BTC TRADE FOR DEVELOPMENT

European and Belgian market for certified coffee

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1 INTRODUCTION

1.1 Context and objectives of the project

Access to accurate and relevant market information is a virtual prerequisite to sustainable planning, production and trade, particularly within the context of market volatility. As smaller producers become increasingly exposed to international markets, there is a corresponding urgency in having up-to-date market information.
The International Coffee Organization, as well as the major coffee exchanges (e.g., LIFFE and ICE Futures US), have played an important role in rendering market information more accessible to producers around the world through online, real-time information services. To date, the market information provided by such institutions has, however, been limited principally to the four major coffee "commodity categories" (Colombian Mild's, Other Mild's, Brazilian and Natural Arabica, Robusta) with little to no attention to markets for speciality coffee[1] and other differentiated (labelled) markets.
Given that differentiated markets are the fastest growing markets and promise the highest returns for producers, improved market information offers an obvious opportunity for improving producer sustainability through market information.
Moreover, trading practices are the foundation upon which the basic commercial viability of any given coffee producer ultimately rests. Similarly, trading practices define the principal point of contact that producers have with the rest of the world, making them particularly influential in determining producer strategies for overall economic sustainability. As such, one can expect trading practices to play a role of some importance in determining the economic viability of coffee producers. Indeed the growth in concentration along coffee supply chains and the integration of supply chain practices, suggests a role of growing importance for trading practices as tools for improving producer capacity to deal with changing market conditions.
Given the importance of market transparency for producers aiming at selling their products overseas, this report wants to provide relevant information for producers and producer groups - within the trade context. More concretely, this report makes an attempt to capture all relevant information on the international coffee market – ranging from the worldwide economic structure of this market to characteristics and related prices for different types of coffee, certification and labelling information, product requirements and future strategies by some key actors in the coffee value chain, and major trends in consumer preferences and –behaviour.

1.2 Structure of this report

In the next chapter, we discuss the main characteristics of the international coffee market, describing both the value chain and price mechanisms, the most important actors involved and the specific features of the most important coffee labels. In chapter 3, we portray in more detail the production (supply) side of the coffee market, whereas in chapter 4, we take a closer look at the trading and demand (~ roasting and consumption) of coffee. We conclude in chapter 5 with some evaluating remarks on the certified coffee market.

1.3 Sources

- Pots, J et al (2007). Trading Practices for a Sustainable Coffee Sector – context, strategies and recommendations for Action
- Tropical Commodity Coalition for sustainable Tea, Coffee and Cocoa (2009): The coffee Barometer 2009

[1] Specialty coffee is coffee from beans with unique flavour profiles produced in special microclimates, also referred to as gourmet or premium coffee

2 COFFEE, ECONOMY AND DEVELOPMENT

Coffee is one of the most widely traded agricultural commodities in the world; and the world's second most important export product for the developing countries after crude oil. About 100 to 120 million bags (~ more than 6 million tons) are farmed yearly in 80 countries, on 17 millions of hectares. Approximately 80% (almost 100 million bags) of this green coffee is exported (with a total export value of roughly 15 billion USD), by over 50 countries in Central and South America, Africa and Asia. More than a 100 million people are engaged in producing and processing coffee – of which 25 million are coffee farmers in developing countries. Clearly, the production of coffee has a significant impact on the economic development of the producing areas and their environment.[2]

2.1 The global coffee market: structure and characteristics

2.1.1 The worldwide value chain of conventional coffee

In the global coffee value chain coffee is produced, transformed and distributed to consumers. The value chain can be described at several levels: technical, institutional and economic:

- Technically, coffee is transformed from cherry coffee to green beans of commerce, and then from green beans to roasted coffee and, for a smaller amount, instant coffee.
- Institutionally, the major categories are primary producers, primary processors and traders, international traders (importers and exporters), roasters and catering and retail distributors.
- Economically, an analysis can be made of costs and added value realised in each of the stages.

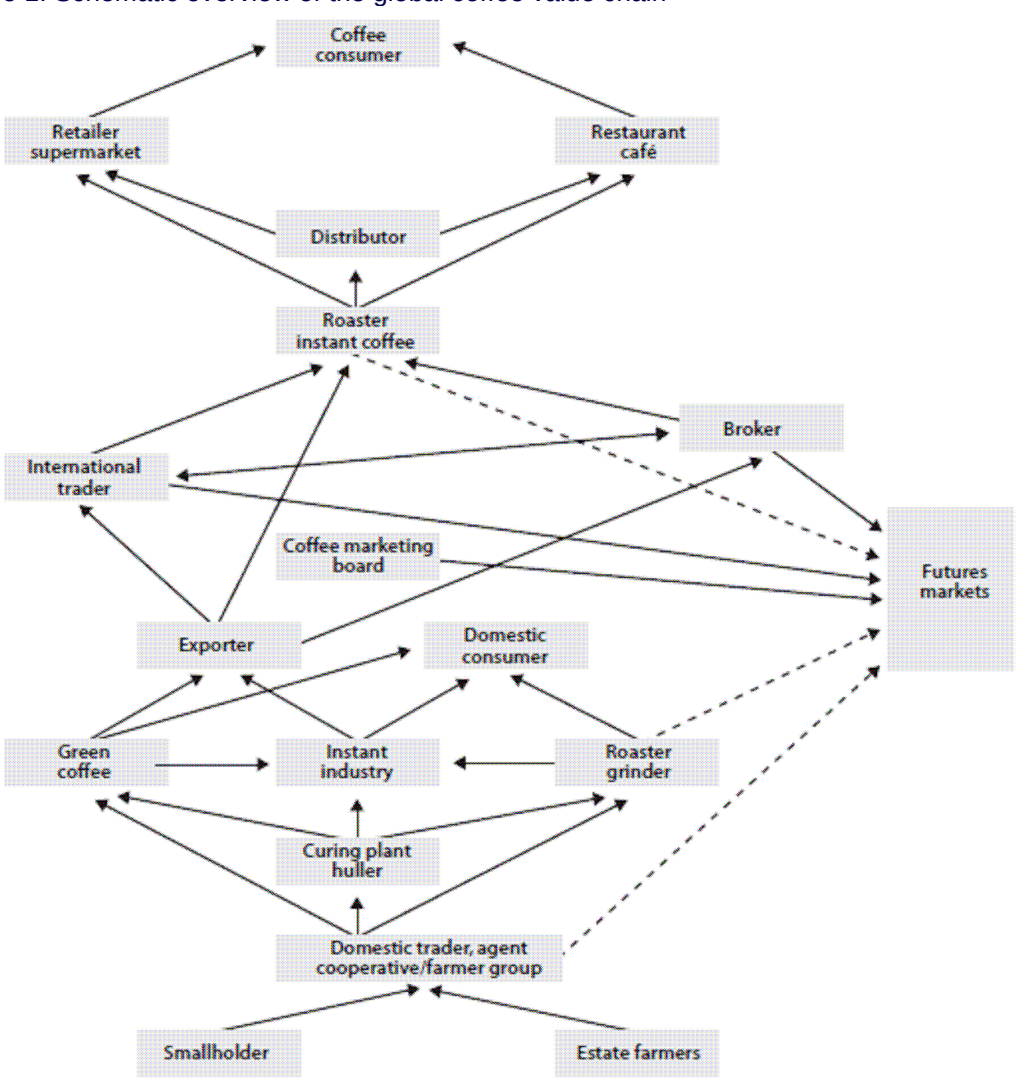
In the paragraphs below, we briefly discuss the process and economic actors involved in the process of producing, trading, roasting and consuming coffee – thereby focusing primarily on the institutional aspect of the value chain[3]. Figure 1 illustrates schematically the place of these different actors in the global coffee value chain.

In the country of origin, coffee is produced by smallholders or estates as cherry coffee. Cherry coffee is then transformed into green beans of commerce, which are offered to the international markets. Several distinct processes are used for this primary transformation, determining whether the coffee is rendered as natural or washed. Washed coffee is produced in a wet curing process, while Brazils and other naturals are produced in a dry curing process. Dry cherry coffee and parchment are semi-finished products obtained in these processes. The actors involved in these processes and the way they are organised vary from country to country.

Traditional coffee cultivation, which involves recreating the coffee plant's original shaded growing conditions in (semi-)diversified environments, is mainly conducted by *smallholders*. Currently, about 70% of world coffee production is made up of small producers with less than ten hectares of land; 50 % have less than five hectares. These smallholders may or may not be organised in cooperatives (often enjoying higher prices due to internalised transport facilities, increased market knowledge, direct exports and sharing of technical knowledge, resources etc). Cooperatives may or may not conduct primary curing.
Similarly, estates may or may not conduct primary curing. When the curing process is complete, grading takes place, so the green beans are sorted and offered to the international market in homogenous grades.

[3] Within the objectives and the scope of this project, the other aspects are of less relevance. We therefore discuss these topics briefly where it adds value to this market study (see e.g. 3.2.3 for a short summary of the current research results on compliance costs at production level).

Figure 1: Schematic overview of the global coffee value chain



Source: Pots, J et al (2007). Trading Practices for a Sustainable Coffee Sector – context, strategies and recommendations for Action - Adapted from Talbot (1997), Ponte (2001), Ponciano et al. (1995).

The producers sell their coffee to local intermediary traders (in Latin America, these are named "coyotes"). They are very often the only actors present in the coffee trade at the local level. From the hands of these local traders, coffee goes to the hands of international trade houses and specialised traders (sometimes also representing specific exporters in producing countries)[4].

~ Large players in EU are Neumann Gruppe (Germany), Volcafé (GB/Switzerland); and ECOM from Switzerland. These three main traders control almost half of the coffee trade[5]. Others are: Armajaro, Hamburg Coffee Company (in Hamburg) Douqué/Van Weely BV in Amsterdam and Efico in Antwerp. At a global scale, ECOM (USA), Esteve (Brazil/Switzerland), Arom (USA) and Mitsubishi (Japan) are the most powerful trade companies: together with Volcafé, they control more than 70% of the market.

[4] Some of the largest European roasters also maintain their own in-house buying companies (e.g. Taloca for Kraft) i.e. they import coffee directly from origin, or they even export coffee from origin

Exports can either be managed by companies or government organisations, depending on the country of origin. However, the frequency of the latter actually happening has decreased as a consequence of market liberalisation. In many countries government controlled marketing boards have ceased to exist, although some form of government intervention will typically remain. Export companies include plantations annex exporters, cooperative exporters, private national exporters and multinational exporters.

~ To date, some of the most important export companies are the same as the importers, i.e. Volcafé, Neumann Gruppe and ECOM, in addition to Olam, based in Singapore, who is primarily an exporter and leads the market for robusta exports.

Traditionally, most traders and dealers operate in ports where coffee is delivered, the major trading points being Hamburg (Germany), Rotterdam (The Netherlands), Le Havre, Marseilles (France), Antwerp (Belgium), Genoa and Trieste (Italy).

Coffee roasters and instant coffee manufacturers transform the coffee from green beans to roasted and instant. This roasting process usually takes place in consumption countries; and in the EU it is done to a large extent by multinationals supplying several EU countries from their production facilities. The level of concentration within the roasting sector exceeds the level of concentration in coffee trade.

~ The largest roasting companies are: Nestlé, Procter and Gamble, Sara Lee, Kraft, Tchibo. Those 5 are covering more than 2/3 of the roasted coffee market. In Europe, Nestlé and Kraft (with companies such as Jacobs Kaffee, Gevalia, Grand Mere and Carte Noire) controlled in 2002 almost 60% of the global market for roasted and instant coffees.

Retail, foodservice and catering organisations eventually deliver the coffee to the consumer. Within Europe, the most important B2C-channels for coffee are super- and hypermarkets.

~ Major European retailers include Metro AG, Aldi, Lidl, Tesco, Sainsbury, Carrefour, Delhaize, Ahold. The most important Belgian retailers and catering businesses are Carrefour, Colruyt, Delhaize, Aldi and Metro.

A relatively specific characteristic of coffee market (as part of the agricultural commodities market), is that this market not only is defined by physical trading activities, but also by futures markets, with its own economic/financial actors. This market mechanism is discussed further in the report (see further, 2.1.3)[6].

2.1.2 International supply- and demand- mechanisms

Being an agricultural product, the supply of coffee is susceptible to climatic conditions and to problems such as frost or drought (such as the drought and frost-period in Brazil in 1951). Moreover, it takes at least two years for new coffee trees to be productive and several others before they reach full production levels. Therefore, the supply response in the short term is possible only by changing the quantity of resources used for inputs and labour application, not by increasing the productive area as is the case for many other agricultural crops. The elasticity's (~ the response possibilities / time lag at producer's side) of coffee supply are thus low in the short run and higher in the long run.

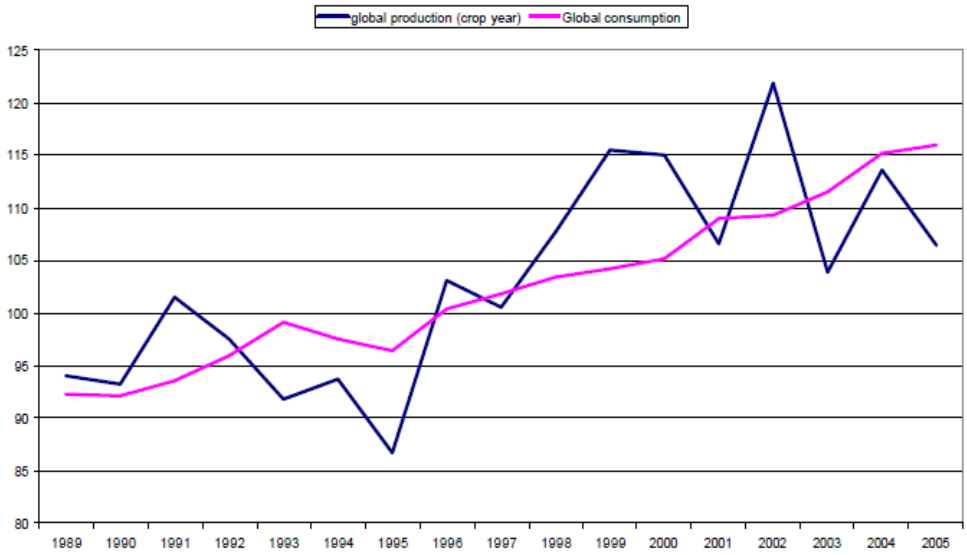
On the contrary, the demand for coffee is relatively stable – as consumption tends to increase as income rises, but levels off at the highest income levels. The subsequent low level of growth of consumption renders the coffee market as a 'mature' one, with a global annual increase of 1 to 2% in recent decades. This means that also demand elasticity's are relatively low, with coffee demand dropping significantly only at times of large increases of coffee prices.

The peculiar characteristics of the price elasticity's of supply and demand lead to highly variable prices in the world coffee market. A situation of supply shortage results in high coffee prices without a significant reduction of consumption. Likewise, supply reacts slowly in the short run while new plantings take place. In the long run, this leads to a higher than necessary response as new coffee trees mature. A situation of supply shortage may then be followed by

one characterised by oversupply and low prices. An opposite bust period then begins -- usually lasting longer than the boom period.

Consequently, from the nineteenth century onwards, the coffee market has suffered from long periods of oversupply followed by relatively brief periods of short supply. The following graph illustrates the differences in supply and demand of coffee - for the past 3 decades:

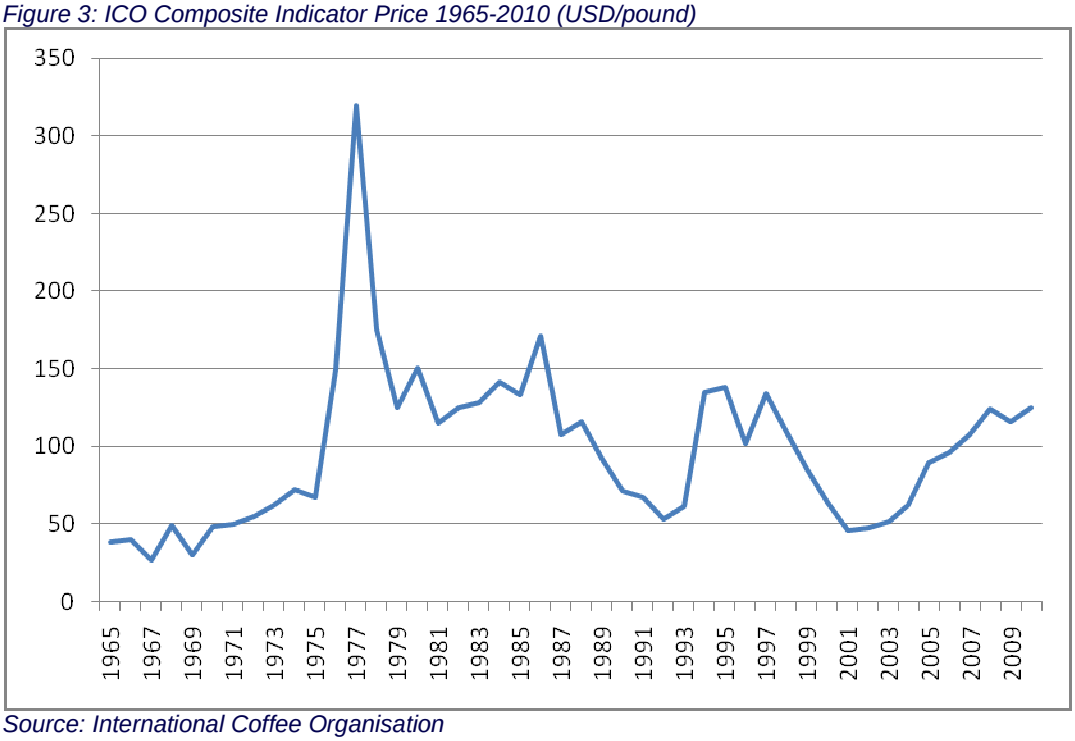
Figure 2: Global production and consumption 1989-2005 (million bags)



Source: International Coffee Organisation

Such discrepancies between supply and demand are of course reflected in the international coffee prices. The picture below elucidates the effect of oversupply (e.g. in the years 1989-1992) and supply shortage (e.g. during 1992-1996).

