



From bean to cup: how consumer choice impacts upon coffee producers and the environment



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Brief explanation of terms

Accreditation body – Procedure by which an authoritative body gives formal recognition that a body or person is competent to carry out specific tasks.

Certification – Procedure by which a third party gives written assurance that a product, process or service conforms to specified requirements.

Certification body – Body that conducts certification conformity. A certification body may operate its own testing and inspection activities or oversee these activities carried out by others on its behalf.

Certification system – System that has its own rules of procedure and management for carrying out certification of conformity. Certification systems may operate at national, regional or international level. The central body that conducts and administers a certification system may decentralise its activities and rights.

Certification scheme – Certification system as related to specified products, processes or services to which the same particular standards and rules, and the same procedures, apply. In some countries the same concept is covered by the term ‘certification program/ programme’.

Fairtrade – The term is used in the labelling system of Fairtrade Labelling Organizations International (FLO). The **FAIRTRADE Mark** is the Registered Trademark. Therefore ‘Fairtrade products’ specifically refers to products that carry the FAIRTRADE Mark.

Fair trade – Refers in broad terms to fairness in trading and does not imply a certification process.

International Coffee Organization (ICO) – The main intergovernmental organisation for coffee, bringing together producing and consuming countries to tackle the challenges facing the world coffee sector through international co-operation. Established in 1963 under the UN auspices, to date it has administered six International Coffee Agreements (ICAs) and is currently negotiating a new agreement. For further information see: www.ico.org

Max Haavelar – Max Havelaar is not a brand but a trademark for fair trade. Products with the Max Havelaar trademark follow the guidelines laid down by the Max Havelaar Foundation, which owns the trademark. The Foundation does not sell products but checks the licence holders (producers or importers of coffee, chocolate, tea etc) who trade with farmers, co-operatives and plantations registered with Max Havelaar. Established in the Netherlands in 1988, Max Havelaar is now active in 16 countries and is co-ordinated by FLO International in Bonn Germany.

Organic – Organic is a term defined by law in many countries. In the US and the European Union (EU), regulations control the standards of production, accreditation, overseeing of certification and labelling of organically produced foods and drinks, as well as certification by third party verification and inspection systems. For example, the EU regulations on organic production stipulate the following standards:

- cultivation of legumes, green manures, or deep-rooting plants in an appropriate multi-annual rotation programme
- incorporation in the soil of organic material, organic livestock manure and vermicompost
- pests, diseases and weeds to be controlled by using appropriate varieties, rotation programmes, biological pest control, mechanical practices and flame weeding
- seeds and propagation material organically produced
- use of non-organic fertilisers, pesticides and biological pest control methods is limited.

Standards body – Standardising body recognised at national, regional or international level that has as a principal function, by virtue of its statutes, the preparation, approval or adoption of standards that are made available to the public.

Third party – Person or body that is recognised as being independent of the parties involved, as concerns the issue in question.

1 kilo (kg) = 2.2lbs: 1lb (pound) = 450grams (0.45 kilo)

Foreword

Efforts to reduce poverty have been hampered by declining and volatile commodity prices and the environmental impacts of industrial agriculture. There is an urgent need to make commodity markets work in fairer and more sustainable ways. Coffee, with its high smallholder involvement and increasingly variable prices, typifies the problems. The collapse of the International Coffee Agreement in 1989 and the devastating impact of the slump in coffee prices on communities have been well-documented by researchers.

Certification is often advocated as one solution to problems caused by volatile commodity markets. Coffee, as the first Fairtrade labelled product, is an important test of the viability of certification. In theory, certification should enable consumers to use their purchasing power to support sustainable products and so drive social and environmental improvements along the commodity chain.

However, certification faces several problems. It is typically associated with niche markets, a low profile with retailers and the public, and limited prospects for market expansion. Certification may also become another requirement for market access and a barrier for small producers rather than an opportunity.

Not enough is known about the effects of certification of coffee even though schemes are relatively well-established. Research into certification schemes have studied small initiatives and have bypassed the largest producing countries. This report focuses on Brazil and Vietnam, the world's two largest coffee producers, and the major coffee consumer markets of Denmark, Finland, Portugal and the USA. It describes the main certification schemes, their unique characteristics and their impact on growers, traders and retailers.

But the main focus is on the impact of consumer choice. When a consumer chooses to buy certified coffee what effects ripple along the commodity chain, from retailer to grower? What are the factors that prompt consumers to buy certified coffee – and equally, what are factors that keep them from such a purchase? Is it the price differential, or is it other factors, such as lack of information, low visibility, or unfamiliar packaging or taste? The report also raises the issue of the entry of big roasting companies into existing certification schemes.

This report, produced in collaboration by Consumers International (CI) and the International Institute for Environment and Development (IIED), is a contribution to that debate and concludes with recommendations for stakeholders in the coffee commodity chain. CI has produced a short documentary to accompany this report. *Just coffee* was filmed in Brazil, Denmark and London and is available on DVD (see page 10 for more details).

This report is timely, coming as the International Coffee Organization is giving greater consideration to issues of sustainability and is reviewing the future of the International Coffee Agreement. While the report focuses on the role of consumer choice and the priorities for consumer organisations, it recognises that if certification is to realise its potential it requires action from a range of stakeholders. We urge these stakeholders – governments, donor agencies, certification organisations, roasters and retailers – to take forward the recommendations in this report.

Richard Lloyd
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Executive summary

Background

Coffee is one of the world's largest traded commodities, produced in more than 60 developing countries, and consumed mainly in developed countries with over US\$70 billion of retail sales each year.¹ At least 14 countries depend on coffee for 10% or more of their export earnings. It is estimated that coffee growing provides a livelihood for 25 million people and that in total 100 million people are involved in the sector from agriculture through to processing and sale.

Between 1997 and 2001 coffee prices fell by 70% in nominal terms and to below the costs of production in many producing countries² with drastic implications for rural livelihoods. The slump in world coffee prices in 2000-03 led many organisations to focus attention on the adverse impacts on coffee producers. Prices have since improved but are still relatively low and very variable.

Over the last few years a number of certification schemes for coffee have come to prominence, building on established organic certification schemes. Much hope has been pinned on these emerging sustainable coffee initiatives. But consumers are now facing a growing complexity of ethical and environmental claims in coffee and there is concern about confusion and declining standards. It is also possible that certification may be another requirement for market access and a barrier for small producers.

One important factor is the response of the consumer to the presence of certified coffee of different types on retailers' shelves. How consumers respond depends on a number of factors related to their income, aspirations and ethics, as well as the real impact of certification on the producers and how this is conveyed to consumers.

Consumers International and several of its member organisations in coffee producer and consumer countries have teamed up with the International Institute for Environment and Development (IIED) to examine the impact of certification along the coffee commodity chain from producer to consumer and to consider how to expand the market for certified coffee. This report is targeted primarily at stakeholders who can influence consumption patterns in developed countries, as this is where the demand for certified coffee is likely to grow – at least for the near future.

Research on coffee production was carried out in Brazil and Vietnam, the two largest producers of coffee. Research on coffee consumption was carried out in Denmark, Finland, Portugal and the US. The choice of countries reflects their importance as coffee producers and consumers, and the interest shown by consumer organisations in those countries in the topic of sustainable consumption.

The coffee commodity chain

The report starts by giving a background to the coffee commodity chain and the economic, social and environmental issues associated with it. Coffee goes through stages from the grower to the final retail outlet: preliminary processing, milling, export, import, roasting, wholesale and retail. The nature of this commodity chain and the relationships between players at different stages and between stages have changed over the last 15 years, influenced in particular by the collapse of the International Coffee Agreement (ICA) in 1989. Many state-controlled marketing boards have been replaced by private traders, and there has been increasing concentration in trading, roasting and retailing. New low-cost producers have come on to the market, leading to downward pressure on prices.

¹ International Coffee Organization, 2005

² Food and Agriculture Organization, 2004

Coffee and sustainable development

Coffee has considerable development potential. As it can only be grown in frost-free areas, in non-arid tropical countries, many developing countries have a comparative advantage in its production. It is a key export commodity for many developing countries but also important for rural livelihoods as over 70% of production worldwide is on farms less than 10ha in size. It is also an important source of employment on larger farms as it has relatively high labour demands.

Compared to annual crops, coffee causes less environmental damage, although much depends on how it is grown. Over the last 20 years, there has been a move to greater intensification of coffee-growing and heavy use of agro-chemicals.

The period of low coffee prices since early 2000s has had devastating consequences for coffee farmers and producer countries, with increases in poverty, unemployment, migration and school dropout rates. Declines in prices to growers have not been accompanied by declines in retail prices to the same extent. There is consensus among the numerous studies conducted that the share of overall revenues from coffee that accrues to the grower and to producer countries has declined over the last 15 years. There is less consensus about the reasons – while everyone agrees that oversupply is a cause, some give more emphasis to changes in market structure and the power held by traders, roasters and retailers.

Sustainable coffee certification

Certification schemes have emerged as one approach to try and raise the economic, social and environmental standards of coffee production and trading. There are presently five certification schemes operating for coffee:

- **Fairtrade** addresses the trading system, ensuring that producers receive a minimum price for their coffee plus a premium for investment in community projects. Some environmental protection standards are also included.
- **Organic** certification requires the elimination of chemical fertilisers and pesticides as well as practices to conserve or enhance soil structure.

- **Rainforest Alliance** aims to cover all aspects of sustainable agriculture: environment, rights and welfare of workers and the interests of local communities. It does not prohibit use of agro-chemicals but requires integrated pest management. It also requires the maintenance of shade cover and/or the restoration of native forest reserves.
- **Utz Kapeh** also has a comprehensive set of standards covering good agricultural practice in coffee production and worker welfare including access to healthcare and education. It emphasises responsible production rather than sustainability although similar issues are covered.
- **Bird Friendly** coffee certification requires organic production and shade cover to provide good forest-like habitat for birds.

Certification raises concerns about the difficulties of access for small producers because of the high fixed cost element in the application and audit process which means that it costs relatively more for small producers. Fairtrade certification is specifically aimed at small producers and both the direct and indirect costs are low. However, only a small proportion of fair trade production capacity is currently sold at fair trade prices so this type of certification can only help a small proportion of producers. Evidence of the impacts of coffee certification around the world is mixed but generally positive for fair trade in terms of producer benefits (although for relatively small numbers of producers as supply exceeds demand), and more mixed for other certifications depending on the location and the practices of growers before certification.

Brazil's experience with coffee certification

Our survey of coffee growers in Brazil gives findings broadly consistent with this picture worldwide. Revenues for certified coffee growers have generally increased as a result of certification, and access to export markets has been facilitated. This is particularly striking for the Fairtrade certified growers. The evidence from the Cooperativa dos Agricultores Familiares de Poço Fundo, one of the six co-operatives of small coffee farmers in Brazil that are certified Fairtrade, is that achieving this certification has made a marked improvement to their living conditions.

Organic producers have also benefited but are seeing the differential with conventional coffee diminish as coffee prices increase. For some organic producers the price premium does not compensate for the additional costs of production in terms of reduced yield. Premiums have also declined for the Utz Kapeh scheme but here it appears that market access and the ability to negotiate long-term contracts are more important as benefits of certification.

There is evidence also that it is not just the coffee farmers who are benefiting but also estate workers and local communities. Large companies are taking measures to meet the social requirements of certification schemes. While some observers point out that companies are simply meeting their legal requirements, enforcement is lax in Brazil so additional incentives to meet legal requirements are useful. There are also important environmental benefits associated with all four types of certification, particularly in relation to reduced or better managed use of agro-chemicals and, in the case of Rainforest Alliance certification, the restoration of native vegetation.

Certification in Brazil has so far mainly been taken up by large and medium coffee growers. This underlines the important contribution of the Fairtrade certification system which targets smallholder co-operatives. It is notable that compared to the other certification schemes, Fairtrade has proceeded relatively slowly in Brazil. Utz Kapeh, introduced relatively recently, is now the most extensive coffee certification scheme in Brazil. It is therefore important that the Utz Kapeh and Rainforest Alliance schemes are seeking ways to work more with small producers and that some producer groups are in the process of certifying with Utz Kapeh. Whatever the certification scheme, maintaining and improving the quality of coffee is vital to securing access to new markets.

Coffee certification in Vietnam

The enormous growth of Vietnam's coffee production has been achieved with significant environmental impact in terms of deforestation and water use. As coffee is mainly a smallholder crop, to a large extent grown by poor people and ethnic minorities, the fluctuation in world prices has been devastating in its social impact.

Evidence from Vietnam on the impact of certification is very limited because certification is so new and

only Utz Kapeh has any presence, and then only with state-owned companies. These companies have incurred costs in meeting the social requirements of Utz Kapeh. While these costs exceed the price premiums, the companies concerned appear to be committed to certification and considerable expansion is expected of Utz Kapeh in Vietnam.

Markets for certified coffee

The report reviews the status of certified coffee in four markets, Denmark, Finland, Portugal and the US, all significant coffee consuming countries but with varying interest in certification. Brazil is a major source of imports for all these four countries.

Organic certification is currently the most significant of the coffee certification schemes in terms of sales but Utz Kapeh and Rainforest Alliance are expanding rapidly as they target roasters such as Sara Lee and Kraft. There is variation in the level and growth of demand for certified coffee by country and by certification scheme. Fairtrade is stagnant in Denmark but expanding rapidly in US and Finland. As yet, it is not clear whether the emergence of new coffee certification schemes such as Utz Kapeh and Rainforest Alliance will expand the market or lead to increased competition for more established schemes such as Fairtrade and organic. Much will depend on how the schemes and their unique characteristics are communicated to consumers.

Certified coffee appears relatively expensive because of the use of conventional coffee in some countries (Denmark and Finland) as loss leaders with substantial discounts. This is a significant barrier to expansion of certified coffee.

Where discounts are not used, it is very difficult for consumers to compare prices on a rational basis because so little information is given on the origins and quality of the mainstream coffee brands. There is so much variation in the price of coffee, depending on the brand and the outlet.

There are also non-price barriers to the expansion of certified coffee consumption. Where countries have marked preferences for a particular coffee taste, as in Finland and to a lesser extent Denmark, this represents a barrier for certified coffee which often involves single origin products or is unlikely to match the traditional taste. There are also concerns about the low visibility of certified coffees in the

countries examined in this study, particularly in Portugal.

A recent development is the entry of large roasting companies into certification. While the adoption of certified coffee appears to be a positive development that may result in an expansion of demand, some observers have raised concerns about the motives of the companies and the impacts on other Fairtrade and sustainable certified coffees. The dominant approach is to add a new certified brand to the portfolio of brands to attract a different group of customers. So far, there is little indication that the mainstream coffee roasters intend to use certified coffee on any major scale in their established brands.

There are concerns about the effects on consumers of multiple certification schemes as more schemes become established eg Utz Kapeh and Rainforest Alliance in markets such as Denmark where Fairtrade has dominated the certified niche. However, similar fears raised in the US a few years ago have proved unfounded and knowledge about certification among consumers and the industry has generally increased.

Linking up producers and consumers

The report presents some illustrative case studies of certified commodity chains in order to show the links between impacts at the local level in Brazil and the consumers who buy the certified coffee in Denmark, Finland and the US.

- The Cooperativa dos Agricultores Familiares de Poço Fundo of small family farmers, certified under the Fairtrade scheme, exporting to US and also to Denmark.
- The Fazenda Santa Terezinha, a small-medium certified organic coffee grower employing hired labour, exporting to Finland via the UK.
- Ipanema, one the largest coffee estates in Brazil, certified under Utz Kapeh and Rainforest Alliance, exporting to Denmark and to the US.

A number of key observations can be made:

- The importance of buyer interest even when other links in the chain may be driven more by philanthropy.

- The role that quality plays in facilitating the sale of certified coffee, whether Fairtrade, organic or other schemes.
- The uneven acceptance of certification, as the chains show a trader who does not like 'cause coffees' but still buys organic coffee and buyers who pay a premium for certified coffee but do not put a label on the package.

Recommendations

Consumer organisations

Consumer organisations should work to uphold consumer rights to a healthy environment, to education and to information in appropriate and understandable languages. They can help to expand demand for certified coffee by:

- Explaining to consumers about the differences between coffee certification schemes and the rationale for price differentials between different types, qualities and brands of coffee.
- Lobbying mainstream roasting and retailers to make a more substantial commitment to certified coffee, for example making certification a requirement for all own label coffee.

Consumer country governments

Governments in consumer countries need to revisit requirements on companies to make information available to consumers. At present, consumers are not given enough information about the quality and origins of conventional coffee to compare prices of certified and conventional coffee on a rational basis.

Institutional buyers of coffee in the public and private sectors (local governments, hospitals, large companies etc) can lead the way by buying certified coffee for staff, customers, patients, etc, to raise awareness and make such coffee more visible for consumers.

Certification organisations

On the demand side of the market, certification organisations need to:

- Improve the visibility of certified coffee and provide more information on how the various certification schemes differ.
- Promote certified coffee through buyers' networks (if necessary creating a separate

organisation for this purpose to avoid conflicts of interest) and adopting strategies which take account of national cultural conditions of the coffee market, eg in Finland creating a Fairtrade or sustainable equivalent to the 'Paula Girl'.

On the supply side of the market, at the producer level, certification organisations need to:

- Streamline their application and evaluation requirements so that multiple certifications (ie from more than one scheme) can be obtained at lower cost.
- Step up their efforts to promote group certification and find ways of reducing certification costs for small producers.

Coffee importers and roasters association/specialty coffee associations

These organisations should promote greater traceability and transparency. They can also provide information to consumers to help them understand the differences in prices between conventional coffee of different types and certified coffee of different types.

Retailers

Retailers can support certified coffees by:

- Improving the visibility and expanding their range of sustainable certified coffees.

- Including in the company's policy a significant commitment to increase their supply of sustainable certified coffee, for example by making it a requirement for all own label coffee.

Donor agencies

Donor agencies can take action on both the supply side and demand side of the market. On the supply side they can support measures to reduce barriers to small-scale producers entering certification, and to promote the formation of coffee producer associations and groups. On the demand side, donors can support establishment of certified coffee buyer networks and activities to promote demand for certified coffee.

Further research needs

Developments in certification change rapidly such that the short-term impacts of certification may bear little relation to the long-term outcomes. It is therefore necessary to track the longer-term economic, environmental and social impacts of certification as initiatives become more established.

It is also important to assess the impact of multiple certification schemes and the move by the mainstream companies into certified coffee. Will these two developments expand the market for certified coffees or will they take business away from the existing specialist fair trade and certified suppliers?

Just Coffee: how consumer choice impacts on coffee producers and the environment

is a 20-minute documentary to accompany this report. It looks at the main types of sustainable certified coffees and assesses the benefits for coffee producers and consumers.

Just Coffee follows the certified coffee chain from the farms of Brazil to the supermarket shelves of consumer countries. It includes exclusive interviews with certified coffee farmers, roasters, consumer representatives and some of the major players in the international coffee sector.

Just Coffee is a compelling introduction to coffee certification and provides an ideal educational tool for anyone interested in sustainability, fair trade and social responsibility.

For a DVD please e-mail: consint@consint.org

The DVD is free to NGOs and academic institutions and \$US 5 to others.



Chapter 1

Introduction

Background

Coffee is one of the world's largest traded commodities, produced in more than 60 developing countries, and consumed mainly in developed countries with over US\$70 billion of retail sales each year.¹ At least 14 countries depend on coffee for 10% or more of their export earnings and in the case of three least developed countries – Burundi, Ethiopia and Uganda – for more than 50%.²

It is estimated that coffee growing provides a livelihood for some 25 million people and that in total 100 million people are involved in the sector from agriculture through to processing and sale. Three countries – Brazil, Colombia and Vietnam – account for almost 60% of world production.³

Between 1997 and 2001 coffee prices fell by 70% in nominal terms and to below the costs of production in many producing countries⁴ with drastic implications for rural livelihoods. The International Coffee Organization (ICO) in its 2002/3 *Annual Review* observed that the crisis was the worst in the history of coffee 'with low prices giving rise to growing levels of poverty, unemployment, social violence and unrest in producing countries'. The slump in world coffee prices in 2000-03 led a number of organisations, including Oxfam, to focus attention on the adverse impacts on coffee producers in comparison with the healthy situation of companies involved in trading, roasting and retailing in developed countries. Prices have since improved but are still relatively low and very variable. Some analysts⁵ are concerned that even if consumption increases, the volatility of prices is likely to recur.

Over the last few years a number of certification schemes for coffee have come to prominence building on established organic certification schemes. Much hope has been pinned on these emerging sustainable coffee initiatives which aim either to pay

fair prices to coffee growers and/or to reward them for improvements in the social and environmental conditions of coffee production. Labels and claims offer options and opportunities to communicate added value to consumers. Consumers can use their purchasing power to support products that meet their expectations, not only in terms of quality but also the social, economic and environmental characteristics of their production, and to avoid products that do not.

