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The State of Sustainable Coffee: A Study of Twelve Major Markets

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We are now witnessing the striking emergence of dynamic markets for differentiated products that are produced and marketed in sustainable ways and can provide even some of the world's poorest farmers with better opportunities. Coffee is a leader in these developments and, as arguably the developing world's most important cash crop, is vital to many countries. The markets for fair trade, organic, and eco-friendly products - although not a universal panacea - can provide farmers with many social, economic, and environmental benefits.

The International Coffee Organization, in collaboration with The International Institute for Sustainable Development, The United Nations Conference on Trade and Development (UNCTAD), The International Development Research Centre (IDRC) and The World Bank have contributed to this important new study that is the product of two years' work. It represents a significant contribution toward understanding the scope and outlook for such products and their role in the future sustainability of a global industry.

The State of Sustainable Coffee synthesizes the efforts of 11 researchers under the guidance of Daniele Giovannucci, its primary author. It represents a groundbreaking and comprehensive approach to the characteristics and trends of these markets that have, until now, not been well understood.



The State of Sustainable Coffee:

A study of twelve major markets

Daniele Giovannucci
with Freek Jan Koekoek



Daniele Giovannucci is a former senior executive and owner of food related companies and a foremost expert on market strategies. He now advises several international agencies and governments and is a senior consultant for The World Bank Group.

His recent work focuses on the development of differentiated markets and their potential to improve competitiveness and reduce poverty when linked to innovative environmental and rural development initiatives in less developed countries.

His work on the development of markets and agro-enterprise is widely published and his companion to this book is an earlier groundbreaking study of the North American markets.

.....
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INTERNATIONAL
COFFEE ORGANIZATION



UNCTAD

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

iisd

International
Institute for
Sustainable
Development

Institut
international du
développement
durable



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT



The State of Sustainable Coffee:

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Sun rays on sacks of ripe coffee cherries

A. Foreword

The coffee world has changed dramatically in the last decade and a half. There is no doubt that at the beginning of the 21st century much of the world coffee economy is suffering under structural conditions that are unsustainable. The striking emergence of dynamic markets for certified organic, fair trade, and eco-friendly coffees firmly place the coffee industry at the forefront in developing innovative responses that are relevant to the difficulties of rural development and trade in developing countries.

Fair trade, organic, and eco-friendly products are, as the authors point out, neither a panacea nor the full answer - and much more needs to be done. They are, however, one of the few bright spots in an otherwise difficult coffee economy and provide considerable direct benefits to nearly a million coffee producing families. Through strict environmental and social standards, improved governance structures, better communication channels and price premiums, these initiatives help in the process of correcting for imperfections in the coffee market.

This report reveals the potential for growth in the burgeoning market for sustainable coffees in Europe and Japan. It also reveals some of the challenges facing such coffees as they make mainstream appearances. With the popularity of such initiatives increasing, so too does the potential for overlap and confusion between the different systems. The findings of this report allude to the importance of addressing such issues and developing a sector-wide approach to sustainability.

A common front to sustainability will be important not just for ensuring that the concept of sustainability is used to serve common ideals but also for setting the stage for widespread buy-in among consumers, industry and public policy makers alike. This snapshot of the industry, following on Daniele Giovannucci's groundbreaking study of North American markets, provides a critical foundation for determining what steps are likely to be most effective in ensuring the continued growth and effectiveness of such initiatives in providing a consistent stimulus toward the sustainable development of the sector.

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Jason Potts
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B. About the Authors and Editors

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Several co-authors have made invaluable contributions to this work and were responsible for much of the primary research. They include:

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C. Acknowledgments

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Nestor Osorio and Pablo Dubois of the ICO have steadfastly supported efforts toward more sustainability in coffee. Jason Potts at The International Institute for Sustainable Development has helped to both inform and support this work as has The Commission

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Last, but certainly not least, the authors would like to thank the many hundreds of coffee companies that have taken the time to answer our numerous questions.

It is heartening that so many businesses, small and large, shared sensitive information in order to achieve a deeper understanding of these markets - markets that provide a beacon of hope for many coffee farmers who struggle daily with survival and sustainability. It is to those farmers in more than 50 countries and to the committed coffee industry professionals that support their efforts toward sustainability that we dedicate this study.

D.

Acronyms and Measures

Acronyms

| | |
|--------|--|
| ATO | Alternative Trade Organizations |
| CIMS | Sustainable Markets Intelligence Center (Acronym is Spanish) |
| ECF | European Coffee Federation |
| FAO | Food and Agriculture Organization of the United Nations |
| FLO | Fair-trade Labeling Organization International |
| GBE | Green Bean Equivalent |
| GIO | Geographic Indications of Origin |
| ICO | International Coffee Organization |
| ITC | International Trade Center (a UN body) |
| IFOAM | International Federation of Organic Agriculture Movements |
| ISEAL | International Social & Environmental Accreditation and Labelling Alliance |
| SAI | Sustainable Agriculture Initiative |
| SCAA | Specialty Coffee Association of America |
| SCAE | Specialty Coffee Association of Europe |
| SMBC | Smithsonian Migratory Bird Center |
| MAFF | Ministry of Agriculture, Forestry and Fisheries of Japan |
| VNKT | Dutch Association of Coffee Roasters and Tea Packers |
| UKROFS | UK Certification Authority for Organically Produced Foods |
| USAID | United States Agency for International Development |



Measures

1 Euro (EUR) = 1 United States Dollar (USD)

1 metric ton (ton) = 2,205 pounds = 16.7 bags

1 bag of coffee = 60 kg = 132.3 lbs

1 kg of roasted coffee = 1.19 kg green coffee

1 kg of instant coffee = 2.6 kg green coffee

For ease of comparison we have used kg and metric tons wherever possible and we have also translated quantities to Green Bean Equivalent (gbe).

Since most price quotes for these coffees are internationally discussed as U.S. dollars per pound, we have kept the same convention except where retail market discussions are more appropriately quoted as Euro per kg.

Executive Summary

Introduction

Organic, eco-friendly, and fair trade coffees collectively referred to in this report as sustainable coffees fill a market niche that is not only rewarded with a premium price but can also provide other superior benefits that help producers improve their sustainability. These benefits are very much sought-after in producing countries because they can offer coffee producers distinct environmental and social advantages as well as a considerable direct economic impact measurable in millions of dollars.

Of course, these types of coffees do not necessarily guarantee sustainability nor are they the only path to coffee growing sustainability. While other types of coffee may also contribute positively to sustainable development, these three general types possess intrinsic qualities that most closely fulfill the balanced social, environmental, and economic requirements necessary for sustainability. They are also among the few that permit reasonable verification of their claims. For these reasons the use of the term “sustainable coffee” is a useful shorthand description and is not intended to imply that other non-certified coffees are necessarily unsustainable.

As the coffee industry experiences some of the lowest green bean prices of the past hundred years (in real terms), sustainable and other differentiated coffees are among the few receiving a more substantial remuneration and showing significant growth. Since very little is known about the market characteristics and trends for these coffees, this report concisely conveys the result of extensive research that was conducted over the course of 11 months from early 2002 through January of 2003.

This study specifically assessed the characteristics, quantities, and tendencies of trade for each of the sustainable coffees in the most important consumer markets in Europe and in Japan. The research

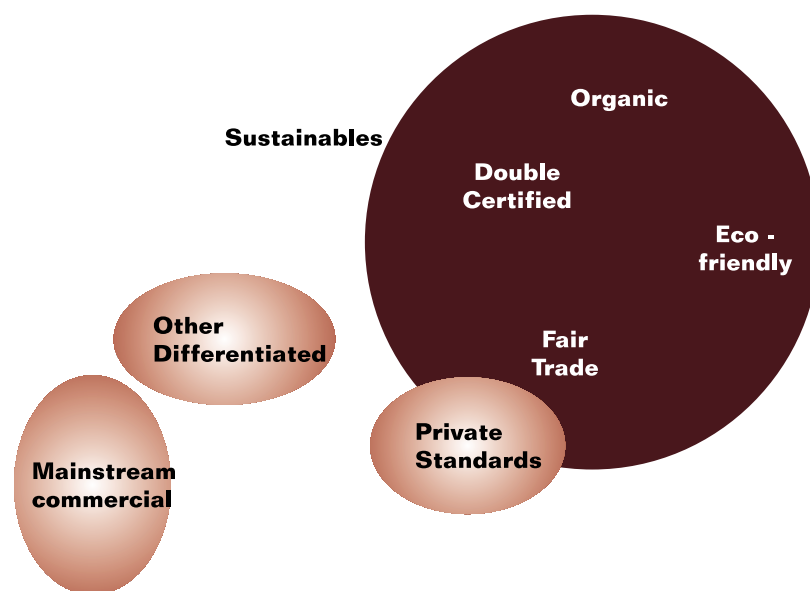
primarily covers: Belgium, Denmark, Finland, France, Germany, Italy, Japan, The Netherlands, Norway, Sweden, Switzerland, and the UK. It complements an earlier study of the U.S. and Canadian markets. The research team conducted interviews and discussions with buyers, traders, agents, trade associations, certifiers, and government entities, focusing particularly on those responsible for the trade in sustainable coffees, and also reviewed existing studies and reports on these markets as well as national and international databases.

What are sustainable coffees?

Sustainability is a dynamic continuum and can best be perceived as an ongoing process rather than a static achievement. Sustainability has been defined in several ways and this report uses the term in the generally accepted form of the international development community, stating that in order to achieve sustainability long-term

environmental, social, and economic needs must be met in an integrated manner without compromising the ability of future generations to meet their own needs.¹ Another useful definition states that “a sustainable producer shall meet long term environmental and social goals while being able to compete effectively with other market participants and achieve prices that cover his production costs and allow him to earn an acceptable business margin²”. Unfortunately, the coffee commodity market is driven exclusively by economic factors and, like all commodity markets, does not recognize, much less internalize into its prices, the very real environmental and social costs of production. The entire coffee industry benefits from some excellent initiatives currently working to both define and operationalize sustainable coffee standards. While it is at the forefront of other commodities in this regard, the mainstream industry still has a long way to go. Organic, eco-friendly, and fair trade are arguably the best attempts toward sustainable production practices

Figure E.1 A Characterization of Coffees



¹ Concurring with the Brundtland Report (1987) as confirmed at the Rio Summit (1992) and the Johannesburg World Summit on Sustainable Development (2002)

² Adapted from personal communication with Michael Opitz April 25, 2003.

that meet a number of the vital environmental, social, and economic needs of nearly a million coffee producers. They will not, however, necessarily resolve all of the current problems of nearly 25 million other producers and of the global coffee industry, many of which are rooted in large-scale structural and market deficiencies (Lewin & Giovannucci 2003).

Sustainability is an issue far broader than the types of coffee that are identified as ‘sustainable’ per se and that are measured in this report. There are in fact, a number of new initiatives that are distinct from the well-known organic, fair trade, and eco-friendly coffees that can also contribute to long-term sustainability in the coffee sector. Many of these can be characterized as corporate-driven endeavors that define sustainability somewhere between conventional practices and an improved level of sustainability companies feel they can reasonably achieve and pay for. The better of these initiatives incorporate independent third party verification and are very useful to producers while some others are little more than public relations gambits.

The marketing of coffees as sustainable is a relatively new idea for the coffee industry. For less than two decades they have been typically available in very small quantities from a handful of countries. In the past, these coffees were inconsistent in both their quality and their availability. Sales growth occurred almost exclusively within a relatively small core market of specialty retailers, social organizations, and cause-conscious consumers. In the last few years this has begun to change dramatically and these coffees are now at a crossroads with many opportunities in new, high-volume distribution channels.

The business for these coffees has recently grown quite robust at all levels of the supply chain. Sustainable coffees now involve 32 producer countries, many hundreds of producer organizations, dozens of specialized traders, more than 20 consuming countries, hundreds of

roasters, hundreds of brand-owners, and thousands of retailers. In some countries between 10 and 20 percent of households are regular buyers of these coffees.

Higher quality is the recipe for sustainability according to some who argue that a sustainable coffee culture can best be achieved through farmers that grow and sell high-quality products. Adequate quality is certainly an important component of a farmer’s ability to be competitive and minimum quality standards are a baseline necessity. However, many quality-oriented arguments tend to miss one or more critical points. In the absence of quality regulations, the market does not always reward superior quality and often bulks together the production of many growers into common lots where individual differentiation is lost. Commodity markets may require a minimum quality but similarly do not reward superior quality. Even when superior quality coffees are rewarded, this economic benefit is not necessarily translated into improved social or environmental benefits that are the other two pillars of sustainability. So while a quality output is important, it is equally important to consider the process of production and trading relationships in order to improve sustainability.

The importance of sustainable coffee

Fair trade, organic, and eco-friendly coffees occupy a market niche that is still small in volume - on average less than 2% of consumption in the more developed markets - but offers attractive benefits not only for about ¾ million farm households, but also for the entire industry in terms of increased sales from these coffees and greater profits all along the supply chain. Total global sales for 2002 - calculating conservative estimates of both certified and non-certified coffees that paid producers a premium and were sold with claims of sustainable production practices (i.e. ethical, eco-friendly, Utz Kapeh) -

were in excess of 1.1 million bags of coffee. With average sales growth many times greater than conventional coffees, these are among the fastest-growing market segments because they appear to be attuned with emerging consumer demands, increasing corporate responsibility, and heightened risk management along agricultural supply chains.

For coffee growers in many countries, coffee provides their sole source of cash income and so even modest premiums earned from differentiating their production can make an appreciable difference. At today's (early 2003) prices a producer that can sell double certified (organic and fair trade) coffee would double his income above the benchmark market price. Although many farmers producing certified coffees may earn somewhat less than double, they desperately need these price premiums and the opportunity to establish more direct personal contacts with importers and roasters. There are nevertheless, other features that can also be of great value to coffee producers. For many, their participation in these markets has provided important social and environmental benefits that contribute to local sustainability and stability.

Besides a direct economic benefit to many coffee growers, sustainable coffees provide additional intended benefits or positive externalities at the producer level in the field that go beyond a market advantage. These can include:

1. Improved natural resource management and biodiversity conservation
2. Crop resilience to weather and climactic risk
3. On-farm diversification and fewer external input costs reduce financial exposure
4. Community or organizational development and increased use of rural labor
5. Fewer health risks due to misuse of agrochemicals

Certain standards in particular offer further benefits like traceability and process management that can help prepare smaller producers to better compete in modern agricultural trade.

European and Japanese markets overview

Size & market share

The share of sustainable coffees in each of the 11 most important European coffee markets (2001 data by volume) ranges from a low of 0.3 percent to 3.4 percent. The overall average between the countries was approximately 1.6 percent while the weighted average was 1.1 percent. Preliminary 2002 data indicates that market share for sustainable coffees has grown further in most countries. Their 2002 market share in Japan is approximately 1.2 percent. Sustainable coffees have the highest market share in Switzerland and Denmark and are also strong in Sweden. In certain market segments they have a much larger share. For example, looking at just the roast and ground segment and not the instant coffee segment in the UK, would show that sustainable coffees have about a 10 percent share. Of course, roast and ground only represents a minor percentage of the total UK market.

Estimating total value rather than volume brings the market shares of sustainable coffees higher still, since sustainable coffees are on average more expensive than conventional coffees. The estimated value share of sustainable coffees in these European markets ranges from approximately 0.4 percent to approximately 5 percent. Individual segments could be considerably higher.

The 11 major European consumers combined to use more than 15.4 million kilograms of certified fair trade and approximately 11.2 million kilograms of certified organic coffees in 2001. Of these, 5.3 million kilograms were double

certified as both fair trade and organic indicating a net total of more than 21 million kilograms sold in 2001 (355,000 bags of green coffee). Japan added a total of only about 1.6 million kilograms in 2001 - an unusually low year. For 2002 the joint certified total in these 12 markets is estimated to have been about 27.7 million kilograms or 460,000 bags.

The European sustainable coffee markets are dominated by fair trade and organic, the former of which is the larger. Eco-friendly and shade-grown or bird-friendly certifications have just begun to reach Europe. In Japan, like North America, organic coffees are the dominant type and there is a considerably stronger interest in eco-friendly coffees that are demonstrating rapid growth.

Germany is Europe's largest market for sustainable coffees followed by the Netherlands³ and the UK. Some nations like Finland and Norway have shown less interest to date and their markets, like those of Spain, Portugal, Austria, and Greece are relatively quite small. Japan is one of the world's biggest coffee consumers and although its sustainable markets are still small they also include eco-friendly varieties along with the more typical organic and fair trade.

Distribution channels and formats

Distribution channels in all of the markets for sustainable coffees have expanded enormously in recent years. This is all being facilitated by an increasing number of traders, including some of the largest global players, who are getting increasingly involved in these coffees. The expansion has been particularly evident at the retail level where supermarkets and high-volume multiple store chains have joined the specialty retailers in this business. The mainstream retail channels that are beginning to provide these

coffees with much broader exposure to a greater range of consumers are far from being fully developed. Most of the mainstream retailers are recent entrants to this field and many only carry a nominal stock or selection of these coffees. With a few notable exceptions, promotional efforts for these coffees have been modest with very few firms willing to make strong commitments to promotional investments.

Many of the specialty retailers including coffee shops, fair trade stores, health food stores, and independent grocers have consequently seen their market share of sustainable coffee eroded as supermarkets expand their participation. There is a dramatic difference from country to country in the institutional or out of home channels for sustainable coffees and, judging by the success of countries like Austria and the Netherlands, many may have a considerable untapped potential in this area. These include restaurants, cafes, offices, government, healthcare organizations, and even vending machines.

Sustainable coffees are sold in a variety of different formats ranging from gourmet and single origin, to espresso, to mainstream or mass-market blends, and even soluble or instant coffees. Consequently, the market requires an increasing range of different coffee types and qualities and not just high-quality, high-grown, mild arabicas.

Certification issues

Although organic, eco-friendly, and fair trade coffees are distinct, it appears that the market often does not perceive them as such. There is growing evidence that consumers closely associate these coffees that have each accumulated a measure of both credibility and goodwill and do not always make clear distinctions between their unique characteristics.

³ The Netherlands' considerable import volumes are in part due to their position as a popular port of entry and they re-export a considerable portion of these coffees.



A number of retailers speculate that consumers would prefer to not have to choose between organic and fair trade and an increasing number of major retailers want to have coffees with both certifications. Indeed, approximately 44 percent of fair trade coffee production is now also certified as organic. This is dramatically up from 1 percent in 1996. Some retailers, and even some roasters, are already exploring such combined characteristics under their own private labels.

Not all of the production that is certified sustainable is necessarily sold by producers at a premium and, of the coffee that is shipped as certified organic, eco-friendly, and or fair trade, not all makes it into the consumer market as such. A portion, for various reasons, is sold as conventional coffee.

Producer countries

Firms indicate that an increasing number of countries now supply these coffees. The great majority come from Latin America where two countries stand out as the dominant providers: Mexico and Peru. All of the Central American producers are increasing their participation as are the Latin American giants, Colombia and especially Brazil. A late starter in this field, Brazil quietly began exporting organics in the 1990s and by 2004 will likely be one of the top producers rivaling Mexico's leadership in this category. Uganda, Ethiopia, and Tanzania lead the way in Africa while India, Indonesia, Papua New Guinea, and East Timor are the major Asian suppliers of sustainable coffees.

Trends in European and Japanese markets

Organic foods are achieving unprecedented global popularity and with half of sales occurring

in Europe, organic coffees there are also likely to benefit.

Eco-friendly coffees are closely associated with organic principles and are likely to also benefit from increased consumer consciousness of health and environmental issues. Organics appear to gain from a fundamental perception that they are healthier for the consumer.

Fair trade also benefits from the increasing awareness among consumers and buyers of how their purchasing power, when directed toward ethical trade, can impact both labor standards in developing countries and corporate social responsibility. Overall fair trade product sales⁴ have enjoyed steady volume growth of nearly 20 percent per year on average from 1999 through 2002. Fair trade coffee has also grown overall but at a slower average overall pace and with considerable disparities between countries.

There is a concern that in some of the more mature markets fair trade coffee may have hit a glass ceiling, unable to grow beyond its affinity with a more socially conscious but relatively limited market. New access to more promotion and distribution in mainstream channels like supermarkets could rapidly change this but has not yet materialized.

Average sales growth for sustainable coffees in recent years has easily been 5 times greater than that of conventional coffees in most of these markets. There are dramatic differences in growth between the different European countries and particularly between organic and fair trade that are not visible in the overall average growth of about 10 percent per year over the last three years. Firms involved with sustainable coffee generally predict modest growth in the near term and much more positive growth for 2004-2005. Double certified coffees in particular are expected to show the highest rates of growth. By 2004 the major European sustainable coffee markets are

⁴ Primarily coffee, tea, bananas, cocoa, sugar, honey, and orange juice

conservatively expected to grow by about 55 to 65 percent from their 1999 level. Although projections for growth continue to be positive overall, they are not homogenous across European countries. In Japan the recent interest in eco-friendly coffees on the part of some of the major roasters and large retailers could rapidly increase the availability of such coffees.

Over the last three years Sweden and Italy experienced some of the greatest growth overall with sustainable coffees and were surpassed only by France's 175 percent increase during this period. Switzerland, after several years of very strong growth, is the only country where sales actually declined, albeit slightly, in more than one year of the last three.

In fair trade coffees Germany and the Netherlands represent the greatest volume consumption but are stagnant whereas France, Norway, and Sweden posted the greatest rate of growth over the last three years even though all three countries started from a relatively small base. The greatest growth for organic coffees occurred in Italy, Sweden, and the UK. Germany, Sweden and Denmark were the top three volume consumers of organic coffee in 2001. Eco-friendly coffees are beginning to make their appearance in Germany and the UK but have developed no track record in Europe.

Prices and premiums

Retailers until recently had very little competition for these products and could afford to keep prices relatively high especially since some believed that lower prices might simply serve to substitute these for their existing business in parallel conventional coffees. This is clearly changing as more retailers and more brands offer these coffees and competition heats up. A small but increasing number of European retailers that carry these products are bringing their retail prices much closer to the level of conventional coffees. However, in most stores and most markets the difference is still considerable.

Organic green bean premiums show a considerable scale of variance but the mean range is approximately US\$0.15 to US\$0.30 per lb. While most of the industry feels that these premiums are justified, nearly half predicts that, as supply competition heats up over the next few years, these are likely to erode. Eco-friendly coffees typically range from US\$ 0.10 to US\$ 0.60 per pound although it is difficult to disaggregate certification premiums from quality premiums. For fair trade, most participating buyers pay at least the official FLO minimum prices while very few pay slightly more and some pay much less by operating outside of the FLO certification and registration system. With current market prices for arabica coffees, the FLO price translates to a fair trade premium of approximately US\$0.66 per lb above the "C" market rate for similar coffees produced in the conventional manner. Most, but not all, fair trade coffees are arabica.

Since some of the more popular origins for sustainable coffees like Mexico and Peru typically sell their conventional coffees at a discounted differential to the "C" price, actual sustainable coffee premiums, since these are often based on the "C", are therefore even higher than similar quality conventional coffees. However, the markets for such coffees are still relatively small, premiums are negotiable, and such margins may not remain at their current level.

Perceptions

Overall the industry is cautious but optimistic about the future. It recognizes that these sustainable coffees are not only important for the health of the coffee industry but also that these are no longer inconsequential niches. Some speculate that over the course of the next decade such coffees will become a strong rather than a marginal segment in the industry. As such, they could eventually become more of a competitive standard rather than a competitive differentiator.

There are, of course, different definitions of sustainability and it is not yet clear which of the concepts will turn into mainstream standards and which will remain confined to niches. In either case, it appears clear that organic, eco-friendly, and fair trade coffees are here to stay.

While the cause-related aspects of fair trade or organic are important differentiators in the marketplace, another aspect is just as important for farmer sustainability: consistency. The industry claims that sound trade relationships are always developed as a result of consistency in both the quality of the coffee and the business practices of the farmer or cooperative. These two types of consistency are perhaps the most valuable supplier characteristics that emerged from trade interviews and discussions. The highest quality is not always necessary, unless it is for the gourmet market, since average coffees are often needed as fillers in blends to keep cost low.⁵ While some buyers might bear a lower quality coffee, they have a very low tolerance for the increased risks of having an inconsistent supplier. There is some anecdotal evidence that sustainable production practices improve consistency, risk management, and overall quality; however, further research would be necessary to confirm this.

A strong majority of the roasters and importers involved with the sustainable coffee industry feel that the premiums paid for sustainable coffees in general are reasonable and justified. Some respondents felt that fair trade prices are too high considering today's low market prices. A number of the firms who balked at fair trade prices claimed to do so because they were not convinced that a significant portion of the benefits actually reached the producers.

Confusion about certification dampens the market

Confusion about certification schemes is more prevalent in some of the countries surveyed than

in others but the industry overall has a limited understanding. There is general concurrence among the industry everywhere that certifications and labels are confusing to consumers. The survey respondents who found the certifications confusing considered that there are a large number of terms and labels like organic, ecological, biological, fair trade, ethical, sustainable, and responsible that overlap and cause uncertainty. So even if people are familiar with the existence of these labels, they often may not know what they stand for. One could expect that a consequence of this confusion is a reduced willingness to pay for these coffees.

Organic labeling guidelines and the new government seals in countries like Germany and Japan will undoubtedly help consumers to more readily identify and develop a trust in certified organic products. Despite the introduction of regulations, inefficiencies between different government bureaucracies and the lack of unified standards concerning organic certification among different certifiers still cause confusion and inefficiencies in the coffee trade making it a source of conflict that comes up repeatedly in the industry surveys. Fair trade guidelines are not mandated by any law and there is increasing evidence of coffees using "fair" or "ethical" verbiage to sell products that are not FLO certified or otherwise independently verified.

Alternative certifications positive but potentially risky

There are a number of alternatives to the formal systems of sustainable coffees that this research is primarily concerned with. In many European countries and in Japan, solidarity groups lend support to coffee growers through the marketing of their products within a network of socially conscious consumers such as civic and religious groups.

There is increasing interest in meeting at least some sustainability criteria on the part of major

⁵ caution in regard to the quality is warranted in view of evidence from the ICO indicating that the use of lower quality coffees may be associated with declining consumption trends

coffee companies and some of the world's largest retailers. Some coffee companies, often in collaboration with NGOs or foundations, have independently developed their own private guidelines for sustainability that many perceive as positive and welcome signs. Several large companies indicate that such guidelines will be increasingly applied to their purchases over the next few years. The subsequent volumes could quickly dwarf the trade in organic, fair trade, and eco-friendly coffees.

There is, however, a considerable risk of causing confusion when companies offer coffees labeled with their own independent guidelines in the open market. There is a likelihood, particularly at the corporate level, of free riding on the reputation and the moral position of the well-established sustainable coffees. For example, registered fair trade participants are likely to suffer when the coffees marketed by these companies represent themselves as "fair" or "ethical" but offer only very modest price improvements or other benefits to farmers and may not engage third party verification of their practices. When corporate driven guidelines i.e. EUREP, are imposed on growers as a criteria of doing business, they can present a considerable burden and must be accompanied by adequate training and remuneration.

Challenges

Many would agree that the coffee industry is faced with a number of challenges and that overproduction is at the top of the list. It appears that the cycles of imbalance in supply and demand are inherent in current market structures and there are no easy or short-term solutions to this problem (Lewin & Giovannucci 2003). The consequences, of course, bear hardest on the producers but the resulting instability is ultimately also damaging to the rest of the industry.

a) The development of market-oriented approaches to foster the different kinds of

sustainable coffees is a relevant and critical challenge for the future sustainability of both coffee producers and the industry. At the same time, it is important for producers and policymakers to know that sustainable coffees are neither a quick fix panacea nor the answer to all the world's coffee problems.

b) These coffees are truly at a crossroads. In most European countries, consistent availability and improved quality have recently enabled much broader distribution especially to demanding multiple store operations like supermarkets. As mainstream retailers take over more of the business, consumers necessarily lose the personal attention of specialized retailers that, in most cases, introduced them to sustainable coffees. It will, therefore, become increasingly important to substitute this with branding, promotion, and advertising strategies. Without strong promotion and branding efforts, it will be difficult for any sustainable coffees to fulfill the promise of high sales growth in their new distribution channels where they compete with heavily advertised, low-priced brands. This represents a paradigm shift away from the traditional methods of marketing these coffees and while several roasters and wholesalers are beginning to build sustainable coffee brands, very few large European or Japanese retailers have done the same.

c) The credibility of sustainable coffees is built on trust and trust is assured by independent certification. As more firms adopt their own "sustainable" sourcing criteria for these coffees, it will be critical that they clarify or improve existing standards and certification systems rather than dilute these by adopting many varying standards of their own. Accredited third-party verification is essential in order to ensure compliance with claims and to reduce the considerable risk of losing public confidence that all market participants face.



d) Many sustainable coffees do not have strong brand recognition and the different certifications or labels can be confusing especially to a potential new consumer. Even many roasters and some coffee buyers are unfamiliar with the characteristics or reliability of such coffees leading some to reject them. Further education about the scope and the diverse benefits of sustainable coffees could pay substantial dividends if it is directed toward both consumers and the mainstream coffee industry.

e) New sustainability initiatives emerging from corporations, or with strong corporate backing, are likely to become increasingly prominent. While many of these are sound proposals that can help farmers emerge from endless cycles of poverty, others are not much more than risk management efforts to

ensure that companies are not exposed to attack for cutthroat purchasing practices. The latter merely offer a conscience soothing draught of “Sustainability Lite” while actually imposing new burdens on producers in exchange for only minimal new benefits.

f) Finally, the primary drivers for most sustainable coffees are premiums, but these may well be ephemeral. Clearly, sustainability cannot be built on these alone. It is important that both farmers and policymakers understand the greater long-term value of sustainable practices and facilitate their adoption, not just as part of a competitive market strategy, but also as part of a sound rural strategy to reduce risks and improve livelihoods for both farmers and laborers.

F. Methodology

The purpose of this study is to assess the characteristics, quantities, and tendencies of trade for each sustainable coffee in some of the most important consumer markets from early 2002 through January 2003. The information available today on sustainable coffees is at best fragmented and insufficient and at worst misleading and incorrect. No agency, government body, or trade association thoroughly tracks these coffees⁶ and many estimates are based on thin research or the judgment of a few traders.⁷

The following terms serve as brief and very basic definitions for the survey:

- ▼ **Organic coffee** is certified to be produced with methods that preserve the soil and without the use of synthetic chemicals.
- ▼ **Fair Trade coffee** is purchased directly from cooperatives of small farmers that are guaranteed a minimum pre-set contract price. A distinction is made between FLO-certified and other fair trade coffees.
- ▼ **Eco-friendly or shade coffee** is certified to be grown in shaded forest settings in a manner that is good for biodiversity, bird habitat, etc. (certified by Rainforest Alliance or Smithsonian Migratory Bird Center).

⁶ FLO does an excellent job of tracking the fair trade volumes of its registered members but not of all coffee that is considered fair trade.

⁷ A number of published and unpublished estimates were also evaluated or considered from various sources: International Trade Center of the United Nations Conference on Trade and Development (UNCTAD) (2001 & 2002), the European Specialty Coffee Association's Mick Wheeler (2002), Agro-Eco Consultancy (2001), The Organic Trade Association (2001), the Swiss Institute for Organic Research (2001), Cornell University's Caitlin Brady (2001) and Jean-Marie Krier for EFTA (2001), ICO (2000), Latin Trade (2000), Sasha Courville (1999), Sturdivant (1999), the International Institute for Environment and Development (1997).



To ensure the most accurate estimations possible requires a “triangulation” between different sources in order to ascertain the most reasonable estimates. The researchers for this study used a combination of: interviews and discussions with buyers, traders, agents, trade associations, certifiers, and government entities, particularly those responsible for the trade in sustainable coffees; a review of existing studies and reports on these markets as well as national and international databases

Nearly all of the data and tables used in this report are the result of primary research except where noted otherwise. The research focused on those coffees that are externally certified by independent inspection and certification agencies acting either within a legislative framework (organic) or on a voluntary basis (fair trade).

Very few coffees were found that were either certified as eco-friendly or shade-grown, although several smaller brands were found to market their coffees eco-friendly or shade-grown. Since some countries have considerable amounts of what could be categorized as sustainable coffee that is not externally certified within the frameworks mentioned above, these were integrated wherever it seemed clear that they had a history of meeting at least the basic certification criteria.

In order to better understand the market categorization of these coffees, and consequently their target audiences, we looked at three retail categories for each product. This was not feasible in every market since some of the categories are practically nonexistent in some countries while in others it is difficult to categorize coffees due to differences of opinion: for example, a roaster’s categorization of their coffee sometimes differed from a retailer’s marketing of that coffee. The three categories are:

1. **Mainstream blends** - mass-market with a tendency to be price oriented

2. **Differentiated Roast & Ground (R&G)** - gourmet, single origin coffees, premium blends, and specialty espresso

3. **Instant or soluble:** freeze-dried, granules, and powder including specialty mixes

To better understand the industry buying patterns we divided the main sales channels for sustainable coffees into three areas as well:

1. **Mainstream retail** (supermarkets, hypermarkets, large volume multiples)

2. **Specialty retail** (organic shops, specialist coffee and tea shops, cafes, fair trade and mail-order sales)

3. **Out-of-home or institutional market** (coffee shops, restaurants, workplaces, vending machines).

Increasing European cross-border trade means that import volumes by themselves say very little about the size of a national market’s coffee consumption. The coffee trade, including the sustainable segment, is organized internationally, and coffees are often shifted easily from one country to the next. This is especially true in these segments given that some countries have bureaucratic restrictions on the importation of certified coffees from developing countries and multinational retailers move inventory under their own packaging and brands.

Given the significant crossover in the distribution channels within and between EU countries, the study made clear distinctions among these market channels in order not to double count (i.e. not counting together the volume of the importer and also the roaster that he sells to). In some countries sales were tracked to the final consumer by tracing brand ownership. Brand owners - roasters, wholesalers, or retailers - supply either the retail market or the institutional market. For example, a roaster that produces a private label coffee for

a retail chain would not be a brand owner and therefore that sales volume would not be added to the total market volume. Investigators used counts in different channels as well as the estimates of professional traders to help confirm the data. Because these markets originally developed primarily among smaller businesses it was important to investigate more than just the large importers to ensure that the different channels of trade are accurately represented.

In Japan, the complex and sometimes opaque trading systems make it difficult to track or confirm trade information. Studies in this market have therefore depended somewhat more on the professional opinions of numerous direct and indirect actors in the Japanese marketplace.

Fair Trade Labeling Organizations International (FLO) monitors the fair trade market and most of the fair trade consumption estimates are based on their official data and reports. The overall coffee market data for each country was gathered from various sources, both public and private, and in particular relied on the data collected by the European Coffee Federation in its June 2002 European Coffee Report.

Industry interviews were conducted with selective samples that represent a cross-section of the industry including traders, importers, roasters, and retailers. These include almost all of the major buyers of these types of coffees.

The interviews covered the businesses that represent, on average, more than 85% of the market volume in each country.

Data are presented in kg of green coffee or their equivalent usually using the following standard ICO conversions:

1 kg of roasted coffee = 1.19 kg green coffee

1 kg of instant coffee = 2.6 kg green coffee

Finally, the researchers, consultants and affiliates were contractually obliged to regard all information related to individual firms as strictly confidential.

Any sensitive information is used strictly in aggregate form so as not to compromise the confidence and confidentiality of the many firms interviewed. Most of the data were collected between January and December of 2002.

Part I

Concepts and Overview



Raking coffee to dry



Preparing samples of green coffee

1.

Introduction

Perhaps more than any other form of agriculture much, although not all, of the coffee industry is striving to better meet the basic tests of sustainability: protection of the environment, social fairness, and a reasonable economic return for all members of the supply chain. Coffee, in comparison to many other agricultural activities, is relatively benign. It is a broad-leaved evergreen tree or shrub that in some cases is proven to effectively fix atmospheric carbon, preserve a reasonably high level of biodiversity, stabilize soils, and has even been noted as an effective economic support for many rural communities. A growing number of coffee producers, coffee companies, and NGOs are pioneering efforts to encourage the coffee industry to move toward even more sustainable practices.