Figure 3: ICO Composite Indicator Price 1965-2010 (USD/pound)



Source: International Coffee Organisation

It is clear from the figure above that since the 1980s, price volatility in the coffee market has increased significantly (compared to the period of 1950-1975)[7]. Three important causes for this evolution can be identified: (1) the end of price stabilization mechanisms that were built in the quota system of the ICA regime; (2) increased activity in the coffee futures market; and (3) the adoption of supplier-managed inventory systems by roasters.
In the paragraphs below, we elaborate briefly upon these market changes.

2.1.3 The ICA– and post-ICA- institutional context

The experiences with the very fluctuating prices during the first half of the 20th century *(caused by, among other things, the economic depression of the 1930s, the second World War, the Korean war and the climatic circumstances in Brazil)* led to an intergovernmental initiative to attempt to stabilize the market and to halt the fall in prices which had had serious economic and political consequences for a large number of coffee producing countries in Latin America and Africa. Following a series of short-term Agreements between producing countries, a Coffee Study Group was formed to consider negotiating an Agreement to include both exporting and importing countries. The outcome of the work of the Study Group was the successful negotiation at the United Nations headquarters in New York of the International Coffee Agreement (ICA) 1962.

This first ICA was followed by a second five-year Agreement in 1968. These two Agreements contained provisions for the application of a quota system whereby supplies of coffee in excess of consumer requirements were withheld from the market. This system consisted of a target price (or a price band) for coffee and export quotas to each producer. When the indicator price calculated by the International Coffee Organisation (ICO) rose over the set price, quotas were relaxed; when it fell below the set price, quotas were tightened. If an extremely high rise of coffee prices took place (as in 1975-77), quotas were abandoned until prices fell down within the band. Under other provisions, production and diversification policies were initiated to limit supplies of coffee and promotion activities instituted to increase consumption.

The operation of these Agreements helped prices to remain relatively stable throughout the years 1963 to 1972, and production and consumption became more evenly balanced. Changes in the pattern of supply and demand, resulting in an increase in prices, led to the 'first' collapse of the quota system in 1973. In 1989, the 1983 Agreement was extended for a period of two years – however with both quota and controls provisions officially suspended. The verification of stocks was also discontinued, as were the provisions relating to production policies.

The reasons for the abolition of these core elements of the 'ICA-regime' were various – both 'internal' to the system and due to changing consumer/buyer preferences. One of the 'internal' problems was that the ICA system was undermined by free-riding and squabbling over quotas. Other problems were the increasing volume of coffee traded with (or through) non-member importing countries (at lower prices), the fragmentation of the market, and the increasing heterogeneity of development models (as Brazil and Indonesia moved towards a more export-oriented industrial strategy) (Daviron 1993; 1996).

Furthermore, quotas were relatively stable because they were costly to negotiate. As a result, the mix of coffee supplied by producers tended to remain stable, while in the 1980s consumers in the US progressively switched from soluble coffees (that employ a high proportion of Robusta) to ground coffees (that use a higher proportion of Arabicas). The rigidity on the supply side worried roasters, who feared that competitors could get access to cheaper coffee (from non-member countries). This undermined their cooperation within the ICA system. Finally, the Cold War politics of the US in relation to Latin America had changed in the 1980s. The US did not perceive the left in Brazil as a real threat anymore, and the rigidity of quotas meant that the US administration could not punish its 'enemies' in Central America (Bates 1997, 172-5). The combined result of these changes led to the failed renewal of the ICA in 1989. It took until 1994 to negotiate a new International Coffee Agreement, but it was decided that coffee prices would no longer be regulated.

[7] This period has not been taken up in the figure, as the ICO Composite indicator price (a weighted basket of physical prices of various coffee qualities and origins) was only published for the first time in 1964)

This end of the ICA regime has profoundly affected the balance of power in the coffee chain: from a fairly balanced contest between producers and consumers within the politics of the commodity agreement, market relations shifted to a dominance of consuming country-based operators (including their agents based in producing countries) over farmers, local traders and producing country governments. This has been accompanied by lower and more volatile coffee prices, a higher proportion of the income generated in the chain retained in consuming countries, and a declining level of producer-held stocks[8].

At the same time, there was a general switch in economic thinking in the 1980s and 1990s - away from public intervention in markets (~ market liberalization / deregulation of trading and quality control practices). This led to the dismantling of national coffee marketing boards, institutes and other quasi governmental bodies that regulated export sales. As a result, the capability of producing countries to control exports and to build up stocks has dramatically decreased since the 1990s.

In response to the abolition of the ICA-system; and more general: the liberalizing context, two public initiatives were implemented:

Stabex (Système de Stabilisation des Recettes d'Exportation) is (was) a European Commission compensatory finance scheme to stabilise export earnings of the ACP countries. It was first introduced in the first Lomé Convention (1975) with the purpose of remedying the harmful effects of the instability of export revenue from agricultural products. However, this system was abolished by Cotonou agreement in 2000 – with no analogous alternative being set up since then.

i. The Common Fund for Commodities (CFC) has been set up to promote international co-operation between producing and consuming countries - in order to attain the objectives of UNCTAD's Integrated Programme of Commodities (e.g. by facilitating the conclusion and functioning of international commodity agreements). CFC focuses on cocoa, coffee, fish and medicinal plants; and has a membership of 106 Member States and ten institutional members including the European Union (EU), the African Union/African Economic Community (AU/AEC), the Common Market for Eastern and Southern Africa (COMESA) and most recently, the Caribbean Community (CARICOM). As a global instrument, CFC is a useful, but limited tool, as it can finance only a limited number of projects

Moreover, neither STABEX nor CFC were intended to manage prices at a macro and multinational level, rather, to manage costs and help farmers adjust to prices.

Summarizing this evolution, one can say that, throughout the past 4 decades, the coffee (market) has been transformed from a managed market, in which governments played an active role both nationally and internationally, to a free-market system, in which anyone can participate (however with a power shift from producing to consuming countries and actors) and in which the market itself sets the coffee price.

2.1.4 The role of futures markets within international coffee trade practices

2.1.4.1 Futures markets as a means for reducing price risks for coffee traders

Whereas physical markets for coffee revolve around contracts intended for actual delivery, future markets are built on the trade of contracts for future delivery[9] of coffee (rather than the coffee itself) and, as such, are used by coffee traders and others in the coffee supply chain to manage risk in physical markets. After all, by agreeing upon future contracts, participants are able to reduce their exposure to future price movements and thus to mitigate their risk. Although very little physical coffee is actually traded on futures markets, the high number of transactions across futures markets, gives them a unique ability to "reveal" the going price for

[8] The consequences of this change in market structure clearly exist at different levels. *Annex 2 provides more insight on the differences between the ICA-regime and the 'post-ICA'-regime – with respect to geography of production and consumption, production and trade barriers, income distribution etc (source: S. Ponte).*

[9] Although contracts in futures markets specify obligations for the delivery of coffee, they are rarely "called" for actual delivery, with the majority being traded for complementary obligations contained in other futures contracts.

coffee at a specified time and, as such, provide a key reference point for physical markets. In sum, futures markets serve to smooth economic activity, provide liquidity in physical markets, and introduce a measure of transparency in price and availability.

Some important differences with physical markets exist: although delivery in physical contracts may also be for a future date (forward contracts), they are not traded on futures markets but rather used as a basis for establishing the terms of trade between buyers and sellers along the coffee supply chain. Unlike futures markets, physical markets determine the actual prices paid for coffee delivered and, as a result, are responsible for the distribution of actual revenue in the coffee supply chain. Although prices across physical markets often use prices on futures markets as a reference point for establishing prices, other factors such as geographic location, quality and other terms of delivery can lead to positive or negative differentials with respective to such prices. Physical markets for specialty coffee are notable for a certain level of[10] independence they exhibit with respect to futures market prices—a feature which is deemed to reflect the "individuality" or "inherent value" of the coffee traded on such markets.

Consequently, two sets of international prices are available for coffee:

1) ICO-published prices: these are indicators of the physical trade, where each contract refers to a specific quality, origin, shipment, currency and destination; and
2) Prices determined by futures markets: these are short-term syntheses of market fundamentals (production, consumption and stocks) and technical factors (hedging, trend following, reactions to trigger signals).

Prices in the physical trade of Arabica coffees from various origins are set as differentials in relation to the futures price quoted at the New York Coffee, Sugar and Cocoa Exchange (CSCE; division of the New York ICE Futures (www.theice.com) The reference price for Robusta coffees is set at the London International Financial Futures and Options Exchange (LIFFE; part of Euronext)).

2.1.4.2 Increased speculative activity by large investment funds

Not only traders and other 'coffee industry actors' are active within the commodity futures markets, large investment funds also became increasingly active within the commodity markets over the past two decades – trying to catch part of the profits that can be earned by buying and selling coffee contracts at the right moment. These increased speculative activities do increase liquidity in the market, which can be seen as a positive consequence of this evolution. Moreover, the quantity of transactions in futures markets combined with the diversity of participants more or less eliminates the potential for price manipulation on behalf of individual segments of the supply chain. In this sense, futures markets provide an equalizing influence on disparities in market power otherwise present in the physical market for coffee.

However, because managed funds operate on the basis of trend-following, 'trigger signals' *(which may not necessarily be linked to the actual conditions of supply and demand)* tend to cause larger movements in and out of the market than if the market was operated by the coffee industry alone. In other words, this increased speculative activity has led to a weakening of the connection between price determination and market fundamentals giving rise to greater price uncertainty. Since 2005, a new breed of index speculators has affected futures markets even more. Their significant and un-transparent influence has reduced the ability to read market signals and frustrated the market's ability to respond to shifts in fundamentals. The net result is greater volatility in prices, diminishing the hedging function of the futures contracts for 'real' coffee traders.

[10] This level of independence increases with the distinctiveness of the coffee.

2.1.4.3 *A new potential producer's role within the future markets*

With the likelihood of increased price volatility, it is more important than ever to find ways to diminish the negative impact of this at the farmer-co-op level. Market mechanisms (futures markets) are one of the best ways to fix a minimum price so that producers know what to expect and can even access finance on the basis of that known price.

Until recently, only the most sophisticated traders used the futures markets to improve their business and reduce their exposure to price risk. However, beginning in the earlier part of the last decade The World Bank Commodity Risk Management Team (CRMG) developed methods for training producer groups to participate in these markets as well. By partnering producer groups with local financial institutions or, in some cases, participating traders, the CRMG was able to facilitate producers access to these risk management instruments that in turn improved their ability to apply for financial loans against a more guaranteed minimum price to be received.

However, it has been somewhat more difficult to establish institutional channels that could regularly aggregate price risks from many small farmers and hedge them in international markets. There are thus many hurdles to overcome, relating partly to the accessibility of these (financial) instruments in rural areas, and partly to the capacity of small farmers and cooperatives to understand them and use them properly. Consequently, the direct impact on producers has been limited rather than global. This initiative also 'triggered' also actors to set up an analogous system: e.g. it has led governments from Mexico to Vietnam to implement similar approaches on their own.

Therefore, one could say that the innovative system, as we can call it, is a fascinating and arguably important option for farmers if it is available and if the producers / producer groups have the capacity to use them.

Of course, while this instrument helps to limit risks related to short-term volatility, it does not alter prices structurally. It consequently does not prevent that farmers are still exposed to periods of low prices.

2.1.5 *Market power and income distribution*

In 2.1.3, we argued that there has been a general shift of power from producing to consuming countries in the coffee marketing chain following the end of the ICA regime. Power relations between producers and buyers have also become more complex. Domestic market liberalisation in producing countries meant that states as such cannot be considered 'market units' anymore. Grower organisations have not been able to substitute governments as organisers of coffee exports. 'Local' exporters have not been able to raise necessary funds to compete with international traders, and have now either disappeared or allied themselves with international traders. The general trend has been a strengthening of the position of roasters *vis à vis* other actors.

2.1.5.1 *Concentration and upstream integration of international traders*

International traders went through considerable restructuring in the last two decades. Midsized traders with un-hedged positions suffered major losses. They also found themselves too small to compete with larger ones. As a result, they either went bankrupt, merged with others, or were taken over by the majors. Therefore, the market has become more concentrated. In 2008, Volcafé, ECOM (USA), Esteve (Brazil/Switzerland), Arom (USA) and Mitsubishi (Japan) together controlled more than 70% of the market.

At the same time, prospects are good for smaller and specialised companies that trade in the speciality coffee market (high quality and specific origins). With some exceptions, there has been little vertical integration between roasters and international traders[11]. As a result of

[11] Exceptions are represented by Decotrade, the trading arm of Sara Lee/Douwe Egberts, and Taloca, which is owned by the Jacobs Suchard/Kraft group (Philip Morris). Tchibo also has a trading arm that is very active in Kenya and Tanzania. Roasters/traders, however, do not rely on their trading arms alone for their supply needs. They source from a variety of other international traders as well

roasters' outsourcing of supply management, traders have had to strengthen their supply network. This has taken place through coordination (mostly pre-financing) or vertical integration with local exporters. In some countries, international traders have moved upstream (~towards the producers) all the way to domestic trade and in some cases to estate production. International traders are likely to continue investing in operations in origin countries so that they can cater to the needs of major roasters.

2.1.5.2 Oligopolistic structure of the global roaster market

The level of concentration in the roaster market had reached a level even higher than for international traders: Nestlé, Procter and Gamble, Sara Lee, Kraft, Tchibo cover more than 2/3 of the roasted coffee market.

Looking at the potential 'vertical integration' of roasters towards the producer side (as observed at trader level), it is remarkable to see that, up to now, roasters seem to have little interest in vertical integration upstream in the current market conditions[12].They seem better off concentrating on marketing and branding, while leaving supply to a network of independent traders. Some roasters (such as Nestlé) are said to source not only from a variety of international traders, but also directly from some 'local' exporters. The aim is to allow these exporters to compete with international traders in strategic origins. This allows the roaster to be less dependent on any actor, and especially on major traders. A distinction, however, can be made between mainstream and speciality roasters. It is likely that mainstream roasters will choose independency and flexibility whereas speciality roasters will opt for vertical integration (eg. Illy).

This concentration, the supply-managed inventory and more flexibility in developing blending formulas[13] have made roasters less vulnerable to shortages of particular types of coffee in recent years – shifting the market power significantly to the 'buyers' (roasters). Indeed, international traders argue that roasters have gained increasing control of the marketing chain in recent years.

A striking consequence of this increased market power of roasters is the regular use (by these actors) of a system of first-line and second-line suppliers, subject to price premiums and discounts. Roasters tend not to accept coffee for their blends from countries that cannot guarantee a reliable minimum amount of supply (in the case of Arabica, around 60,000 tons a year). As a result, on the one hand, minor producers may become increasingly marginalized in the future - without necessarily increasing the bargaining power of major producers *vis à vis* roasters. On the other hand, this has pushed some international traders to be (directly or indirectly) involved in domestic trade in major producing countries even though these operations may not be profitable (Uganda, for example), as long as they can satisfy their major roaster clients.

2.1.5.3 Income distribution throughout the coffee value chain

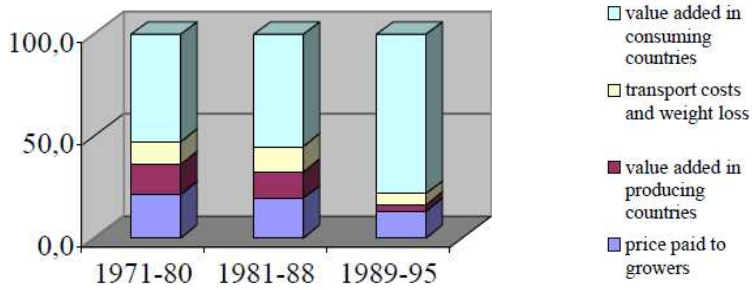
The collapse of the ICA regime and increased consolidation in the coffee industry have also affected the distribution of total income generated along the coffee chain. Talbot (1997a, 65-7) estimates that in the 1970s an average of 20 per cent of total income was retained by producers, while the average proportion retained in consuming countries was almost 53 per cent[14] (see figure below).

[12] An exception is Tchibo, which has vertically integrated all the way into estate production in Tanzania. The Italian speciality roaster Illy also has important upstream operations, eg. in Brazil.

[13] For example, shortages of Colombian coffee have been offset by greater use of Central American Milds. Another example of substitution is the greater use of Mexican beans in place of Brazilian. The new technique of steam-cleaning Robusta allows roasters to improve its quality and to substitute some Arabicas with premium-grade Robustas.

[14] The remaining shares of total coffee income are: (1) transport costs and weight losses; and (2) value added in producing countries.

Figure 4: Distribution of coffee income along the coffee chain (1971-80 to 1989-95) (%)



Source: S. Ponte, adapted from Talbot (1997a:66-7)

Between 1980/81 and 1988/89, producers still controlled almost 20 per cent of total income; 55 per cent was retained in consuming countries. After the collapse of ICA in 1989, the situation changed dramatically. Between 1989/90 and 1994/95, the proportion of total income gained by producers dropped to 13 per cent; the proportion retained in consuming countries surged to 78 per cent. In 2002, Oxfam estimated that only $0,14 of the final retail price of $26,4 for one kg of soluble coffee reached the farmer.
This represents a substantial transfer of resources from producing to consuming countries, irrespectively of price levels. The share of income retained by producers in the last two-three years is likely to further drop due to periodic situations of oversupply and low prices for green coffee and the ability of roasters to maintain retail prices at relatively stable levels[15].