But consumers are now facing a growing complexity of ethical and environmental claims in coffee and there is concern about confusion and lowering of standards. It is also possible that certification may become another requirement for market access and a barrier for small producers. In this case, certification may be an advantage for large coffee estate producers and irrelevant for the majority of small coffee farmers. The key issue is whether certification initiatives can help to address the social, economic and environmental problems of coffee production and improve the livelihoods of coffee farmers.

One important factor is the consumer and how they respond to the presence of certified coffee of different types on retailers' shelves. This will depend on factors related to their income, aspirations and ethics, as well as the reality of the impact of certification on the ground and how this is conveyed to them. Often there is a gap between reality and perception.

For this reason, Consumers International (CI) and member organisations in coffee producer and consumer countries (see Annex 1 on page 59 for details) have teamed up with the International Institute for Environment and Development (IIED) to examine the impact of certification along the coffee commodity chain from producer to consumer and to examine the market for certified coffee and how it can be expanded.

¹ International Coffee Organization, London, 2002

² International Trade Centre, Geneva, 2002

³ Ibid.

⁴ Food and Agricultural Organization (FAO), Rome, 2004.

⁵ Eg Lewin, B, *et al*, 2004

Aims of the report

The report aims to:

- understand the differences between the economic, environmental and social impact of sustainable coffee and conventional coffee
- understand how the coffee commodity chain works and uncover factors that influence prices of sustainable and conventional coffee along the chain from grower to retailer
- understand who is capturing benefits or incurring costs from sustainable coffee compared with conventional coffee
- explore drivers of and barriers to sustainable coffee production and consumption along the coffee commodity chain given the structure of the coffee industry and increasing concentration in trading, roasting and retailing.

This report is targeted primarily at stakeholders who can influence consumption patterns in developed countries, as this is where the growth in certified coffee demand can be expected for the near future. Our conclusions and recommendations are aimed at governments, certification organisations, consumer organisations, coffee roasters and exporters, importers and retailers. However, it is also important to share the results with the providers of information in both producer and consumer countries.

Approach to research

Research on coffee production was carried out in Brazil and Vietnam, the two largest producers of coffee. Research on coffee consumption was carried out in Denmark, Finland, Portugal and the US. The choice of countries reflects their importance as coffee consumers and producers and the interest shown by consumer organisations in those countries in the topic of sustainable consumption.

The questionnaires were adapted from a study carried out by the Centro de Inteligencia sobre Mercados Sostenibles (CIMS) on price formation of certified and conventional coffee in Central America.⁶



Luis Guedes Pinto, Maryanne Grieg-Gran and Torsten Raagaard, at IDEC, Sao Paulo, Brazil, October 2005

The main research method in the two producer countries was a questionnaire sample survey for producers in Brazil and Vietnam, and additionally with exporters and roasters in Vietnam, supplemented by semi-structured interviews with key informants. In both countries, the questionnaire was used during a visit to the farm or company premises. In the case of Brazil, a follow-up visit was made to a selection of the farms in order for the whole project team to be acquainted with the conditions of production and to conduct more in-depth discussion with the farmers.

In the consumer countries, an effort was made to use similar questionnaires for importers, roasters and retailers but there was considerable unwillingness to answer the questions on the grounds of commercial sensitivity. As a result, response rates were very low and, where returned, questionnaires were incomplete. The researchers therefore relied on telephone and personal interviews with some key players in the market for certified coffee along the commodity chain. There was also an examination of prices of certified and conventional coffee in different retail outlets in Finland and the US.

Limitations of the research

As the research focuses on important producer countries, it does not capture the experience in countries such as Mexico and Costa Rica where coffee certification is most advanced. Nevertheless, the experience with certification in these countries has been well studied, while that of Brazil is

relatively under-researched. Our survey of Brazil can add to the knowledge base on the impact of certification.

Another limitation has been the lack of information on the various links along the coffee commodity chain. A detailed representative sample survey of traders, roasters and retailers linking producers with consumers was not possible given the resources available to the study and the concerns about commercial sensitivity. We have examined three coffee commodity chains to give an idea of the different experiences and drivers in different cases. But these serve as illustrations only and cannot be used as a basis for generalisation.



The project team and coffee farmers in Minas Gerais, October 2005

Structure of the report

The following chapter discusses coffee in the context of sustainable development giving a background to the coffee commodity chain and the economic, social and environmental issues associated with it. Chapter 3 introduces the main certification schemes that operate for coffee and sets out the concerns and hopes that have been raised by this new development in the coffee sector. Chapter 4 is an examination of the experience with coffee certification in Brazil and Vietnam, the impacts on coffee-growing areas and the extent to which these concerns and hopes have been realised in practice. Certification is barely emerging in Vietnam so the discussion here focuses more on potential for future progress.

Chapter 5 examines the market for certified coffee in the four consumer countries – Denmark, Finland, Portugal and the US – considering the barriers and opportunities for expansion. Chapter 6 links the producers to the consumers through case studies which trace the impact of certification along the chain from grower to consumer. Chapter 7 presents conclusions and recommendations.

Chapter 2

Coffee and sustainable development

Background to the coffee chain

There are two main coffee species: *arabica* which accounts for 60–65% of supply and *robusta* which accounts for 35%, compared to only 25% some 20 years ago. Arabica fetches higher prices, but robusta is easier to produce, more resistant to diseases and can be grown at lower altitudes.⁷ Arabica is mostly produced in Latin America but there are also large suppliers in Ethiopia, Kenya, India and Papua New Guinea. Robusta is produced mainly in Vietnam and Brazil.

Coffee goes through a number of stages from the grower to the final retail outlet: preliminary processing, milling, export, import, roasting, wholesale, retail. The basic stages are set out in Box 1.

Trends in the structure of the coffee commodity chain

The nature of this commodity chain and the relationships between players at different stages and between stages have changed over the last 15 years. Between 1962 and 1989, coffee was subject to an international commodity agreement, the International Coffee Agreement (ICA). Export quotas were agreed for signatory countries with a view to preventing fluctuations in supply and price and to ensure that price remained at a reasonable level in relation to costs of production.

The ICA broke down in 1989 and there were also other significant changes on the world market. Many producing countries had state-controlled coffee marketing boards which bought the output from producers, and exported it, ensuring that ICA quotas were observed. The move to structural adjustment from the late-1980s onwards resulted in the break up

of state marketing boards and their replacement by private sector traders and exporters. New producers of coffee came on to the market, notably Vietnam which in 1980 produced only 8,400 tonnes and by 2004 had increased its production tenfold to 890,000 tonnes.¹⁰

Trading became increasingly consolidated at international level after the collapse of the ICA in 1989. There was a period of restructuring which saw mid-sized traders go bankrupt, merge with others or be taken over by the major traders.¹¹ Five companies, Dreyfus (France), ED & F Man/Mercon (UK), Esteve (Brazil), Neumann (Germany) and Volcafe (Switzerland) cover about 40% of the total volume of green coffee traded worldwide.¹²

Roasting is consolidated as a sector with four companies, Sara Lee, Kraft/Philip Morris, Procter and Gamble and Nestlé, buying half of all green beans traded, and the top ten companies accounting for 60–65% of all sales of processed coffee in 2000.¹³ There has been very little vertical integration between roasters and international traders, with one exception being Tchibo which has vertically integrated all the way into estate production in Tanzania.¹⁴ Some roasters are said to source from local exporters as well as international traders in order to reduce their dependence on any one actor.¹⁵

In 2003, only 6.9% of coffee exports from producing countries were in the form of instant or roast or ground beans and most of this was instant.¹⁶ Talbot¹⁷ explains how roaster companies in the US and European countries in the first half of the 20th century developed distinctive national blends based on the types of coffee that had been available from former colonies or other historic links. US blends, for example, were based on Brazilian blends while in France, coffee blends had a high proportion of Robustas, as these were common in West Africa.

⁷ Scholer, M (2004)

¹⁰ VINASTAS and VICOPA, 2005

¹¹ Ponte, S, 2001

¹² ITC, 2002

¹³ Ibid.

¹⁴ Ponte, S, 2001

¹⁵ Ibid.

¹⁶ ITC, 2005

¹⁷ Talbot, JM, 2002

Box 1: The coffee commodity chain**Growing**

Once planted, coffee takes about three to five years to reach full yield, but will then continue yielding coffee cherries for at least 20 years. This means that supply is price inelastic in the short-term. Factors that significantly affect supply are frost, drought and coffee berry disease. Coffee can be grown with shade cover or in full sun. The main factor that affects the quality of the coffee at this stage and hence the price to the grower are the choice of species, whether arabica or robusta, and the altitude at which the coffee is grown. High altitude usually results in higher quality. Other factors affecting the quality are the approach to picking (the extent to which unripe berries are picked).

Preliminary processing⁸

This normally takes place on the farm or estate, but occasionally farmers sell unprocessed cherry to local traders. Two main types of on-farm processing method exist: dry and wet. This gives rise to a further sub-classification of arabica coffees into unwashed or natural arabicas resulting from the dry processing method, and washed arabicas resulting from the wet method. Coffee produced by the wet method is usually regarded as being of better quality as it is more homogeneous with fewer defective beans. It therefore commands higher prices.

The dry method involves sorting to separate unripe, overripe or damaged cherries, and cleaning to remove twigs and dirt. Cherries are then dried in the sun and on larger plantations, mechanical drying will also be used to speed up the process. Drying has a crucial effect on quality as over-drying will result in broken beans and insufficient drying will lead to fungal attack.

Wet processing requires specific equipment and substantial amounts of water. Removal of the fleshy pulp is first done mechanically and the residual pulp is then often removed through a fermentation process. The fermentation process requires monitoring as the coffee can acquire sour flavours. This is followed by washing in tanks or machines and then drying in the sun or in machines to give parchment coffee. As with the dry processing method, the drying process can affect quality. In Brazil, the fermentation process is rarely used in wet processing and only mechanical methods are used.

The dry method is used for 95% of arabica coffee in Brazil, most arabicas from Ethiopia, Haiti and Paraguay and almost all robustas. The wet method is used for most other arabicas and rarely for robustas.

Secondary processing (hulling)

Farmers sell the dry cherry or washed parchment to the processing mill, either directly or via a local middleman, or in some cases pay the mill to do the processing for them. Large plantations have their own processing operations on site. The hulling process removes the outer layers of the dried cherry, or the parchment in the case of wet processing. This is followed by a number of cleaning, screening, sorting and grading operations common to both wet and dry processing.

Export/import

From the mill the coffee goes to a trading company, directly or via an intermediary, either for export or less commonly to local roasting companies for domestic consumption.

Roasting

Roasting of coffee beans usually takes place in the consuming country or close to point of final sale because of its short shelf-life compared to green beans.⁹ Blending of different types of coffees to achieve a desired taste is also an important activity of the roasters.

Retail

Roasted beans and/or ground coffee is then sold to retailers or to commercial catering outlets or coffee houses either directly or via a wholesaler.

⁸ Except where otherwise, stated this section draws from the ICO website: http://www.ico.org/field_processing.asp

⁹ Fitter, R and Kaplinsky, R, 2001

Blending enables roasters to substitute coffee within the four broad types (robustas, unwashed arabicas, medium quality and high quality washed arabicas) according to price and availability, while maintaining a consistent taste. More recently, new technologies such as steam cleaning have enabled the roasters to use lower quality beans in their blends and so reduce costs.

At the retail level several trends are noticeable:

- increasing concentration in supermarket chains
- shorter supply chains as supermarkets strip out some tiers of intermediaries
- increasing out-of-home consumption of coffee with the increasing popularity of the café culture and the emergence of global café chains like Starbucks.

In spite of the development of private coffee labels by supermarkets, the roasters have been able to maintain their brands, but at the expense of heavy advertising.¹⁸

The development potential of coffee

The importance of coffee to developing countries is without question. As ICO (2003) points out, since coffee can only be grown in frost-free areas it is important for non-arid tropical countries, many of which are Least Developed Countries (LDCs). Coffee is a key export commodity for developing countries, providing employment, cash income and foreign exchange.

Coffee is also important for rural livelihoods. Smallholder involvement in coffee production is very high. According to Oxfam,¹⁹ 70% of production in 2000 was on farms less than 10 hectares, 15% on medium size (10-50 hectares) and 15% came from plantations of over 50 hectares. Coffee has relatively high labour demands compared with other traditional smallholder crops. In Guatemala, for example, coffee requires 73 person-days per hectare compared to 58 for corn and 61 for beans.²⁰ It therefore is a key provider of rural employment. However, a trend to large-scale, low-cost production, primarily in Brazil and Colombia, is threatening this model of production.

Coffee growing like all agriculture has an environmental impact. However, this has to be seen relative to other crops or land uses. As a perennial tree crop it provides some soil cover. Given the life span of the coffee plant, the soil is prepared only once in 20 years so that there is minimal disturbance. If appropriate techniques such as mulching and control of pests and disease are followed over the lifespan of the coffee plant, the soil is protected more than for annual crops.²¹ Traditional shade coffee is considered to be the most environmentally benign and ecologically stable agro-ecosystem in northern Latin America.²²

Concerns about coffee

Coffee is associated with a number of concerns with inter-related economic, social and environmental implications:

- declining and variable prices which have knock-on effects for social welfare and environmental impact
- declining shares of revenues for producer countries and growers
- poor conditions for farmers and workers on coffee farms
- deterioration of the local environment.

Declining and variable prices

Between 1997 and 2001 coffee prices fell by almost 70% in nominal terms, falling to below the cost of production in many countries.²³ Prices reached their lowest levels for 30 years in nominal terms and for 100 years when adjusted for inflation.²⁴ These price trends had severe consequences for coffee growers who were forced to sell below cost and saw their incomes drastically reduced. Economic losses for small coffee farmers have been estimated at US\$4.5 billion per year and with further knock-on effects on children's education and healthcare.²⁵ The loss of foreign exchange also led to fiscal constraints for governments of coffee-producing countries such as Ethiopia and Nicaragua.²⁶

During the last three years there has been some improvement in prices – the ICO composite price indicator increased by 30% between 2002 and 2004 and there have been further increases in 2005. The ICO is predicting that production in 2005/06 will be

¹⁸ Ponte, S, 2001

¹⁹ Oxfam, 2002

²⁰ Rice and Ward, 1996

²¹ Thomaziello, RA, *et al*, 2000.

²² Rice and Ward, 1996

²³ FAO, 2004

²⁴ Lewin B, *et al*, 2004

²⁵ *Ibid*.

²⁶ ICO, 2003

108 million bags (down from a high of 122 million in 2002) and below world consumption estimated at 115 million bags in 2004.²⁷ This reflects reductions in supply, mainly arabica, from a number of countries, primarily Brazil but also Indonesia, Cote d'Ivoire and Colombia.²⁸ However, supply of robusta has declined only slightly from its 2002 peak, reflecting contraction in African producer countries while continuing to increase strongly in some countries, primarily Vietnam.²⁹

Problems of declining prices are compounded by price volatility making rational adjustment to price changes difficult. According to Baffes³⁰ both arabica and robusta prices varied by a factor of five during the 1990s. The principal contributing factor was the weather conditions in Brazil where frost and droughts affect the coffee crop every few years.

Recent fluctuations in coffee prices (price levels in September 2005 were the lowest since the beginning of 2005) have shown how factors outside the sphere of coffee production can contribute to this variability. The ICO review for September 2005 emphasises how coffee prices in September were below expectations because of speculative movement in petroleum products, which influenced the activities of investment funds.³¹

Even if prices do increase, there will still be concerns that growers are receiving a decreasing share of the coffee revenues.

Declining shares for growers and producer countries

The apparent widening of the gap between prices received by growers and retail prices has prompted studies comparing the share of the final retail price accruing to growers with that of other stages of the value chain, and also examining trends in the share of total value of coffee retained in producing countries. Some of these studies are snapshot estimates for a single year, others examine trends. Considering them together, there is some indication of a declining share over time both for growers and for producing countries:

- Oxfam³² estimated that producer countries in 1992 retained about US\$ 10 billion or 33% of the retail value of coffee but by 2002 they received less than

US\$ 6 billion from a market twice the size, equating to less than 10% of the retail value of coffee. The growers in 2002 received roughly 6% of the value of a pack of coffee sold in retail outlets.

- Fitter and Kaplinsky³³ using data for 1995 estimated that coffee growers received from 10-21% of the retail price and that 40% of the final product price accrued to developing countries.
- Talbot³⁴ examined trends in revenue shares over time, finding a significant reduction in the share retained by growers in the late 1980s and early 1990s. Between 1975 and 1985 it was consistently above 20%. After the collapse of the ICA in 1989 it ranged between 10-12% until 1993/4 when a shock to supply brought some improvement.
- Studies of specific value chains, Cote d'Ivoire to France and Costa Rica to Germany, found that in 1994 the grower's share of total retail price was 13.8% and 14.6% respectively.³⁵
- Daviron and Ponte³⁶ examine the trends in green coffee import prices and retail prices for roasted coffee in the US between 1980 and 2002. They find a sharp decline in import prices over the period and a marked increase in the gross margin between retail prices and import prices from 80 cents per lb at the beginning of the 1980s to US\$ 1.80 by 2000. This implies that the importing country was capturing an increasing share of the retail value of coffee.

Researchers give different emphasis to the various reasons for this trend in declining grower and producer country share. All agree that the problem is one of imbalance between supply and demand. There is general agreement that oversupply of green coffee is the principal contributing factor to the slump in prices and that this is more than a cyclical problem, reflecting the short-term inelasticity of coffee supply, but also a result of some major restructuring.³⁷

New low-cost producers have come on to the market, notably in Vietnam and in the Brazilian Cerrado, a region less susceptible to frost, where a large-scale, highly mechanised, high density and input-intensive form of coffee farming has become prominent.³⁸

²⁷ IOC, September 2005

²⁸ IOC, September 2005; ICO January 2005

²⁹ Ibid.

³⁰ Baffes, J, *et al*, 2005

³¹ International Coffee Organization, September 2005

³² Oxfam, 2002

³³ Fitter, R, and Kaplinsky, R, 2001

³⁴ Talbot, JM, 1997

³⁵ Pelupessy, W, 1999, cited in Ponte, S, 2001

³⁶ Daviron, B and Ponte, S, 2005

³⁷ Oxfam 2002; RIAS 2002; ICO 2002/3; Scholer, M, 2004; Lewin, B, *et al*, 2004

³⁸ Lewin, B, *et al*, 2004

Higher cost traditional smallholder producers are the least able to compete and are either being forced out of the coffee market or having to look for other ways of increasing their competitiveness.

On the demand side, consumption is increasing only very slowly in developed countries despite the perception of a coffee boom and the emergence of coffee shop chains and a coffee culture. Per capita consumption has gone down in many countries.³⁹ World consumption for 2004 is expected to be about 3% higher than in 2003 but this is primarily due to the growth of consumption in exporting countries.⁴⁰

There is less agreement on the role of market power held by roaster companies. Oxfam⁴¹ contrasted the losses, or at best tiny margins, made by farmers and exporters in developing countries with the 'extraordinary profits' being made by roaster companies in the US and Europe on their retail coffee business suggesting that the market power held by these companies was a major contributing factor.

Lewin,⁴² while acknowledging the importance of corporate concentration, places considerable emphasis on two factors. First, the roasting companies have been able to take advantage of various value-adding activities such as marketing, branding, differentiation and flavouring. Second, the non-coffee components of the retail price of coffee such as wages, packaging and marketing have grown and now represent a more significant share of the retail price than the coffee itself. The ICO stresses the problem of too much low-quality coffee and insufficiently dynamic growth in consumption but also acknowledges that the value chain is skewed against producers.⁴³

May *et al*⁴⁴ argue that while there may be circumstantial evidence of roaster influence on retail prices there is little evidence of roaster influence on world market prices for green coffee. This is because concentration in the physicals market is not reflected in the futures market where benchmark prices are established – roasters, traders and investors interact in the futures market creating a more competitive environment. A report by Rabo International Advisory Services is also sceptical about the extent of market power of the roasters, pointing out that

national and international (EU) competition authorities monitor them and have so far not identified monopolies and/or cartel-like behaviour.⁴⁵

Gibbon⁴⁶ has reviewed a number of econometric studies of market power carried out for periods ranging from 1972 to 2001. These examine either the relation between final prices and firm-level marginal cost or the extent of price transmission – that is, the extent to which input price changes translate into output price changes, taking into account elasticity of demand. He finds that these studies give little support to a hypothesis of market power being held by roasters and retailers. However, he points out that these studies mostly examine periods when green coffee bean prices were rising.