The most commonly accepted general definition of sustainability is that adapted from the Brundtland Report and confirmed at the Rio Summit (1992) and the Johannesburg World Summit on Sustainable Development (2002). Paraphrased it states that sustainability means meeting the needs of the present without compromising the ability of future generations to meet their environmental, social, and economic needs. These three needs are sometimes also called the Rio Triangle and represent, to varying extents, the goals of organic, fair trade, and eco-friendly coffees which, for the purposes of this survey, are collectively termed “**sustainable coffees**”. These types of coffees are further defined and explained in subsequent chapters.⁸

Of course, these types of coffees do not necessarily guarantee sustainability nor are they the only path to coffee growing sustainability. While other types of coffee may also contribute positively to sustainable development, these three general types possess intrinsic qualities that most closely fulfill the balanced social, environmental, and economic requirements for sustainability. They are also among the few that permit

⁸ Certified biodynamic coffees, although distinct from organic and meeting even more rigorous standards, are, because of their relatively small volume, included here in the organic segment

reasonable verification of their claims. For these reasons the use of the term “sustainable coffee” is a useful shorthand description and not intended to imply that other non-certified coffees are necessarily unsustainable.

Sustainability is an issue far broader than the types of coffee that are the primary focus of this report. It could be argued that coffee, or for that matter most commodities, are inherently unsustainable from the producers’ point of view. Increasing competition and the growing standardization and interchangeability of agricultural products put enormous pressure on prices. This severely diminishes the feasibility of long-term investment in the environmental or social practices that would lead to more sustainable production. Indeed price pressures might explicitly preclude such practices except to the extent that they are demanded by the buyer in the form of organic or fair labor standards for example. Differentiated markets are one solution but their characteristics and volumes typically do not yet cover the needs and quantities of large parts of our consumer markets.

Some argue that sustainable coffee agriculture can best be achieved through farmers that grow and sell quality products. Through this they will be rewarded with better prices, with which they will be able to maintain and improve their farm, their agriculture practices, and in the end their standard of living. While quality is undoubtedly an important component of sustainability, experience proves that a single focus on quality is too simplistic. There are millions of quality producers whose coffee never earns a penny more and are typically mixed into lots with mediocre and even poor quality coffees. There are others who are interested in quality coffees but do not have the skills or the money to invest in pursuing them.

The realities of today’s coffee market channels mean that only a few small farmers have been able to independently develop high-quality methods and then seek out and access specific markets in which to sell their coffee. The necessary investment capital, technology, and market linkages are rarely available. These emerging channels that we call sustainable are viable ways to help provide these missing elements and to give small farmers market opportunities. The Sustainable Markets Intelligence Center (CIMS is its Spanish acronym)⁹ offers a directory of Latin American exporters of sustainable coffee. The recently launched non-profit does not yet offer a directory of potential buyers. Apart from private information gathered from studies like this that interview interested buyers, many potential producers of these coffees have difficulty finding a range of buyers for their products. As noted in the Table on page 31, this is only one of the distinct differences between typical commodities markets and these differentiated markets that include the sustainable coffees.

The term “quality” has several distinct connotations in the coffee industry. Quality as measured by desirable organoleptic or taste characteristics and free of physical defects is a common definition for coffees that are considered gourmet and are sold as single origin or premium blends. However, for the great majority of green coffees quality simply means an allowable number of defects and some very basic flavor characteristics since exceptional organoleptic or taste characteristics are not required for most blends. Such coffees only need to meet the basic parameters of the roaster/buyer and exceptional taste qualities are rarely rewarded. Finally, for roasted coffees quality is very much defined by promotion and brand perception as new industrial methods increasingly allow for substitution

⁹ www.cims-la.com

between different qualities and types of coffee under the same brand or label. Consequently, a brand positioned as “high-quality” may include coffees that many would consider to be of low quality.

Quality is a factor in many of the transactions that provide extra benefit to the average coffee grower. Today’s marketplace for green coffees primarily rewards quality and then, as a secondary consideration, the sustainability of the production and trade practices used to bring these to market or whether the coffee is organic, fair trade, or eco-friendly. Although secondary these are nevertheless important considerations that provide a window of opportunity for some of the world’s most vulnerable coffee producers. With these emerging sustainable markets, they can link more directly to buyers and have the opportunity to reinvest the premiums earned in developing better quality production.

Although the differentiated markets - of which sustainable coffees are a part - offer some

excellent opportunities for higher quality producers, it is quite clear that none of the quality niches will accommodate all of the production available.

Currently the entire differentiated or specialty market imports account for less than 10 percent of the developed consumer markets; however, these coffees represent an even larger percentage of profits. The U.S. specialty coffee market¹⁰ offers a striking example, accounting for about 20% of the volume but more than 40% of the total market value.¹¹ They are also distinct from conventional markets in some key positive and negative aspects. Differentiated markets typically offer higher prices and moderate competition but public support in the form of extension services, research or subsidies are hard to come by and the costs of learning, certification, and market access are typically higher.

See Table 1.1. Because these markets can lend themselves to small growers, they provide an excellent opportunity for them.

Table 1.1. Comparison of conventional and differentiated markets

| Conventional | Differentiated |
|--------------------------------|----------------------------------|
| Commodity price pressures | Consistently higher prices |
| Reward for quality and price | Reward for quality and process |
| Easy market access | Limited market access |
| Intense competition | Moderate competition |
| Gov support: subsidy, ext, R&D | Limited government support |
| Broad market size | Very limited market size |
| Short learning & cost curve | Longer curve: certification, etc |

¹⁰ This U.S. calculation typically includes other value added or differentiated coffees in addition to the expected gourmet and whole bean coffees. These include flavored, decaffeinated, prepared coffees i.e. ready to drink, and some specialty solubles.

¹¹ SCAA estimates 2002 U.S. Specialty Industry figures to be approximately US \$8.4 billion.

For coffee growers in many countries, this commodity provides their sole source of cash income and so even modest premiums can make an appreciable difference. This is particularly important at a time when, according to ICO estimates, 12 percent of the average supermarket price globally and less than 3 percent of the out-of-home price goes to the grower. At today's prices a producer that can sell double certified (organic and fair trade) coffee would double his income above the benchmark market price. However, these markets are still relatively small and such extra margins are unlikely to remain at that level for more than a few years as more and more producers enter the market. Some premiums are certainly expected to continue for the near to mid term. Unfortunately, many analysts only consider the economic or market aspects of these coffees and disregard other valuable features and benefits for coffee producers.

Value to producers

Even though organic, eco-friendly, and fair trade markets are still limited, the sustainable production methods that they encourage provide valuable additional benefits or externalities at the producer level in the field that go beyond such recognized advantages as higher prices and new market opportunities. Some examples include:

1. **Improved natural resource management** - an intrinsic part of organic or eco-friendly production is a practical understanding of the systemic or holistic nature of such farming that clearly implies a direct appreciation of the diverse forms of value, such as vital watersheds, sustainable logging, or a nontimber forest products that exist in the surrounding landscapes.
2. **Increased resilience** - the structure and tilth of organic soils are documented to better withstand adverse weather and climatic hazards such as drought and torrential rain. This is directly evidenced in reduce erosion and runoff and also in soils with superior moisture uptake, filtration, and retention.
3. **Increased rural self-sufficiency** - most natural production systems eschew monoculture favoring on-farm diversification that improves food security and the rotation/integration of on-farm inputs like compost and wood.
4. **Community or organizational development** - these are stimulated by the necessary associative approaches to soil, technology, and crop management in what are knowledge intensive rather than capital intensive production methods. Relationships with neighbors and community are often also important in organic or eco-friendly production systems for the purposes of joint marketing and the need to manage resources like water and pests like insects at the landscape or watershed level.
5. **Reducing financial risk** - natural production systems typically require fewer external inputs thereby reducing production costs and the necessity to borrow money in advance to pay for necessary inputs early in the production cycle. Methods of integrated pest management have been demonstrated in many cases to be effective, lower-cost, and intrinsically more sustainable in the long run.
6. **Reduced price risk for producers** - these products typically receive higher selling prices with less pronounced cyclical price changes and, in some cases, the more direct linkages to buyers as well as pre-arranged sales help improve access to both formal and informal (from the buyer) financing.
7. **More direct access to markets and market information** - most buyers of organic, fair trade, or eco-friendly products do not work through procurement systems with various middleman that are typical of

commodities but rather develop direct relationships with their suppliers and, in this manner, can facilitate higher remuneration to the producer as well as timely and targeted information that the producer needs to meet the buyer's exact requirements.

8. **Biodiversity conservation** - these production methods recognize and reward the existence of biodiversity in everything from soil microbes to the pest-predator balance of larger life forms and, in turn, these stabilize the rural environment and reduce the risk of widespread plagues and other consequences of a mismanaged environment.
9. **Increased use of rural labor** - fewer rural labor opportunities due to the advance of low - input production methods such as extensive livestock rearing or more efficient industrial methods such as mechanization, chemical herbicides, and intensive avian production mean that eco-friendly and organic methods typically replace capital investments with investment in human labor, thereby providing income for the landless and small farmers who can sell their services. The resulting opportunities can help to better stabilize rural communities and reduce urban migration.
10. **Fewer health and environmental risks due to misuse of agrochemicals** - the pervasive and long-term environmental destruction now recognized to be directly associated with agrochemicals like DDT - once considered safe but now banned from most industrial countries - is being transferred to developing countries. The World Health Organization estimates that, at a minimum, 40,000 people die annually from pesticides and a further 3 - 4 million are severely poisoned, especially in developing countries where the more toxic materials continue to be widely used and easily available.

Differentiating a product or service or adding value in the country of origin is no easy task.

The challenge for the coffee sector will be considerable and will certainly require active government participation, the support of civil society organizations, and facilitative alliances with private companies. Most coffee producers have a limited understanding of the quality - and process - oriented demands of the marketplace. For small farmers in particular, differentiating their output can involve considerable effort to adapt to more stringent requirements such as quality controls and chain of custody.

In recent years, with many organizations working on this topic, the knowledge about the production aspects of these coffees has increased considerably. Unfortunately, very little is known about the actual volumes, trends, and defining characteristics of these markets for sustainable coffees despite their importance to more than an estimated $\frac{3}{4}$ million coffee growers and many millions of consumers. In order to achieve a better understanding of these markets this study seeks to identify, explore and quantify some of their key characteristics and their current trends:

- ▼ the market participants
- ▼ the market channels and volumes
- ▼ the trends
- ▼ the premiums
- ▼ the requirements that producers must meet in order to participate

Ultimately this information should serve to help small producers to better assess and access sustainable coffee markets. Of course producers do not exist in a vacuum and this information is also geared toward the other members of the supply chain such as importers, roasters, and retailers who essentially make the market.

This information should also serve the governments, NGOs, and international agencies that fund or facilitate coffee policies and projects

to ensure that these are in accord with the current realities of the markets. In particular, the study provides critical background information for improved multi-stakeholder collaboration and cooperation towards sustainability at the global level.

This document begins with an overview of the most significant sustainable markets in Europe and then treats each country individually for a more in-depth analysis. The countries are listed in alphabetic order and Japan is included as a separate chapter.

Each country assessment is based on the results of qualitative research methods used during the interviews, and represents the responses and attitudes of the importers, processors, distributors and retailers of sustainable coffees. Each country report summary is divided into eight parts:

1. **Overall Market Context** briefly outlines of the size, primary characteristics and recent trends of the overall country market
2. **Market for organics and fair trade** covers the volume and primary characteristics of these specific markets
3. **Certification** issues for that specific market
4. **Premiums** typically paid in that market and future expectations
5. **Significant Supplying Countries**
6. **Market Structure** describes the channels of distribution
7. **Market Trends** indicates the key trends that influence organic and fair trade coffees and shows projections to 2004
8. **Market Constraints and Opportunities** looks at the key near and mid term issues

The North American picture

This study covers all the major global markets for these products with the exception of North America. Earlier studies of the North American markets have already yielded detailed information. The Sustainable Coffee Survey of the North American Specialty Coffee Industry is the largest ever of its kind and based on thousands of extensive industry-wide interviews. This entire Sustainable Coffee Report can be accessed at: www.scaa.org (English) and www.cec.org/coffee (also in Spanish and French).

The study notes that the market is already very aware of these particular coffees with 95 percent of the firms contacted being knowledgeable about at least one or more types of sustainable coffee. More specifically:

- ▼ 99 percent were aware of organic coffee
- ▼ 83 percent were aware of fair trade coffee
- ▼ 76 percent were aware of shade coffee

Millions of consumers are also catching on. According to the U.S. National Coffee Association, in 2001, 31 percent of consumers of conventional commercial coffee were aware of organic coffee. About 51 percent of the consumers who are daily or weekly drinkers of specialty or gourmet coffee were aware of organic coffee and 13 percent - that's 8 million people - say they purchased organic coffee at least once. About 12 percent were aware of shade grown (eco-friendly) coffee. Not only are people aware of these coffees but also they are willing to pay more for them.

This is not surprising considering the customer profile of a sustainable coffee drinker: affluent, educated, and cause-friendly.

Taken in aggregate, from retailers to importers, 56 percent of the enterprises surveyed claim to

sell organic coffee while 37 percent claim to sell fair trade coffee and 34 percent shade coffee. Approximately 70 percent of those enterprises surveyed sell one or more types. As in Europe, many North American consumers prefer easy availability and one-stop shopping, i.e. supermarkets, for their food needs. But European supermarkets have been quicker to catch on. Many North American supermarkets, apart from the smaller high-quality chains, either do not stock sustainable coffees or present only one, often as a single origin or blend, and usually organic. This is beginning to change as some of the major chains are now testing eco-friendly coffees in several parts of the U.S. and as the major Canadian chains expand their sustainable selections.

The growing U.S. specialty coffee industry is very optimistic about its future. Although by volume it represents less than 20 percent (depending on exactly what is measured) it accounts for more than 40 percent of the coffee industry's total revenues. Total U.S. retail sales of specialty coffee beverages were \$6.6 billion in 2002 while retail sales of specialty coffee beans reached \$1.8 billion. It is one of the few segments of the coffee industry that has shown consistent and notable growth. According to the International Coffee Organization (ICO) and the Specialty Coffee Association of America (SCAA), most potential specialty coffee markets are far from saturated. Specialty coffee sales consistently outpaced conservative growth projections of 5 to 10 percent per year throughout the last decade. 2002 growth estimated at 7%.¹²

Members of the coffee industry are even more optimistic about the future of sustainable coffee. In 2000 most firms experienced either similar or increased sales of sustainable coffees compared to 1999. About half expect sales to increase over the next two years and almost none project

decreases. Those who project increased sales, on average estimate 27 percent growth over the next two years.

Substantial price premiums are currently earned for all three of these sustainable coffees and most companies feel that such premiums are reasonable. Nearly 9 out of 10 expect price premiums to continue for at least a few years. Fair trade coffees fetched the highest premiums followed by organic and then shade.

Although there is considerable promise, the North American sustainable market is new and its value is still relatively small. Including coffees that are not certified but are marketed as sustainable, i.e. bird-friendly, market value in 2000 was estimated at \$180 million - \$200 million. The estimated market for 3rd party certified sustainable coffees was approximately \$152 million at retail. Unpublished data clearly indicates that growth rates have been very strong for both 2001 and 2002. Fair trade, for example, showed import increases of 45 percent and 55 percent respectively for the U.S. and Canada in 2002.

The larger and more mature organic market appears to have grown a bit less than 15 percent and the shade certifications, although not measured, are clearly more visible in the marketplace as high-profile companies like Ben & Jerry's feature them and as major traders like Neumann and Volcafe pledge their support.

Setting the standards

There are now a number of initiatives addressing sustainability in distinct ways within the coffee sector. While most of these initiatives are advancing, so far they have generally been unable

¹² The Economist. The labour market. June 14 - 20, 2003 page 26

to effect change on a widespread basis in the vast majority of the coffee industry. This is because neither the initiatives nor the coffee industry have found ways to adequately integrate market realities with sustainability issues.

Nevertheless two things are clear for the first time: First, the industry, with only a few notable exceptions, is accepting that it must take some realistic steps toward sustainability. Second, it is accepting that ideal approach for doing this is to implement clear, credible, and verifiable standards.

The question remains, which standards? The more corporate driven-initiatives set the standard relatively low in order to achieve quick business acceptance. The established standards are more difficult to achieve but have much stronger credibility among consumers.

Although some have stated that consumers can be swayed with sufficient corporate marketing - it is unlikely that any company today would want to face public accusations of greenwashing or inadequate measures of corporate social responsibility. Too many major brands have been bruised by such battles.

Attempts are already underway to establish a global reference standard for sustainable coffee. A group of major NGOs, The Consumers Choice

Council, established its Consensus Principles for Conservation Coffee two years ago. Starbucks adapted some of these for its own use and was the first large company to implement sustainable sourcing guidelines. Now GTZ and the German Coffee Association are working to develop their own common code. EUREP is developing another standard. Leading corporations like Neumann Kaffee Gruppe and Nestlé are also working on standards. Although NGOs continue to be at the forefront of sustainability initiatives, a number of corporations are now also very involved. These private initiatives could easily become much larger than today's accepted sustainability certifications.

Since many companies would use such a standard to validate their brand, the flurry of discussions in order to try and meet different needs is understandable.

However, in order to advance sustainability consumers must ultimately be willing to pay for it and they will only pay for it if the standard is clear and appealing. The industry is clearly headed for a shakeout of the many initiatives. It is likely that the survivors will a) have true international credibility with farmers, their representatives, and consumers; b) be verified by independent certification; and c) will be simple and accessible enough to satisfy both the farmer's and the corporate bottom line.



De-pulping fresh coffee cherries by hand

2.

Fair Trade Coffee

Fair Trade is an alternative approach to conventional trade that aims to improve the livelihoods and well-being of small producers by improving their market access, strengthening their organizations, paying them a fair price, and providing continuity in trading relationships.

Fair trade coffee is purchased directly from cooperatives of small farmers¹³ that are guaranteed a minimum contract price. This minimum price is the best-known, but not necessarily the most important feature. Fair trade seeks to establish interactive trading partnerships that are based on dialogue and transparency. Buyers are expected to provide at least partial short-term trade financing when necessary and producers are expected to invest at least some of their income in democratically agreed-upon goals for long-term sustainability such as community education, healthcare, or infrastructure improvements. Implicit in fair trade is the concept of developing mutually beneficial long-term relationships that go beyond the faceless and often tenuous economic exchange of cash for coffee.

The first phase of organized fair trade was initiated when Alternative Trade Organizations (ATOs) like The Netherlands' *Fair Trade Organisatie*, Germany's *SOS Wereldhandel* (later *Gepa*), and England's Oxfam Fair Trade started to trade directly with "disadvantaged" producers beginning in the mid-1950s and continuing through the 1970s. To market these products an ideological business model was created featuring World Shops that, to this day, are running predominantly on the basis of a very large volunteer network. These outlets now number approximately 2700 although sales in many are modest. The market share for fair trade coffee in the late 1970s was so small as to be barely measurable.

¹³ The recent (January 2003) amendment of the generic fairtrade standards, with new verbiage about employers, covers workers or laborers and not just small farmers.



The second major phase started with the launch of the Max Havelaar label in the Netherlands in 1988, inviting mainstream importers, roasters and retailers to participate in fair trade. Although the ATOs and the World Shops continue to play an important role, the movement looked to other outlets. This concept was subsequently copied to other countries: Belgium in 1991, Switzerland in 1992, Germany, France and Luxemburg in 1993, and the UK and Austria in 1994. Germany, however, opted for a different name (Transfair), as did the UK (Fair Trade Foundation). At this time, the fair trade movement was depending less on volunteer labor and began a trend toward more market oriented business approaches. During this phase, coffee attained wider distribution and market share rose to as high as 3 percent in the Netherlands and other countries. In some specific segments fair trade has done even better: capturing 5 percent of retail sales in Switzerland and more than 7 percent of the ground coffee market in the UK (this is a minor portion of the total market).

Despite these advances, and exceptionally strong growth in the Americas, some observers feel that fair trade coffee may have hit a glass ceiling in some of the more mature markets because of its affinity with an apparently limited segment of the more socially conscious consumers. In order to become a strong presence in stagnant or shrinking markets, fair trade must challenge the established coffee brands whose promotional efforts and very competitive pricing make it very challenging to achieve an increased market share. In Germany, for example, a study by the European Fair Trade Association showed that while 37 percent of those surveyed acknowledged a willingness to pay more for fair trade products, such products had only attained 1 percent of the country's coffee market in 1998 (Potts 2000).

According to two founding fathers of the Max Havelaar fair trade label, fair trade is now on the

brink of passing from the second to the third development phase (Roozen & van der Hoff 2001). In this third phase new marketing approaches and new forms of cooperation would be necessary to increase the social and environmental impact. New initiatives among some of the major European retailers to stock fair trade coffee both branded and as private-label, might open the door to a larger fair trade market share. While distribution is clearly important to fair trade coffee, it is not clear how important small price differentials are as a factor for inducing consumer purchases. Although not the result of rigorous analysis, interviews in one country seemed to indicate that having similar prices between fair trade and conventional coffees do not necessarily stimulate a significant increase in fair trade sales.

In the third phase, coffee quality has become a very significant issue. Before that, this was considered less important than the actual cause itself. In order to successfully access a broader market, quality is a critical consideration. Several large buyers have noted that there are two reasons why less than 20% of the total available fair trade production is actually purchased with a fair trade premium: quality and price. Although the poorer small producers that participate in fair trade often have difficulty accessing the technology and inputs to improve quality, this is changing. Many have invested some of their premiums into quality-oriented improvements and the results are beginning to show up in the marketplace. In Nicaragua's Cup of Excellence competition in July 2002, the top 20 coffees included seven that were produced by fair trade cooperatives.¹⁴

Of course, some argue that even if such coffees were similar in quality and price with conventional coffees, market demand would still be woefully inadequate to handle even half of the smallholder production that is eligible to participate in fair trade. This is because there is

¹⁴ Personal communication with Miguel Gomez of the Nicaragua Specialty Coffee Producers Association, Nov. 2002.

limited awareness about fair trade in most countries. In many of the surveys firms indicated that they knew little about what actually happens with fair trade or that they were not confident that its benefits actually reached the producers.

An important aspect of the second phase, introduced in 1997, is an improved coordination of the 17 different national initiatives under the unified banner of Fair Trade Labeling Organizations International (FLO).¹⁵ This includes a unified process of policy definition and improved certification and inspection. With the formation of this organizing body, producers gained a larger say in fair trade policy and it became easier for the movement to speak with one voice, although the National Labeling Organizations remain responsible for promotion of fair trade in their respective countries and still own their national labels and logos. They have recently agreed on a new unified logo that incorporates the major national logos to facilitate consumer recognition.

It is not clear yet whether the cooperation between 16 national labelling initiatives in FLO is actually generating the expected synergies of promotion and market visibility. Individually, many - but certainly not all - of the different brands have not been able to successfully leverage their national label. This may be the subject of some confusion where, for example, in the Netherlands the Max Havelaar Label is perceived as a brand by many consumers. At the origin level FLO has found it difficult to facilitate a globally homogenous process for certification. One of the world's most prominent buyers of fair trade coffee claims that the "cumbersome process" to register and report in different ways for different countries has "greatly limited" their willingness to offer fair trade coffees in all of their stores.

In addition to the groups organized under FLO, there are a few organizations that have developed their own concept of fair trade, and do not support the FLO system. One of the most notable is the *Hand in Hand* program from the organic wholesaler Rapunzel. Several retailers are also making incursions into this area and claiming fair trading or sustainable practices although most are not open to third party verification and pay farmers little more than the current market price. There are also Alternative Trade Organizations such as El Puente that are not registered by FLO and a number of wholesalers, especially in Germany and Japan, that claim to use "fair trade-like" criteria.

Currently, the minimum price is often quoted as US\$1.26 per pound but actually varies as noted in the Table 2.1 below.

When the world market price is higher than 1.26 dollars per pound, then a premium of US\$ 0.05 is paid with the understanding that this is to be invested in development. For fair trade coffees that are also organically grown and certified, farmers receive a premium of US\$ 0.15 per pound. In recent years this policy has definitely helped many farmers as the composite world coffee price¹⁶ slumped to around US\$ 0.50 per pound.

Fair trade arabica coffees received an average price differential of nearly US\$ 0.72 per pound in 2002. See Figure 2.1. Each of the past three years this fair trade premium has channeled tens of millions of dollars to small coffee farmers and their communities globally.

With current market prices at all-time lows, these minimum values appear high to a number of firms in the coffee industry, although the minimums were set after consultation with a

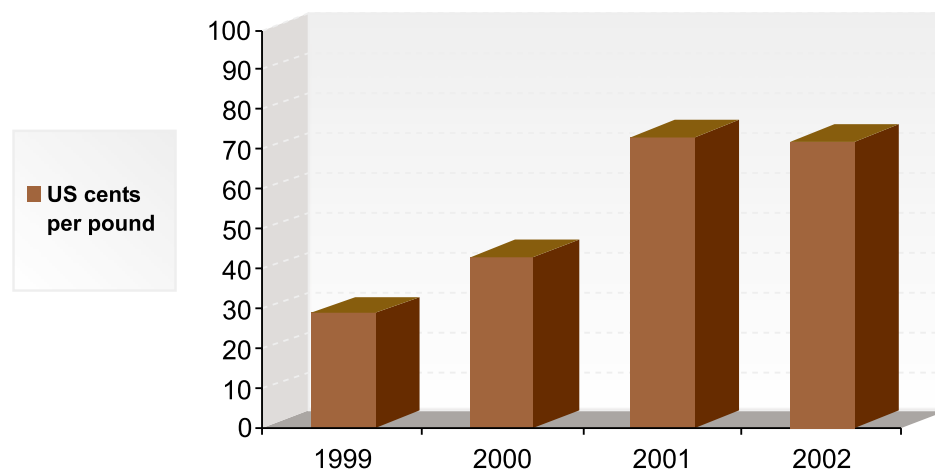
¹⁵ www.fairtrade.net

¹⁶ ICO compilation based on a formula that calculates, among other things, average trading prices for robusta and arabica beans.

Table 2.1. FLO International Conditions for Sustainable Coffees (US cents per lb.)

| Type of coffee | Regular | | Certified organic | |
|----------------------|---------------------------------------|-------------------------------|---------------------------------------|-------------------------------|
| | Central America, Mexico, Africa, Asia | South America, Caribbean Area | Central America, Mexico, Africa, Asia | South America, Caribbean Area |
| Washed Arabica | 126 | 124 | 141 | 139 |
| Non - washed Arabica | 120 | 120 | 135 | 135 |
| Washed Robusta | 110 | 110 | 125 | 125 |
| Non - washed Robusta | 106 | 106 | 121 | 121 |

Source: FLO-International Conditions for the Purchase of Coffee (Nov. 2002)

Figure 2.1 Average Fair Trade Price over the New York “C” Price

number of international bodies, including the ICO, to help determine what would constitute a fair price that covers costs of production and a reasonable margin. Some firms in our study indicated that in their view these premiums were unreasonable because they were unable to get information about the exact purpose for which the premium had been used.

In 2001 fair trade producers enjoyed considerable economic benefits in comparison to average conventional coffee farmers.

The FLO, calculating the difference between the ICO average indicator price and the fair trade price for the year, shows that producers earned an extra \$29.95 million.

Since many fair trade coffees are purchased by specialty coffee roasters that would typically pay more than the ICO average, this figure could be misinterpreted although it is certainly indicative of the price gulf between the commodity coffees and differentiated coffees.

There are now 166 organizations, a number of which are second-tier associations of cooperatives, representing more than 500,000 coffee farmer households throughout the world on the FLO fair trade register (see Table

2.2). Mexico and Peru are the largest producers and more than 70 percent of their output is also certified as organic. These are followed in volume of production by Guatemala, Colombia, Nicaragua, Tanzania, and Costa Rica.

Table 2.2. Globally Registered Fair Trade Producers

| Country | Organizations ¹ | Producers |
|--------------------|----------------------------|----------------|
| Bolivia | 17 | 4,176 |
| Brazil | 3 | 5,140 |
| Cameroon | 1 | 600 |
| Colombia | 17 | 11,985 |
| Congo | 2 | 20,552 |
| Costa Rica | 2 | 4,075 |
| Dominican Republic | 2 | 5,706 |
| East Timor | 1 | 19,282 |
| Ecuador | 1 | 373 |
| El Salvador | 3 | 928 |
| Ethiopia | 1 | 7,107 |
| Guatemala | 15 | 25,487 |
| Haiti | 7 | 6,881 |
| Honduras | 20 | 31,617 |
| Indonesia | 1 | 496 |
| Mexico | 36 | 35,046 |
| Nicaragua | 5 | 4,157 |
| Papua New Guinea | 3 | 2,767 |
| Peru | 15 | 20,031 |
| Rwanda | 1 | 450 |
| Tanzania | 6 | 173,985 |
| Thailand | 1 | 120 |
| Uganda | 2 | 123,000 |
| Venezuela | 4 | 866 |
| TOTAL | 162 | 504,827 |

¹ some are associations of smaller cooperatives

Source: *FLO International*



Boy playfully crushing coffee cherries

3.

Organic Coffee

Taking local soil fertility as a basis for successful production, organic farming aims to balance and optimize agriculture with the environment. Organic agriculture has traditionally been a systemic approach to agriculture and animal husbandry that recognizes these productive or economic functions as existing in close interdependence with a much larger eco-system that includes everything from the health of soil organisms, to the impact on the watershed area, and even the interaction with man himself.

Organic products are produced with methods that preserve and improve the soil and without the use of synthetic chemicals. Although it is only one part of organic agriculture, the synthetic-free aspect is the most generally familiar component.¹⁷ Moreover, even coffee industry members mistakenly believe that the only difference between a certified organic coffee and a coffee grown in the rustic tradition without agrochemicals is the cost of the certification. In fact, certified organic agriculture is much more proactive and requires a farmer to do more than refrain from the use of synthetic agrochemicals.

In practical terms on a coffee farm this means:

- ▼ recycling and reusing available nutrients through methods such as composting
- ▼ the rotation or intercropping of diverse plants to balance the soil's requirements, improve its tilth, and check the proliferation of pests and diseases
- ▼ using plant cover and terracing to minimize runoff and erosion

¹⁷ To be considered for organic certification a farm must be free of synthetic agrochemicals for at least three years and must maintain records or documentation of organic management



- ▼ neither monocropping nor clear-cutting large tracts of land in order to significantly maintain biodiversity

When products are sold in either EU, Japanese, or U.S. markets using an organic label they must meet defined legal standards. The producer and processors must work within, and be certified by certification bodies, most often according to standards that meet or exceed the International Federation of Organic Agriculture Movements (IFOAM) “Basic Standards”.¹⁸ This requires a system of regular inspection and certification that helps to ensure the credibility of organic products and helps to build trust in the marketplace.

Despite these commonalities, certified organic coffee adheres to globally accepted principles that are implemented within local climatic and cultural settings that can result in variations between different areas. To a certain extent this principle also applies to how inspection and certification shall be carried out (e.g. individual grower vs. group certification). It is a delicate balance to combine this need for regional variations with the international harmonization that is necessary for trade, fair competition and consumer trust in organic production.

Even though organic production methods are used in most countries, certification by an independent third party is a relatively new phenomenon. Some 35 years ago,¹⁹ Finca Irlanda in Chiapas Mexico pioneered certified organic coffee through *Demeter Bund*, the German association for biodynamic agriculture. By the 1980s, the concept was spreading to other parts of Mexico and countries such as Papua New Guinea. Organic coffee certification has now spread to all Latin American producer countries and the region provides most of the world’s supply. Two countries, Mexico and Peru, are currently the dominant providers but others,

including Colombia, those in Central America, and even Brazil, are increasing their output. In Africa, where much of the production is chemical-free, particularly in poorer origins like Ethiopia, certified exports are still relatively scarce and only Tanzania, Uganda and Cameroon ship significant quantities. Organic certification projects have recently begun in Ethiopia, Rwanda, Zambia, and others. Asian production has emanated mostly from India, Indonesia, Papua New Guinea, and East Timor although now China’s Yunnan Province has also entered the field. The ICO’s Organic Coffee Round Table (ICO 2000) highlighted the importance of developing national certification systems and local inspection bodies to operate in cooperation with international accreditation and certification bodies in order to improve availability to producers and help reduce their costs.

Worldwide, nearly 130 countries produce certified organic products (in addition to coffee) in commercial quantities, including more than 90 developing countries (Kortbech-Olesen, 2000). The global retail market for organic food and beverages grew from nearly US\$ 10 billion in 1997 to US\$ 17.5 billion in 2000 according to ITC estimates. The Organic Monitor estimates that global organic retail sales were about US\$26 billion in 2001. Almost half of these sales are in Europe. Given the increasing occurrence of food safety scandals and demands for traceability it seems likely that organic standards will become increasingly popular (Giovannucci 2002). Many industry estimates project near to mid-term growth in the 20% range overall indicating that the organic product market may become a powerful segment in world food trade with organic coffees riding along on this wave.

Organic coffee is a relative newcomer to the mass market; even though it has been available in small quantities through some specialty retailers in a

¹⁸ www.ifoam.org

¹⁹ Finca Irlanda converted to biodynamic in 1928 and was certified organic and biodynamic in 1967.

handful of countries, it has only been widely available for less than five years in most developed markets. In that time organic coffee has enjoyed an average growth rate of about ten times that of the overall coffee industry's 1.6% average growth. This growth rate, it should be well noted, is from a very small base and in some markets has shown signs of slowing.

While organic coffee now has a considerable retail visibility, it is by no means available everywhere. Like many new products, it was first introduced to its most receptive niche audience (health food shoppers) and has expanded to cause-conscious consumers whose buying habits are motivated by personal health concerns, concern for the environment, and/or the welfare of a farmer. By the mid 1990s it had also reached some of the specialty and gourmet segments. Although significant, these clients still represent a relatively small segment of the overall food industry. Its expansion has occurred almost exclusively within its core audience and it is now facing the challenge of whether it can successfully progress to a more mainstream consumer base.

Although it is difficult to generalize about all organic products, it may be fair to characterize them in terms of product lifecycles theory. Organic market characteristics indicate that these products have gained considerable consumer awareness and have moved out of the introductory stage and into a growth stage. The growth stage is typically characterized by increasing product variations and competition that begins to stress competitive differences.

The tendency of this stage is of course to dramatically increase distribution and begin to shift the pricing strategy away from price skimming to more competitive pricing in order to gain market share. Until now organics have typically been "pull" products that have enjoyed a strong niche demand. Will many of these organic products have a potential market among the great majority of today's consumers or will

the industry reach a glass ceiling not far beyond its core group of ideological supporters?

Throughout much of the 1990s, demand for certified organic coffees far outstripped supply and resulted in some receiving premiums as high as 100 percent and in the marketing of many poor and mediocre coffees simply because they had organic certifications. The resulting price-to-quality ratio understandably put off many buyers. Although some organic coffees still have very little else to recommend them, this situation is reportedly changing as competition responds to the demand for improved quality. With much greater supply and more diverse origins available in recent years, the price premiums for certified organic coffee have diminished substantially. Producers are now increasingly competing on the basis of quality and beginning to lure back customers. Recent winners in Cup of Excellence events and the annual competition in Kona, Hawaii were organic coffees.

Although an increasing number of roasters and traders are offering certified organic coffees, for many the potential producers of these coffees are not obvious and can present a challenge to locate. A number of buyers in different countries have noted that there is an unfulfilled demand for lower-priced organic Brazilian arabicas as well as robustas. As many sustainable coffees compete in the mainstream quality segment of their markets, there is logically a demand for lower cost coffees in larger volumes produced under the organic, fair trade, or eco-friendly regimes. Fair trade has not caught on strongly in Brazil although organics are increasingly produced there. Most of their organic coffees have gone to the Japanese market that pays the best premium, and some to the U.S. and Europe. Uganda, India, and Indonesia are the most likely sources for sustainable robusta coffee.

