

THE MARKET FOR ORGANIC AND FAIR-TRADE COFFEE

Study prepared in the framework of FAO project GCP/RAF/404/GER

***“Increasing incomes and food security
of small farmers in West and Central Africa
through exports of organic and fair-trade tropical products”***

September 2009



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“Increasing incomes and food security of small farmers in West and Central Africa through exports of organic and fair-trade tropical products”

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FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
Rome, 2009

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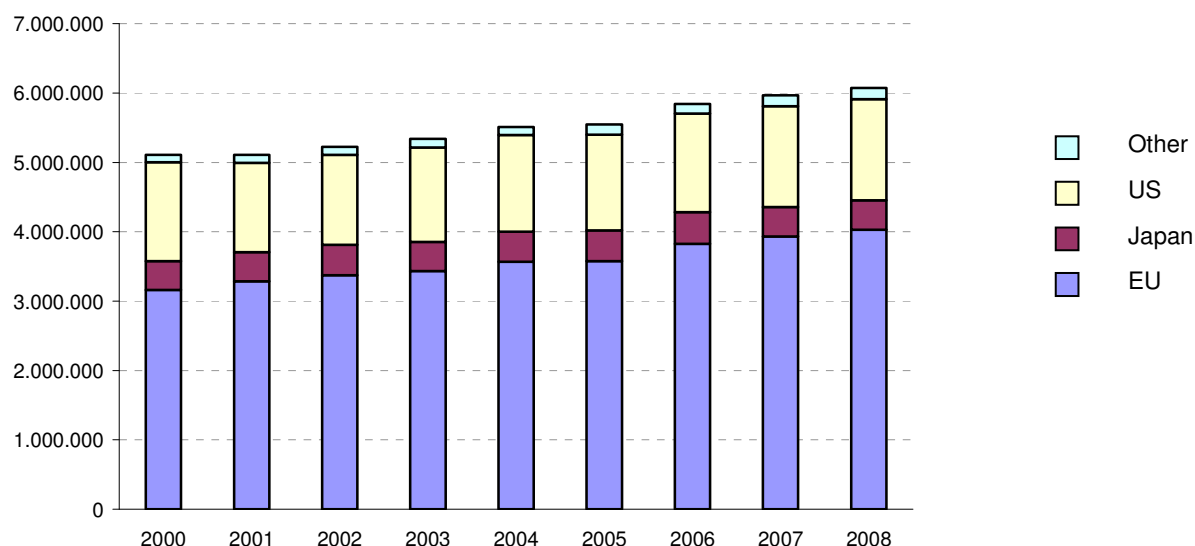
1. THE WORLD MARKET FOR COFFEE

1.1. OVERVIEW

Coffee is the single most important tropical commodity traded worldwide, accounting for nearly half of total exports of tropical products. According to the International Coffee Organization (ICO), worldwide imports¹ of all forms of coffee² of all origins reached 6.1 million tonnes in 2008, up by an average 2.4 percent annually since 2000, when worldwide imports stood at 5.1 million tonnes. The EU is the world's largest importer of coffee, accounting for 66 percent of worldwide imports, or 4 million tonnes, in 2008, followed by the United States (24 percent, 1.5 million tonnes) and Japan (7 percent, 423 602 tonnes). Europe consumes well over 90 percent of its imports, re-exporting the remainder in the form of green coffee (well over half of total re-exports), soluble coffee (one third of total re-exports), and roasted coffee³.

ICO estimates the total value of worldwide coffee exports at US\$12.7 billion in 2007, up 17 percent year-on-year and nearly double the value of US\$6.88 billion reported for 2004. Exports of Robusta coffee stood at US\$3.32 billion in 2007, accounting for 26 percent of worldwide coffee exports, compared to a total value of US\$9.38 billion for exports of Arabica coffee⁴.

Figure 1. Worldwide imports of all forms of coffee from all origins, 2000-2008 (in tonnes)



Source: ICO.

According to ICO, the consumption of coffee⁵ in the EU has remained relatively stable over the course of the past five years. In 2008, the EU consumed 2.39 million tonnes of coffee, compared to 2.47 million tonnes in 2004. The EU is the world's largest consumer of coffee, accounting for 31 percent of worldwide consumption in 2008, compared to 17 percent for the US and 6 percent for Japan. Germany is by far the largest consumer

¹ By ICO member countries. Imports by non-ICO members totalled 1.6 million tonnes in 2007.

² Over 95 percent of coffee exported by producing countries is exported as green coffee. A mere 4 percent is exported in the form of soluble coffee, while exports of roasted coffee are even less significant (ECOWAS-SWAC/OECD, 2006).

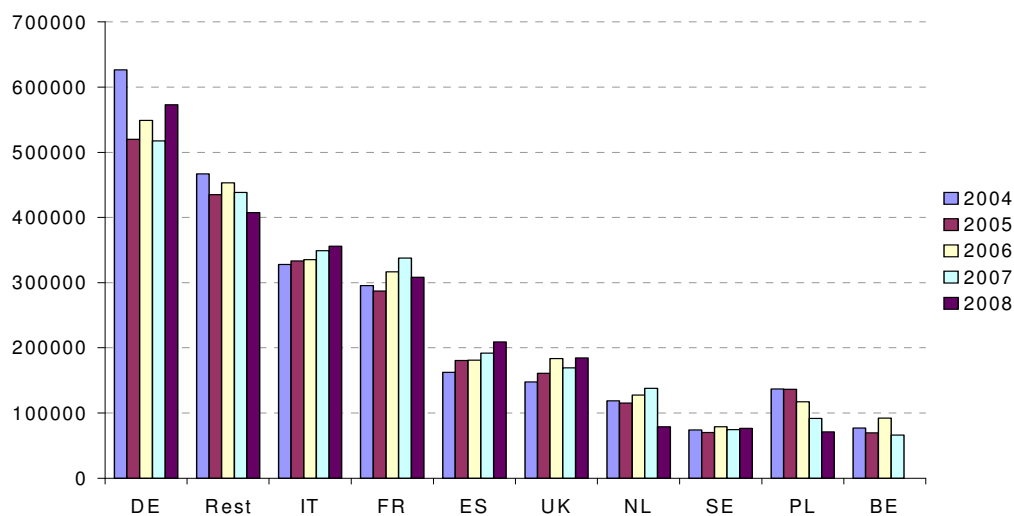
³ ECOWAS-SWAC/OECD (2006).