This review included a study of the Swedish market by Durevall⁴⁷ who has also studied market structure in Finland and Denmark and has not found evidence of collusion or lack of competition in Nordic consumer markets. He concludes that competition in the coffee consumer market is good. He added that it is changes in demand and consumer preferences away from coffee among the generation born after 1960 that is driving the distribution of revenues along the chain.

Living and working conditions for coffee farmers and estate workers

Concerns are often raised about the wages and working conditions of coffee farmers and plantation workers, the use of child labour and the health and safety implications of handling pesticides.

In 2003 the ICO asked representatives of coffee-producing countries to describe the impact of the fall in coffee prices. The responses summarised below⁴⁸ indicate how closely linked coffee prices are with rural social development:

- **Increase in households under the poverty line** (Colombia, Costa Rica, Ethiopia). In Colombia, where coffee provides 30% of rural employment, the percentage of households in coffee-growing areas living under the poverty line grew from 51.4% to 61% between 1997 and 2000. The results included increasing malnutrition and inability to pay for children's education.

³⁹ ICO, 2003/4

⁴⁰ ICO, October 2005

⁴¹ Oxfam, 2002

⁴² Lewin, B, *et al*, 2004

⁴³ ICO, 2002/3

⁴⁴ May, PH, *et al*, 2004

⁴⁵ Rabo International Advisory Services (RIAS), 2002

⁴⁶ Gibbon, P, 2004

⁴⁷ Durevall, D, 2004

⁴⁸ ICO, 2003

- **Loss of employment for agricultural workers** (Cameroon, Costa Rica, Ecuador, El Salvador, Ethiopia, India, Nicaragua, Papua New Guinea, Philippines)
- **Increased migration to urban areas or abroad** (Cameroon, Central African Republic, Colombia, Ecuador, El Salvador, Ethiopia)
- **Coffee-growing families difficulties in paying for children's education** (Cameroon, Colombia, Cote d'Ivoire, Ethiopia, Ghana, Papua New Guinea, Vietnam).

The pressure to compete and to reduce costs can lead to poor conditions for farm workers and limited compliance with the law. Some examples of poor practice have been documented for Brazil.

A study of working conditions in coffee farms in Brazil in 2003 found that in the Southern Minas region, safety equipment was usually not supplied for the harvesting, and that it was a common practice for workers to be prohibited from using gloves because of harm to the plant.⁴⁹ Although the Rural Workers Union in Southern Minas had agreed a Collective Convention setting out workers' rights in the coffee sector, these were not being respected in practice. While the Convention established a weekly work shift of 44 hours, the coffee workers had longer hours because they worked Sundays and holidays without extra pay. No sanitation facilities or place for meals were provided for workers and protective equipment for those applying herbicides and pesticides was often incomplete.

In another coffee-growing region in the state of Espirito Santo, the study found poor living and working conditions for hired workers, with no formal signed work papers, and no respecting of holidays, while paid time did not include travel time from the city to the field. Indiscriminate use of agrochemicals was claimed to have caused considerable harm to farm workers.

Environmental impact of coffee production

Coffee tends to be grown in high biodiversity areas and areas of natural forest. The destruction of the Atlantic forest in Brazil in the 19th century owes much to coffee⁵⁰ but deforestation to make way for



Minas Gerais coffee fields, Brazil

coffee has taken place more recently, for example in Cote d'Ivoire where the government in a bid to expand cocoa and coffee production allowed free access to uncultivated areas.⁵¹ In Central America, coffee growing is located in some of the principal river basins of the region. Preservation of the coffee-growing micro-basins is important for the survival of the rivers and all the associated flora and fauna.⁵²

Since the 1970s there has been a move in a number of coffee-growing regions away from traditional approaches involving shade coffee, in the case of northern Latin America, and away from traditional lower yielding varieties, such as bourbon in Brazil (which has little tradition of shade coffee), to very mechanised, input-intensive sun coffee, with denser planting, high dependence on irrigation and use of coffee varieties more suited to chemical fertilisers. New producers, such as Vietnam, started off their production based on sun systems.

The aim was to increase yields. For example, Colombia, in a space of 25 years, went from mainly traditional systems of coffee to 68% of its coffee areas being intensified.⁵³ It has been estimated that shade monoculture and sun coffee account for 40% of the coffee producing area in northern Latin America.⁵⁴

This trend has had significant environmental impact. Studies have shown that shade coffee supports a diversity of species and migratory birds. Greenberg⁵⁵ found that both planted shade coffee plantations and rustic shade coffee (ie grown under a natural forest canopy) in Ocosingo, Chiapas, Mexico, supported a high diversity of bird species, exceeded regionally only by moist tropical forest. Coffee plantations

⁴⁹ Observatorio Social, 2004

⁵⁰ Dean, W, 1995

⁵¹ Losch, B, 1992, cited in UNCTAD, 1994

⁵² Castro F, *et al*, 2004.

⁵³ Rice, RA and Ward JR, 1996

⁵⁴ *Ibid*.

⁵⁵ Greenberg, R, *et al*, 1997

⁵⁶ Gillison, AN, *et al*, 2004

⁵⁷ Gooding, K, 2003



Drying sheds at Fazenda Santa Terezinha, Minas Gerais, Brazil (see page 49)



Fairtrade coffee beans in sacks, each marked with the name of the family farm, Poço Fundo association, Minas Gerais, Brazil

appeared to act as a refuge for many omnivorous bird species, in particular migrant birds from North America. Gillison *et al*⁵⁶ examined the impact of different coffee farming systems on biodiversity, along a spectrum from simple, intensive, non-shaded systems to complex, shaded smallholder systems in Sumatra. They found that biodiversity increased along this spectrum.

The decline in coffee prices has led to further concerns about the impact on the more environmentally friendly smallholder producers. In some cases, the fall in prices has led to replacement of shade coffee by other crops such as pasture and sugar cane, considered more environmentally damaging.⁵⁷ In Ecuador, shade coffee was replaced by annual crops or grass and there were concerns about the environmental impact.⁵⁸ In India, farmers in shade coffee areas were 'tempted to remove trees and sell them as timber, leading to deforestation and loss of ecological balance'.⁵⁹

In other cases, falling prices have led to the abandonment of coffee plantations, encouraging deforestation elsewhere in order to plant alternative crops. In Kenya, the low coffee prices in 2002/3, coupled with regulations prohibiting the destruction

of coffee plants, led farmers to abandon their coffee and deforest new areas of forest.⁶⁰

Processing also has an environmental impact. Wet processing of coffee uses substantial amounts of water and as the process involves fermentation of the residual pulp surrounding the cherry, it generates wastewater with high concentration of biochemical oxygen demand.⁶¹ In Central America coffee processing in the 1990s was considered the region's most polluting agro-industry. The Rio Grande de Tárcoles, which runs through Costa Rica's main coffee growing area, was reported to be devoid of all life at the beginning of the 1990s.⁶² Well-established treatment techniques exist but add to costs of production for producers already feeling the squeeze of lower prices.

⁵⁸ ICO, 2003

⁵⁹ *Ibid.*

⁶⁰ Gooding, K, 2003

⁶¹ UNCTAD/IISD, 2003

⁶² Jacquet 1991, cited in UNCTAD, 1994

Chapter 3

Sustainable coffee certification

The concept of certification

It has been common for companies to make environmental and social claims about their products often without substantiation, raising concerns about 'greenwash'. Certification aims to address these concerns in that an outside body assesses the performance of the company against an agreed set of standards, and decides whether the option of using a label can be awarded. A certification scheme typically consists of the following elements:

- A set of process and performance standards often set out as a code of practice, covering different aspects of the production of the product such as environmental impact, health and safety considerations, relations with the local community and worker rights.
- Independent verification of compliance or performance with these standards by an independent organisation usually separate from the standard-setting body - the initial verification is followed up by periodic audits usually on an annual basis with some schemes also applying unannounced random inspections.
- A system for accrediting the certifying organisations that provides the evaluation service.
- A product label to enable producers to communicate to buyers/consumers that the product meets the standards of the certification scheme. In this way producers, in theory, can benefit from the willingness of consumers to pay extra for products meeting high environmental or social standards as demonstrated by the label.
- Chain of custody certification for those handling the product – traders, processors, or a traceability system – to provide assurance that the labelled product in the retail outlet has come from a certified source and has not been falsely labelled or mixed with non-certified products.

Some of these elements are present in some buyer-driven approaches such as that of Starbucks (Box 2 on page 22) and multi-stakeholder initiatives such as the 4Cs (Box 3) and the Sustainable Commodity Initiative (Box 4). However, there are fundamental differences. Buyer-driven approaches usually involve a company setting its own standards for suppliers to achieve. The 4Cs aim to develop a global code of conduct for sustainability along the coffee commodity chain but does not envisage the introduction of a labelling scheme.

Certification schemes vary in a number of aspects:

- The comprehensiveness of standards, with some schemes such as Fairtrade concentrating on the trading relationships and leaving detailed environmental issues to others.
- The way in which standards are set and the extent of stakeholder participation, although the ostensible aim of most schemes is to achieve multi-stakeholder input.
- The degree of emphasis given to process standards as opposed to performance standards. ISO 14001 and the certification system of the Brazilian Specialty Coffee Association (BSCA), for example, certifies management systems, requiring continuous improvement rather than achievement of determined performance standards.

Certification schemes for coffee

At present there are five certification and labelling schemes operating for coffee:

- Fairtrade
- Organic
- Rainforest Alliance,
- Utz Kapeh
- Smithsonian Bird Friendly.

The schemes and their distinguishing characteristics are summarised in Table 2 on page 28.

Box 2: Starbucks – C.A.F.E. Practices

Starbucks piloted a Preferred Supplier programme to link preferred supplier status with social and environmental performance. Price incentives, offering a premium over the market price, were based on a points system for environmental (50%), social (30%) and economic criteria (20%). In addition, the programme offered long-term contracts to provide some stability for producers. By the end of 2004, 248 suppliers representing 20 countries had applied and more than 50 million lbs (22,700 tonnes) of coffee had been purchased by Starbucks under this programme over the two year period.

This programme was relaunched in March 2004 as the Coffee and Farmer Equity (C.A.F.E.) Practices. One of the significant changes was to make supply chain transparency a pre-requisite. Starbucks aims to purchase the majority of its coffee under these guidelines by 2007. The evaluation guidelines cover product quality, (essential requirement); economic accountability (essential requirement); social

responsibility (40 points); environmental leadership in coffee growing (45 points) and in coffee processing (20 points). A preferred supplier has to meet the essential requirements and a score of at least 60% of the maximum possible scores for each subject area.

The social and environmental guidelines are comprehensive, covering hiring practices and employment policies, worker conditions, protection of soil and water resources, conservation of biodiversity, ecological pest and disease management and reduction of agrochemical use, waste management and energy use. They stress the importance of equity of financial reward. 'It is expected that Starbucks coffee suppliers will pass on an equitable share of coffee revenues (ie financial rewards) up the supply chain to coffee farmers and processors.'

Source: Starbucks, 2004

Box 3: The Common Code for the Coffee Community – 4C

This is a joint initiative of coffee producers, trade and industry, trade unions, and social and environmental NGOs to develop a global code of conduct aiming at social, environmental and economic sustainability in the production, post-

harvest processing and trading of mainstream green coffee. It is supported and facilitated by Deutscher Kaffeeverband and GTZ.

Source: www.sustainable-coffee.net

Box 4: The Sustainable Commodity Initiative

The United Nations Conference on Trade and Development (UNCTAD) and the International Institute for Sustainable Development (IISD) launched the Sustainable Commodity Initiative (SCI) in December 2002 in recognition of the fundamental link between commodities and sustainable development. The principal objective of the SCI is to improve the social, environmental and economic sustainability of commodities production and trade by developing global multi-stakeholder

strategies on a sector-by-sector basis. The first phase of the SCI will focus on the identification of strategies for the coffee sector. The coffee phase will build upon existing initiatives with the objective of identifying novel ways for addressing supply chain and market issues in a co-ordinated way that is suitable for substantial application in the coffee sector.

Source: www.iisd.org/trade/commodities/sci.asp

Fairtrade⁶³

The fair trade criteria defined by the Fairtrade Labelling Organization (FLO), which is the umbrella group for various fair trade organisations in different countries, include a minimum producer price which varies according to the type of coffee and the region, as shown in Table 1 (below). If the market reference price (the New York C contract price plus or minus a quality differential) is higher than the Fairtrade minimum price, the market price applies. In addition, a Fairtrade premium of 5 US cents per lb of green coffee is paid on top of the minimum or market reference price. Where coffee is certified organic as well, an additional premium of 15 US cents per lb of green coffee is paid.⁶⁴



Registration with FLO is at the group level. To qualify for the Fairtrade system, smallholders have to be organised into producer groups or co-operatives which must be democratically run and politically independent. The Fairtrade premium is paid to the group, usually for investment in group or community projects, and its use is monitored. Some environmental protection standards are included in the standards for Fairtrade coffee including a ban on the most toxic pesticides and requirements to implement Integrated Crop Management.⁶⁵ Fairtrade importers are also required to offer pre-financing to producer groups if requested.

As of March 2004, there were 197 coffee co-operatives working with the FLO initiatives. Most

of these were in Central America (93), South America (63) and the Caribbean (9), as well as 27 in Africa and 5 in Asia.

Coffee was the first Fairtrade labelled product, launched in 1989 and is still the best known Fairtrade labelled product among consumers in Europe, North America and Japan. Sales of roasted Fairtrade coffee in 2004 were 24,323 tonnes, corresponding to about 0.42% of demand.⁶⁶ The largest markets for Fairtrade coffee in 2004 were the US, followed by the UK, the Netherlands and Germany. Sales worldwide were up 26% from the previous year and there has been significant growth since 1999. About 12% of all Fairtrade coffee sales in 2004 were also organically certified.

Fairtrade coffee consumption is still confined to importing countries in Europe and North America. The only producer country where there has been any significant consumer interest in the concept of Fairtrade coffee is Mexico but not necessarily as part of the FLO system.

Mainstream roaster companies have started to take an interest in Fairtrade certification. Towards the end of 2003, after a concerted campaign by Oxfam and other organisations, Procter and Gamble started to sell Fairtrade certified coffee as part of its specialty coffee business (Millstone), with a commitment to increase the volume of Millstone's Fairtrade sales to at least two to three million lbs (909 to 1,363 tonnes) within two years.⁶⁷ Millstone sells Organic Fairtrade certified coffee as part of its 'Signature Collection' which also includes Rainforest Reserve™ Rainforest Alliance Certified.⁶⁸

Table 1: Fairtrade minimum price

Type of coffee	Fairtrade minimum price (US cents per lb)	
	Central America, Mexico, Africa, Asia	South America, Caribbean
Washed* arabica	121	119
Non-washed arabica	115	115
Washed* robusta	105	105
Non-washed robusta	101	101

*Semi-washed or pulped natural coffees are regarded as washed coffee

Source: FLO (2004)

⁶³ Except where otherwise stated this draws from information on the website of the Fair Trade Labelling Organization (FLO) or provided in personal communication by FLO.

⁶⁴ FLO, 2004

⁶⁵ Ibid.

⁶⁶ Based on the ICO estimate of demand for 2004 of 115 million bags of green coffee (ICO, September 2005) and a ratio of green

coffee to roasted coffee of 1.19. This figure is an underestimate as it does not take account of instant coffee (for lack of data) which requires more green coffee per unit of production than roasted coffee.

⁶⁷ www.globalexchange.org

⁶⁸ www.millstone.com

Sara Lee has been selling Fairtrade coffee on US university campuses in the dining services since the early 2000s following a student campaign. The company's Prebica Whole Planet Blend is certified as Fairtrade by TransFair US. It is also certified as organic and shade-grown. This has been followed by supply of Fairtrade coffee to other Sara Lee accounts such as 250 Borders cafés.⁶⁹

In October 2005 Nestlé launched its Fairtrade certified instant coffee in the UK, known as Partners Blend. This has proved extremely controversial with heavy criticisms being raised by the Baby Milk Action Group among others.

Some retailers have also taken action to promote Fairtrade coffee or to position themselves as sellers of Fairtrade coffee. The Co-op was the first UK supermarket to switch all its own label coffee to Fairtrade in November 2003. Marks and Spencers in the UK has a policy of using only Fairtrade coffee in its store cafés.

Organic

Requirements of organic certification systems involve management practices to conserve or enhance soil structure, resilience and fertility and use of non-synthetic nutrients and plant protection methods.⁷⁰



Unlike other certification systems, organic certification standards are often set or regulated by governments. For example, the EU regulations on organic production⁷¹ stipulate the following standards:

- cultivation of legumes, green manures or deep-rooting plants in an appropriate multi-annual rotation programme
- incorporation in the soil of organic material, organic livestock manure and vermicompost
- pests, diseases and weeds to be controlled by using appropriate varieties, rotation programmes, biological pest control, mechanical practices and flame weeding
- seeds and propagation material organically produced

- use of non-organic fertilisers, pesticides and biological pest control methods is limited.

The standards formulated by the International Federation of Organic Movements (IFOAM) form the basis on which public and private standard-setting bodies develop more specific standards.⁷² Different standards apply in different countries or regions, the EU, US and Japan. A transition period of three years is usually required before coffee converted to organic production can be sold as organic.

The International Trade Centre estimates consumption of organic coffee in major consumer countries at 720,000 bags (43,200 tonnes) in 2002/3, making this the most significant of the certification schemes so far in terms of sales.⁷³ It estimates that world production of organic coffee in 2001/2002 was 800,000 bags (48,000 tonnes), indicating that there was some over-supply. According to Scholer⁷⁴ producers have received premiums which more than compensate the additional costs involved in certification such as labour and, in some cases, lower yields, but there has been a tendency for premiums to decline as organic supply expanded. In 2003, organic green bean premiums ranged from 15 cents to 30 cents per lb but were widely predicted to decline over time.⁷⁵

Rainforest Alliance

Coffee is one of a number of tropical products certified under the Rainforest Alliance system.

The sustainable agriculture standards aim to cover all aspects of production: environment, rights and welfare of workers and the interests of local communities. These standards have been developed following a process of consultation with social and environmental groups, industry, government and other stakeholders.



Rainforest Alliance distinguishes itself from Fairtrade in its emphasis on how farms are managed, rather than how products are traded. It differs from organic certification in that the standards are based on integrated pest management (IPM) which allows for some limited, strictly controlled, use of agro-chemicals. It goes beyond organic in its emphasis on

⁶⁹ <http://hds.ucsd.edu/diningservices/wholeplanet.pdf>; http://www.transfairusa.org/content/about/n_040227.php

⁷⁰ Lewin, B, et al, 2004

⁷¹ International Trade Centre, Geneva, 2005, *The Coffee Guide*, www.thecoffeeguide.org

⁷² Dankers, C, 2003

⁷³ International Trade Centre, Geneva,, 2005

⁷⁴ Scholer, M, 2004

⁷⁵ Giovannucci, D and Koekkoek, FJ, 2003

wildlife conservation and worker welfare. Certified coffee farms are required to maintain diverse shade-cover of native trees to provide habitat for range of species or to protect and restore native forest reserves. All farms are inspected every year and must show continual progress.

The Rainforest Alliance currently operates certification of coffee farms in 11 countries in Latin America. By October 2005 it had issued a total of 268 certificates for 2,822 operations involving 40,920 hectares of coffee cultivated in a total farm area of 95,115 hectares.⁷⁶ It is also evaluating or certifying farms in Ethiopia and Sumatra.⁷⁷

According to the Rainforest Alliance, just under 1% of all coffee produced is certified under the Rainforest Alliance Scheme (however, not all of this is necessarily sold as certified). Over the past two years the distribution of Rainforest Alliance Certified products has grown considerably following efforts to persuade large companies, including roaster companies such as Kraft, to buy certified coffee. The Rainforest Alliance is working with hundreds of companies, large and small, global and national leaders such as Kraft Foods (Kenco, Gevalia and Jacques Vabre brands), Procter and Gamble (Millstone), Lavazza, Italy's market leader, and Ueshima Coffee company, the market leader in Asia.⁷⁸

Rainforest Alliance requires a minimum 30% certified content for companies who want to use the scheme's green frog label. This facilitates its take up for blended coffee products. A statement that specifies the percentage content of Rainforest Alliance certified coffee must appear next to the green frog label. Companies that choose to blend certified products with non-certified products must have the means to guarantee that the product claim is truthful and may be required to undergo a chain of custody audit of their operation and other points in the supply chain.⁷⁹

Some high profile users or consumers of Rainforest Alliance coffee include the United Nations, which serves it in all its venues in New York, the Belgian Parliament and the Eden Centre in the UK.⁸⁰

Of particular interest is the partnership between Kraft and the Rainforest Alliance in October 2003 to 'advance the availability of certified sustainable

coffees in the mainstream market'. In 2004 Kraft purchased 5 million lbs (2,273 tonnes) of certified coffee from farms in Brazil, Colombia and other Latin American countries and expects to double this quantity in 2005.⁸¹ This certified coffee will be blended into several mainstream coffee brands in western Europe such as Carte Noire, Kenco and Maxwell House. In addition it has launched 100% certified brands in the UK (Kenco instant coffee) and in the US (All Life) for sale in away-from-home food service settings. Kraft has recently launched Rainforest Alliance certified coffee in Denmark and Sweden. The entry into the UK market proved controversial with concerns being raised about the impact on Fairtrade. In 2005 over 13 million lbs (5,900 tonnes) of Rainforest Alliance certified coffee will be available in Kraft brands, doubling the previous year's purchase.⁸²

Utz Kapeh⁸³

Utz Kapeh which means 'good coffee' in a Mayan language from Guatemala was founded in 1997 by Guatemalan coffee producers and the European coffee roaster, Ahold Coffee Company, with the aim of allowing roasters and brands to respond to a growing consumer demand for assurance of responsibly produced coffee. Unlike Fairtrade, which works only with smallholders, Utz Kapeh is open to all scales of production and types of ownership including state-owned.