Costs for certification are still very high in certain regions but this is changing as competition among certification agencies increases and as more support and inspection services are available in



producer countries. One Mexican certifier, with international affiliation and recognition, was able to certify farmers as a group in a large cooperative for slightly more than US\$50 each.²⁰ While this is uncharacteristically low and required the group to have its own internal control systems, it demonstrates a certain potential for reducing such costs. In many countries extension services provided through NGOs or interested projects have helped to keep costs low by training farmers and preparing them for certification requirements. Unfortunately many of these organizations are understaffed and underbudgeted and often may not have access to state of the art organic production technology and pest management methods. It is important for both farmers and buyers alike to recognize that the costs of certification go far beyond the price of an inspection and a certificate; the training costs, transition time (2 - 3 years), and extensive record-keeping are usually far more costly and must be incorporated into the selling price. As more farmers seek organic options, new solutions for providing them will have to be found, most likely through partnerships with private companies and through government support for organic technologies and extension services.

Organic coffee is a niche market and the price premium earned by an organic coffee producer will depend on both consistency and quality as well as effective sales promotion and marketing. The average bonus paid to growers by buyers for certified organic coffee most commonly ranges from US\$ 0.15 to US\$ 0.30 per pound over the current “C” market price and this is in addition to any premiums paid for desirable quality characteristics.

Given the standard discounts or premiums at which conventional coffees trade, a more accurate way to calculate the true organic

premium is to compare it with the actual price paid for a particular conventional coffee of the same quality. For example, the current differentials in early 2003 for the two countries that are the market leaders in organic - a Mexican HG e.p. or Peruvian MCM e.p. - are now approximately US\$ 0.06 to US\$ 0.08 below the “C” price. With organic premiums currently at US\$ 0.15 to US\$ 0.20 for much of Mexico this brings their effective premium to US\$ 0.21 to US\$ 0.28. Peruvian organic certification premiums that currently average about US\$ 0.10 to US\$ 0.15 mean that their effective organic premium is actually US\$ 0.16 to US\$ 0.23.²¹

Although a number of respondents mentioned that increasing competition between organic coffee growers could eventually further erode the current premiums, these premiums are already reaching low levels that may cover the additional costs/risks of production and costs of certification but not much more.

The markets for organic products offer viable alternatives to typical commodities trade. The new global trade regime and its standards appear to be a positive opportunity for smaller growers. Rigorous standards are a difficult part of this. However, they not only help to protect the industry from the unscrupulous but also help to strengthen vital skills among producers for whom organics offer the chance to participate in competitive higher-value trade. Traceability and production management are part of rigorous organic standards that can help smaller producers to compete in agricultural trade.

For EU countries organic certification is presently governed by an EU organic regulation (No. 2092/91), which has been implemented in national legislation. The regulation protects the use of words like *organic*, *ecological*, *eko*, *biological* and *bio* and limits it to products that

²⁰ Personal communication with Certimex regarding certification in Oaxaca, Mexico

²¹ Personal communication with Jos Algra, NovoTRADE Consult (April 2003) and other buyers in early 2003.

have complied with a specified external certification process.

Nevertheless, the details of this process, and the bodies that are accredited for certification and inspection, vary from country to country. The individual interpretation permitted to each member country and the different interpretations of certifiers allows for considerable differences that therefore make it easier for some countries to import and sell organic coffees than for others.

Overall, these differences appear to complicate the movement of organic produce into and

throughout Europe as well as presenting considerable challenges for producers and exporters.

The IFOAM is the over-arching international body that accredits certification organizations and sets international standards for organic coffee certification. Since not all certifying organizations are accredited by IFOAM caution should be taken when selecting one since some are not as readily accepted in some markets as others and those with less rigorous monitoring systems are often not preferred by discriminating buyers who wish to protect their image and ensure that good standards are followed.



Ethiopian coffee ceremony in the field

4.

Eco-friendly or Shade-grown Coffee

Coffee that can truly be identified as either eco-friendly or shade grown involves the third party certification and verification of coffee production standards that have been internationally designed and verified to preserve biodiversity. These include standards for soil management, minimum tree density, and a minimum variety of native species as well as strict agrochemical and waste management. One of the two primary certifiers, Rainforest Alliance, also includes standards for good working conditions and the fair treatment of farm workers. More specifically this includes requirements that employers provide: decent housing, sanitary facilities, potable water, electricity when possible, safe cooking facilities, at least the legal minimum fair pay, access to medical care, and the availability of schooling.

With agriculture now identified as the number one global threat to biodiversity (World Conservation Union (IUCN) and Future Harvest 2001), shade-grown coffee offers one agricultural solution that is relatively eco-friendly. The coffee tree naturally grows as part of the understory in a shaded forest environment and, when managed in this manner, is one of the few forms of agriculture that can actually help to preserve the environment and serve as a refuge for biodiversity. While some shade systems increase landscape connectivity, act as buffers, and serve as corridors for some species, they do not replace natural forests which are still needed even in shade-grown coffee areas. Although the environmental value of shade-grown coffee is undeniable, it would be unfair to classify all forms of conventional coffee production as necessarily bad for the environment since coffee production, by providing a semi-permanent soil cover, is one of the more environmentally benign forms of agriculture.

After centuries of production, frequently in shaded environments, many countries took deliberate steps to “modernize” coffee production. This process began in earnest during the 1950s in Asia and accelerated with the aid of government and donor support in

the 1960s and 1970s when it spread to Latin America as Green Revolution ideas of chemically intensive farming were increasingly applied to all forms of agriculture.

Driven by the expectation of greater crop output, large landholders around the globe shifted from traditional shade-grown coffee to plantations without tree canopies. Many smaller producers, often too poor to make the capital-intensive shift, have nonetheless altered their coffee farms by removing canopy trees for their wood or tried to mimic the successful cultivation practices of larger plantations. Some small farmers have preserved their traditional practices that integrate shade trees. Others have abandoned coffee and cleared their land for other forms of agriculture. The current economic difficulties of coffee farmers are further stimulating land use changes toward seasonal crops and pastures that provide less environmental protection than either shade or conventional coffee. Unfortunately, the overall shift away from “shade-grown” agricultural practice has had serious economic and environmental repercussions.

Although the shift away from shade-grown coffee can offer greater yields, the practice itself is sometimes not sustainable on several different levels. Economically, the cultivation of “sun coffee” requires intensive management, increased inputs, and more year-round labor, which place financial demands on the growers and increase the need for credit. The varieties used for sun coffee often have increased yield demands placed on them by intensive agriculture and typically require more frequent renovation than traditional shade varieties. Monocrop farming also implies a risky dependence on one product for those farmers, especially smaller ones, who have a few other alternative resources in case of crop failures or low prices. Gobbi (2000) found that shade or biodiversity-friendly cultivation was economically viable across a range of Salvadorian production systems ranging from

intensive monoculture to traditional polyculture. Colombia’s research center, Cenicafé, has found that in certain parts of Colombia, for example those with insufficient luminosity due to misty or cloudy conditions, the shade production systems are not viable while in other highly productive areas shade protection is necessary.²² Although a number of large and productive farming operations utilize shade cover, small farmers using traditional polyculture are perhaps best suited to such production. In many regions of the world where coffee is intensively cultivated in savannah-like environments, applying the current shade tree criteria is probably not viable. More appropriate alternatives or variations to improve biodiversity quotients will have to be developed for these regions that are among the world’s most productive.

Environmentally, the chemical fertilizers, insecticides, herbicides and fungicides that can be a part of intensive cultivation practices have been linked to greater soil acidification, erosion, and toxic run-off that contaminate water sources. The loss of biological diversity is another major concern when trees and native vegetation are cleared and replaced with coffee as a monocrop. In Costa Rica, for example, insect diversity in shaded coffee rivals that found in lowland rainforest areas (Perfecto et al. 1996).

Tree canopies also help maintain micro-climatic conditions thereby protecting coffee plants from rain and sun, maintaining soil quality, reducing the need for weeding, and aiding in pest control. Moreover, organic matter from the shade trees also provides natural mulch, which reduces the need for chemical fertilizers, reduces erosion, and contributes important nutrients to the soil.

Economically and socially, when global coffee prices fall or harvests are poor, tree canopies provide “insurance” crops to the grower providing fuel wood, timber, and fruit. Traditional coffee farming also reduces the

²² Personal communication with Gabriel Cadena, Director, May 2003.

farmer's dependence on expensive chemical applications, safeguarding growers and their families from the possible harmful effects of misuse or exposure to pesticides.

In the early 1990s, the Smithsonian Migratory Bird Center (SMBC), linking the decline in certain bird species to habitat degradation, was among the early pioneers that identified naturally shaded coffee farms as refuges for many bird species. Coffee farms meeting this criteria are consequently sometimes called "bird-friendly" which has caused some uninformed critics to publicly voice that there may be more important things to worry about than birds. It is therefore worth noting that because birds are a highly visible marker species, they are considered as one of the more obvious indicators of biological diversity. Studies of insects, trees, flowers, and even amphibians have demonstrated that naturally shaded coffee plantations often serve as critical sanctuaries to protect forest species, especially where natural forests have been degraded or no longer exist (Pimentel et al. 1992; Rice & Ward 1996; Moguel & Toledo 1999). Healthy forest biosystems offer widespread benefits for local communities that range from watershed protection to wild harvesting of traditional products like mushrooms and medicinal plants and sustainable logging. A number of studies have found that the diversity of migratory birds has plummeted in sun systems when compared to shade coffee (Perfecto et al. 1996; Greenberg et al 1997). For example, research in Colombia, Peru, and Mexico found as much as 75% fewer bird species in sun-grown coffee than in shade-grown coffee (Greenberg et al. 1997; and SMBC unpublished research papers).

Perhaps the major argument against shade coffee holds that no one would think to ask soybean or corn producers to use shade systems since these crops can be even less eco-friendly than conventional coffee. The implication being that

intensive agricultural systems should be left alone and that biodiversity should be relegated to separate patches of forest distinct from the production space. The issue is complex and, as noted earlier, in some cases this may be the best solution provided that the forest patches are interconnected and large enough to actually support biodiversity. In certain situations it is probably better to continue intensive agriculture and protect surrounding landscapes rather than encourage more extensive agriculture. However, apart from the apples and oranges comparison (no corn variety grows very well in a forest environment) such arguments tend to apply a Cartesian or mechanistic approach that artificially separates natural landscapes from productive landscapes and does not adequately take into account the fact that agriculture has continuously encroached on natural forests, even legally protected ones. It appears likely that agriculture will continue to expand and unless more environmentally friendly forms of production can be integrated into agriculture where possible, it seems more likely that the separate forest patches will be increasingly smaller and fragmented. Given that many species require square kilometers of forest for their survival, and that farmers increasingly use forest lands for agriculture, trying to separate forest from farms may be myopic. Perhaps the most realistic and sustainable solution is a middle path, recognizing that while shade grown production has distinct merits, other forms of more intensive production must also be accepted and integrated.

Certifying this shade-grown or eco-friendly coffee has required considerable work to establish useful procedures and verification processes that adequately take into account the inherent differences in different geo-climatic regions. The SMBC has published criteria²³ that are now an international standard for shade coffee. Farms can be independently certified according to the basic SMBC standard. Since many sun coffee farms have at least a few trees

²³ www.si.edu/smbc

on or near to the farm, some wily marketers have already begun to sell these as shaded or forest coffees even though they would not meet the environmental guidelines that are now internationally accepted.²⁴ Even some of the producer country coffee boards or councils publicize that practically all of their production is shade-grown, when many industry members are well aware that this is not true. This sets the stage for potentially harmful loss of confidence as coffee industry buyers become better acquainted with certified shade or eco-friendly coffees.

The shade coffee standard is now being applied by some organic certifying agencies to provide growers with a shade-grown certification as well as organic certification. However, the major certifier applying shade-grown standards is The Rainforest Alliance.²⁵ Its eco-friendly certification incorporates shade certification standards into its more thorough set of evaluation criteria that include fair treatment and good conditions for farm workers. While the Rainforest Alliance system does not insist on organic methods, it does require that growers follow integrated pest management techniques and take steps toward organic methods. This allows the participation of dominant larger farmers that often find it difficult to make a rapid shift to organic practices. The Rainforest Alliance also serves as the international secretariat of the Sustainable Agriculture Network²⁶ and their Rainforest Alliance Certified (formerly Eco-OK) is by far the most popular of the shade coffee certifications on the market.

The relationships between world markets and environmental protection have yet to be developed and consumers are just beginning to understand that there are costs to environmental protection. The environmental benefits and ecological functions provided by shade systems

have regional and perhaps global implications; they are not only beneficial for the farmer. Paying for a guarantee of such benefits through the certification process is relatively new but is showing some promise given the upward trend of premiums over the last three years.

Premiums for eco-friendly coffees typically range from US\$ 0.10 to US\$ 0.60 per pound, with occasionally higher or lower numbers being quoted. Because trading volumes are still relatively small and transactions not individually tracked, it is difficult to disaggregate certification premiums from premiums paid for quality. The Rainforest Alliance reportedly has plans to implement a basic tracking system in order to improve transparency and the understanding of the market dynamics.

In North America, eco-friendly coffee has recently benefited from various high-profile distribution deals such as the announcement of Ben & Jerry's, a leading ice cream manufacturer, to launch a new ice-cream flavor, "Coffee for a Change", featuring Rainforest Alliance-certified coffee. Although this concept has received far less exposure in Europe, its "green-friendly" message is now emerging as an increasingly important issue. Some eco-friendly coffees have already been finding their way onto retail shelves and this should accelerate considerably now that well-established importers and traders like DR Wakefield are formally introducing Rainforest Alliance-certified coffee to the UK & Ireland in March 2003.

Some of Japan's leading roasters like UCC and Kohikan are launching Rainforest Alliance-certified coffees in more than a thousand cafes and convenience stores throughout Japan. They are joined by some of the other leading traders and roasters in purchasing or promoting this concept in Japan (See Japan chapter).

²⁴ Information from informal trade show interviews 2001 and 2002 mentioned in unpublished World Bank reports

²⁵ www.RainforestAlliance.org

²⁶ A coalition of nine leading conservation groups in Latin America



Watering coffee seedlings

5.

Other Sustainable Coffee Concepts

As far as sustainable coffee concepts and standards are concerned, this wheel has been invented several times and yet it seems that no one tires of adding their contribution. As more and more large companies get involved, issues of lowering costs, increasing efficiencies, and reducing compliance requirements have come to the forefront. In many ways this will sharpen the existing efforts. The great concern is whether reasonable sustainability standards will be adopted or whether the bar will be set so low as to render the effort almost meaningless.

The Consumers Choice Council²⁷ was the first to work with leading organic, fair trade, and eco-friendly certifying organizations to develop a set of “Conservation Principles for Coffee Production”. These are currently the closest things to joint or umbrella criteria for sustainability that are accepted by several leading international organizations like Conservation International, The Rainforest Alliance, and The SMBC. These Conservation Principles represent an important step toward a unified certification of sustainability that covers the three major aspects of sustainability. The eventual adoption of such principles, particularly at the commercial level, would be likely to benefit everyone: consumers would be less confused, roasters and retailers could simplify their purchasing and marketing, and growers would have to meet only one rather than two or three sets of standards.

The German development agency GTZ, along with the German Coffee Association (DKG) and after extensive consultations with stakeholders, are developing common sustainability codes that address economic, environmental and social aspects of coffee production, processing and marketing. These codes are designed for the whole coffee community and will apply to mainstream coffees as well. The Rabobank Foundation’s Progreso is another effort that works directly with producer organizations on all three aspects of sustainability through practical capacity building, market linkages, and financing.

²⁷ www.consumerscouncil.org

The Euro-Retailer Produce Working Group (EUREP) has developed a set of internationally certifiable standards and procedures for good agricultural practice (GAP) that many major European retailers increasingly require of their suppliers. EUREP-GAP standards for coffee are currently under development and could possibly incorporate the more rigorous social guidelines of the current EUREP flower standards as well as enhanced environmental standards including topics such as biodiversity. Specific coffee standards are due to be implemented in early 2004 with at least three retailers reportedly preparing to implement the standards in varying degrees. These agricultural production standards promote the minimization of agrochemical inputs, traceability, and fair labor practices. EUREP-GAP lays out a set of minimum standards, all of which can be readily met by those complying with other certifications such as organic or Rainforest Alliance that are considerably more rigorous. In some cases meeting EUREP-GAP criteria could be a requirement for doing business but there is no guarantee of any premium for achieving such requirements and the grower is left to negotiate this with each buyer (see Utz Kapeh framework below). FoodPLUS is the global body responsible for the implementation of EUREP-GAP.

There are a number of international standards, relevant to sustainability, that can be applied to coffee although many were originally designed for more industrial processes like manufacturing. The standards may help to assure a buyer of acceptable farming or labor practices but are rarely required. Some of the International Standards Organization (ISO) series of standards help guide the development of a management system that explicitly addresses quality controls (ISO 9000) and a comprehensive environmental management plan (ISO 14000) with systems for auto-regulation and third party auditing.

Social Accountability International (SAI) accredits the SA 8000 standard for working conditions and labor rights throughout the supply

chain. These conform to all of International Labor Organization (ILO) guidelines and are both third party certified and internationally recognized.

There are other sustainability concepts that are not explicitly covered in this study but will be briefly introduced. Among these are various corporate efforts to establish appropriate sourcing guidelines, developing country projects, and some social consciousness and charitable initiatives.

Company programs

An important group of initiatives are the internal company “sustainability programs” that go beyond the company’s own walls to account for the impact of a company’s buying guidelines. Some of the private sustainability initiatives must be seriously considered since they have the potential to include very large volumes of coffee rather quickly. As such, they could quickly raise consciousness in the marketplace and positively impact more of the world’s coffee growers, most of whom are currently outside of the generally accepted standards and certification systems. When such systems have strong corporate support and have widespread public distribution they can potentially help raise consciousness about sustainability in the marketplace.

Some companies have adopted general initiatives such as social accounting and environmental management policies and assessments. Others have also employed specific policies and schemes with growers in the countries of origins. For example, Sara Lee/Douwe Egberts has a small farmers policy and even French giants Carrefour and Intermarché are developing sustainability procedures. Two of the world’s largest coffee traders Neumann Kaffee Gruppe (NKG) and Volcafe have signed agreements with The Rainforest Alliance to integrate more sustainability into their procurement and NKG have developed their own internal purchasing guidelines to encourage sustainable farming practices.

Some corporations have gone beyond corporate statements about sustainability to active involvement in local programs where they source their coffees. Kraft and Sara Lee/Douwe Egberts are piloting a small project in Vietnam that improves quality and moves farmers toward more sustainable practices. One of the most developed of these efforts to date may be that of the International Coffee Partners (ICP), a group of leading European coffee companies that includes: Paulig (Finland), Löfbergs Lila (Sweden), Lavazza (Italy), Neumann Kaffee Gruppe (Germany) and Tchibo Frisch (Germany). They pool their investments and, through the coordination of EDE Consulting, partner with international agencies and local NGOs in several coffee producing regions to assist farmer organizations to implement internal control systems and other programs that improve the quality and sustainability of their production. In Guatemala for example, in addition to their quality improvement efforts for small-scale farmers they are also extending activities to the field of organizational strengthening and diversification. The ICP are also helping to develop farmers' management capacity so that they can accomplish community goals like establishing a savings scheme and achieving organic certification.

Despite these corporate efforts, so far only a few coffee farmers have benefited from tangible improvements at the ground level. Nor has the consumer necessarily been informed of these company initiatives. In fact only a few companies have made their sustainability practices open to the public and invited transparent accountability. One of the first was Starbucks, with more than 6000 stores worldwide. This U.S.-based multinational company surprised many people in the coffee community when it became the first large coffee company to develop a set of Sustainable Sourcing Principles and publish these on their website.²⁸ These principles guide its buying decisions and

help ensure that it supports sustainable farming practices by rewarding, with long-term contracts, those growers who treat their laborers fairly and care for the environment by reducing the unnecessary use of agrochemicals. The process provides a premium that escalates as more sustainability criteria are met. Starbucks has reportedly paid their growers an average of US\$ 1.21 in 2001 when the New York "C" average never reached US\$1 per pound.

Multinational food retail giant Ahold NV presented another example with its sourcing guidelines under the banner of Utz Kapeh. This is now managed as an independent foundation and has the participation of other roasters. Their intention is to promote a more sustainable coffee industry through a "decency standard" and also to provide some technical assistance, and possibly trade financing. Their criteria are based on EUREP-GAP standards. Although these have considerably less stringent obligations in comparison to others like organic, eco-friendly, or fair trade certifications, they are seeking to impact a much larger number of farmers, albeit more modestly.

Utz Kapeh does not interfere in the negotiation between buyer and seller, but provides a "strong recommendation" on what the sustainability differential ought to be. Buyers therefore independently negotiate the actual sustainability premium or differential with farmers or sellers who receive no guarantees for their efforts. Utz Kapeh recommends a specific premium when arabica coffee dips below US\$0.70 per lb on the New York C market and below US\$650 per ton on the London market for robusta. When prices fall below these thresholds, Utz Kapeh recommends a premium of US\$0.07 per pound for washed arabica and US\$0.04 per pound for unwashed arabica. The robusta premium is just under US\$0.03 per pound (\$60/ton) and less than US\$0.05 per pound (\$100/ton) for washed robusta.

Utz Kapeh is studying the actual compliance

²⁸ www.starbucks.com

costs, since these will vary from region to region, in order to determine whether their recommended payment of these compliance premiums should vary to reflect real costs in each country. About 30,000 tons of coffee were qualified in 2002.

Other approaches include the Sustainable Agriculture Initiative³⁰ (SAI) that counts among its members two coffee giants, Neumann and Nestlé. SAI attempts to explore and promote sustainable agricultural practices. It represents a growing corporate awareness that sustainability is an issue that affects not just farmers but the entire industry. The organic wholesaler Rapunzel Naturkost from Germany developed an interesting alternative concept that it calls *Hand in Hand*. This program requires that organic certification be augmented with certain fair trade criteria.³¹ The concept is similar to the FLO fair trade concept since it counts with external auditing and is communicated to consumers at the point of sale. It is not however, open to other companies and has met with some criticism.³² The Rapunzel coffees are included in this study (only under the organic heading), but they might also be considered part of the crossover segment, which is both organic and fair trade.

Among producing countries, Colombia was among the first to invite coffee buyers to participate in direct relationships that channel benefits beyond the market price for coffee and transparently impact the farmers' sustainability. The emergence of "relationship coffees" goes against the disconcerting trend toward the increasing commoditization of coffee wherein a human coffee grower becomes merely a faceless

and interchangeable source of raw materials. These relationships between a trader or roaster and the grower are based on an appreciation of the considerable ongoing efforts required to produce quality coffees and the potentially ruinous nature of volatile commodity market prices. Buyers commit to purchasing these coffees over a period of years and paying a sustainable price, provided that certain minimum quality standards are met. Price may be either fixed in advance or set as a differential above the then current market price. A number of companies are increasingly pursuing this strategy.

While some of the corporate sustainability programs are certainly a step in the right direction and a distinct improvement from business as usual, they are not a complete answer. Some of these initiatives have been accused of watering down sustainability. By setting the baseline too low for what they define as sustainable, they can reduce the meaning of the term to mean what is sustainable for the corporation but not necessarily for the farmer. Some aspects of these programs, such as sourcing from plantations, are more widely accepted than others. The use of coffee from large plantations, when this is well monitored, is understood by many to also benefit a large number of wage laborers that are often even poorer than small producers. However, some companies have been accused of creating parallel, yet similar systems, that can potentially confuse consumers and thereby take unfair advantage of the popularity and generally accepted standards used by producers of organic, fair trade, or eco-friendly coffees by paying a lower price than the majority of companies working with these as verifiably certified products.

³⁰ www.saiplatform.org

³¹ There are 2 major difference with the official (FLO) fair trade criteria. First, coffee can be purchased from large scale plantations while under FLO requirements, coffee can only be bought from small farmer cooperatives. Hand in Hand provides a lower guaranteed minimum price of US\$1.15 per lb. for Other Mild Arabicas, which is lower than the FLO minimum price of US\$1.41 per lb. when also certified organic.

³² While its use of coffee from monitored plantations is understood by many as a useful way to also benefit a large number of wage laborers that are often also small farmers or, if landless, even poorer than small producers, there is less support for its alternative pricing policy. Some industry members have privately voiced concerns about companies taking unfair advantage of the popularity and generally accepted standards of fair trade by using similar terms but paying a lower price than the majority of companies working with fair trade and also for creating a parallel system that can potentially confuse consumers with its different fair trade message.

Social consciousness

Social consciousness schemes or charitable efforts are often conducted at the consumer level and may therefore have more visibility. Although it is questionable whether long-term charitable support is indeed sustainable, its value in raising consumer awareness is probably quite useful.

In many European countries and in Japan solidarity groups of varying sizes lend support to coffee growers through the marketing of their products within a network of socially conscious consumers. Some of these networks, such as Germany's, are of considerable size. Even though their tenets may be similar to one of the larger defined systems like organic or fair trade, they do not belong to these systems. Similarly "ethically traded" coffees are the result of a new trend in retailing that has received considerable media attention although they may often not be independently certified or verified.

There are indications from some roasters of "relationship coffees" or "ethical coffees" that these are growing in the market. Like fair trade these also involve a direct relationship between producer and either the buyer or the roaster who theoretically commit to paying an "ethical" price although not the standard fair trade price. These coffees are then offered to special interest groups not unlike the average fair trade customer. Since these coffees often lack independent third party certification of higher prices reaching the producers, they presuppose a consumer's high level of trust in the roaster or retailer. These approaches are probably most viable in close knit, cause-related organizations like religious groups.

Closer relationships that pay growers a reasonable price are both welcome and positive. Indeed a number of higher quality importers and roasters have been known to pay above the market price for good quality coffee and sometimes even above the fair trade floor price. However, when these coffees are marketed with terms such as "ethical certified" it may be cause

for concern if such "certification" does not have a sound basis for verification and compliance that is transparent and readily available for inspection. There are at least five reasons why such flimsy marketing ploys are damaging to the credibility of the industry and ultimately to farmers as well.

First, the similarity to fair trade will likely cause confusion for consumers. Second, without adequate third party verification of this practice, there is a considerable moral hazard since the consumer is left to determine what coffee is most "fair" and is essentially asked to trust each seller who chooses to make claims of "fairness" or ethics.

Third, the greater likelihood of misrepresentation or fraud (in the absence of third party verification) would likely reflect negatively on the coffee industry and on other cause-related efforts including the fair trade market. Fourth, fair trade offers coffee growers significantly more than just a better price whereas relationship coffees may not necessarily provide similar social and community benefits. Finally, using such terms as ethical or fair trade, in the absence of third party certification would be free riding on the established market reputation of fair trade and would probably erode the tiny market share that fair trade farmers hold without necessarily offering any incremental benefits other than perhaps a slightly lower price to the consumer.

Charitable initiatives are often carried out on a very small scale: for example a church may distribute a certain coffee, and at the same time support a particular development project with the income generated. However, some have a considerable impact. Sector wide efforts like Coffee Kids return contributions from coffee outlets to grower communities in order to finance education and health-care programs for children. Percol, one of the larger sustainable UK brands, directly contributes to Coffee Kids from the sales of two soluble products in its range. Another example, the Dutch roaster Neuteboom (also active in fair trade and organic coffees), directly supports children's education in a similar manner.



Transplanting coffee seedlings

6.

European Markets Overview

The coffee market in the Nordic region

Traditionally, the Nordic countries have consumed more coffee per capita by far than any other part of the world. A cool climate and prolonged days along with higher than average coffee quality at a relatively low price appear to explain this phenomenon. Moreover, governments and churches have backed coffee for decades to fight alcohol abuse. As a result, coffee drinking has become a part of the national culture and heritage. It is also a source of national pride exemplified in such cases as in 2001, when a Norwegian firm paid the world record price for high-quality coffee.

The average per capita consumption has been between 9.0 and 12.0 kilograms of green coffee equivalents for the last 30 years. Recently, however, there have been signs of market erosion, particularly in Denmark and Sweden. But, the Nordic region still remains a stronghold for coffee consumption and its 24.5 million inhabitants will drink some 240,000 tons or 3 to 4% of the world's total coffee export.

The Nordic region has also traditionally been a nearly 100% Arabica market with Brazil, Colombia and other Central American countries as the main contributors. The soluble market - at about 5% of the total - is limited compared with other countries. Espresso is just beginning to take hold with about 1% - 2% market share that is increasing.

The Nordic coffee markets are fairly straightforward after the consolidation of the last decade that now leaves about 3 to 6 roasters in each market accounting for as much as 90% of the coffee volume. Most of these have been in business for many decades and there's very little room for newcomers. The same level of concentration applies to retail distribution and other market channels like institutional foodservice. Only one roaster has had success in distributing a separately branded sustainable coffee. The Norwegian roaster Kaffeindustri has experienced good results with a brand called Farmers that prominently displays the Max Havelaar logo.

The Nordic roaster market is different from similarly concentrated markets and from the U.S. market in one specific way: most of the large industrial roasters carry at least some organic and fair trade coffees in their lines. The high end or specialty roasters and the coffee bars often do not. Indeed the vast majority of both organic and fair trade coffees are sold by larger industrial roasters. Participation of the larger roasters reduces the incentives for smaller ones and the specialty trade in the region have been slow to respond to the quality improvements in organic and fair trade; many were disappointed in the early offerings from certified producers, most of whom could not assure the availability of a consistent and high-quality supply. The products are therefore hardly represented in this quality-oriented segment of the market.

These mainstream or industrial trade sustainable coffees were not known to be of the best quality and although the quality has improved its reputation and flavor profile remain sketchy. This may present a hindrance to further expansion, even though many of the sustainable coffees have significantly improved in quality over the last few years. For example, three winners of the most recent Cup of Excellence in Nicaragua were fair trade coffees.

The Nordic countries import all their soluble coffee and Nestlé holds approximately two-thirds of this market share on average; Organic or fair trade is almost nonexistent in the soluble category.

This region is undergoing an ongoing consolidation in the retail grocery trade. Grocery stores, primarily large multiples, account for 70% of retail coffee turnover. Some have begun to carry more specialized coffees in an effort to differentiate; these include single origins and flavored coffees. The institutional market amounts for some 25 to 27% and the specialty trade through coffee shops, specialty coffee retailers and fair trade shops take some 3% to 5%.

Few restaurants feature organic or fair trade coffee but they are increasingly popular in public institutions. A number of state and county governments as well as churches and charitable organizations features such coffees, particularly fair trade, and some regulate that this shall be so. Sweden and Denmark are leaders in this but Finland shows little interest while Norway is just beginning to move in this direction.

The coffee market in Northern Europe

The 36.6 million bag consumption among western Europe's 17 nations in 2001 meant an overall small market growth of about .2%. Early indicators for 2002 show stronger growth. Many northern European countries have been stagnant in their consumption rates despite lower prices. Germany, the region's leading market, has experienced growth in its differentiated markets but an overall decline due to its reduced consumption of standard commercial coffees. The Netherlands and Austria, long bastions of coffee consumption, have seen their markets decline more than most, losing about 1% annually over the last five years.

A curious phenomenon has been noted in much of the region: that consumption has not responded to lower retail prices. Some analysts explain this by citing the increased substitution of higher quality milds with robusta and lower quality arabica and while there is certainly anecdotal evidence of this, it is not conclusive. The contrary argument holds that natural arabicas are a different rather than a lower quality and provide a distinct flavor profile that is useful in darker roasted coffees. This is given some credibility by the general increases in the espresso category across a number of countries where usage of Brazilian naturals has increased. Other low-cost coffees, primarily robusta, have fueled the recent increases in many of the emerging markets that require lower-priced coffees, usually in the form

of soluble. These varied points of view indicate that the simple dichotomy of good coffees vs. bad coffees may be somewhat too simplistic in complex and fast-moving markets. Some observers note that the natural evolution of these markets, particularly for sustainable coffees, will require that much more attention be paid to branding and promotion, in addition to quality, especially as other beverages successfully compete for market share.

The UK is of course an anomaly in Northern Europe because of its very high levels of soluble consumption. However, the range of these solubles is rather broad and they are certainly not entirely of low quality. Organic and fair trade organizations, during their early development, were often driven more by idealism than by professionalism or a quality orientation. Unfortunately, this sometimes made it more difficult for them to grow beyond a cause-oriented niche. Increased quality and professional business management have already yielded good results for both fair trade and organic coffees that are increasingly earning valuable shelf space in major retail outlets such as supermarkets.

The coffee market in Southern Europe

The markets in southern Europe show more positive consumption trends with market leaders Italy and Spain both showing average growth rates of between 1.4% and 1.9% in recent years. Even so, a recent roaster survey showed that the majority of Italian coffee consumers (65%) would pay more for good, high-quality coffee.³³ Southern Europe's smaller markets such as Portugal and Greece are also showing notable growth rates even though many of these markets are growing primarily in less-expensive coffees.

Although increases in certain Robusta and Brazils are also occurring in southern Europe, they appear to be having a different effect on consumption. One of the most probable explanations for this takes into account the fundamentally different tastes of these markets. While northern Europe has learned to appreciate the bright nuanced acidity most notably found in the Milds group, southern Europe has tended toward the less acidic and heavier body coffees that lend themselves well to darker roasts and shorter preparation methods like espresso. The substitution therefore is likely to be much more evident to consumers in northern markets than those in southern markets.

There is somewhat less concentration of the coffee business in southern Europe although this too is changing. Many countries now demonstrate a heightened level of awareness about organic and fair trade coffees in the past 2 - 3 years. This coincides with recent food safety shocks in northern Europe and the explosive emergence of certified organic agriculture, particularly in Italy.

Volumes

As we have noted, organic, eco-friendly, and fair trade coffees are distinct. However, it appears that the market often does not perceive them as such. There is growing evidence that consumers closely associate these coffees and do not draw a great distinction between them. These sustainable coffees, particularly organic and fair trade, have accumulated credibility and goodwill and there is some speculation that consumers would prefer not to have to make a choice between organic and fair trade. The increasing requests of major retailers to have coffees with both certifications also point in that direction.

In fact, this convergence has been occurring for several years as indicated by the increase in the

³³ Source: Feb. 12, 2001 issue of Coffee Fax (cac.inc@ix.netcom.com)

Table 6.1 Fair trade coffee (volume green purchased from origin)

| Year | Percentage purchased organic |
|------|------------------------------|
| 1996 | 1 % |
| 1997 | 14 % |
| 1998 | 19 % |
| 1999 | 30 % |
| 2000 | 39% |
| 2001 | 44 % |

amount of fair trade coffee that is also certified as organic. In early 2002, 44% of the active fair trade production was also certified as organic coffee.

