Coffee, behind the success story

At a time when international coffee prices are falling, to such an extent that some Latin-American producers are refusing to sell their crops, Commerce Equitable France, Max Havelaar France, the Rethinking Value Chains Network and Basic have published a groundbreaking study about coffee based on a socioeconomic analysis of the sector and three specific case studies (Colombia, Ethiopia and Peru). The key points are as follows.

Skyrocketing value creation…

In France, coffee sales have doubled in value since 2003 thanks to new marketing strategies linked, in particular, to the emergence of premium Arabica coffees in preportioned sizes (pods and capsules), proposed by all main roasters and retailers, and for which France has become the number one consumer per capita.

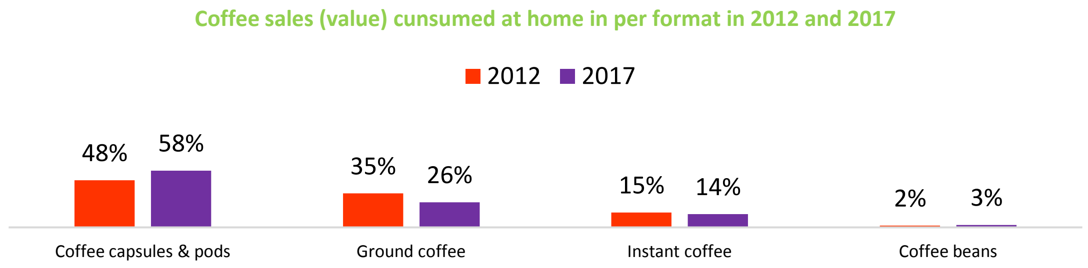

Figure 1. Evolution of the coffee sales' value consumed at home in France per format between 2012 and 2017. Source: Basic.

The increased revenues generated by this trend benefit an increasingly concentrated industry: the three primary coffee players in the French market, Nestle (34%), JDE (30%) and Lavazza (17%) now represent 81% of the market, compared with 70% in 2008. This concentration of dominant players is reinforcing their bargaining power throughout the supply chain.

…however, it does not trickle down to the farmers

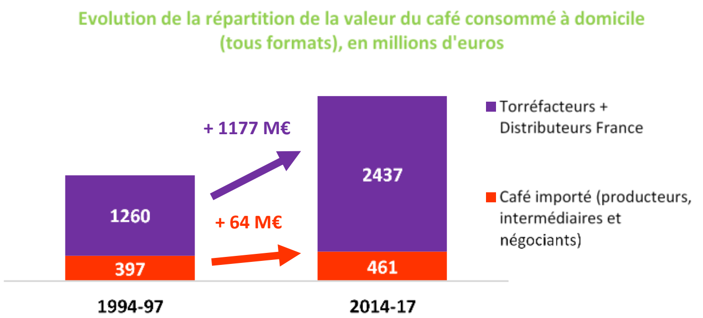

Figure 2. Evolution de la répartition de la valeur du café consommé à domicile en France en 1994-1997 et 2014-2017. Source : Basic.

Over the last 20 years roasters and retailers have reaped an additional 1.177 billion euros from annual coffee sales, while farmers and traders have earned just 64 million euros more. Thus over this period **the revenue gained by the producing countries has gone down from 24% of the value in the mid-90s to 16% in 2017**.
Yet the majority of coffee farmers today are suffering a decline in their standard of living and in their working conditions. Faced with regularly falling worldwide coffee prices and increasing production costs linked to labour and inputs, and dependent on their buyers, growers are also suffering from a critical lack of working capital. As a prime example, **in 2017, Peruvian and Ethiopian farmers had an average income that was 20% less than that of the previous 12 years**, keeping them below the poverty line.