Producers are certified by an independent third party auditor to check that they comply with the Utz Kapeh Code of Conduct which requires baseline standards of good agricultural practice in coffee production, worker welfare including access to education, and healthcare. A key objective is to enable responsible producers to differentiate themselves from conventional coffee growers and to link up with responsible buyers. Utz Kapeh also aims to channel technical assistance to producers to improve farm management and lower production costs and to improve access to credit facilities.

As of December 2005, there were certified producers (both arabica and robusta) in 16 countries, mostly in

⁷⁶ Luis Guedes Pinto, Director, Imaflora, presentation 14/10/05

⁷⁷ Chris Wille, personal communication, 2005

⁷⁸ Sabrina Vigilante, Rainforest Alliance, personal communication, e-mail 14/11/05

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ www.kraft.com

⁸² Luis Guedes Pinto, Director, Imaflora, presentation 14/10/05

⁸³ Except where otherwise stated, this section draws on information from: www.utzkapeh.org

Latin America but also in Asia (India, Indonesia, Vietnam) and Africa (Ethiopia, Tanzania, Uganda and Zambia). The scheme is expanding rapidly. At the end of 2004, 61,000 tonnes of green coffee were certified from a total of 66 producers including co-operatives (up from 38 the year before) in 14 countries. As of early December 2005, a total of 131 farms and producer groups were certified with total certified volume approaching 140,000 tonnes of green coffee. More than 200 additional farms and producer groups were registered with Utz Kapeh and in the process of certifying.⁸⁴

A key aim of Utz Kapeh is to improve the terms of trade for producers but the programme does not intervene in price negotiations, nor is there any set premium or floor price as in other schemes. The pricing policy states that producers should be rewarded with a premium greater than zero for compliance with the code of conduct and that if either a roaster or a producer consistently pays or accepts low or no premiums they will be excluded from the programme. To improve the negotiating process, participants in the programme are given information on the weekly average reported premiums per country and the sales per quality per country. According to Utz Kapeh, this up-to-date market information enables producers to negotiate a better price. Premiums in the second half of 2004, when the Utz Kapeh programme started collecting and reporting this data, ranged from 1 to 9 cents per lb with an average of 4 cents per lb.⁸⁵ In 2005, they are approaching 5 cents per lb.⁸⁶

In addition to the founding company, Ahold, Utz Kapeh buyer members include well-known names such as Sara Lee, (The Netherlands), ICA (Sweden), Friele (Norway), Safeway (UK), Somerfields (UK), Casino (France), Mitsui (Japan), and Java Trading Company (US). Sara Lee has formed a partnership with Utz Kapeh and plans to purchase 7,500 tonnes of Utz Kapeh certified coffee in its second year of co-operation with the scheme.⁸⁷

Some producer country exporters and roasters are also members, in particular: Café Bom Dia Ltda, Exportadora de café Turquesa, Qualicafex and Wolthers and Associates of Brazil. Outside of Latin America, the only other producer country member is the exporter Dormans of Kenya and Esco Kenya

Limited which have now been joined by Bombay Burmah Trading Corp Ltd, an Indian roaster company. At the beginning of November 2005, there were 161 exporters, traders and buyers registered with Utz Kapeh.⁸⁸ Purchases of Utz Kapeh certified coffee totalled 21,200 tonnes in 2004, up 50% from 2003.⁸⁹ As of December 2005, purchases of certified coffee were approaching 30,000 tonnes for the year.⁹⁰

Like the Rainforest Alliance, Utz Kapeh is targeting roasters and retailers rather than consumers. For this reason it is not so concerned about promoting the Utz Kapeh label to consumers. As David Rosenberg, Executive Director of Utz Kapeh, explains, certification is geared to niche markets, involves a significantly higher price and is positioned to call attention to itself rather than the brand, with the result that the certification label overshadows the brand. Utz Kapeh, in contrast, is trying to support the brand starting from a fundamental premise that is different from niche-positioned certification schemes: consumers expect professional coffee companies to take responsibility for their products and to have minimum environmental and social standards. But they are not willing to pay extra for this. Responsibility is an expected element of a brand's identity rather than a unique selling point to increase sales in the short term. Utz Kapeh requires blended coffee products to have at least 90% Utz Kapeh certified content for them to have the option of using the label. This differentiates it from the Rainforest Alliance which has a lower threshold (30%).⁹¹

David Rosenberg, Director of Utz Kapeh, says: 'Utz Kapeh makes it possible for brands to make a credible claim about their sourcing across the board, rather than for a small segment of premium priced products.'

Bird Friendly coffee⁹²

This scheme is operated by the Smithsonian Migratory Bird Center (MBC) of the National Zoo in the US. Bird Friendly coffee is defined as coffee that comes from farms that provide good forest-like habitat for birds through use of native canopy trees to provide shade for the coffee. The coffee is also grown organically, that is without the use of chemical pesticides. The criteria have been established by Smithsonian MBC based on scientific research.

⁸⁴ David Rosenberg, personal communication, 2005

⁸⁵ Utz Kapeh, 2005

⁸⁶ David Rosenberg, personal communication, 2005

⁸⁷ Utz Kapeh, press release, 12/4/05

⁸⁸ Utz Kapeh newsletter, November 2005

⁸⁹ Utz Kapeh, 2005

⁹⁰ David Rosenberg, personal communication, 2005

⁹¹ David Rosenberg, personal communication, 2005.

⁹² Except where otherwise stated this section draws from information provided on: <http://nationalzoo.si.edu/ConservationAndScience/MigratoryBirds/Coffee/Farms>

The scheme currently operates in four countries in Latin America (Colombia, Guatemala, Mexico and Peru) and involves 12 farms, some of which are co-operatives, and 615 growers on more than 3,600 hectares. The amounts of certified coffee produced are small relative to the other schemes: 2,989,841 lbs (1,359 tonnes).

Companies that sell Bird Friendly coffees contribute 25 cents per lb to support the research and conservation programmes of the MBC. The coffee is sold in the US and Canada through retail stores, internet sales and by mail order. It is also sold in Smithsonian National Zoo stores and restaurants.

As this scheme is not operating in Brazil and Vietnam, the two producer countries that are the focus of this research, it is not considered further in this report.

Key issues raised by certification

Access for small producers

A commonly raised concern about certification is that because of the costs involved and the large fixed cost element involved in the certification process, it costs relatively more for small producers, and thus has typically been taken up by large producers. Fairtrade has been specifically aimed at small producers; the direct costs of certification are considerably lower than for other certification schemes and the indirect costs of compliance are low, as the emphasis on the scheme is on the prices rather than production practices.

However, Fairtrade remains an option available for only a small number of producers and those that are organised into democratic associations. Moreover, only about 20% of the global fair trade production capacity is sold at fair trade prices.⁹³ The emphasis on high quality specialty markets in Fairtrade means that there is limited attention to the low end of the market and in particular to robusta, given that most Fairtrade coffee is arabica.⁹⁴

Both Utz Kapeh and the Rainforest Alliance are looking for ways to facilitate access for small producers; in the former case partly because buyers are asking for coffee from certain regions where production is predominantly smallholder. Together with the Dutch NGO, Solidaridad, Utz Kapeh has set

up the Coffee Support Network to help producers become certified by providing training and improving management systems.⁹⁵

Impact on behaviour

It has also been observed that typically the first producers to go for certification are those whose existing practice is already close to the standards required by certification. Certification merely allows good producers to differentiate themselves from poor performers, but has limited impact on the behaviour of poor performers. This has been observed for certification in the forestry sector⁹⁶ and for certification of a range of organic agricultural products including coffee.⁹⁷

Benefits to producers

The concern is that because of the tendency for price premiums to decrease as supply of certified products increases and because of the direct and indirect costs involved in certification, little benefit accrues to producers. Certification becomes a market hurdle rather than a means of achieving benefits.

Experience differs across the different certification systems. For Fairtrade coffee, existing studies have mostly concluded that certification has benefited the growers. Milford⁹⁸ who examines the ISMAM and KAFFE co-operatives in Chiapas, Mexico, concludes that they could not have achieved their level of success without the Fairtrade and organic premium. Ronchi⁹⁹ in a study of the Coo cafe organisation in Costa Rica finds that Fairtrade certification improved the quality of life for the growers although they themselves had low awareness of the Fairtrade system. A study of Fairtrade coffee in Bolivia¹⁰⁰ showed that the most important effect was the assistance of the Fairtrade premium in achieving quality improvements in the coffee and hence a reduction in the quality differential against the reference price of the New York Coffee Exchange.

An earlier study of the experience of coffee co-operatives with Fairtrade in Tanzania in the 1990s¹⁰¹ is more guarded in its conclusions, pointing out that since most of the fair trade organisations and importers deal with the co-operatives the farmers are hardly aware of fair trade, there is a minimal effect on the price received by the farmer as only a small

⁹³ Lewin, B, *et al*, 2004

⁹⁴ May, PH, *et al*, 2004

⁹⁵ David Rosenberg, personal communication, November 2005

⁹⁶ Bass, S, *et al*, 2001

⁹⁷ Dankers, C, 2003

⁹⁸ Milford, A, 2004

⁹⁹ Ronchi, L, 2002

¹⁰⁰ Dankers, C, 2003, citing Eberhart and Chauveau, 2002

¹⁰¹ Dankers, C, 2003, citing Jones, S and Bayley, B, 2000

Table 2: Coffee certification schemes

	Fairtrade	Organic	Rainforest Alliance	Utz Kapeh	Smithsonian Bird Friendly
Mission	Ensure equitable trading arrangements for disadvantaged smallholders who are organised into co-operatives	Create a verified sustainable agriculture system that produces food in harmony with nature, supports biodiversity and enhances soil health	Integrate productive agriculture, biodiversity conservation, and human development	To enable coffee producers and brands to show their commitment to sustainable development in a market-driven way	Promote certified coffee as a viable supplemental habitat for birds and other organisms
History and development	Began in 1970s as Max Havelaar in Netherlands. Now several national organisations under the umbrella of the Fairtrade Labelling Organization (FLO). Coffee first labelled product in 1989	Began in early 1970s as a farming movement and developed into internationally recognised system	Began in 1992 by Rainforest Alliance and a coalition of Latin American NGOs. First coffee farm certification in 1996	Began in 1997 as initiative from industry and producers in Guatemala. Became an independent NGO in 2001. First certified coffee farm in 2001	Founded in 1997 with criteria based on scientific fieldwork
Requirements for farmers	Smallholders organised in democratically run organisations, ban on most toxic pesticides, Integrated crop management	Use of non-synthetic nutrients and plant protection methods, soil conservation	Sustainable farm management, integrated pest management, worker welfare, community relations, biodiversity conservation through maintenance of shade cover or protection and restoration of native forest reserves	Good agricultural practice and worker welfare, based on adaptation of EurepGAP standards	Use native canopy trees to provide shade for the coffee as well as meet criteria for organic production
Market focus and promotion	Niche markets and promotion to the consumer	Specialty coffee Business to consumer	Specialty coffee and mainstream brands Business to business	Mainstream brands Business to business	Business to consumer Business to business
Price premium	Floor price of US \$1.01-1.21 per lb depending on type and origin plus US\$ 0.05 per lb (US\$ 0.15 if also organic) on top of floor price or market reference price	US\$0.15-US\$0.30 per lb (2003)	US\$0.05-US\$0.15 per lb (Brazil)	US 0.01-US\$ 0.09 per lb – average of US\$0.04 per lb (2004)	Some growers have received US\$0.05-US\$0.10 per lb above the organic premium.
Sales of certified coffee	24,323 tonnes (roast, ground and instant) equivalent to at least 28,944 tonnes* of green coffee (2004)	43,200 tonnes (2002/2003)	Not available	21,200 tonnes (2004) approaching 30,000 tonnes in 2005	1,359 tonnes

*Assuming a green coffee to roasted coffee ratio of 1.19

Source: Adapted from SCAA Sustainability Committee (2005) – See text on each scheme for sources of data on price premiums and sales.

proportion is sold at the fair trade price and that the premium is not paid to farmers but used for projects. It does however, identify benefits in terms of pre-financing, capacity-building and trade facilitation.

For the other types of certification scheme the experience is more mixed. While organic certification appears to have been the most effective in terms of producer benefits, there is considerable variation. A study of ten pairs of organic and conventional coffee farmers in Costa Rica found on average lower coffee yields, higher variable production costs and lower net income for the organic farmers. However, there was large variation between the pairs and three of the organic farms had higher net income than their conventional counterparts.¹⁰²

Smallholder coffee farmers in Huehuetenango, one of the poorest areas of Guatemala, experienced yield increases of 38-67% in five years, from 0.86 to 1.40 tonnes per hectare, after converting to organic. Other coffee farmers shifting to organic in Guatemala had usually experienced reductions in yield. The difference in this case reflected low inputs and low yields before conversion as well as better shade and application of organic fertilisers and soil conservation measures.¹⁰³ Production costs increased because of the need for more labour but after initial quality problems, prices increased by 25%. Average family income increased from US\$ 1,250 per year to US\$ 1,970 per year.¹⁰⁴



Social project at Ipemena Coffees, Minas Gerais, Brazil (see page 50)

A study on shade coffee in El Salvador¹⁰⁵ showed that growers of Rainforest Alliance certified coffee were disappointed with the small volume of sales achieved and the low premiums, and were regretting that they did not also seek organic certification for their coffee. Small-scale coffee growers in another Rainforest Alliance certified area in El Triunfo in Chiapas, Mexico, received more substantial premiums but this was primarily because they were also organic certified. A recent Oxfam study of the coffee sector in Central America and Peru states that small-scale farmers stress the need to be compensated for added cost of compliance with sustainability certification programmes.¹⁰⁶

Multiple certification schemes

The proliferation of certification schemes for coffee leading to packages having two or even three different sustainability labels, coupled with companies' own claims about their coffee products, has led to fears about consumer confusion and reduced credibility. Giovannucci and Koekkoek¹⁰⁷ in their survey of sustainable coffee expressed the view that this could ultimately undermine the market prospects for certified coffee.

Certification of mainstream roasters – moving beyond niche markets?

The two years 2003-05 have seen major changes in the certified coffee market as mainstream coffee roasters have started to take an interest in certification. As mentioned previously, all of the big four have started to certify a small proportion of their production under more than one scheme. Procter and Gamble, Sara Lee and Nestlé are involved in Fairtrade certification, Sara Lee has a partnership with Utz Kapeh, while Kraft is working with the Rainforest Alliance.

While some have welcomed these developments as a sign of mainstreaming of certification others have raised concerns about the motives of the companies and the impacts on other fair trade and sustainability coffee enterprises. Ransom¹⁰⁸ says of Nestlé: 'Now with its very own brand, it is at liberty to undercut every other "Fairtrade" brand, not least on price and put them out of business. For every extra jar it sells,

¹⁰² Dankers, C, 2003

¹⁰³ Dankers, 2003, citing Damiani, O, 2002a; Cifuentes, I, undated

¹⁰⁴ Ibid.

¹⁰⁵ Pagiola, S, and Ruthenberg, IM, 2002

¹⁰⁶ Daniels, S, and Petchers, S, 2005

¹⁰⁷ Giovannucci, D, and Koekkoek, FJ, 2005

¹⁰⁸ Ransom, D, *New Internationalist*, 2005

¹⁰⁹ Carter, M, 2005

¹¹⁰ <http://www.babymilkaction.org/press/press6oct05.html>



Rainforest Alliance Certificate with map showing areas under environmental control, Minas Gerais, Brazil

many more will doubtless be lost to fair trade as a whole'. The UK's Fairtrade Foundation believes that this new product will help to expand the sector by bringing new customers in rather than taking customers away from existing independent suppliers of Fairtrade coffee products such as Traidcraft and Café Direct.¹⁰⁹

The Baby Milk Action Group emphasises the small amounts of coffee involved in Nestlé's recent venture suggesting that it is a token gesture to gain the respect of NGOs and divert attention away from its other business activities such as baby milk.¹¹⁰ The Fairtrade Foundation emphasises the distinction between certifying a product and endorsing a company. Although this is a case of mainstream companies getting involved, there is little indication that they see certified products as anything other than a niche product within their portfolio of brands. While Kraft's efforts are partly aimed at the mainstream market, the quantities involved are small. The Nestlé Partners' Blend is striking for its cardboard cylinder packaging, totally distinct from the glass jars in which its range of instant coffee products have traditionally been packaged, and for the photograph of the Salvadorian farmer and family on the front under the message 'Coffee that helps farmers, their communities and the environment'. It is clearly being targeted at a different set of consumers from those that buy Nestlé's more traditional coffee products.

Chapter 4

Impacts of certification on coffee growing areas

Brazil's experience with coffee certification¹¹¹

Background to coffee production

Brazil is the largest producer of coffee in the world (38 million bags in 2004) and the second largest consumer (15.5 million bags in 2004). Coffee was for many years the country's major export but in recent years has lost importance falling from 60% of exports in 1962 to 2.8% in 2000. Nevertheless, coffee is still very important for rural livelihoods: it is produced by 370,000 rural properties in Brazil, 25% of them family farms.¹¹² It generates, directly and indirectly, around 8.4 million jobs.

In addition to the coffee farms, there are 11 instant coffee firms, 77 co-operatives and 166 exporting companies. In the State of Sao Paulo, alone there are 250 roasters, mostly micro and small family enterprises. Coffee is mainly exported as green beans but there are also small volumes of roasted and instant coffee, corresponding to less than 1% of the value of total coffee exports from Brazil. The main export markets for green coffee from Brazil are Germany, US, Italy and Japan. Denmark and Finland are of lesser importance as export destinations but are still included in the top 15 markets.

The area planted with coffee in Brazil has been declining but production has been increasing, indicating increasing yields resulting from large-scale production and use of modern techniques.

Coffee is produced in 17 states of Brazil but the major producer is the state of Minas Gerais, which corresponds to nearly 50% of total production in

2004/5 and 60% of total arabica production. São Paulo state is the second largest producer of arabica coffee. Together 80% of the certified coffee producers in Brazil are located in these two states. For this reason the survey carried out for this study was concentrated in these two states.

The survey

The survey was of certified and conventional coffee producers in the Cerrado, south and centre-south of Minas Gerais and the Mogiana region of São Paulo state. Interviews involving visits to the selected farms were carried out in August 2005. Twenty-eight certified farms belonging to 20 companies or farmers were covered by the survey. This included two of the largest coffee estates in Brazil, Ipanema and Monte Alegre, and at the other end of the spectrum, six smallholders from the Fairtrade certified Cooperativa dos Agricultores Familiares de Poço Fundo. In addition, two farms from the Cerrado region of Minas Gerais were randomly selected as well as seven medium-sized coffee farms from all three regions of the state. Three coffee farms from Sao Paulo state were also randomly selected. The certification schemes involved were Fairtrade, organic, Utz Kapeh and Rainforest Alliance with some of the farms having certification from more than one scheme. Ten conventional coffee producers (seven in Minas Gerais and three in São Paulo) were also surveyed.

In addition to the survey, visits were made subsequently in October 2005 by the whole project team to three of the certified farms (Ipanema, Sete Cachoieras and the Poço Fundo association) and one of the conventional producers (Fazenda São Gabriel).

¹¹¹ Except where otherwise stated, this section draws from the report prepared by Flavia Bliska and Sergio Pereira of the Centro de Café Alcides Carvalho, Instituto Agronômico, Secretaria de Agricultura e Abastecimento do Estado de São Paulo, October 2005

¹¹² Bliska, F, and Pereira, S, 2005, citing IBGE, 2004

Status of certification in Brazil

Coffee growers, large estates particularly, have over the last few years looked for ways of differentiating themselves through quality certification ISO 14001 and ISO 9001 and latterly through certification relating to social and environmental attributes – environmental protection, food security and avoidance of child labour.

