producers are expected to invest at least some of their income in democratically agreed-upon goals for long-term sustainability such as community education, healthcare, or infrastructure improvements. Implicit in fair trade is the concept of developing mutually beneficial long-term relationships that go beyond the faceless and often tenuous economic exchange of cash for coffee.

The first phase of organized fair trade was initiated when Alternative Trade Organizations (ATOs) like The Netherlands' *Fair Trade Organisatie*, Germany's *SOS Wereldhandel* (later *Gepa*), and England's Oxfam Fair Trade started to trade directly with "disadvantaged" producers beginning in the mid-1950s and continuing through the 1970s. To market these products an ideological business model was created featuring World Shops that, to this day, are running predominantly on the basis of a very large volunteer network. These outlets now number approximately 2700 although sales in many are modest. The market share for fair trade coffee in the late 1970s was so small as to be barely measurable.

¹³ The recent (January 2003) amendment of the generic fairtrade standards, with new verbiage about employers, covers workers or laborers and not just small farmers.

The second major phase started with the launch of the Max Havelaar label in the Netherlands in 1988, inviting mainstream importers, roasters and retailers to participate in fair trade. Although the ATOs and the World Shops continue to play an important role, the movement looked to other outlets. This concept was subsequently copied to other countries: Belgium in 1991, Switzerland in 1992, Germany, France and Luxemburg in 1993, and the UK and Austria in 1994. Germany, however, opted for a different name (Transfair), as did the UK (Fair Trade Foundation). At this time, the fair trade movement was depending less on volunteer labor and began a trend toward more market oriented business approaches. During this phase, coffee attained wider distribution and market share rose to as high as 3 percent in the Netherlands and other countries. In some specific segments fair trade has done even better: capturing 5 percent of retail sales in Switzerland and more than 7 percent of the ground coffee market in the UK (this is a minor portion of the total market).

Despite these advances, and exceptionally strong growth in the Americas, some observers feel that fair trade coffee may have hit a glass ceiling in some of the more mature markets because of its affinity with an apparently limited segment of the more socially conscious consumers. In order to become a strong presence in stagnant or shrinking markets, fair trade must challenge the established coffee brands whose promotional efforts and very competitive pricing make it very challenging to achieve an increased market share. In Germany, for example, a study by the European Fair Trade Association showed that while 37 percent of those surveyed acknowledged a willingness to pay more for fair trade products, such products had only attained 1 percent of the country's coffee market in 1998 (Potts 2000).

According to two founding fathers of the Max Havelaar fair trade label, fair trade is now on the

brink of passing from the second to the third development phase (Roozen & van der Hoff 2001). In this third phase new marketing approaches and new forms of cooperation would be necessary to increase the social and environmental impact. New initiatives among some of the major European retailers to stock fair trade coffee both branded and as private-label, might open the door to a larger fair trade market share. While distribution is clearly important to fair trade coffee, it is not clear how important small price differentials are as a factor for inducing consumer purchases. Although not the result of rigorous analysis, interviews in one country seemed to indicate that having similar prices between fair trade and conventional coffees do not necessarily stimulate a significant increase in fair trade sales.

In the third phase, coffee quality has become a very significant issue. Before that, this was considered less important than the actual cause itself. In order to successfully access a broader market, quality is a critical consideration. Several large buyers have noted that there are two reasons why less than 20% of the total available fair trade production is actually purchased with a fair trade premium: quality and price. Although the poorer small producers that participate in fair trade often have difficulty accessing the technology and inputs to improve quality, this is changing. Many have invested some of their premiums into quality-oriented improvements and the results are beginning to show up in the marketplace. In Nicaragua's Cup of Excellence competition in July 2002, the top 20 coffees included seven that were produced by fair trade cooperatives.¹⁴

Of course, some argue that even if such coffees were similar in quality and price with conventional coffees, market demand would still be woefully inadequate to handle even half of the smallholder production that is eligible to participate in fair trade. This is because there is

¹⁴ Personal communication with Miguel Gomez of the Nicaragua Specialty Coffee Producers Association, Nov. 2002.

limited awareness about fair trade in most countries. In many of the surveys firms indicated that they knew little about what actually happens with fair trade or that they were not confident that its benefits actually reached the producers.

An important aspect of the second phase, introduced in 1997, is an improved coordination of the 17 different national initiatives under the unified banner of Fair Trade Labeling Organizations International (FLO).¹⁵ This includes a unified process of policy definition and improved certification and inspection. With the formation of this organizing body, producers gained a larger say in fair trade policy and it became easier for the movement to speak with one voice, although the National Labeling Organizations remain responsible for promotion of fair trade in their respective countries and still own their national labels and logos. They have recently agreed on a new unified logo that incorporates the major national logos to facilitate consumer recognition.

It is not clear yet whether the cooperation between 16 national labelling initiatives in FLO is actually generating the expected synergies of promotion and market visibility. Individually, many - but certainly not all - of the different brands have not been able to successfully leverage their national label. This may be the subject of some confusion where, for example, in the Netherlands the Max Havelaar Label is perceived as a brand by many consumers. At the origin level FLO has found it difficult to facilitate a globally homogenous process for certification. One of the world's most prominent buyers of fair trade coffee claims that the "cumbersome process" to register and report in different ways for different countries has "greatly limited" their willingness to offer fair trade coffees in all of their stores.

In addition to the groups organized under FLO, there are a few organizations that have developed their own concept of fair trade, and do not support the FLO system. One of the most notable is the *Hand in Hand* program from the organic wholesaler Rapunzel. Several retailers are also making incursions into this area and claiming fair trading or sustainable practices although most are not open to third party verification and pay farmers little more than the current market price. There are also Alternative Trade Organizations such as El Puente that are not registered by FLO and a number of wholesalers, especially in Germany and Japan, that claim to use "fair trade-like" criteria.

Currently, the minimum price is often quoted as US\$1.26 per pound but actually varies as noted in the Table 2.1 below.

When the world market price is higher than 1.26 dollars per pound, then a premium of US\$ 0.05 is paid with the understanding that this is to be invested in development. For fair trade coffees that are also organically grown and certified, farmers receive a premium of US\$ 0.15 per pound. In recent years this policy has definitely helped many farmers as the composite world coffee price¹⁶ slumped to around US\$ 0.50 per pound.

Fair trade arabica coffees received an average price differential of nearly US\$ 0.72 per pound in 2002. See Figure 2.1. Each of the past three years this fair trade premium has channeled tens of millions of dollars to small coffee farmers and their communities globally.

With current market prices at all-time lows, these minimum values appear high to a number of firms in the coffee industry, although the minimums were set after consultation with a

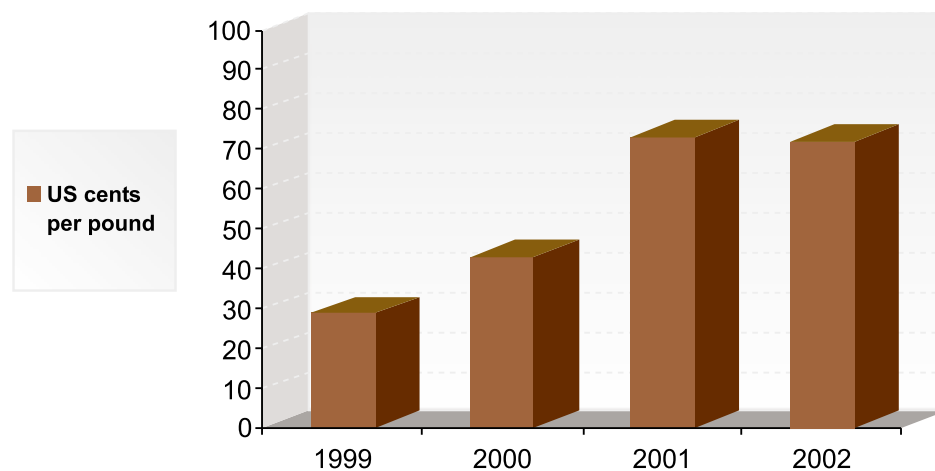
¹⁵ www.fairtrade.net

¹⁶ ICO compilation based on a formula that calculates, among other things, average trading prices for robusta and arabica beans.

Table 2.1. FLO International Conditions for Sustainable Coffees (US cents per lb.)

Type of coffee	Regular		Certified organic	
	Central America, Mexico, Africa, Asia	South America, Caribbean Area	Central America, Mexico, Africa, Asia	South America, Caribbean Area
Washed Arabica	126	124	141	139
Non - washed Arabica	120	120	135	135
Washed Robusta	110	110	125	125
Non - washed Robusta	106	106	121	121

Source: FLO-International Conditions for the Purchase of Coffee (Nov. 2002)

Figure 2.1 Average Fair Trade Price over the New York “C” Price

number of international bodies, including the ICO, to help determine what would constitute a fair price that covers costs of production and a reasonable margin. Some firms in our study indicated that in their view these premiums were unreasonable because they were unable to get information about the exact purpose for which the premium had been used.

In 2001 fair trade producers enjoyed considerable economic benefits in comparison to average conventional coffee farmers.

The FLO, calculating the difference between the ICO average indicator price and the fair trade price for the year, shows that producers earned an extra \$29.95 million.

Since many fair trade coffees are purchased by specialty coffee roasters that would typically pay more than the ICO average, this figure could be misinterpreted although it is certainly indicative of the price gulf between the commodity coffees and differentiated coffees.