Germany is both the dominant coffee consumer in Europe and also the most important consumer of sustainable coffees. The Netherlands also has considerable sales and its companies are also

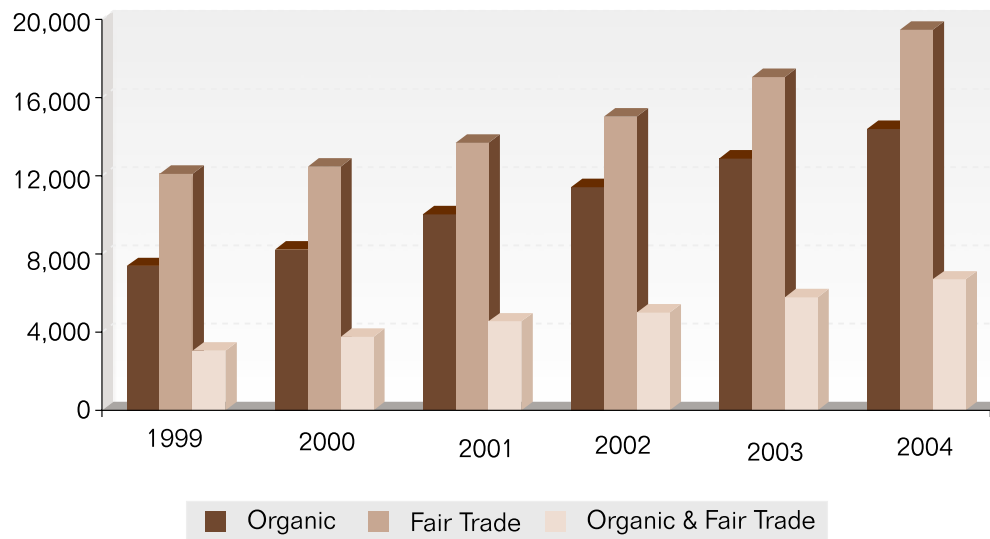
important for their forwarding of these coffees to other European markets. The United Kingdom, who like the Netherlands has a strong fair trade market, is the No. 3 consumer of these coffees even though its coffee market is not particularly large and has traditionally been focused on convenience or soluble coffees. Sustainable coffees have the highest market share in Switzerland and Denmark and are also strong in

Table 6.2 Coffee figures at a glance for 2001

| Country | Population 2000 millions | Total Consumption metric tons green | Total Sustainable | | |
|---------------------|--------------------------|-------------------------------------|----------------------|-------------------|------------------|
| | | | % growth 2000 - 2001 | metric tons green | Market Share (%) |
| Belgium | 10.2 | 62,918 | 8% | 1,068 | 1,7 |
| Denmark | 5.3 | 50,000 | 6% | 1,685 | 3,4 |
| Finland | 5.2 | 56,734 | 15% | 213 | 0,4 |
| France | 59.2 | 330,800 | 75% | 1,338 | 0,4 |
| Germany | 82 | 549,500 | 5% | 5,945 | 1,1 |
| Italy | 57.5 | 301,976 | 53% | 947 | 0,3 |
| Netherlands | 15.9 | 140,552 | 2% | 4,136 | 2,9 |
| Norway | 4.5 | 42,600 | 18% | 439 | 1,1 |
| Sweden | 8.8 | 91,700 | 41% | 1,477 | 1,6 |
| Switzerland | 7.2 | 58,000 | -4% | 1,610 | 2,8 |
| UK | 59.4 | 145,000 | 21% | 2,408 | 1,7 |
| Europe Total | 315.2 | 1,829,780 | 12%* | 21,266 | 1,1%* |
| Japan | 131.6 | 421,309 | n/a | 1615 | 0,4 |

* The percentages represent weighted averages. The average market share across the countries is 1.6%

Figure 6.1: European sustainable coffee consumption and projections (Metric tons green)



Sweden, Finland and Norway, despite long availability, have shown less interest to date and their markets are relatively small. Italy, which is a major consumer of organic products, has, like France, very recently made sustainable coffees more widely available and both are growing quickly. For Japan the year 2001 was probably an anomaly due to the impending JAS. By 2002 Japan has become the second-largest consumer of organic coffees, after the U.S., and has raised

its total certified sustainable coffee volume to about 5000 tons. This represents about 1.4 percent of the total Japanese market.

Individual markets for fair trade and organic, or both combined, have steadily grown at a pace faster than the overall coffee markets. Of course, they start from a much smaller base. It is evident from the Table below that while fair trade continues to grow, organic is growing at an even

Table 6.3 European market for sustainable coffee (Metric tons greens)

| Year | 1999 | 2000 | 2001 | 2002 est. | 2003 est. | 2004 est. |
|--------------|-------|-------|-------|-----------|-----------|-----------|
| Fair trade | 14064 | 14354 | 15437 | 16232 | 17870 | 19573 |
| Organic | 7798 | 9270 | 11174 | 12162 | 13221 | 14405 |
| Organic & FT | 4074 | 4701 | 5346 | 5660 | 6101 | 6590 |
| Totals | 17787 | 18923 | 21266 | 22733 | 24991 | 27388 |

slightly faster pace overall. This of course varies in each market and in some individual cases the reverse is actually true.

In the past two years there have been a number of published estimates made for some or all of the sustainable coffees. These include assessments by the International Trade Center of the United Nations Conference on Trade and Development (UNCTAD) (2001 & 2002), ICO (2000), Agro-Eco Consultancy (2001), The Organic Trade Association (2001), the International Institute for Environment and Development (1997), the Swiss Institute for Organic Research (2001), Mick Wheeler (2002), Courville (1999), Sturdivant (1999), Latin Trade (2000), and Cornell University's Caitlin Brady (2001). These assessments cover a rather considerable range of estimates. Nevertheless, all of them concur that the global market for these sustainable coffees do not exceed 5% of the total coffee market. Most, but not all, are based on an expert estimate rather than primary research. Our research, that includes interviews of the majority of businesses involved in the importation, roasting, and distribution of these coffees, puts the figure at less than 2% of consumption in Japan and most major European markets. The share is closer to 1% in North America. The value share of these coffees is of course higher since they all command price premiums.

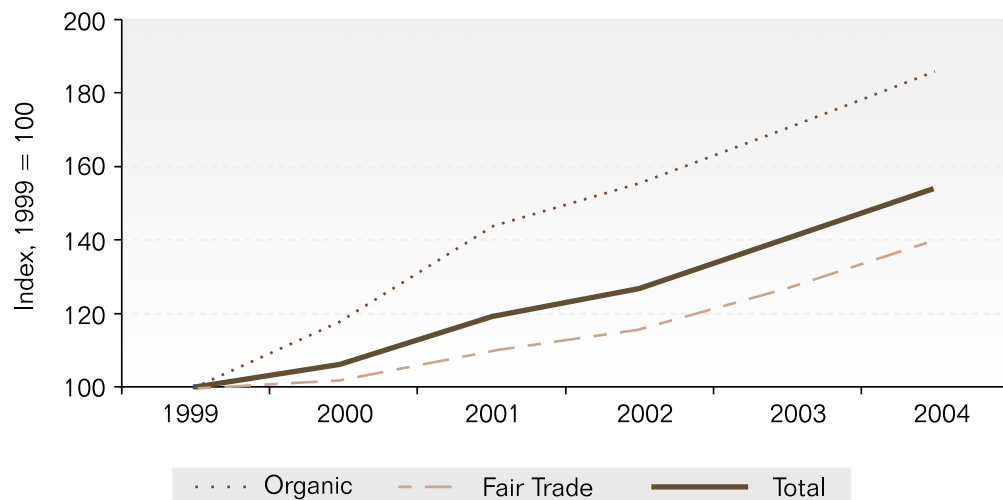
Trends

Fair trade will continue for at least a few years to be the volume leader among these coffees in Europe while organic certification is growing at a faster rate. Eco-friendly or shade-grown coffees are beginning to appear in a few markets and, although their selection and volume is still marginal, they could quickly increase their popularity particularly since their characteristics have been known to appeal to high-volume distributors in North America and Japan.

Between 1999 and up to 2002 average overall annual growth of these sustainable markets was approximately 8.3%. Although there will be wide differences between countries and even types of coffee, more modest growth is expected for 2002-03 and stronger growth in 2004-05. These predictions appear to reflect the coffee industry's confidence in sustainable coffees. Coffees that are double certified - both fair trade and organic - are likely to be the most popular. By 2004, the European sustainable coffee market is expected to grow by 55% to 65% from its 1999 level, representing an average annual growth rate of just under 10%. The sustainable markets in France, Sweden and Italy saw the greatest growth rates from 1999 to 2001 - particularly France that grew by 175% (representing the largest shift in volume). Sweden and the United Kingdom also saw significant growth in volume between the same years.

The fair trade sector represents the clear majority of all sustainable coffees sold in Europe and thus greatly influences the overall sustainable market. By 2004, the fair trade sector should grow 61% from its 1999 level. France, Norway and Sweden represented the greatest fair trade growth from 1999 to 2001 (253%, 218% and 61% respectively) - yet all three countries started from a rather small base. Germany, the Netherlands and the United Kingdom were top consumers of fair trade coffee in 2001 but the German and Dutch markets appear to be stagnant with only modest growth projected whereas the UK's prospects are more positive.

Organics constitute the most significant component of overall sustainable market growth and optimistic estimates expect that it can grow more than 80 percent in volume between 1999 and 2004. Italy, Sweden and the United Kingdom represented the greatest organic growth from 1999 to 2001; yet out of these three countries, Sweden was the only country which did not start from a small base. Germany, Sweden and Denmark were the top three consumers of organic coffee in 2001.

Figure 6.2 Estimated growth of european sustainable market

Since growth rates for conventional coffee are expected to be modest at best, sustainable coffees will likely continue to gain in market share. At their current pace these could reach to about 6 percent in a few markets, by the end of the decade. The increased demand for these and other differentiated coffees appears to coincide with wider social interests such as health, food safety, the environment, and social accountability.

Organic foods in general are achieving unprecedented popularity. Global organic food sales were about US\$26 billion at retail in 2001 with general expectations of continued strong growth. With half these sales occurring in Europe where persistent food safety issues continue to drive demands for traceability, it seems likely that organic standards will become increasingly popular. This is likely to be reflected in increased organic coffee sales as well, even if very few food safety issues apply to coffee. Supplies of these coffees will also be augmented by the increasing acceptance of environmental and organic farming principles in mainstream agronomic programs and in the extension services of many countries. However, there are still considerable inefficiencies in the typical organic supply chain

and these have been noted as a key inhibiting factor to lower prices in a recent OECD meeting on organics (OECD 2002). Eco-friendly coffees are closely associated with organic principles and are likely to also benefit from increased consumer consciousness of environmental issues.

Fair trade benefits from the increasing awareness among consumers and buyers of how their purchasing power directly impacts corporate social responsibility as well as labor standards in developing countries and ethical trade issues. Overall fair trade sales have enjoyed steady volume growth of nearly 20% per year on average from 1999 through 2002. Coffee has grown overall but with considerable disparities between countries.

There is a concern that in some markets fair trade coffee may have hit a glass ceiling, unable to grow beyond its affinity with a more socially conscious but limited market. Surveys show that despite a considerable acknowledged willingness among consumers to pay more for such products, they have not yet attained important levels of market share. It remains to be seen whether new marketing approaches and new initiatives among

some of the major European retailers might open the door to a larger market for fair trade coffees.

Certification is critical for the sustainable coffees and the confusion surrounding the certification labels could hinder growth, especially in mainstream retail channels. Organic certification has been steadily gravitating toward common principles (IFOAM) and common regulatory standards but remains generalized in terms of both biodiversity and socio-economic standards. Fair trade is gravitating toward increased organic certification - currently 45 percent is organic - but is not typically associated with environmental or biodiversity although these are general considerations for many fair trade producers. The most thorough of the eco-friendly certifications, Rainforest Alliance's seal covers many, but not all, of the social and environmental aspects of production but offers modest economic premiums.

Many observers feel that organic and fair trade customers have inherently different motives: personal or environmental health is often associated with organic purchasing decisions whereas social solidarity is more often associated with fair trade. However, large retailers appear to be increasingly signaling that they and their customers want a simple sustainability message rather than a variety of choices. This coincides with a private survey conducted by one major retailer indicating that their customers were only moderately familiar with the different certifications. If future expansion of these coffees will rely on the consumers currently patronizing mainstream market channels, then a simplified message could be beneficial. Discussions currently underway between the different certifiers for fair trade, organic, and eco-friendly could eventually lead to coordination of their common interests into a simpler and more comprehensive super seal to facilitate consumer education, promotions, and market acceptance.

Without such efforts it will be more difficult to compete with the emerging alternatives to the

accredited or third party verified certifications, especially those that seek to free-ride on the credibility and pioneering of certified programs with their own programs that do less for farmers and are not independently verified.

Much of the coffee industry feels that the premiums paid for sustainable coffees are equitable and are justified. While most of the industry predicts that organic premiums will continue they also project that, as supply competition heats up over the next few years, these could erode. It is unlikely that fair trade's minimum prices will change although several firms that carry fair trade coffees feel that the considerable difference from the prevailing market price is permitting alternatives, particularly corporate ones, than could eventually confuse consumers and dilute fair trade's impact.

Distribution channels in all of the markets for sustainable coffees have expanded enormously in recent years. This is all being facilitated by an increasing number of traders, including the largest global players, who are getting increasingly involved in these coffees. The expansion has been particularly evident at the retail level where supermarkets and high-volume multiple store chains have joined the specialty retailers in this business. Many of the specialty retailers including coffee shops, fair trade stores, health food stores, and independent grocers are consequently seeing their market share eroded. There is a dramatic difference between countries in the institutional or out of home channels for sustainable coffees and many have a considerable untapped potential in this area. These include restaurants, cafes, companies, government and healthcare organizations, and even vending machines.

The majority of the sustainable coffees to date are sold as roast and ground or whole bean and have had a stronger presence in the upmarket segments, i.e. gourmet and higher quality mainstream blends. While this will probably continue, there is also an emerging trend toward

lower-cost coffees to accommodate price conscious mainstream retailers. Many traders expressed a demand for very basic quality coffees (not poor quality) such as common Brazils and even robustas.

Although the percentage of committed consumers that insist on socially responsible coffee may be small, many mainstream retailers are counting on the likelihood that when given a choice most consumers will select a product that appears healthier or more socially responsible. It is imperative therefore that these coffees be priced competitively to facilitate that choice. Retailers in some European countries like Germany and Switzerland are already pricing some of these coffees only marginally higher than their conventional counterparts. In other countries like the UK where these coffees have been marketed into the high-quality channels the cost differences are on occasion considerable and it remains to be seen whether this may stifle a broader acceptance in the marketplace.

While the cause-related aspects of fair trade or organic are important differentiators in the marketplace, two other aspects are just as important for farmer sustainability: consistency and quality. It should be noted that quality is defined as “sufficient to meet the buyer’s needs” and does not necessarily have to be of the highest quality, unless it is for the gourmet market, since average coffees are often needed as fillers in blends to keep cost low. This is especially true since the industry feels that quality is improving overall and that competition is increasing among producers of these coffees. Equally vital are the relationships developed as a result of consistency in both the quality of the coffee and the business practices of the farmer or cooperative. These two types of consistency are perhaps the most valuable supplier characteristics that emerged from trade interviews and discussions. Business can bear a lower quality coffee but it has a very low tolerance for the increased risks of having an inconsistent supplier. There are evidently considerable costs and risks, i.e. lateness or

nonperformance, that discourage buyers from switching to new sources of supply and most are reluctant to change from a consistent supplier even when a competing supplier offers small advantages or inducements.

Key factors for further growth

Members of the industry were asked to “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

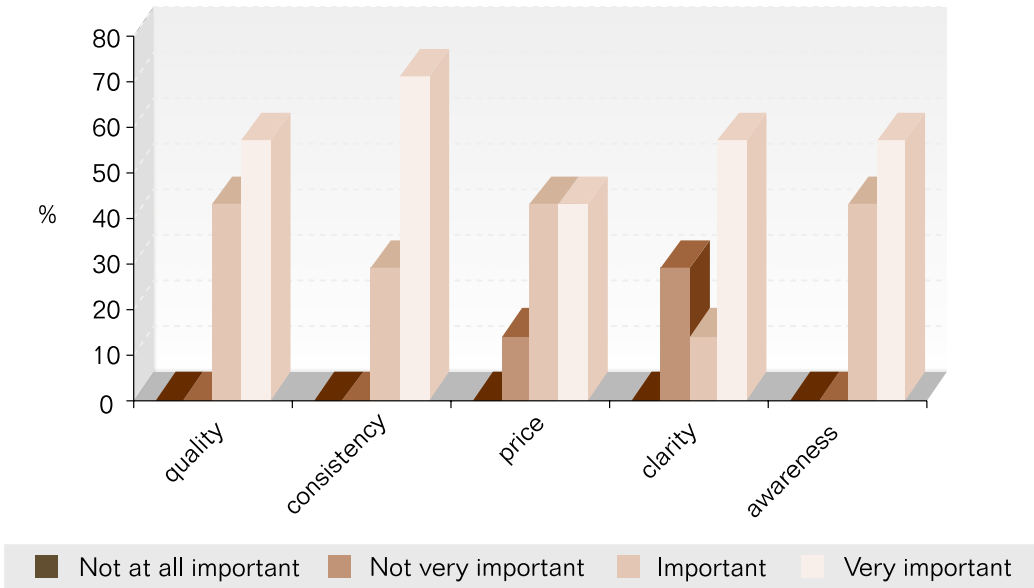
- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

If the industry does not fulfil these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 6.3).

The highest importance was given to consistency of supply, closely followed by (cup) quality and customer awareness of sustainable coffees. Other factors that were considered to influence market growth were: reliable traceability; lack of top quality fair trade and organic coffee; inadequate information; difficulty in administering a separate parallel process for organics.

For small coffee growers in many countries, coffee provides their primary source of cash income and so even modest premiums can make an appreciable difference. A strong majority of the roasters and importers involved with the sustainable coffee industry feel that the premiums paid for sustainable coffees, in general, are

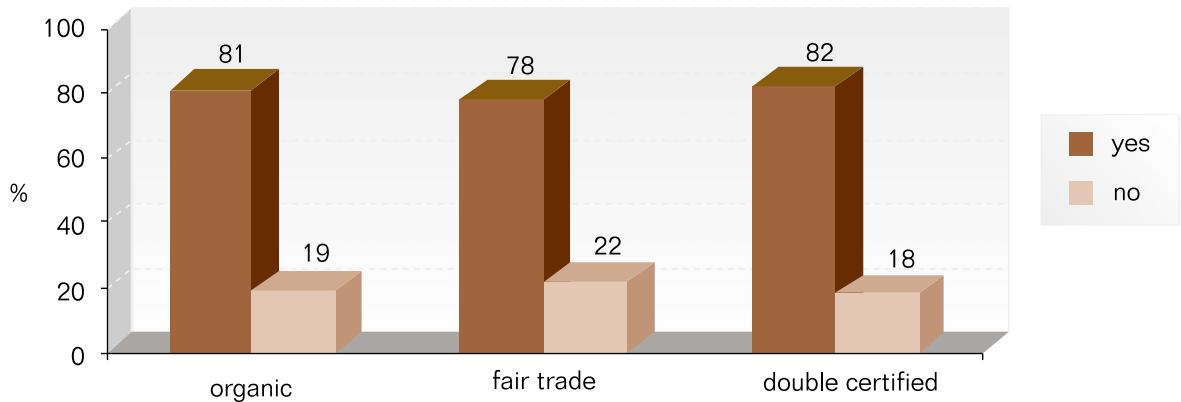
Figure 6.3 Key factors for the expansion of sustainable coffees



reasonable and justified (figure 6.4). Some of the most vocal complaints came from respondents who felt that fair trade prices are too high considering today’s low market prices. A number of the firms who balked at fair trade prices claimed to do so because they were not convinced that a significant portion of the benefits actually reached the producers.

Over the next two to four years a clear majority of the respondents considered that the fair trade premiums, which are regulated by FLO, will continue. The industry was just about evenly divided on whether organic premiums will continue to be similar, with a small majority predicting that they will remain close to current levels. More than three-fourths of respondents

Figure 6.4 Are current premiums considered to be reasonable?



felt that double certification will be in high demand and the premiums for it will continue to be strong (figure 6.5).

These markets are still relatively small and many feel that premiums are unlikely to remain at a high level for more than a few years as more and more producers enter the market. Most agree that reasonable premiums are certainly expected to continue for the near to mid term.

Sustainable coffees have proven their quality and acceptability in the marketplace. More recently they have also become more widely and more consistently available, thereby consolidating the introductory phase of their lifecycle. It appears that the salient characteristic of the emerging marketing phase for these coffees will be their development as branded products in order to achieve a more widespread appeal and acceptance.

Branding, promotion, and advertising strategies will be increasingly important as mainstream retailers take over more of the business and consumers necessarily lose the personal attention of specialized retailers that introduced them to the nuances of sustainable coffees. This represents a paradigm shift in the traditional

methods of marketing these coffees but will be vital for their future growth.

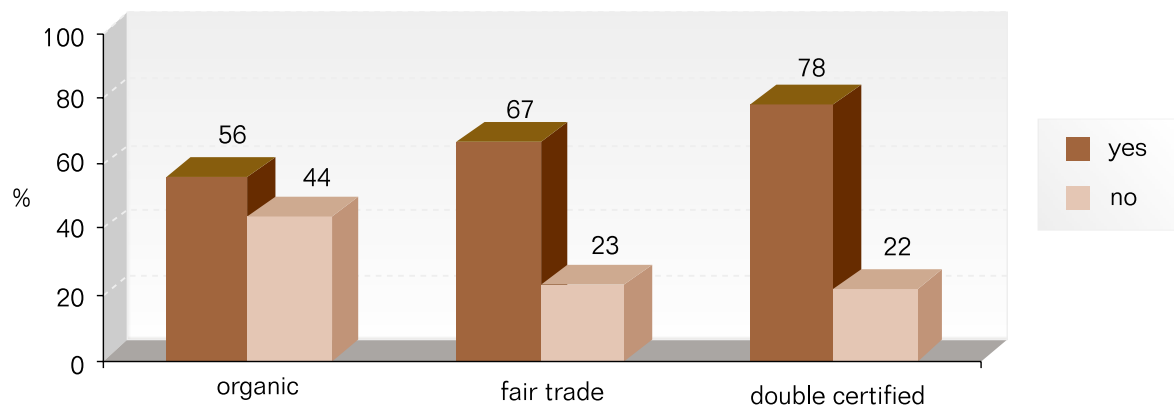
This shift has already begun in some markets like the UK and Belgium. In the UK, Cafédirect is a leading fair trade label and has positioned itself as a high-quality brand and achieved considerable success. In Belgium, Delhaize is a major coffee roaster and retailer that has successfully introduced a wide range of quality coffees with organic and/or fair trade labels.

On the other hand, in Germany for example, the lack of strong brands with an appeal to wider audiences could be a major market hindrance for sustainable coffees.

Overall the industry is cautious but optimistic about the future. It recognizes that these sustainable coffees are not only important for the health of the coffee industry but also that these are no longer inconsequential niches.

Some speculate that over the course of the next decade such coffees will become a strong rather than a marginal segment in the industry. As such, they may eventually become more of a competitive standard rather than a competitive differentiator.

Figure 6.5 Will premiums continue at their current levels in the medium term?



Part II

Individual Country Summaries



Loading fresh coffee cherries



Sorting dried coffee beans

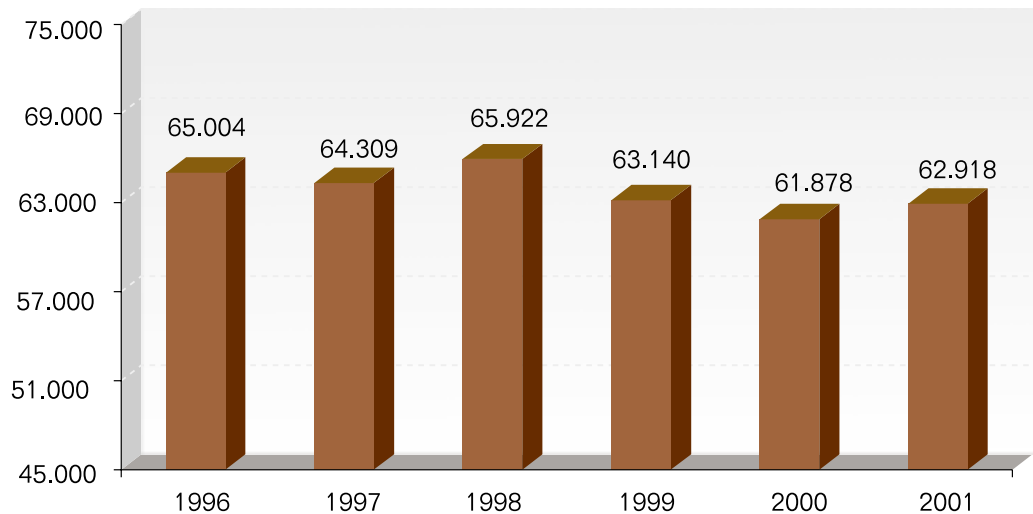
7.

Sustainable Coffee in Belgium

The overall market context

In 2001 the total coffee consumption in Belgium and Luxemburg³⁴ increased by 2 percent to 62,918 tons (figure 7.1). This was the first increase after two consecutive years of a decreasing market, yet the market is forecast to remain stagnant.

Figure 7.1 Total Belgian coffee consumption (Metric tons greens)



Source: *European Coffee Federation, 2002.*

³⁴ Lacking separate reports on the conventional coffee markets of Belgium and Luxemburg, the integrated figures presented here are the closest approximation of the Belgian conventional market. Since Luxemburg in 2000 counted with 0.436 million inhabitants and Belgium with 10.236 million (Eurostat), this gives a possible margin for error of roughly 4%.

The recent increase in sales does not alter the downward per capita consumption trend. Between 1990 and 2001, per capita consumption decreased from 7.0 to 6.2 kg of green coffee (minus 11 percent). Compared to 1999, per capita sales have remained the same (figure 7.2).

According to market research from AC Nielsen, retail coffee sales were 35,000 tons in 2000, or 66 percent of the total coffee market. This means that the non-retail sales amount to 34 percent of the market, which gives an indication of the out-of-home consumption. Since some companies and institutions buy their coffee from retail outlets, the real out-of-home consumption will actually be larger.³⁵

Robusta coffee, often imported from the Congo, traditionally dominated the Belgium market (as in France). Gradually, however, mild coffees and arabica from Brazil gained in importance and the consumption pattern (particularly in the Flemish

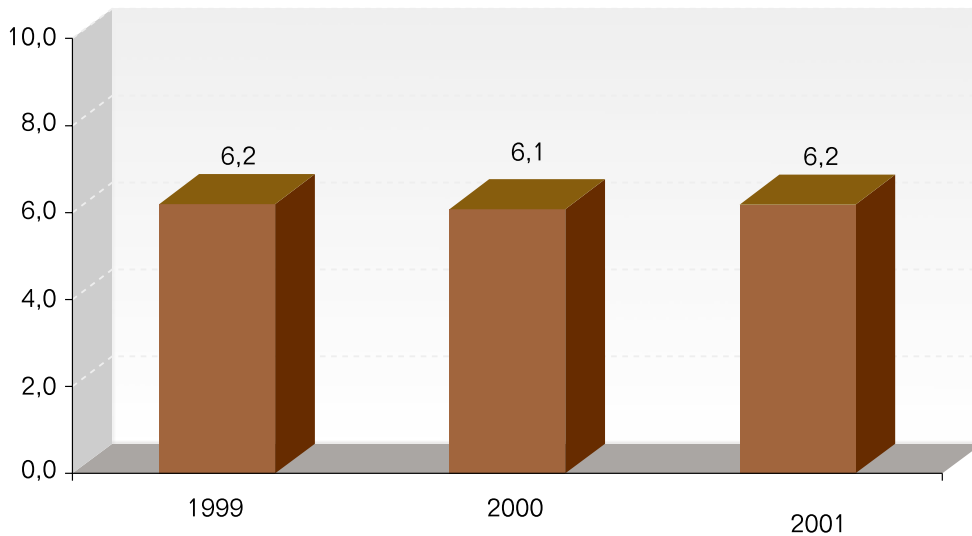
region) has become more similar to that of the Netherlands and Germany.

The Belgian market for organics and fair trade

Organic coffees were first introduced to Belgium in 1986 - 7, while fair trade came slightly later under the Max Havelaar label in 1991. Belgium is divided into Flemish (Dutch-speaking) and Walloon (French-speaking) communities and this is also reflected in the sustainable coffee market. Expert sources indicate that the market share of Max Havelaar fair trade, and to a lesser extent organic coffees, is substantially higher in Flanders than in the French-speaking part. In this respect, the overall market share of these coffees could be somewhat misleading.

Fair trade coffees constitute the largest segment of sustainable coffees in Belgium with 730 tons,

Figure 7.2 Total Belgian per capita consumption (kg green)

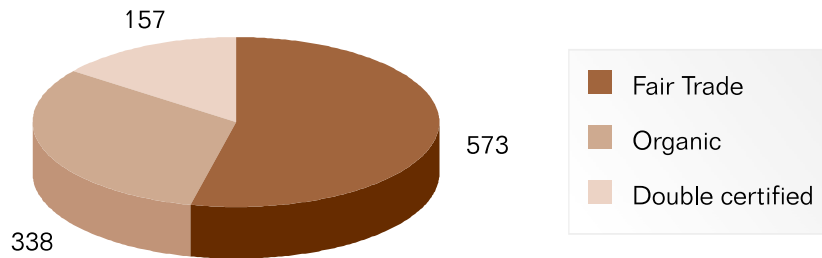


Source: *European Coffee Federation, 2002.*

³⁵ Max Havelaar Belgium office, personal communication



Figure 7.3 Sustainable coffees by type in 2001 (Metric tons green)



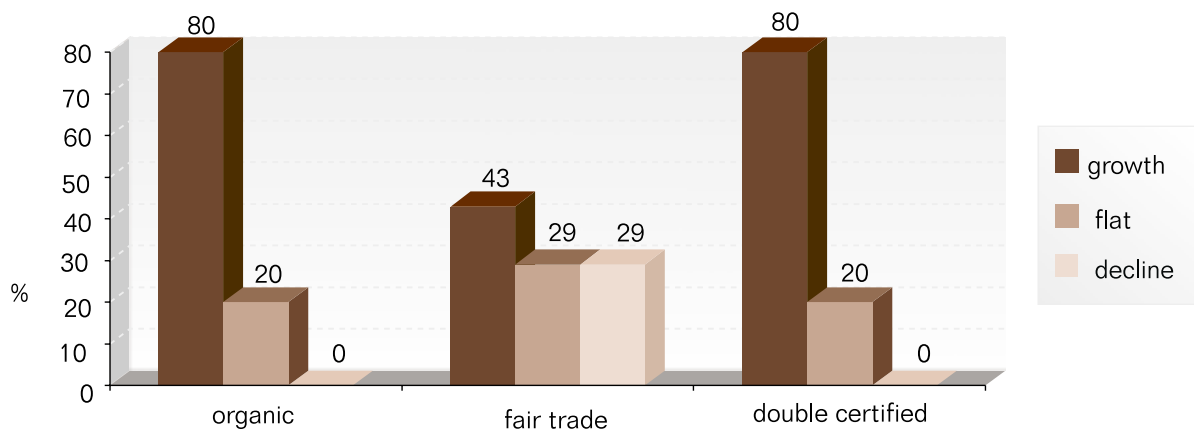
while organic coffees account for 495 tons – including double certified coffees. A relatively small portion of 15 percent (157 tons) of all sustainable coffees is double certified (figure 7.3). Most sustainable coffees (86 percent) is mainstream quality roasted coffee, the remainder is gourmet quality roast and ground and some instant. Gourmet sustainable coffees account for just over 100 tons, which is almost entirely organic.

After a slight dip in the late 1990s, Belgian Max Havelaar sales increased at just over 10 percent

per annum over the last two years. The market share thus increased a little to 1.1 percent.

The growth performance of the sustainable coffee sector in 2001 is summarized positively by the industry (figure 7.4). Both the organic and the double certified segments showed a very positive development in 2001, with 80 percent of respondents experiencing growth or strong growth.³⁶ In the fair trade-only segment the results were mixed, while the double certified coffees in majority experienced growth.

Figure 7.4 Belgian sustainable coffee growth in 2001



³⁶ The categories were defined as follows: strong growth: 16% and above; growth: 6 to 15%; about flat: - 5 to 5%; decline: - 6 to - 15%; strong decline: - 16% and below.

Certification

As elsewhere in the EU, all coffee that is sold as organic must, by law, be certified. Fair trade coffee is certified by the Fair Trade Labeling Organizations International (FLO) and is sold in Belgium with the Max Havelaar label. There are no significant alternative fair trade labeling schemes in Belgium.

Most respondents - nearly 70 percent - do not consider certifications to be confusing for the industry. At the same time, they consider that certifications are confusing to the vast majority of consumers (figure 7.5).

The respondents that do not find certifications confusing point to the fact that there are only two (dominant) sustainability labels in Belgium: *Biogarantie* for organic products and *Max Havelaar* for fairly traded products. The respondents who do consider the certifications confusing point out that there are a number of adjoining labels that make similar claims, or, that the exact content of the labels is not known to most of the customers.

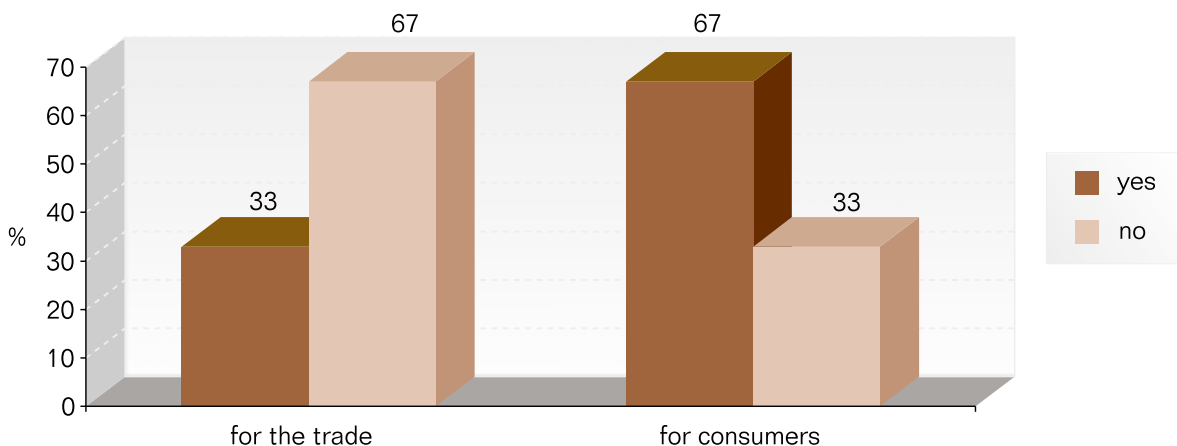
Two certification agencies are accredited by the Belgian government for inspection and certification of organic produce. These are *Blik*,

which is primarily used by the Flemish business community, and *Ecocert*, that is dominant among the Walloon community. Both organizations issue the same “biogarantie” label, which clearly enhances the transparency of organic certification. This label is used by the majority of coffee roasters and distributors.

Next to the Belgian Blik and Ecocert, the most popular organic certifiers are *BCS Öko* (Germany) and *IMO* or *IMO/Naturland*. *Biolatina*, *Demeter*, *KRAV* (Sweden), *OCIA* (USA) and *SKAL* (Netherlands) are sometimes used as well, for example when coffee is imported from other EU countries as a final product. These are both primary and final certification agencies.

IMO/Naturland, *BCS Öko*, *Biolatina*, *KRAV* and *OCIA* operate as primary certification agencies for the Belgian market. They carry out inspection and certification in the field. *Demeter* is the hallmark of the bio-dynamic production philosophy, which can be seen as an extended form of organic production. Final certification agencies like *Blik* and *Ecocert* Belgium will typically only re-certify the organic produce which has been primarily certified in origin by a different agency. Recertification will allow a company to use the corresponding domestically recognized label and logo.

Figure 7.5 Are certifications considered to be confusing?





As in other countries, critical comments about the excessively bureaucratic and tedious process of recertification were received in Belgium. For the Belgian market this process involves both the primary and final certification agencies and the Ministry of Agriculture. Recently, the organic regulations have become more strict, requiring that customs clearance only be allowed after the recertification process has been finalized.

This may result in month-long delays before green coffee is cleared to enter. A related issue is the difficulty with acceptance of origin (primary) certification agencies. Even internationally established certifiers like OCIA may face difficulties in this respect.

The official FLO-price for fair trade coffee in late 2002 translates to a fair trade premium of around 70 cents per lb for milds.³⁷

The majority of Belgian respondents find that the different premiums they pay for green coffee are reasonable. Only 20 percent found organic premiums unreasonable and 25 percent objected to the fair trade prices (figure 7.6).

Over the next two to four years all of the respondents considered that the fair trade premiums, which are regulated by FLO, will continue. The majority also considered that organic premiums will continue to be similar, but a minority of just over 30 percent thought these might shrink somewhat (figure 7.7).