Organic certification is the most well established scheme in Brazil, having started in 1992 and grown to represent 0.25% of production in 2003 and 250,000 bags in 2004.¹¹³ Since 1998 there has been an association of organic coffee producers in Brazil (ACOB) in the South Minas region. Most of the organic coffee goes to the Japanese market as this pays the highest premium but some goes to the US and Europe.¹¹⁴

Fairtrade is less established and so far only six groups of producers have been certified.¹¹⁵ Fairtrade was hampered in Brazil by a perception that Brazil had only large coffee estates and did not have small growers.¹¹⁶ However, it is estimated that some 90% of Brazilian coffee producers have properties with less than 100 hectares and that 36% of the coffee produced in Brazil comes from properties of up to 10 hectares.¹¹⁷

A recent development is the launch of a Brazilian Fairtrade certified French Roast coffee in the US by the Brazilian roaster company, Café Bom Dia. This is the first company to be licensed by Transfair USA to sell Fairtrade certified coffee, roasted in the producing country rather than the consuming country. The coffee will be sold by Sam's Club, a cash and carry division of Wal-Mart, which serves small business owners and operators.¹¹⁸

The Rainforest Alliance scheme started in Brazil in 2002.¹¹⁹ So far the scheme has attracted six large coffee growers with multiple farms. Fifteen certificates have been issued, for 16 farms, covering a total of 8,196 hectares of coffee. Four chain of custody certificates have also been issued to the following companies: Ituano, Bom Dia, Natura and Croda. While the Rainforest Alliance scheme started off elsewhere in Latin America as a shade coffee scheme, this was judged inappropriate for Brazil where sun coffees predominate. The emphasis of the scheme is therefore

on restoring natural ecosystems and maintaining natural forest surrounding the coffee plantation, as well as preventing conversion of forest.

The first Utz Kapeh certification in Brazil was in 2002 and since then it has expanded rapidly. As of November 2005, 54 farms are certified and 30 are registered and working on becoming certified. The certified farms cover an area of 81,400 hectares of which 27,700 are planted with coffee.¹²⁰ Twelve exporters, three traders and two roasters (Café Bom Dia and Astro Café) are registered as buyers in Brazil of Utz Kapeh certified coffee.¹²¹

There are no official figures on the exports of certified coffee from Brazil but five key informants engaged in roasting and trading and also with an involvement in certification initiatives concur that around 95% is exported. Organic coffee is so far the only type of certified coffee that has any presence in the domestic market.

The impacts of coffee certification

Financial benefits from certification

Evidence from the Brazil survey indicates that coffee growers have benefited financially from certification. All the certified farmers interviewed responded that revenues had increased as a result of certification and access to new export markets had been facilitated. This applies across all the major certification schemes and for both the large companies and the small family farmers interviewed in the survey. It is particularly striking for the members of the Fairtrade co-operative, Poço Fundo association. All the certified farmers stressed that the key factor was the quality of their coffee and that negotiating skills and market information were essential to take full advantage of certification. They were also unanimous in stating that the main motivation for seeking certification was to improve market access.

Fairtrade certification has made a major difference for members of the Poço Fundo association. They have received higher and more stable prices for their coffee. More importantly, they have been able to invest in processing equipment for the coffee as well as for social projects benefiting the community, in particular a computer training facility.

¹¹³ de Souza, M, 2004

¹¹⁴ Giovannucci and Koekkoek 2003

¹¹⁵ FLO, personal communication, 2005

¹¹⁶ Luis Aduato Oliveira, personal communication, 2005

¹¹⁷ Observatorio Social, 2004

¹¹⁸ OCA, 2005

¹¹⁹ All the information in this paragraph is from a presentation by Luis Guedes Pinto, Director, Imaflora at IDEC, São Paulo, 14/10/05. The data refers to 1/10/05.

¹²⁰ David Rosenberg, personal communication, 2005

¹²¹ www.utzkapeh.org, 16/11/05

Organic certification in the time of low coffee prices made a marked difference to revenues for the coffee growers concerned. According to Ivan Caixeta, ex-President of ACOB, when prices of conventional coffee were US\$ 60 per bag, organic coffee was fetching US\$ 160-180. As conventional prices have risen the price differential between conventional and organic coffee has been reduced. This has prompted as many as 30 organic producers to revert to conventional production. There are also some organic farmers who are exporting their high quality coffee (screen 14 upwards¹²²) and sending their lower quality coffee for processing into organic 100% arabica instant coffee, which is mostly exported to Japan.¹²³

Utz Kapeh certification has yielded premiums but for Ipanema at least these have gone down from US\$ 7 cents per bag to 3 cents. More important for Ipanema has been the access that Utz Kapeh certification has facilitated with the buyers to develop more stable and closer relationships. It has thus been able to agree a fixed price for its coffee with the Norwegian company Friele until 2011.¹²⁴ It also has a similar fixed price arrangement until 2011 with Starbucks.

Premiums achieved under the Rainforest Alliance scheme range from 5 to 15 cents per lb of coffee, bringing the price for Brazilian coffee up to the same level as the New York Board of Trade.¹²⁵

Non-financial benefits from certification

None of the certified producers interviewed indicated that they had received any support in the form of training or technical assistance as a result of certification, whether from government or an NGO. The family farmers in the Poço Fundo association were already organised as a co-operative before they contemplated certification, and had developed their own organic production techniques without external technical assistance.¹²⁶ The medium and large producers have, as a result of certification, invested in training for their workers on, for example, use of safety equipment, use of agricultural machinery, fire control and environmental education. They have also contracted consultants to develop projects and training without any financial support.

However, it appears that this is changing. The small producer groups that are in the process of certifying

with Utz Kapeh are receiving some technical support from regional co-operatives interested in buying certified coffee from small producers.¹²⁷ The Rainforest Alliance is looking for ways to promote the participation of small producers in certification (see section on Barriers to certification on page 35 for further discussion).

Costs of certification

The direct costs of certification vary according to the certification scheme. The Rainforest Alliance scheme is reported to be the most expensive. The seven conventional producers interviewed all indicated that the costs of certification, whatever the scheme, would be very high for small producers.

The indirect costs of certification depend on the nature of the certification scheme and the existing practices of the farms. The survey found that in some cases the coffee growers involved were already close to meeting the requirements of the scheme and so indirect costs were not considerable. In particular, two farms that were already in compliance with ISO quality and environmental management requirements had virtually no cost involved in meeting the requirements of the Utz Kapeh scheme. The main costs were the direct costs of the certification schemes. Five farmers pointed out that certification had prompted a rationalisation of their production systems leading to cost-savings and making them more competitive.

The Rainforest Alliance is more costly for producers than Utz Kapeh because its environmental and social requirements are more stringent, particularly with regards to the requirement to restore native ecosystems. The latter requirement sets it apart also from organic certification and Fairtrade. Brazilian law requires that in areas previously covered by the Atlantic forest, 20% of the area of each property should be kept under forest cover as legal reserves.¹²⁸ It is also a requirement that riparian areas and areas critical for water resources should be permanently preserved. Both requirements have proved hard to enforce. The Rainforest Alliance scheme requires that not only should the law be respected, but that additional areas of land be restored to native ecosystems in order to provide ecological corridors for wildlife to pass.

¹²² This refers to the size of the holes in a sieve used for grading the coffee

¹²³ Ivan Caixeta, personal communication, 2005

¹²⁴ Washington Rodrigues, personal communication, 2005

¹²⁵ Luis Guedes Pinto, Director, Imaflora, presentation, 14/10/05

¹²⁶ Luis Aduino Oliveira, personal communication, 2005

¹²⁷ E Sampaio, personal communication, 2005

¹²⁸ Young, CEF, 2002

The costs of establishing and maintaining these reserves can be very high. Two companies with this type of certification estimate costs ranging from US\$ 10,000 to US\$ 50,000 to cover consultancy costs, seedlings, planting, management and the opportunity cost of the land in terms of foregone land use. In the case of the Sete Cachoeiras farm, the land area occupied by natural forest and other native vegetation equals as much as half of the area planted with coffee.¹²⁹ However, the Rainforest Alliance scheme is not as demanding as organic certification in other aspects and permits the use of agrochemicals if well managed and if there is a commitment to reducing their use.¹³⁰ It also does not insist on contour planting. This facilitates the use of machines for harvesting and other activities.¹³¹

For organic certified producers in Brazil, there is considerable variation depending on the circumstances of the farmers, the other activities on the farm and the length of time as an organic farmer. Where coffee farming is combined with livestock farming, the availability of manure makes the substitution of chemical fertilisers by organic more viable. While there may be initial reduction in yields in the transition to organic because of insufficient minerals, this improves over time as minerals build up in the soil.¹³²

This explains why there have been varied responses to the recent narrowing of the price differential between organic and conventional coffee. It is the producers who converted more recently to organic who have now reverted back to conventional in order to increase their yields. The price differential between organic and conventional was not sufficient to offset the costs of reduced yield. This applies also to some Fairtrade producers who, after a period of combined Fairtrade and organic certification, have reverted to single certification, as Fairtrade implies little indirect cost at the level of the producer. More established organic producers who have higher yields have stayed with their organic status.

Impacts on farm/estate workers and communities

Large companies are taking measures to meet the social requirements of certification schemes and improve basic working conditions for their employees. Nine of the medium and large farmers

interviewed indicated that as a result of these good working conditions they experienced no shortage of workers interested in working for them. The major benefits indicated by six medium and large farms are job security, medical and hospital treatment with the on-site presence of a nurse and social worker. Seven of the certified farms, but also one conventional farm, claim to provide housing, basic food provisions, training for employees and their families, vegetable gardens, meals and canteens, drinking water and toilets.

There have been improvements in health and safety also as a result of certification with workers required to use and being provided with protective clothing and equipment when applying agrochemicals. But according to nine of the medium and large farms surveyed, there has been some resistance among the workers to using this protection equipment because of problems of heat and discomfort.

It could be argued that these companies are simply meeting the requirements of the law. Brazilian legal requirements are strict although law enforcement is lax. Therefore, additional incentives to meet legal requirements are useful.

Impact on local environment

In order to meet the requirements of certification, certified coffee farmers have improved the treatment and recycling of water used for the processing of coffee. This, together with the reduced use of agrochemicals, is the most noticeable impact so far. The projects restoring native vegetation of the Rainforest Alliance certified estates are significant but too recent to have any major impact as yet. There is anecdotal evidence however, that armadillos are returning to the area and that there is greater availability of wild plants traditionally used for food by the local population.

There have also been indirect effects on the environmental performance of other farmers in the regions. Certified coffee farmers in Brazil claim that they are influencing the environmental awareness and performance of neighbouring coffee farmers. They have served as a model for other farmers in the region and stimulated other coffee growers to seek certification. Farmers in the Poço Fundo association and six of the certified medium and large farmers

¹²⁹ www.7cachoeiras.com.br

¹³⁰ Luis Guedes Pinto, Director, Imaflora, presentation 14/10/05

¹³¹ Renato Farhat Brito, personal communication, 2005

¹³² EPAMIG, 2002

interviewed pointed to the effect of their environmental practices on their neighbours. After observing the certified farmers, neighbouring farmers have started to recycle their waste, have stopped polluting streams and cutting down trees. They have also improved working conditions for their employees.

Barriers to certification for coffee growers

The direct costs of certification appear to be a barrier for small producers. All the conventional farmers interviewed in the survey considered that the costs of certification would be a major difficulty for small producers. They did not distinguish between schemes in their response but it would seem that Fairtrade is an exception. The costs are considerably lower for Fairtrade – US\$ 500 a year for the Poço Fundo association – which spread among a group of farmers is fairly low. The barrier in this case is not so much cost but achieving the level of collective organisation required to access the Fairtrade scheme as it does not work with individual farmers.

The costs of annual audits for the Rainforest Alliance scheme vary between US\$ 1,000 and US\$ 5,000 in the case of Ipanema. The organisation acknowledges that this would be too much for some small producers. Certifications under the Utz Kapeh scheme and the Rainforest Alliance scheme have so far been issued mainly for large properties producing more than 10,000 bags (600 tonnes) per year. Of the 54 farms certified under Utz Kapeh only three are less than 50 hectares in size.¹³³

But both schemes are striving to work with small farms and co-operatives. Utz Kapeh, which like Rainforest Alliance has started with the largest companies, is now in the process of certifying several co-operatives of farmers. Of the 30 farms currently working on Utz Kapeh certification, as well as two individual farms with less than 50 hectares, there are three producer groups all with numerous farmers with less than 50 hectares.¹³⁴

The Rainforest Alliance through its local partner organisation, Imaflora, is working to overcome these barriers by providing information about certification, organising capacity-building workshops and subsidising the costs of certification for groups of

small farmers. It has set up a fund for this purpose which is made up of a proportion of the revenues from the certification fees charged to large farms and a grant from the European Union.¹³⁵ It is also working together with the Brazilian organic certifying organisation, Instituto Biodinamico, on developing a joint audit to reduce costs for producers of double organic and Rainforest Alliance certification.

Vietnam's experience

Problems of conventional coffee

In 1980, Vietnam had about 22,500 hectares planted with coffee of which only half was productive and its total production was only 8,400 tonnes. The 1990s saw phenomenal growth in the area planted with coffee, export driven by the high coffee prices that prevailed until 2000, making Vietnam the world's second largest producer country after Brazil.

In 1995 the unit price of exports peaked at US\$ 2,394 per tonne, but by 2001 when production had increased to 900,000 tonnes, the unit price of exports had dropped sharply to US\$ 400 per tonne. Production and export, as well as the coffee planted area, all fell for the next two years and only recovered in 2004. However, the crop for 2005/06 is forecast to be 10-10.5 million bags (about 600,000 tonnes).¹³⁶ The policy of the Vietnamese coffee industry is now to reduce coffee production and area planted and concentrate on quality.¹³⁷

As there were no effective measures to control leaf rust in the 1980s, the Vietnamese coffee industry developed on the basis of robusta, which was well suited to the hot, and humid weather conditions of southern Vietnam. A highly mechanised and intensive approach was developed with high density of planting, high volume watering, heavy use of mineral fertilisers and no use of shade trees. As a result high yields were obtained: 3-4 tonnes per hectare and in some areas as high as 8-9 tonnes per hectare. Steps are now being taken to promote the production of arabica coffee in the north of Vietnam and in high altitude areas in the central highlands and in the south. Bourbon coffee, which is of high quality, is being grown in these areas.

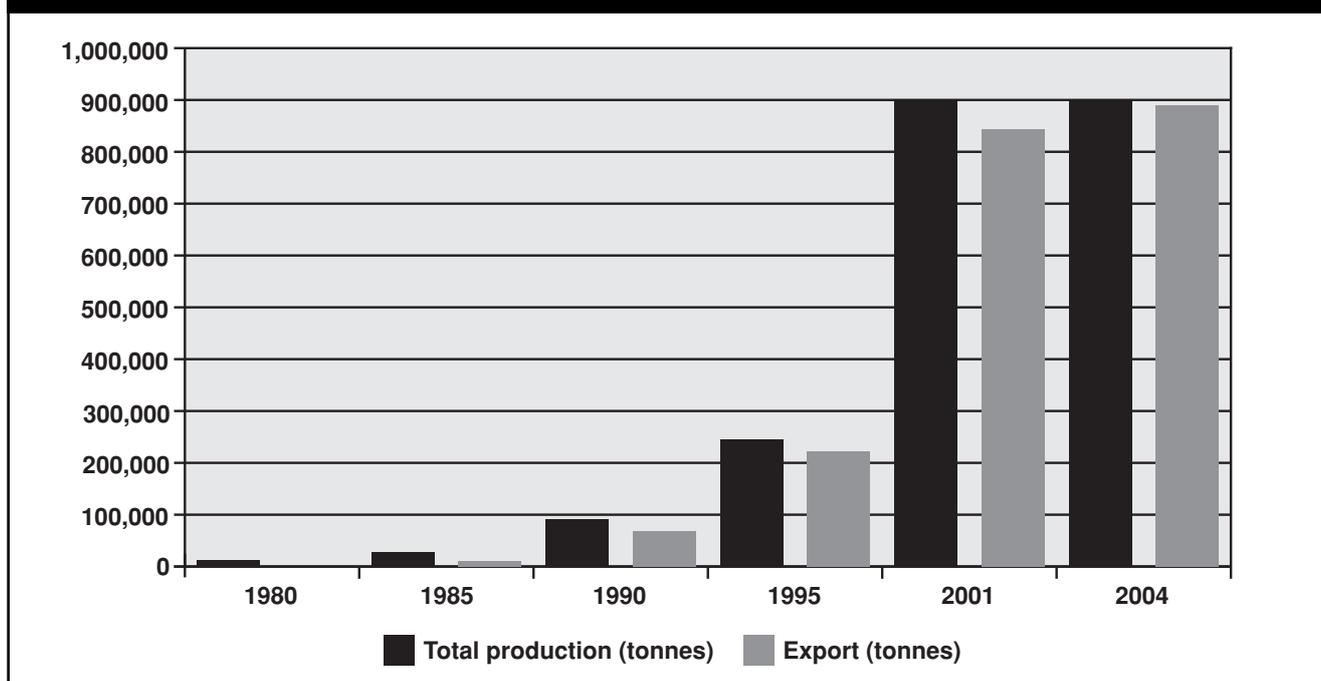
¹³³ David Rosenberg, personal communication, 2005

¹³⁴ David Rosenberg, personal communication, 2005

¹³⁵ Luis Guedes Pinto, Director, Imaflora, presentation, 14/10/05

¹³⁶ Doan Trieu Nhan, 2005

¹³⁷ Ibid.

Chart 1: Coffee production and export in Vietnam 1980-2004

Coffee is an important export crop for Vietnam, second only to rice. About 95% of coffee produced is exported to 50 countries, the main markets being the US, Germany and Japan. The domestic market is very small as coffee is consumed only by middle and high-income people in urban areas. The remaining 70% of the population, living mainly in rural areas, rarely drinks coffee.

The coffee industry currently employs over 600,000 people directly, increasing to 700,000-800,000 in the harvest season, and nearly 200,000 people indirectly, corresponding to about 3% of agricultural employment. Assuming an average household size of five, this means that 2.5 million people in rural areas were dependent for their livelihood on coffee. Of these coffee-producing households, 46% were living below the official poverty line and 30% of them were ethnic minorities. The fall in prices after 2000 had serious consequences for these families and some of them were forced to abandon coffee for other crops.

The effect of the price decline was explained in stark terms in Vietnam's response to the ICO's request for information on the impact of the coffee crisis: while one kilo of coffee in the mid-1990s exchanged for five bags of rice, by 2002 this ratio had dropped to one-

to-one.¹³⁸ The problem is not due to high costs or profits in Vietnam because the coffee producers get a high percentage of the export price, nearly 90% in 2000¹³⁹ and an average of 95% in 2005, according to the producers, millers and export companies interviewed for this report. The problem is that the export price is itself so low.

About 70% of the coffee planted area belongs to small farmers with 0.1-10 hectares per household (but very few have as much as 10 hectares). There are also a number of state-owned farms with areas ranging from 400-1,500 hectares. Yields on the smallholder coffee plots, with many achieving 4-6 tonnes per hectare, have typically been higher than on the state-owned farms where yields have been 2.5-3 tonnes per hectare.

Despite high yields, smallholder farmers have problems of quality in processing. In some mountainous areas, and particularly in ethnic minority areas, there is a lack of cement or brickyards for drying coffee, so it is difficult to prevent coffee mould and Ochratoxin A contamination. These small producers cannot afford to buy a milling machine and face problems in getting their coffee processed. They therefore have to sell their coffee unprocessed to intermediaries.

¹³⁸ International Coffee Organization, 2003

¹³⁹ Le Dhin Sohn, FAO 2000

Extension services for smallholder coffee producers particularly in mountainous and ethnic minority areas are very limited – these producers rely on extension staff from district and commune levels who have few qualifications. So concepts of good agricultural practice and good manufacturing practice have not been widely disseminated to these remote producers.

The intensive nature of Vietnam's coffee production has also been problematic from the environmental viewpoint. Large amounts of water are needed for irrigating coffee, putting pressure on groundwater resources in coffee areas. In the last drought in 2003, some provinces had to stop producing rice in order to ensure that the coffee had sufficient water. Yet VICOFA, the Vietnam coffee producers association, estimates that the volume of irrigation water needed for coffee could be reduced by 40% in Dak Lak province without influencing yield and production. The development of coffee plantations required extensive clear cutting of forests. Soil erosion has been caused by practices of not planting on terraces or contour lines. Excessive use of mineral fertilisers, urea in particular, has also contributed to soil degradation while some coffee areas have suffered pollution because of poor pesticide management.

It is acknowledged by VICOFA that the low quality of Vietnamese coffee remains a big problem.