⁴ Production costs for Arabica coffee are 50 to 80 percent higher than those for Robusta coffee (ECOWAS-SWAC/OECD, 2006), while prices for Robusta coffee were on average 37 percent lower than those for natural Arabicas (Brazilian type) during the past decade.

⁵ ICO calculates the level of consumption in importing Members by deducting re-exports from imports and adjusting the resulting figure for changes in visible inventories.

of coffee within the EU, consuming 573 240 tonnes of coffee, or 24 percent of the EU total, in 2008. Other important EU consumers are Italy, France, Spain, and the United Kingdom (see Figure 2).

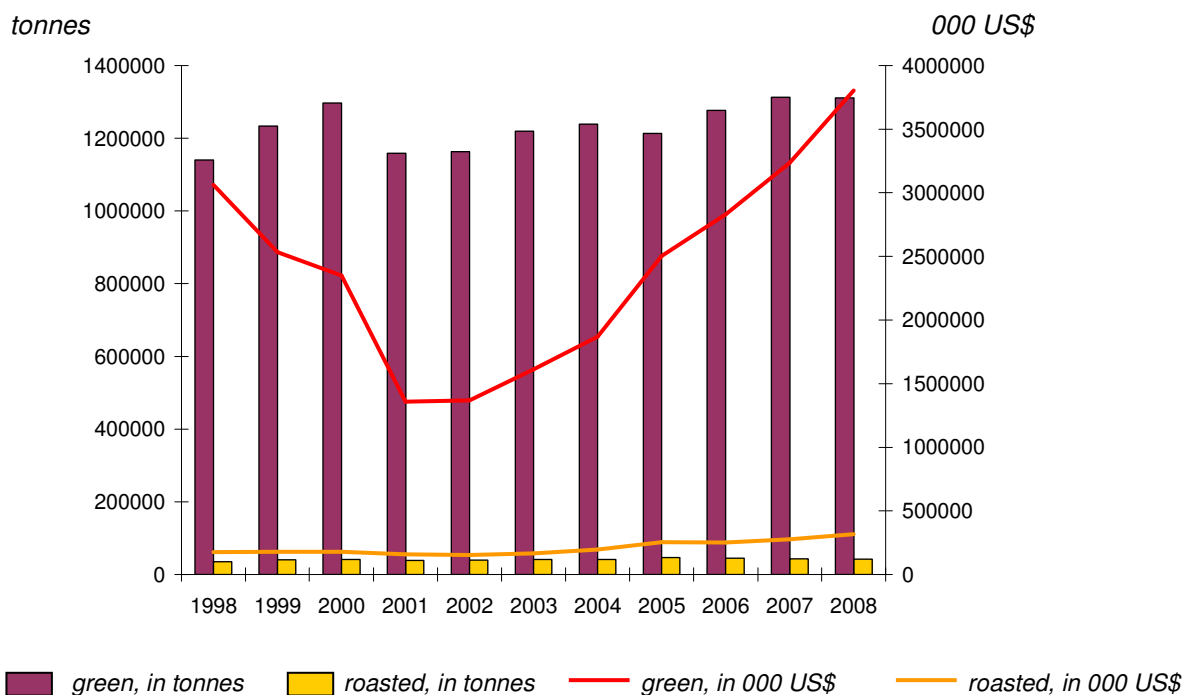
Figure 2. Coffee consumption in selected EU countries, 2004-2008 (in tonnes)



DE = Germany, IT = Italy, FR = France, ES = Spain, NL = Netherlands, SE = Sweden, PL = Poland, BE = Belgium
 Source: ICO.

Imports of both green and roasted coffee into the United States have remained relatively stable over the course of the past decade. In 2008, imports stood at 1.35 million tonnes, up 1 percent annually since 1998. In value terms, imports rose by an average 4 percent annually, from US\$3.24 billion in 1998 to US\$4.13 billion in 2008, with a sharp decline in the value of total imports from 1998 to 2001, reflecting world price developments (see 1.2.).