2.2 Certification and verification systems in the coffee sector

2.2.1 Aims and characteristics of the main certification and verification mechanisms

There is a very clear trend among EU consumers towards a healthy life-style and, consequently, increased consumption of health food. Moreover, there is a growing consumer concern about food production methods and the impact on poor people and the environment – which has been translated into various standards systems that seek to address these 'sustainable development' - concerns. Nowhere is this trend more evident than in the production, trade, and marketing of coffee. Today, the sustainable coffee sector is replete with a range of different standards systems for sustainable production *(e.g. Fairtrade Labelling Organisation (FLO), Organic (IFOAM), Rainforest Alliance, Utz Certified, 4C, the C.A.F.E. Practices from Starbucks', Nespresso's private AAA-label,…)* each with its label and claims.

All coffee sustainability standards embody some combination of environmental, economic and social goals, and require suppliers to meet standards on food safety, working conditions and environmentally friendly production. In the paragraphs below, we discuss briefly the main characteristics of the main (non-private) labels.

There is a variety of **fair-trade** standards developed by a number of NGOs. In the agricultural sector, the most widespread system is that of the Fair-trade Labelling Organizations International (FLO), an international NGO based in Germany. FLO defines fair-trade as a trading partnership based on dialogue, transparency and respect that aims for greater equity in international trade by offering better trading conditions to producers and securing their rights, and improving trade rules and practices. Fair-trade organizations work with small producers and farm workers to increase their security and economic self sufficiency, and empower them in their own organizations. Fair-trade certification is carried out by FLO-Cert, a not-for-profit NGO. The FLO fair-trade system guarantees agricultural producers a minimum price and a price premium on product sales. FLO gathers 20 national fair-trade labelling NGOs.

[15] While green coffee prices almost halved between December 1999 and January 2001, average retail prices (in the US) decreased by less than 4 per cent (USDA data). This suggests that not only gross margins have increased for roasters, but also profits.

The certification programme of **Rainforest Alliance (RA)** focuses on the protection of the environment, forest conservation and sustainable management of natural resources. RA certification is based on ten criteria: a social and environmental management system, ecosystem conservation, wildlife protection, water conservation, fair treatment and good working conditions for workers, occupational health and safety, community relations, integrated crop management, soil management and conservation, and integrated waste management. Rainforest Alliance is an NGO based in the United States with offices in Costa Rica and the Netherlands. It is the international secretariat for the Sustainable Agriculture Network (SAN), a network of conservation groups that uses the *Rainforest Alliance Certified* seal of approval

Fair-trade and RA standards only apply to products imported from developing countries.

The **UTZ** CERTIFIED program is based on a program-specific Code of Conduct: a set of social and environmental criteria for responsible coffee growing practices and efficient farm management. Coffee producers who are UTZ CERTIFIED comply with this Code of Conduct. Independent certifiers conduct annual inspections to ensure producers comply with the requirements of the UTZ CERTIFIED Code of Conduct.

A web-based Track and Trace system follows the UTZ CERTIFIED coffee through the chain from grower to roaster. This gives buyers insight into where their coffee really comes from. UTZ CERTIFIED's Chain of Custody criteria assure that UTZ CERTIFIED coffee is not mixed with non-certified coffee.

Organic agriculture is a production method which manages the farm and its environment as a single system. It utilizes both traditional and scientific knowledge to enhance the health of the agro-ecosystem in which the farm operates. Organic farms rely on the use of local natural resources and the management of the ecosystem rather than external agricultural inputs such as mineral fertilizers and agrochemicals. Organic agriculture therefore rejects synthetic chemicals and genetically modified inputs. It promotes sustainable traditional farming practices that maintain soil fertility such as fallow and nutrient recycling (e.g. compost and crop litter). Most developed countries have adopted mandatory standards and regulations governing the production, marketing and labelling of organic products. Organic certification applies to both imports and domestic production.

Until recently, no specific standards for organic coffee and their products in any main markets existed. For organic coffee there do exist some local (label) standards e.g. in Mexico. However, generally these products must be certified according to the standards applicable to organic food products in general.

The IFOAM Basic Standards provide a framework for certification programmes worldwide to develop their own national or regional standards (they cannot be used for certification on their own). These will take into account local conditions and may well be stricter than the IFOAM Basic Standards. The IFOAM Basic Standards also form the basis from which the IFOAM Accreditation programme operates. The majority of certification programmes used worldwide are accredited by IFOAM.

For a product to be certified organic, all operators in the product chain – farmers, exporters, importers, processors, manufacturers, wholesalers and retailers – must be certified as acting in conformity with the regulations and standards of the certification programme concerned. They must be certified by an accredited inspection body at least once per year. In Belgium, Blik and Ecocert take up this inspection and certification role - issuing the same “biogarantie” label. This label is used by the majority of coffee roasters and distributors.

Naturland Association is one of the most important promoters of organic coffee production in Latin America and its export to Europe. Naturland supports and certifies cooperatives and commercial farmers. More than 80% of certified Naturland coffee is produced by small-scale farmers organized in cooperatives. The requirements with regard to inspection and certification of organic production of small scale farmer cooperatives have risen drastically during the last few years. In order to meet these requirements Naturland cooperated with IMO Switzerland to publish a manual on how to set up an internal control system. The amount of organic green coffee certified by Naturland in 2000 is 18,500 tons (1997: 900 tons).

From 1st July 2010, organic operators in the EU will be obliged to put the new EU logo for organic products (see figure below) on packages of organic products. The already existing, national and or private organic logos may still be used on packages. Existing stocks of packing material may be finished.

Recently, **organic** certifiers such as IMO and Ecocert also have introduced their own fair-trade standards. The IMO **Fair** for Life standard (www.fairforlife.net) combines a social responsibility and fair-trade approach. The standard is applicable to a wider range of value chains than the FLO standard and gives more responsibility to the operators to define the fair-trade contract. Issues such as pricing and pre-financing can be agreed more freely, while they will still be monitored. The standard provides an alternative fair-trade certification option, which is especially useful in supply chains that FLO does not certify, but it does not yet have a significant presence in coffee.

Central to these labels discussed above is the independent monitoring and verification system of 4C. 4C is a verification system that depends upon a code of conduct that every company/producer should implement. It starts with an internal monitoring process which 4C will help to set-up. In a later stadium verification will follow, this is performed by professional independent third-party verifier companies approved by the 4C Association. Its standards can help producers in a possible later stadium fulfil the more stringent standards of certification systems mentioned above.

The **Common Code for the Coffee Community (4C)** puts the emphasis in the improvement process rather than checking/certifying that all the production criteria have been met. (4C verification is process verification instead of product certification.) The 4C Association verifies that its members have implemented mechanisms to measure this improvement process and to assure that the baseline level of sustainability is met. Label-based initiatives have their coffee and farms "certified". They check whether the coffee in the final consumer pack meets the production criteria the label stands for. Since 4C does not certify the coffee or the farms where the coffee is grown, it does not allow a label on packaging.

4C is an initiative of GTZ and was started in January 2003 as a joint initiative of coffee producers, trade and industry, trade unions and NGOs to develop a global code of conduct aimed at achieving overall sustainability in the production, post-harvest processing and trading of mainstream green coffee[16].

By means of this verification system, it aims at excluding the use of “Unacceptable Practices” (e.g. forced and child labour, prohibiting of trade union membership, having workers living below a decent standard of living, cutting protected forest,…) and at supporting continuous improvement towards sustainable practices in the mainstream coffee sector.

Some private companies such as Starbucks and Nestle, have developed and implemented their own verification system. **Starbucks** has developed Coffee and Farmer Equity (**C.A.F.E.**) Practices. These are buying guidelines that address their principles for ethical sourcing. They help farmers grow coffee in a way that is better for both people and the planet. C.A.F.E. Practices is a comprehensive set of measurable standards focused on the following four areas: product quality, economic accountability, social responsibility and environmental leadership. **Nestle**’s **AAA** Sustainable Quality Program draws on its relationships with its suppliers and partners to ensure coffee is produced to the highest quality standards. Furthermore, it also considers the social and economic value for farming communities, and environmental sustainability.

Harmonisation / integration of labels described above:

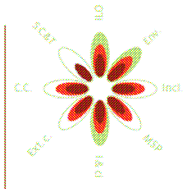
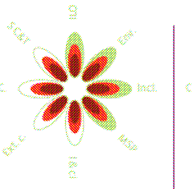
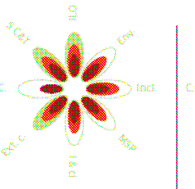
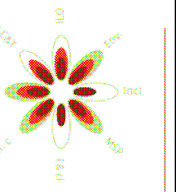
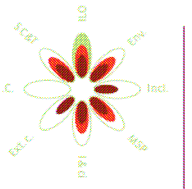
Fair trade is gravitating toward increased organic certification but is not typically associated with environmental or biodiversity although these are general considerations for many fair trade producers. The most thorough of the eco-friendly certifications, **Rainforest Alliance’s** seal covers many, but not all, of the social and environmental aspects of production but offers modest economic premiums. **Organic** certification has been steadily gravitating toward

[16] Just as UTZ, the 4C system is not meant as consumer certification – whereas the other labels (bio, fair trade, RA) are explicitly oriented towards the consumers

common principles (IFOAM) and common regulatory standards but remains generalized in terms of both biodiversity and socio-economic standards.

The table below provides an overview of the main coffee production standards systems, all benchmarked against the basic sustainability principles (as formulated by the authors, TCC) to identify a decent code of conduct[17].

[17] More detailed information can be found at :
http://www.scaa.org/PDF/SustainableCoffeeCertificationsComparisonMatrix.pdf

	Legenda no coverage low coverage average coverage high coverage						
							
		Certification system	Certification system	Certification system	Certification system	ification system	Company verification system
Thematic	Labour norms in line with ILO	Compliance with relevant ILO Conventions and national laws	Compliance with relevant ILO Conventions and national laws	Compliance with relevant ILO Conventions and national laws	Operators should comply with all ILO Conventions relating to labor welfare and the UN Charter	mpliance with core ILO labour ms in the list of unacceptable ctices	Compliance with relevant ILO Conventions and national laws
Thematic	Environmental requirements	More than half of the code consists of very specific environmental criteria, including ecosystem and wildlife conservation	Substantial part of the code is reserved for generic environmental standards with a three year implementation period	Environmental standards to improve agricultural and processing practices	Main part of the code consists of environmental requirements	ic environmental standards, ex-sion of banned pesticides through acceptable practices and minimi-ion of pesticides in WHO lists	Environmental leadership covers large part of the indicators
Thematic	Inclusiveness of vulnerable stakeholders	Good on small-holders, average on workers and low on gender	Code is designed for smallholders with difficult market access, additional standards for hired labor, average focus on gender	Support network Average for small-holders, strong for workers and low on gender	Average for small-holders who comply to minimal requirements, low for workers, low on gender	w for small-holders, high for ntation workers and low on nder	High for small-holders, average for workers and gender
Thematic	Multistakeholder participation	Standards developed by environmental NGOs of the SAN network, together with local stakeholders and international experts	Revision of governance structure, to balance stakeholder participation from producers side. Difficult to enter for new producer groups	Two-yearly evaluation of standards in multi-stakeholder consultation process. At local level there is a weak relationship with labour unions	Federation of 750 member organizations ranging from organic producers, retailers, NGOs, to (large) companies with indirect influence on Standards Bodies	partite membership association h broad participation on ernational level of producers, npanies and civil society, weak at al level	Modest multi-stakeholder participation, code designed as company standard
Systematic	Implementation & continual improvement	Standards include planning and monitoring component to demonstrate compliance and allow for improvement	Producer standards contain minimum and progress requirements, permanent improvement over time	Over a period of 4 years, the amount of mandatory control points increases gradually	Basic reference set of organic standards, additional certification standards for organic coffee production	ivels of criteria (green, yellow, l); low entrance level and step-stop improvement process with ess to support service	Low entry level, possibility to improve to higher score, three supplier levels, low amount of Zero-tolerance criteria
Systematic	External control	Certification by SAN network members	Certification centralized through FLO-Cert in Germany, based upon check list of local inspectors	Independent third-party control by approved bodies, local and international	Accreditation and certification, by private and governmental bodies	nual self-assessment, verified third-party if self-assessment lects reality and supports the ducers to improve	Second-party verification system, internal and external control mechanism
Economic	Commercial conditions	Good balance between production and demand, price premium depends on market demand	Pre-financing and long-term relation-ship. Assurance of a Fairtrade pre-mium, internalisation of social and environmental costs. Contribution to balance demand and supply	Strategic balance between supply and demand. Price premium depends on market demand.	High assurance of demand, with a market price premium	assurance of demand, rules of rticipation oblige companies to se the volume over time	High assurance of actual demand by Starbucks, if supplier level score is high
Economic	Supply chain coverage & traceability	Coverage of standards focused at producers' level, transactions registered at electronic marketplace	Coverage focused at producers' level, trader standards applicable	4 inspection levels (producer, certificate holder, nursery, storage); separate chain of custody code. High traceability, web-based	Separate criteria on processing and handling	verage on multiple levels (farmers, ocessing, trading)	Strong connection between producer and Starbucks
	Consumer communication	2 types of B2C communication: 1. Label: 100% RA coffee. 2. Label: minimum 30%-90% RA coffee with a seal indicating the exact percentage	B2C concept with active communication	B2B communication. Assurance label used on pack when at least 90% of content is Utz certified	B2C message by 95% organic	3 model, Membership Statement pack; Corporate Communication 4C Members	B2B concept, communication only through Shared Planet website
							Quality and sustainability is actively communicated to the Nespresso club members

2.2.2 The certified coffee market

2.2.2.1 Market structure

As described in section 2.1, the largest roasters (namely those with the largest market authority) usually tend to rely heavily upon traders for their supply of coffee rather than dealing directly with producers or producer groups. Smaller roasters and particularly those serving the specialty coffee sector, exhibit a greater tendency to deal directly with producers and their organizations in order to secure their supplies.

In other words, the 'sustainable chains' (including fair trade and other certifications) tend to be shorter than conventional food chains. They usually include a group of farmers, an exporter, an importer/distributor and a specialized retailer. In some cases, the chain is even shorter when the group of producers exports directly to a roaster or even a retailer (see figure below). This type of short chains is typical of the fair-trade sector, where the declared goal is to reduce the number of middlemen to increase the profit margin at farm gate level. This integration, which has been facilitated by rapid progress in information and communication technology, leads to increased profit margins at both ends of the chain. A number of new value chains for certified products have been identified. The organic food market has proved extremely fertile in this respect due to its rapid and steady growth.

Figure 5: Traditional and modern value chains

Source: Byers, Giovannucci and Liu, 2008 (FAO-publication)

Moreover, small-scale coffee production is very typical for organic coffee, as organic mono-cultures are hardly possible in technical terms.

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[18]. In Europe, CIMS[19] has identified around 100 certified coffee importers, 80 for organic, 70 for FairTrade, 19 for Utz Certified, and 12 for Rainforest Alliance, including double counts. Most are located in The Netherlands and Germany and are companies dedicated to re-exporting to other countries such as Scandinavia, Switzerland, and Italy. The UK also has a number of major importers, but they are oriented towards local consumption. These are the principal market entry channel for coffee producers which sell certified coffee.

Some examples of (partly) sustainable economic actors / brands in Europe are: Sara Lee, Ahold Coffee Company, Friele, Autobar and Coop Norge *(UTZ Certified)*; Kraft, Tchibo, Costa Coffee, Drie Mollen, Dallmayr *(Rainforest Alliance)*; Oxfam, Fair-trade Original, Ethiquable, Java *(Fair Trade)*; Hacofco, ECOM, Volcafe, DEK/Cafea, Inter American Coffee, Gepa,

Benecke, OXFAM, Douqué, Twin Trading, EFICO, Rucquoy *(organic coffee).* Within the EU, *4C* concerns traders such as Armajaro and Ecom, large roasters such as Nestlé, Kraft and Sara Lee and retailers such as COOP and Lidl.

2.2.2.2 Facts and figures

The sustainable and fair trade coffee market has been growing for the past decades. Worldwide sales of third-party certified coffee currently amount to more than 270.000 metric tons[20]. The table below provides some insight into the relative volumes per label – and the evolution since 2000.

Table 1: Global sales of third-party certified 'sustainable coffee for 2000 - 2008 (tons)[21]

	2000	**2003**	**2006**	**2007**	**2008**
Fair-trade	11.000	20.000	52.980	62.166	65.808
Organic	8.200	42.000	69.120	94.240	99.800
Rainforest Alliance	*(N/A)*	3.180	27.180	45.600	62.296
Utz-certified	*(N/A)*	*(N/A)*	36.000	52.980	77.500
Gross total	19.200	65.180	185.280	254.986	305.404
Net total*	**13.700**	**55.180**	**158.790**	**223.903**	**272.500**
Total coffee exports (conv + sust)	5.373.726	5.180.937	5.536.771	5.794.378	5.849.305
% of total	*0,3%*	*1,1%*	*2,9%*	*3,9%*	*4,7%*

Sources: Fairtrade.net, Agritrade 2008; Giovannucci, Pierrot 2010 and ICO (export figures)
** Assuming that 50%[22] of fair trade coffee is also certified organic and therefore counted double, half of the Fair Trade certified coffee is subtracted from the gross total.*

Almost 60% of this total volume has been imported / bought by European countries (about 45-50% for organic, Fair Trade and Rainforest Alliance coffee, and more than 80% for UTZ coffee). *Fair Trade* was until recently, the volume leader among certified coffees in Europe – with, in 2003, 14.000 tons sold in the EU (from the 20.000 tons sold worldwide). Although the volume Fair Trade coffee sold increased significantly since then (with 18.000 tons sold in 2005; and 29.000 tons in 2007)[23], *Utz Certified* recently took over the lead - with about 30.000 tons sold in European countries in 2006. Between 2006 and 2008, sales of Utz Certified coffee increased to almost 62,000 tons.