There are now 166 organizations, a number of which are second-tier associations of cooperatives, representing more than 500,000 coffee farmer households throughout the world on the FLO fair trade register (see Table

2.2). Mexico and Peru are the largest producers and more than 70 percent of their output is also certified as organic. These are followed in volume of production by Guatemala, Colombia, Nicaragua, Tanzania, and Costa Rica.

Table 2.2. Globally Registered Fair Trade Producers

Country	Organizations ¹	Producers
Bolivia	17	4,176
Brazil	3	5,140
Cameroon	1	600
Colombia	17	11,985
Congo	2	20,552
Costa Rica	2	4,075
Dominican Republic	2	5,706
East Timor	1	19,282
Ecuador	1	373
El Salvador	3	928
Ethiopia	1	7,107
Guatemala	15	25,487
Haiti	7	6,881
Honduras	20	31,617
Indonesia	1	496
Mexico	36	35,046
Nicaragua	5	4,157
Papua New Guinea	3	2,767
Peru	15	20,031
Rwanda	1	450
Tanzania	6	173,985
Thailand	1	120
Uganda	2	123,000
Venezuela	4	866
TOTAL	162	504,827

¹ some are associations of smaller cooperatives

Source: *FLO International*



Boy playfully crushing coffee cherries

3.

Organic Coffee

Taking local soil fertility as a basis for successful production, organic farming aims to balance and optimize agriculture with the environment. Organic agriculture has traditionally been a systemic approach to agriculture and animal husbandry that recognizes these productive or economic functions as existing in close interdependence with a much larger eco-system that includes everything from the health of soil organisms, to the impact on the watershed area, and even the interaction with man himself.

Organic products are produced with methods that preserve and improve the soil and without the use of synthetic chemicals. Although it is only one part of organic agriculture, the synthetic-free aspect is the most generally familiar component.¹⁷ Moreover, even coffee industry members mistakenly believe that the only difference between a certified organic coffee and a coffee grown in the rustic tradition without agrochemicals is the cost of the certification. In fact, certified organic agriculture is much more proactive and requires a farmer to do more than refrain from the use of synthetic agrochemicals.

In practical terms on a coffee farm this means:

- ▼ recycling and reusing available nutrients through methods such as composting
- ▼ the rotation or intercropping of diverse plants to balance the soil's requirements, improve its tilth, and check the proliferation of pests and diseases
- ▼ using plant cover and terracing to minimize runoff and erosion

¹⁷ To be considered for organic certification a farm must be free of synthetic agrochemicals for at least three years and must maintain records or documentation of organic management



- ▼ neither monocropping nor clear-cutting large tracts of land in order to significantly maintain biodiversity

When products are sold in either EU, Japanese, or U.S. markets using an organic label they must meet defined legal standards. The producer and processors must work within, and be certified by certification bodies, most often according to standards that meet or exceed the International Federation of Organic Agriculture Movements (IFOAM) “Basic Standards”.¹⁸ This requires a system of regular inspection and certification that helps to ensure the credibility of organic products and helps to build trust in the marketplace.

Despite these commonalities, certified organic coffee adheres to globally accepted principles that are implemented within local climatic and cultural settings that can result in variations between different areas. To a certain extent this principle also applies to how inspection and certification shall be carried out (e.g. individual grower vs. group certification). It is a delicate balance to combine this need for regional variations with the international harmonization that is necessary for trade, fair competition and consumer trust in organic production.

Even though organic production methods are used in most countries, certification by an independent third party is a relatively new phenomenon. Some 35 years ago,¹⁹ Finca Irlanda in Chiapas Mexico pioneered certified organic coffee through *Demeter Bund*, the German association for biodynamic agriculture. By the 1980s, the concept was spreading to other parts of Mexico and countries such as Papua New Guinea. Organic coffee certification has now spread to all Latin American producer countries and the region provides most of the world’s supply. Two countries, Mexico and Peru, are currently the dominant providers but others,

including Colombia, those in Central America, and even Brazil, are increasing their output. In Africa, where much of the production is chemical-free, particularly in poorer origins like Ethiopia, certified exports are still relatively scarce and only Tanzania, Uganda and Cameroon ship significant quantities. Organic certification projects have recently begun in Ethiopia, Rwanda, Zambia, and others. Asian production has emanated mostly from India, Indonesia, Papua New Guinea, and East Timor although now China’s Yunnan Province has also entered the field. The ICO’s Organic Coffee Round Table (ICO 2000) highlighted the importance of developing national certification systems and local inspection bodies to operate in cooperation with international accreditation and certification bodies in order to improve availability to producers and help reduce their costs.

Worldwide, nearly 130 countries produce certified organic products (in addition to coffee) in commercial quantities, including more than 90 developing countries (Kortbech-Olesen, 2000). The global retail market for organic food and beverages grew from nearly US\$ 10 billion in 1997 to US\$ 17.5 billion in 2000 according to ITC estimates. The Organic Monitor estimates that global organic retail sales were about US\$26 billion in 2001. Almost half of these sales are in Europe. Given the increasing occurrence of food safety scandals and demands for traceability it seems likely that organic standards will become increasingly popular (Giovannucci 2002). Many industry estimates project near to mid-term growth in the 20% range overall indicating that the organic product market may become a powerful segment in world food trade with organic coffees riding along on this wave.

Organic coffee is a relative newcomer to the mass market; even though it has been available in small quantities through some specialty retailers in a

¹⁸ www.ifoam.org

¹⁹ Finca Irlanda converted to biodynamic in 1928 and was certified organic and biodynamic in 1967.

handful of countries, it has only been widely available for less than five years in most developed markets. In that time organic coffee has enjoyed an average growth rate of about ten times that of the overall coffee industry's 1.6% average growth. This growth rate, it should be well noted, is from a very small base and in some markets has shown signs of slowing.

While organic coffee now has a considerable retail visibility, it is by no means available everywhere. Like many new products, it was first introduced to its most receptive niche audience (health food shoppers) and has expanded to cause-conscious consumers whose buying habits are motivated by personal health concerns, concern for the environment, and/or the welfare of a farmer. By the mid 1990s it had also reached some of the specialty and gourmet segments. Although significant, these clients still represent a relatively small segment of the overall food industry. Its expansion has occurred almost exclusively within its core audience and it is now facing the challenge of whether it can successfully progress to a more mainstream consumer base.

Although it is difficult to generalize about all organic products, it may be fair to characterize them in terms of product lifecycles theory. Organic market characteristics indicate that these products have gained considerable consumer awareness and have moved out of the introductory stage and into a growth stage. The growth stage is typically characterized by increasing product variations and competition that begins to stress competitive differences.

The tendency of this stage is of course to dramatically increase distribution and begin to shift the pricing strategy away from price skimming to more competitive pricing in order to gain market share. Until now organics have typically been "pull" products that have enjoyed a strong niche demand. Will many of these organic products have a potential market among the great majority of today's consumers or will

the industry reach a glass ceiling not far beyond its core group of ideological supporters?

Throughout much of the 1990s, demand for certified organic coffees far outstripped supply and resulted in some receiving premiums as high as 100 percent and in the marketing of many poor and mediocre coffees simply because they had organic certifications. The resulting price-to-quality ratio understandably put off many buyers. Although some organic coffees still have very little else to recommend them, this situation is reportedly changing as competition responds to the demand for improved quality. With much greater supply and more diverse origins available in recent years, the price premiums for certified organic coffee have diminished substantially. Producers are now increasingly competing on the basis of quality and beginning to lure back customers. Recent winners in Cup of Excellence events and the annual competition in Kona, Hawaii were organic coffees.

Although an increasing number of roasters and traders are offering certified organic coffees, for many the potential producers of these coffees are not obvious and can present a challenge to locate. A number of buyers in different countries have noted that there is an unfulfilled demand for lower-priced organic Brazilian arabicas as well as robustas. As many sustainable coffees compete in the mainstream quality segment of their markets, there is logically a demand for lower cost coffees in larger volumes produced under the organic, fair trade, or eco-friendly regimes. Fair trade has not caught on strongly in Brazil although organics are increasingly produced there. Most of their organic coffees have gone to the Japanese market that pays the best premium, and some to the U.S. and Europe. Uganda, India, and Indonesia are the most likely sources for sustainable robusta coffee.

Costs for certification are still very high in certain regions but this is changing as competition among certification agencies increases and as more support and inspection services are available in



producer countries. One Mexican certifier, with international affiliation and recognition, was able to certify farmers as a group in a large cooperative for slightly more than US\$50 each.²⁰ While this is uncharacteristically low and required the group to have its own internal control systems, it demonstrates a certain potential for reducing such costs. In many countries extension services provided through NGOs or interested projects have helped to keep costs low by training farmers and preparing them for certification requirements. Unfortunately many of these organizations are understaffed and underbudgeted and often may not have access to state of the art organic production technology and pest management methods. It is important for both farmers and buyers alike to recognize that the costs of certification go far beyond the price of an inspection and a certificate; the training costs, transition time (2 - 3 years), and extensive record-keeping are usually far more costly and must be incorporated into the selling price. As more farmers seek organic options, new solutions for providing them will have to be found, most likely through partnerships with private companies and through government support for organic technologies and extension services.

Organic coffee is a niche market and the price premium earned by an organic coffee producer will depend on both consistency and quality as well as effective sales promotion and marketing. The average bonus paid to growers by buyers for certified organic coffee most commonly ranges from US\$ 0.15 to US\$ 0.30 per pound over the current “C” market price and this is in addition to any premiums paid for desirable quality characteristics.