Growing societal impacts exacerbated by climate change

Results: coffee growers and their families report malnutrition, illiteracy, even child labour, and on a broader scale, migration or drug trafficking. Other alarming trends are **an increase in environmental pollution linked to the use of chemical inputs, and continuing deforestation associated with the expansion of the coffee industry and the modernisation of farming.**
These developments are taking place in the context of the growing impact of climate change on coffee production, especially Arabica: **yields and crop quality are regularly affected, with a rise in production costs that can substantially lower producers' incomes.**
Taken together, these economic, social and environmental impacts weigh heavily on the economies of producing countries: for example, **in Peru and Ethiopia, each dollar linked to coffee exports in 2017 generated between**

85 and 90 cents of hidden costs at the expense of these countries and their populations (the "societal costs"); Colombia was not as badly affected thanks to a greater added value of coffee for export. **These results illustrate the unsustainability of the value chain in these two countries.**

A dearth of information on the impacts of the "sustainable" certification schemes

An emblematic Fair Trade product, the **coffee sector has many initiatives that claim to take an "alternative" approach deemed to be better for the environment and/or on the social front**.
Based on our case studies, sustainable agriculture certification such as Rainforest and UTZ - which have now merged - **is characterised by the scarcity of studies and independent information, making it difficult to assess their impact**. Available documentation expresses a vision of economic sustainability for producers **based on increased yields leading to improved profitability and revenues**. This is based on the assumption that market forces can resolve the chain's social and environmental problems once downstream companies adopt relevant criteria, an assumption that is not at all supported by the evidence. On the ground, these initiatives are generally adopted by producers who have above-average means and support.

Fair Trade: a necessary tool…

The greater number of **studies and publications on Fair Trade show that this system allows for improvements in producers' livelihoods**, especially in terms of income earned from their activities:

- **By imposing the collective organisation of producers as a prerequisite for Fair Trade certification.** This strengthens their bargaining power.
- **By proposing a safety net (a minimum price) as well as a premium**
- By offering an organic premium, which eases the transition to organic production and allows models of agroforestry production to be maintained.

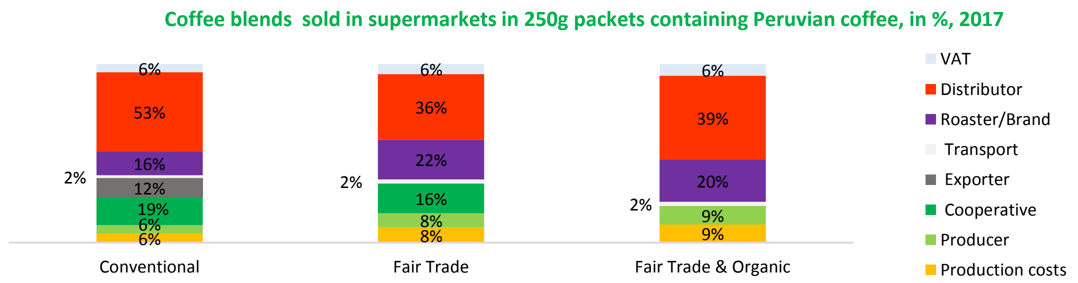

Figure 3. Comparison of the value share of 250g packets of ground coffee between conventional value chains and Peru-France Fair Trade ones. Source: Basic.

Furthermore, it is the double label Fairtrade/organic which delivers the best results, as an examination of the hidden costs deferred to the society reveals: for each dollar linked to coffee exports, the societal costs are reduced by 45% in Ethiopia, 58% in Colombia and 66% in Peru. The tools used by Fair Trade are necessary because they affect the key points at the root of the value chain's problems.

…but which cannot solve alone current issues

Nonetheless, **the effectiveness of Fair Trade varies enormously** according to the amount of coffee sold under Fair Trade terms by cooperatives - often too little in comparison to their total sales - and according to region.
In particular, Fair Trade does not appear sufficient to respond by itself:

- **to the need for a rebalancing of power in the chain,** currently in favour of the main buyers, and to the cases of unfair trading practices that result from it;
- **to the question of the value distribution along the chain**: although Fair Trade allows producers to receive a larger share of the final price of coffee when it is sold in 250g packets, this is greatly diminished in the case of capsules, where 85% to 90% of the final price goes to the coffee roasters and retailers.

A need for a greater regulation

The issue of value distribution is absolutely key: in an increasingly concentrated sector, the main actors are successfully privatising an increasing share of the value generated by the value chain, whereas the producers, more than ever, need the financial resources to fight against the effects of climate change. On a global level, it now seems essential **to think collectively, to link up and coordinate Fair Trade and organic certifications, agroforestry and public regulations**.