Current status of certification in Vietnam

The only certification scheme that has any presence in Vietnam is Utz Kapeh which has very recently opened an office in Hanoi. So far, six state-owned companies have been certified by Utz Kapeh, five in 2002 and one in 2003. In 2004, some 4,000 tonnes of green coffee was exported from Vietnam as Utz Kapeh certified. As of December 2005, in addition to the state farms, projects to pursue certification in 2006 had been initiated by two co-operative groups and three farms. It is predicted by the Utz Kapeh representative that because of local endorsement by VINACAFE¹⁴⁰ and VICOFA, the amount certified will increase substantially in coming years.¹⁴¹

One reason for the absence of the other certification schemes is probably the preponderance of robusta coffee in Vietnam, coupled with its low quality. Certification schemes until recently have targeted a

niche market interested in arabica coffee, of a high quality. Environmental practices in the industry are very poor so the industry is a long way from meeting the requirements of organic or Rainforest Alliance certification. For most smallholder farmers, struggling to make a livelihood, environmental protection is not a priority. There are also problems of obtaining financing to invest in improving production practices and processing methods.

With its preponderance of small coffee farmers, Vietnam should be ideally suited for Fairtrade certification but the low quality of its coffee works against this. Another serious obstacle is that there is little tradition of smallholder democratically run coffee co-operatives and this is a pre-requisite for Fairtrade certification. Nor are there more than a few of the institutional top-down type of co-operatives still existing in the coffee sector as these are no longer supported and subsidised by the government. There has been little government-sponsored sustainability initiatives in Vietnam.

According to David Rosenberg,¹⁴² Utz Kapeh's success so far is due to efforts by exporters to mobilise farms to participate in the programme. Utz Kapeh has been working with CafeControl as certifier since 2002 and significant resources have been invested by Utz Kapeh and the Coffee Support Network to train both CafeControl inspectors and agronomists from the participating farms. That initial knowhow is being spread to other farms and agronomists. There have been three pilot sustainability projects in the form of public-private partnerships by Sara Lee, Kraft, and Nestlé, together with Neumann Gruppe's consulting arm EDE and donor GTZ. One of these projects led to Utz Kapeh certification.

Interviews conducted by VICOFA with three of the Utz Kapeh certified state-owned companies reveal that the costs of meeting the requirements of this certification scheme were estimated at US\$ 40 per tonne of green coffee. These costs resulted from changing farm practice and introducing social projects such as schools for workers' children. Higher prices were received for the coffee produced as a result of Utz Kapeh certification but only an increase of US\$ 10-20 per tonne, which was not sufficient to offset the increased costs. There was no

¹⁴⁰ Vietnam National Coffee Corporation, a state-owned company that has control over 20% of the country's coffee

¹⁴¹ David Rosenberg, personal communication, December 2005

¹⁴² David Rosenberg, personal communication, December 2005

improvement to financing terms either. Thus so far, there is little apparent financial incentive to producers to opt for certified production.

Yet it seems that interest is growing in Utz Kapeh. According to VICOFA this is because of the potential it brings for market access and more stable contracts. Utz Kapeh representatives believe that producers are interested in Utz Kapeh because they see opportunities to improve production processes and reduce costs. They argue that in a country like Vietnam, with relatively high inputs and a new coffee culture, producers welcome the opportunity to rationalise inputs and improve management skills.¹⁴³

VICOFA believes that organic certification could be promising for Vietnam. As Vietnam has tropical climate with high temperature and high rainfall, it has good conditions for combining coffee with livestock to provide organic material to provide a source of manure for mulching of coffee trees. It is necessary to strengthen the roles of VINASTAS and VICOFA in providing technical assistance and promoting the advantages of using high quality certified coffee and to create some demonstration models of organic coffee, shade coffee and high altitude coffee. VICOFA is promoting a simple formula in its communications to promote better management practices in coffee :three terms of decrease, three terms of increase and one prohibited term (see Box 5).

For certification to play a more important role in Vietnam, the quality of the coffee produced has to improve. The experience of certified producers in Brazil shows that certification was insufficient for market benefits and that achieving quality standards was also necessary. The other lesson to be taken from Brazil is the potential role that smallholder co-operatives could play in promoting better environmental practices in coffee production and ensuring a higher return for the growers.

Box 5: Improving Management Practices

Decrease

- mineral fertiliser
- pesticide
- water use for coffee irrigation

Increase

- shade trees
- organic fertiliser
- pruning

Prohibit

- Picking green, over-ripe or dry falling cherries

Source: VICOFA

¹⁴³ David Rosenberg, personal communication, December 2005

Chapter 5

Markets for certified coffee¹⁴⁴

Overview of the markets in consumer countries

This section examines the status of and prospects for consumption of certified coffee in some key importing countries, Denmark, Finland, Portugal and US, which source their coffee from Brazil and Vietnam. While Brazil is a major consumer of coffee, the market for certified coffee is tiny and limited to high-income sections of the population. The major impact on the coffee commodity chain in Brazil is more likely to come from markets for certified coffee in countries importing from Brazil. For this reason, the market for certified coffee in Brazil is not considered further in this report.

The US is the world's largest consumer of coffee in absolute terms, but at 4.26 kilos per year its per capita consumption is low relative to Denmark (9.43 kilos) and Finland (11.99 kilos), the world's highest consumer in per capita terms, which have more of a coffee-drinking culture. Portugal has similar per capita consumption to the US at 4.4 kilos per year.¹⁴⁵

In both the US and the two Scandinavian countries, there has been a growth in the number of cafés suggesting a booming market for coffee, but while consumption continues to grow in the US (by 7.4% over the period 2001-04) it appears to be stagnating in Denmark and Portugal. In particular, in Denmark, there is a marked difference in consumption patterns between the older generation who are heavy coffee drinkers and the younger generation who prefer soft drinks. In Denmark, whereas 85% of the population over 50 years-of-age drinks coffee, this percentage drops to 50% for those under 30.¹⁴⁶

Brazil is a major source of coffee imports for all four countries and Vietnam is significant for all except Finland. There is also a considerable amount of

re-export of roasted and ground coffee, for example to Finland, from other European countries (Netherlands) and from Finland to Russia and Baltic countries.

In all four countries, the importing and roasting of coffee is highly concentrated in a small number of companies. In Finland, particularly, one company, Paulig (a Finnish company established over a century ago) has 60% of the market with its own brand but also roasts another 15% for other companies. The other main Finnish company, Meira, which has 20% of the market, is owned by the Italian company, Segafredo. In Denmark, two multinationals, Sara Lee and Kraft, have high shares of the market, 31% and 27% respectively, but two Danish companies have about 30% between them. The US market is dominated by Sara Lee, Kraft and Procter and Gamble (and Nestlé), which between them import and roast nearly half of the US's coffee. In Portugal, Nestlé controls 33% of the market but the remaining 70% is covered by around 70 roasters, some operating at a very small local scale.¹⁴⁷

In spite of the coffee house boom and emergence of coffee as a life-style product, coffee in Denmark and Finland has conservative connotations. The Danes tend to be conservative in their choice of coffee, sticking with specific brands. In Finland, some of the popular brands, such as Presidentti and Kultakatriina introduced in 1937, have not changed for decades, nor has their packaging. Coffee in Finland is associated with tradition and nostalgia and to some extent with the church. There is a traditional Finnish taste coffee which is light roasted arabica mixed with some mocca (see Box 6 on page 40).

¹⁴⁴ This section is based on reports prepared by Maria de Fatima Ferreira of DECO, Portugal; Johanna Parikka Altenstedt of Kuluttajat-Konsumerterna, Finland; Torsten Raagaard of the Danish Consumer Council; and Kristi Wiedemann of the Consumers Union, US

¹⁴⁵ International Trade Centre, Geneva, 2005

¹⁴⁶ DIPO – The Danish Import Promotion Office for Products from Developing Countries, 2003

¹⁴⁷ International Trade Centre, Geneva, 2005

Box 6: Finnish coffee tradition

Juhlamokka (*Celebration Mocca*) is produced by Paulig and has 45% of the market. The brand was introduced in 1929. The coffee contains Santos beans from Brazil but the proportion is not known. The packaging looks much like it did 75 years ago.

Kulta Katriina (*Golden Catherine*) by Meira has 14% of the market and is the second most popular coffee brand in Finland. It was introduced in 1937 and has retained the same image.

Presidentti is another Paulig brand with 10% market share. This coffee has been on the market in the similar package for 75 years.



The image of coffee is associated with:

- celebration
- exclusivity
- tradition and nostalgia
- values that do not change in the changing world.

Coffee consumption was controlled by ration cards until 1954 and as a result coffee became a very popular symbol for the rebuilding of Finland after the war. The coffee labels were often associated with glory and the nation, the president, the golden mocca and celebrations. These coffee labels are still the most popular and the packages have changed little – for example, no coffee package shows a coffee mug, although most coffee is served in mugs, preferring to retain images of tiny coffee cups and small plates. The coffee business has managed to retain a sense of nostalgia over coffee drinking.



Paula girl 2003, a student in communications

One way to promote coffee has been the extremely popular competitions to become 'Coffee girls'. The Paulig company's 'Paula' girls travel the country in national dress to promote coffee. There are still some Paula girls around – but they not as famous as they once were.

Status of certified coffee and outlook

In the US, consumption of certified sustainable coffee is growing in volume and taking up an increasing share of the specialty coffee market. Fairtrade certified coffee is the fastest growing segment of the US specialty coffee market and in 2003, US coffee roasters selling Fairtrade coffee for at least two years saw an average of 125% annual growth¹⁴⁸ albeit from a small base. This rapid growth continued in 2004 with sales increasing by 84% from the previous year.¹⁴⁹ There are now about 40,000 retail outlets for Fairtrade products. More significantly, Fairtrade coffees are now available at mainstream supermarkets nationwide.¹⁵⁰ Organic coffee and tea sales are also growing from US\$ 65 million to US\$ 124 million in 2003.¹⁵¹ There are also

increasing sales of Rainforest Alliance, boosted by the agreement with Kraft, as well as Bird Friendly coffee. The four major coffee roasters (Sara Lee, Nestle, Procter and Gamble and Kraft/Philip Morris) have started to use certified sustainable coffee for some of their products but these are not yet sold in US supermarkets but in online sales.

In Finland, Fairtrade and Fairtrade/organic coffee have been on sale since 1999 and currently make up only about 0.3% of the market with sales of around 120 tonnes.¹⁵² After a phase of very slow growth there has been some marked change – sales have been growing by 8% between 2003 and 2004 and 3% between 2002 and 2003. This recent growth is mainly because of the growth in institutional purchases of Fairtrade coffee which has had a knock-on effect of

¹⁴⁸ Transfair USA website

¹⁴⁹ Calculated from FLO sales figures for 2003 and 2004

¹⁵⁰ Transfair USA website

¹⁵¹ SCAA, 2004

introducing consumers to this type of coffee in their workplace, which leads them to buy it for their home consumption.¹⁵³

Other types of certification are not present in the Finnish market apart from some organic coffees also introduced to Finland in 1999. Fairtrade coffee is available in the mainstream outlets as well as the specialist sector including the development organisation shops, Africafe and church shops, which together correspond to about a fifth of Fairtrade coffee sales in Finland but also do some export, eg Finnish church Fairtrade organic coffee is exported to Sweden and sold in the Coop chain. Today, there are about 100 companies, coffee shops and institutions selling Fairtrade coffee in Finland.¹⁵⁴

Denmark, which has the second highest per capita consumption of Fairtrade coffee after the Netherlands, presents a contrast to Finland as sales of Fair Trade/organic coffee have stabilised after several years of growth. Fairtrade coffee and organic coffee constitute about 2-3% of all coffee sold on the Danish market and this percentage has been fairly stable in the five years 2000-05. Certified coffees can be found in virtually every supermarket chain as well as smaller grocers and convenience stores like 7-Eleven. There are now 20-25 labelled Fairtrade coffee products and seven companies registered to trade Fairtrade coffee.¹⁵⁵ A high proportion – 49% in 2004¹⁵⁶ – of the Fairtrade coffee sold in Denmark is also organic.

However, there was a decline in sales of Fairtrade Max Havelaar certified coffees after a peak of 742 tonnes in 2000. To address this, Max Havelaar set up coffee clubs and a billboard campaign that featured well-known people on with opposing views sharing a cup of coffee.¹⁵⁷ The organisation expects sales to grow again in the next couple of years.¹⁵⁸ Organic coffee sales in Denmark were 1,448 tonnes in 2001 and 1,320 tonnes in 2002/3.

In Portugal certification of coffee is very recent and so far Fairtrade is the only certification scheme with any presence. However, this is sold only in specialist outlets such as 'world shops', (there are 11 in the country and being dependent on volunteers, their

opening times are restricted) and several private shops selling organic products. Fairtrade coffee is not sold in supermarkets. There are no national importers of Fairtrade products. Two Spanish importers, IDEAS and Alternativa3, and one Italian company, Ctm-altromercato, sell their products in Portugal.

Barriers to increasing demand for certified coffee

Price differentials

The theory is that the price premium of certified coffee, particularly for Fairtrade coffee, can act as a constraint on demand. In practice, the variety of conventional coffee brands and quality on offer and the differences in prices, coupled with a lack of information to consumers about the country of origin and the quality, makes a like-for-like price comparison of certified coffee with conventional coffee quite difficult under 'normal' trading conditions. Prices for both certified and conventional coffees vary considerably depending on the brand and how it is positioned, the nature of the outlet, supermarket or specialist, the country of origin, including whether it is known or not, and the quality. This can be seen from Table 3 on page 42, which shows prices for a range of roasted and ground coffee products in Finland in summer 2005.

Almost all the ordinary coffee in Finland is a blend of Colombian coffee and Santos from Brazil but the mixture varies and is not disclosed for commercial reasons.¹⁵⁹ As the blend is a commercial secret, it is not possible to make a value-for-money comparison between certified coffees and conventional blended coffees based on quality. Even if the information on sources was provided, the consumer would not necessarily be able to interpret and assess which is the better deal. Ultimately, it is the taste of the coffee that matters for the consumer and so a brand with a familiar taste will be preferred.

However, price comparisons can become clear in cases where supermarkets use conventional coffee as loss leaders to attract shoppers into the store. The coffee is sold on offer at low prices and this makes the price differential with Fairtrade coffee more

¹⁵² Calculated from sales figures provided by Finnish Fair Trade

¹⁵³ Ann Hedman, Product Chief, Finnish Fair Trade, personal communication, 2005

¹⁵⁴ Ann Hedman, Product Chief, Finnish Fair Trade, personal communication, 2005

¹⁵⁵ Judith Kyst, personal communication, 2005

¹⁵⁶ Calculated from FLO sales figures for 2003 and 2004

¹⁵⁷ Judith Kyst, personal communication, 2005

¹⁵⁸ Judith Kyst, personal communication, 2005

¹⁵⁹ Paula Suutarinen, Tuko Logistics, Finland, telephone interview, 10/8/05

Table 3: Prices of certified and conventional coffee products in Finland

Retailer/Importer	Coffee brand	Country of origin	Retailer price euro/kilo (June-Aug 2005)	Certification
Mainstream outlets				
Kespro	<i>Menu Organic</i>	Colombia	7.88	Organic
	Menu Fairtrade	Guatemala	7.88	Fairtrade
	Menu Original	Kenya	4.35	Conventional
Tuko Logistics	<i>Reilun Kaupan</i>	<i>Not disclosed</i>	16.48	<i>Fairtrade organic</i>
	First Price	Peru plus others	4.66	Conventional
	Juhla Mokka	Brazil plus others	7.38	Conventional
	Eldorado mocca	East Africa (Ethiopia plus others)	5.18	Conventional
	Emozioni arabica	Not disclosed	19.44	Conventional
	Espresso original	Not disclosed	20.76	Conventional
	Parisien Paulig	Not disclosed	20.76	Conventional
	Original Gustav	Brazil plus others	19.48	Conventional
	Paulig	Not disclosed	16.20	Conventional
	Segafredo	Brazil	7.34	Conventional
	Paulig Brazil	Brazil plus others	5.78	
	Pirkka	<i>Reilun Kaupan</i>	<i>Mexico</i>	9.84
	Costa Rica	Mexico	12.88	Organic
	Paulig Colombia	Colombia	18.44	Organic
	<i>Roberts</i>	<i>Mexico and Peru</i>	19.60	<i>Fairtrade organic</i>
Stockmann	Arvid Nordqvist Original	Not disclosed	11	Conventional
	Cellini Espresso Arab	Not disclosed	20	Conventional
	Segafredo	Not disclosed	14	Conventional
	Lavazza	Not disclosed	16.80	Conventional
Specialty outlets				
Porvoon Paahtimo	Coffee original	Brazil	33.50	Conventional
	Coffee beans	Panama	33.50	Conventional
	Blue Mountain	Jamaica	476.2	Conventional
Mokkamestarit	<i>Fazenda Santa Terezinha</i>	Brazil	33	<i>Organic</i>
	Fazenda Bela Vista	Brazil	33	Conventional
	Fazenda Cachoeira 100% Bourbon	Brazil	29.52	Conventional



Consumer choosing a Fairtrade coffee at a retail outlet

noticeable. This applies particularly to Denmark and Finland. Surveys conducted for the Max Havelaar Foundation in Denmark indicate that consumers are willing to pay an extra price for certified Fairtrade coffee but this is not borne out in practice as consumers tend to buy the coffees on special offer. 'If conventional coffee is always on offer the price gap is very big. This means that the skeptical consumer feels laughed at because he has to pay so much more,' says Mogens Werge, Director of Environment, Coop-Denmark.

Thus in Finland while double certified Fairtrade coffee normally costs around 10 euros per kilo (see Table 3), a package of Kulta Katriina costs about 9 euros per kilo when not on special offer. But in March 2005, a package of Kulta Katriina was on special offer at only 2 euros per kilo and special offers of 4-6 euros are not uncommon. With such offers, the Fairtrade coffee looks expensive. The Fairtrade organisations are not in a position to offer the same type of promotional offers to the retail outlets.

Achieving traditional taste

In Finland a survey made by Dagmar Inc in March 2005 showed that 38% of consumers were ready to change to Fairtrade coffee, 47% would consider changing and only 15% said that they would not change. This last group said that they were worried about the 'developing country quality' and that they preferred 'coffee from Finland' implying that Fairtrade is associated with strong, strange and unknown qualities. This underlines the importance of branding and the image of a national coffee and a familiar taste.

While traditional brands of 'Finnish coffee' continue to dominate the Finnish market (see Box 6 on page 40) it will be hard for certified coffees to ever be more than a niche market. This is recognised by Paulig which says that it is not afraid of the new certified coffees since

they do not compete with conventional coffees with a Finnish taste. Paulig also says that it cannot use certified coffee for these traditional brands as there is not enough certified coffee to secure regular supplies of the constituent types of coffee that make up its special blends. Furthermore, since their coffees are bought from many different and changing sources it is difficult to have this constantly changing information on the package. The traceability ethos of certification does not sit well with the constantly changing and secretive approach of blending.

Similarly in Portugal, the taste of Fairtrade coffee being mostly arabica (ie more aromatic and with less caffeine) differs from the taste that consumers are accustomed to. There is a strong traditional cultural habit to drink coffee in cafés rather than at home and this has influenced Portuguese taste in coffee. Major roaster companies offer coffee machine equipment to restaurants and bars, again influencing the choice of coffee.

Quality

Fairtrade has suffered from a perception of low quality, partly fuelled by the emphasis on 'helping poor farmers in developing countries' and perhaps by the reality in the initial years. But a number of Fairtrade coffee products on the Danish market have won Cup of Excellence awards (see footnote 179 on page 48) in recent years. In addition, Fairtrade coffee came out on top in small-scale blind-tastings in Finland run by Kirkon Ulkomaanapu (Finnish Church Mission Help). This suggests that there is a difference between reality and perception. Max Havelaar in Denmark is now working to convey a new type of message of proud producers and a good quality product, moving away from the 'help' connotations of previous messages.

Consumer information

Lack of consumer knowledge about certification and lack of visibility are considered to be important barriers for the expansion of the certified coffee market. In Denmark, key players in the retail chain think that the Max Havelaar certification is too difficult for the average consumer to understand and that there is a need to provide further information. Retailers feel that only a small number of people want to help developing countries by paying more for a Fairtrade coffee – not helped by a recent change in the logo of Max Havelaar, which itself acknowledges that consumer information could be improved. The Max Havelaar Foundation is now



working on a promotion initiative to display a range of different Fairtrade products together in supermarkets to convey the fair trade message in a more powerful way. It is also putting more emphasis on traceability which is at the heart of the fair trade system and demonstrating to the consumer the link between the product they are buying and the certified producer group.¹⁶⁰

The entry of new certified labels on these markets, and the very recent initiatives of mainstream companies to sell Fairtrade or Rainforest Alliance coffee may compound these problems of consumer information. In the US, where a multiplicity of certification schemes emerged early on, there were initial fears of consumer confusion, as expressed by Giovannucci's 2001 survey of sustainable coffee which warned that: 'failure to promote or educate about standardised terminology will very likely lead to the deterioration of terms such as "Shade coffee" until they are as meaningless to a consumer as the word "natural"'.¹⁶¹ This survey also showed that there was a lack of clarity within the coffee industry itself as to what each of the sustainable coffees represents, probably contributing to consumer confusion.