Given the standard discounts or premiums at which conventional coffees trade, a more accurate way to calculate the true organic

premium is to compare it with the actual price paid for a particular conventional coffee of the same quality. For example, the current differentials in early 2003 for the two countries that are the market leaders in organic - a Mexican HG e.p. or Peruvian MCM e.p. - are now approximately US\$ 0.06 to US\$ 0.08 below the “C” price. With organic premiums currently at US\$ 0.15 to US\$ 0.20 for much of Mexico this brings their effective premium to US\$ 0.21 to US\$ 0.28. Peruvian organic certification premiums that currently average about US\$ 0.10 to US\$ 0.15 mean that their effective organic premium is actually US\$ 0.16 to US\$ 0.23.²¹

Although a number of respondents mentioned that increasing competition between organic coffee growers could eventually further erode the current premiums, these premiums are already reaching low levels that may cover the additional costs/risks of production and costs of certification but not much more.

The markets for organic products offer viable alternatives to typical commodities trade. The new global trade regime and its standards appear to be a positive opportunity for smaller growers. Rigorous standards are a difficult part of this. However, they not only help to protect the industry from the unscrupulous but also help to strengthen vital skills among producers for whom organics offer the chance to participate in competitive higher-value trade. Traceability and production management are part of rigorous organic standards that can help smaller producers to compete in agricultural trade.

For EU countries organic certification is presently governed by an EU organic regulation (No. 2092/91), which has been implemented in national legislation. The regulation protects the use of words like *organic*, *ecological*, *eko*, *biological* and *bio* and limits it to products that

²⁰ Personal communication with Certimex regarding certification in Oaxaca, Mexico

²¹ Personal communication with Jos Algra, NovoTRADE Consult (April 2003) and other buyers in early 2003.

have complied with a specified external certification process.

Nevertheless, the details of this process, and the bodies that are accredited for certification and inspection, vary from country to country. The individual interpretation permitted to each member country and the different interpretations of certifiers allows for considerable differences that therefore make it easier for some countries to import and sell organic coffees than for others.

Overall, these differences appear to complicate the movement of organic produce into and

throughout Europe as well as presenting considerable challenges for producers and exporters.

The IFOAM is the over-arching international body that accredits certification organizations and sets international standards for organic coffee certification. Since not all certifying organizations are accredited by IFOAM caution should be taken when selecting one since some are not as readily accepted in some markets as others and those with less rigorous monitoring systems are often not preferred by discriminating buyers who wish to protect their image and ensure that good standards are followed.



Ethiopian coffee ceremony in the field

4.

Eco-friendly or Shade-grown Coffee

Coffee that can truly be identified as either eco-friendly or shade grown involves the third party certification and verification of coffee production standards that have been internationally designed and verified to preserve biodiversity. These include standards for soil management, minimum tree density, and a minimum variety of native species as well as strict agrochemical and waste management. One of the two primary certifiers, Rainforest Alliance, also includes standards for good working conditions and the fair treatment of farm workers. More specifically this includes requirements that employers provide: decent housing, sanitary facilities, potable water, electricity when possible, safe cooking facilities, at least the legal minimum fair pay, access to medical care, and the availability of schooling.

With agriculture now identified as the number one global threat to biodiversity (World Conservation Union (IUCN) and Future Harvest 2001), shade-grown coffee offers one agricultural solution that is relatively eco-friendly. The coffee tree naturally grows as part of the understory in a shaded forest environment and, when managed in this manner, is one of the few forms of agriculture that can actually help to preserve the environment and serve as a refuge for biodiversity. While some shade systems increase landscape connectivity, act as buffers, and serve as corridors for some species, they do not replace natural forests which are still needed even in shade-grown coffee areas. Although the environmental value of shade-grown coffee is undeniable, it would be unfair to classify all forms of conventional coffee production as necessarily bad for the environment since coffee production, by providing a semi-permanent soil cover, is one of the more environmentally benign forms of agriculture.

After centuries of production, frequently in shaded environments, many countries took deliberate steps to “modernize” coffee production. This process began in earnest during the 1950s in Asia and accelerated with the aid of government and donor support in

the 1960s and 1970s when it spread to Latin America as Green Revolution ideas of chemically intensive farming were increasingly applied to all forms of agriculture.

Driven by the expectation of greater crop output, large landholders around the globe shifted from traditional shade-grown coffee to plantations without tree canopies. Many smaller producers, often too poor to make the capital-intensive shift, have nonetheless altered their coffee farms by removing canopy trees for their wood or tried to mimic the successful cultivation practices of larger plantations. Some small farmers have preserved their traditional practices that integrate shade trees. Others have abandoned coffee and cleared their land for other forms of agriculture. The current economic difficulties of coffee farmers are further stimulating land use changes toward seasonal crops and pastures that provide less environmental protection than either shade or conventional coffee. Unfortunately, the overall shift away from “shade-grown” agricultural practice has had serious economic and environmental repercussions.

Although the shift away from shade-grown coffee can offer greater yields, the practice itself is sometimes not sustainable on several different levels. Economically, the cultivation of “sun coffee” requires intensive management, increased inputs, and more year-round labor, which place financial demands on the growers and increase the need for credit. The varieties used for sun coffee often have increased yield demands placed on them by intensive agriculture and typically require more frequent renovation than traditional shade varieties. Monocrop farming also implies a risky dependence on one product for those farmers, especially smaller ones, who have a few other alternative resources in case of crop failures or low prices. Gobbi (2000) found that shade or biodiversity-friendly cultivation was economically viable across a range of Salvadorian production systems ranging from

intensive monoculture to traditional polyculture. Colombia’s research center, Cenicafé, has found that in certain parts of Colombia, for example those with insufficient luminosity due to misty or cloudy conditions, the shade production systems are not viable while in other highly productive areas shade protection is necessary.²² Although a number of large and productive farming operations utilize shade cover, small farmers using traditional polyculture are perhaps best suited to such production. In many regions of the world where coffee is intensively cultivated in savannah-like environments, applying the current shade tree criteria is probably not viable. More appropriate alternatives or variations to improve biodiversity quotients will have to be developed for these regions that are among the world’s most productive.

Environmentally, the chemical fertilizers, insecticides, herbicides and fungicides that can be a part of intensive cultivation practices have been linked to greater soil acidification, erosion, and toxic run-off that contaminate water sources. The loss of biological diversity is another major concern when trees and native vegetation are cleared and replaced with coffee as a monocrop. In Costa Rica, for example, insect diversity in shaded coffee rivals that found in lowland rainforest areas (Perfecto et al. 1996).

Tree canopies also help maintain micro-climatic conditions thereby protecting coffee plants from rain and sun, maintaining soil quality, reducing the need for weeding, and aiding in pest control. Moreover, organic matter from the shade trees also provides natural mulch, which reduces the need for chemical fertilizers, reduces erosion, and contributes important nutrients to the soil.

Economically and socially, when global coffee prices fall or harvests are poor, tree canopies provide “insurance” crops to the grower providing fuel wood, timber, and fruit. Traditional coffee farming also reduces the

²² Personal communication with Gabriel Cadena, Director, May 2003.

farmer's dependence on expensive chemical applications, safeguarding growers and their families from the possible harmful effects of misuse or exposure to pesticides.

In the early 1990s, the Smithsonian Migratory Bird Center (SMBC), linking the decline in certain bird species to habitat degradation, was among the early pioneers that identified naturally shaded coffee farms as refuges for many bird species. Coffee farms meeting this criteria are consequently sometimes called "bird-friendly" which has caused some uninformed critics to publicly voice that there may be more important things to worry about than birds. It is therefore worth noting that because birds are a highly visible marker species, they are considered as one of the more obvious indicators of biological diversity. Studies of insects, trees, flowers, and even amphibians have demonstrated that naturally shaded coffee plantations often serve as critical sanctuaries to protect forest species, especially where natural forests have been degraded or no longer exist (Pimentel et al. 1992; Rice & Ward 1996; Moguel & Toledo 1999). Healthy forest biosystems offer widespread benefits for local communities that range from watershed protection to wild harvesting of traditional products like mushrooms and medicinal plants and sustainable logging. A number of studies have found that the diversity of migratory birds has plummeted in sun systems when compared to shade coffee (Perfecto et al. 1996; Greenberg et al 1997). For example, research in Colombia, Peru, and Mexico found as much as 75% fewer bird species in sun-grown coffee than in shade-grown coffee (Greenberg et al. 1997; and SMBC unpublished research papers).

Perhaps the major argument against shade coffee holds that no one would think to ask soybean or corn producers to use shade systems since these crops can be even less eco-friendly than conventional coffee. The implication being that

intensive agricultural systems should be left alone and that biodiversity should be relegated to separate patches of forest distinct from the production space. The issue is complex and, as noted earlier, in some cases this may be the best solution provided that the forest patches are interconnected and large enough to actually support biodiversity. In certain situations it is probably better to continue intensive agriculture and protect surrounding landscapes rather than encourage more extensive agriculture. However, apart from the apples and oranges comparison (no corn variety grows very well in a forest environment) such arguments tend to apply a Cartesian or mechanistic approach that artificially separates natural landscapes from productive landscapes and does not adequately take into account the fact that agriculture has continuously encroached on natural forests, even legally protected ones. It appears likely that agriculture will continue to expand and unless more environmentally friendly forms of production can be integrated into agriculture where possible, it seems more likely that the separate forest patches will be increasingly smaller and fragmented. Given that many species require square kilometers of forest for their survival, and that farmers increasingly use forest lands for agriculture, trying to separate forest from farms may be myopic. Perhaps the most realistic and sustainable solution is a middle path, recognizing that while shade grown production has distinct merits, other forms of more intensive production must also be accepted and integrated.