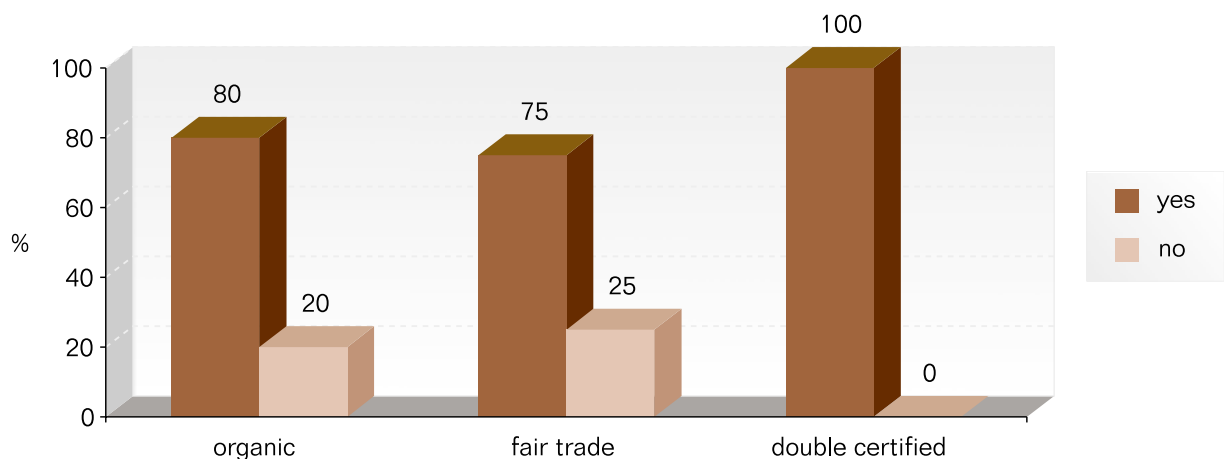
Premiums

Green organic coffee was bought at premiums ranging from US\$0.18 to \$0.30 per lb, according to Belgian buyers. The overall median value was 20 cents per lb.

Retail prices

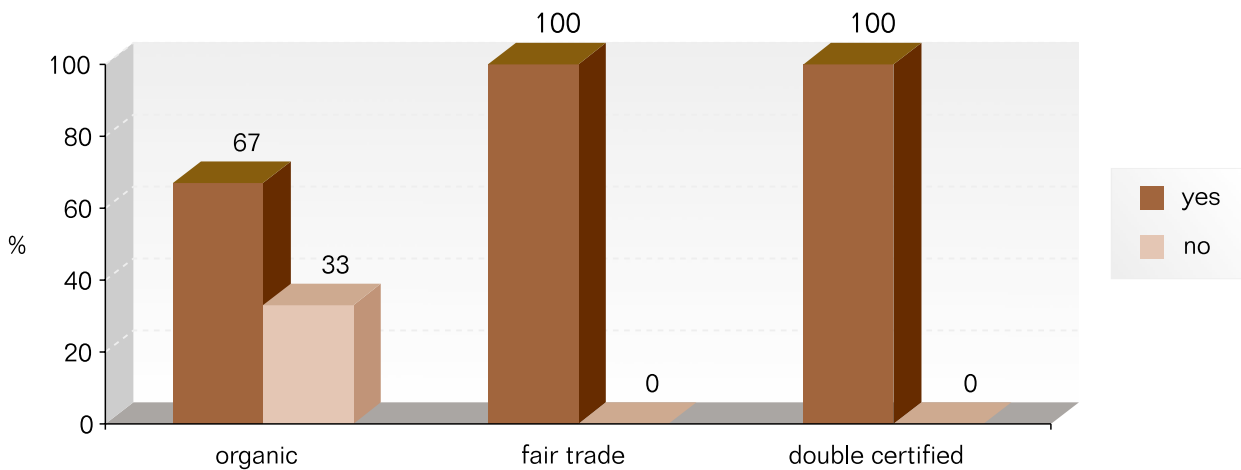
Mainstream quality sustainable coffees were offered at a premium of 20 percent or €1.40 per kg compared to conventional mainstream coffees

Figure 7.6 Are current premiums considered to be reasonable?



³⁷ The FLO guaranteed minimum price is set at 126 US\$ cents per lb for other milds and 106 cents for robustas (FOB origin).

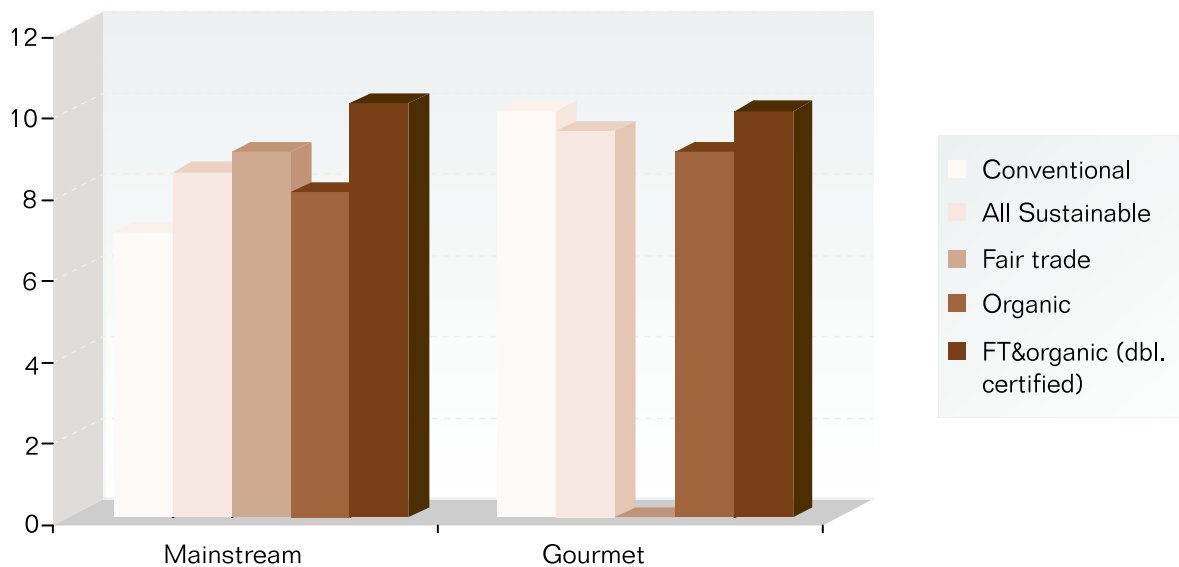
Figure 7.7 Will premiums continue at their current levels in the medium term?



at the end of 2002.³⁸ Gourmet sustainable coffees, on the other hand, were offered at a discount of 4 cents per kg compared to conventional gourmet, indicating that their green bean premiums could be absorbed at the retail level (figure 7.8).

Most sustainable coffees belong to the mainstream roast and ground segment. The median retail price of such coffees in our sample was €8.52 per kg, and this is still substantially below the median price of gourmet coffees

Figure 7.8 Retail prices of Belgian coffees by type (€ / kg)



³⁸ The European Coffee Federation quotes an average ICO roast and ground consumer price over 2001 of US \$ 6.26 per kg. This is a weighted average that includes both gourmet and mainstream coffees.



(selling at €9.94³⁹). Double certified coffees are by far the most expensive (premium €3.08 per kg or 43 percent). The organic coffees that are not certified fair trade are the most affordable, with a premium of plus 10 percent or €0.68 per kg.

The sustainable “traditional instants” in our sample (offered simply without other flavors or ingredients), were offered at a median retail price of €34.50 per kg, which means at a premium of 10.65 or +45 percent. The organic and double certified instants are the most expensive. There were no sustainable “new instant coffees” found.

Significant supplying countries for sustainable coffees

Mexico and Peru are most often cited by the industry as their major suppliers of sustainable coffees. These are followed closely by Guatemala, Nicaragua and Costa Rica. Ten other suppliers were mentioned, of which the most important are: Tanzania, Bolivia, Colombia and Uganda. All of these countries supply both fair trade and organic coffees.

The Belgian market structure

Sara Lee/Douwe Egberts roasts about half of all the coffee consumed in Belgium but has not handled these certified sustainable coffees, leaving them to a number of smaller roasters and roaster retailers. Most supermarkets now sell fair trade and organic products. The leading food retailers *Delhaize*, *Carrefour/GB* and *Colruyt* have each embraced the organic concept and to a lesser extent fair trade. Delhaize, the number two supermarket, has been particularly active in promoting organic and fair trade products. It has a good reputation as a coffee roaster and offers

the largest assortment of organic, fair trade and double certified coffees, including a number of specialties. The others, including market leader Carrefour/GB, are following. Carrefour/GB currently only offers these coffees as mainstream blends. Each of the leading chains have recently introduced fair trade and organic products under private labels.

Oxfam *Wereldwinkels* (World Shops) is the Belgian pioneer of fair trade products including coffee. They are the leading sustainable coffee brand, offering both fair trade and double certified coffees. Although their traditional stronghold are the *Wereldwinkels*, they are increasingly active in the mainstream retail channel.

Specialized retail channels that sell sustainable coffees include 275 world shops (supplied by Oxfam *Wereldwinkels*), organic and health food stores and specialty coffee and teashops.

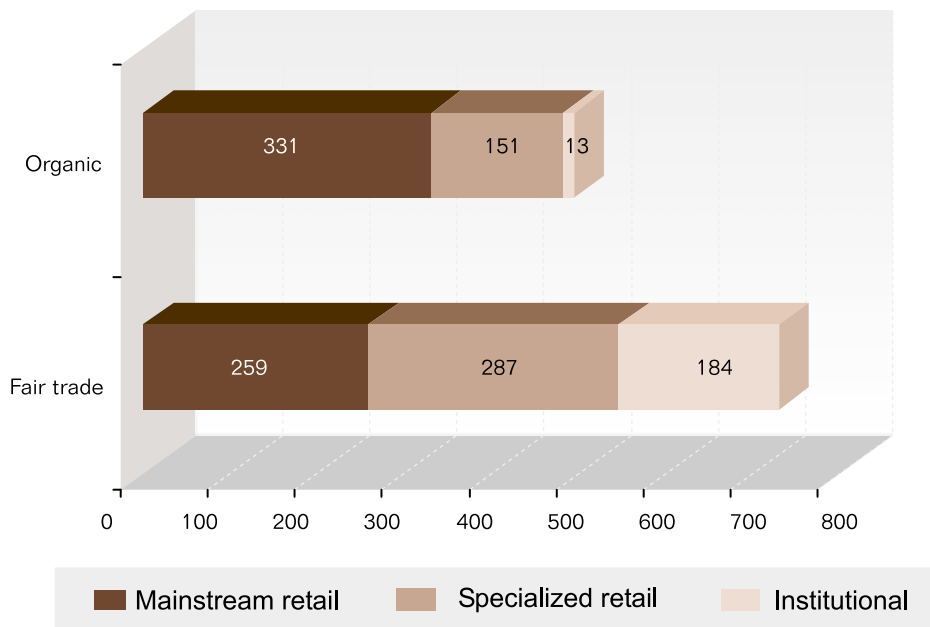
The institutional market for fair trade coffees is particularly well developed. Max Havelaar Belgium indicates that 50 percent of all Max Havelaar sales are to this channel (which is similar to the figure in the Netherlands). For organic products the institutional channel is less developed (figure 7.9).

Whereas fair trade coffees have important sales volumes in each of the major channels, organic coffees are primarily sold in the mainstream retail channel and, to a lesser extent, in the specialized retail channel. In mainstream retail, organic coffees are even more important than fair trade coffees. In the specialized retail channel, fair trade coffees are more important. The out of home channel is hardly developed for organic coffees.

According to our survey, the mainstream channel will experience the strongest growth both in the

³⁹ The sample consisted of 33 sustainable coffees and 157 conventional coffees offered in Belgian retail outlets in October 2002.

Figure 7.9 Market channels for sustainable coffees by type. Tons of green coffee equivalent



organic and fair trade segment. This seems to be the largest channel for sustainable coffees.⁴⁰ The specialized retail channel is expected to experience limited growth. For the out of home channel traders expect limited or negative growth in 2002, but a strong recovery in 2003.

Trends in the Belgian market

- ▼ There is increasing interest in safe, healthy and sustainable food, especially after several food safety scares and scandals and this could fortify sales of organics and fair trade.
- ▼ There is increasing interest in doing business responsibly, and fair trade's Max Havelaar is in a position to take advantage of this.

- ▼ In the institutional segment self-service coffee vending machines are replacing the traditional methods of coffee brewing, leading to new commercial alliances and increased competition in this segment as smaller companies are edged out.

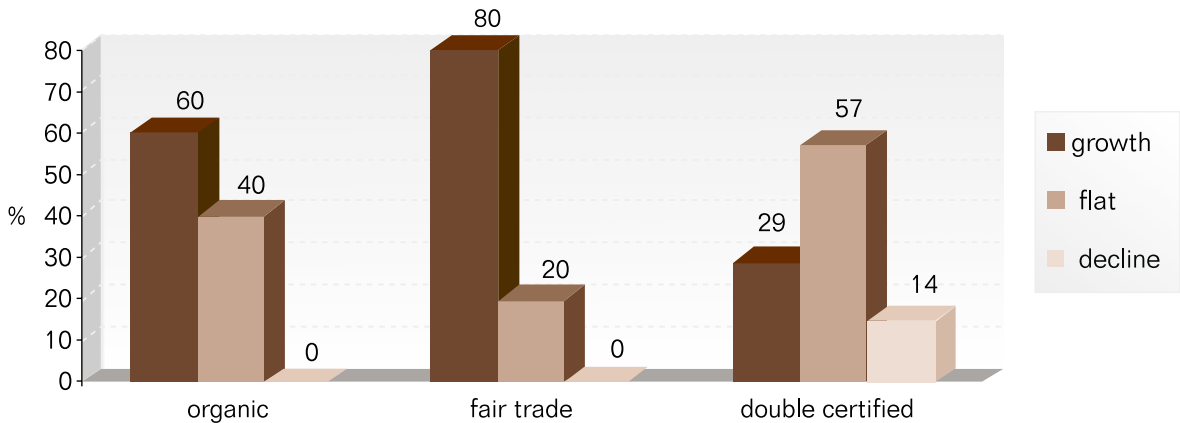
- ▼ Leading supermarkets like Delhaize and Carrefour/GB are expanding their organic and fair trade assortments.

The coffee industry projected a positive near term outlook for both organic and fair trade coffees through 2004 - 2005 (figure 7.10). Growth is however expected to be a bit more modest than the recent 2001 surge. Belgium's expectations for double certified coffees tend more toward flat to modest growth thereby diverging from the

⁴⁰ Since the distribution of double certified coffees over the channels was not investigated, the exact size of each channel is not known. (Double certified coffees account for 157 tons in a total of 1069 tons of sustainable coffee.



Figure 7.10 Near term growth forecast (2004/2005)



majority of other European countries that expect stronger performance in this category.

appears to be the largest component of this increase, while the organics market may be slower to develop.

Based on the average industry projections, Belgium's total sustainable market is expected to nearly double between 1999 and 2004 (figure 7.11). Growth in the fair trade sector

With continuing growth of sustainable coffees in an otherwise stagnant market, the share of market volume will also continue to rise, from

Figure 7.11 Total Belgian sustainable coffee consumption and projections (metric tons green)

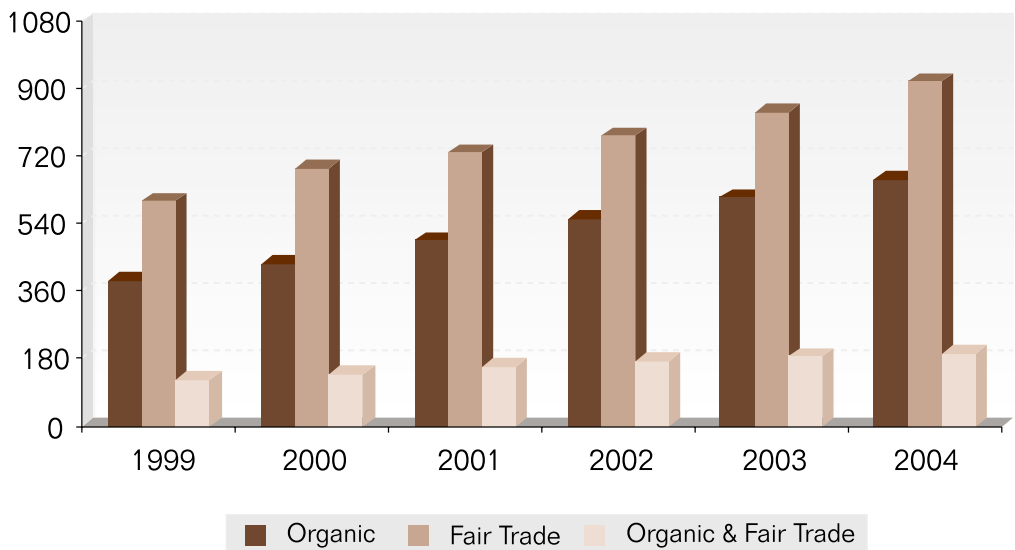
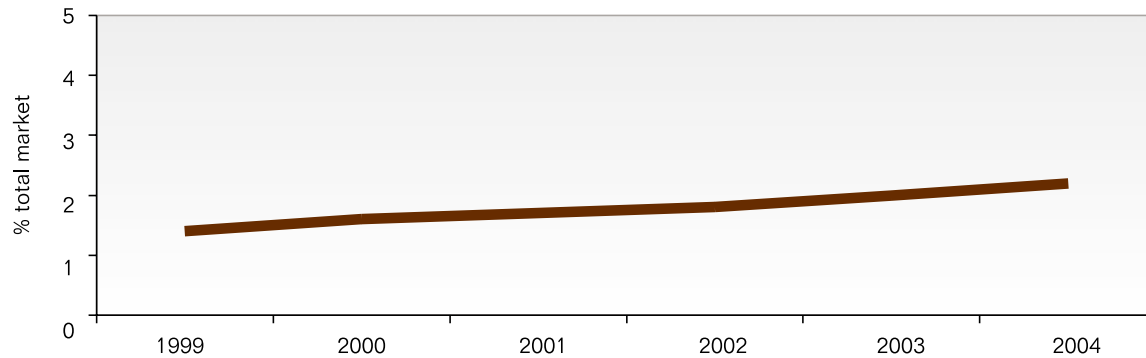


Figure 7.12 Sustainable coffees as a percentage of the Belgian market



1.4 percent in 1999 to 2.4 percent in 2004 (figure 7.12).

Since sustainable coffees are relatively expensive, the value share will be even higher by about 20 percent.

Constraints in the Belgian market

For the fair trade (Max Havelaar) segment:

- ▼ Financial problems and lack of funds severely limit promotion and the image of Max Havelaar and fair trade lack general market appeal.
- ▼ While public interest and verbal support continued to be strong, these sentiments are not sufficiently strong to consistently generate purchases.
- ▼ The general decrease in coffee consumption and competition with more

fashionable drinks especially among younger consumers.

Key factors for further growth

Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

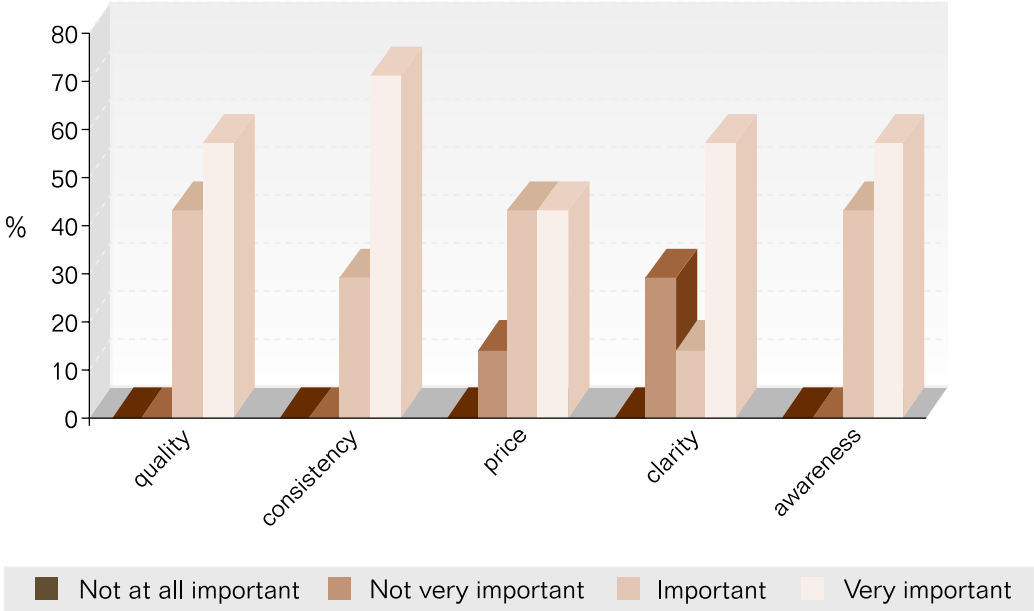
If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 7.13).



The highest importance was given to consistency of supply, closely followed by (cup) quality and customer awareness of sustainable coffees. Other factors that were considered to influence market

growth were: reliable traceability; lack of top quality fair trade and organic coffee; inadequate information; difficulty in administering a separate parallel process for organics.

Figure 7.13 Key factors for the expansion of sustainable coffees





Mother sorting dried coffee beans

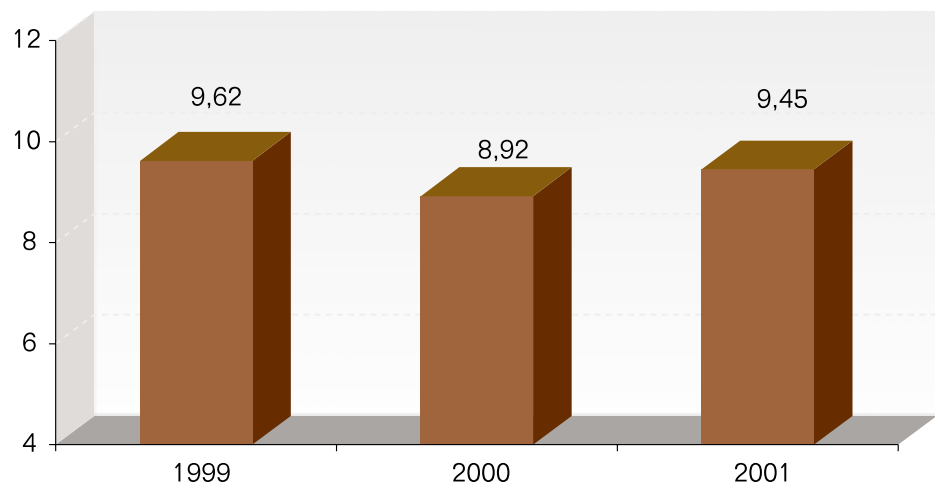
8. Sustainable Coffee in Denmark

The overall market context

Denmark has been a stronghold for coffee for a long time, in particular for sustainable coffee. Although the population of five million Danes is rather small, consumption per head has stood at about 10 kg of green coffee equivalent for decades. The market, however, has seen signs of erosion in recent years, with per capita consumption decreasing from 10.4 kg in 1990 to 9.5 in 2001. Compared to the 1999 level of 9.6, per capita consumption fell by 1 percent (figure 8.1).

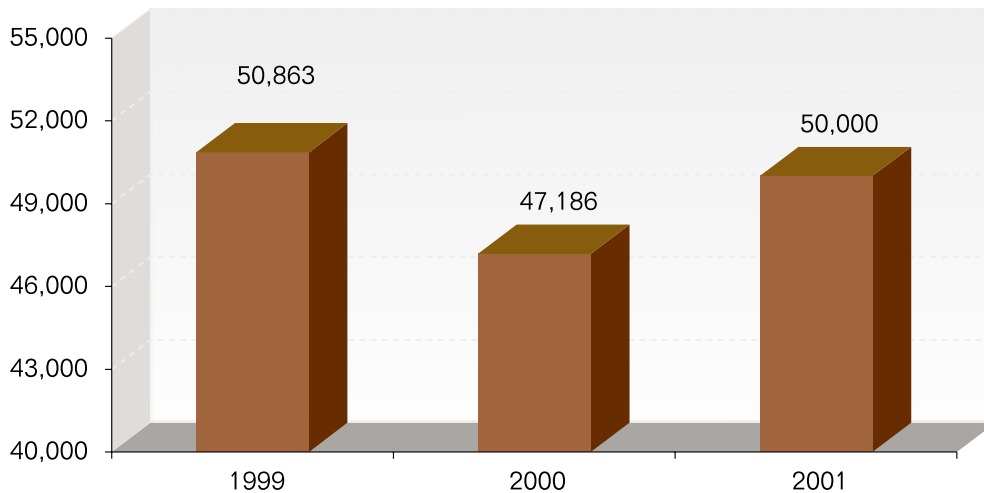
The Danish Coffee and Tea Importers Association quoted a small 2% annual increase in total consumption for 2001 (figure 8.2). The

Figure 8.1 Total Danish per capita consumption (kg green)



Source: *European Coffee Federation, 2002.*

Figure 8.2 Total Danish coffee consumption (Metric tons green)



Source: *European Coffee Federation, 2002.*

2001 market size is estimated at 50,000 tons of green coffee equivalent.

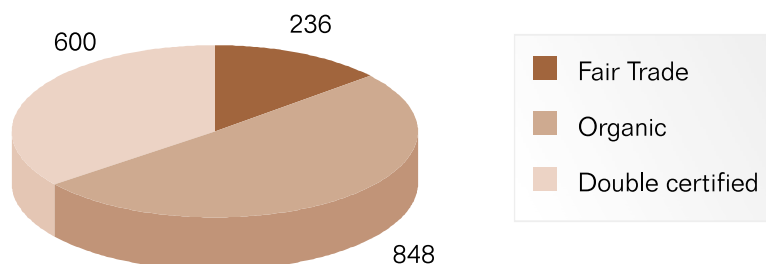
Imports of coffee totaled approximately 67,000 tons in 2001, an increase of approximately 5.6 percent over 2000. Brazil holds the lion's share of the market with well over 40 percent. Colombia is second with approximately 11 percent. All other suppliers have a single digit market shares. Overall quality levels appear to be slipping as the share of Arabica imports declined steadily to between 82 - 84 percent in 2001. The specialty or high-end sector is very small but is rapidly increasing.

The Danish market for organics and fair trade

Organic products in Denmark got off to an early start and coffee was among them. Fair trade coffees are relatively less important, and most of these are actually double certified (figure 8.3).

Mid-term growth for organic products overall was estimated by the ITC at 10 - 15 percent. Organic coffee reached an impressive market share of about 2.9 percent of the total market in 2001 and has stabilized there. Many in the

Figure 8.3 Sustainable coffees by type in 2001 (Metric tons green)





industry feel that organic coffee will remain at about its present level, yet some feel that it has further growth potential, as the overall organic market grows. Some organic products have reached market shares of 6 percent and there is evidence of broad consumer acceptance and continued growth.

The overall coffee market is contracting. Roasters, and even most of the retailers, are not inclined to promote either of these sustainable coffees. A few retail chain stores, which are price driven and have a conservative space management policy, dominate the market and dictate the players in the sustainable coffee market. Thus, product life in the store may be short.

Quality levels are acceptable for consumers in general. Although organic coffee prices are higher than for regular coffee, they are similar to the price differential of other organic products and therefore present only a modest barrier for consumers. The significantly increased price inherent in having double certified coffees means that the share of these coffees is expected to decrease.

Fair trade coffee also reached a respectable 1.7 percent market share. In the early stages of

development many roasters offered double certified coffees but the recent dramatic increase in price differentials have contributed to making either one or the other available and this may have hurt fair trade sales. Internal turbulence in the Danish fair trade organization is reported to have caused some confusion and may have also contributed to the recent decline in sales.

The trade expressed that 2001 and 2002 business had been generally flat with modest growth for organic and zero growth or even a decline for fair trade.

Certification

Most of the industry felt that there was no particular confusion over certifications for them although there was moderate concern that different labels are not clear or well understood by the general public.

Premiums

Organic premiums commonly ranged between 15 and 21 cents per pound in October 2002, with a low point of 10 cents and a high point of 35 cents.

Figure 8.4 Are current premiums considered to be reasonable?

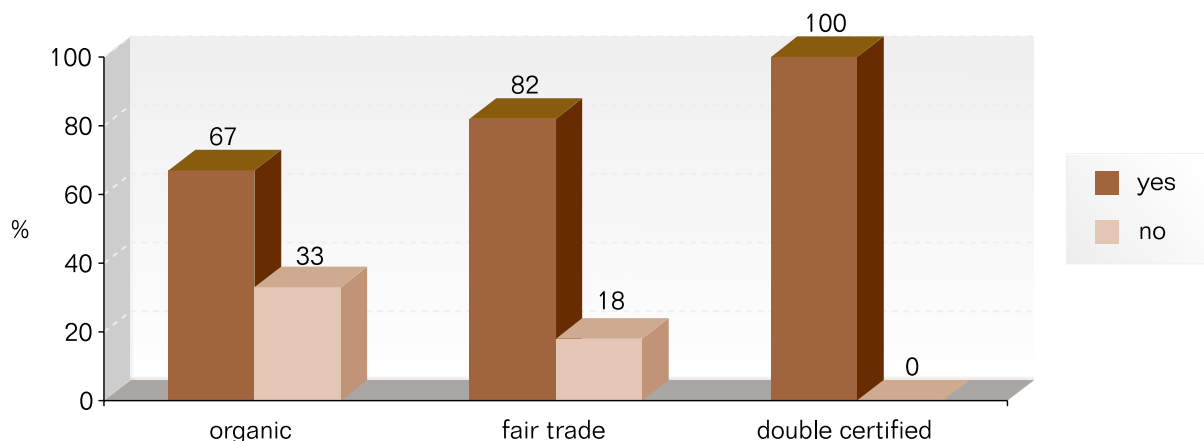
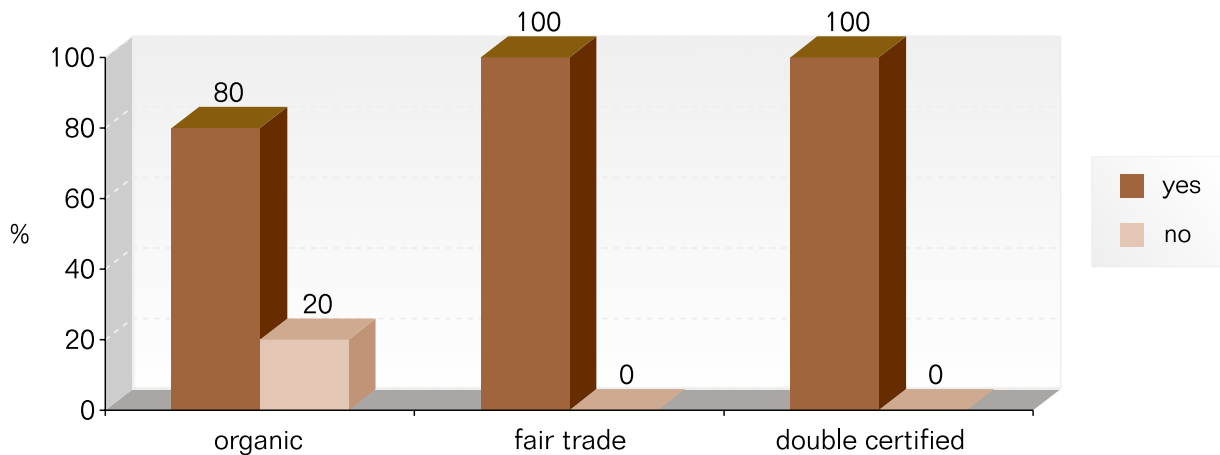


Figure 8.5 Will premiums continue at their current levels in the medium term?



About two-thirds (66 percent) of the respondents considered that organic premiums are reasonable and over 80 percent felt that way about the fair trade minimum price. None of the respondents felt that the combined premiums for double certified coffees was unreasonable (figure 8.4).

The clear majority also felt that organics (80 percent) and fair trade (100 percent) would continue in much the same manner over the next few years (figure 8.5).

Significant supplying countries for sustainable coffees

Mexico and Peru dominate as suppliers of these coffees, while Guatemala is growing quickly. Other significant suppliers include Colombia, East Timor, and Nicaragua.

The Danish market structure

A few roasters dominate the market and have a multinational orientation. *Dansk Kaffekompagni*, *Merrild (Douwe Egberts)*, *Kraft (General Foods)*, and *BKI* are the four largest roasters and sell to

about 80 percent of the market. Three medium-size roasters and three small roasters complete the marketplace and altogether these cover 95 percent of sales. While larger roasters focus on the mainstream segments, the smaller ones focus more on the specialty or gourmet coffees.

Much of Denmark's coffee business relies on European traders and brokers. Germany and the Netherlands are the primary suppliers of particularly the small and medium size roasters. The larger market leading roasters are part of multinationals and may either source through their parent companies or do their own buying.

Independent retailers still have a very considerable foothold in the Danish market and supermarkets or large multiple retailers are not as dominant as in other nations in the region. Retail concentration is also not as strong as in the other Nordic countries, but it is increasing.

Sustainable coffees have access to all channels of distribution. Organic coffee is well distributed and even sold in the catering market. Fair trade also has good distribution channels through grocery, institutional and out of home sales.

The vast majority of the coffee moves through the mainstream market channels and is

considered of fair to average quality. In the near term this category is expected to show some growth for the organics and no growth or perhaps a modest decline in the sales of fair trade.

A small portion of this sustainable coffee, primarily organic, is distributed as a specialty or gourmet item. In this segment organic is expected to show good growth of at least 10 percent while fair trade is expected to remain flat. The out of home or institutional sales are expected to grow for organics while little growth is expected for fair trade. This is the smallest of the distribution channels. A negligible portion of the sustainable coffee is sold as soluble.

expansion will require broader consumer acceptance. The product group is still too small to attract large-scale marketing attention from roasters and retailers, but this may change as its volume achieves a critical mass in the marketplace and coffee can serve as a critical point of differentiation.

- ▼ As more retail chains adopt a “green policy”, organic and fair trade products are at an advantage over more conventional ones.
- ▼ Fair trade sales in Denmark are showing a small downward trend. The market share of fair trade coffee is expected to drop to perhaps as low as 2 percent in the future.

Trends in the Danish market

- ▼ Since the total market is projected to remain stagnant, even the expected modest volume increases for organics will enlarge their share of the coffee market. This may be offset by a decline in fair trade coffees that the lead the trade to estimate that overall market share for sustainable coffees will remain close to its present level (3.4 percent).
- ▼ The committed organic consumer groups may now have been reached, and further

Denmark’s projected growth rate for the total sustainable market is one of the lowest in Europe (figure 8.6).

The high price differentials and a prolonged poor economic climate particularly hinder significant growth.

The industry forecasts that there will be modest growth for organic coffees over the next few years but expects that fair trade will experience a decline and that double certified coffees may decline as well.

Figure 8.6 Danish sustainable coffee consumption and projections (Metric tons green)

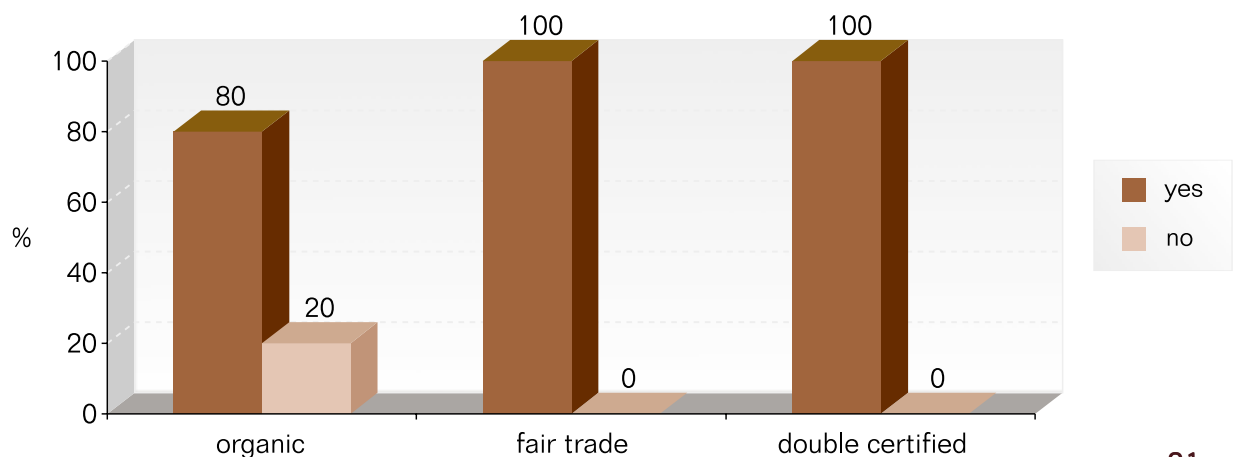
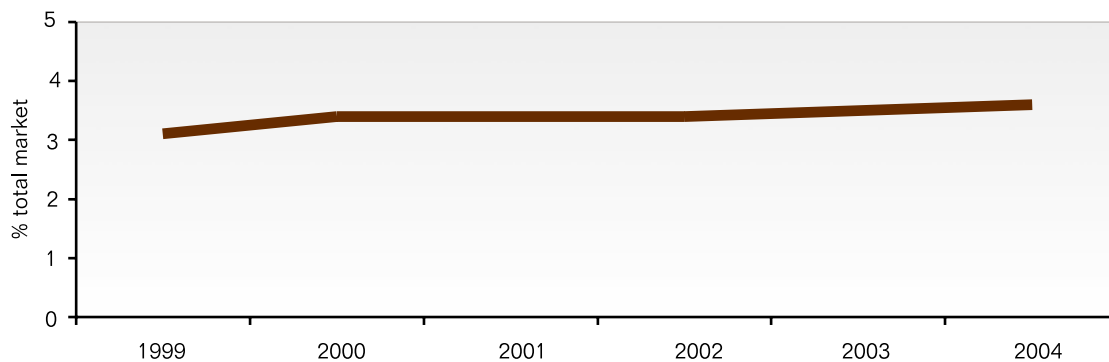


Figure 8.7 Sustainable coffees share of the Danish market



In a generally declining market, sustainable coffees market share is expected to continue to increase, albeit slowly. In 2004 it will have reached 3.6 percent (figure 8.7).