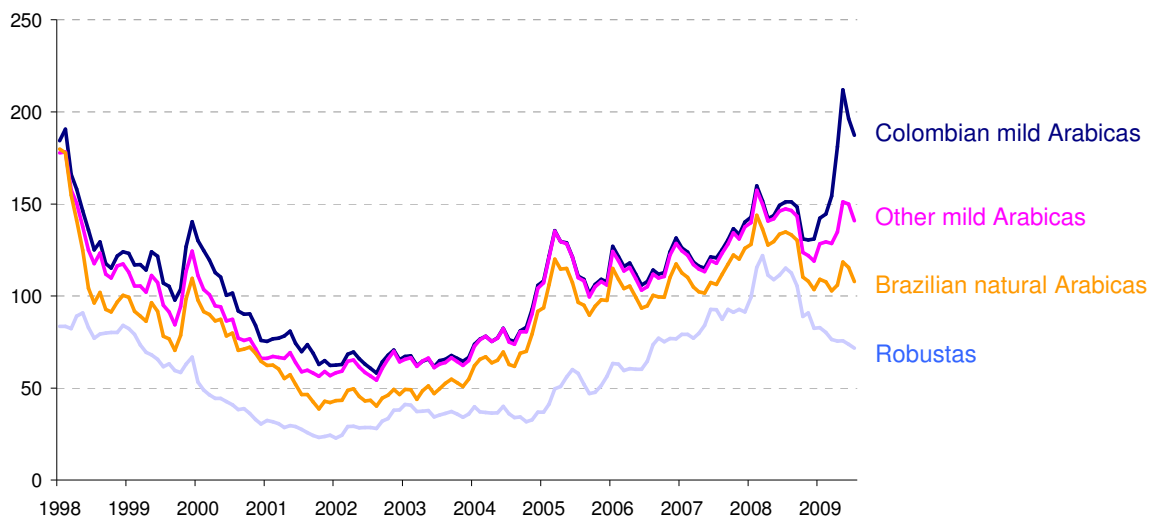
Figure 3. Imports of green and roasted coffee into the US, 1998-2008, in tonnes and 000 US\$



1.2. PRICES

In general, world commodity prices declined steadily from peaks reached in the mid-1990s to historically low levels in the early 2000s. Coffee, exhibiting the most volatile of commodity prices, became emblematic of the problems faced by developing country exports of agricultural commodities⁶. Against a background of rapid growth in global coffee supplies and stagnating demand, coupled with a low price elasticity of demand, prices of all coffees fell to their lowest level in more than three decades⁷. By 2003, coffee prices in real terms had fallen to less than one third of their level in 1960, undermining the economic sustainability of millions of families in Latin America, Africa and Asia. The world coffee market started to show signs of recovery in 2004, but it was only in early 2005 that coffee prices reached their average 1999 level of US\$0.85 per pound. By early 2008, coffee prices had reached their highest level in more than a decade, reflecting the overall upturn in agricultural commodity prices which began in 2006 and by 2008 had escalated into a food price boom, indicating the end of the decades-long decline in real agricultural commodity prices⁸. Since then, coffee prices have flattened out but remain well above the average prices recorded over the course of the past two decades.

Figure 4. Monthly average ICO indicator prices for coffee, per type, 1998-2009 (in US¢ per pound)



Source: ICO.

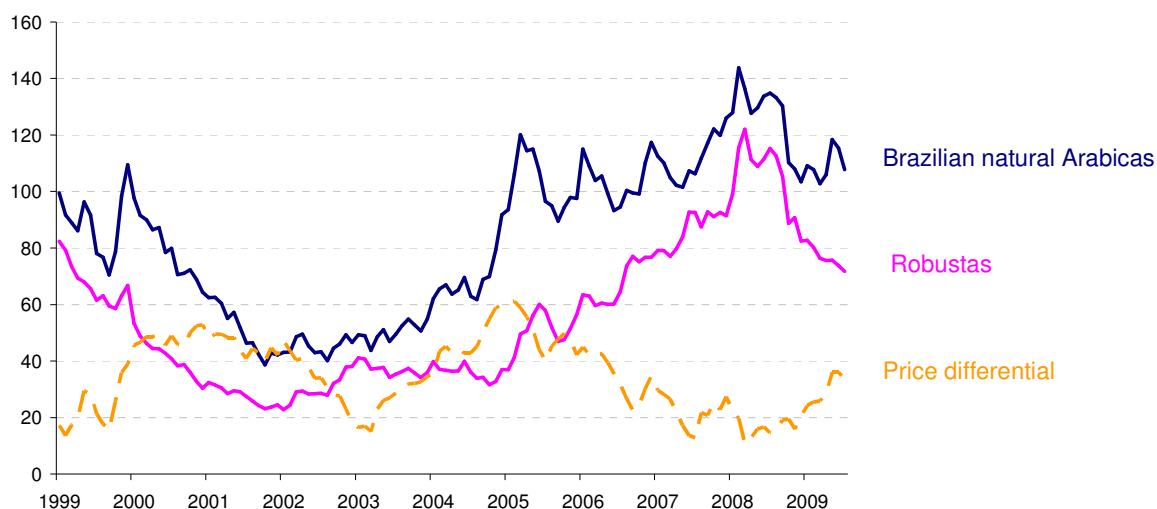
Arabica coffee typically commands a premium over Robusta coffee, but the price differential exhibits considerable variability (see Figure 5). Over the course of the past couple of years, for example, the price differential has fluctuated between 61 percent in January 2005 and 11 percent in March 2008. The trend of the past decade seems to indicate that in general, the price differential decreases when prices go up, and vice versa.

⁶ Hallam (2003).

⁷ De Haen (2002).

⁸ FAO (2009).

Figure 5. Monthly average ICO indicator prices for Brazilian natural Arabica and Robusta coffee, 1999-2009 (in US¢ per pound)



1.3. CONSUMPTION

The average per capita consumption of coffee in the EU has declined steadily over the course of the past decade, but still remains well above the average per capita consumption in the United States (see below). According to ICO, the average per capita coffee intake in the EU stood at 4.83 kg in 2008, compared to 5.37 kg in 2000. The European countries with the highest per capita consumption levels⁹ are Luxemburg (16.2 kg), Finland (12.6 kg), Switzerland (9.2 kg), Norway (9 kg), Sweden (8.3 kg), and Denmark (7.7 kg).