2.2.3 Prices, premiums and differentials

The most relevant price reference for coffee exporters and coffee producers is the export price level of green coffee (FOB): this is the form in which coffee is usually exported to importers in consuming countries.

These export prices for green coffee usually are negotiated between the buyer and seller: They agree on a 'price differential'. This means seller and buyer come to an agreement on the premium (or discount) to be added (or subtracted) on the price quotation at a certain moment at the coffee terminal markets in New York (ICE Futures or London (LIFFEIt has to be noted that, more and more, especially in the US and Japan, organic coffees are traded at fixed prices, reflecting the intrinsic quality of the coffee, and the added value of sustainable ways of production. In that case, the New York and London futures markets play a less important role in determining the export sales price levels.

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20 The total volume of produced and certified coffee for each of these labels is typically higher than the final sales figures (= volume effectively sold under this label). For example, only about 25-30 % of UTZ Certified coffee; 40 to 50% of RA-coffee and 60-87% of organic coffee; is sold as such.

In 2008, the volume of 4C-compliant coffee amounted to 4.5 million bags (~270.000 tons). However, how this coffee finds its way to the market and if it does so as 4C coffee is not known. Moreover, in concerns a lot of double counts of Rainforest coffee and other certified coffee – we therefore did not take up 4C-coffee in our overview table.

21 We did not include Starbucks and Nespresso in this overview, as these are 'private' labels. The former sold approximately 134.000 tons of 'their' certified coffee in 2008.

22 This percentage is much higher in the United States, where approximately 78% of the fair-trade coffee was also certified organic in 2006

23 At a global level, Fair Trade sales amounted to 34.000 tons in 2005; and 62.200 tons in 2007 (source: the ITC Coffee Guide, 2009).

2.2.3.1 Minimum prices and premiums for Fair Trade coffee

Since June 2008[24], the FLO system guarantees a Fair-trade Minimum or floor price of US$1.01 to 1.45 per pound, depending on the type of coffee (see table below). Meanwhile, the Fair-trade 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 Fair-trade price is US$0.20 per pound higher.
The table below gives more detailed information about these minimum prices and premiums of Fair Trade – labelled coffee.

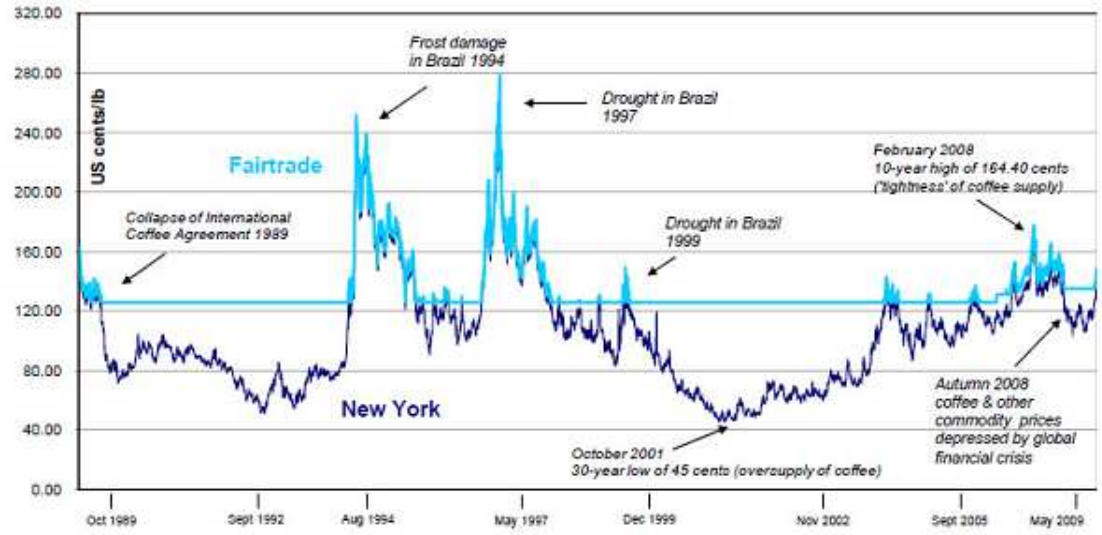
Table 2: FLO Fair-trade Minimum Price and Fair-trade Premium for coffee, per pound (FOB, in US$)

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

The picture below sketches the evolution of fair trade prices of Arabica coffee between 1989 and 2009- highlighting clearly the 'buffering' impact of the Fair-trade minimum prices during periods of low international coffee prices.

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



Source: Fair-trade Foundation 2009

[24] This minimum price will be valid until June 2010, when the next price review will take place

2.2.3.2 *Premiums and differentials for organic coffee*

The premiums for certified organic coffee are generally 10-25 USD ton, or 15% to 35%, above the prevailing market price above the same coffee in conventional quality[25]. But some origins, e.g. Brazil, can have much higher premiums.
Differentials vary, according to offer and demand at a certain moment. Below is an overview of price differentials for a number of organic coffees, as an example of the situation in December 2009:

Origin	Price differential (USD ton), FOB
Arabica	
Peru	+ 22 to + 30
Bolivia	+ 15 to + 20
Mexico	+ 32 to + 45
Honduras	+ 20 to + 25 (FLO: + 34)
Colombia	+ 60 to + 80
El Salvador	+ 32 to + 40
Uganda	+ 8 to + 18
Brazil	+ 80 to + 120
Ecuador	+ 28 to + 35
Nicaragua	+ 40 to + 47 (FLO)
Tanzania	+ 25 to + 35
Robusta:	
Uganda	+ 500
Tanzania	+ 350 to 500 (FLO)

2.2.3.3 *Premiums and differentials for Utz Certified coffee*

The premiums for Utz Certified coffees are roughly 3 to 5 USD ton, or 10% to 15%, above the prevailing market price. Below is an overview of price differentials for a number of Utz Certified coffees, as an example of the situation in November 2009:

Origin	Price differential (USD ton), FOB
Colombia	+ 30
Mexico	+ 17
Peru	+ 15

2.2.3.4 *Premiums and differentials for Rain Forest Alliance coffee*

The premiums for Rain Forest Alliance certified coffees are roughly 6 USD ton, or 15% to 20%, above the prevailing market price. Below is an overview of price differentials for a number of RFA certified coffees, as an example of the situation in November 2009:

Origin	Price differential (USD ton), FOB
Colombia	+ 40
Mexico	+ 25 to 30
Peru	+20

[25] NB: Note that the '*premium*' is defined here as the price difference with the same conventional coffee. The '*differential*' of a coffee is the price difference, compared with the quotation at the terminal market at a certain moment and includes both the organic or other certification premium and the quality differential.

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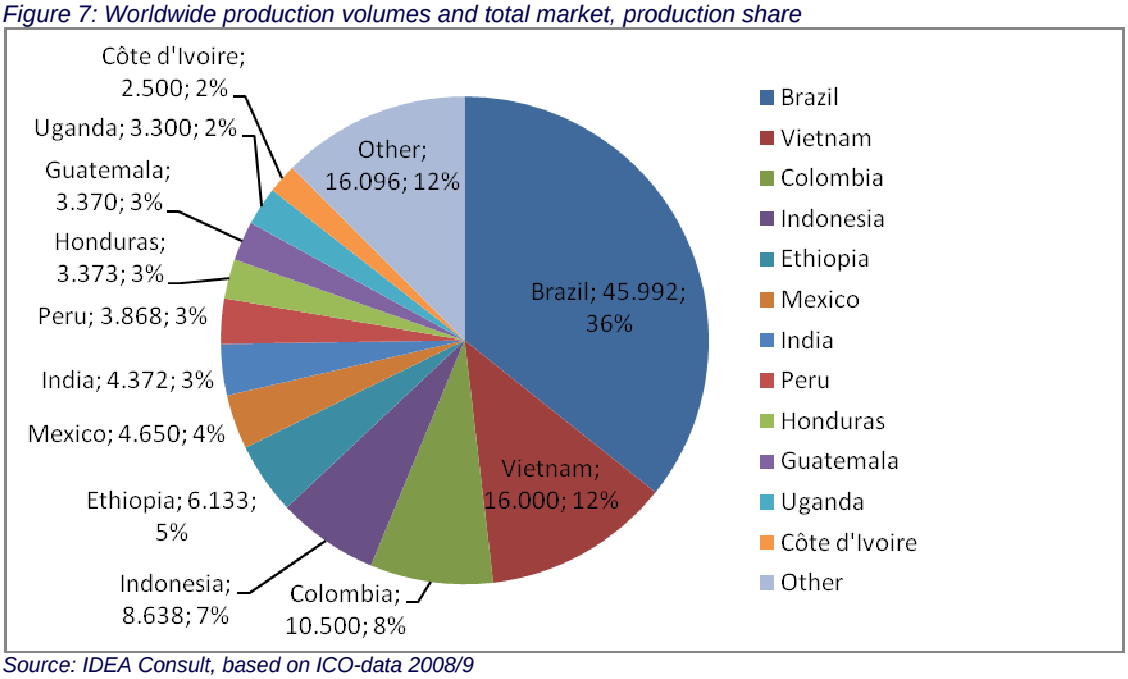
3 COFFEE PRODUCTION: FACTS, TRENDS AND DRIVING FACTORS

3.1 Some key facts on conventional and certified coffee production

3.1.1 Conventional coffee

Worldwide, more than 6 million tons of coffee is produced yearly – in about 80 countries. Approximately 65% of world production is Arabica and 35% is Robusta. The figure below shows the (market share of the) most important coffee producing countries in 2008/9:

Figure 7: Worldwide production volumes and total market, production share



Source: IDEA Consult, based on ICO-data 2008/9

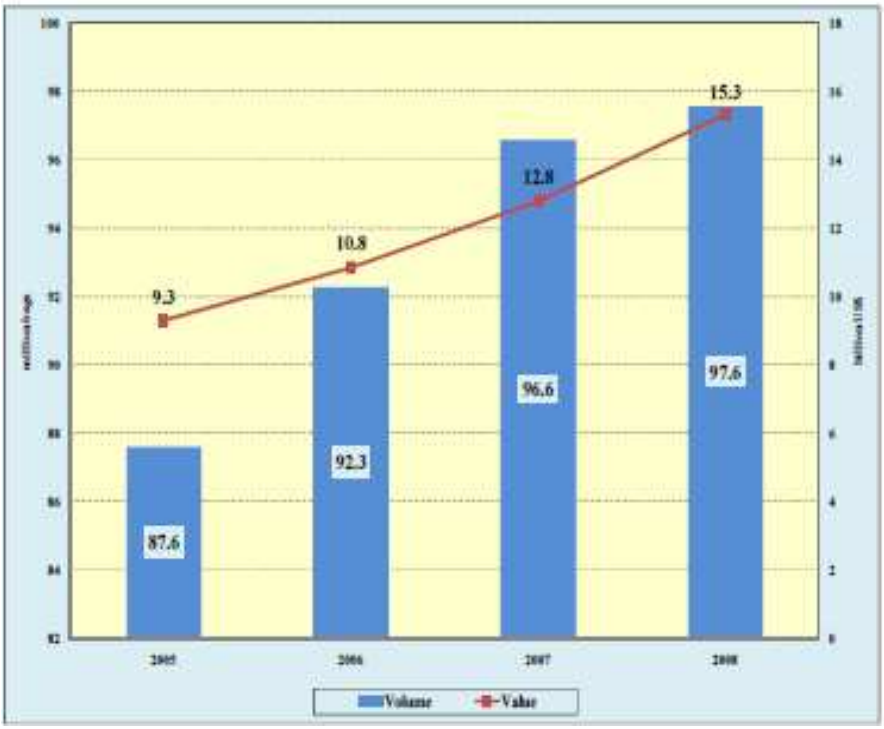
This picture has changed quite drastically the last 3 decades: until the mid/late 1990s, Brazil and Colombia were the undisputed top world coffee producers. This situation has changed in the 1990s with the impressive growth of coffee production in Vietnam. In 1999/00 Vietnam replaced Colombia as the world second largest producer.

Brazil produces mostly Hard Arabica coffee (and some Robusta used for domestic consumption). Mild Arabica coffees are divided into 'Colombian Mild's and 'Other Mild's. Colombian Mild's comprise coffees produced in Colombia (key producing country for this type of coffee), Kenya and Tanzania. The main players in the Other Mild's category are Guatemala, Mexico and India. 'Brazilian Naturals' basically consist of Hard Arabica from Brazil and Ethiopia. The last category includes Robusta coffees from all origins. Here, Vietnam is by far the main producer, but Côte d'Ivoire, Indonesia and Uganda are also major players[26].

Coffee export rankings broadly follow production statistics. The picture below illustrates the evolution of coffee exports since 2005.

[26] Naturally, some countries produce different types of coffee: Brazil, for example, produces Robusta as well as Hard Arabica. India, Papua New Guinea, Uganda, Cameroon, and Tanzania produce both Arabica and Robusta.

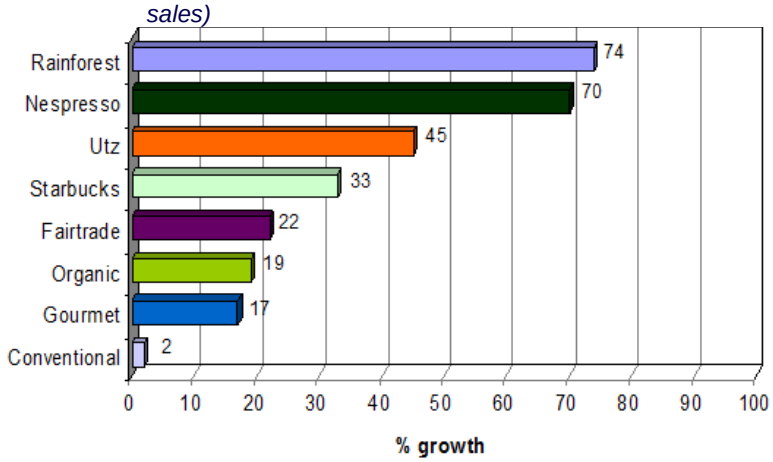
Figure 8: Volume and value of annual exports (million bags (left axis) ; billion USD (right axis))



3.1.2 Certified coffee

In recent years, sustainable coffee initiatives such as Fair Trade, Rainforest Alliance, Utz Certified, Nespresso (AAA), Starbucks (CAFE) etc. have thrived with growth rates that dwarf the conventional coffee markets for the last decade (see figure below).

Figure 9: Annual average growth rate of some 3rd-party verified and private labels (period 2006-2009; sales)



Source: Daniele Giovannucci World Coffee Conference 2010

Certified coffees are now produced in 80% of exporting countries. The great majority come from Latin America where two countries stand out as the dominant providers: Mexico and Peru. 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. Some important 'sustainable' farmers and organizations that focus on certified coffee are:

- *Brazil:* Associacao de Cafeicultura Organica do Brasil (ACOB) in Machado, Café Bom Dia, Ipanema Coffee Co. (these 2 firms are the largest certified producers in Brazil)

- *Colombia:* National Federation of Coffee Producers is the largest exporter and institutional supporter of all the varied certified coffees.
- *Dominican Republic:* FEDECARES (groups of farmers organized to support sustainable quality
- *Ecuador:* EScoffee (15 cooperations)
- *Guatemala:* Federación de Cooperativas de Café de Guatemala (FEDECOCAGUA)
- *India:* Amalgamated Bean Coffee Trading Company (largest organic grower there)
- *Indonesia:* BioTani Foundation (Jakarta) links directly to eco-friendly, organic producers throughout the country
- *México:* Consejo Civil para la Cafeticultura Sustentable en México gathers many cooperations and producer groups
- *Papua New Guinea*: Coffee Connections and Monpi Coffee
- *Peru:* La Junta Nacional del Café organizes hundreds of organisations – many focused on FT and Organic
- *Tanzania:* Kilicafe

In the paragraphs below, we take a closer look on each of the 3rd party certified labels:

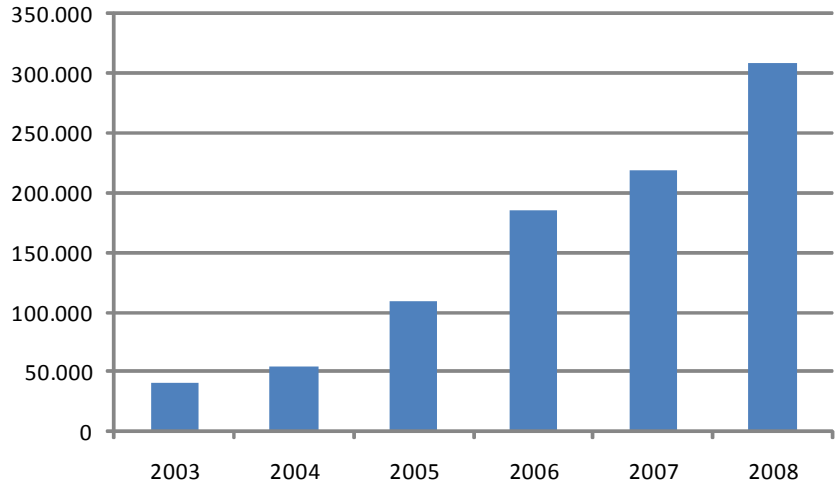
Fair trade

In 2009, 746 producer organizations in 58 producing countries were Fair-trade certified, representing over 1 million farmers and workers. The largest number of Fair-trade-allied farmer organizations can be found in Mexico, Honduras, Colombia, Bolivia, Guatemala, Peru, Nicaragua, Ethiopia and Papua New Guinea.
Together, these countries produced about 250.600[27] Metric tons in 2007. The most important producing countries (in absolute volumes) are Peru, Colombia, Indonesia, Brazil, Nicaragua, Mexico, Guatemala, Honduras.

UTZ

In 2008, 77.000 producer organizations in 19 producing countries produced more than 300.000 tons of UTZ Certified coffee. The largest UTZ-Certified volumes come from Brazil, Vietnam, Colombia, Honduras, Peru and India.