- ▼ A few retail chain stores, which are price driven and have a conservative space management policy, dominate the market and dictate the players in the sustainable coffee market. Thus, product life in the store may be short.

Constraints in the danish market

- ▼ The overall coffee market is contracting and it is more difficult to improve market share in a contracting market than in an expanding market.
- ▼ The price difference between organic and regular coffee is probably acceptable for committed organic buyers but may be a constraint to mainstream consumers. The price difference for fair trade is considerable and may be limiting its market appeal.
- ▼ Roasters, and even most of the retailers, are not inclined to promote either of these coffees.

Key factors for growth

Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

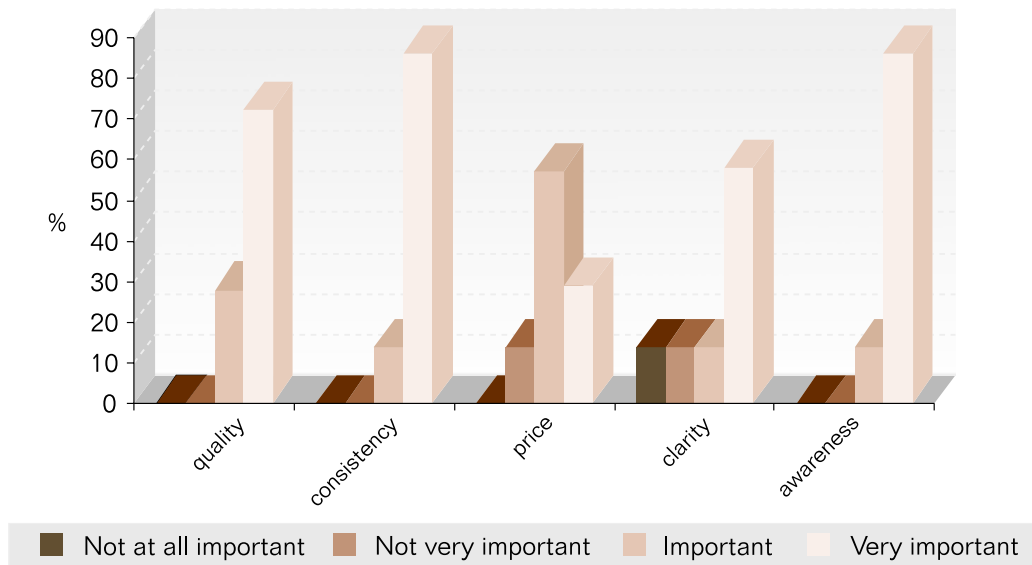
- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees



If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important”.

Their responses were consolidated in the following chart (figure 8.8). Consistency of supply and customer awareness were rated at the top of the list, while cup quality followed closely.

Figure 8.8 Key Factors for the Expansion of Sustainable Coffees





Hand-picking coffee

9.

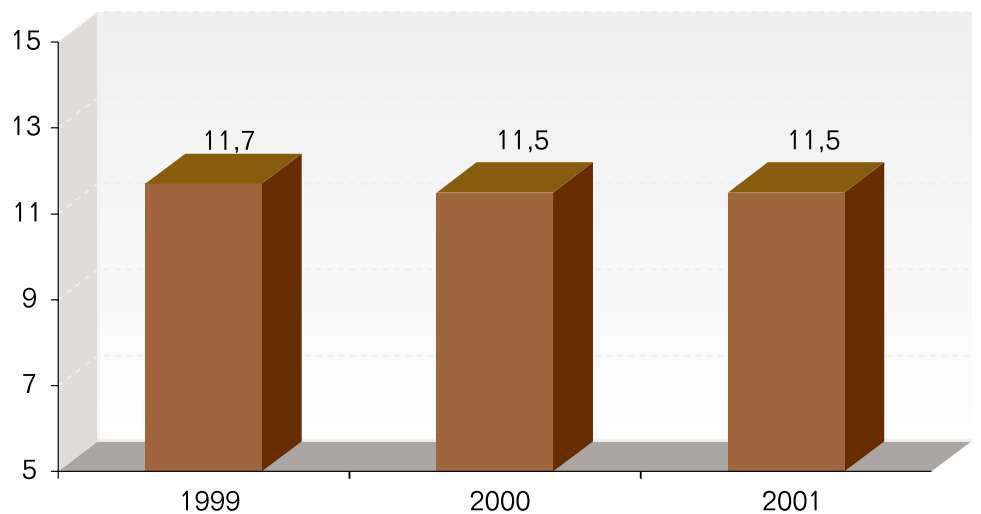
Sustainable Coffee in Finland

The overall market context

Finland has approximately 5.2 million inhabitants and coffee is, without question, its national beverage. Finns lead the world in consumption per capita with between 11 and 12 kg per year (figure 9.1). However, per capita consumption has decreased slightly over the past decade, from 12.5 kg in 1990 to the current 11.5 kg.

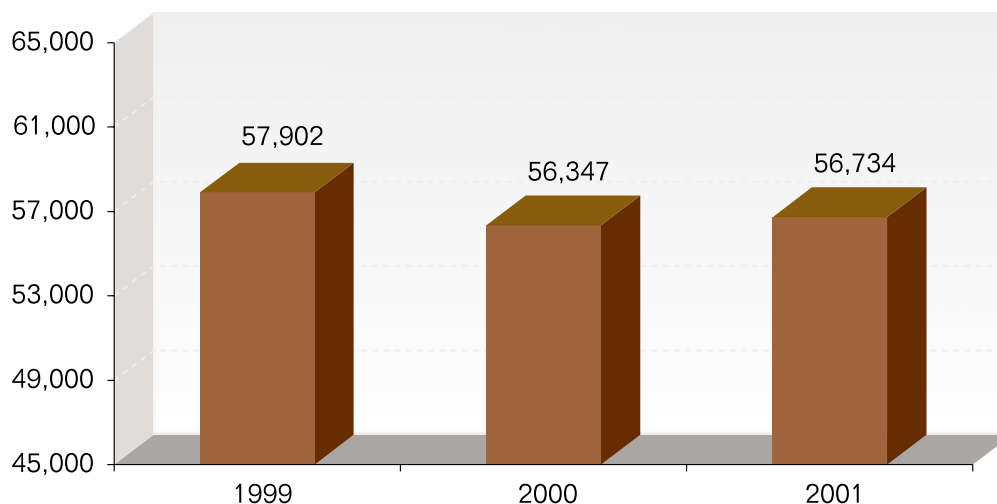
Finland's market volume has had some ups and downs and is approximately where it was a decade ago, at 56,734 tons green coffee (figure 9.2). Total imports in 2001 were 65,600 tons (gbe), just above 2000's figure of 64,700 and below the 72,900 tons of

Figure 9.1 Total Finnish per capita consumption (Kg green)



Source: *European Coffee Federation, 2002.*

Figure 9.2 Total Finnish coffee consumption (Metric tons green)



Source: *European Coffee Federation, 2002.*

1999. Of all the coffee imported into Finland, 99 percent is Arabica. Brazil controls the market with more than 40 percent market share and Colombia, Guatemala, and Costa Rica together share a little more than 30 percent.

While Brazil and Colombia have maintained and even increased their presence, several of the leading “other mild” producers have lost market share, in particular Costa Rica, Guatemala and Kenya. Honduras, which supplies both robusta coffee and other milds has also lost considerable share, whereas Brazil’s increases have been the most prominent. Imports of roasted coffee average about 2500 tons annually and exports are about three times as much.

There is more soluble coffee imported than exported, but this volume remains always below 1000 tons green bean equivalent.

The overall quality of the roasted commercial coffee in Finland is among the highest in the world, yet the high-end or specialty market is quite small.

The Finnish market for organics and fair trade

Both organic and fair trade products are in their infant stages in Finland and coffee is no exception. Businesses indicate that in their perception the organic, fair trade, and eco-friendly coffees have been driven more by idealism than by coffee quality. In the past, the mediocre quality of early fair trade and organic coffees gave them a poor reputation. It appears that they have not been able to shake off this image with some buyers despite considerable improvements in quality. In any case, they have made little headway in the market. Since the market is dominated by a handful of companies, that seem to share this negative perception about sustainable coffees, opportunities have been limited. This may change as one significant roaster is considering a stronger commitment to this category.

In terms of volume, the Finnish population consumes the smallest amount of sustainable

coffee of the European countries examined in this report (figure 9.3). Approximately three-fourths of the market volume for these coffees is positioned as mainstream quality coffee. A smaller but very significant percentage - perhaps one-fourth - is positioned as gourmet quality coffee.

While there are modest sales of soluble coffees, none are organic or fair trade certified.

The Finnish sustainable market represents a small percentage of only 0.4 percent in 2001 and 0.5 percent projected in 2004. Organic coffee has a very small market share of 0.2 percent and fair trade has less.

Certification

Max Havelaar is responsible for the vast majority of the fair trade registration. Several of the coops like *Meira* have now started to use a general certifier like *Bureau Veritas* (BVQI) for their coffees rather than work directly with the FLO-system.

Relationship coffees, although uncertified and unverified by third parties, have become

increasingly popular and foster a more equitable relationship between growers and buyers. Exact volumes are unavailable but indications are that these are modest.

Premiums

The Finnish industry believes that the current (2002) premiums for organic and fair trade coffees are reasonable. They do not believe that they will change in next few years.

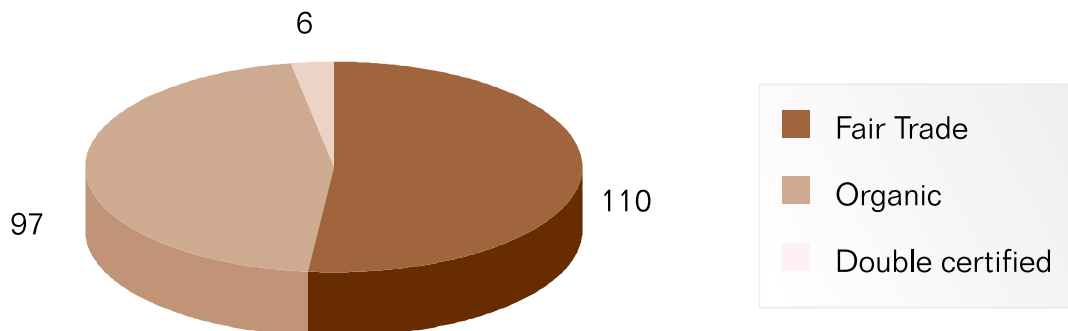
Significant Supplying Countries for Sustainable Coffees

Mexico and Peru are the leading suppliers, followed by Colombia and Guatemala. One roaster indicated that he purchased sustainable coffee from Paraguay.

The Finnish market structure

Four major roasters cover about 98 percent of the market. Three of these handle the mainstream coffee market while one specialty roaster

Figure 9.3 Sustainable coffees by type in 2001 (Metric tons green)



dominates the gourmet and specialty markets. There are also a few retailers with in-shop roasters. The roasters are all homegrown and none of them are multinational companies or foreign-owned and therefore all business decisions are taken locally. While all of these roasters are familiar with sustainable coffees, none of them has made a significant commitment to these products. Although each of them has at least one or two organic coffees in its lines, this appears to be more for the sake of having a complete line rather than indicating any commitment to the category. It appears that for these roasters sustainable coffee is not a priority. However, as the leading roaster plans to launch a new organic line, the situation may change considerably.

The amount of roasted coffee imported into Finland is relatively small and insignificant. A small number of traders or brokers import green coffee directly from countries of origin and to a lesser extent from other European countries.

The retail market structure is dominated by a few larger chains. Their selection of organic, fair trade or eco-friendly products is still very modest. Either consumer demand for these products is not as strong as elsewhere, or these multiple unit operations have not yet yielded to this demand. As a result, there has been little pressure on the roasters to provide these options more widely.

A vast majority of the sustainable coffee in Finland is sold through mainstream market channels, primarily in multiple unit chains. Firms expect that this category will experience modest growth, primarily in the organic coffees, over the next couple of years.

While the larger roasters expect that specialized retail will experience no growth in the near future, other observers predict that this category will indeed experience growth, albeit modest. Out of home consumption is clearly expected to drive increased awareness and improve consumption of sustainable coffees, particularly organics.

Figure 9.4 Finnish sustainable coffee consumption and projections (Metric tons green)

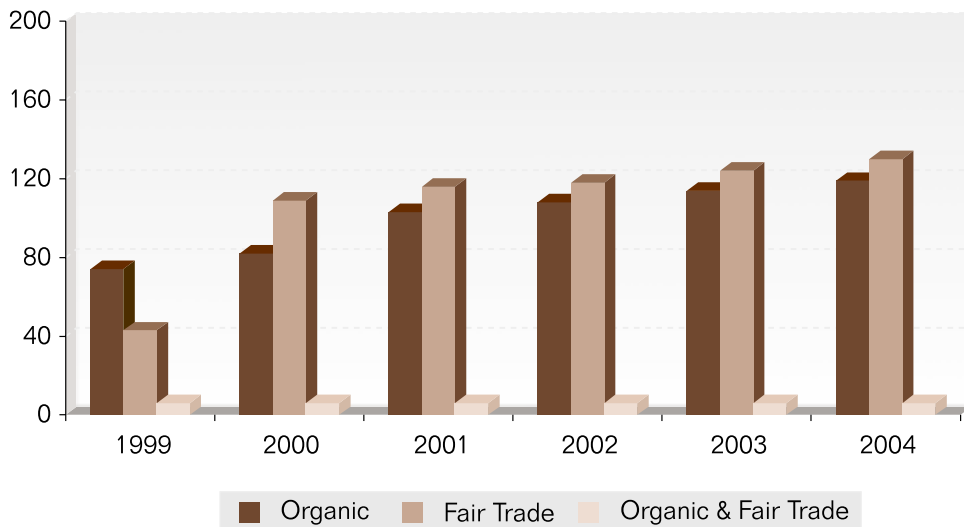
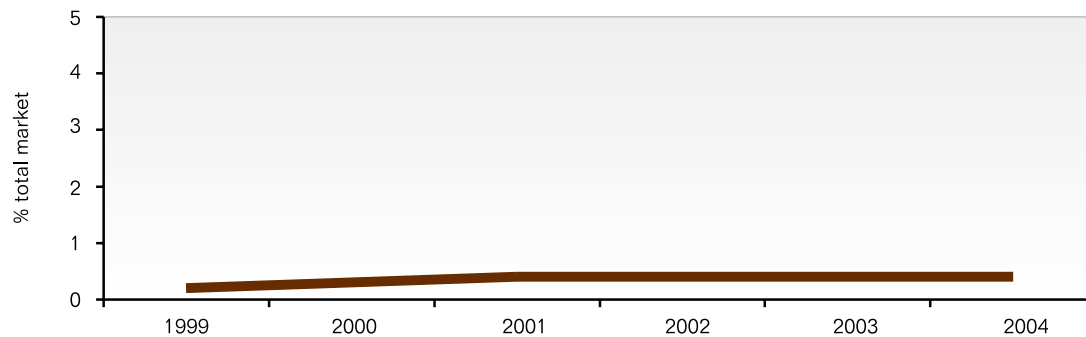


Figure 9.5 Sustainable coffees market share



Trends in the Finnish market

- ▼ After some initial reluctance, all major roasters now offer both organic and fair trade coffees, but marketing efforts are limited.
- ▼ If the leading roaster’s new line of organic coffees is a success the market is likely to improve dramatically.
- ▼ The forecasts from the fair trade labeling organization and organic certifiers are modest and not too optimistic.
- ▼ Compared with neighboring countries there is no structural difference that should prevent a larger increase, but it will probably have to be consumer driven. Quality is a key issue.

The industry expects modest growth (about 5 percent) in organics and relatively little change in the fair trade market for the near term. This is reflected in figure 9.4.

The low projected growth rate of both organic and fair trade coffees would translate in a stagnant market share of about 0.4 percent (figure 9.5).

Constraints and Opportunities in the Finnish Market

- ▼ Currently, the average Finnish roaster sees organic and fair trade as inferior in quality to conventional coffee.
- ▼ Although most roasters carry these products, none seem willing to do any significant promotion.
- ▼ Although some high quality fair trade and organic coffees exist and the Finnish market could potentially bear the price, roasters have not yet been willing to make that commitment.

Key factors for growth

Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee

▼ **Clarity** between different types of certifications, criteria, and labels

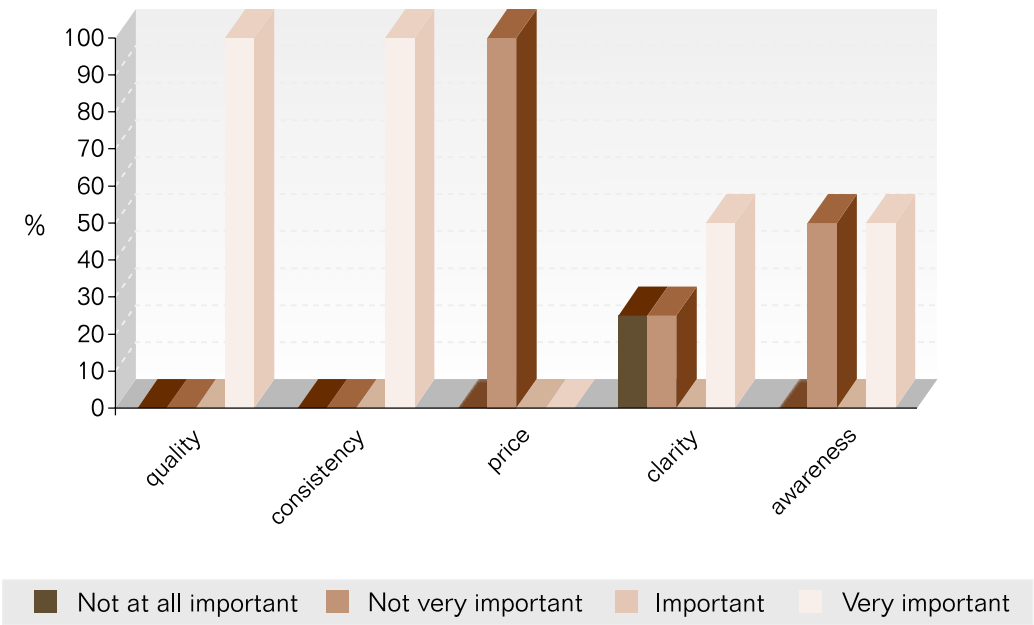
“not at all important” to “very important” (figure 9.6).

▼ **Awareness** of consumers about these coffees

Cup quality and consistency of supply were considered very important factors by all respondents, whereas customer awareness and clarity between certifications, criteria and labels were considered less important. All respondents considered price not to be a very important factor.

If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from

Figure 9.6 Key factors for the expansion of sustainable coffees





Winnowing the new harvest

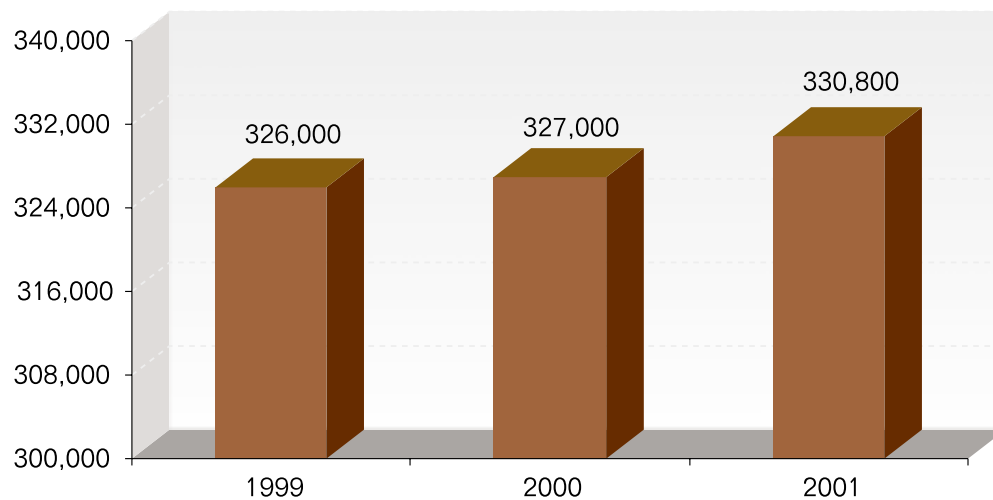
10. Sustainable Coffee in France

The overall market context

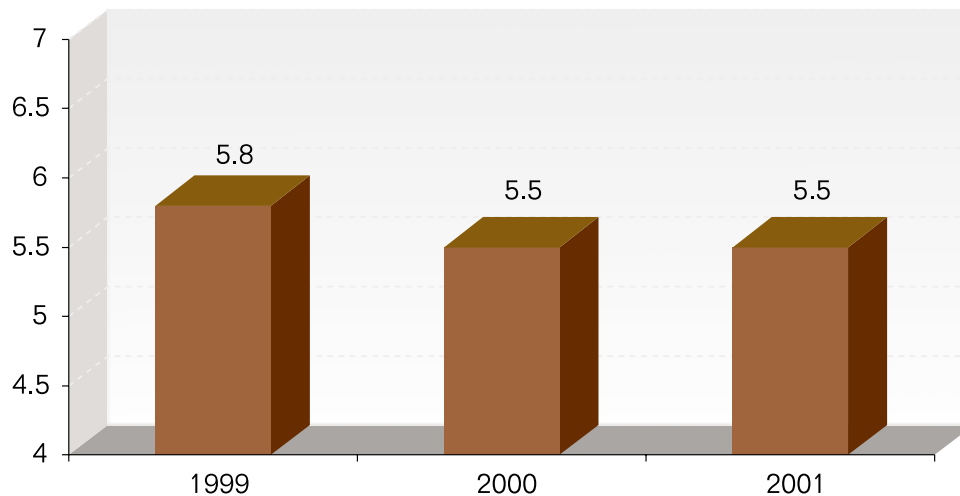
Between 1999 and 2001 French consumption grew very modestly at less than 1 percent per year (figure 10.1). While modest, this is ahead of Western Europe's stagnant growth that posted only 0.2 percent approximate overall growth in 2001. Brazil, Vietnam, Colombia, and Ivory Coast are the major suppliers, together providing about 63 percent of green imports.

Per capita consumption over the same period showed a small decrease, from 5.8 to 5.5 kg, returning near to the 1990 level of 5.6 kg (figure 10.2). The use of arabica coffees declined and the

Figure 10.1 Total French coffee consumption (Metric tons green)



Source: *Independent industry sources and the European Coffee Federation, 2002.*

Figure 10.2 Total French per capita consumption (Kg green)

Source: *European Coffee Federation, 2002 and industry sources.*

share of robusta coffee increased by about three percent over the last three years. By 2002 approximately 50 percent of the market was arabica while 50 percent was robusta.

The French market for organics and fair trade

The Max Havelaar label was introduced to France in 1992, but its presence was limited to one region of the country, Bretagne, until 1997. In 1997 a new fair trade platform was formed uniting diverse fair trade participants. With the appointment of new management in 1998 a nationwide campaign was conducted to promote the label. This coordinated campaign was a great success and it helped to create a public consciousness about fair trade issues. Subsequently, in 1999, new roasters joined the label, and the label was introduced in major supermarkets. The fair trade movement in France is still less developed than it is in its neighboring Western-European countries such as the Netherlands, Belgium and Germany, but it is rapidly catching up.

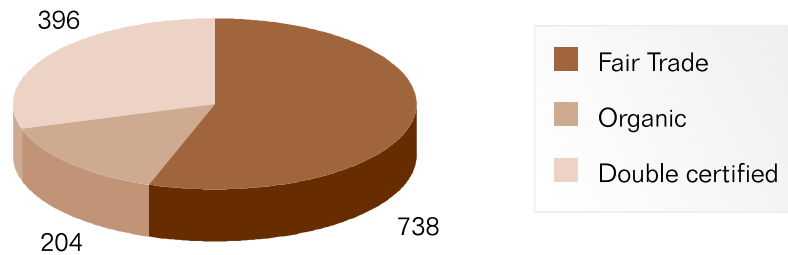
The fair trade Max Havelaar market measured 1,185 tons in 2001, which is equivalent to 0.35 percent of the market (figure 10.3). According to Max Havelaar France, 38 percent of the fair trade coffee was also certified organic in 2001. The size of the organic coffee market is estimated at 850 tons or nearly 0.26 percent of the market in 2001. About two thirds of this is also fair trade certified.

Shade-grown or other eco-friendly labels are not sold on the French market. Of the 2001 sales, 85 percent of the sustainable coffees are fair trade-certified, 45 percent have organic certification and therefore 30 percent are doubly certified.

Fair trade sales are growing very strongly. According to official figures from FLO, sales volume has more or less doubled every year since 1999. 2001 showed an impressive growth of 93 percent.

71 % of sustainable coffees are sold through mainstream channels, primarily supermarket chains. Most of these are positioned as gourmet coffees or premium blends and few are of single origin. Only a marginal amount of sustainable instant coffee being is sold, all of it imported.

Figure 10.3 Sustainable coffees by type in 2001 (Metric tons green)



Certification

Many retailers prefer to have double certification—both organic and fair trade. For fair trade the Max Havelaar organization handles all French certification. Certification of organic coffee is done by the private national certification organizations Ecocert and Qualité France. Ecocert has a particularly important role in the re-certification of small farmer coffee projects, because French authorities are strict about the certification of small farmer groups requiring that at least 20% of small farmers actually be visited while the EU standard requires a sample of only 10%. Most of the accredited certifiers in countries of origin readily meet the standards. The “*Agriculture Biologique*” label (AB) is by far the most important label for organic coffee products and is controlled by government.

The different interpretations and applications of organic standards that are used by government authorities, French industry claims, cause inefficiencies in the supply chain and render the direct import of organic coffee into France quite difficult.

A few distributors offer the biodynamic Demeter label and private “*Nature et Progres*” label. There are however a significant number of retailers that prefer to use a private-label and while these must be certified in order to be legally termed organic, they are not necessarily FLO-accredited or otherwise certified for the fair trade claims that they may make.

Nearly half of the respondents find the different certification programs and their claims to be confusing. Three quarters think that consumers find the certifications confusing (figure 10.4).

Figure 10.4 Are certifications considered to be confusing?

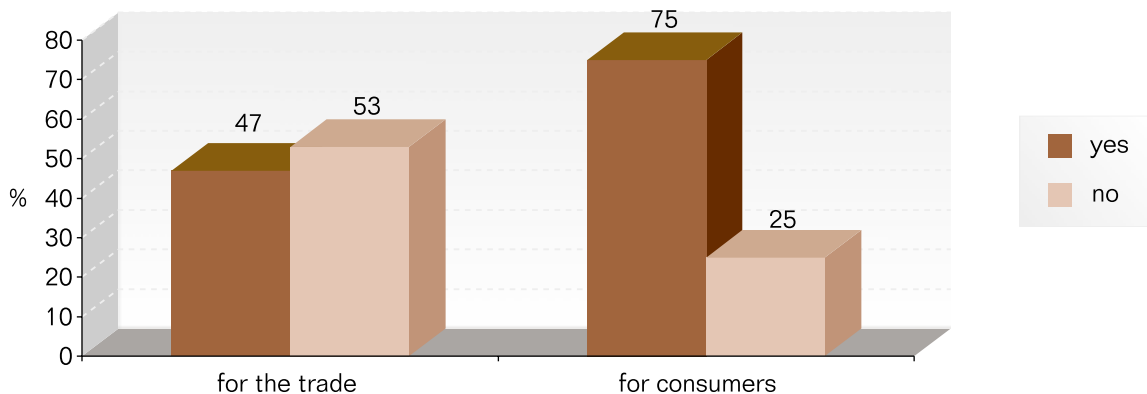
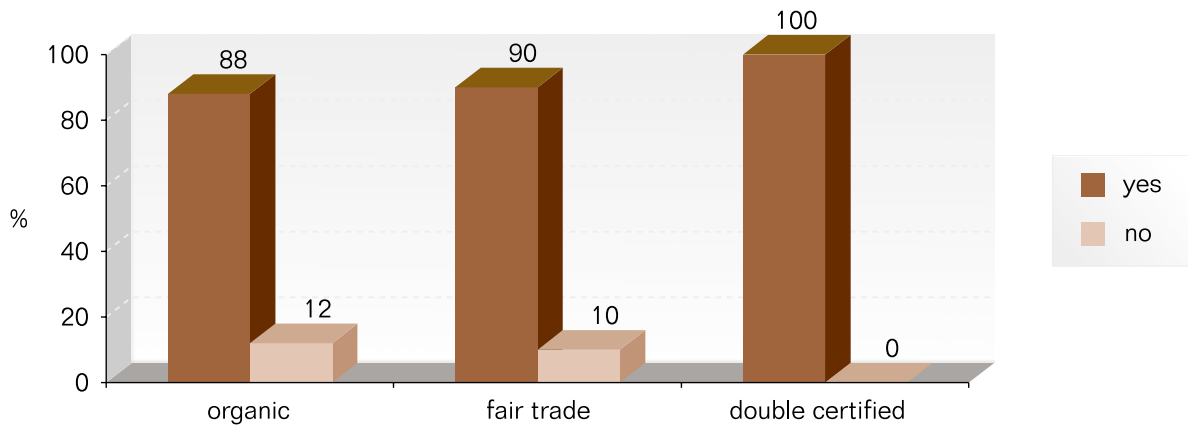




Figure 10.5 Are current premiums considered to be reasonable?



Premiums and retail prices

At the retail level prices are about 15 to 20 percent higher than conventional products for both fair trade and organic. Double certified coffees are only approximately 25 percent more. Most importers report paying the standard fair trade price for this certification and a median premium of about US\$0.20 premium for certified organic coffees.

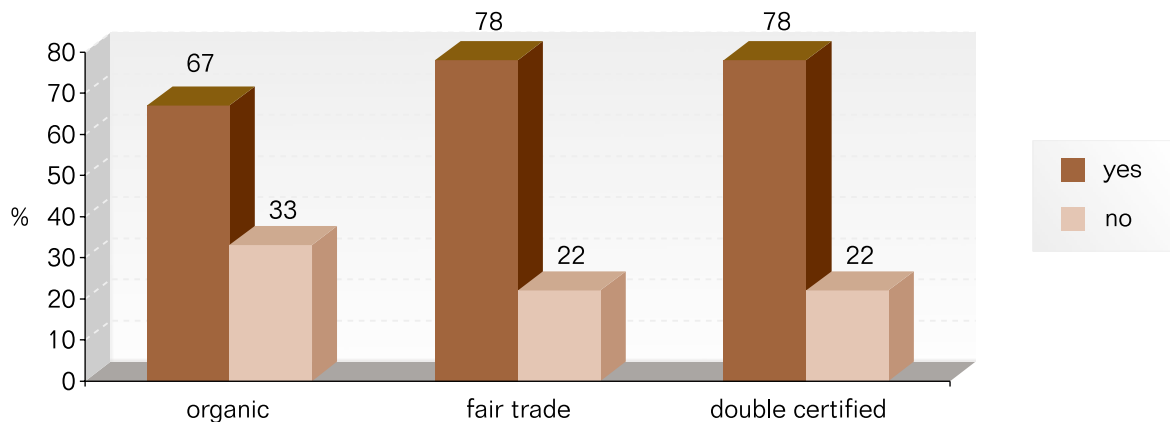
Nearly all of the buyers feel that premiums are reasonable for both organic and fair trade (figure 10.5)

A majority also believes that these premiums will not significantly diminish in the next few years (figure 10.6).

Significant supplying countries for sustainable coffees

A considerable majority of the French coffee traders and roasters do not import sustainable coffees directly from producer countries; they have a history of sourcing their sustainable coffees via traders in other European countries like the Netherlands and Belgium.

Figure 10.6 Will premiums continue at their current levels in the medium term?



Mexico, Cameroon, Peru, Guatemala, Haiti, Central America and Tanzania are its major sources. From Latin-America, the Dominican Republic, Colombia, Bolivia, and Brazil also supply this market, while Indonesia, Papua New Guinea, and Myanmar supply it from Asia. A few coffees also come from The Congo.

The french market structure

As in other parts of Europe, France has experienced considerable concentration at all market levels. The retail trade is increasingly captured by supermarkets and hypermarkets. Thirty years ago France had very few large size roasters and several thousand smaller ones whereas today two roasters, Sara Lee/Douwe Egberts and Kraft Foods, control more than half of the roast and ground market. Altogether, four dominant roasters control more than three-fourths of the market. Until recently not had an interest in these types of coffees.

The fair trade coffees have recently expanded to 3,500 points - of - sale, which include supermarkets and specialized retail stores. They are also offered to the institutional market but this channel is limited as is the emerging mail-order business.

Mainstream retail (supermarkets, hypermarkets, large volume multiples): In France, 71% of sustainable coffee is sold in mainstream market channels. Highest growth in the next few years is expected in this market channel.

Specialized retail (specialty coffee shops, fair trade and world shops, organic food stores, independent grocers and mail-order sales): There is very little volume sold through specialty shops although these are where sustainable coffees got their start. Even the alternative trade organization *Solidar' Monde*, which supplies the Artisans de Monde chain of shops, is also relatively small. Interviewees don't expect significant growth in this channel.

Institutional or out of home consumption (restaurants, cafes, companies, nursing homes, vending machines, etc.): Even though this is a with a currently still at a low level (40 tons in 2001), experts expect significant growth for sustainable coffee in this channel.

Trends in the French market

The French sustainable coffee market is growing at the highest rate of all the European countries in this study (figure 10.5). While organic coffees are expected to grow at a strong rate, it is fair trade that looks to be the most promising.

- ▼ Supermarkets often opt for a combined fair trade and organic product and are increasingly introducing Max Havelaar and organic products under private labels.
- ▼ Some supermarkets are considering alternative labels to the organic and fair trade labels, which combine elements of both labels and are tailor-made to their own needs.
- ▼ The supermarkets that do not opt to offer sustainable coffee under private label will typically choose a branded product from a leading roaster to supply their Max Havelaar and/or organic products. These roasters usually offer either Max Havelaar or organic, but not the combined product.
- ▼ Supermarkets are including more premium quality and single origin coffees and this fits well with the positioning of sustainable coffees.

The Max Havelaar estimate for 2002 is 1,730 tons of green coffee (50 percent growth). While both the industry and fair trade organizations are more optimistic, the calculations in this report are based on a declining rate of growth of 40 and 30 percent respectively for subsequent years. Trade reports indicate that the organic segment

is expected to grow at an estimate of approximately 10 - 20 percent in 2002.