Certifying this shade-grown or eco-friendly coffee has required considerable work to establish useful procedures and verification processes that adequately take into account the inherent differences in different geo-climatic regions. The SMBC has published criteria²³ that are now an international standard for shade coffee. Farms can be independently certified according to the basic SMBC standard. Since many sun coffee farms have at least a few trees

²³ www.si.edu/smbc

on or near to the farm, some wily marketers have already begun to sell these as shaded or forest coffees even though they would not meet the environmental guidelines that are now internationally accepted.²⁴ Even some of the producer country coffee boards or councils publicize that practically all of their production is shade-grown, when many industry members are well aware that this is not true. This sets the stage for potentially harmful loss of confidence as coffee industry buyers become better acquainted with certified shade or eco-friendly coffees.

The shade coffee standard is now being applied by some organic certifying agencies to provide growers with a shade-grown certification as well as organic certification. However, the major certifier applying shade-grown standards is The Rainforest Alliance.²⁵ Its eco-friendly certification incorporates shade certification standards into its more thorough set of evaluation criteria that include fair treatment and good conditions for farm workers. While the Rainforest Alliance system does not insist on organic methods, it does require that growers follow integrated pest management techniques and take steps toward organic methods. This allows the participation of dominant larger farmers that often find it difficult to make a rapid shift to organic practices. The Rainforest Alliance also serves as the international secretariat of the Sustainable Agriculture Network²⁶ and their Rainforest Alliance Certified (formerly Eco-OK) is by far the most popular of the shade coffee certifications on the market.

The relationships between world markets and environmental protection have yet to be developed and consumers are just beginning to understand that there are costs to environmental protection. The environmental benefits and ecological functions provided by shade systems

have regional and perhaps global implications; they are not only beneficial for the farmer. Paying for a guarantee of such benefits through the certification process is relatively new but is showing some promise given the upward trend of premiums over the last three years.

Premiums for eco-friendly coffees typically range from US\$ 0.10 to US\$ 0.60 per pound, with occasionally higher or lower numbers being quoted. Because trading volumes are still relatively small and transactions not individually tracked, it is difficult to disaggregate certification premiums from premiums paid for quality. The Rainforest Alliance reportedly has plans to implement a basic tracking system in order to improve transparency and the understanding of the market dynamics.

In North America, eco-friendly coffee has recently benefited from various high-profile distribution deals such as the announcement of Ben & Jerry's, a leading ice cream manufacturer, to launch a new ice-cream flavor, "Coffee for a Change", featuring Rainforest Alliance-certified coffee. Although this concept has received far less exposure in Europe, its "green-friendly" message is now emerging as an increasingly important issue. Some eco-friendly coffees have already been finding their way onto retail shelves and this should accelerate considerably now that well-established importers and traders like DR Wakefield are formally introducing Rainforest Alliance-certified coffee to the UK & Ireland in March 2003.

Some of Japan's leading roasters like UCC and Kohikan are launching Rainforest Alliance-certified coffees in more than a thousand cafes and convenience stores throughout Japan. They are joined by some of the other leading traders and roasters in purchasing or promoting this concept in Japan (See Japan chapter).

²⁴ Information from informal trade show interviews 2001 and 2002 mentioned in unpublished World Bank reports

²⁵ www.RainforestAlliance.org

²⁶ A coalition of nine leading conservation groups in Latin America



Watering coffee seedlings

5.

Other Sustainable Coffee Concepts

As far as sustainable coffee concepts and standards are concerned, this wheel has been invented several times and yet it seems that no one tires of adding their contribution. As more and more large companies get involved, issues of lowering costs, increasing efficiencies, and reducing compliance requirements have come to the forefront. In many ways this will sharpen the existing efforts. The great concern is whether reasonable sustainability standards will be adopted or whether the bar will be set so low as to render the effort almost meaningless.

The Consumers Choice Council²⁷ was the first to work with leading organic, fair trade, and eco-friendly certifying organizations to develop a set of “Conservation Principles for Coffee Production”. These are currently the closest things to joint or umbrella criteria for sustainability that are accepted by several leading international organizations like Conservation International, The Rainforest Alliance, and The SMBC. These Conservation Principles represent an important step toward a unified certification of sustainability that covers the three major aspects of sustainability. The eventual adoption of such principles, particularly at the commercial level, would be likely to benefit everyone: consumers would be less confused, roasters and retailers could simplify their purchasing and marketing, and growers would have to meet only one rather than two or three sets of standards.

The German development agency GTZ, along with the German Coffee Association (DKG) and after extensive consultations with stakeholders, are developing common sustainability codes that address economic, environmental and social aspects of coffee production, processing and marketing. These codes are designed for the whole coffee community and will apply to mainstream coffees as well. The Rabobank Foundation’s Progreso is another effort that works directly with producer organizations on all three aspects of sustainability through practical capacity building, market linkages, and financing.

²⁷ www.consumerscouncil.org

The Euro-Retailer Produce Working Group (EUREP) has developed a set of internationally certifiable standards and procedures for good agricultural practice (GAP) that many major European retailers increasingly require of their suppliers. EUREP-GAP standards for coffee are currently under development and could possibly incorporate the more rigorous social guidelines of the current EUREP flower standards as well as enhanced environmental standards including topics such as biodiversity. Specific coffee standards are due to be implemented in early 2004 with at least three retailers reportedly preparing to implement the standards in varying degrees. These agricultural production standards promote the minimization of agrochemical inputs, traceability, and fair labor practices. EUREP-GAP lays out a set of minimum standards, all of which can be readily met by those complying with other certifications such as organic or Rainforest Alliance that are considerably more rigorous. In some cases meeting EUREP-GAP criteria could be a requirement for doing business but there is no guarantee of any premium for achieving such requirements and the grower is left to negotiate this with each buyer (see Utz Kapeh framework below). FoodPLUS is the global body responsible for the implementation of EUREP-GAP.

There are a number of international standards, relevant to sustainability, that can be applied to coffee although many were originally designed for more industrial processes like manufacturing. The standards may help to assure a buyer of acceptable farming or labor practices but are rarely required. Some of the International Standards Organization (ISO) series of standards help guide the development of a management system that explicitly addresses quality controls (ISO 9000) and a comprehensive environmental management plan (ISO 14000) with systems for auto-regulation and third party auditing.

Social Accountability International (SAI) accredits the SA 8000 standard for working conditions and labor rights throughout the supply

chain. These conform to all of International Labor Organization (ILO) guidelines and are both third party certified and internationally recognized.

There are other sustainability concepts that are not explicitly covered in this study but will be briefly introduced. Among these are various corporate efforts to establish appropriate sourcing guidelines, developing country projects, and some social consciousness and charitable initiatives.

Company programs

An important group of initiatives are the internal company “sustainability programs” that go beyond the company’s own walls to account for the impact of a company’s buying guidelines. Some of the private sustainability initiatives must be seriously considered since they have the potential to include very large volumes of coffee rather quickly. As such, they could quickly raise consciousness in the marketplace and positively impact more of the world’s coffee growers, most of whom are currently outside of the generally accepted standards and certification systems. When such systems have strong corporate support and have widespread public distribution they can potentially help raise consciousness about sustainability in the marketplace.

Some companies have adopted general initiatives such as social accounting and environmental management policies and assessments. Others have also employed specific policies and schemes with growers in the countries of origins. For example, Sara Lee/Douwe Egberts has a small farmers policy and even French giants Carrefour and Intermarché are developing sustainability procedures. Two of the world’s largest coffee traders Neumann Kaffee Gruppe (NKG) and Volcafe have signed agreements with The Rainforest Alliance to integrate more sustainability into their procurement and NKG have developed their own internal purchasing guidelines to encourage sustainable farming practices.

Some corporations have gone beyond corporate statements about sustainability to active involvement in local programs where they source their coffees. Kraft and Sara Lee/Douwe Egberts are piloting a small project in Vietnam that improves quality and moves farmers toward more sustainable practices. One of the most developed of these efforts to date may be that of the International Coffee Partners (ICP), a group of leading European coffee companies that includes: Paulig (Finland), Löfbergs Lila (Sweden), Lavazza (Italy), Neumann Kaffee Gruppe (Germany) and Tchibo Frisch (Germany). They pool their investments and, through the coordination of EDE Consulting, partner with international agencies and local NGOs in several coffee producing regions to assist farmer organizations to implement internal control systems and other programs that improve the quality and sustainability of their production. In Guatemala for example, in addition to their quality improvement efforts for small-scale farmers they are also extending activities to the field of organizational strengthening and diversification. The ICP are also helping to develop farmers' management capacity so that they can accomplish community goals like establishing a savings scheme and achieving organic certification.

Despite these corporate efforts, so far only a few coffee farmers have benefited from tangible improvements at the ground level. Nor has the consumer necessarily been informed of these company initiatives. In fact only a few companies have made their sustainability practices open to the public and invited transparent accountability. One of the first was Starbucks, with more than 6000 stores worldwide. This U.S.-based multinational company surprised many people in the coffee community when it became the first large coffee company to develop a set of Sustainable Sourcing Principles and publish these on their website.²⁸ These principles guide its buying decisions and

help ensure that it supports sustainable farming practices by rewarding, with long-term contracts, those growers who treat their laborers fairly and care for the environment by reducing the unnecessary use of agrochemicals. The process provides a premium that escalates as more sustainability criteria are met. Starbucks has reportedly paid their growers an average of US\$ 1.21 in 2001 when the New York "C" average never reached US\$1 per pound.