Traditionally, Robusta coffees, primarily from African origins, were the dominant component in most coffee blends available in Belgium/Luxemburg, France, Portugal and the UK, while most blends sold in Scandinavia, Austria, Switzerland, Germany, Italy and Spain incorporated a much higher proportion of Arabica coffees. While these traditional preferences are still noticeable, ITC (2002) claims that regional variations are becoming less pronounced, and that most blends sold in the EU now reflect consumers' preference for mild Arabica coffees.

Good quality coffee is readily available on the European market. Unlike the United States, where the unsatisfactory quality of mass-marketed coffee led consumers to turn to specialty coffees in large numbers, the European specialty segment consists mainly of real coffee enthusiasts, looking for something different¹⁰. The growing interest from large retailers in differentiated coffees, including single origin, organic and fair-trade certified coffees, as well as the rising number of coffee shops focused on this segment, is likely to stimulate the development of the European specialty coffee market. These differentiated markets represent one of the few growing segments of the European coffee market¹¹.

Per capita consumption of coffee in the United States reached an all-time high in 1946, when the average American consumed 7.5 kg of coffee annually. Since then, coffee consumption has declined considerably. The annual per capita intake (instant and regular) stood at only 2.7 kg in 1995, but seems to have stabilized at around 3.3 kg in recent years¹². A closer look at the different coffee market segments reveals that the consumption of conventional coffee has declined in recent years, while growth occurred only in the markets for differentiated or specialty coffees¹³.

⁹ Data for 2008 (2007 for Luxemburg).

¹⁰ ITC (2002).

¹¹ Lewin, B., Giovannucci, D. & Varangis, P. (2004).

¹² Food Availability Data System, Economic Research Service, United States Department of Agriculture.

¹³ Liu (2008).

2. THE MARKET FOR ORGANIC AND FAIR-TRADE COFFEE

2.1. THE MARKET FOR ORGANIC COFFEE

2.1.1. Overview

Data regarding worldwide imports of organic coffee differ widely according to the source used. According to Liu (2008)¹⁴, global imports of organic coffee exceeded 67 000 tonnes in 2006, compared to 52 000 tonnes in 2005 and 42 000 tonnes in 2003. According to the same source, North America imported 30 700 tonnes of organic coffee in 2006, accounting for 46 percent of worldwide imports, compared to 19 000 tonnes (or 36.5 percent of worldwide imports) in 2005, and 16 500 tonnes in 2004. Approximately 85 percent of North American imports are consumed in the United States. It is estimated that in 2007 around one quarter of organic coffee produced worldwide was sold as conventional coffee¹⁵.

ICO estimates worldwide imports of organic coffee¹⁶ at 36 821 tonnes in coffee year 2007/2008, up by an average 41 percent annually over the period 2003/2004–2007/2008. The ICO data confirm that the United States is the single largest importer of organic coffee in the world, accounting for 40 percent of worldwide imports in 2007/2008. Other important importing countries include Germany (18 percent), Sweden (7 percent), the UK (5 percent), Belgium (5 percent), Denmark (2 percent) and Japan (7 percent). According to ICO, the value of worldwide organic coffee exports stood at just over US\$45.1 million in 2007/2008, over double the declared value of US\$21.7 million reported in 2006/2007.

Table 1. Imports of organic coffee by importing country, 2003/2004–2007/2008 (in tonnes) (Source: ICO)

		2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Europe	<i>Austria</i>	60	0	26	44	38
	<i>Belgium</i>	0	0	900	1252	1965
	<i>Belgium / Lux</i>	117	1450	144	0	0
	<i>Denmark</i>	347	265	155	411	709
	<i>Finland</i>	0	127	96	76	39
	<i>France</i>	46	874	585	889	405
	<i>Germany</i>	699	4565	2800	4330	6783
	<i>Ireland</i>	0	0	0	0	19
	<i>Italy</i>	138	262	283	299	283
	<i>Netherlands</i>	465	821	999	1168	713
	<i>Norway</i>	0	108	36	37	77
	<i>Poland</i>	0	0	0	0	20
	<i>Portugal</i>	0	0	0	0	39
	<i>Slovenia</i>	0	0	19	0	0
	<i>Spain</i>	1	274	557	406	629
	<i>Sweden</i>	358	822	1006	1793	2705
<i>Switzerland</i>	40	160	30	99	13	
<i>UK</i>	24	676	810	1428	1710	
USA		2511	7734	10827	11015	14483
Canada		175	451	1016	1124	1471
Japan		461	3104	3050	3614	2693
TOTAL		5498	22143	23900	28971	36821

¹⁴ Liu (2008), based on Giovannucci, *Coffee Guide*, World Bank and CIMS.

¹⁵ CBI (2009).

¹⁶ ICO (2009). These figures are calculated on the basis of information received from ICO members in compliance with the rules for the application of a system of Certificates of Origin. These reports contain specific information on coffee labelled as organic.

Information regarding price premiums for organic coffee varies widely according to the source used, reflecting the fact that premiums are difficult to indicate because they depend on the quality and origin of the coffee, the situation of the market at a given moment¹⁷, the reputation of the producer or additional certifications such as fair-trade. It is therefore very difficult to determine to what extent the price premium fetched by a certain type of coffee is linked to its organic certification as opposed to these other factors. According to OECD (2003), premiums linked to better quality may even be more valuable than premiums for certification. Liu (2008) and Giovanucci (2007) confirm that the price premium for organic coffee is highly correlated with quality. Low quality organic coffees will sell at much lower premiums over their conventional equivalent¹⁸.