This report's forecasts for 2002 - 2004 are based on a 15 percent annual growth rate for coffee that is only certified as organic plus the growth of double certified at 10 percent (figure 10.7). Mid-term growth for organic products overall was estimated by the ITC at 15 - 20 percent (1999).

In 1999, this market was one of the smallest in Europe, yet by 2001, it had grown by a factor of 3 to 1,338 tons of green coffee equivalent or 0.4 percent of the market. By 2004, the share of sustainable coffees is projected to have become 1 percent (figure 10.8).

Constraints in the French market

- ▼ The introduction of competing private labels that will probably confuse consumers and dilute the market presence of the existing organic and fair trade labels.

- ▼ Need for considerable funds to further promote the Max Havelaar label in mainstream channels.
- ▼ Respondents claimed that the bureaucratic government complications make the direct import of organic coffee into France quite difficult.

Key factors for growth

Members of the industry were asked to, "Rate the importance or value of the following factors for expanding your sustainable coffee business."

- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

If the industry does not fulfill these factors it is likely that its future growth will be constrained.

Figure 10.7 French sustainable coffee consumption and projections (Metric tons green)

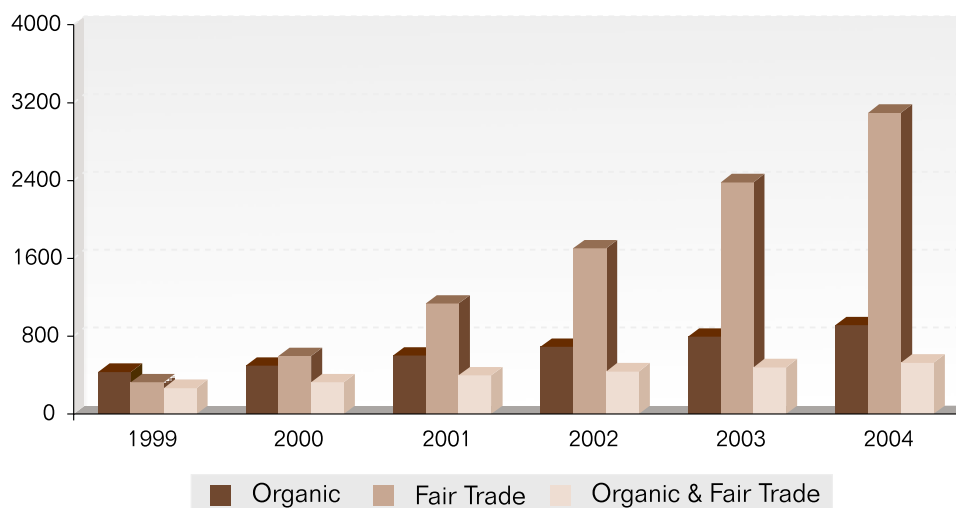
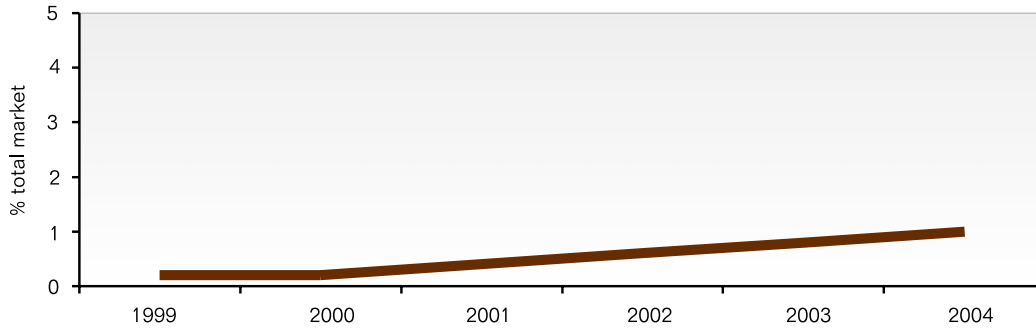


Figure 10.8 Sustainable coffees as percent of the French market (by volume)



Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 10.9).

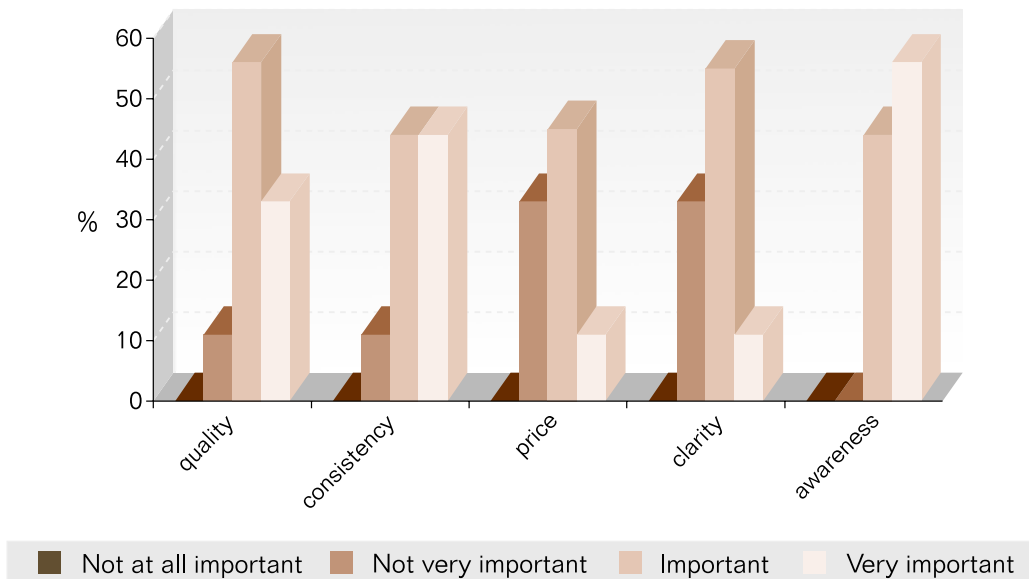
Most respondents lauded the quality of the available organic coffees but pointed out that further improvement can still be achieved.

French coffee firms believe that customer awareness and the pull of their demand is the most important factor for further expansion. This is closely followed in importance by the consistency and reliability of supply and then by the actual quality of coffee.

The fair trade consumer will accept paying a slightly higher price.

Although supermarkets have been driving the recent growth, their awareness and interest in sustainable coffees are still quite low.

Figure 10.9 Key factors for the expansion of sustainable coffees





De-pulping fresh coffee cherries by hand

11.

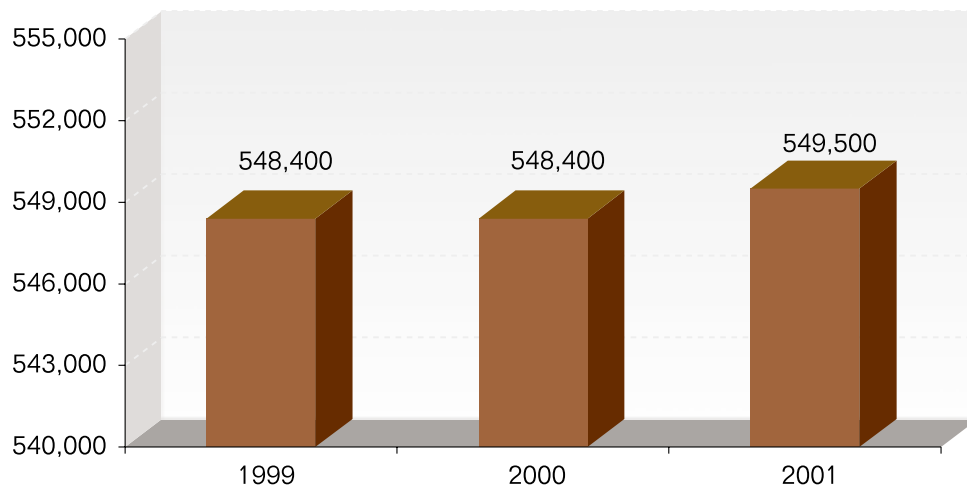
Sustainable Coffee in Germany

The overall market context

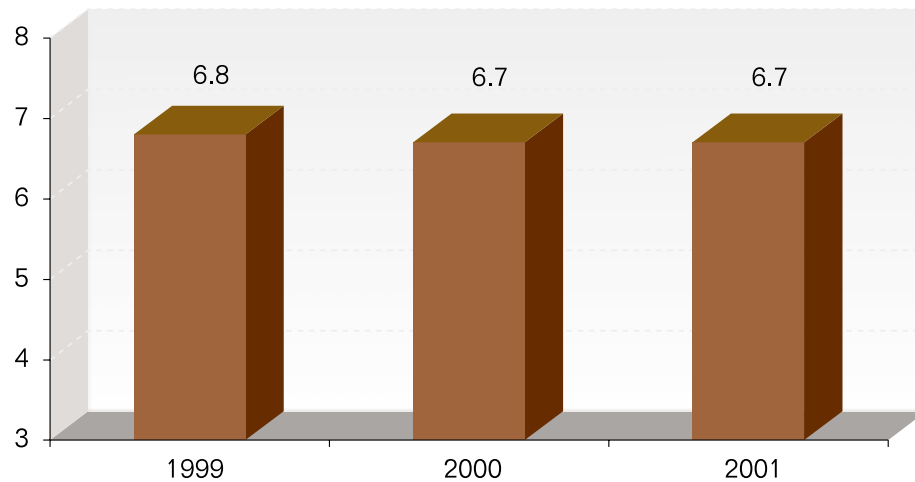
In 2001, overall green coffee consumption rose by 0.2 percent to 549,500 tons (figure 11.1). Consumption of soluble coffee grew by 3 percent to 37,830 tons of green coffee. Soluble coffees thus constituted 6.9 percent of the market by volume.

Although per capita coffee consumption has fallen from its recent highs in the early 1990s of more than 7 kg per person, it is still among the highest in the world. In 2001 consumption remained stable at 6.7 kg (figure 11.2). The German coffee industry believes that the downward trend in coffee consumption that started in the early 1990s has come to an end, and now expects continuing, modest growth. The development of new products (such as flavored solubles) and the positioning of coffee as a

Figure 11.1 German coffee consumption (Metric tons green)



Source: *European Coffee Federation, 2002.*

Figure 11.2 Total German per capita consumption (Kg green)

Source: *European Coffee Federation, 2002.*

life-style product are considered to be contributing factors. Moreover, Germany has experienced a growth in the number of coffee bars and specialty coffee shops, thereby attracting a younger generation and presenting a new image.

German coffee industry revenue decreased slightly in 2001 for the second year in a row, to 3.86 billion euro. The decrease was attributed to lower consumer prices.

There is limited official data about “out of home” consumption and its market share although there are indications that it is experiencing considerable growth.⁴¹ The European Coffee Federation (ECF) notes that 20 - 25 percent of coffee is consumed out of home. Yet, this figure may be underestimated, since it is significantly lower than in similar markets like the Netherlands and Belgium. The proliferation of new Seattle-style cafes in towns and cities is helping to fuel this growth.

The market is unique for the presence of a considerable number of health-oriented coffees that, among other things make claims to being: mild, soft, cleansing, stomach-friendly and, partly or totally, decaffeinated. Some of these, particularly decaf and “half decaf” coffees have important market shares. In line with health concerns, coffee-substitutes based on rye and chicory and other products are also broadly supplied.

In 2001, sales of espresso coffee continued to grow peaking at 8,500 tons. Italy is the largest source, providing 84 percent of the total (ECF 2002). Within soluble, the instant specialties increased to more than 23,000 tons to dominate the business with about 70 percent of the market in 2001. In 1990 instant specialties only accounted for 14 percent of instant coffee sales.

The major instant specialties, according to the ECF (2002) are cappuccino (71 percent), flavored

⁴¹ German Coffee Association, personal communication.

coffees (12 percent), ice-coffee (6 percent) café - au - lait (4 percent) and others (1 percent).

It should be noted that these new instants contain very little coffee (often below 5 percent), so even if their increase is an important trend, the impact on coffee volume sales will be small or even negative.

The German market for organics, eco-friendly, and fair trade

While the outbreak of BSE and foot and mouth disease heightened awareness of the typically already “organic-conscious” German consumer, 2001 organic sales were more modest than expected showing roughly 20 percent growth. Accordingly, the overall organic grocery market, with sales of 2.5 billion euros in 2001, achieved a 1.5 percent market share (ITC 2002). Mid-term growth for organic products overall was estimated by the ITC (1999) at 10 to 15 percent.

An important segment of German consumers has traditionally had an appreciation for healthy and organic products. In fact, Germany was one of the first countries where organic coffee was introduced, originally from Finca Irlanda in Mexico’s Chiapas region. The German organic coffee market is estimated at 3,900 tons in 2001.

This is about the same size as the fair trade segment, and roughly equivalent to 0.7 percent of the total market (figure 11.3).

Germany is one of the few European countries where a certified eco-friendly coffee is available. This shade-grown coffee is offered by Starbucks in some of its stores.

Fair trade coffee was introduced to Germany in the 1970’s when Gepa Fair Handelshaus GmbH pioneered it. Later an identifiable brand and label, called Transfair, was launched on the market in 1993, following the Dutch example of Max Havelaar. However, the German market share for fair trade did not rise above 1 percent, and even showed a recent negative trend until 2001. Yet, forecasts show future growth.

The Transfair portion of the fair trade market measured 3,754 tons in 2001, which is equivalent to 0.7 percent of the market. Other German solidarity organizations also import and sell coffee under fair trade terms although they do not belong to Transfair or come under the FLO umbrella. These include the organic wholesalers and brands such as Rapunzel and El Puente. Since these coffees are also certified organic, they were considered double certified coffees and were consequently counted in each of the segments.

An important and growing part of the German Transfair coffee is also certified organic.

Figure 11.3 Sustainable coffees by type in 2001 (Metric tons green)

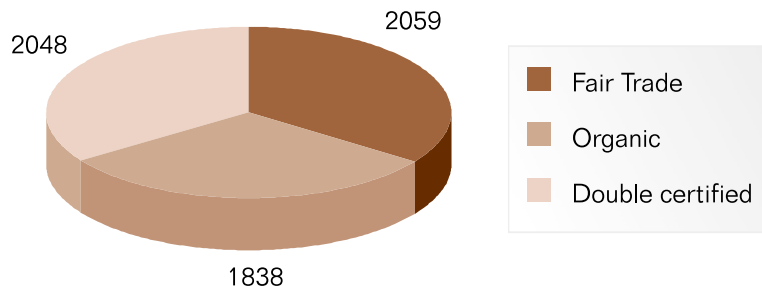
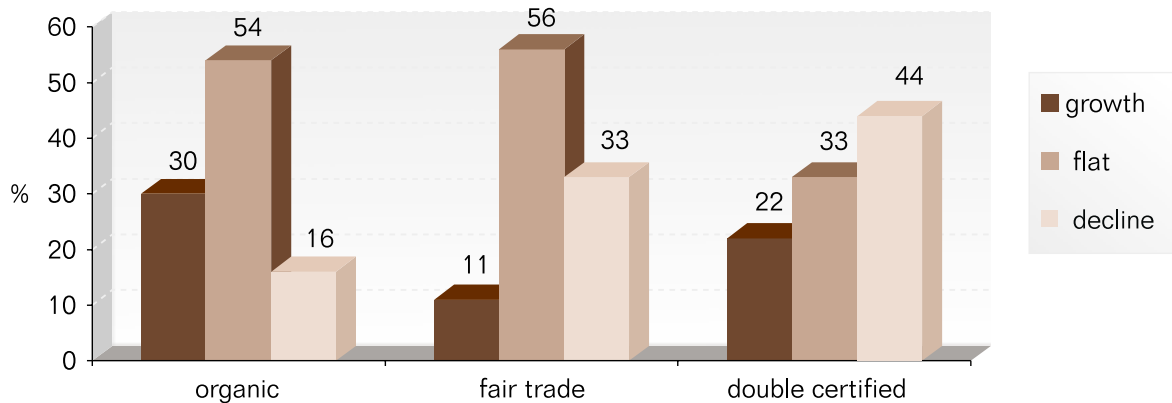




Figure 11.4 German sustainable coffee growth in 2001



According to Transfair Germany, the share of these double certified products increased from 35 percent in 2000 to an estimated 45 percent in 2001. This is equivalent to about 2000 tons green in 2001 and denotes a growing convergence between these certification standards.

Soluble coffees account for approximately 400 tons, most of which is organic or double certified. Gourmet coffees are rather important especially in the fair trade segment, accounting for almost 1000 tons of total sustainable coffee. The total market volume in 2001 was estimated at about 6000 tons.

Many traders reported little growth both for organic and fair trade coffees in 2001 (figure 11.4). This was surprising especially for the organic segment, since overall organic sales experienced strong growth in that year. According to our respondents, the double certified category showed the least growth performance. The flat scenario reported also for fair trade coincides with the FLO statistics that indicated zero volume growth in 2001 among their registered participants.

Certification

According to national and EU regulation, any organic product sold in Germany has to be independently and externally certified by a qualified agency. Fair trade coffee is not subject to governmental regulations, but follows private regulations. Fair Trade Labelling Organisations International (FLO) in Bonn is by far the most important fair trade certifier. FLO-labelled coffee is sold in Germany under the Transfair label.

Instead of FLO-certification some companies have developed their own company certification schemes. The major examples are the Hand in Hand program of the leading organic food manufacturer Rapunzel and the El Puente program.⁴²

The combination of Naturland and IMO is by far the most important certifier in Germany for organic coffees. IMO is often used by Naturland for inspection in the field, so IMO and Naturland refer to the same “control chain”. Other labels with a German presence are BCS, Biolatina, KRAV (Sweden) and Skal (Netherlands).

⁴² Rapunzel Naturkost AG’s compliance with organic standards is externally verified by BCS and KRAV. Dritte Welt Partner supplies organic coffee to the market which is reported to be “certified” by the Association of World Shops (Dachverband Weltläden).

However, about three-fourths of the industry claims not to have a preference for a particular certifier as long as it meets all legal requirements.

As much as 50 percent of the industry respondents find the different certifications personally confusing, while 90 percent think that fair trade and organic certifications are confusing to the consumers (figure 11.5).

Certification is confusing to the industry because of the large number of different labels on the German market and inadequate understanding of the differences between them.

The lack of transparency not only presents a barrier to entry for new companies but also leads some suppliers to believe that these are merely marketing tools rather than useful concepts for growers.

Most believe that certification is confusing to consumers because many don't know the difference between organic and fair trade.

Many of the respondents are sceptical about the consumers' capacity to understand what different labels mean. Some believe that consumers want a brief clear message.

Premiums

For organic coffees, most buyers quote premiums of 10 to 25 US\$ cents per lb on green coffee, with a median of 15 cents per lb. and a high of 70 cents per lb.

Regarding the fair trade premiums, all participating buyers follow at least the official FLO-regulations on prices, while some pay an additional small premium on top of this.

The majority of respondents find the organic premium "reasonable". The fair trade premium (minimum price), however, is considered reasonable by slightly less than half of those surveyed.

The combined premium for the doubly certified organic and fair trade product is considered "reasonable" by only a bit more than one-fourth of the respondents (figure 11.6).

The majority of respondents expects that sustainability premiums, both for organic, organic plus fair trade and pure fair trade coffees, will continue in the medium term (figure 11.7). For fair trade coffees, however, this majority is significantly smaller. Since fair trade premiums are defined politically, this indicates that many

Figure 11.5 Are certifications considered to be confusing?

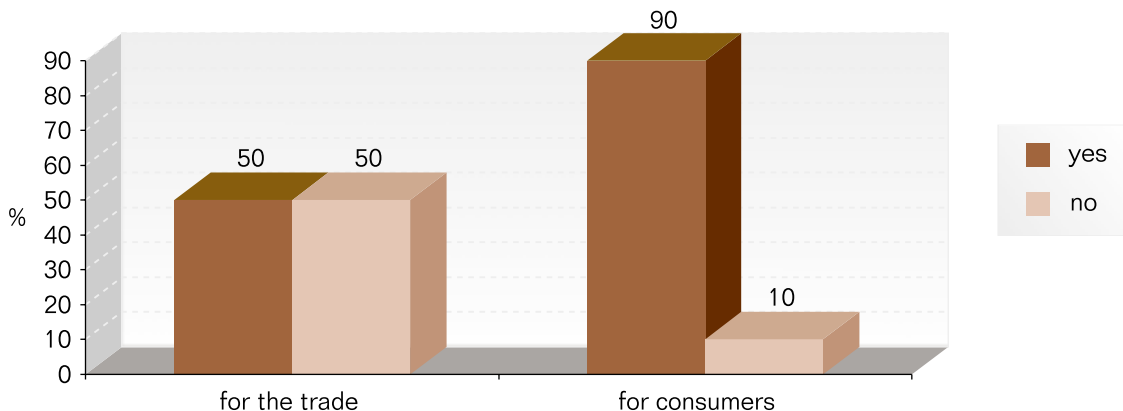
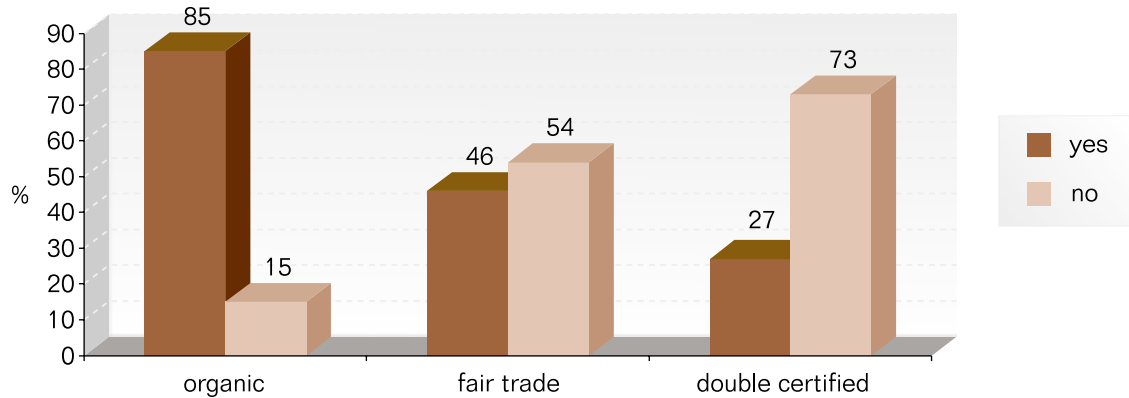




Figure 11.6 Are current premiums considered to be reasonable?



respondents expect the fair trade price-fixing mechanism to be revised.

Retail prices

The median retail price of mainstream sustainable coffees is 70 percent above the median price of conventional coffees (figure 11.8). This is the highest difference found in any of the countries studied. The organic coffees are generally more expensive than fair trade coffees. For gourmet coffees, on the other hand, the difference of 5

percent between conventional and sustainable is almost negligible. Only the organic gourmet coffees are relatively expensive, selling at a median of almost 16 euro per kg, even more than the double certified coffees. This is related to the pricing policy of the dominant suppliers in each of the segments. In the mainstream quality segment, however, the double certified coffees are the most expensive.

Sustainable coffees are sometimes considered as part of the gourmet coffee segment, regardless of their quality. In such a comparison, the median retail price of any category of mainstream

Figure 11.7 Will the premiums continue at their current levels in the medium term?

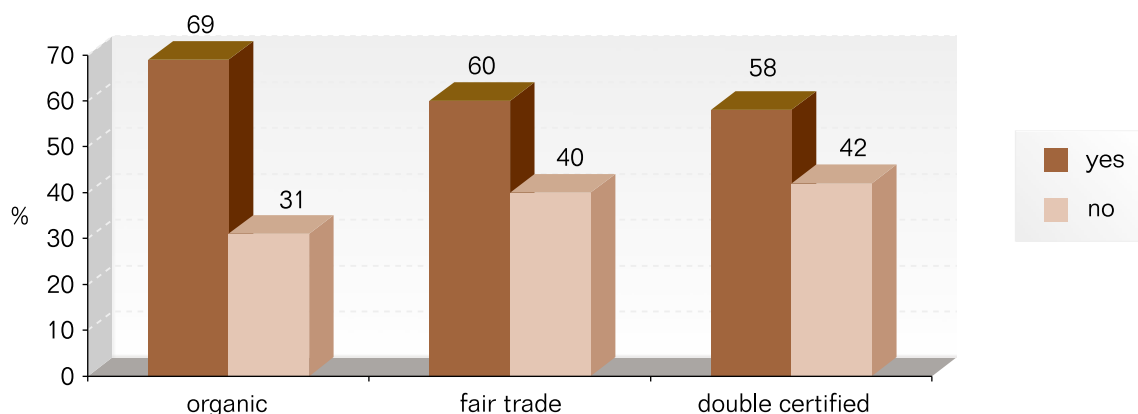
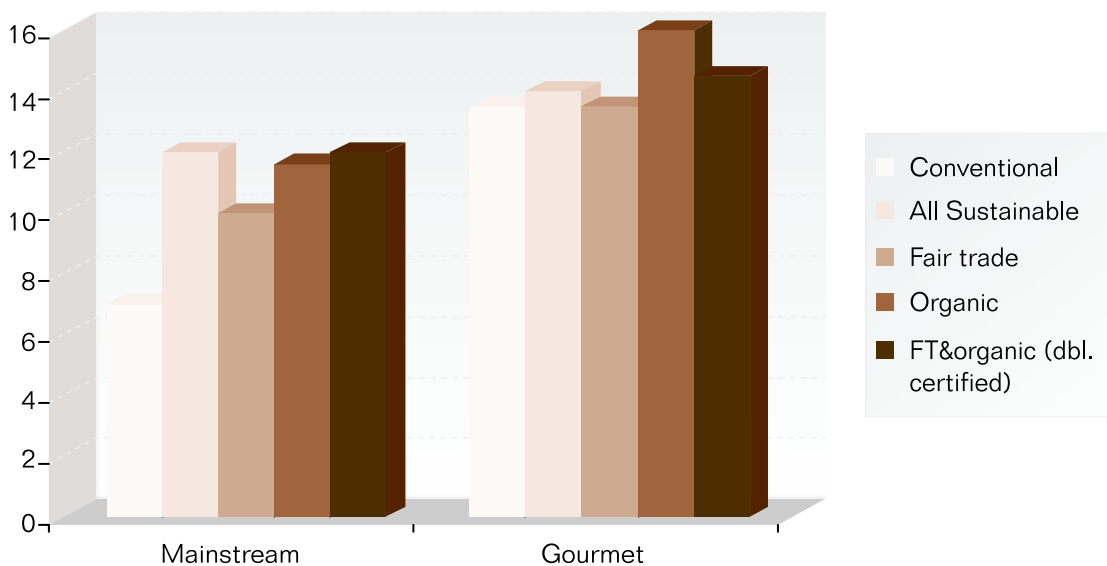


Figure 11.8 Retail prices of German coffees by type (€/kg)



sustainable coffees falls well below the median gourmet price.

Sustainable, traditional instant coffees are 20 percent more expensive than their conventional counterparts. Sustainable new instants, however, sell at a median retail price which is 120 percent above conventional new instants. For the time being, these products appeared to be more of a novelty and are sold at very small volumes.

The German market, like many others in Europe, notes that there is an unfulfilled demand for organic and/or fair trade Brazils (unwashed arabicas).⁴³ Fair trade has not caught on in Brazil and organics are produced by only a few growers. Most of these have gone to the Japanese market that pays the best premium, and some to the U.S. Since most sustainable coffees are sold on mainstream markets, it is not surprising that there is demand for the most popular and less-expensive coffees.

Significant supplying countries for sustainable coffees

Mexico is the most popular origin for both organic and fair trade coffee. Guatemala ranks second, followed by Peru. Other important suppliers are Colombia, Bolivia, Nicaragua and Tanzania.

The German market structure

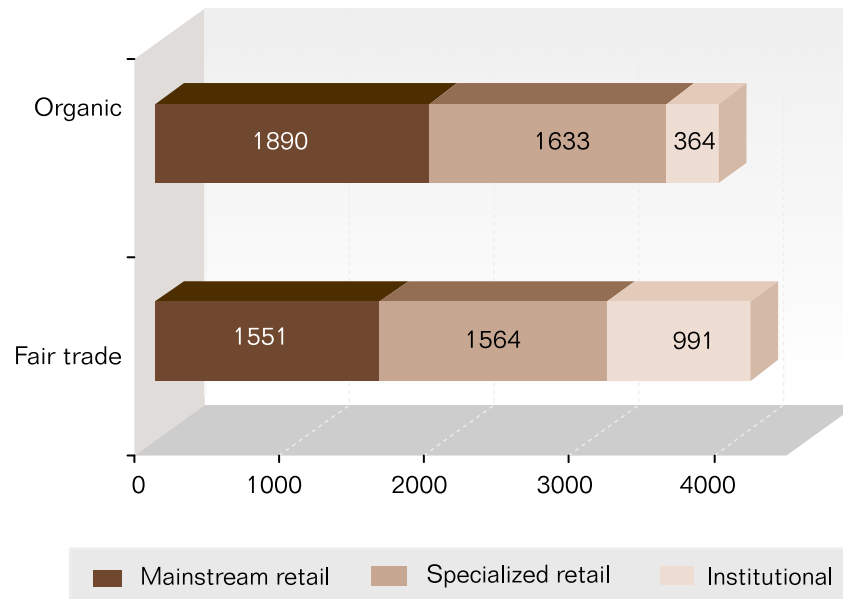
Major outlets for sustainable coffee in Germany are the mainstream retail, specialized retail and the institutional (out - of - home) market. The two retail channels are the most important for both and fair trade and organic (figure 11.9). A small volume of sustainable coffee is also sold by mail order and using the Internet.⁴⁴

⁴³ Dutch, Italian, Swiss traders mentioned the same demand.

⁴⁴ Mail order selling may either be directed to institutions or to households. In this study it is considered under the specialized retail channel.



Figure 11.9 Market channels for sustainable coffees by type. Tons of green coffee equivalent



Specialized retail stores like the *Welt Läden* (World Shops), organic and health food shops and specialized coffee shops are the traditional sales channels for sustainable coffees, and these remain important but less so than before.

Although organic issues have figured more prominently in the news during recent years, organic coffees are still not widely offered in the mainstream channel and its supermarkets have been much slower than their European counterparts to respond to these new trends. Metro supermarkets - a major player - introduced its first organic and Transfair certified product in 2001. The national discount chain Plus recently launched a new organic range in April 2002 in all its 2,700 stores, but it has not yet added organic coffee. Surprisingly, regional supermarket chain Tegut, that takes pride in announcing that 10 percent of its sales are organic, does not carry organic coffee either.

The German mainstream retail sector is sometimes criticized because, despite its lack of

concentration - with 10 major chains, and many regional players -, there is apparently little innovation. Therefore, competition is strong and very price-oriented. Hard discounters such as Aldi, which is native to Germany, have a high market share. With the exception of these discounters, most German supermarkets now offer Transfair coffee in their assortment.

So despite a relatively wealthy and quality conscious consumer base, price discounting rather than quality dominates mainstream retail. This makes it more difficult to introduce sustainable and specialty products, especially when these enter the market at higher price levels.

Approximately 25 percent of the Transfair coffee is sold in the institutional market, which is proportional to the importance of this market channel for fairtrade in Germany according to Transfair. It is considerably lower, however, than the share of this channel in neighboring Belgium and the Netherlands, where it is about 50 percent. Another neighboring country, Austria, also

enjoys very strong sustainable coffee sales in the institutional channels. The out of home channel for organic coffees is relatively small.

German traders predict a flat market performance both for 2002 and 2003. Whereas organic coffees are expected to grow by 1 to 5 percent in each of the major channels, fair trade sales are forecast to decline in the mainstream retail channel. This decline was estimated at 5 percent for both 2002 and 2003, while fair trade sales in the specialized retail and institutional channels would remain the same.

Trends in the German market

The German coffee trade believes that the following trends will affect the overall coffee market:

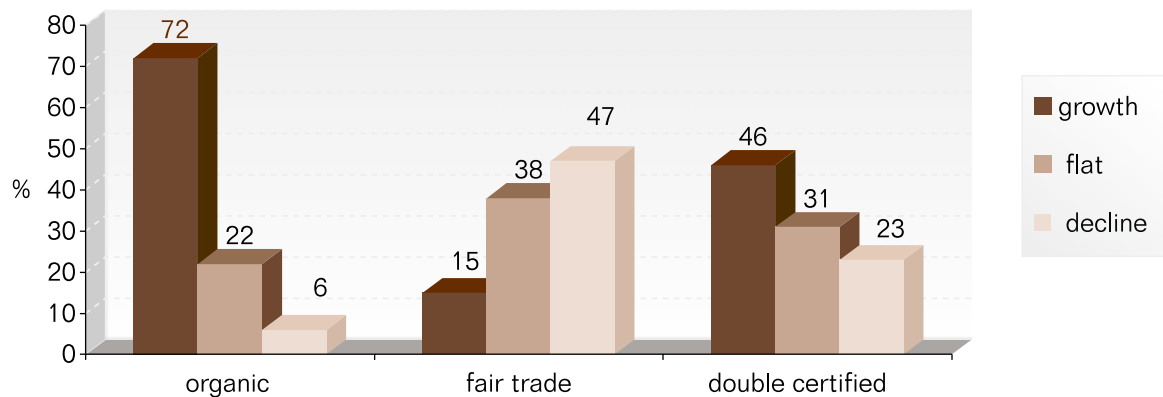
- ▼ The out of home segment continues to gain in importance with institutional sales and a growing number of new style cafes increasing.
- ▼ Sales of espresso coffee and espresso-based beverages continue to increase.
- ▼ Consumption of “new instants” (cappuccino and flavored) continues to grow.
- ▼ Per capita consumption is expected to remain stable, while there will be a continuing internal shift from commercial grade coffees to more differentiated specialty coffees.

After recent food scares such as BSE, foot and mouth disease, dioxin contamination and others, consumers have become more concerned about food safety. This clearly offers a positive environment for sustainable coffees, particularly organic. However, the recent nitrofen affair, the current low in the economic cycle and the hardened international outlook have tempered

the optimism regarding organic products. The following trends refer to sustainable markets in particular:

- ▼ Several major retailers have launched or are launching organic product lines, while others appear to increase their organic assortments. The share of total organic food sales registered by the mainstream retailers is increasing quickly as they gain market share from smaller specialized operators.
- ▼ The specialized organic food stores are also experiencing substantial growth, although this is not as spectacular as in supermarkets.
- ▼ Major retailers like Edeka, Rewe and Plus have recently introduced organic coffees under private labels. The commercial interest in fair trade coffees, although these still have a much wider distribution, is currently limited.
- ▼ The volume of organic coffees is expected to continue to increase as quality improves and distribution expands.
- ▼ The introduction of the new *Bio-Siegel* by the German Ministry of Consumer Protection, Food and Agriculture, should help to improve the efficiency of the certification process and increase organic labeling clarity and reliability for the consumer.

Germany represents the largest European coffee market in terms of volume. Due to food safety concerns and a “green conscious” consumer, Germany has also historically consumed the most sustainable coffee (almost 6000 tons in 2001). Therefore, Germany’s current and projected growth rates are not as high as countries such as France where sustainables are not well established. As was mentioned before, the market is expected to grow slowly, or even remain stable, in the shorter term.


Figure 11.10 Near term growth forecast (2004/2005)


The medium term outlook for organic coffees is more positive. A small majority of the respondents (56 percent) expects further growth over the next 2 to 3 years and 17 percent expect strong growth (figure 11.10). For combined fair trade and organic coffees, the view is also positive.

The forecast for fair trade coffee is less positive, with the majority expecting a flat scenario, but as much as 46 percent expect decline or even some great decline. Just as for the organic category, the medium term outlook for these

coffees is much more positive than the 2001 results.

A look at the volume and trend data indicates that organic coffees are surpassing the fair trade segment. The increase of the double certified segment is slowed down in 2002 (figure 11.11).

With the different sustainable coffee categories showing little growth, which, moreover, is partly “eaten” by the growth of double certified coffees, the share of sustainable coffees is predicted to stabilize at 1.1 percent (figure 11.12).