Four years on, it appears that these fears have not materialised. According to Rodney North from Equal Exchange, the terms organic and Fairtrade are more strongly established than before and more widely recognised but 'shade coffee' still suffers from low understanding among the public. There is also improved knowledge within the specialty industry where the large majority knows the meaning of the terms organic, Fairtrade and shade. This applies particularly to the importers and roasters who are closest to the producers, and less so to the retailers.¹⁶²

Until very recently, there were practically only two certification schemes for coffee in Denmark, Max Havelaar and the organic certification controlled by the Danish authorities. This helped to keep matters simple for consumers, but as discussed previously, there were still problems of insufficient consumer knowledge. This has changed, as from October 2005 Kraft Foods Nordic started marketing several Rainforest Alliance labelled coffees in the Danish market (but not in Finland because of the difficulties of meeting Finnish taste requirements). Utz Kapeh has also signalled its intention to sell certified coffees

in Denmark. It is too soon to be able to observe the impact of these various developments.

Kraft believes that because of its position in the market, the high quality of the coffee it imports and the type of certification involved (ie more holistic than the single issue organic or Fairtrade certification), it can reach the mainstream market and not the current niche of Fairtrade. It acknowledges the challenge of explaining complex certification to consumers but believes that it has the capacity and determination to do so.¹⁶³

The Max Havelaar Foundation believes that entry of Kraft and other big players into certification need not be a problem if handled well and could result in an expansion of the market for certified sustainable coffee, but there are dangers of increasing consumer confusion.¹⁶⁴ A particular concern of Max Havelaar is that small marginalised producers may lose out because most of the new certified products coming onto the Danish market are from larger producers. For example, the Fairtrade label provides benefits to producers in the form of the floor price, not provided by other schemes. If consumers think that the schemes are all the same, then Fairtrade producers will lose out as consumers interested in sustainability will pick the cheapest certified product.¹⁶⁵ This means that consumers will need to understand what the different labels stand for.¹⁶⁶

In Finland, the most well known certified coffee is Fairtrade, in particular that sold by the Finnish Protestant Church, but according to a range of key informants (consumer journalists, the information officer at the Fair Trade Foundation and a retailer) there is a low level of knowledge and considerable consumer confusion. Even the professionals do not always know the difference between the brands and the certifications. Events such as the Fair Trade week in October 2005 was helped by increasing media coverage of fair trade in newspapers, magazines, and on television and radio. The impact that an extensive advertising campaign can have on coffee consumption is demonstrated by the case of Meira and its top product Kulta Katriina which was re-launched in spring 2005. After several weeks of consumer and trade paper advertising, the retail market share of Kulta Katriina rose from 14% to 21% nationwide.¹⁶⁷

¹⁶⁰ Judith Kyst, personal communication, 2005

¹⁶¹ Giovannucci, D, 2001

¹⁶² Rodney North, personal communication, 2005

¹⁶³ Bors Brito Westelius, personal communication, 2005

¹⁶⁴ Judith Kyst, personal communication, 2005

¹⁶⁵ Judith Kyst, personal communication, 2005

¹⁶⁶ Judith Kyst, personal communication, 2005

¹⁶⁷ http://www.segafredo.it/eng/news-e_online.html , viewed on 12/1/06

Visibility in retail outlets

A key problem is visibility on the supermarket shelves and in retailer promotions. This can only be addressed with extra resources. It is common knowledge that there are substantial costs involved in 'buying' shelf space in the supermarket chains as retailers need to be assured that the products will sell and that sales targets per unit of shelf space will be achieved or that promotions will have the desired effect. Suppliers are often asked to make contributions to cover the costs of the promotional offer.¹⁶⁸ 'Our challenge is to fight for the shelf metres,' says Judith Kyst, Chief of Marketing, Max Havelaar Foundation, Denmark.

In Denmark, sustainable coffee as a product group is still too small to attract large-scale marketing attention from roasters and retailers, but this may change if its volume achieves a critical mass in the market place and as more retail chains adopt 'green' policies. There are signs of greater interest from the retail sector and it is significant that the Board of Max Havelaar Foundation now includes Mads Krage, the former CEO of Netto, the Danish discount retail chain.

The other major development in these three markets which may lead to consumer confusion is the entry of the major roasting companies into Fairtrade as discussed previously. Procter and Gamble and Sara Lee are both marketing Fairtrade coffee in the US. In Finland, the Swedish company Arvid Nordqvist has recently launched a Fairtrade coffee, 'Classic Reko,' at the very competitive price of 7 euros per kilo. It has made a Finnish blend to meet Finnish taste demands.



Certified coffees on retailer's shelves

The Max Havelaar Foundation in Denmark welcomes the efforts of the multinational roasters to take some responsibility for how coffee is produced but does have some concerns. Ultimately, however, what matters is whether small producers can sell more certified coffee as a result of these developments. The Foundation believes that it is the responsibility of the labelling organisations to communicate to consumers about the difference between labelling a product and labelling a company and that it is now strong enough to be able to do this, in contrast to the previous five years.¹⁶⁹

Language and communication

This factor applies mainly to Finland but implies lessons for countries that have similar language constraints. The Finnish language is not an Indo-European language and thus does not belong to the Slavic, Germanic or Latin language families, and does not resemble most common European languages. This creates particular challenges for marketing in Finland and for communicating complex concepts like sustainability.

¹⁶⁸ Dobson, PW, 2003

¹⁶⁹ Judith Kyst, personal communication, 2005

Chapter 6

Linking up producers and consumers

This section presents some case studies of certified coffee commodity chains in order to show the links between impacts at the local level in Brazil and the consumers who buy the certified coffee in Denmark, Finland and the US.

These case studies are illustrations and cannot be taken as representative of all certified coffee chains. They serve to demonstrate the diversity of situations in which certified coffee makes its way from the producer to the final consumer and the range of drivers which bring about these trading relationships.

The chains have been selected with the aim of providing a link between the producer countries and consumer countries in the study, across different types of certification schemes. Given the difficulties involved in tracing the source of coffee, the ease of identifying the various links in the chain has also influenced our choice.

Three chains are presented below:

- Cooperativa dos Agricultores Familiares de Poço Fundo, a co-operative association of small family farmers, certified under the Fairtrade scheme, exporting to US and Denmark.
- The Fazenda Santa Terezinha, a small-medium certified organic coffee grower employing hired labour, exporting to Finland via the UK.
- Ipanema, the world's largest coffee estate, certified under Utz Kapeh and Rainforest Alliance, exporting to Denmark and the US.

For each chain we have obtained information on each of the major links in the chain to understand the nature of the chain and how it has been influenced by certification. We also aim to present the views of

those involved along the chain on how certification has affected them or their business, and on barriers and opportunities for expansion of the market for certified coffee.

A number of key observations can be made:

- There are diverse drivers leading to certification. Buyer interest is clearly important but linking interested buyers with certified producers in one of these cases required personal contacts and appears to be driven more by philanthropy than expectations of direct business benefits.
- The role that quality plays in facilitating the sale of certified coffee, whether Fairtrade, organic or other scheme.
- The uneven acceptance of certification, as the chains show a trader who does not like 'cause coffees' but still buys organic coffee, and buyers who pay a premium for certified coffee but do not place a certification label on the package.
- The varied range of benefits of certification along the chain. While the premiums are important for the growers, particularly for the small and medium growers, there are other less tangible benefits, such as improved market access, longer-term contractual arrangements, reduction in risk and more transparency in negotiations.

Case study 1 – Fairtrade co-operative – small family farms

The growers¹⁷⁰

The **Cooperativa dos Agricultores Familiares de Poço Fundo** (Poço Fundo Association of Small Producers) is a co-operative located in the municipality of the same name in the south of Minas Gerais. The association was established in 1991 with the aim of improving living standards for farmers through organisation and co-operation. One of the requirements for becoming a member is that 80% of the family income must come from the land. In 1997 it began the process of Fairtrade and organic certification with Max Havelaar in the Netherlands and the Associação de Agricultura Orgânica in 1997. In 2002 it was certified Fairtrade with FLO/Max Havelaar and organic with the Instituto Biodinâmico.

The association has around 170 members of which 136 are certified as organic. Other members are in the process of transition to organic. The association produced about 2,000 bags of coffee in 2004, 3,600 bags in 2005 and is expecting to produce 6,000 bags in 2006, all arabica of high quality. Most of the coffee produced is exported, mainly to the US and Japan but also to Denmark. The association is now able to sell all of its coffee at the Fairtrade price. The President of the association believes this is because of its high quality.

Certification under the Fairtrade system costs 500 euros per year and is paid by the association. Organic certification is paid by the individual producer and costs US\$ 60 per producer per year. Under the rules of the Fairtrade system a proportion of the revenues must be channelled into projects for the benefit of the community, US\$ 7 per bag for Fairtrade and US\$ 19 per bag for double certified Fairtrade and organic. The association has decided to average this contribution out and charge each producer US\$ 13 per bag regardless of whether they are organic certified. The aim is to create an incentive to producers to convert to organic.

In the first two years the association used this money to set up a coffee warehouse and processing facilities for the coffee. It then moved to projects of a more social nature such as a computer training facility for all member families as well as disadvantaged members of the local community, and provision of dental treatment. In the next stage, the plan is to use the money to make improvements

in the members' properties such as concreting over the drying yards.

These decisions were made by members in the periodic assemblies where each family has one vote, exercised by the (usually male) head of household. As from 2006, there will be an additional vote per family to allow women to play an equal role in the governance of the co-operative. This is particularly important as women work alongside men in the coffee farms. This move to give women greater say will set Poço Fundo apart from other Fairtrade certified co-operatives where women have typically played only a minor role in governance.¹⁷¹

Poço Fundo association has clearly benefited from Fairtrade certification which started for them as world coffee prices reached historic low levels. The processing facility (which is far too costly for the farmers to buy on an individual basis) has meant that the farmers are no longer at the mercy of the intermediary going from farm to farm to take their coffee to processing. The processing facility is used by all the members of the co-operative and they only have to contribute a small amount to cover the energy cost. As the facility is controlled by the co-operative, there are no longer disagreements about the volume delivered, as was the case in previous years when private millers were used. As a result of the higher prices received, the producers have been able to install concrete terraces for drying beans, make improvements to their houses and/or buy vehicles. The elimination of agro-chemical use means a safer environment for their children as there is no risk of them chewing on coffee cherries sprayed with fertilisers, etc.

One of the families in the association, the Rezende family, where ten brothers each have small plots of coffee, two of which are organic, have been able to buy a tractor and trailer to transport the coffee to replace the ox cart that they used previously. In addition, they have installed septic tanks for their houses. As a result of the Fairtrade requirements, their children are only starting to work at the age of 16 and continue to attend school in the evenings.

No producer in the association uses chemical pesticides – this is a requirement of membership (presumably to prevent contamination of the existing organic producers' coffee). The organic production techniques used by the association were developed and researched by the producers themselves,

¹⁷¹ Taylor, PL, 2002

drawing on local knowledge of farming practices of previous generations and facilitated by links with local research institutes and companies producing organic fertilisers. They use a mixture of cow dung, coffee husks and an oleaginous plant (*mamona*).

After the conversion to organic, the association then encountered a marketing problem, as at that time (1999/2000) the Brazilian market was not aware of the differences between organic and conventional coffee. Although other organic products were on the market in Brazil, organic as a concept was not common. Before certification the Association sold their coffee to a national company (Cooxupe). Fairtrade certification opened up the potential of export sales.

The Association has looked into the possibility of Rainforest Alliance certification but believes that the audit fee of US\$ 4,000 per year is too high in relation to the expected price premium to make it viable.

The trader¹⁷²

Coffee produced by the Cooperativa dos Agricultores Familiares de Poço Fundo is exported by **Exprinsul**, a large coffee exporter. It started exporting Fairtrade coffee in 2003 with 1,280 bags and by 2004 had expanded to 11,300 bags drawn from four Fairtrade co-operatives (Poço Fundo, FACI, Santana and Novo Rezende). The Fairtrade coffee is exported to US, Canada, Spain, Netherlands, UK and Germany. Nevertheless, this represents only a tiny proportion of the company's total coffee exports. While the Poço Fundo association now does its own milling, two of the other Fairtrade co-operatives send their coffee beans to Exprinsul to be milled there. As a result the proportion of the export price that goes to the producing co-operatives varies from 93% to 95%.

The motive for taking on this role of Fairtrade coffee exporter appear to be primarily philanthropic, a desire to help the small coffee producers. An important factor was the good links between the President of Exprinsul and a roasting and importing company, Blazer Wolthers in the US, which arranged the sale of the first shipment in 2003 to Dunkin' Donuts.¹⁷³ When the first shipment was made Cleber Marques de Paiva, the President of the company, was quoted as saying: 'It is an honour for Exprinsul to be recognised worldwide as the company which is managing to make Fairtrade sales viable in Brazil. To be known as a company which practices fair trade is

our greatest reward, as well as forming part of social responsibility initiatives, since we do not make any financial profit on this operation.'¹⁷⁴

Two years on, Flávio Henrique Selvati, the Marketing Director of Exprinsul, believes that the export of Fairtrade coffee has benefited the company by increasing its visibility and creating trust and may well have contributed to increasing sales. Some clients who first got to know the company through purchase of Fairtrade coffee are now also buying conventional coffee from Exprinsul as well. Dealing with Fairtrade and double certified fair trade/organic coffee has required some adjustments to keep these coffees separate from conventional coffees but this has had minimal cost implications. The company intends to continue exporting Fairtrade coffee and is preparing to export Utz Kapeh certified coffee in the future. It is listed as a new registered buyer in the Utz Kapeh newsletter in November 2005.

The importer¹⁷⁵

Blazer Wolthers imports Utz Kapeh and Fairtrade coffee to the US, European and Japanese markets. The company is owned by Christian B Wolthers who is also Chairman of the Utz Kapeh Board. In 2000, the company's sales of certified coffees represented 5-6% of sales. This proportion has risen in five years to as much as 50%. Certification is in line with the business vision of the company and the desire for better trading practices and relationships within the sector of sustainable certified coffees.

However, there are other advantages in that dealing in certified coffee is less speculative. Christian Wolthers believes that certification is likely to become increasingly important in the context of food security and food safety in both the US and Japanese markets given the bans on certain chemicals in food and concerns about bio-terrorism. Certified coffee schemes have traceability schemes in place that meet existing and future legal requirements in both countries. This may help to expand the market for certified coffee.

The coffee from Poço Fundo is sold to Dunkin' Donuts for use in the chain's espresso blends under a 24-month contract. It is roasted by three different companies on a contract basis for Dunkin' Donuts. In this case, the interest in Fairtrade coffee has been

¹⁷² All material in this section comes from Flávio Henrique Selvati, Exprinsul, except where otherwise stated

¹⁷³ Gazeta Mercantil, 2003

¹⁷⁴ Ibid.

¹⁷⁵ Christian B Wolthers, personal communication, except where otherwise stated.

buyer-driven. In 2002, Dunkin' Donuts approached Blazer and Wolthers for help in sourcing Fairtrade coffee for their espresso coffees. Since Brazilian coffee was the main constituent in the chain's espresso (blend), Dunkin' Donuts was keen to find Fairtrade Brazilian coffee with similar characteristics to maintain consistency of taste.

At the time none of the three producer groups that were FLO-FT certified in Brazil had the export capacity that was needed to supply Dunkin' Donuts. Wolthers already had a working relationship with Exprinsul, so he asked this company to help him identify which one would be the best group to engage in this initiative. This is how Poço Fundo came into the picture. They were FLO certified and producing arabica coffee. Wolthers had to provide the association with technical assistance – including financial investments so that they could match Dunkin' Donuts standards.

According to Christian Wolthers, both Blazer Wolthers and Exprinsul have limited profit margins from the Fairtrade coffee trading and most of the profits are kept by the producers. However, there are benefits involved in handling Fairtrade coffee as negotiations are quite transparent, there is no speculation involved and the level of risks involved is lower. He says this provides a contrast to the cannibalistic nature of the conventional market.

The retailer

Dunkin' Donuts, part of the Allied Domecq group, is the number one retailer of coffee by the cup in the US, selling 2.7 million cups a day – nearly one billion cups a year. It is the largest coffee and baked goods chain in the world with 6,100 shops in 30 countries worldwide. Despite its name, coffee is the major product of Dunkin' Donuts, making up 63% of the company's US\$ 4.4 billion annual revenue.¹⁷⁶

Since 2003, the coffee beans used for Dunkin' Donuts espresso beverages, including cappuccino and latte, have been certified through Transfair USA. Purchases of Fairtrade certified coffee represent approximately US\$ 1.5 million in income.¹⁷⁷ This is a small proportion of the total coffee purchases of Dunkin' Donuts, which in 2003 estimated that Fairtrade purchases would come to 2% of the chain's total coffee purchases.¹⁷⁸

Case study 2 – The medium-size organic farm

The grower

The **Fazenda Santa Teresinha**, which is located in Minas Gerais near Varginha, combines dairy cattle and pig farming with coffee growing. It has a coffee production area of 25 hectares, producing about 700 bags of coffee per year (42 tonnes) and a permanent labour force of 24 with an extra 15 workers at harvest time.

Paulo Sérgio de Almeida, the owner of the farm, has been using organic production techniques for over 20 years, avoiding chemical pesticides and making use of the manure produced by the livestock to make organic fertiliser for the coffee. In 2000, he obtained organic certification status with the Brazilian Instituto Biodinámico, following this in 2001 with organic certification under an international system. The farm is now certified to meet IFOAM, JAS (Japan) and the US Department of Agriculture standards. In 2001, the coffee from this farm won the Cup of Excellence award.¹⁷⁹ This brought considerable publicity to the farm and facilitated contacts with buyers. The coffee is exported to the UK, US and Japan. The UK importer, Mercanta, re-exports it to Finland where it is used by the company, Mokkaestariit.

Organic certification has worked out well in this case. The certification coupled with the prestige of winning the Cup of Excellence award has attracted the interest of a range of buyers. Paulo Sérgio de Almeida estimates that he can obtain prices for his coffee that are US\$ 40-50 higher than other organic coffees in the area and US\$ 80-100 higher than for conventional coffee. He stresses that the high quality of his coffee, as demonstrated by the Cup of Excellence award, has a significant influence on the price and the range of markets that he can access. As the farm was already employing organic techniques there were no costs involved in changing practices. There are costs involved in certifying under three different organic systems but these are compensated by the sales generated and market access secured. The adoption of organic techniques and the application for certification were achieved without any external government or NGO support.

¹⁷⁶ Rodrick, S, 2005

¹⁷⁷ Dunkin' Donuts, 13/10/05

¹⁷⁸ Dunkin' Donuts, 25/4/05

¹⁷⁹ The Cup of Excellence is a competition that selects the very best coffee produced in that country for that particular year. Winning coffees are chosen by a select group of national and

international cuppers and are tasted at least five different times during the competition process. Only coffees that receive a score of 80 or above are allowed to move forward. The winners are awarded the prestigious Cup of Excellence® and sold to the highest bidder during an internet auction. For more details see www.cupofexcellence.org.

Almeida believes that the price premium will be maintained in his case and not eroded but stresses that this is because of the high quality of his coffee. He intends to stay with organic certification and does not envisage applying for Rainforest Alliance or Utz Kapeh because of the demanding social and environmental requirements.

The trader¹⁸⁰

Mercanta is a specialist coffee importer, founded in 1996, with the aim of supplying fine coffees to specialty coffee roasters. It sells coffee to roasters in 14 countries. It buys and imports green coffee directly from the Santa Terezinha farm, stores it in its specialty warehouse facility in London and re-exports it to a specialty coffee roaster companies worldwide, including Mokkaemstarit in Tampere, Finland.

The company's main emphasis is on quality, so its priority is to buy coffees which carry a certification to demonstrate quality as well as responsible social and environmental practice. It considers that the certifications of the Brazil Specialty Coffee Association (BSCA) and Costa Rica Specialty Coffee Association (SCACR) certification meets its needs in this respect. The BSCA has developed a set of standards for social and environmental management systems for coffee which address issues such as child labour, forced labour and freedom of association as well as a range of environmental requirements relating to soil and water conservation, permanent preservation and legal reserve areas, bio-diversity, ecosystem, forest and endangered species.¹⁸¹

But Mercanta is critical of what it terms 'cause coffees' (Fairtrade, Utz Kapeh, Rainforest Alliance and Bird Friendly) and states that it has chosen not to carry these coffees because it believes that cup quality should come first. Its motivation for buying the coffee from Santa Terezinha was primarily its high quality rather than its organic status. It acknowledges though that there is a steady but growing demand for organic certified coffees and one of Mercanta's customers buys only organic. There are several buyers in the UK and elsewhere waiting for the Santa Terezinha coffee before it is even picked and if Mercanta could import more of this coffee it would be able to sell it. It stresses that there is a lot of work involved in importing organic coffee and if it were not for the high quality of the Santa Terezinha coffee they would not import.