Data regarding organic price premiums gathered in the framework of this study include average price premiums of 10 to 15 percent in 2002¹⁹; 15 to 50 percent (2003)²⁰; 39 percent (or 108 percent for fair-trade certified organic coffee) (2003/2004)²¹; 30 percent (2004)²²; US\$0.28 and US\$0.24 per pound (in 2005 and 2006, respectively)²³; 30 and 40 percent (2005 and 2006, respectively)²⁴; 15 to 20 percent (2007)²⁵; US\$0.15 to 0.30 per pound (2007)²⁶; and 20 percent (2008)²⁷.

Various industry sources seem to agree that the price premiums for organic coffee have fallen in recent years. However, continued opportunities may exist for organic coffee carrying multiple certifications (fair-trade, for example), or for organic coffee of exceptional quality²⁸.

2.1.2. The European market for organic coffee

Existing data regarding the European market for organic coffee are outdated, and differ widely according to the source used. Bakker & Bunte (2009) estimate that organic coffee accounted for about 2 percent of the total coffee market in Western Europe in 2008. According to the same source, the 2008 market share of organic coffee in the Netherlands stood at roughly 1 percent, for a total value of 2.2 million euro. Meanwhile, the Tropical Commodity Coalition estimates that organic coffee accounts for a stable 2 percent of the market in Germany, the largest coffee market in Europe. The total market share of both environmentally and socially certified coffee in the country is estimated at 5 percent. According to the same source, the market share of organic coffee in Italy, Europe's second biggest coffee market, stands at a mere 0.5 percent, while less than one percent of all coffee sold in Italy is certified against an environmental or social standard. The organization further estimates that 25 percent of all coffee sold in the Netherlands is certified; the market share of organic coffee (including fair-trade certified organic coffee) in the country is believed to have remained relatively stable over the past few years, with about 1 000 tonnes sold annually²⁹. CBI (2009) estimates that organic coffee currently accounts for 2 percent of EU coffee consumption.

¹⁷ High conventional coffee prices mean the organic premium is reduced, while low conventional prices encourage higher premium percentages (Intracen, 2002).

¹⁸ Intracen (2002).

¹⁹ Intracen (2002).

²⁰ OECD (2003).

²¹ UNCTAD (2006).

²² Rocha (2004).

²³ Giovanucci & Villalobos(2007); Liu (2008).

²⁴ Liu (2008).

²⁵ Kurian, A. & Peter, K.V. (2007).

²⁶ Russell (2007).

²⁷ Coffee and Conservation (2008).

²⁸ UNCTAD (2006).

²⁹ Tropical Commodity Coalition (2009).

According to CBI (2009), organic and fair-trade certified coffee accounts for 2.6 percent of the European coffee market, or 64 000 tonnes. This percentage is much higher if Utz Certified and Rainforest Alliance (see 2.2.1.) coffee is included in the analysis. In absolute volumes, the largest markets for certified coffee in Europe are Germany, France and the United Kingdom, followed by the Netherlands and Belgium, while the market share of certified coffee is highest in the United Kingdom, Denmark, the Netherlands, Finland, Austria, Luxemburg, Sweden and Germany. While the market share of certified coffee is much smaller in Southern and Eastern Europe, sustainable coffee has recently become more widely available in Italy and Spain. The relative importance of the various certification schemes differs from country to country. For example, organic coffee is more important in Germany, while in the United Kingdom and France, fair-trade is the leading certification. Utz Certified coffee accounts for 40 percent of the coffee market in the Netherlands³⁰.

2.1.3. The market for organic coffee in the United States

According to the Organic Trade Association, imports of organic coffee into the United States and Canada increased from 29 484 tonnes in 2006 over 36 741 tonnes in 2007 (up 29 percent year-on-year), to 40 370 tonnes in 2008 (up 12 percent year-on-year). Most of these imports were sold in the United States³¹.

Sales wise, the North American organic coffee market was worth 1.3 billion dollars in 2008, up 30 percent year-on-year, making it the single most valuable organic product marketed in the region. It is estimated that the North American organic coffee market grew by an average 29 percent annually between 2000 and 2008, compared to the estimated 1.5 percent annual growth rate of conventional coffee sales³².

Organic coffee is estimated to account for about 3 percent of the North American coffee market in volume in 2007, while its share in value is slightly higher, since prices for organic coffee are higher than those of conventional coffee. Organic coffee ranked the highest in dollar value among all organic products shipped to North America last year, and it accounted for one-third of all U.S. organic beverage sales³³.

2.2. THE MARKET FOR FAIR-TRADE COFFEE

2.2.1. Overview

Coffee was introduced as the first fair-trade certified product in the Netherlands under the Max Havelaar brand, in 1988. Max Havelaar and other national certification schemes were later grouped under the umbrella organization Fairtrade Labelling Organizations International (FLO). Whilst the FLO system is the largest and most widely recognized fair-trade certification system, other labelling initiatives – often combining social and environmental criteria – have been developed, including Utz Kapeh's "Utz Certified"-label, Rainforest Alliance, Starbucks' "C.A.F.E."-label, Nestle's "AAA" guidelines, the label of the Fair Trade Federation, and the "Common Code for the Coffee Community Association".

Although coffee is the Fairtrade product with the highest sales volume, the market share of Fairtrade certified coffee is estimated at only 1 percent of worldwide coffee sales³⁴. Worldwide sales of Fairtrade certified roasted coffee reached 65 808 tonnes in 2008, up 14 percent year-on-year, for a total value of 1.2 billion euro. 52 percent of Fairtrade certified coffee sold in 2008 was also certified organic³⁵. It is estimated that global sales of Fairtrade certified coffee generated an additional income of US\$30 million for nearly 400 producer organizations in 2008³⁶.

