

# A Better Brew: Toward a sustainable coffee industry



The coffee crisis has crippled smallholder producers who grow 70% of the world's coffee crop on farms of less than 25 acres.  
(IDRC Photo: D. Marchand)

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*Kevin Conway*

Money may make the world go round, but coffee kickstarts it. In 2003, some 6 million tonnes of the beans were picked, roasted, and consumed globally. But despite a robust coffee market, trouble has been brewing in the industry for years. It has now come to a full boil.

According to the [International Coffee Organization \(ICO\)](#), the intergovernmental body that represents coffee-producing and coffee-consuming countries, “prices on world markets, which averaged around \$1.20 US/lb in the 1980s, are now just over 50 cents — the lowest in real terms for 100 years.”

This spells disaster for the estimated 25 million families that make a living — or did — growing coffee. In countries like Burundi and Ethiopia where coffee accounts for the lion's share of exports, 79 and 57% respectively, the drop in earnings has been catastrophic. To make matters worse, the steady decline in export earnings has outpaced reductions in prices of imported goods, leading to a steady erosion in the terms of trade for most coffee-producing countries.

## Coffee highs and lows

The current coffee crisis is the latest chapter in the history of an industry dominated by boom and bust cycles. [See related sidebar: [Coffee's Poverty Trap](#)] In the 1960s, efforts to end the poverty in which coffee farmers found themselves trapped gave rise to the fair trade movement. Today some 800,000 producers in more than 45 countries work to the standards of the movement's flagship, the [Fairtrade Labelling Organizations International \(FLO\)](#).

“One of the key developments in commodities markets over the past 10 to 15 years has been the growth of supply chain standards, such as fair trade, shade, and organic coffee,” says Jason Potts of the [International Institute for Sustainable Development \(IISD\)](#) in Winnipeg, Canada.

Standards ensure that every link in the fair trade chain meets rigorous criteria for social and environmental accountability. They cover everything from occupational health and safety guidelines for field workers, to community development projects and the provision of credit to cash-strapped farmers. At the consumer end of the supply chain, coffee devotees pay a premium for their favourite morning pick-me-up to compensate growers for adopting sustainable farming practices. That premium presently stands at more than double the conventional market price.

In the mainstream coffee market, price is driven by supply and demand. A decade of glutted coffee markets has pushed supply through the roof and driven the prices into the basement. Efforts by industry organizations, such as ICO, to control supply and demand have failed as large producers, like Brazil and Viet Nam, refuse to limit production. The four or five companies — known as roasters — that dominate the global coffee market have benefited from current market conditions and new technologies to squeeze more profit from their operations. As coffee prices have plummeted, roaster profits have soared.

“Coffee is a good example of a market that’s perfectly free and liberalized, where there are no trade barrier issues in terms of protectionism or subsidies, and yet it offers no great benefits to producers,” says Potts. With the support of Canada’s International Development Research Centre (IDRC), IISD has launched an initiative to identify the best way to introduce fair trade principles into mainstream trading channels. While it is far from assured, success in the coffee sector could provide a useful model for addressing similar problems in other commodity markets.

### **Fair trade meets free trade**

“We discovered early on that sensitivities around the word ‘fair trade’ were so massive that we had to alter the wording to ‘principles for sustainable development’,” says Potts.

Reaction by both fair traders and free traders forced changes to the process IISD and IDRC had initially envisioned. “We had expected to do more research before the first meeting,” says Potts, “but we shied away from it because of political sensitivities.”

Instead of two research papers to animate a brainstorming workshop, one “very general” background document was circulated to participants beforehand.

“From the first workshop, we identified different market-based options for promoting sustainability without relegating ourselves to the world of standards *per se*,” says Potts.

Among the options proposed were a clear, internationally recognized definition of sustainability, a pricing system that would include the social and environmental costs of production in the global market price of coffee, and a “multi-stakeholder” process — including developing country producers — to develop a broad-based global strategy for sustainability across the coffee sector.