Multinational food retail giant Ahold NV presented another example with its sourcing guidelines under the banner of Utz Kapeh. This is now managed as an independent foundation and has the participation of other roasters. Their intention is to promote a more sustainable coffee industry through a "decency standard" and also to provide some technical assistance, and possibly trade financing. Their criteria are based on EUREP-GAP standards. Although these have considerably less stringent obligations in comparison to others like organic, eco-friendly, or fair trade certifications, they are seeking to impact a much larger number of farmers, albeit more modestly.

Utz Kapeh does not interfere in the negotiation between buyer and seller, but provides a "strong recommendation" on what the sustainability differential ought to be. Buyers therefore independently negotiate the actual sustainability premium or differential with farmers or sellers who receive no guarantees for their efforts. Utz Kapeh recommends a specific premium when arabica coffee dips below US\$0.70 per lb on the New York C market and below US\$650 per ton on the London market for robusta. When prices fall below these thresholds, Utz Kapeh recommends a premium of US\$0.07 per pound for washed arabica and US\$0.04 per pound for unwashed arabica. The robusta premium is just under US\$0.03 per pound (\$60/ton) and less than US\$0.05 per pound (\$100/ton) for washed robusta.

Utz Kapeh is studying the actual compliance

²⁸ www.starbucks.com

costs, since these will vary from region to region, in order to determine whether their recommended payment of these compliance premiums should vary to reflect real costs in each country. About 30,000 tons of coffee were qualified in 2002.

Other approaches include the Sustainable Agriculture Initiative³⁰ (SAI) that counts among its members two coffee giants, Neumann and Nestlé. SAI attempts to explore and promote sustainable agricultural practices. It represents a growing corporate awareness that sustainability is an issue that affects not just farmers but the entire industry. The organic wholesaler Rapunzel Naturkost from Germany developed an interesting alternative concept that it calls *Hand in Hand*. This program requires that organic certification be augmented with certain fair trade criteria.³¹ The concept is similar to the FLO fair trade concept since it counts with external auditing and is communicated to consumers at the point of sale. It is not however, open to other companies and has met with some criticism.³² The Rapunzel coffees are included in this study (only under the organic heading), but they might also be considered part of the crossover segment, which is both organic and fair trade.

Among producing countries, Colombia was among the first to invite coffee buyers to participate in direct relationships that channel benefits beyond the market price for coffee and transparently impact the farmers' sustainability. The emergence of "relationship coffees" goes against the disconcerting trend toward the increasing commoditization of coffee wherein a human coffee grower becomes merely a faceless

and interchangeable source of raw materials. These relationships between a trader or roaster and the grower are based on an appreciation of the considerable ongoing efforts required to produce quality coffees and the potentially ruinous nature of volatile commodity market prices. Buyers commit to purchasing these coffees over a period of years and paying a sustainable price, provided that certain minimum quality standards are met. Price may be either fixed in advance or set as a differential above the then current market price. A number of companies are increasingly pursuing this strategy.

While some of the corporate sustainability programs are certainly a step in the right direction and a distinct improvement from business as usual, they are not a complete answer. Some of these initiatives have been accused of watering down sustainability. By setting the baseline too low for what they define as sustainable, they can reduce the meaning of the term to mean what is sustainable for the corporation but not necessarily for the farmer. Some aspects of these programs, such as sourcing from plantations, are more widely accepted than others. The use of coffee from large plantations, when this is well monitored, is understood by many to also benefit a large number of wage laborers that are often even poorer than small producers. However, some companies have been accused of creating parallel, yet similar systems, that can potentially confuse consumers and thereby take unfair advantage of the popularity and generally accepted standards used by producers of organic, fair trade, or eco-friendly coffees by paying a lower price than the majority of companies working with these as verifiably certified products.

³⁰ www.saiplatform.org

³¹ There are 2 major difference with the official (FLO) fair trade criteria. First, coffee can be purchased from large scale plantations while under FLO requirements, coffee can only be bought from small farmer cooperatives. Hand in Hand provides a lower guaranteed minimum price of US\$1.15 per lb. for Other Mild Arabicas, which is lower than the FLO minimum price of US\$1.41 per lb. when also certified organic.

³² While its use of coffee from monitored plantations is understood by many as a useful way to also benefit a large number of wage laborers that are often also small farmers or, if landless, even poorer than small producers, there is less support for its alternative pricing policy. Some industry members have privately voiced concerns about companies taking unfair advantage of the popularity and generally accepted standards of fair trade by using similar terms but paying a lower price than the majority of companies working with fair trade and also for creating a parallel system that can potentially confuse consumers with its different fair trade message.

Social consciousness

Social consciousness schemes or charitable efforts are often conducted at the consumer level and may therefore have more visibility. Although it is questionable whether long-term charitable support is indeed sustainable, its value in raising consumer awareness is probably quite useful.

In many European countries and in Japan solidarity groups of varying sizes lend support to coffee growers through the marketing of their products within a network of socially conscious consumers. Some of these networks, such as Germany's, are of considerable size. Even though their tenets may be similar to one of the larger defined systems like organic or fair trade, they do not belong to these systems. Similarly "ethically traded" coffees are the result of a new trend in retailing that has received considerable media attention although they may often not be independently certified or verified.

There are indications from some roasters of "relationship coffees" or "ethical coffees" that these are growing in the market. Like fair trade these also involve a direct relationship between producer and either the buyer or the roaster who theoretically commit to paying an "ethical" price although not the standard fair trade price. These coffees are then offered to special interest groups not unlike the average fair trade customer. Since these coffees often lack independent third party certification of higher prices reaching the producers, they presuppose a consumer's high level of trust in the roaster or retailer. These approaches are probably most viable in close knit, cause-related organizations like religious groups.

Closer relationships that pay growers a reasonable price are both welcome and positive. Indeed a number of higher quality importers and roasters have been known to pay above the market price for good quality coffee and sometimes even above the fair trade floor price. However, when these coffees are marketed with terms such as "ethical certified" it may be cause

for concern if such "certification" does not have a sound basis for verification and compliance that is transparent and readily available for inspection. There are at least five reasons why such flimsy marketing ploys are damaging to the credibility of the industry and ultimately to farmers as well.

First, the similarity to fair trade will likely cause confusion for consumers. Second, without adequate third party verification of this practice, there is a considerable moral hazard since the consumer is left to determine what coffee is most "fair" and is essentially asked to trust each seller who chooses to make claims of "fairness" or ethics.

Third, the greater likelihood of misrepresentation or fraud (in the absence of third party verification) would likely reflect negatively on the coffee industry and on other cause-related efforts including the fair trade market. Fourth, fair trade offers coffee growers significantly more than just a better price whereas relationship coffees may not necessarily provide similar social and community benefits. Finally, using such terms as ethical or fair trade, in the absence of third party certification would be free riding on the established market reputation of fair trade and would probably erode the tiny market share that fair trade farmers hold without necessarily offering any incremental benefits other than perhaps a slightly lower price to the consumer.

Charitable initiatives are often carried out on a very small scale: for example a church may distribute a certain coffee, and at the same time support a particular development project with the income generated. However, some have a considerable impact. Sector wide efforts like Coffee Kids return contributions from coffee outlets to grower communities in order to finance education and health-care programs for children. Percol, one of the larger sustainable UK brands, directly contributes to Coffee Kids from the sales of two soluble products in its range. Another example, the Dutch roaster Neuteboom (also active in fair trade and organic coffees), directly supports children's education in a similar manner.



Transplanting coffee seedlings

6.

European Markets Overview

The coffee market in the Nordic region

Traditionally, the Nordic countries have consumed more coffee per capita by far than any other part of the world. A cool climate and prolonged days along with higher than average coffee quality at a relatively low price appear to explain this phenomenon. Moreover, governments and churches have backed coffee for decades to fight alcohol abuse. As a result, coffee drinking has become a part of the national culture and heritage. It is also a source of national pride exemplified in such cases as in 2001, when a Norwegian firm paid the world record price for high-quality coffee.

The average per capita consumption has been between 9.0 and 12.0 kilograms of green coffee equivalents for the last 30 years. Recently, however, there have been signs of market erosion, particularly in Denmark and Sweden. But, the Nordic region still remains a stronghold for coffee consumption and its 24.5 million inhabitants will drink some 240,000 tons or 3 to 4% of the world's total coffee export.

The Nordic region has also traditionally been a nearly 100% Arabica market with Brazil, Colombia and other Central American countries as the main contributors. The soluble market - at about 5% of the total - is limited compared with other countries. Espresso is just beginning to take hold with about 1% - 2% market share that is increasing.

The Nordic coffee markets are fairly straightforward after the consolidation of the last decade that now leaves about 3 to 6 roasters in each market accounting for as much as 90% of the coffee volume. Most of these have been in business for many decades and there's very little room for newcomers. The same level of concentration applies to retail distribution and other market channels like institutional foodservice. Only one roaster has had success in distributing a separately branded sustainable coffee. The Norwegian roaster Kaffeindustri has experienced good results with a brand called Farmers that prominently displays the Max Havelaar logo.

The Nordic roaster market is different from similarly concentrated markets and from the U.S. market in one specific way: most of the large industrial roasters carry at least some organic and fair trade coffees in their lines. The high end or specialty roasters and the coffee bars often do not. Indeed the vast majority of both organic and fair trade coffees are sold by larger industrial roasters. Participation of the larger roasters reduces the incentives for smaller ones and the specialty trade in the region have been slow to respond to the quality improvements in organic and fair trade; many were disappointed in the early offerings from certified producers, most of whom could not assure the availability of a consistent and high-quality supply. The products are therefore hardly represented in this quality-oriented segment of the market.