Table 3: Worldwide production of UTZ Certified Coffee (in MT)



Source: UTZ Annual Report 2008

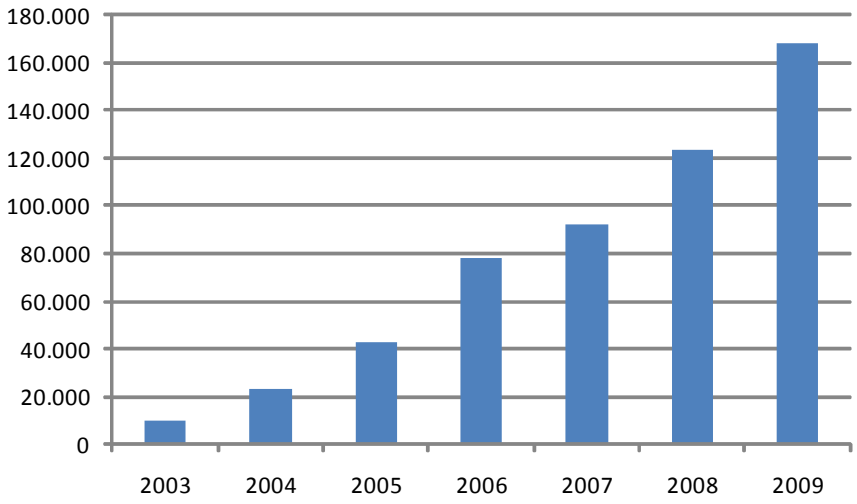
Utz Certified has very recently provided us data of 2009 and growth expectations for 2010. In 2009, the production volume was almost 364.000 tons. This is a growth percentage of ca. 17%. The forecast for 2010 is to produce almost 400.000 tons.
In terms of sale volumes, the purchases of UTZ CERTIFIED in 2009 (82.100 MT) were up 5% compared to 2008. They expect to grow even more in 2010, towards 100.000 Metric Tons, this also means ca. 17% growth.

Rainforest Alliance

In 2009, the worldwide production of Rainforest Alliance Coffee amounted to 168.300 Metric tons – an average increase of 64% each year for the past seven years. The most important producing countries of RA-coffee are: Brazil (52.600 Mt in 2009); Peru (22.250 Mt); Colombia (30.500 Mt); El Salvador and Guatemala (each +/- 10.000 MT).

27 Please note that the data is only for 93% complete.

Figure 10: Rainforest Alliance Certified green coffee produced worldwide (in MT)



Source: Rainforest Alliance

On the basis of the demand of roasters and retailers; and taking into account the agreed future production volumes with some key producing countries, RA foresees to have about 280.000 MT available on the market this year (2010); and more than 800.000 MT by 2013.

Organic

In 2000, experts estimated the global production capacity of organic coffee for export: this to be about 12,000 tons, and for 2001, about 30,000 tons[28]. Currently, estimations about these volumes range between 120.000 and 150.000 MT.
Peru and Mexico are currently the largest organic coffee producers in the world, with tens of thousands of tons of coffee beans, mostly harvested by small indigenous farmers. Other leading producers in organic coffee are Honduras, Ethiopia, Indonesia, Colombia and Nicaragua.
Roughly 50% of the world supply of organic coffee is produced by small farmers' organizations which are members of FLO-International (Fair Trade Labelling Organization). The other half of the world production is supplied by small farmers' organizations which are not FLO-registered although some are members of Fair Trade programmes, and by private small, medium and large-scale farmers not belonging to Fair Trade programmes.

3.2 Influencing factors explaining evolutions and trends at producer level

3.2.1 The need for a market-oriented producer strategy

The description of the global coffee market structure (see section 2.1) made it clear that producers increasingly face important market power inequalities (geared towards the demand side of the market) and price volatility. Moreover, producers of Robusta find they are increasingly competing on price (which makes productivity an important critical success factor of survival).

Therefore, producers need to adapt to these market evolutions by becoming more efficient, by competing on value rather than volume, by joining forces in corporations, or by diversification:

- *Increasing productivity and efficiency (cost cutting)* by e.g. applying new production techniques, marketing / transport systems,… - enabling producers not to sell their products with a (maybe modest, but existent) profit margin

[28] Unfortunately there are no global production statistics other than for FLOregistered production and a certain amount of data from organic certification companies. Therefore these figures are incomplete: they do not include figures for non-FLO-registered Fair Trade or for non-Fair-Trade organic coffee

- *Competing on value rather than on price:* this can be done at two levels:
  i. *the production of green coffee:* within the possibilities of the local production context, producers need to search for product or process characteristics that increase the value of their product. The existing price differentials for different types of coffee (within the conventional market) or price premiums (within the certified coffee market) are reflect the additional market value of these coffees.
  ii. *processing coffee:* looking at the added value generated throughout the coffee value chain (see e.g. section 2.1.5.3), it might be interesting to seek ways to shift trading and roasting processes *-to some extent*[29] - to producer countries (currently, already a number of producing countries do export significant volumes of soluble coffee).
- *Joining forces*: experiences with strong co-operations from Latin America highlight the advantages of setting up / joining farmer co-operations. After all, this might increase market power at producer level, and enables individual producers to invest together in e.g. transport means or other physical capital
- *Differentiating income-generating activities:* local and even national economies have developed around the production of a particular commodity, many emerging from colonial dictums with less regard for comparative advantages. So, a coffee producer may have perfect conditions for (also/solely) growing citrus or olive trees – enabling him to better avoid or spread the risks associated with e.g. volatile or structurally low coffee prices.

However, in order to do so (implementing one or more of these 'market-oriented strategies'), producers need the necessary agricultural inputs (seeds, land, water, information…), financial services / credits, road infrastructure, market information and other human capital, existing organizational structures etc.

Given the (semi-)public character of some of these production factors, it is relevant to take a closer look to the current (and future) institutional context of the coffee industry.

3.2.2 Institutional context

3.2.2.1 The role of public institutions within the national and global coffee market

(i) Institutions and actors

The International Coffee Organization (ICO), a multilateral governmental body, has some modest influence to coordinate national or supranational policy but only on topics that the vast majority of the industry agrees on - such as consumption growth campaigns and very basic quality control.

The demise of global coordination (with the lapse of the International Coffee Agreement (ICA) – see supra) has coincided with the demise of national coordination as well. Without the clear economic mandates that they carried out as part of their accession to the ICA, the national bodies quickly lost their funding and primary purpose. This has typically left producers and industry supply chains to fend for themselves. Very few producer countries have achieved a strong institutional presence post ICA and the two that have, Colombia and Guatemala, are now among the most successful producers. Some countries, notably in East Africa, continue to provide market services in the form or boards and auctions to facilitate marketing but there is little evidence that these reduce marketing costs or introduce much transparency.

This lack of adequate public systems to guide sustainability has some important consequences at three levels:

[29] Of course, one needs to take into account that, currently, almost all of the roasted coffee consumed in the EU consists of blends of coffees from various origins. However, there seems to be a growing consumer demand to specialty coffees such as single origin coffee – which opens up the possibilities for producing countries to take up roasting activities.

- *Lack of public support to the local coffee industry*: In many countries, the absence of institutional presence has led to a decline in public infrastructure, reduction in marketing channels, and a lack of coherence in national coffee policy
- *Increased price volatility at producers' level:* As supply chain coordination were increasingly put in private hands, price stability decreased significantly[30]. The increased volatility of international commodity markets is now passed directly to producers who are often ill-equipped to manage it. Consequently, coffee producers have faced brief skyrocketing markets and much longer market collapses that have led to social unrest, bank failures, poverty, and even many deaths in a number of countries.
- *Lack of public support for diversification strategies:* as indicated in the previous section, some of the coffee producers should better shift production towards other commodities (given the price risk, or their local production context). However, the lack of appropriate institutional support in terms of information *(about e.g. novel crops, new markets, new cultivation methods, non-farm options, etc.),* extension, and infrastructure for processing and trading this 'new' commodity, renders this shift an unattainable strategy. Some resort to selling their labour, thus diminishing the likelihood of their farm's success, and others continue with little more than hope.

(ii) Regulatory framework

In terms of 'sustainable laws', it is important to note that only **organic** certification has been codified into law in many countries. While organic agriculture and marketing of organic products was initially organised on the basis of private (voluntary) standards, in 1991 the European Union passed legislation to protect and control the use of the term 'organic' and equivalents in other languages (such as 'biologisch' in Dutch). This was Council Regulation (EEC) No 2092/91. In 2007 this legislation was replaced by Council Regulation (EC) No 834/2007. Following the example of the European Union, the USA and Japan also passed legislation that regulates organic marketing: the National Organic Program (NOP) in the US and the Japanese Agricultural Standard (JAS) in Japan. Since then, many countries have adopted legislation regulating the marketing of organic products. In the FIBL/IFOAM yearbook on organic agriculture an updated list of countries with legal organic standards is published annually. In other countries, private standards may be applied or the standards of other countries may be followed. Since over 90% of the world's organic produce is marketed in either North-America or Europe, the standards of these two continents are clearly dominant in the market.

With the introduction of legislation in 1991, a system of double certification has in effect been created. While it is legally sufficient to adhere to the European legislation to gain access to the entire European market, in practice it is often necessary to obtain additional certification according to private standards that have a dominant market position in certain markets. For example, in the United Kingdom the Soil Association promotes a private standard which is in some areas stricter than the European law requires. This private standard is well-known in the UK and therefore often become a precondition to enter that market. In other European countries, similar arrangements exist, of private national standards continuing to demand additional requirements, on the basis of their position in the local market. Under the new organic regulation (2007), the use of the organic logo has become mandatory on organic consumer products marketed in the EU. To allow manufacturers to first use their existing packaging materials, this obligation will be gradually phased in.

Other regulatory 'sustainable' provisions are part of more general international laws (on e.g. child labour / other ILO conventions, the prohibition of the most dangerously pervasive agrochemicals etc). However, the actual 'implementation (ratification, execution, control)' of these international rules is not common in the rural areas of many producer countries.

[30] We have to note here that increased efficiencies *in some cases* have actually improved farmer prices. However, this is not a general observation, and certainly not a 'stable' one…

3.2.2.2 *The private answer to this evolution*

In the absence of adequate public systems to guide sustainability with policy or regulatory options, or with the necessary information and support, the private sector and NGOs have responded with their own form of controls to ensure a measure of both compliance at the supply chain level and of credibility at the buyer or consumer level. Organizations dedicated to sustainability have offered new market mechanisms for producers to reduce their risk and improve their livelihoods. Most of these organizations targeted a particular niche of consumers (i.e. those interested in preserving rainforests or those interested in fair labour standards) and convinced producers to comply with their criteria – confirmed via a third party certification – so that they could sell this more "sustainable" coffee to interested consumers. An exception in this matter is Utz Certified. Utz is less consumer oriented. Companies choose Utz more out of own sustainability considerations without any special focus on particular target groups. Utz Certified Code of Conduct includes as well socially as also environmentally appropriate coffee growing practices, and efficient farm management.

The growth rate of these initiatives (3rd party certifications and private sustainable labels) made them to become significant and visible in many of the traditional markets of Europe, Japan and the US - rendering them quite influential as a *de facto* though, not *de jure* regulatory requirement with respect to environmental impacts and social concerns in leading producer countries.

To date, the certifications appear to be effectively implementing and self-monitoring the rules they create. None have independent external evaluation of their actual effects or impacts. As the market grows, it is likely that, like organics, there may be a need for public oversight as the potential for fraud or cheating grows.

3.2.3 *Micro-level costs and benefits of a production shift to certified coffee*

It is clear that the certified coffee market is a growing one (see section 3.1.2). One of the reasons of this (sometimes almost exponential) growth is the (consumer) *demand* for more sustainable coffees, and the tendency for organisations to contribute to a more sustainable development in general (see also next chapter, section 4.2). Although these growing 'sustainability strategies' are primarily[31] aimed at improving the lives of the *supply* side of the market (or more concretely, the coffee producers), the advantages of these systems cannot be taken for granted. After all, in order to be part of this certified coffee market, producers need to invest, both in capital and knowledge – which of course needs to be counterbalanced by the expected benefits of the system.

3.2.3.1 *Costs/requirements*

Producers who wish to shift their production towards the certified market, need to (i) decide which label(s) they want to comply with; and (ii) implement the necessary production- and follow-up processes. Therefore, producers need:

Knowledge of various relevant standards and their relative pros and cons or costs and benefits

Understanding of the level of effort or investment to participate

Understanding of the level and character of market demand for different certified coffees (~ market intelligence and contact with buyers)

Access to the technical methods necessary (GAP, traceability methods, etc.) for smooth adoption

Financing to permit necessary investments such as new technologies, processes, equipment, and infrastructure in order to comply with the certification processes concerned (certifying and testing products); and to cover collection/payment of eligible coffees from the group or co-op

[31] One cannot ignore the fact that at company level, this sustainability 'hype' can be driven purely by commercial concerns. However, without any demand to do so from the consumers' side, these company strategies will not have any 'commercial' effect. Consequently, in the basis, the driving force behind this evolution is still the growing demand for a more sustainable world.

These requirements are clearly additional (investment/transaction) costs – making them sometimes implicitly non-tariff barriers – an issue which is of particular concern to developing countries. Therefore, it is of crucial importance that the benefits of a production shift to a certification system are clear and understood by the producer.

3.2.3.2 Benefits

The desired benefits of the different labels were presented in an earlier section of this report (see 2.2.1 and 2.2.3). However, intended objectives cannot of course being equated with achieved results. Therefore, empirical research is needed to identify the social, and economic consequences at producer's level. One of the few on-going research projects, the COSA-initiative[32], aims at providing some understanding of (the critical success factors for) these expected consequences.

The early unpublished results of the COSA fieldwork (surveying thousands of producers in several countries) indicate that there are very considerable and measurable advantages, although these do vary considerably from initiative to initiative as farmers experience different results. Some key findings include that sustainability approaches *can* offer:

- productivity improvements
- quality improvements
- improvements in water management (significantly less pollution from processing)
- an appeal to younger farmers (important for a dangerously ageing farm population)

Another source indicates three other potential benefits:

- enabling diversification of production (multicropping) on a sustainable coffee farm offers several advantages to a farmer
- offering a hedge against market price downturns (cfr. the Fair-Trade minimum prices)
- reducing or eliminating the use of purchased inputs - limiting the farmer's expenses / supplier dependency; and therefore his subsequent market exposure.

While all of the sustainability initiatives have common features, they are considerably different in the costs and the ultimate benefits of their application to the farmer. Depending on the situation, adopting a particular sustainability in initiative can have different outcomes. For example, yields may increase or sometimes decrease, and it is important to understand the probable outcomes before choosing one or another.

[32] The Committee on Sustainability Assessment (COSA) has recently launched a method for measuring the costs and benefits of any sustainability initiatives, at the farm level. COSA is a collaborative global effort gathering to actually know and compare the many social, economic and environmental aspects of different approaches to coffee and commodity production.

3.2.3.3 *Making the trade-off between (certain) costs and (potential) benefits*

From the perspective of producers, organic and Fair Trade coffees provide many advantages and help to improve smallholders' risk management strategies. However, for many producers, conversion time, preparation, and certification are costly and sometimes difficult. Looking at the individual economic part of the potential 'sustainable benefits' of these certification systems, a higher product price needs to make up for these extra costs.

However, increased competition within the certified coffee market (cfr. growth rates illustrated in section 3.1.2), has kept price premiums for producers at well under 20% of the green coffee value. In many cases, it is estimated that this does not adequately cover the extra costs of production incurred by those who are certified.

Consequently, only a portion of the coffees that are certified under a sustainability programme are actually sold under a certified seal. In 2007 around a quarter of organically produced coffee worldwide was sold as conventional coffee. Several factors contribute to this dynamic:

a) A portion of a farm's output may not meet quality requirements of a buyer seeking certified coffees and must therefore be sold as conventional.

b) Some coffees are purchased for their sustainability attributes and, for various reasons may be blended or marketed without the identity of a certification.

c) A buyer may want to purchase only a portion of the coffee as certified and the rest as conventional, even though the entire farm may be certified.

d) In some cases, buyers are not seeking a certification but will give preference to certified coffees even though they do not use the certification and may or may not pay a premium.

Moreover, with crop reduction in Colombia, Peru and most of Central America, the differentials for mild Arabica has increased beyond normal situations, stressing the availability of certified coffee as farmers can get better prices on the conventional market. This has caused certified farmers and exporters to reduce sales of certified coffee. Also, some certified farmers are opportunistic and wait for a premium of buyers and tend to shift among programs or drop out when this opportunity does not arise.

Ample evidence of producers abandoning certifications in Mexico, Costa Rica and Guatemala support these observations. Furthermore, certification is not attractive for every farmer and exporter, but only for some. There are numerous reasons for this. Production and marketing systems do not always match with the requirements for certification. Especially the scale of operation can be a constraint. Large scale facilities cannot easily be adapted to small scale processes. The specific type of certification chosen should also match the business strategy[33].

[33] Michael Porter distinguishes three types of marketing or business strategy: cost leadership, differentiation and focus. For example, typically, organic companies use a focus strategy. If a company's strategy is low cost or differentiation, the organic option is much harder to implement. These strategies simply do not match. This is also why big companies, whether involved in farming, trading or food manufacturing, have either refrained from moving into organics or failed to do so. If such companies adapt organic successfully, it will normally be in a specific separate business venture. A similar argument can be made for other certifications, each of which fit specific types of businesses.