³⁰ CBI (2009).

³¹ Organic Trade Association (2009).

³² Organic Trade Association (2009).

³³ Giovanucci, D. (2008).

³⁴ Valkila, J & Nygren A. (2009)

³⁵ FLO (2009).

³⁶ Max Havelaar (2009).

Around 78 percent of all Fairtrade certified coffee is produced in Latin America, with Mexico, Peru, Guatemala, Colombia and Nicaragua being the largest suppliers³⁷. 80 percent of all fair-trade certified coffee is sold in the EU, while the United States, the United Kingdom, France, Canada and Germany together account for three quarters of worldwide sales of fair-trade certified coffee.

Since June 2008³⁸, the FLO system guarantees a Fairtrade Minimum or floor price of US\$1.01 to 1.45 per pound, depending on the type of coffee (see Table 2). Meanwhile, the Fairtrade premium, an additional sum of money that goes into communal funds for workers and farmers to improve social, economic and environmental conditions, stood at US\$0.10 per pound. When the coffee is also certified organic, the minimum Fairtrade price is US\$0.20 per pound higher.

Table 2. FLO Fairtrade Minimum Price and Fairtrade Premium for coffee, per pound (FOB, in US\$)

Variety	Quality	Characteristics	Fairtrade Minimum Price	Fairtrade Premium
Arabica	Conventional	Washed	1.25	0.10
		Non-washed	1.20	0.10
	Organic	Washed	1.45	0.10
		Non-washed	1.40	0.10
Robusta	Conventional	Washed	1.05	0.10
		Non-washed	1.01	0.10
	Organic	Washed	1.25	0.10
		Non-washed	1.21	0.10

Source: FLO (2009)

Figure 6 compares Fairtrade and New York³⁹ prices for Arabica coffee during the period 1989-2009. The Fairtrade minimum price acts as a safety net for farmers at times when world market prices – characterized by their extreme volatility – fall below a sustainable level. The Fairtrade system proved highly effective during the price crisis of the late 1990s-early 2000s. While world market prices fell to a 30-year low of 0.45 US\$ per pound, the Fairtrade system guaranteed a minimum price that was 180 percent higher. In recent year, the differential between world market and Fairtrade prices has been more modest, raising questions about the necessity of Fairtrade certification for small-scale farmers⁴⁰. For those that continue working under the Fairtrade banner, the certainty of receiving a guaranteed price and the resulting consistency in income – allowing long-term planning – seem to be the major benefits of the system.

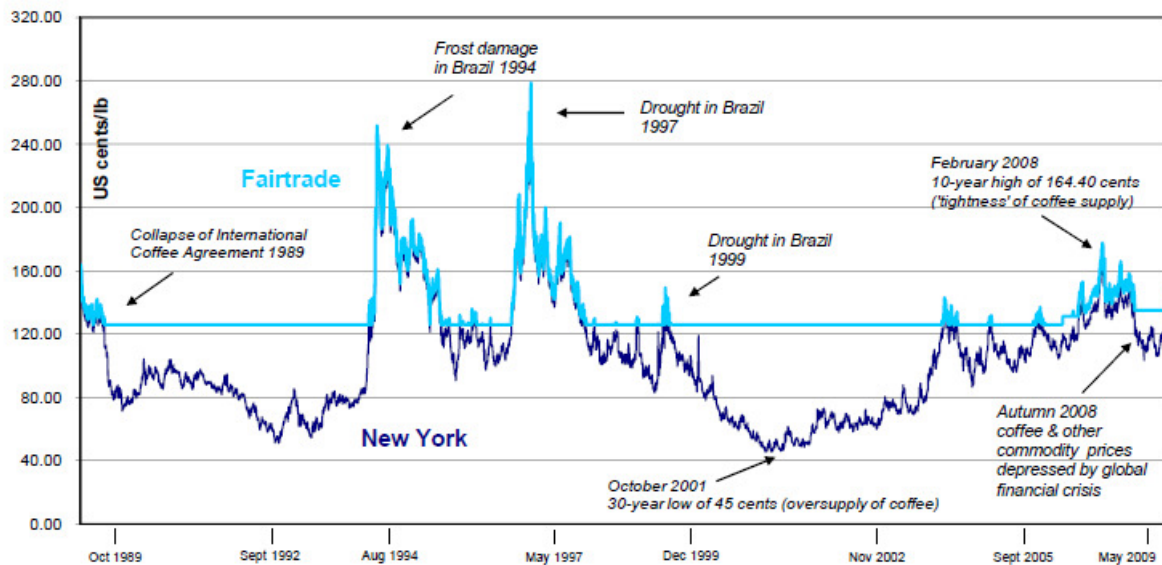
³⁷ Valkila, J & Nygren A. (2009)

³⁸ The new minimum price will be valid until June 2010, when another price review will take place.

³⁹ NY price is the daily closing price of the second position Coffee 'C' futures contract at ICE Futures US.

⁴⁰ Liu (2008).

Figure 6. New York and fair-trade prices for Arabica coffee, 1989-2009 (in US cents per pound)



Source: Fairtrade Foundation (2009).

2.2.2. The European market for fair-trade coffee

Sales of Fairtrade certified coffee in Europe have increased considerably over the course of the past few years. Many European countries have registered double-digit growth rates in Fairtrade coffee sales over the period 2001–2006 (see Table 3), and fair-trade coffee remains the fastest growing market segment in the European coffee market.