These mainstream or industrial trade sustainable coffees were not known to be of the best quality and although the quality has improved its reputation and flavor profile remain sketchy. This may present a hindrance to further expansion, even though many of the sustainable coffees have significantly improved in quality over the last few years. For example, three winners of the most recent Cup of Excellence in Nicaragua were fair trade coffees.

The Nordic countries import all their soluble coffee and Nestlé holds approximately two-thirds of this market share on average; Organic or fair trade is almost nonexistent in the soluble category.

This region is undergoing an ongoing consolidation in the retail grocery trade. Grocery stores, primarily large multiples, account for 70% of retail coffee turnover. Some have begun to carry more specialized coffees in an effort to differentiate; these include single origins and flavored coffees. The institutional market amounts for some 25 to 27% and the specialty trade through coffee shops, specialty coffee retailers and fair trade shops take some 3% to 5%.

Few restaurants feature organic or fair trade coffee but they are increasingly popular in public institutions. A number of state and county governments as well as churches and charitable organizations features such coffees, particularly fair trade, and some regulate that this shall be so. Sweden and Denmark are leaders in this but Finland shows little interest while Norway is just beginning to move in this direction.

The coffee market in Northern Europe

The 36.6 million bag consumption among western Europe's 17 nations in 2001 meant an overall small market growth of about .2%. Early indicators for 2002 show stronger growth. Many northern European countries have been stagnant in their consumption rates despite lower prices. Germany, the region's leading market, has experienced growth in its differentiated markets but an overall decline due to its reduced consumption of standard commercial coffees. The Netherlands and Austria, long bastions of coffee consumption, have seen their markets decline more than most, losing about 1% annually over the last five years.

A curious phenomenon has been noted in much of the region: that consumption has not responded to lower retail prices. Some analysts explain this by citing the increased substitution of higher quality milds with robusta and lower quality arabica and while there is certainly anecdotal evidence of this, it is not conclusive. The contrary argument holds that natural arabicas are a different rather than a lower quality and provide a distinct flavor profile that is useful in darker roasted coffees. This is given some credibility by the general increases in the espresso category across a number of countries where usage of Brazilian naturals has increased. Other low-cost coffees, primarily robusta, have fueled the recent increases in many of the emerging markets that require lower-priced coffees, usually in the form

of soluble. These varied points of view indicate that the simple dichotomy of good coffees vs. bad coffees may be somewhat too simplistic in complex and fast-moving markets. Some observers note that the natural evolution of these markets, particularly for sustainable coffees, will require that much more attention be paid to branding and promotion, in addition to quality, especially as other beverages successfully compete for market share.

The UK is of course an anomaly in Northern Europe because of its very high levels of soluble consumption. However, the range of these solubles is rather broad and they are certainly not entirely of low quality. Organic and fair trade organizations, during their early development, were often driven more by idealism than by professionalism or a quality orientation. Unfortunately, this sometimes made it more difficult for them to grow beyond a cause-oriented niche. Increased quality and professional business management have already yielded good results for both fair trade and organic coffees that are increasingly earning valuable shelf space in major retail outlets such as supermarkets.

The coffee market in Southern Europe

The markets in southern Europe show more positive consumption trends with market leaders Italy and Spain both showing average growth rates of between 1.4% and 1.9% in recent years. Even so, a recent roaster survey showed that the majority of Italian coffee consumers (65%) would pay more for good, high-quality coffee.³³ Southern Europe's smaller markets such as Portugal and Greece are also showing notable growth rates even though many of these markets are growing primarily in less-expensive coffees.

Although increases in certain Robusta and Brazils are also occurring in southern Europe, they appear to be having a different effect on consumption. One of the most probable explanations for this takes into account the fundamentally different tastes of these markets. While northern Europe has learned to appreciate the bright nuanced acidity most notably found in the Milds group, southern Europe has tended toward the less acidic and heavier body coffees that lend themselves well to darker roasts and shorter preparation methods like espresso. The substitution therefore is likely to be much more evident to consumers in northern markets than those in southern markets.

There is somewhat less concentration of the coffee business in southern Europe although this too is changing. Many countries now demonstrate a heightened level of awareness about organic and fair trade coffees in the past 2 - 3 years. This coincides with recent food safety shocks in northern Europe and the explosive emergence of certified organic agriculture, particularly in Italy.

Volumes

As we have noted, organic, eco-friendly, and fair trade coffees are distinct. However, it appears that the market often does not perceive them as such. There is growing evidence that consumers closely associate these coffees and do not draw a great distinction between them. These sustainable coffees, particularly organic and fair trade, have accumulated credibility and goodwill and there is some speculation that consumers would prefer not to have to make a choice between organic and fair trade. The increasing requests of major retailers to have coffees with both certifications also point in that direction.

In fact, this convergence has been occurring for several years as indicated by the increase in the

³³ Source: Feb. 12, 2001 issue of Coffee Fax (cac.inc@ix.netcom.com)

Table 6.1 Fair trade coffee (volume green purchased from origin)

Year	Percentage purchased organic
1996	1 %
1997	14 %
1998	19 %
1999	30 %
2000	39%
2001	44 %

amount of fair trade coffee that is also certified as organic. In early 2002, 44% of the active fair trade production was also certified as organic coffee.

Germany is both the dominant coffee consumer in Europe and also the most important consumer of sustainable coffees. The Netherlands also has considerable sales and its companies are also

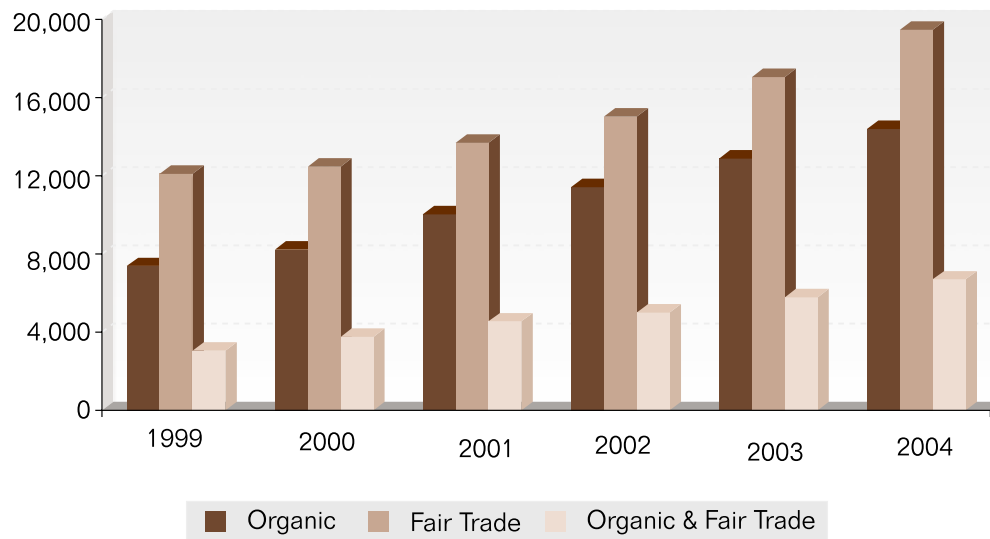
important for their forwarding of these coffees to other European markets. The United Kingdom, who like the Netherlands has a strong fair trade market, is the No. 3 consumer of these coffees even though its coffee market is not particularly large and has traditionally been focused on convenience or soluble coffees. Sustainable coffees have the highest market share in Switzerland and Denmark and are also strong in

Table 6.2 Coffee figures at a glance for 2001

Country	Population 2000 millions	Total Consumption metric tons green	Total Sustainable		
			% growth 2000 - 2001	metric tons green	Market Share (%)
Belgium	10.2	62,918	8%	1,068	1,7
Denmark	5.3	50,000	6%	1,685	3,4
Finland	5.2	56,734	15%	213	0,4
France	59.2	330,800	75%	1,338	0,4
Germany	82	549,500	5%	5,945	1,1
Italy	57.5	301,976	53%	947	0,3
Netherlands	15.9	140,552	2%	4,136	2,9
Norway	4.5	42,600	18%	439	1,1
Sweden	8.8	91,700	41%	1,477	1,6
Switzerland	7.2	58,000	-4%	1,610	2,8
UK	59.4	145,000	21%	2,408	1,7
Europe Total	315.2	1,829,780	12%*	21,266	1,1%*
Japan	131.6	421,309	n/a	1615	0,4

* The percentages represent weighted averages. The average market share across the countries is 1.6%

Figure 6.1: European sustainable coffee consumption and projections (Metric tons green)



Sweden, Finland and Norway, despite long availability, have shown less interest to date and their markets are relatively small. Italy, which is a major consumer of organic products, has, like France, very recently made sustainable coffees more widely available and both are growing quickly. For Japan the year 2001 was probably an anomaly due to the impending JAS. By 2002 Japan has become the second-largest consumer of organic coffees, after the U.S., and has raised

its total certified sustainable coffee volume to about 5000 tons. This represents about 1.4 percent of the total Japanese market.

Individual markets for fair trade and organic, or both combined, have steadily grown at a pace faster than the overall coffee markets. Of course, they start from a much smaller base. It is evident from the Table below that while fair trade continues to grow, organic is growing at an even

Table 6.3 European market for sustainable coffee (Metric tons greens)

Year	1999	2000	2001	2002 est.	2003 est.	2004 est.
Fair trade	14064	14354	15437	16232	17870	19573
Organic	7798	9270	11174	12162	13221	14405
Organic & FT	4074	4701	5346	5660	6101	6590
Totals	17787	18923	21266	22733	24991	27388

slightly faster pace overall. This of course varies in each market and in some individual cases the reverse is actually true.