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4 COFFEE CONSUMPTION

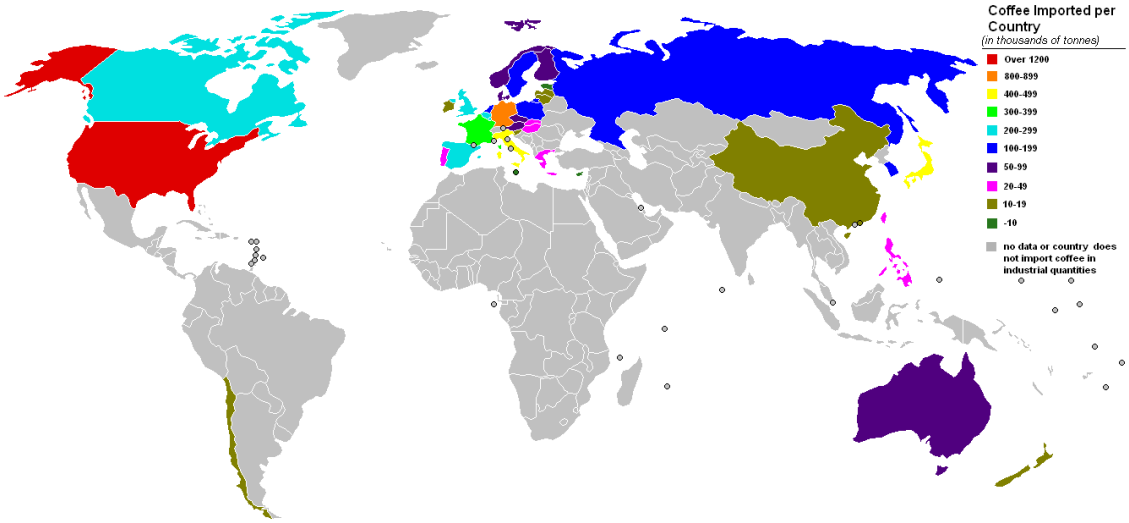
4.1 Some key facts on conventional and certified coffee sales

4.1.1 Conventional coffee

Import

According to the International Coffee Organization (ICO), worldwide imports of all forms of coffee of all origins reached 6.1 million tons in 2008, up by an average 2.4 percent annually since 2000, when worldwide imports stood at 5.1 million tons. The EU is the world's largest importer of coffee, accounting for 66 percent of worldwide imports, or 4 million tons, in 2008, followed by the United States (24 percent, 1.5 million tons) and Japan (7 percent, 423 602 tons). Germany is the leading EU importer, followed by Italy, Belgium, Spain and France[34].

Figure 11: Worldwide imports of all forms of coffee from all origins, 2005 (in 1000MT)



Source: USDA and ICO figures

Between 2003 and 2007, European imports of coffee increased by 17% annually in value, and by 3.4% in volume, amounting to € 6.9 billion / 3.4 million tons in 2007.

Intra EU-trade

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 coffee.

In 2007, (re-)exports of green coffee amounted to € 894 million / 447 thousand tons; of which 70% is destined to other EU countries and 30% to other developed countries, mainly the USA (23%). The main re-exporters of green coffee are Germany (67% of EU exports) and Belgium (20%).

In the same year (2007), exports of roasted coffee amounted to € 2.1 billion / 492 thousand tons; of which more than 80% is destined to other EU countries. The main exporters were Italy (27%), Germany (23%), and Belgium (10%). Other important trading centres in Europe are: France, Spain, the Netherlands, Sweden, and the UK.

When comparing these figures with 2003, it is clear that this intra-EU trade is growing: exports by EU countries of roasted and green coffee increased by 18% in value and by 9% in volume annually during the period 2003-2007.

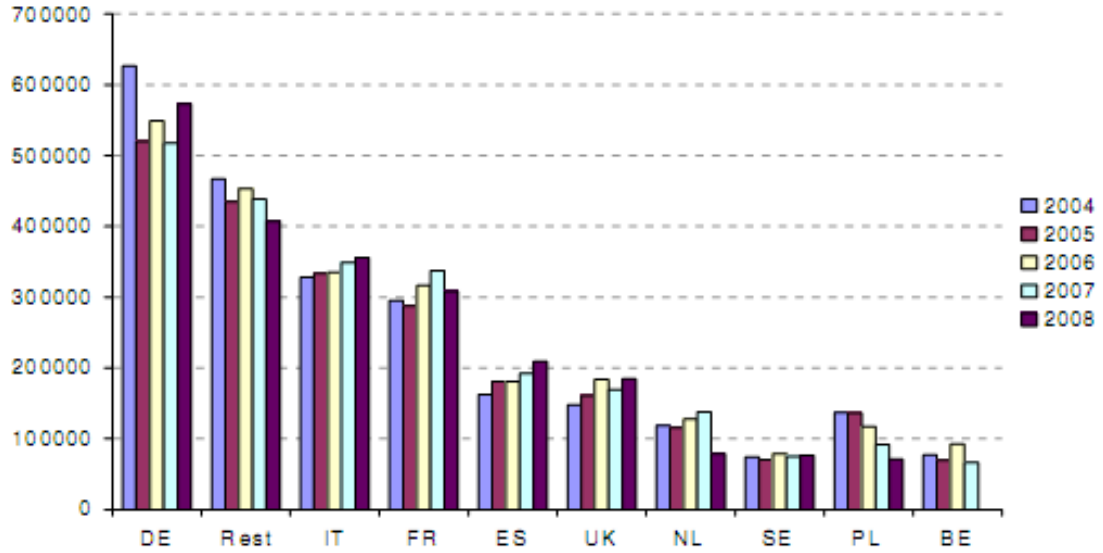
[34] A remarkable thing is that France is by far the most significant importer of Robusta coffee.

Consumption

World consumption amounted to 130 million bags in 2008. Coffee is mainly consumed in the developed countries of the northern hemisphere, and much less in the producing countries in the South, except for Brazil and Ethiopia. The US, Germany, France and Japan consume between them half of the world coffee exports.

In 2007, total *EU* coffee consumption amounted to 2.4 million tons, accounting for a third of global coffee consumption (which is twice as large as the consumption in the United States). In terms of absolute volumes, Germany, Italy and France are the main consuming countries, accounting for almost 50% of EU consumption (see the figure below).

Figure 12: Coffee consumption in selected EU countries, 2004-2008 (in tons)



When analyzing the evolution of coffee consumption, it is remarkable to see that, although the coffee market is regarded as a 'mature' market by many, the annual *world* consumption rose steadily at an average rate of 2.4% in the period 2000 – 2008. It is however important to note that the result in 2008 was mainly due to the increase in domestic consumption in exporting countries, in particular Brazil, Indonesia and Mexico. Consumption also increased in some *European* countries such as Germany, Italy and United Kingdom, but a decrease has been observed in some others (Belgium, France, Netherlands and Poland)[35]. Although the volume of consumption is not always growing in these countries, the value is. Due to the rise of speciality coffee and single serving options, the value of the coffee market has been growing much quicker than the volume of consumption. Consumers spill less coffee, but they spend more on it. This is the so-called "sink effect".

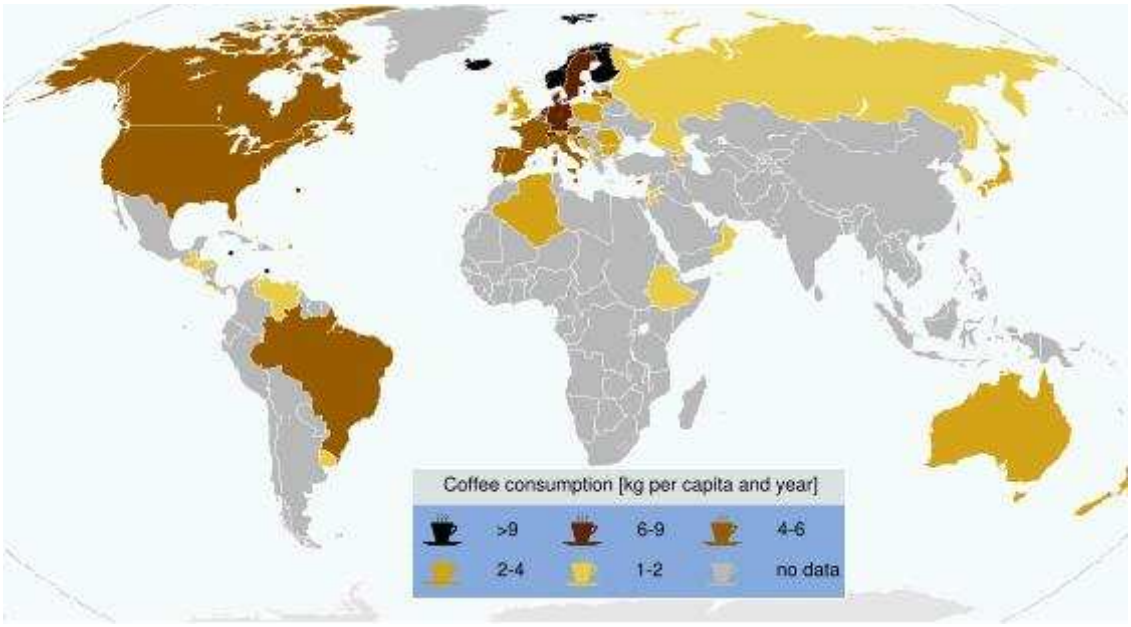
When looking at the first figures of 2009, it seems that the *economic crisis* is impacting on the out-of-home consumption of coffee. Take-out coffee is becoming less popular in several countries, most notably in the UK and Ireland, but also in the rest of Europe the restaurant and bar sector is hit. In contrast, consumption at the office or at home is increasing – thus there are no indications that the crisis has had a significant impact on the total volume of coffee consumption.

Some remarkable trends can be pointed out when trying to make (cautious) projections towards the future of coffee consumption. For example, an increasing "coffee culture" is being felt in the EU. This trend kicked off with the market entry of Starbucks to the UK market in 1998 and its further expansion. Customers can drink a wide variety of coffee for take-away or in the café. Because of their popularity, especially with young Europeans, there is a spread of coffee shops in the continent. Fast food chains are gearing up to take part in this rising consumption. Many companies are now copying the idea and creating a "coffee celebration" atmosphere in their cafés and products.

[35] Between 2003 and 2007, EU coffee consumption increased by an average annual rate of 0.5%, peeking in 2004. In 2005, however, consumption dropped by 6%, and in 2006 the consumption level was still somewhat below the 2004 level

Finally, it can be interesting not to focus solely on the total volumes consumed in a given country. The 'intensity' of coffee consumption (~ per capita consumption) can be a more useful indicator when analyzing the consumption markets. The figure below illustrates some important differences throughout the world.

Figure 13: Per capita coffee consumption, 2005



Source: Robert Latkany, MD (September 05, 2009)

Within the European Union, the average per capita consumption is 4.9 kg coffee. However, as can be seen from the figure above, great differences within the countries exist: consumption is traditionally higher in Nordic countries (mainly Arabica coffee), especially Finland, with per capita consumption amounting to 12.0 kg per capita in 2007. Other EU member countries with high per capita consumption are especially Luxemburg (16.5 kg) next to The Netherlands and Belgium (8.4 kg). Eastern European countries, as well as Ireland and the UK (both of which are traditionally tea-consuming countries) have per capita consumptions of about 2.5 to 4 kg[36].

4.1.2 Certified coffee

In 2008, sustainable coffee accounted for almost 5%[37] of global coffee sales (in volume) – amounting to more than 270.000 tons worldwide (see also our overview table in section 2.2.2.2). European sales make up more than 150.000 tons out of this total – with 35.500 tons of Fair Trade coffee, 47.700 tons organic coffee (including double certified coffee); 34.600 tons Rainforest Alliance coffee and 62.000 tons UTZ Certified coffee.

All labels have (very) positive projections for the near/mid-term future. For example, 4C aims at 50% of the total coffee market becoming compliant with its code by 2015; and UTZ Certified wishes to see its share of certified coffee (thus also including other sustainable labels) doubling the next 5 years.

At individual country level, the largest markets (*in absolute volumes)* for certified coffee in Europe are Germany, France and the United Kingdom, followed by the Netherlands and Belgium. Contrarily, *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

[36] According to ICO-data, Slovenia is an exception within this group of countries, with a per capita consumption of +/- 5.8 kg.

[37] This percentage amounts to more than 7% with Starbucks and Nespresso included

Europe, sustainable coffee has recently become more widely available in Italy and Spain.

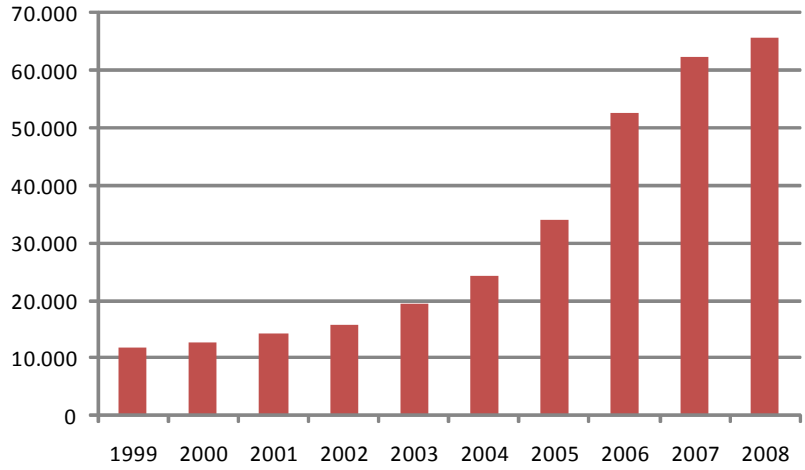
The relative importance of the various certification schemes differs from country to country. For example, organic coffee is more important in Germany, while in the United Kingdom and France, fair-trade is the leading certification. Utz Certified coffee accounts for 40 percent of the coffee market in the Netherlands (which is strongly related to the strong market position of an important retailer in this country - Albert Heijn). In Belgium and the Nordic countries, its share was 'only' 10% in the same year. In Southern Europe, France, Germany and the UK, the market share of Utz Certified is still much lower.

In the following sections, we take a closer look at each individual label – presenting all available information with respect to exports/sales since 2000; highlighting individual country-information, future projections etc.

Fair trade

In 2008, almost 70.000 metric tons coffee were sold under the FLO label – of which 1.218 MT in Belgium. Fair Trade sales increased on average 20% since the beginning of this century (with a very strong growth (>40%) in the years 2005-2006).

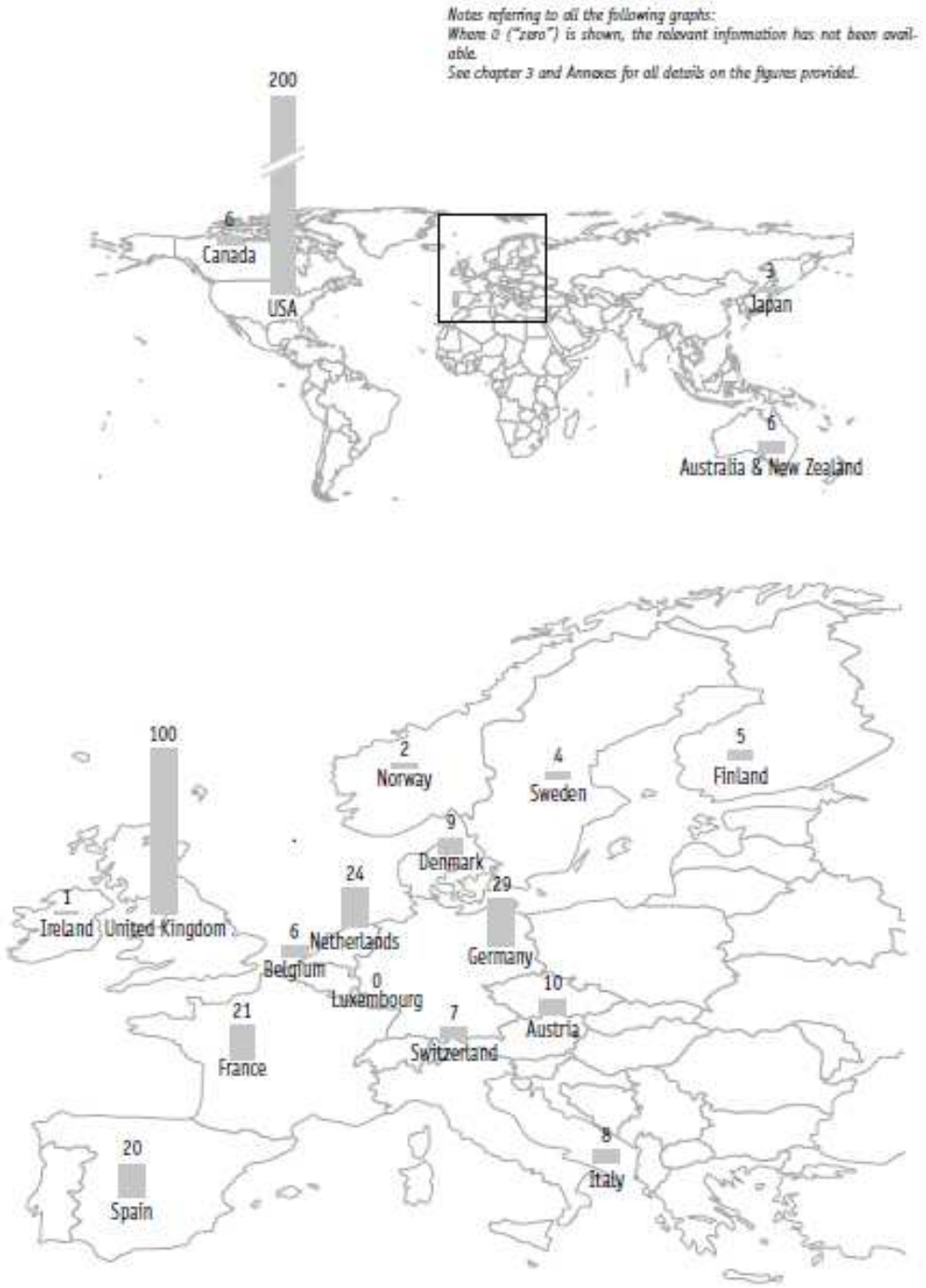
Figure 14: Global sales fair-trade coffee (in MT), 1999-2008



Source: Max Havelaar, Belgium

The picture below illustrates the distribution of these sales throughout the world (in December 2007):

Figure 15: Fair Trade imports (in MT), 2007

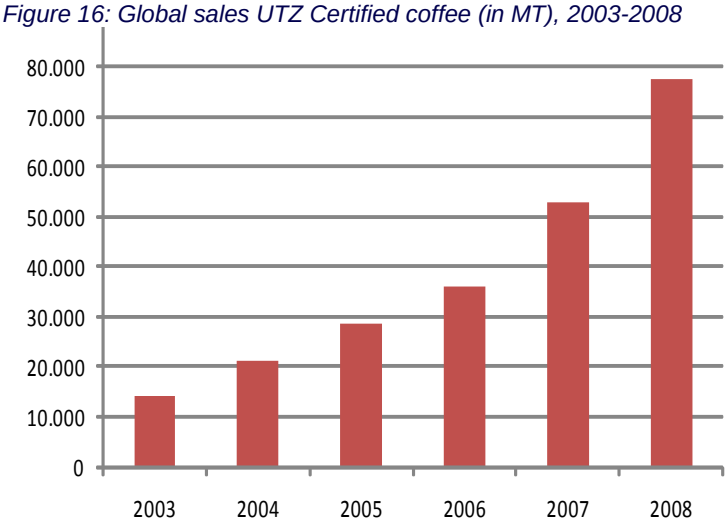


The global retail value of Fair Trade coffee was 1.2 billion Euros in 2008. This is an increase of about +22% versus 2007. The Belgian coffee sales in that same year had a total value of 16.2 million Euros (+31% versus 2007). The Fair Trade market share in Belgium is now +/- 2.8% (where it was only 1.6% in 2004).