Participants used the list of options to identify research needed to inform future discussions. One study examined the current market conditions for three types of sustainable coffee — shade grown, organic, and fair trade — in 11 countries. The research confirmed strong moral support for sustainable coffees by consumers. However, the lack of coordination between standards and the difference in sustainability criteria within standards created confusion among consumers that limited sales of fairly traded coffee.

Two other research papers explored the potential for harmonizing different standards. Both underlined the difficulties in dovetailing the stringent sustainability criteria of some specialty coffees, such as bird-friendly varieties, with those for coffees targeting the mainstream market.

One study suggested developing “mutual recognition agreements” as a first step. Sustainability criteria within different supply chain standards would be deemed as equivalent thereby eliminating the difficult task of harmonizing complete supply chains.

### **Fair wages to farmers**

“Among the range of market-based approaches that stakeholders also wished to see researched further was the use of contracts to improve the livelihood of producers,” says Potts.

Fair trade supply chains already use long-term contracts to guarantee coffee farmers a living wage in return for adopting socially and environmentally sound farming practices. Roasters, on the other hand, use contracts to control costs and hedge against fluctuating market prices on the futures markets.

According to the study, supplier contracts alone cannot shield producers from fluctuating prices on the global markets. While coffee farmers supplying the mainstream market can earn more for their crop based on its quality, the base price of coffee on the futures market remains pegged to supply and demand. Including sustainability criteria in coffee pricing mechanisms could provide a market solution for mitigating against the oversupply of coffee and the low prices paid to producers.

“If the futures market already provides for a price differential based on the physical quality of coffee beans, why can’t it do it on the basis of some non-physical quality criteria like production practices?” argues Potts.

### **An important milestone**

Despite the challenges he has faced, Potts sees genuine progress in the process IISD and IDRC have begun. During a second workshop to review research findings, participants agreed to a more formal arrangement for moving the process ahead. They are currently involved in developing and launching a global “sustainable coffee partnership” as a forum for developing a multi-stakeholder strategy for promoting sustainability in the coffee sector.

Potts is cautiously optimistic about the future. “Fair trade has been banging at the door for such a long time that the mainstream private sector has become involved — not so much in fair trade but in sustainability issues. So, we can now look to develop a system to capture say 12% or 90% of the coffee market,” he says. “The difference in the two market shares will reflect just how deep we go with our sustainability criteria. That remains to be determined.”

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## **For more information:**

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## Sidebar

### Coffee's Poverty Trap

Like all commodities — rubber, tin, sugar, and cocoa — the trade in coffee has its roots in the colonial past, when developing countries served as sources of cheap raw materials for manufacturing industries in “mother” countries of the North. These trade links laid the foundation for the distribution of coffee today. Over the past century, coffee producer and consumer countries have struggled to develop a set of rules that would provide a level and fair playing field between trading partners. Several international commodity agreements (ICAs) have put in place supply management techniques, such as quotas, to limit the supply of coffee on the market and improve the price paid for coffee products. All have failed.

Then as now, most of the value added as coffee beans move from the field to the supermarket shelf remains in the developed world. According to [Oxfam Canada](#), the cup of fresh brew for which a Canadian pays \$1.50 now returns \$0.02 to the farmers who grew the beans. Most now find themselves trapped in an industry that pays them too little to meet their basic needs and too little to shift production to more lucrative crops.

Indeed, one of the paradoxes of the current crisis has been the increase in supply despite the steady decline in prices. This is largely a reflection of the limited options coffee-producing countries face when it comes to earning foreign currency. Most lack the resources to shift production to other commodities or industries. To compensate, some producers have adopted new intensive farming practices that improve yields, but that are generally more harmful to the environment.

There are also new players in the coffee market, lured by easy, relatively inexpensive market access. A little more than a decade ago, for example, Viet Nam was barely noticed in the coffee market. Irrigated land and subsidies provided by the government to encourage coffee farmers have vaulted the country into second place behind Brazil among coffee-producing nations.

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