In the past two years there have been a number of published estimates made for some or all of the sustainable coffees. These include assessments by the International Trade Center of the United Nations Conference on Trade and Development (UNCTAD) (2001 & 2002), ICO (2000), Agro-Eco Consultancy (2001), The Organic Trade Association (2001), the International Institute for Environment and Development (1997), the Swiss Institute for Organic Research (2001), Mick Wheeler (2002), Courville (1999), Sturdivant (1999), Latin Trade (2000), and Cornell University's Caitlin Brady (2001). These assessments cover a rather considerable range of estimates. Nevertheless, all of them concur that the global market for these sustainable coffees do not exceed 5% of the total coffee market. Most, but not all, are based on an expert estimate rather than primary research. Our research, that includes interviews of the majority of businesses involved in the importation, roasting, and distribution of these coffees, puts the figure at less than 2% of consumption in Japan and most major European markets. The share is closer to 1% in North America. The value share of these coffees is of course higher since they all command price premiums.

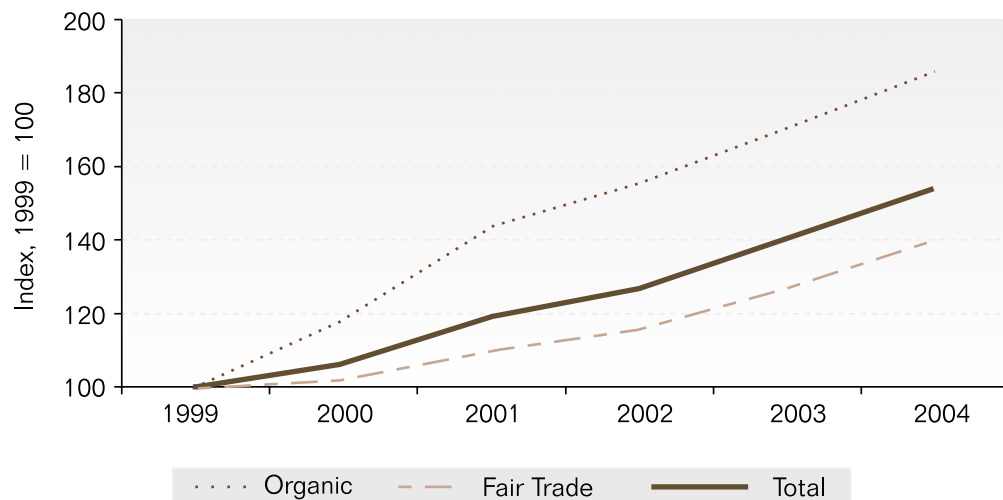
Trends

Fair trade will continue for at least a few years to be the volume leader among these coffees in Europe while organic certification is growing at a faster rate. Eco-friendly or shade-grown coffees are beginning to appear in a few markets and, although their selection and volume is still marginal, they could quickly increase their popularity particularly since their characteristics have been known to appeal to high-volume distributors in North America and Japan.

Between 1999 and up to 2002 average overall annual growth of these sustainable markets was approximately 8.3%. Although there will be wide differences between countries and even types of coffee, more modest growth is expected for 2002-03 and stronger growth in 2004-05. These predictions appear to reflect the coffee industry's confidence in sustainable coffees. Coffees that are double certified - both fair trade and organic - are likely to be the most popular. By 2004, the European sustainable coffee market is expected to grow by 55% to 65% from its 1999 level, representing an average annual growth rate of just under 10%. The sustainable markets in France, Sweden and Italy saw the greatest growth rates from 1999 to 2001 - particularly France that grew by 175% (representing the largest shift in volume). Sweden and the United Kingdom also saw significant growth in volume between the same years.

The fair trade sector represents the clear majority of all sustainable coffees sold in Europe and thus greatly influences the overall sustainable market. By 2004, the fair trade sector should grow 61% from its 1999 level. France, Norway and Sweden represented the greatest fair trade growth from 1999 to 2001 (253%, 218% and 61% respectively) - yet all three countries started from a rather small base. Germany, the Netherlands and the United Kingdom were top consumers of fair trade coffee in 2001 but the German and Dutch markets appear to be stagnant with only modest growth projected whereas the UK's prospects are more positive.

Organics constitute the most significant component of overall sustainable market growth and optimistic estimates expect that it can grow more than 80 percent in volume between 1999 and 2004. Italy, Sweden and the United Kingdom represented the greatest organic growth from 1999 to 2001; yet out of these three countries, Sweden was the only country which did not start from a small base. Germany, Sweden and Denmark were the top three consumers of organic coffee in 2001.

Figure 6.2 Estimated growth of european sustainable market

Since growth rates for conventional coffee are expected to be modest at best, sustainable coffees will likely continue to gain in market share. At their current pace these could reach to about 6 percent in a few markets, by the end of the decade. The increased demand for these and other differentiated coffees appears to coincide with wider social interests such as health, food safety, the environment, and social accountability.

Organic foods in general are achieving unprecedented popularity. Global organic food sales were about US\$26 billion at retail in 2001 with general expectations of continued strong growth. With half these sales occurring in Europe where persistent food safety issues continue to drive demands for traceability, it seems likely that organic standards will become increasingly popular. This is likely to be reflected in increased organic coffee sales as well, even if very few food safety issues apply to coffee. Supplies of these coffees will also be augmented by the increasing acceptance of environmental and organic farming principles in mainstream agronomic programs and in the extension services of many countries. However, there are still considerable inefficiencies in the typical organic supply chain

and these have been noted as a key inhibiting factor to lower prices in a recent OECD meeting on organics (OECD 2002). Eco-friendly coffees are closely associated with organic principles and are likely to also benefit from increased consumer consciousness of environmental issues.

Fair trade benefits from the increasing awareness among consumers and buyers of how their purchasing power directly impacts corporate social responsibility as well as labor standards in developing countries and ethical trade issues. Overall fair trade sales have enjoyed steady volume growth of nearly 20% per year on average from 1999 through 2002. Coffee has grown overall but with considerable disparities between countries.

There is a concern that in some markets fair trade coffee may have hit a glass ceiling, unable to grow beyond its affinity with a more socially conscious but limited market. Surveys show that despite a considerable acknowledged willingness among consumers to pay more for such products, they have not yet attained important levels of market share. It remains to be seen whether new marketing approaches and new initiatives among

some of the major European retailers might open the door to a larger market for fair trade coffees.

Certification is critical for the sustainable coffees and the confusion surrounding the certification labels could hinder growth, especially in mainstream retail channels. Organic certification has been steadily gravitating toward common principles (IFOAM) and common regulatory standards but remains generalized in terms of both biodiversity and socio-economic standards. Fair trade is gravitating toward increased organic certification - currently 45 percent is organic - but is not typically associated with environmental or biodiversity although these are general considerations for many fair trade producers. The most thorough of the eco-friendly certifications, Rainforest Alliance's seal covers many, but not all, of the social and environmental aspects of production but offers modest economic premiums.

Many observers feel that organic and fair trade customers have inherently different motives: personal or environmental health is often associated with organic purchasing decisions whereas social solidarity is more often associated with fair trade. However, large retailers appear to be increasingly signaling that they and their customers want a simple sustainability message rather than a variety of choices. This coincides with a private survey conducted by one major retailer indicating that their customers were only moderately familiar with the different certifications. If future expansion of these coffees will rely on the consumers currently patronizing mainstream market channels, then a simplified message could be beneficial. Discussions currently underway between the different certifiers for fair trade, organic, and eco-friendly could eventually lead to coordination of their common interests into a simpler and more comprehensive super seal to facilitate consumer education, promotions, and market acceptance.

Without such efforts it will be more difficult to compete with the emerging alternatives to the

accredited or third party verified certifications, especially those that seek to free-ride on the credibility and pioneering of certified programs with their own programs that do less for farmers and are not independently verified.

Much of the coffee industry feels that the premiums paid for sustainable coffees are equitable and are justified. While most of the industry predicts that organic premiums will continue they also project that, as supply competition heats up over the next few years, these could erode. It is unlikely that fair trade's minimum prices will change although several firms that carry fair trade coffees feel that the considerable difference from the prevailing market price is permitting alternatives, particularly corporate ones, than could eventually confuse consumers and dilute fair trade's impact.

Distribution channels in all of the markets for sustainable coffees have expanded enormously in recent years. This is all being facilitated by an increasing number of traders, including the largest global players, who are getting increasingly involved in these coffees. The expansion has been particularly evident at the retail level where supermarkets and high-volume multiple store chains have joined the specialty retailers in this business. Many of the specialty retailers including coffee shops, fair trade stores, health food stores, and independent grocers are consequently seeing their market share eroded. There is a dramatic difference between countries in the institutional or out of home channels for sustainable coffees and many have a considerable untapped potential in this area. These include restaurants, cafes, companies, government and healthcare organizations, and even vending machines.

The majority of the sustainable coffees to date are sold as roast and ground or whole bean and have had a stronger presence in the upmarket segments, i.e. gourmet and higher quality mainstream blends. While this will probably continue, there is also an emerging trend toward

lower-cost coffees to accommodate price conscious mainstream retailers. Many traders expressed a demand for very basic quality coffees (not poor quality) such as common Brazils and even robustas.