UTZ

In 2008, more than 77.000 metric tons of coffee were sold worldwide under the UTZ Certified label (an increase of 46% compared to the previous year). Almost 80% of this quantity was exported to Europe.

Figure 16: Global sales UTZ Certified coffee (in MT), 2003-2008

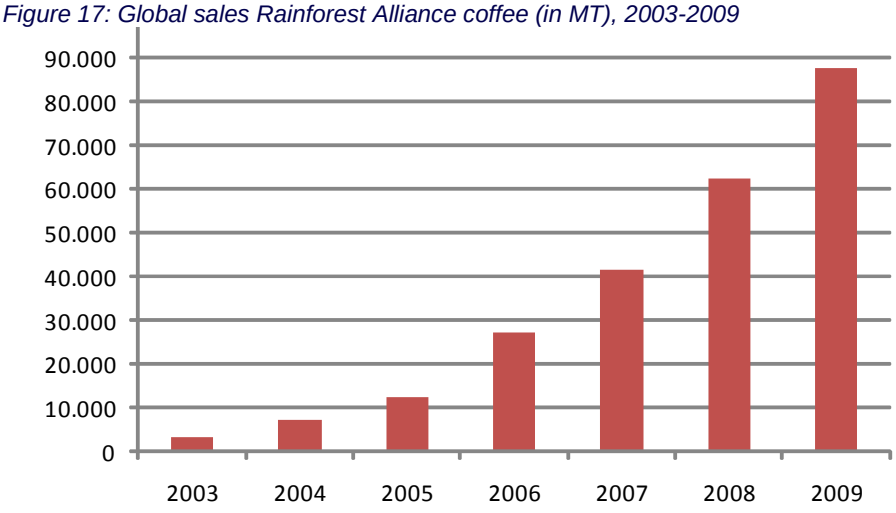


Source: UTZ Certified annual reports (2007-2008)

Rainforest Alliance

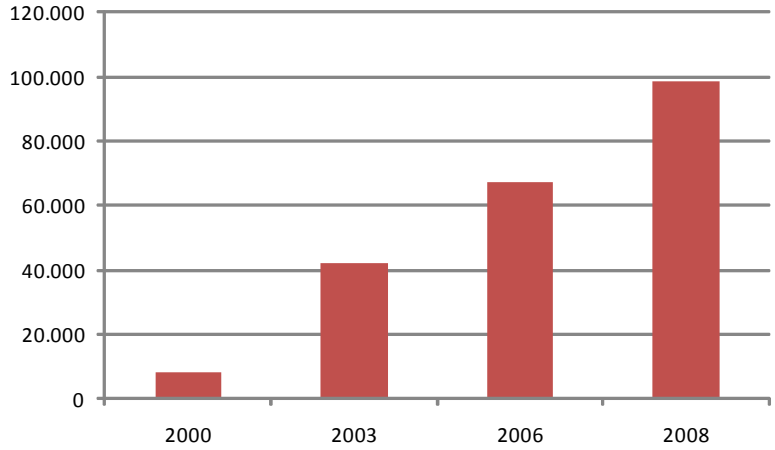
In 2009, more than 87.000 metric tons of coffee were sold worldwide under the RA label. This is an increase of 50% compared to 2008. In 2008, more than 55% was exported to the EU.

Figure 17: Global sales Rainforest Alliance coffee (in MT), 2003-2009



Source: Rainforest Alliance (Ppt-presentation; Monday, February 15, 2010) Organic

Figure 18: Global organic coffee imports (in MT), 2000-2008



Source: Fürst, Pierrot (2007); Giovannucci, Pierrot (2010)

In 2003, there were about 1400 registered importers of organic products in EU-15, an increase of 160% compared to 1998[38]. The leading importers of organic coffee are Germany, Belgium/Luxembourg, The Netherlands, France, the UK and Sweden. These countries are also important processors and re-exporters.

4.2 Influencing factors explaining evolutions and trends at the demand side of the market

4.2.1 Consumer market characteristics, preferences and buying behaviour

4.2.1.1 Taste preferences

Within the EU, the most important forms in which coffee is consumed are:

- Ground roasted coffee - this coffee, used for filter coffee systems, or in coffee pods, is still the principal type of coffee consumed in the EU.
- Roasted coffee beans – With the increasing prevalence of espresso and cappuccino systems sold for use in the household, direct sales of roasted coffee beans are increasing fast. The increasing number of coffee bars is also strengthening this trend.
- Decaffeinated coffee – the International Trade Centre (ITC) estimated that decaffeinated coffee accounts for around 10% of all coffee sales.

  Decaffeinated coffee is losing share, as caffeine no longer appears to be an issue of particular concern to most consumers. However, in some South European countries decaffeinated is still an ongoing trend and light-caffeine coffees are gaining ground in several European markets. With production predominantly taking place in the EU, this is of limited interest to developing country producers.
- Soluble or instant coffee – The share of soluble coffee in the total coffee consumption varies considerably among EU member countries.
- Ready-to-drink coffee – Less important than in the US market, but upcoming in the EU along with the trend towards convenience food product, are ready-to-use coffee drinks like iced coffee. These are mostly produced in the EU. This is also of importance in the catering sector.
- Flavoured coffee – An interesting and fast growing area of the market is flavoured coffees. These unique coffee blends are increasingly popular. Adding the flavours to the

coffee is done by European roasters and, as such, this market niche offers few opportunities for developing country producers.

The trend towards convenience and smaller portions has led to an increasing demand for products like instant coffee, coffee pods, iced coffee, etc. On the other hand, in Belgium, also a general decrease in coffee consumption as a percentage of the Belgian market fashionable drinks is noted, especially among younger consumers.

When taking a closer look at the different types of coffee in different European countries, it is clear that Scandinavian countries and Germany prefer Mild coffees in their blends. Robusta coffee is a key component in espresso coffee and darker roasts, therefore important in France and Italy. Just like the US, the UK markets prefer lighter roasts in general, but require a wide spectrum of qualities.

The latter (consumers calling for more variety) is becoming a general trend throughout Europe, together with the rise of demand of specialty coffee. Single origin products are an important component of this trend.

4.2.1.2 Awareness / social responsibility feelings

Consumers are increasingly attentive to quality and origin, and show a growing interest in the economic, social and environmental aspects of coffee production. This explains, at least partly, the success of both the Fair-trade, organic and more recently emerged sustainable labels such as UTZ, RA, private labels such as the ones of Nespresso and Starbucks etc.

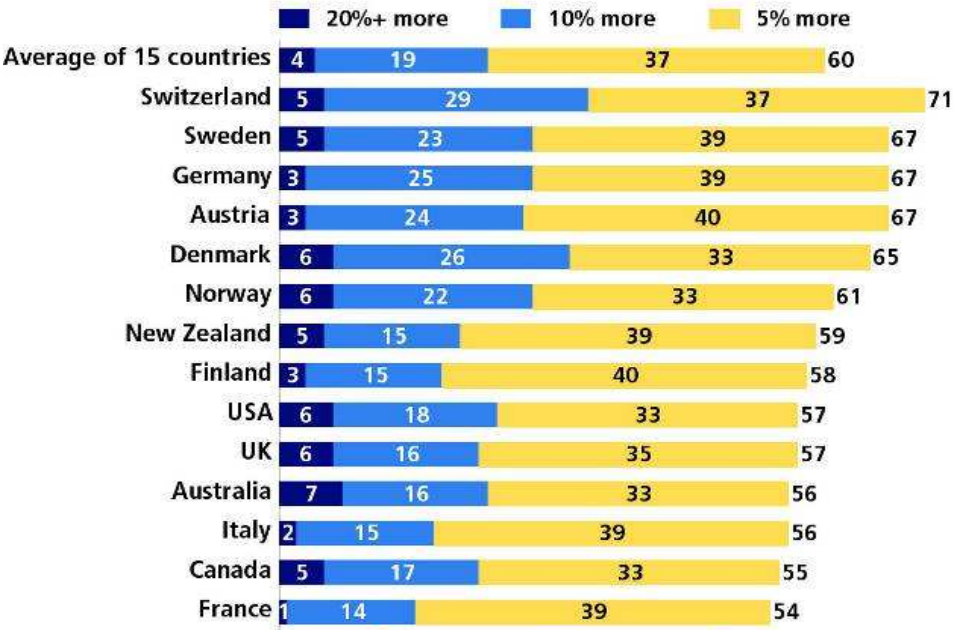
The first ever global consumer survey on **Fair trade** was conducted in 2008 and found that half of the public are now familiar with the Fair trade Mark. Of these consumers, nine out of ten trust the label and nearly two in three believe that Fair-trade has strict standards. Almost three quarters of shoppers believe independent certification is the best way to verify a product's ethical claims. The survey showed the opportunity for huge growth in Fair trade. It found that 'active ethical consumers' make up more than half the population (55%) in the countries surveyed. These (active ethical) shoppers have high expectations of companies' social, economic and environmental responsibilities. Their shopping habits and decisions tend to reward (or punish) companies that meet (or do not meet) their expectations, and they influence others with their opinions. They represent the market for fair-trade.

When comparing some of the results of this Fair trade-research, it is interesting to see that, in 2007/8, consumers are (far) more familiar with the Fair Trade label than other sustainable labels such as Rainforest Alliance. However, in the UK and Ireland, the consumer awareness of Rainforest Alliance has doubled in 2008/9 from 22% to 44%. It is thus clear that the duration of presence in the market, and the communication campaigns of the labels concerned, clearly has an influence on the recognition value of the consumers.

4.2.1.3 *Willingness to pay (sustainable buying behaviour)*

Although it is clear that consumer awareness for environmental and social topics is increasing throughout the world, this is not always 'translated' into a higher willingness to pay for these products. As can be seen from the picture below, only about 25% of the consumers is, on average, willing to pay (at least) 10% more for a sustainable product. Consequently, high (retail) price-differentials could be an important limiting factor for development of coffees with a relative important price differential at consumer level - such as organic or Fair Trade coffee. Evidence for this is found for the Belgian market too (which was not part of the Globescan-study), as one of the constraints highlighted by Max Havelaar was that '*while public interest and verbal support continued to be strong, these sentiments are not sufficiently strong to consistently generate purchases'*.

Figure 19: Willingness to Pay More for Certified Products



Source: GlobeScan market research for FLO International (Label Perceptions Survey)

It has to be noted that this willingness to pay is/can be 'conditional'. After all, evidence from Denmark shows that consumers are willing to pay a higher price *when they are confident that* it will positively affect farmers and the environment. Although this research was not carried out at European level, some of the findings in literature do bring an analogous message – calling for more independent research and transparency about the actual effects of the sustainable mechanisms or trading practices concerned.

4.2.2 *The strategy and company rationale of traders, roasters, retailers and horeca*

The most important actors[39] per segment of the value chain are shown below. It concerns Belgian players or companies who do business in Belgium.

The first group in the value chain is that of the traders:

- Ecom *(www.ecomtrading.com)*
- Armajaro *(www.armajaro.com)*
- Efico *(www.efico.com)*
- Phoenix Trading
- Supremo *(www.supremocoffee.com)*
- Coffeeteam
- Suiker Export
- Rucquoy Frères

There are some very important traders in the international market eg. Ecom and Armajaro, but also in Belgium eg. Efico.

The actors listed above all confirmed that they trade certified coffee. However, the amount of certified coffee that Armajaro sells in Belgium is negligible.

The second segment is that of the roasters. Belgium has a wide variety of roasters. The most renowned are:

- Sara Lee/Douwe Egberts (*www.saralee.com;www.douwe-egberts.be)*
- Edel
- Sas (*www.sas-koffie.be*)
- Beyers Koffie (*www.beyerskoffie.com)*
- Rombouts Koffie (*www.rombouts.com)*
- Delhaize (*www.delhaizegroup.com*)
- Colruyt (*www.colruytgroup.com*)
- Koffie Kàn (*www.koffiekan.be*)
- Miko (*www.miko.eu*)
- Roode Pelikaan/Autobar (*www.roode-pelikaan.be*)
- Verheyen Koffie (*www.koffie-verheyen.be*)

These actors all confirmed that they roast certified coffee except for Edel, but we expect that they do too because they also offer private label roasts[40].

In the listing above you can find some important retailers too, such as Colruyt and Delhaize. A lot of important retailers in Belgium are also roasters. They sell their own brand but also other brands. This brings us to the next category, “retailers”. The following retailers are the most important in the certified coffee business in Belgium, but unfortunately we have not received information of all of them[41]:

- Carrefour *(*www.carrefour.com*)*
- Delhaize *(www.delhaizegroup.com)*

39 In terms of conventional volume and turnover

40 They roast on request the retailer’s own private brands

41 We have noticed that in general, the closer the segment stands to the end-consumer the scarcer the information was that we received from that segment.

- Colruyt *(www.colruytgroup.com)*
- Cora *(www.cora.be)*
- Metro group *(*www.metro.be*)*
- Oxfam *(*www.oxfam.org*)*
- Bioshop *(*www.bioshop.be*)*

The leading food retailers Delhaize, Carrefour and Colruyt have all embraced the organic concept and to a lesser extent fair trade. Each of the leading chains has also introduced fair trade and organic products under private labels. Oxfam World shops is the Belgian pioneer of fair trade products including coffee.

Horeca is the last segment in the value chain that sells coffee. As in retail, coffee is sold here to the end-consumer. The most important players in Belgium that sell certified coffee are:

- IKEA *(www.ikea.com)*
- McDonald's *(www.mcdonalds.be)*
- Exki *(www.exki.be)*
- Starbucks *(www.starbucks*.com*)*

Starbucks's share is still relatively small in Belgium (only two stores) but is, besides IKEA, Exki and McDonald's, also a leading example in choosing 100% for certified coffee.

For this study most of these companies were interviewed. The quantitative information provided by them was rather scarce. As a result, it is difficult to draw conclusions. We noticed, however, that during the interviews the most frequently mentioned labels[42] where Utz Certified, Fair Trade and Organic. Although the last one was not perceived as "certified" but was considered more as a separate category. 4C was not mentioned at all, only when asked specifically. RA coffee is more widely available in the American than in the European market. Availability is however increasing, also via the transportation sector with airlines like for example KLM, Ryanair or hotel chains like for example Crown Plaza Hotels and Resorts.

We often see that the labelled part of the total volume of sold coffee is between 1 and 15%. Some companies go even further to 20% or choose to go completely, for 100%, sustainable.

What the future concerns, one may expect that certified coffee will play a more important role. Its market share will steadily grow. What the future holds for Max Havelaar, appears to be less certain. The interviewees are convinced that its market share in comparison to conventional coffee will grow, but that it will lose field compared to the other upcoming labels. Furthermore, we noticed some kind of increasing resistance towards fair trade from coffee roasters and retailers, because they perceive fair trade as not so "fair" in the free (EU-)market[43].

The actors feel that consumer awareness for this kind of products and consequently their demand is growing. This is the main reason why these companies' strategy is to buy/produce more certified coffee in the future.

This is confirmed by a study that was conducted in 2003 where members of the industry were asked to rate the importance or value of certain factors. The highest importance was given to the consistency of supply, closely followed by (cup) quality and customer awareness.

Although consumers have a lot of sympathy towards sustainable initiatives, they do not adapt their buying behaviour easily. Brand and/or price still dominate, certainly in times of economic crisis. Therefore, it is also the supplier's task to make coffee more sustainable.

Consequently, three trends in the selling and marketing role of labels are noticeable:

[42] Qualitative data

[43] According to these actors: "fair trade receives subventions and therefore no economic driven retailer can compete with Oxfam worldshops (fair trade is therefore perceived as an "unfair" competitor)"

- Either companies have (and draw attention to) their own certified umbrella label (e.g. all coffee at Delhaize is “FandO” labelled, this is their own sustainable label.)
- Either they only offer one label, so that the consumer does not get confused and does not have to make a choice (e.g. McDonald’s offers (only) 100% Utz coffee) but does know that he/she is buying sustainable coffee.
- Either they sell certified coffee in a mix that is not 100% pure sustainable coffee. The consumer is in this case not always directly aware of the certified part of his/her coffee. It is used however in marketing, so in an indirect way the consumer is still informed. (e.g. Douwe Egberts puts 10% of Utz in each pack of coffee.)