Despite its rapid growth in recent years, Fairtrade coffee still accounts for less than 1 percent of the total European coffee market⁴¹, with market shares varying considerably between countries. According to the latest figures available, Fairtrade coffee now accounts for 20 percent of the UK coffee market, well above the 7 percent market share registered in France, Europe's second largest market for fair-trade coffee. Fairtrade coffee represents between 3 and 5 percent of the coffee market in Ireland, Luxemburg, the Netherlands, Sweden and Switzerland; between 1 and 2 percent in Austria, Belgium, Denmark, Germany and Norway; and less than 1 percent in Finland, Italy and Spain.

Although it has been argued that Fairtrade coffee sales have levelled off in a number of countries where long-running campaigns have secured a sizeable market presence for fair-trade coffee⁴², the 20 percent market share of Fairtrade coffee in the UK illustrates that these allegedly saturated markets may still offer considerable potential for further growth.

⁴¹ Solidaridad (2008).

⁴² For example in the Netherlands and Switzerland. Reynolds (2002).

Table 3. Sales of fair-trade certified coffee in selected European countries

	Sales of Fairtrade certified coffee (latest available year)	Market share of Fairtrade certified coffee (in % of the market) (latest available year)	Market share of Fairtrade certified coffee (in % of the market) (2000)**	Year-on-year growth (latest available year)
Austria	1 000 000 kg (2008) €12.6 million (2008)	2* (2008)	0.7	20% (volume) (2008)
Belgium	1 217 614 kg (2008)	2.8 (2008)	1	10% (2008)
Denmark	€14.6 million (2007)	2 (2004)	1.8	22% (2007)
Finland	800 000 kg (2008)	0.4 (2004)	0.3	17% (2008)
France	6 630 000 kg (2007)	7 (2007)	0.1	7% (2007)
Germany	4 962 000 kg (2008)	1.5 (2007)	1	14% (2008)
Ireland	500 000 kg (2008)	3.5	0.5	n.a.
Italy	323 662 kg (2007)	0.1* (2007)	0.1	n.a.
Luxemburg	130 000 kg (2008)	3.5	3.3	19% (value) (2008)
Netherlands	3 100 000 kg (2008)	3	2.7	2% (2008)
Norway	751 072 kg (2008) NOK 59.7 million (2008)	1.4* (2007)	0.3	16% (volume) (2008) 28% (value) (2008)
Spain	346 970 kg (2007) €2.5 million (2007)	0.2* (2007)	n.a.	88% (value) (2007) 80% (volume) (2007)
Sweden	3 070 000 kg (2008) SEK 258 million (2008)	3.4 (2008)	0.8	90% (value) (2008)
Switzerland	1 530 000 kg (2007) CHF 24.7 million (2007)	5 (2007)	3	4.3% (volume) (2007) 5.6% (value) (2007)
UK	34 383 440 kg* (2008) UK£ 137.3 million (2008)	20 (2004)	1.5	17% (value) (2008)

Sources: Fairtrade Mark Ireland, Fairtrade Max Havelaar Norge (Norway), Krier (2008), Max Havelaar Belgie (Belgium), Max Havelaar France, Max Havelaar Stiftung (Switzerland), Max Havelaar - Denmark, Stichting Max Havelaar (Netherlands), Rättvisemärkt (Sweden), Reilukauppa (Finland), Rooda (2006), Schmidt (2006), SETEM (2009), TransFair Italia.

* Autor's calculations, based on latest available data from EarthTrends (per capita coffee consumption) and World Bank (population).

** Source: Krier (2008).

2.2.3. The market for fair-trade coffee in the United States

Imports and sales

Ten years after its introduction in the United States, Fairtrade certified coffee remains the most prevalent Fairtrade product in the country, accounting for 64 percent of total Fairtrade imports in 2008.

Imports of Fairtrade certified coffee into the United States have grown by an average 40 percent annually over the past decade. In 2008, imports stood at 39 813 tonnes, up 30 percent year-on-year⁴³. It is estimated that Fairtrade coffee accounts for some 2 percent of total green coffee imports into the United States⁴⁴.

Retail sales of Fairtrade coffee were estimated at US\$730 million in 2006, up 46 percent year-on-year. Fairtrade coffee, which is now available to US consumers in approximately 50 000 retail outlets nationwide, is believed to account for over 3 percent of the US coffee retail market⁴⁵.

While the bulk of Fairtrade coffee imported into the US is certified organic, the share of non-organic Fairtrade coffee in total imports of fair-trade coffee is increasing. In 2008, non-organic coffee accounted for more than 40 percent of total Fairtrade imports (or 16 323 tonnes), compared to less than 20 percent in the early 2000s, indicating the growing consumer recognition of Fairtrade as a stand-alone label.

Fairtrade coffee is principally produced from shade-grown and hand-picked Arabica beans of high quality, making it particularly suited for the specialty coffee market which has become the primary focus of fair traders⁴⁶. Fairtrade currently accounts for nearly 20 percent of the market for specialty coffees, worth US\$12 billion in 2006⁴⁷ and the fastest growing segment of the United States coffee market.

The number of Fairtrade-licensed firms (roasters and importers) in the United States has risen at an average annual growth rate of 42 percent, from 31 licensees in 1999 to (11 importers and 20 roasters) to 515 licensees in 2008 (86 importers and 429 roasters).