Although the percentage of committed consumers that insist on socially responsible coffee may be small, many mainstream retailers are counting on the likelihood that when given a choice most consumers will select a product that appears healthier or more socially responsible. It is imperative therefore that these coffees be priced competitively to facilitate that choice. Retailers in some European countries like Germany and Switzerland are already pricing some of these coffees only marginally higher than their conventional counterparts. In other countries like the UK where these coffees have been marketed into the high-quality channels the cost differences are on occasion considerable and it remains to be seen whether this may stifle a broader acceptance in the marketplace.

While the cause-related aspects of fair trade or organic are important differentiators in the marketplace, two other aspects are just as important for farmer sustainability: consistency and quality. It should be noted that quality is defined as “sufficient to meet the buyer’s needs” and does not necessarily have to be of the highest quality, unless it is for the gourmet market, since average coffees are often needed as fillers in blends to keep cost low. This is especially true since the industry feels that quality is improving overall and that competition is increasing among producers of these coffees. Equally vital are the relationships developed as a result of consistency in both the quality of the coffee and the business practices of the farmer or cooperative. These two types of consistency are perhaps the most valuable supplier characteristics that emerged from trade interviews and discussions. Business can bear a lower quality coffee but it has a very low tolerance for the increased risks of having an inconsistent supplier. There are evidently considerable costs and risks, i.e. lateness or

nonperformance, that discourage buyers from switching to new sources of supply and most are reluctant to change from a consistent supplier even when a competing supplier offers small advantages or inducements.

Key factors for further growth

Members of the industry were asked to “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

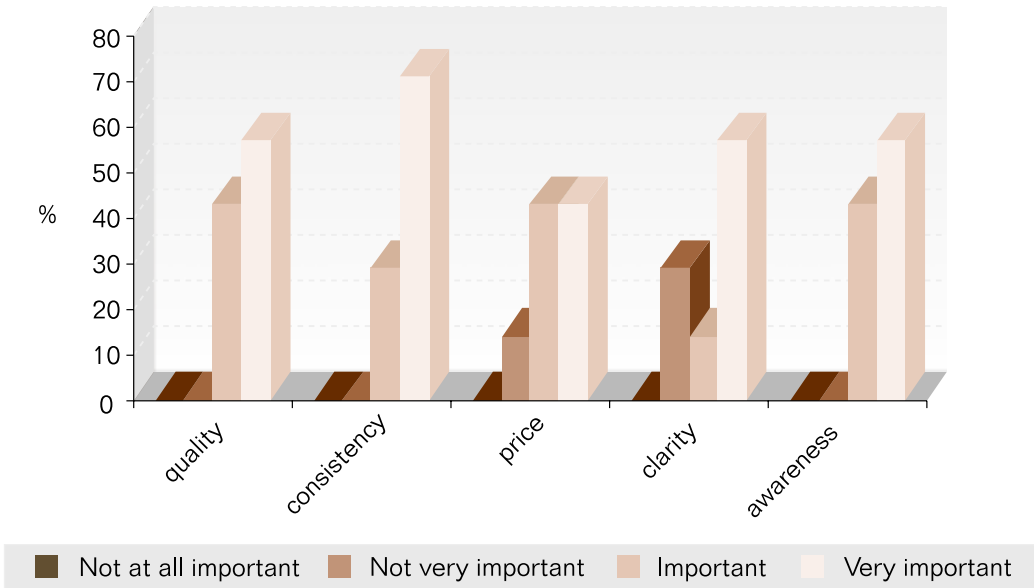
- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

If the industry does not fulfil these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 6.3).

The highest importance was given to consistency of supply, closely followed by (cup) quality and customer awareness of sustainable coffees. Other factors that were considered to influence market growth were: reliable traceability; lack of top quality fair trade and organic coffee; inadequate information; difficulty in administering a separate parallel process for organics.

For small coffee growers in many countries, coffee provides their primary source of cash income and so even modest premiums can make an appreciable difference. A strong majority of the roasters and importers involved with the sustainable coffee industry feel that the premiums paid for sustainable coffees, in general, are

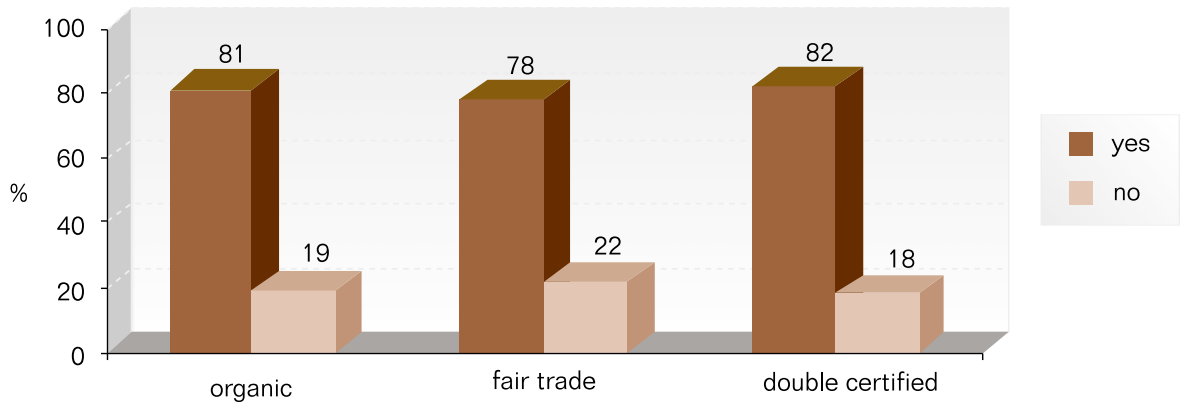
Figure 6.3 Key factors for the expansion of sustainable coffees



reasonable and justified (figure 6.4). Some of the most vocal complaints came from respondents who felt that fair trade prices are too high considering today’s low market prices. A number of the firms who balked at fair trade prices claimed to do so because they were not convinced that a significant portion of the benefits actually reached the producers.

Over the next two to four years a clear majority of the respondents considered that the fair trade premiums, which are regulated by FLO, will continue. The industry was just about evenly divided on whether organic premiums will continue to be similar, with a small majority predicting that they will remain close to current levels. More than three-fourths of respondents

Figure 6.4 Are current premiums considered to be reasonable?



felt that double certification will be in high demand and the premiums for it will continue to be strong (figure 6.5).

These markets are still relatively small and many feel that premiums are unlikely to remain at a high level for more than a few years as more and more producers enter the market. Most agree that reasonable premiums are certainly expected to continue for the near to mid term.

Sustainable coffees have proven their quality and acceptability in the marketplace. More recently they have also become more widely and more consistently available, thereby consolidating the introductory phase of their lifecycle. It appears that the salient characteristic of the emerging marketing phase for these coffees will be their development as branded products in order to achieve a more widespread appeal and acceptance.

Branding, promotion, and advertising strategies will be increasingly important as mainstream retailers take over more of the business and consumers necessarily lose the personal attention of specialized retailers that introduced them to the nuances of sustainable coffees. This represents a paradigm shift in the traditional

methods of marketing these coffees but will be vital for their future growth.

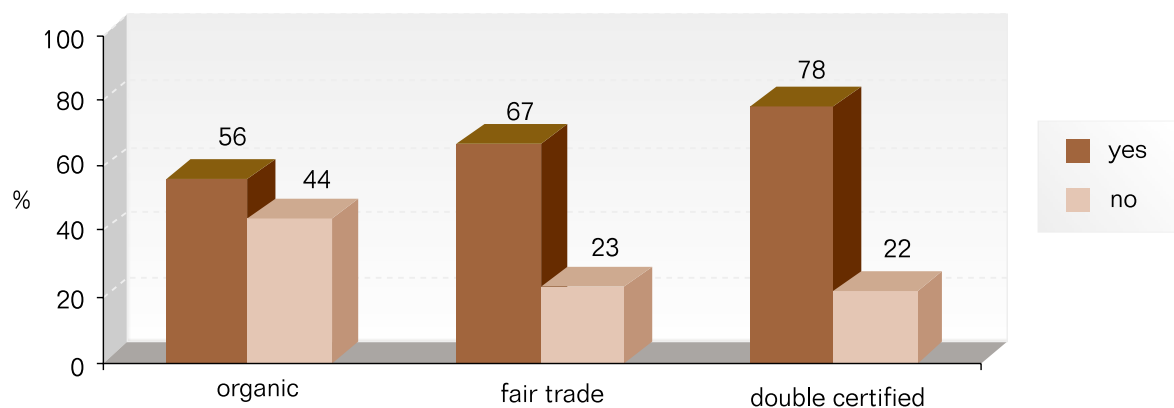
This shift has already begun in some markets like the UK and Belgium. In the UK, Cafédirect is a leading fair trade label and has positioned itself as a high-quality brand and achieved considerable success. In Belgium, Delhaize is a major coffee roaster and retailer that has successfully introduced a wide range of quality coffees with organic and/or fair trade labels.

On the other hand, in Germany for example, the lack of strong brands with an appeal to wider audiences could be a major market hindrance for sustainable coffees.

Overall the industry is cautious but optimistic about the future. It recognizes that these sustainable coffees are not only important for the health of the coffee industry but also that these are no longer inconsequential niches.

Some speculate that over the course of the next decade such coffees will become a strong rather than a marginal segment in the industry. As such, they may eventually become more of a competitive standard rather than a competitive differentiator.

Figure 6.5 Will premiums continue at their current levels in the medium term?



Part II

Individual Country Summaries



Loading fresh coffee cherries