The “why”, the reasons behind the choice for certified coffee or a certain label, or in other words “the company’s rationale”, is very interesting to know, but not easy to find out.

It is clear that Utz Certified is used a lot by companies without a direct link to consumer demand. They choose UTZ, like RA, more out of own sustainability considerations, it is the company’s internal strategy. Fair Trade (Max Havelaar) and bio on the other hand are mostly offered because of a certain and direct demand. These labels are more consumer driven. They also have strong brand recognition according to the interviewees. Brand recognition and branding/promotion are increasingly important as mainstream retailers are taking over and consumers consequently lose the personal attention of specialized retailers (who introduced them to sustainable coffees).

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5 CERTIFIED COFFEE: SOME EVALUATING REMARKS

5.1 Transparency, independence and harmonization

5.1.1 *Transparency and independent certification as key success factors for consumer knowledge and trust*

In section 2.2.1, we highlighted the link between the increasing social and environmental awareness of consumers (and also, the trend towards a more healthy food consumption); and the success and growth of sustainability-initiatives such as certified coffee. Consequently, consumers do have an important role within the whole market(ing) system of commodities such as coffee (as they 'trigger', or at least influence company strategies of major roasters/retailers). However, if consumers are given this responsibility to shape the coffee market (by making them choose between different (more or less sustainable) products, it is of crucial importance that these consumers are aware of the differences between these products – at least in terms of their objectives, and even better: in terms of their actual impacts on the target groups of these certifications (~producers / producer groups). After all, confusion or mistrust might lead to a reduced willingness to pay for certified coffees, and consequently, to decreasing sales or lower premiums for producers.

This 'critical success factor' of actual consumer knowledge and trust shows the importance of sufficient transparency about the objectives and impacts of a particular certification system.

This transparency and trust can be achieved by:

i. *Using informative labels:* Using a standard score or visualization of the underlying objectives and proven impacts could better identify / communicate the actual value of the certification system in terms of sustainability; enabling consumers to compare between the different labels

ii. *Preventing the proliferation of labels:* Limiting the amount of different labels for one product such as coffee

   It is common wisdom that consumers cannot be seen as fully rational and omniscient economic actors. Naturally, the more labels do exist, the more knowledge is required to make conscious choices in favour of sustainability. Bringing these two facts together, it is clear that a wide set of labels for a product such as coffee might bring in confusion, or even ignorance, in the buying consumption process.

   Indeed, broad survey in 12 major coffee markets (including Belgium) showed that most respondents - nearly 70 percent - consider that certifications are confusing to the vast majority of consumers (not really for the industry). The respondents who do consider the certifications confusing, point out that there are a number of adjoining labels that make similar claims, or, that the exact content of the labels is not known to most of the customers. The conclusion of a more recent conference on standards notes that "*transparency can be lost amidst the plethora of standards currently being developed*".

   Organic coffee takes a special place in this discussion, as it covers in fact a wide range of labels in itself. As there is no international unified standard concerning organic certification among different certifiers – a broad range of national organic labels exists on the European market. This threatens to happen for fair trade as well (cfr.eg. new label "organic and fair").

iii. *Independent certification and research*: it is clear that the credibility of sustainable coffees is built on trust and trust is assured by both independent certification (at the level of implementation and control of the process-related actions) and research (in order to verify the actual impacts and key conditions for achieving the desired 'sustainability' results).

At the research level, the COSA initiative was already mentioned before. It is worth noting here that also ISEAL is developing a suite of good operating practices with a new Code of Good Practice for Assessing the Impacts of Standards Systems (Impacts Code) that will be launched in mid 2010. This might create a requirement for all credible standards systems to

measure and demonstrate their contributions to social and environmental impacts using consistent methodologies. This could, however, bring a lot of extra research costs along.

5.1.2 A call for label integration and harmonisation

Organic, eco-friendly, and fair trade coffees are distinct. For example, personal or environmental health is often associated with organic purchasing decisions whereas social solidarity is more often associated with fair trade. However, it appears that the market often does not perceive this distinction. 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.

Additionally, even simple levels of harmonization can also directly benefit their intended beneficiaries, as it would, at least theoretically, facilitate transactions and reduce compliance costs for *producers, processors, and exporters*. A more harmonized certified coffee market would thus 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.

In response to this growing call for integration or harmonization of existing labels (in the meanwhile: preventing the development of new, private labels), the Consumers Choice Council 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*" in the beginning of this century. These Conservation Principles represent an important step toward a unified certification of sustainability that covers the three major aspects of sustainability. Moreover, the ISEAL Alliance has been making steps toward joint certification of Fair-trade, Rainforest Alliance, UTZ Certified and organic certification as well. In 2004, a "*Code of Good Practice for Setting Social and Environmental Standards*" was launched, building on WTO-disciplines of openness, transparency and participation. This code can serve as a minimum bar against which to evaluate the credibility of voluntary standards systems; and as such became the global reference for good social and environmental standard-setting processes. ISEAL would also like to start up a process to develop a Verification Code of Good Practice - defining good operating practices in terms of accreditation, certification and auditing to social and environmental standards. A key focus of this Code will be the balance between ensuring that certification to social and environmental standards is both rigorous in terms of meeting the needs of consumers but also accessible in terms of making sure that small scale enterprises can afford to enter into certification programmes and see them as market enablers. (Therefore these certification programmes have to be matched with the producers' and exporters' production and marketing strategy. Not every standard is suitable for every player.)

5.2 Certification and verification as the only way to a more sustainable coffee market?

It is easy to get tangled in the standards and eco-labels as a fixed end in themselves. It would be wiser to realize that they can better be understood as a starting point for improved efficiencies, better quality, and an increased awareness of social and environmental issues. They can best serve firms, producers, and consumers if they are less specifically prescriptive and more of a process-oriented and consultative approach.

First, it is clear that trading practices are not the only problem in developing countries; and certification is only one of the possibilities to make trading practices more sustainable:

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.

After all, while one of the major[44] challenges facing coffee producers are dependent upon, or revolve around, trading relationships, it is not self-evident that trading practices per se, can be expected to resolve all, or even most, of the main challenges facing coffee producers. For example, there is little that trading practices can do in the immediate or short term to influence the overall supply and demand characteristics of the market (and concordant world market prices for coffee); nor is there much that trading practices (including the management of prices) can do to compensate for shortcomings in national policy or infrastructure which limit opportunities for diversification among coffee producers. Likewise, trading practices do not immediately affect the capacity of small scale producers to adopt technological innovations that are continually being introduced in the industry. The condition of (public-private) support systems for agriculture, often neglected after market liberalisation, has an equally important impact on the state of coffee farms.

Secondly, many see the certified coffee as a niche market with a certain ceiling, as only part of the farmers in developing countries can benefit from this system. This has several reasons:

It is clear that to date, the demand of coffee companies remains limited (+/- 5% of the global coffee market) – and the 'power' of consumers to create such a demand cannot be overestimated, given the current problems of transparency and trust at their side.

Moreover, currently, most roasters seem only to be experimenting with certified *premium* products (high quality Arabica coffee). They appear to be addressing specific growth markets and are clearly targeting at a different set of consumers from those buying the more traditional coffee products (cfr e.g. the Rainforest Alliance 100% certified premium coffee products from Tchibo, Nestlé and Kraft) – thus rendering this certified coffee market an obvious niche market.

Also, there are significant compliance barriers/costs at producers' side (see section 3.2.3): human and physical capital investments (training, process/inputs changes,…), timing, uncertainties with respect to sales/ markets,… Taking also into account the uncertain benefits of some systems, it is clear that label compliance is not *per se* a safe and advantageous strategy for producers.

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[44] Other challenges are mainly related to production, such as increasing productivity and keeping up with technological developments in order to avoid e.g. coffee diseases

ANNEX 1: DETAILED INFORMATION ABOUT THE DIFFERENT LABELS CONCERNED

A. FAIR TRADE (FLO / MAX HAVELAAR)

	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 (from FAO09): Fair-trade Mark Ireland, Fair-trade 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.
* Author's calculations, based on latest available data from Earth Trends (per capita coffee consumption) and World Bank (population).
** Source: Krier (2008)

ANNEX 2: OVERVIEW OF THE ICA AND POST-ICA COFFEE CHAIN CHARACTERISTICS

	ICA regime (1962-1989)	*Post-ICA regime (1989-present)*
Geography of production	at first concentrated in few large producing countries (Brazil, Colombia); later, increasingly dispersed with the emergence of new producers	fragmentation continues
Entry barriers to production	low, due to government intervention (input and credit supply, extension, coffee cultivation campaigns, price stabilisation)	increased, due to government withdrawal from the provision of services to farmers (end of input supply schemes, breakdown of research and extension networks, end of price stabilisation mechanisms)
Characteristics of internationally-traded product	relatively homogeneous, but distinguished by physical and intrinsic qualities (the latter especially for Mild Arabica)	bifurcated trend: increased homogenisation of lower quality coffees, especially Robusta (bulk export in containers without bags); at the same time, increased trade of small quantities of specific high-end quality beans (Mild Arabica)
Entry barriers to trade	*domestic trade and export*: high barriers due to monopoly of marketing or politically-set quotas *international trade*: increasing due to consolidation	*domestic trade and export*: first, decreased entry barriers due to liberalisation; later, increased barriers following the strengthening of international trader operations in producing countries *international trade*: increasing in mainstream market due to further consolidation and requirements set by roasters through SMI; decreasing in speciality market due to fragmentation and the growing importance of internet sales
Distribution of total income generated along the chain	relatively stable, with farmers getting around 20 per cent of the total, and consuming country operators around 50 per cent	shifted dramatically to the advantage of consuming country operators
Geography of consumption	concentrated in North America, Western Europe and Japan	emergence of new markets (Eastern Europe, China, East Asia)
Typology of consumption	segmented by group of countries (different coffee types and blends catering for the USA/UK markets, Southern Europe, Scandinavia, Central Europe, Japan), but relatively homogeneous consumption within these geographical areas	increased fragmentation: multiplication of types of product and blurring of distinctive lines of preference between different groups of countries; from blend to brand; increased importance of 'single origin' coffees

	ICA regime (1962-1989)	*Post-ICA regime (1989-present)*
Governance structure of the chain	low level of 'drivenness'; increasing concentration in roasting and trading segments raises barriers of entry, but roasters are neither in the position to dictate the terms of the trade to traders, nor to set inclusion/exclusion thresholds; control over the chain by any actor is limited	'buyer-driven' (specifically, roaster-driven); further consolidation in roasting; oversupply; adoption of SMI by roasters forces traders to integrate upstream; integration made easier by market liberalisation in producing countries;
Vertical integration	not common; sometimes occurring in export/international trade links; more rarely into domestic trade and processing	increasing; international traders integrate into export, processing, domestic trade and sometimes even estate production; vertical integration much more limited in the roaster-international trader link.
Producer-consumer country relations	in relative equilibrium; mediated through the ICAs	absence of formalised relations; consuming country domination
Institutional structures (international)	strong: international trade regulated by ICAs	weak: end of ICA; producing country cartels fail to set up effective quota or retention schemes; futures market increasingly de-linked from market fundamentals
Institutional structures (domestic)	strong : markets monopolised by marketing boards, or regulated by stabilisation funds and quasi-governmental producer associations	weak: government and quasi-government institutions retreat into oversight functions or are eliminated altogether; trade associations fill part of the formal institutional vacuum
Quality conventions	*international-level:* product-based; set in negotiation with producing-country sellers (and/or marketing boards) and maintained via instrument-based testing and inspection, cup testing, and certification of the product; in general, quality assessed by the buyer ex-post; *domestic-level:* set by a regulatory agency; includes specific quality control procedures along the chain	*international-level:* increasing importance of conventions defined by buyers; process monitoring (in addition to product testing) becomes important for fair trade, organic, shade-grown coffees; quality increasingly assessed by buyers ex-ante; *domestic-level:* increasingly set by buyers; formal rules of quality control remain but are increasingly disregarded
Upgrading possibilities	limited; undifferentiated trade; however, producing countries achieve product valorisation through higher international prices provided by the ICA	potentially increasing through marketing of 'conscious' coffee and direct internet sales; openings in speciality markets more suitable to estates than smallholders

Source: S. Ponte, 2001

ANNEX 3: COFFEE IMPORTS AT COUNTRY LEVEL

Imports of green coffee into European countries from 2004 to 2006 - in tons and in bags of 60 kilos -						
	2006		2007		2008	
	tons	bags	tons	bags	tons	bags
Austria	65.619	1.093.653	66.204	1.103.395	62.488	1.041.460
Belgium	214.909	3.581.812	186.035	3.100.587	356.596	5.943.258
Bulgaria	19.250	320.825	16.284	271.398	22.058	367.627
Cyprus	1.692	28.200	1.697	28.287	1.718	28.633
Czech Republic	17.691	294.850	16.388	273.130	15.794	263.233
Denmark	34.329	572.147	32.644	544.070	33.271	554.515
Estonia	35	582	31	510	42	705
Finland	64.684	1.078.073	67.237	1.120.623	70.970	1.182.828
France	219.605	3.660.078	244.711	4.078.522	218.523	3.642.052
Germany	1.001.093	16.684.887	1.040.125	17.335.410	1.051.452	17.524.193
Greece	23.462	391.025	28.518	475.297	27.241	454.023
Hungary	14.576	242.930	14.617	243.608	12.932	215.527
Ireland	5.099	84.980	5.062	84.358	3.081	51.350
Italy	416.132	6.935.527	444.160	7.402.672	448.633	7.477.222
Latvia	2.168	36.130	2.139	35.645	2.296	38.263
Lithuania	264	4.400	264	4.398	314	5.238
Luxembourg	164	2.730	224	3.733	365	6.085
Malta	40	663	26	425	38	635
Netherlands	145.987	2.433.112	153.804	2.563.402	64.557	1.075.945
Poland	77.797	1.296.618	62.595	1.043.245	59.666	994.438
Portugal	41.310	688.492	42.983	716.383	41.782	696.358
Rumania	29.342	489.035	24.492	408.203	22.051	367.520
Slovakia	4.632	77.203	4.379	72.975	4.549	75.822
Slovenia	8.490	141.505	8.676	144.597	9.358	155.973
Spain	234.223	3.903.720	249.994	4.166.562	245.194	4.086.565
Sweden	110.031	1.833.842	109.611	1.826.843	109.636	1.827.260
United Kingdom	115.247	1.920.782	113.390	1.889.835	117.104	1.951.733
EU(27) total	*2.867.868*	*47.797.800*	*2.936.287*	*48.938.113*	*3.001.708*	*50.028.463*
Norway	35.777	596.287	38.448	640.798	34.336	572.262
Switzerland	76.482	1.274.700	95.304	1.588.400	103.644	1.727.400
Western Europe total	*2.980.127*	*49.668.787*	*3.070.039*	*51.167.311*	*3.139.687*	*52.328.125*
Albania	6.201	103.342	6.763	112.721		
Belarus	12.654	210.897	15.459	257.644		
Bosnia and Herzegovina	24.648	410.800	24.605	410.080		
Croatia	24.247	404.122	24.826	413.765		
Kazakhstan	6.704	111.727	9.823	163.717		
Macedonia	7.933	132.212	8.589	143.142		
Moldova	950	15.836	1.501	25.012		
Russian Federation	207.670	3.461.165	259.052	4.317.533		
Serbia and Montenegro	36.788	613.136	37.190	619.835		
Turkey	30.561	509.354	31.800	530.006		
Ukraine	59.337	988.947	65.077	1.084.621		
Central and Eastern Europe total	*417.692*	*6.961.538*	*484.685*	*8.078.076*		
Europe total	***3.397.820***	***56.630.325***	***3.530.475***	***58.841.257***		

Source: European Coffee Federation (2009): European Coffee Report 2008

For Belgium:

Belgium: Imports of green not-decaffeinated coffee - in bags -			
Countries of origin	**2006**	**2007**	**2008**
Brazil	694.215	675.188	1.549.073
Vietnam	530.613	368.633	1.081.113
Honduras	209.847	166.532	504.238
Colombia	300.673	314.825	484.315
Uganda	135.248	108.373	426.993
Peru	136.700	173.162	421.828
Ethiopia	135.203	172.032	165.518
Indonesia	80.182	53.650	137.998
India	150.433	130.013	127.665
Guatemala	101.813	97.613	117.380
Mexico	50.740	106.547	114.988
Nicaragua	48.032	55.697	77.822
Rwanda	51.062	19.432	69.198
Kenya	48.362	53.023	63.280
El Salvador	58.670	63.408	60.340
Others	850.018	542.458	541.507
Total all origins	**3.581.812**	**3.100.587**	**5.943.258**

ANNEX 4: LIST OF ABBREVIATIONS

4C	Common Code for the Coffee Community
AU/AEC	the African Union/African Economic Community
CARICOM	Caribbean Community
CBI	Centre for the Promotion of Imports from Developing Countries
CFC	Common Fund for Commodities
COMESA	the Common Market for Eastern and Southern Africa
CRIOC	Centre de Recherche et d'Information des Organisations de Consommateurs
CRMG	Commodity Risk Management Team (of the World Bank)
CSCE	Coffee, Sugar and Cocoa Exchange
EC	European Commission
ECF	European Coffee Federation
EFTA	European Fair Trade Association
EU	European Union
FAO	Food and Agricultural Organisation
FIBL	Research Institute of Organic Agriculture
FLO	Fair-trade Labelling Organisation
ICA	International Coffee Agreement
ICO	International Coffee Organisation
IFAT	International Fair Trade Association
IFOAM	International Federation of Organic Agriculture Movements
IISD	International Institute for Sustainable Development
ITC	International Trade Centre
IMO	Institute for Market Ecology
LIFFE	London International Financial Futures and Options Exchange
NYBOT	New York Board of Trade
RA	Rainforest Alliance
Stabex	Système de Stabilisation des Recettes d'Exportation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

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