By 2007, Mercanta aims to have full traceability of its coffee – in other words direct and personal relationships with all the growers it buys from. It intends to expand its import of coffee certified under schemes like those of the BSCA and SCACR. 'We will continue to support those farmers who produce exceptional coffee and who manage their workers and land fairly and responsibly. But we will not buy "badges" such as Fairtrade in an effort to demonstrate our credentials'.

Case study 3 – The large Utz Kapeh and Rainforest Alliance certified estate

The grower¹⁸²

Ipanema is claimed to be one of the largest coffee growers in the world with 4,000 hectares planted with coffee on its three farms, producing 120,000 bags (7,200 tonnes) of green coffee per year (natural, fully washed and semi-washed). It is a vertically integrated company, involved not only in coffee growing but also trading on the international and domestic market and roasting, describing itself as a 'seed to cup solution provider'. Some 15-20% of its production is for the domestic market. It also has some cafés under the name Cafeera in São Paulo city.

The company is owned by Cia Bozano, also engaged in the aeronautical and real estate sector, and Trilux Participações which is active in sugar cane. Ipanema Coffees was set up in 1970 and moved into export in 1991. It has a permanent management, commercial and agriculture staff of around 770 and employs a further 2,000 in the harvest season.

The company moved into specialty coffees at the beginning of the 1990s as a way of differentiating itself from other producers. A few years later as other companies moved into specialty coffees, there was a need again for differentiation. Ipanema saw advantages in certification as this provided a way to prove to the market that it was producing coffee sustainably and was therefore different from other companies. It was already close to meeting the requirements of certification (for Utz Kapeh) and had a number of social projects with its workers and the local community.

Ipanema was the first coffee estate in Brazil to be certified under the Utz Kapeh system in 2002. This

¹⁸⁰ Grant Rattray, Account Manager, Mercanta, personal communication, 2005

¹⁸¹BSCA, 2005

¹⁸²Washington Luis Rodrigues, CEO Ipanema, interview, 25/10/05

was because it was involved from the outset of the process to adapt the EurepGAP standards (a series of sector specific farm certification standards created by retailers and their suppliers to demonstrate good European agricultural practices). EurepGAP and the Utz Kapeh Foundation worked in collaboration to adapt the code for fruit and vegetables to coffee.

In 2004, some 30,000 bags (1,800 tonnes) of coffee were sold as Utz Kapeh certified. The company has also become certified under the Rainforest Alliance scheme and is the world's largest supplier of Rainforest Alliance certified coffee at 5,000 bags (300 tonnes) in 2004. It considers the codes for these two schemes to be very similar but the requirements of the latter are more complex. In order to comply with the Rainforest Alliance scheme, Ipanema is restoring the original ecosystem to areas of land that were deforested over 300 years ago. This requires considerable investment.

Ipanema feels that what the company receives in money from certification does not compensate all the effort involved. The advantages of certification for Ipanema have been the facilitation of market access and the opportunity to reach large buyers to negotiate long-term contracts. For example, through its involvement in Utz Kapeh, Ipanema has secured a fixed price contract with the Norwegian company Friele until 2011. The Rainforest Alliance scheme has been less helpful in this regard but Ipanema has decided to go for this certification because it is important in the US market. Some of the buyers of Ipanema's certified coffee, Friele for example, and some buyers in the US do not put the certification label on the package even though they are paying a premium for it. According to Ipanema, this is because buyers need to be sure of the system before making the commitment to put the certification logo on the packaging.

Ipanema's focus at present is on establishing long-term relationships with buyers and maintaining and improving quality. About 30% of its coffee is currently sold under long-term contracts. It has a long-term contract with Starbucks until 2011 which also involves a fixed price. It is this agreement which has enabled Ipanema to re-introduce the bourbon

variety which is sought after by Starbucks because of its sweet flavour. This variety was common in Brazil in the 1950s but was gradually replaced by higher yielding varieties. Starbucks is also contributing around US\$ 3 per bag to Ipanema's social projects.

As certification becomes more widespread, Ipanema is searching for new ways to differentiate itself. For this reason it is developing traceability systems. Each pack of coffee will have a code number and both buyers and consumers will be able to find out from the website where the coffee corresponding to that number has come from. According to Washington Luis Rodrigues, the CEO of Ipanema, the challenge is to educate the consumer and make clearer what everyone along the chain is doing.

The buyer/trader and roaster¹⁸³

Estate Coffees started in 1996 with a mission to provide a new angle on coffee for the consumer by treating it like wine and emphasising differentiation by taste and origin and roast (light, medium and dark). The company set out to buy the best coffees from each producing country. It is important for the company to buy directly from the farmer or co-operative in order to get the right quality coffee. Estate Coffees buys about 3,000 bags per year (180 tonnes) of which about 40 tonnes are from Ipanema and two other farms in the South Minas region.

Estate Coffees has been buying from Ipanema from the outset, partly because it was aware that the company had good social conditions and some social projects. The first criterion is taste (ie quality) and where that can be achieved, certification is a plus point and another source of differentiation. Now that Ipanema is certified with Utz Kapeh, Estate Coffees is paying a premium but is not placing the label on the coffee packages, as there is currently insufficient consumer recognition and knowledge of this label in Denmark where Fairtrade and organic have more meaning for consumers. The sales of certified coffee are growing for Estate Coffees but primarily because it is able to combine the certification with high-quality coffee. In this case it appears that it was the reputation of the company rather than the certification that interested this buyer.

¹⁸³ Søren Sylvest, Director, Estate Coffees, Denmark, interview 25/10/05

Chapter 7

Conclusions and recommendations

There has been an explosion of interest in sustainable coffee and in improving the contribution of coffee to sustainable development. There are now five certification schemes in place for coffee as well as a number of industry/multi-stakeholder initiatives to develop standards for sustainable and/or responsible coffee production. The consumer is an important driver in these developments, as certification schemes will fail if they do not attract consumer interest and support. It is therefore important to provide evidence for consumers that their choices can make a difference.

While certification schemes are growing rapidly in the coffee sector, they still represent only a small proportion of coffee production. Moreover, there are signs that certified production capacity exceeds demand, particularly for Fairtrade and organic. Certified sustainable coffee is still perceived as being a niche product. For this reason, approaches such as the Utz Kapeh and the Rainforest Alliance certification schemes that aim to target the mainstream buyers of coffee are of interest as a way of raising standards across the board.

It is too early to judge whether they will be able to fulfil this promise. Some people such as Nestor Osorio, Executive Director of the International Coffee Organization, sees the future of certified coffee as remaining within the specialty niche. However, he also argues that the niche certified markets may be small in volume but they are large in terms of political awareness. They send a message to the big players in the coffee sector that they need to be more responsible.

Impact of certification on coffee growers

Brazil

Evidence of the impacts of coffee certification around the world is mixed but generally positive in terms of producer benefits for Fairtrade (although for relatively small numbers of producers as supply exceeds demand) and more mixed for other certifications depending on the location and the practices of growers before certification. Some growers, eg in El Salvador, have been disappointed by low sales and low premiums.¹⁸⁴

Our evidence from the Brazil survey is broadly consistent with this picture worldwide. Revenues for certified coffee growers have generally increased as a result of certification and access to export markets has been facilitated. This is particularly striking for the Fairtrade certified growers. The evidence from the Poço Fundo association, one of the six co-operatives of small coffee farmers which are certified Fairtrade, is that achieving this certification has made a marked improvement to their living conditions.

Organic producers have also benefited but are seeing the differential with conventional coffee diminish as coffee prices increase. For some organic producers the price premium does not compensate for the additional costs of production in terms of reduced yield. Premiums have also declined for the Utz Kapeh scheme, but here it appears that market access and the ability to negotiate long-term contracts are more important as benefits of certification.

Certification of coffee is relatively recent in Brazil and has mostly been adopted in a period of low but increasing coffee prices. There are already signs that for organic producers the financial advantages of certification and the differential from conventional coffee are diminished when coffee prices are higher. It is also widely believed that premiums (outside of

the Fairtrade scheme) will be affected as the supply of certified coffee increases. Nevertheless, there are other benefits of certification, such as the ability to enter into more direct contact with buyers and negotiate long-term contracts.

Impacts on farm/estate workers and communities

There is evidence also that it is not just the coffee farmers who are benefiting but the estate workers and local communities. Large companies are taking measures to meet the social requirements of certification schemes. While some observers point out that companies are simply meeting the requirements of the law, enforcement is lax in Brazil so additional incentives to meet legal requirements are useful.

Impact on local environment

There are also important environmental benefits associated with all four types of certification, particularly in relation to reduced or better managed use of agro-chemicals, and in the case of the Rainforest Alliance certification, the restoration of native vegetation. In order to meet the requirements of certification, certified coffee farmers have improved the treatment and recycling of water used for the processing of coffee. This appears to have influenced the environmental awareness and performance of neighbouring coffee farmers.

Barriers to certification

In Brazil, certification has so far mainly been taken up by large and medium coffee growers. This underlines the important contribution of the Fairtrade certification system as it targets smallholder co-operatives. How much further Fairtrade can expand depends heavily on consumer demand. It is notable that compared to the other certification schemes, Fairtrade has proceeded quite slowly in Brazil.

Utz Kapeh is now the most extensive coffee certification scheme in Brazil. It is therefore important that the Utz Kapeh scheme and the Rainforest Alliance schemes are seeking ways to work more with small producers and that some producer groups are in the process of certifying with Utz Kapeh. It is too early to judge whether producer groups of smallholder farmers can benefit from Utz Kapeh certification to the same extent as for Fairtrade.

Whatever the certification scheme, maintaining and improving the quality of coffee is vital to securing access to new markets.

Vietnam

The enormous growth of Vietnam's coffee production has been achieved at significant cost to the environment. As coffee is mainly a smallholder crop, largely grown by poor people and ethnic minorities, the fluctuation in world prices has been devastating in its social impact. Certification has the potential to make an improvement.

Evidence from Vietnam is very limited because certification is so new and so far only one scheme, Utz Kapeh, has any presence. Moreover, only state-owned companies have been certified. These companies have incurred costs primarily in meeting the social requirements of Utz Kapeh. While these costs exceed the price premiums, the companies concerned appear to be committed to certification and considerable expansion is expected of Utz Kapeh in Vietnam.

For smallholder farmers, other types of certification such as organic and Fairtrade are likely to be more appropriate. But for either to make any headway, improvements in quality and environmental practice are needed and changes in producer organisation. Smallholder co-operatives could play an important role in Vietnam in promoting better environmental practices in coffee production and ensuring a higher return for the growers.

Impact on consumer markets

Demand for certified coffee

There is variation in the level and growth of demand for certified coffee by country and by certification scheme. Fairtrade is stagnant in Denmark but expanding rapidly in US and Finland. It is not clear yet whether the emergence of new coffee certification schemes such as Utz Kapeh will expand the market or lead to increased competition for more established schemes such as Fairtrade and organic. Much will depend on how the schemes and their unique characteristics are communicated to consumers.

Certified coffee appears relatively expensive because of the use of conventional coffee in some countries (Denmark and Finland) as loss leaders with substantial discounts. This is a significant barrier to expansion of certified coffee.

Where discounts are not used, it is difficult for consumers to compare prices on a rational basis

because so little information is given on the origins and quality of the mainstream coffee brands. There is so much variation in the price of coffee, depending on the brand and the outlet.

Adoption of certified coffee by the mainstream coffee roasters appears to be a positive development that may result in an expansion of demand. Nevertheless the dominant approach is to add a new certified brand to the portfolio of brands to attract a different group of customers. There is little indication that the mainstream coffee roasters intend to use certified coffee on any major scale in their established brands.

Where markets and countries have marked preferences for a particular coffee taste, as in Finland and to a lesser extent Denmark, this represents a barrier for certified coffee.

Visibility

There are concerns about the low visibility of certified coffees in the countries examined in this study, particularly for Fairtrade coffee in Portugal. This is an acute problem as certified coffee is not available in mainstream retail outlets.

Consumer confusion

There are concerns about the effects on consumers of multiple certification schemes as more schemes become established, eg Utz Kapeh and Rainforest Alliance in markets such as Denmark where Fairtrade has dominated the certified niche. However, similar fears raised in the US several years ago have proved unfounded, and knowledge about certification among consumers and the industry has generally increased.

Prospects for demand

Efforts to expand demand need to be market-specific to take account of cultural differences between countries.

Certified coffee commodity chains

It has been beyond the scope of this study to provide more than illustrations of the links in the commodity chain between producers of certified green coffee and the consumers who buy the final product in Denmark, Finland and the US. From our examination of three chains we have observed the following:

- There are diverse drivers leading to certification such as personal contacts and philanthropy,

although buyer interest is clearly the most important.

- The important role that quality plays in facilitating the sale of certified coffee, whether Fairtrade, organic or any other scheme.
- The uneven acceptance of certification, as the chains show a trader who does not like 'cause coffees' but still buys organic coffee and buyers who pay a premium for certified coffee but do not place a certification label on the package.
- The varied range of benefits of certification along the chain. While the premiums are important for the growers, particularly for the small and medium growers, there are other less tangible benefits along the chain such as improved market access, longer-term contractual arrangements, reduction in risk and more transparency in negotiations.

Recommendations

Consumer organisations

Consumer organisations should work to uphold consumer rights to a healthy environment, to education and to information in appropriate and understandable languages. They can help to expand demand for certified coffee by:

- Explaining to consumers about the differences between coffee certification schemes and the rationale for price differentials between different types, qualities and brands of coffee.
- Lobbying mainstream roasting and retailers to make a more substantial commitment to certified coffee, for example making certification a requirement for all own label coffee.

Consumer country governments

Governments in consumer countries need to revisit requirements on companies to make information available to consumers. At present, consumers are not given enough information about the quality and origins of conventional coffee to compare prices of certified and conventional coffee on a rational basis.

Institutional buyers of coffee in the public and private sector (local governments, hospitals, large

companies, etc) can lead the way by buying certified coffee for use by staff, customers, patients etc, to raise awareness and make such coffee more visible for consumers.

Certification organisations

Certification organisations on the demand side of the market need to:

- Improve the visibility of certified coffee and provide more information on how the various certification schemes differ. This is important for Utz Kapeh and Rainforest Alliance, which target roasters and retailers rather than individual consumers, with the result that their logo is not always present on the coffee package. If their ultimate goal is consumer acceptance, they should also be making efforts to communicate directly to consumers.
- Promote certified coffee through buyers' networks (if necessary creating a separate organisation for this purpose to avoid conflicts of interest) and adopting strategies which take account of national cultural conditions of the coffee market, eg in Finland, a 'Paula Girl' to promote sustainable certified coffees.

On the supply side of the market, at the producer level, certification organisations need to:

- Streamline their application and evaluation requirements so that multiple certifications (ie from more than one scheme) can be obtained at lower cost.
- Step up their efforts to promote group certification and find ways of reducing certification costs for small producers.

Such efforts to promote access should not involve a relaxing of the standards required for certification, otherwise these certification schemes will lose their effectiveness in raising the economic, social and environmental standards of coffee production and trading.

Coffee importers and roasters association/specialty coffee associations

These organisations can play a role in promoting greater traceability and transparency. They can also provide information to consumers to help them understand the differences in prices between conventional and certified coffee of different types.

Retailers

Retailers can support certified coffees by:

- Improving the visibility and expanding their range of sustainable certified coffees.
- Including in the company's policy a significant commitment to increase their supply of sustainable certified coffee, for example by making it a requirement for all own label coffee.

Donor agencies

Donor agencies can take action on both the supply side and demand side of the market. On the supply side they can support measures to reduce barriers to small-scale producers entering certification, and to promote the formation of coffee producer associations and groups. On the demand side, donors can support establishment of certified coffee buyer networks and activities to promote demand for certified coffee.

Further research needs

Developments in certification change rapidly such that the short-term impacts of certification may bear little relation to the long-term outcomes. It is therefore necessary to track the longer-term impacts of certification as initiatives become more established. Given the phenomenal growth of the Utz Kapeh scheme and the fears about its effects on other certification schemes, it will be particularly important to evaluate its impact. Such impact assessment needs to examine in depth the economic, environmental and social impacts of certification to enable a comparative analysis of sustainability of each scheme.

The other development that is important to track is the move by the mainstream companies into certified coffee. How will this affect consumer perceptions and buying habits? Will it have the effect of expanding the market for certified coffees or will it take business away from the existing specialist Fairtrade and certified suppliers?

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Annex 1

Participating organisations

Consumers International

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IIED is an independent, non-profit research institute working in the field of sustainable development. The Sustainable Markets Group drives IIED's efforts to ensure that markets contribute to positive social, environmental and economic outcomes and brings together IIED's work on business and sustainable development, environmental economics, agrifood markets, and trade and investment.

Consumers International (CI) defends the rights of all consumers, particularly the poor and marginalised, through empowering national consumer groups and campaigning at the international level. CI represents 234 organisations in 113 countries.

Research organisations

Brazil

Centro de Café 'Alcides Carvalho'

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Centro de Café 'Alcides Carvalho' is linked to Instituto Agrônômico (IAC) research institute, which was established in 1887 to provide technical assistance to the coffee industry. Today IAC is part of the Paulista agency of agribusiness technology, which carries out scientific research and technology transfer to support coffee production, allied to socio-economic and environmental development.

Vietnam

Vietnam Coffee and Cocoa Association (VICOFA)

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VICOFA was established in 1990 and promotes co-operation with organisations that work on coffee and related enterprises in Vietnam and abroad. It currently has over 100 members representing national corporations, companies, research centres, institutes, groups and individuals engaged in production, processing, trade, export supply service, scientific and technological research and training in the coffee and cocoa industries throughout Vietnam.

Consumer organisations

Brazil

Instituto Brasileiro de Defesa do Consumidor (IDEC)

Rua Dr. Costa Junior, 356

Agua Branca

Sao Paulo - SP - CEP 05002-000

Tel: +55 11 3874 2150, fax +55 11 3862 9844

Website: www.idec.org.br

Contact : Lisa Gunn, e-mail: lisa@idec.org.br

Denmark

Forbrugerrådet (FBR) – Danish Consumer Council

Fiolstræde 17

Postbox 2188

DK-1017 Copenhagen K

Tel: +45 77 41 77 94, fax: +45 77 41 77 42

Website: www.fbr.dk www.taenk.dk

Contact: Torsten Raagaard, e-mail: tor@fbr.dk

Finland

Kuluttajat-Konsumenterna ry

Kasöörinkatu 38

Helsinki, 00520

Tel :+358 9 8775 0120, fax:+358 9 8775 0120

Website: www.kuluttajat-konsumenterna.fi/

Contact: Johanna Parikka Altenstedt,
e-mail: jpa@bktv.nu

Portugal

Associação Portuguesa Para a defesa Do Consumidor (DECO)

Rua da Artilharia Um, 79 - 4º

1269-160 Lisbon

Tel: +351 21 371 02 40, fax : +351 21 371 02 99

Website: www.deco.proteste.pt

Contact: Maria de Fátima Ferreira,
e-mail: fferreira@deco.pt

United States

Consumers Union of US Inc

101 Truman Avenue

Yonkers, NY 10703

Tel: +1 914 378-2754, fax: +1 914 378-2928

Website: www.consumersunion.org

Contact: Kristi Wiedemann,
e-mail: kwiedemann@consumer.org

Vietnam

Vietnam Standards and Consumers Association (VINASTAS)

214/22 Ton That Tung Street

Dong Da District, Hanoi

Tel: +84 4 852 0981, fax: +84 4 852 7769

Contact : Do Gia Phan, e-mail: vinastas@fpt.vn

Just Coffee: how consumer choice impacts on coffee producers and the environment

is a 20-minute documentary to accompany this report. It looks at the main types of sustainable certified coffees and assesses the benefits for coffee producers and consumers.

Just Coffee follows the certified coffee chain from the farms of Brazil to the supermarket shelves of consumer countries. It includes exclusive interviews with certified coffee farmers, roasters, consumer representatives and some of the major players in the international coffee sector.

Just Coffee is a compelling introduction to coffee certification and provides an ideal educational tool for anyone interested in sustainability, fair trade and social responsibility.

For a DVD please e-mail: consint@consint.org

The DVD is free to NGOs and academic institutions and \$US 5 to others.





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