Suppliers

In 2008, Latin America accounted for 84 percent of all imports of Fairtrade certified coffee into the United States, compared with 77 percent in 2003. Asia supplied 10 percent of all Fairtrade imports (19 percent in 2003), while Africa accounted for 6 percent of Fairtrade imports (4 percent in 2003). Peru was by far the largest supplier of Fairtrade certified coffee to the United States, accounting for 25 percent of total imports into the country. Other important suppliers include Colombia (10 percent), Mexico (10 percent), Nicaragua (10 percent), Brazil (9 percent), Guatemala (8 percent), Indonesia (8 percent), Costa Rica (7 percent) and Ethiopia (4 percent).

In absolute values, supplies originating in Latin America increased nearly fivefold over the period 2003–2008, (from 6 726 tonnes in 2003 to 33 429 tonnes in 2008), at an average annual growth rate of 31 percent. Meanwhile, supplies from Africa and Asia grew by an average 37 and 18 percent annually, from 338 tonnes to 2 430 tonnes and from 1 662 tonnes to 3 953 tonnes, respectively.

⁴³ *Transfair USA (2008)*.

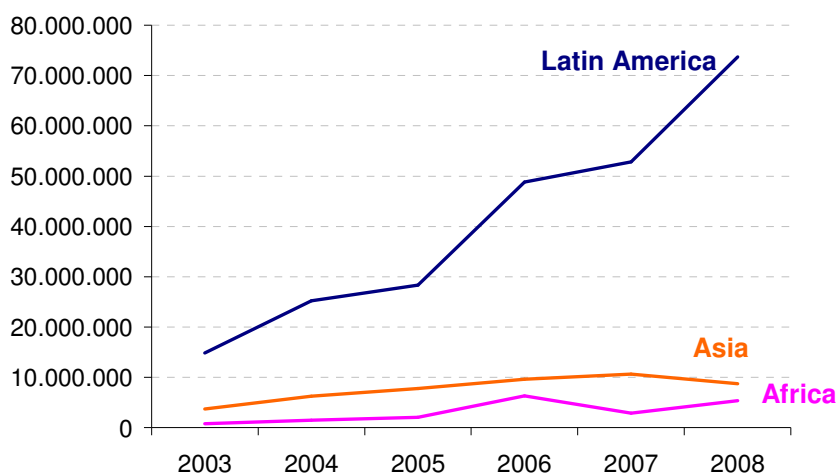
⁴⁴ *Liu (2008)*.

⁴⁵ *Transfair USA (2008)*.

⁴⁶ *Fridell (2007)*.

⁴⁷ *Transfair USA (2009)*.

Figure 7. Imports of fair trade certified coffee into the US, by origin, 2003-2008 (in pounds)



Source: Transfair USA (2008).

2.3. MARKET OUTLOOK

Consumers are increasingly concerned about the safety of their food, as well as the environmental and social implications of its production; they are beginning to truly grasp the meaning of “organic” and “fair-trade” and demand such products from their retailers. As a result, the market share of environmentally and socially certified coffee has grown considerable in recent years. According to the Tropical Commodity Coalition (2009), ethically certified coffees accounted for 6 percent of worldwide coffee production in 2008, compared with only one percent in 2002. In addition to the strong growth of fair-trade and organic coffees, three relatively new certification labels – Utz Certified, Rainforest Alliance and C.A.F.E. – have seen a dramatic increase in sales over the past few years. While growth of certified coffees has traditionally occurred in specialized, small-scale trade channels⁴⁸, certified coffee has now attracted the attention of large roasters and retailers, and is rapidly entering the mainstream coffee market.

With sales of conventional coffee stagnating in both Europe and the United States, coffees bearing a sustainable certification mark constitute one of the few segments of the coffee market registering sales growth in recent years. Coffee is ideally suited for ethical trade: it is consumed in large quantities; its main consumption markets are Europe and the United States, where the demand for sustainable products is growing; and it has structured trade channels⁴⁹.

Despite the recent boom in sales of certified coffees, the share of these coffees in total sales by the world’s main coffee roasters – with the exception of Starbucks – remains limited. Certified coffees account for between 0 and 6 percent of than the world’s largest coffee roasters, including Nestlé, Kraft, Sara Lee, Procter & Gamble, Tchibo, Smucker’s, Lavazza and Segafredo. According to the Tropical Commodity Coalition (2009), these relatively small volumes indicate that established brands are unlikely to market certified coffees on a large scale in the near future as they prioritise cost efficiency and are prepared to absorb only minimal additional costs.

⁴⁸ Liu (2007).

⁴⁹ Tropical Commodity Coalition (2009).

Rather than the main roasters, the twin drivers behind today's growing sales of certified coffees are large food services providers (e.g. McDonalds, Starbucks, Dunkin' Donuts) and mainstream retailers, who seek to meet growing consumer demand for ethical products and profile themselves as socially responsible corporations. Here, the battle for market shares is not fought in the area of cost reduction through mass production, but rather through the marketing of made-to-measure products tailored to consumers' particular tastes⁵⁰.

There are concerns that the proliferation of private voluntary ethical certification schemes is confusing to consumers, and ultimately weakens the entire field. While private certification schemes, no matter how stringent, are only valuable if they are understood and trusted by consumers, today's ethical coffee shoppers are challenged to distinguish between organic, shade grown, mountain farmed, Rainforest Alliance or UTZ Certified, fair-traded or Fair Trade coffee, in addition to companies' private schemes.

According to the World Bank (Lewin, Giovannucci and Varangis, 2004)⁵¹, differentiated and value-based coffees, including environmentally and socially certified products, present an opportunity for small, rural producers to participate in the cost-competitive global coffee market. Indeed, securing a market position based on ethical certification is potentially a viable long-term strategy for coffee producing smallholders.

⁵⁰ Rocha (2004).

⁵¹ Liu (2007).

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