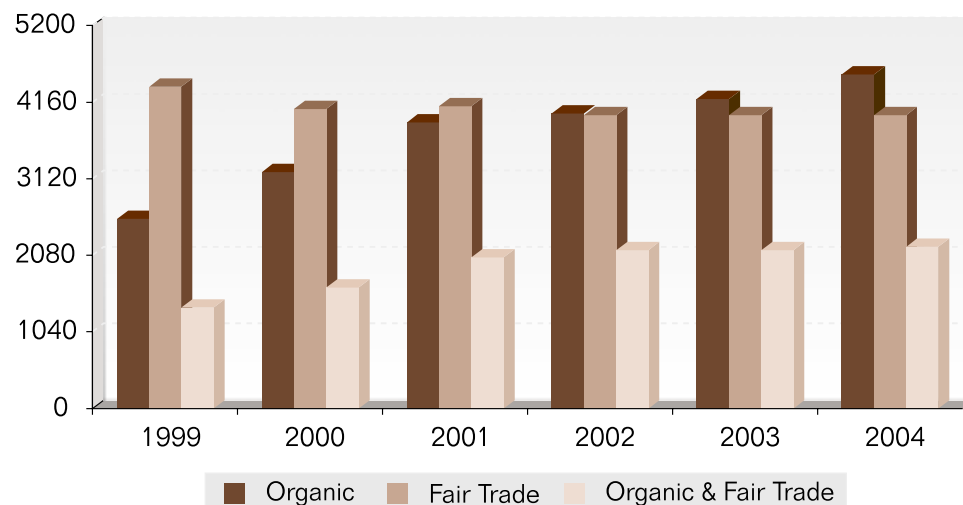
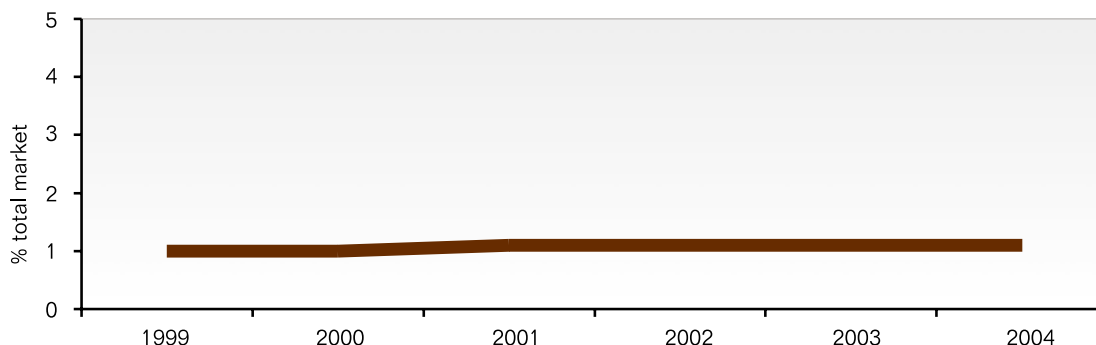
Figure 11.11 German sustainable coffee consumption and projections (Metric tons green)


Figure 11.12 Sustainable coffee market share in Germany



Constraints in the German market

The fair trade coffees are already enjoying an almost nation-wide distribution. This means that further growth will have to come from higher sales in the existing outlets. The following factors were identified as constraints to the Transfair market:

- ▼ The public awareness of the Transfair label stands at 40 percent and there is a lack of cohesive approaches and promotional funds available to disseminate this message. The national labels in both Germany and Belgium have not succeeded in their attempts to sell fair trade coffees under their labels; successful marketing of this label in the Netherlands presents some consumer confusion since it is confused with other brands.
- ▼ The absence of the market leaders and their popular brands (Jacobs and Eduscho) in the fair trade segment and the relative weakness of the existing brands that participate.
- ▼ Present fair trade prices are relatively high and the trading margins small. This is aggravated by heavy supermarket price promotion of coffees as highly visible loss leaders or *ecke-produkten*.
- ▼ The gap between good intentions and the actual purchasing decision in the shop may

reflect the inability of fair trade to find affinities with current lifestyle and consumer preferences.

The following factors were identified as constraints to the organic market:

- ▼ The number of certification bodies and their logos that causes confusion to the public (although the introduction of the *Bio-Siegel* may help to resolve this problem).
- ▼ Despite the introduction of the EU regulations, the lack of unified standards concerning the organic certification of coffee among different certifiers still causes confusion and inefficiencies in the trade making it a source of conflict.
- ▼ The risk of increasingly bureaucratic solutions for certification that would make the entry-barriers higher and add to the cost of the products, especially since any measures have to be coordinated between and with governments and a large number of stakeholders.
- ▼ The lack of credible statistics on the size and growth of the organic markets, and the limited interest of most certification bodies to generate this data.
- ▼ The difference in scale and price-levels between the traditional organic suppliers and

the mainstream roasters, that make it difficult for the first to enter the mainstream retail market and take full benefit of the strength of their brands. This problem is aggravated by the likely need to abandon the high margins errand in some of the traditional organic food stores.

- ▼ There appears to be a lack of interest among the major coffee roasters to enter the organic market and even Jacobs seems to be producing organic coffee for the Danish market, but not for the German.

Key factors for growth

Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels

▼ Awareness of consumers about these coffees

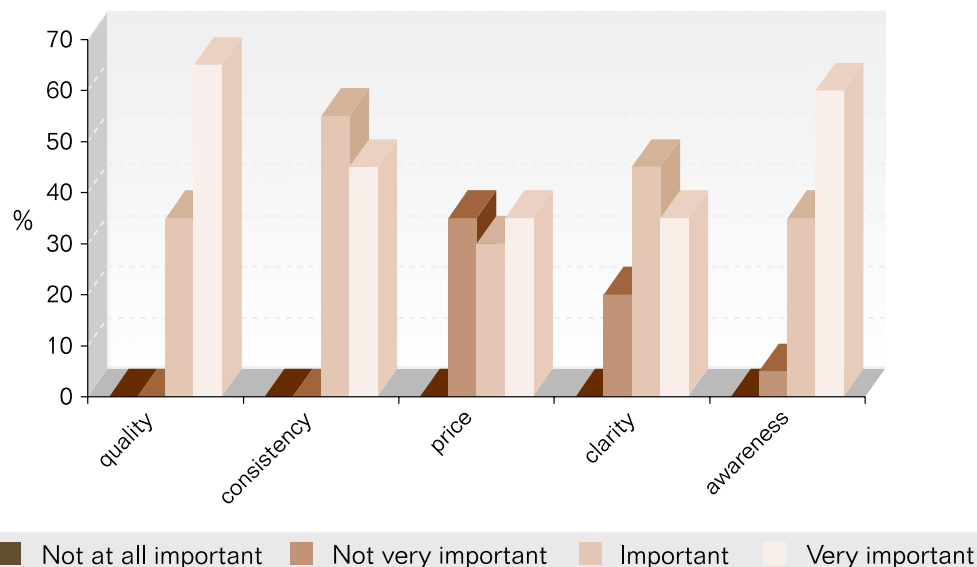
If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important”. The results are shown in the following figure (11.13).

The German industry gave the highest importance to quality, closely followed by customer awareness. Price, as compared to conventional coffees was given the lowest importance, with 35 percent of respondents considering this factor not very important.

This is somewhat surprising, given that the German coffee market is generally considered to be very price-oriented, and leading coffee brands are often offered by supermarkets at low prices to generate traffic. Apparently, sustainable coffees are viewed as being somewhat price-inelastic.

More than half of the respondents also mentioned other factors influencing the expansion of sustainable coffees. The most common of these was the absence of adequate information about these coffees, especially for consumers.

Figure 11.13 Key factors for the expansion of sustainable coffees





Sorting coffee beans

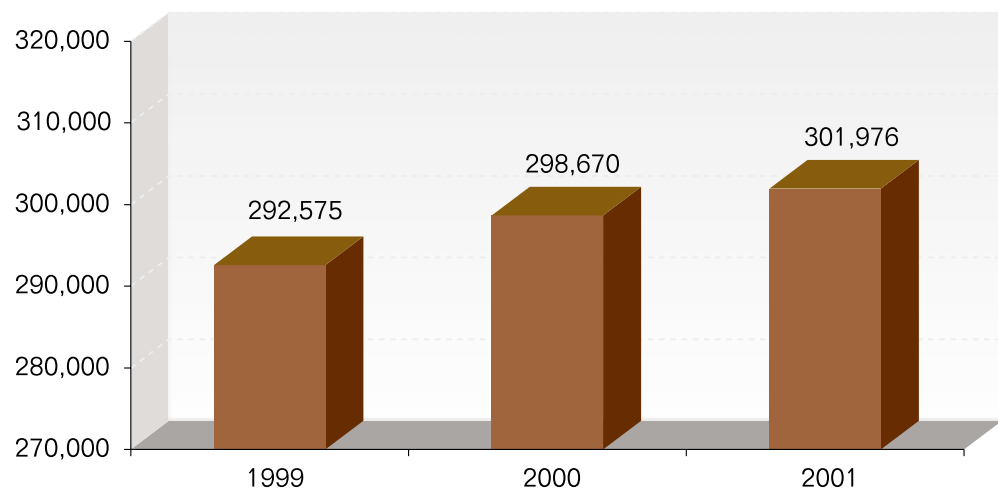
12.

Sustainable Coffee in Italy

The overall market context

In 2001 the Italian coffee market imported 364,678 tons of green coffee, an increase of approximately 3.4 percent over the previous year. Although Brazilian Naturals and Robusta constitute 75 percent of the market, an increasing market share is going to Brazilian coffees that lend themselves well to the needs of espresso roasters. Over the last five years Robusta demand has edged downward by about one share point but the Milds have dropped considerably, from approximately 30 percent down to a 25 percent market share. Most of the recent import growth was an opportunistic increase in the stocks due to low prices rather than a significant increase in consumption.

Figure 12.1 Total Italian coffee consumption (Metric tons green)



Source: *European Coffee Federation, 2002.*

An average growth rate over the last five years might better reflect demand in the processing sector and that number would be 2.3 percent per annum. Although per capita consumption has shown only modest growth at 1.1 percent for 2001 (figure 12.1), Italy's processed exports continued to grow significantly (at 11 percent) and the country easily holds the world's number two position in this category. Although per capita consumption has remained stable at about 5.5 kg over the last 3 years (figure 12.2), it is much higher now than the 1990 level of 4.4 kg.

The Italian market for organics and fair trade

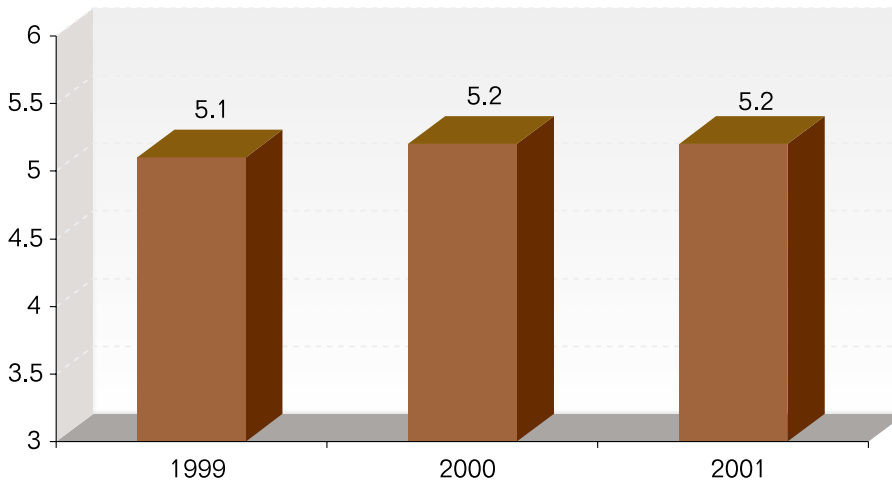
The sustainable coffee market in Italy is very much in its infant stage. Prior to 1999 only a few

low-volume sellers carried it. The majority of businesses involved in the field have sold sustainable coffees for less than three years.

Organic coffee is known in Italy as “caffè biologico” or “caffè bio”, while fair trade coffee is referred to as “caffè equo solidale”. Both categories have approximately the same size, while a significant portion of each is double certified (figure 12.3).⁴⁵

Since its introduction in 1987 until 1992, most of the organic coffee consumed in Italy was certified and imported from Germany. The European Commission regulation that established organic standards (#2092/91) in 1991 helped open up the market for direct importing from origins and for the internal certification of roasters and distributors in Italy. Many importers find it much easier to import from other European

Figure 12.2 Total Italian per capita consumption (Kg green)

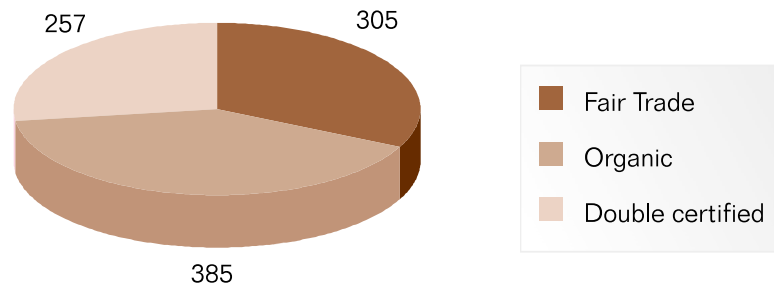


Source: European Coffee Federation, 2002.

⁴⁵ An exact count of the volume of fair trade coffees that are also organic is difficult to compute, as most companies do not keep separate records of organic and non-organic fair trade coffees. However, interviewees from large importing companies stated that about 30 percent or more of their fair trade was also organic and it will increase further in the future. Transfair claims that the percentage of fair trade certified as organic has grown from 30 percent in 1997 to 35 percent in 2001 with further growth expected.



Figure 12.3 Sustainable coffees by type in 2001 (Metric tons green)



Countries rather than from origin since procedures imposed by the Ministry are reportedly difficult and time consuming: taking three to six months for authorization and the authorization to import is reportedly only valid for one year.

While sustainable coffee still covers a very small portion of the market (0.3 percent in 2001), it shows signs of increasing its market share as market penetration continues to rise. Most of the industry players projected growth or strong growth for each category of sustainable coffees in the year 2002 (figure 12.4).

Certification

Since its introduction in 1987 until 1992, most of the organic coffee consumed in Italy was certified and imported from Germany. The European Council regulation that established organic standards (#2092/91) in 1991 helped open up the market for direct importing from origins and for the internal certification of roasters and distributors in Italy.

Final product certification is conducted by Italian certifiers, of which the most popular are: Istituto Mediterraneo di Certificazione (IMC), Consorzio

Figure 12.4 Italian sustainable coffee growth in 2002

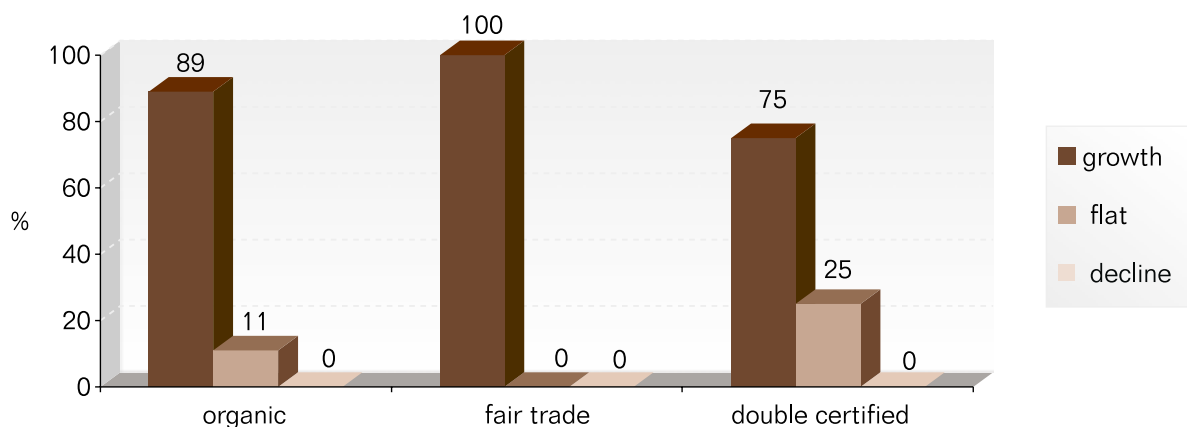
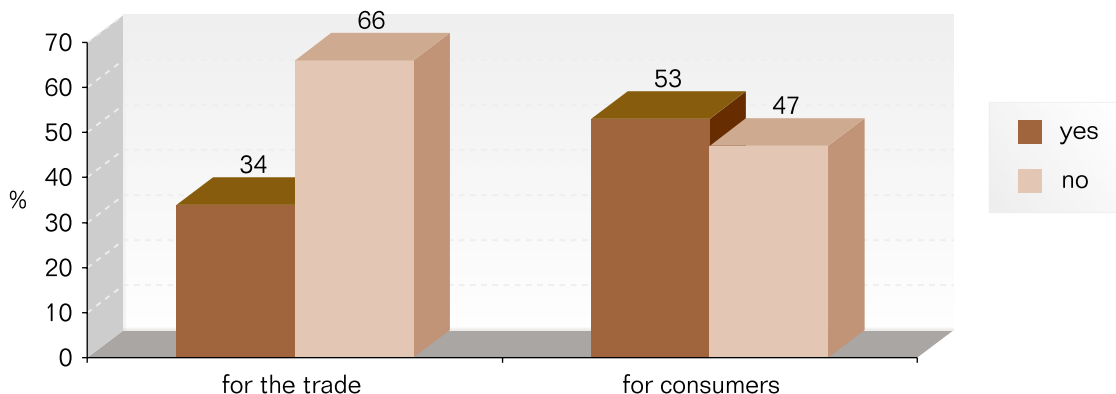


Figure 12.5 Are certifications considered to be confusing?



per il Controllo di Prodotti Biologici (CCPB), Quality, Certification and Inspection International Services (QC&I), BioAgriCert, and Associazione Italiana per Agricoltura Biologica / Istituto di Certificazione Etica e Ambientale (AIAB/ICEA). Green coffee imports are certified by several European companies partly reflecting Italy's preference to import a number of such coffees via European traders because of its internal bureaucratic barriers.

The most important certifiers and inspection agencies were, in order of importance: IMO, Krav, Ecocert, SKAL and BCS. Much of fair trade is certified by Transfair Italy and a very

significant quantity is certified by CTM. Both of these entities are accredited by FLO.

Although the coffee trade generally feels that they are familiar with the different certifications, their responses would indicate that there is still a certain lack of clarity about what actually happens in the fair trade process, and most commented that the complexity of the Italian organic process was daunting. Most appear to be frustrated with these processes, particularly with the government bureaucracy, and a bit more than half claim that their clients and consumers are confused about the different certifications, particularly fair trade (figure 12.5).

Figure 12.6 Are current premiums considered to be reasonable?

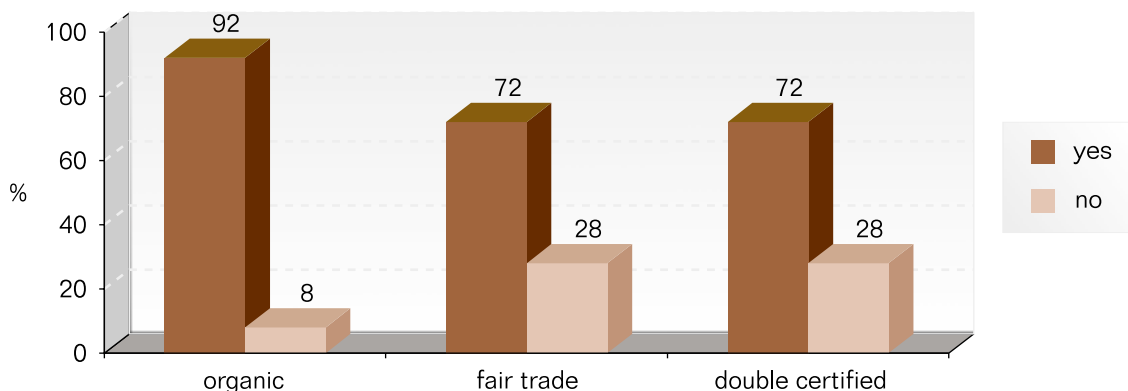
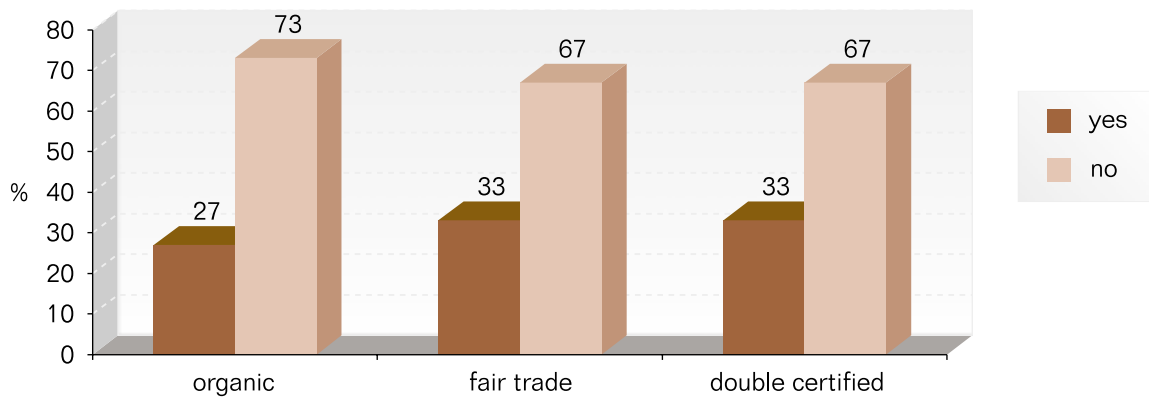


Figure 12.7 Will premiums continue at their current levels in the medium term?

Premiums

Premiums for organic coffees were generally considered acceptable, although some complained about high certification costs and that the only difference between organic and non-organic coffee was the certification (figure 12.6). Most, but not all, of the firms interviewed agreed that the premiums for fair trade coffees were justified, although in this case several commented that it was unclear how much of the premium actually benefited the growers.

Most of the industry felt that organic premiums would decline over the next two years primarily due to expected reductions in certification costs, less bureaucratic costs, and greater volumes. For similar reasons, a comparable percentage of firms stated that they expected premiums on fair trade and double certified coffees also to be reduced in the near future (figure 12.7).

Retail prices

Retail prices vary from US\$10.20 to US\$14.95 per kg for fair trade coffees and from US\$12.20 to US\$16.40 per kg for organic coffees. Similar quality conventional coffees cost from US\$9.00 to US\$16.00 per kg (figure 12.8).

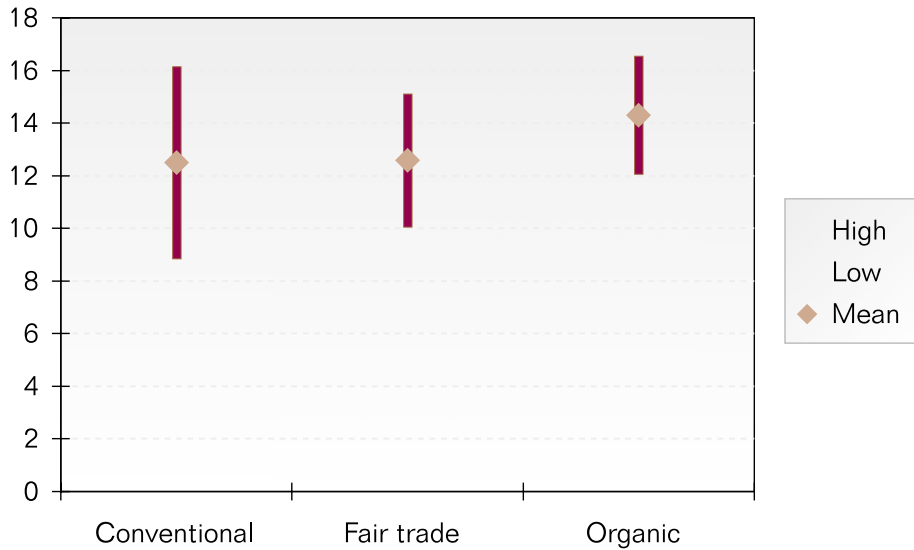
The figure shows that fair trade coffees start at less than 15 percent more than conventional and can even be less than some conventional coffees, giving them a very reasonable price range for many consumers. Organic however starts at 35 percent more than conventional coffee, which could present a barrier for price-conscious consumers.

Significant supplying countries for sustainable coffees

The Italian market tends to source better quality robustas from Africa, Southeast Asia, and Brazil, since these contribute to specific characteristics that are preferred for dark roast and espresso blends. Fair trade and doubly certified fair trade and organic coffees for the Italian market are being imported from (in order of importance): Mexico, Nicaragua, Guatemala, Costa Rica, Dominican Republic, Honduras and Colombia. The first three countries are predominant.

Organic coffees for the Italian markets are being imported from (in order of importance): Mexico, Guatemala, Bolivia, Peru, Indonesia, Sri Lanka, Thailand, Tanzania, Colombia, Brazil, Madagascar, and Uganda.

Figure 12.8 Retail prices of Italian coffees by type (€/kg)



The Italian market structure

Much of the sustainable coffee in Italy is sold for brewing purposes and a lesser portion is incorporated into darker roast and espresso blends. Most of the interviewees, especially the small roasters, categorize their sustainable coffees as gourmet coffees. They argue that sustainable coffees are inherently of high quality or are at least sold under that image. The suppliers of retail chains however, appear to sell their sustainable coffees in the category of good quality commercial blends. The largest companies - handling about 90% of total volume - sold 95% as mainstream commercial quality coffee. About 100 tons or 10 percent of the market could be classified as gourmet (single origin, higher quality blends, or estate grown) and these are primarily organic coffees rather than fair trade.

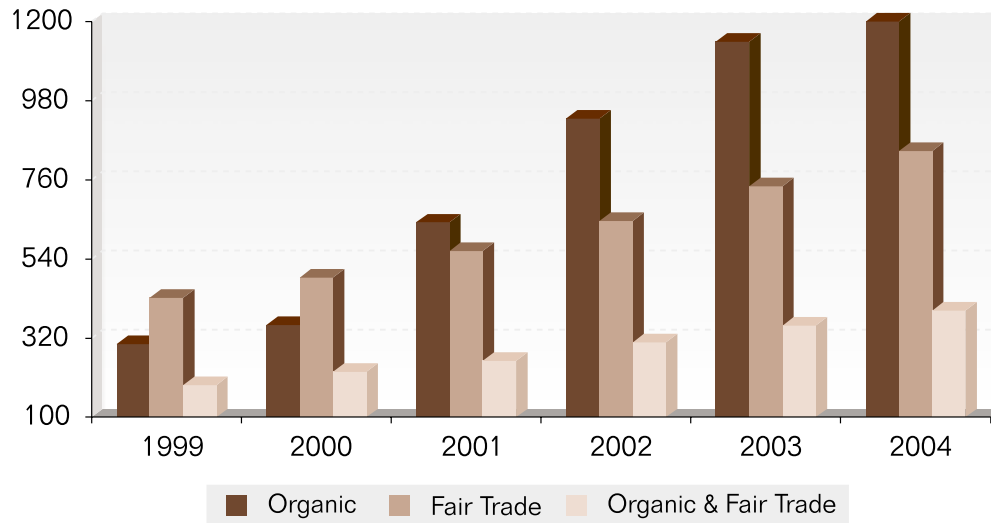
There are no canned or bottled beverages made with sustainable coffees and only about 26 tons (gbe) of soluble coffee is sold. Only one operator (CTM Altromercato) sold a significant quantity of soluble sustainable coffees (figura 12.9).

About two-thirds of total coffee distribution is through supermarkets, which means that sustainable coffees have now started to gain access to this channel, while earlier they relied more on health food stores, specialty food shops and smaller grocers. Supermarkets such as “Supermercati e Ipermercati Coop” and SAIT distribute fair trade products with their private label Solidarita. The TransFair label was introduced into Italy in 1995, and has shown growth ever since. The biggest increase has come since 1998 when 1,500 outlets existed; by 2002 there were almost 4,000.

Four Italian companies: CTM-altromercato, Co-Ind, Commercio Alternativo and Gabesco Italia handle much of the sustainable coffee that is sold in Italy. The pioneering CTM Altromercato, introduced in 1987, is today the largest fair trade importing company in Italy. Commercio Alternativo di Ferrara and Co-Ind also distribute considerable quantities. Beginning in 2002, CTM is no longer using the TransFair label, but it will be part of FLO, the international umbrella organization. Issues related to labeling of fair



Figure 12.9 Italian sustainable coffee consumption and projections (Metric tons green)



trade coffee are currently under debate, as FLO seeks to gather each country's participants under one domestic umbrella organization.

The larger players in the industry are all very positive about the near-term outlook for sustainable coffees, particularly the organic. Their growth estimates range from 15 percent up to more than 100 percent. Most of them, except for the largest firm, expect that specialty retail will have a faster rate of growth than mainstream. Institutional and out of home sales are also expected to improve at a healthy rate averaging 15 percent to 20 percent in many estimations.

Italy may have more coffee roasting companies per capita than any other country in the world. However it has, like most countries, experienced significant roaster concentration wherein a handful of roasters, of which Lavazza is the largest, now share about three-fourths of the market. Although the number of small roasters has reduced dramatically to about 1400, many still thrive and are responsible for most of the sustainable coffees roasted in Italy.

Many small roasters are still entering the market but some of the newcomers, which had been involved for only a year or two, are already stepping out. Some claim to have been "lured into" the business by supermarket campaigns promoting organic coffees, not realizing that these early campaigns were more for the product's image building rather than a reflection of actual consumer demand.

Trends in the Italian market

It is too early to tell whether the growth of these coffees is the result of recent marketing campaigns and their novelty or, as in other major markets, a longer-term trend. The emerging consumer awareness is vital to the growth of the sustainable coffee market in Italy. The recent advent of social responsibility in terms of organic production and labor rights exhibited by the Italian populace is still new and it is therefore too early to tell whether this will be lasting or not. In the coffee trade there is considerable scepticism about whether the benefits of fair trade actually reach farmers.

Strong interest on the part of supermarkets appears to be the clearest indication of a structural consumer demand, since they would not make an investment otherwise. The medium term projections of the Italian sustainable coffee industry were also very positive (figure 12.10).

On the basis of industry projections, the Italian sustainable market should have more than tripled its 1999 level by 2004 (from about 550 to 1750 tons). The organic sector has significantly contributed to this growth, but there is some uncertainty whether that trend will continue in the future. While there is optimism in the industry, Italy is still one of the smaller markets for sustainable coffees.

The explosive growth of organic in 2001 (80 percent) was not entirely due to new entrants, it was also because of a bureaucratic anomaly. The Ministry of Agriculture and Forestry Policy only issued import authorizations from countries of origin for 118 tons in 2000 whereas the authorization for 2001 was 5,395 tons. 2002 also should see continued strong double-digit growth.

Based on the performance of previous years and the predictions of industry representatives, organics growth in 2003 should be 23 percent and 2004 is expected to level out and grow more

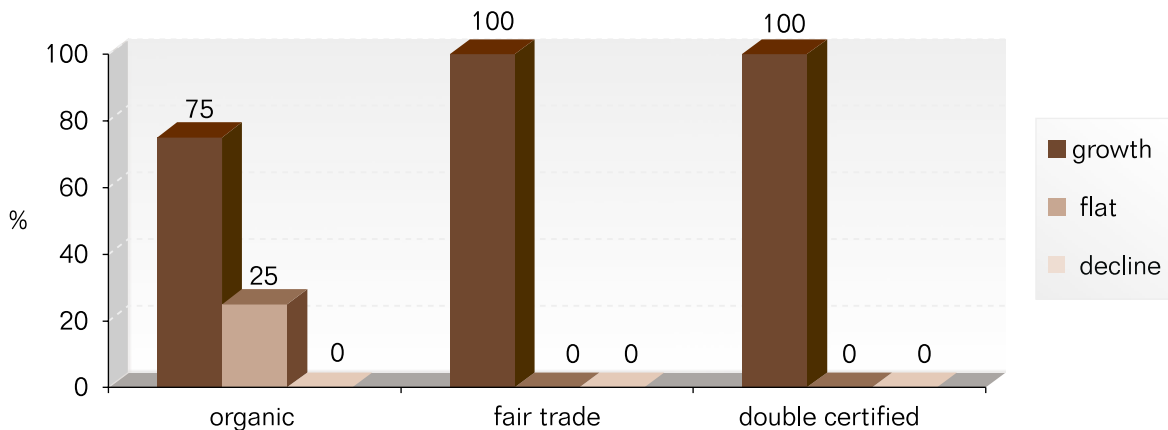
modestly at 15 percent. Mid-term growth here for organic products overall was estimated by the ITC at 15 - 20 percent. Fair trade is expected to grow at a rate of 20 percent in 2003 and 2004.

Constraints in the Italian market

The most important constraining factors on the growth of the Italian sustainable coffee market are:

- ▼ The time and effort involved in obtaining a license to import green coffee from non-EU countries. Results from interviewees vary in terms of how long this process takes, but they were unanimous in their opinion that it takes too long. In fact, some interviewees claimed that it could take over a year to obtain such a license. The private Certifying Agencies, however, were much more efficient in comparison, allowing the possibility of importing green coffee from inside the EU and thereby bypassing some of the thicket of Italy's more bureaucratic regulations.
- ▼ Importing from other European countries, rather than directly, restricts the variety and

Figure 12.10 Near term growth forecast (2004/2005)



quality of organic coffee available to the Italian market.

- ▼ The issue of quality for these sustainable coffees was raised repeatedly. The higher cost of importing through other EU countries into a relatively lower-priced coffee market probably means that buyers will source less expensive and consequently lower-quality coffees.
- ▼ The Italian coffee industry seems to suffer from a high degree of skepticism regarding the concept of sustainable coffee. Results from interviewees indicate that they are skeptical about the socio-economic benefits that are supposed to be passed on to the producers and the environment.

▼ **Quality** of cup

▼ **Consistent** and reliable supply

▼ **Price** relative to conventional coffee

▼ **Clarity** between different types of certifications, criteria, and labels

▼ **Awareness** of consumers about these coffees

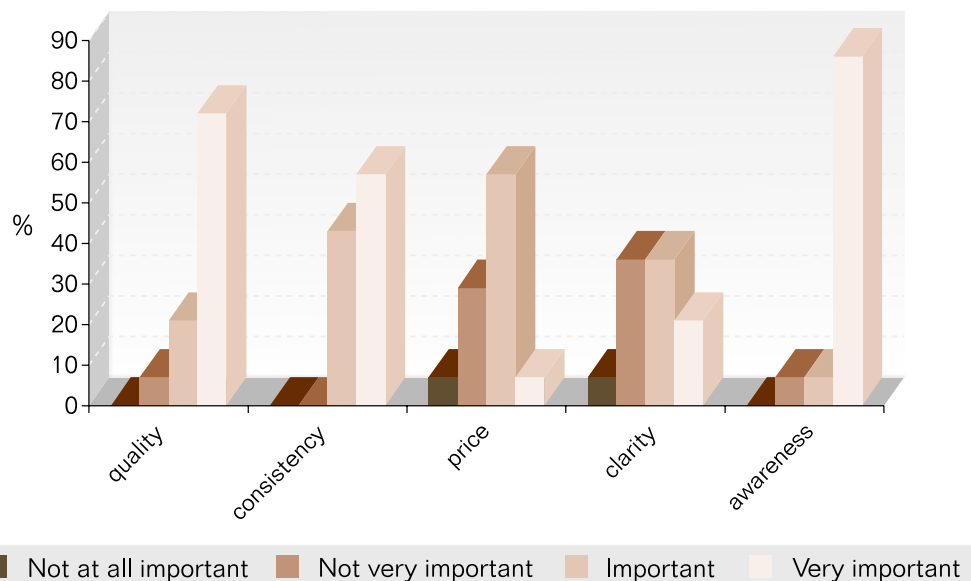
If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important”. Their responses were consolidated in the following chart (figure 12.11).

Key factors for growth

Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

In the incipient Italian market, customer awareness of sustainable coffees was considered the most important factor. This was followed by coffee quality and consistency of supply. Clarity of the labels and brands and especially price were considered to be less important.

Figure 12.11 Key factors for the expansion of sustainable coffees





Don Miguel's harvest

13.

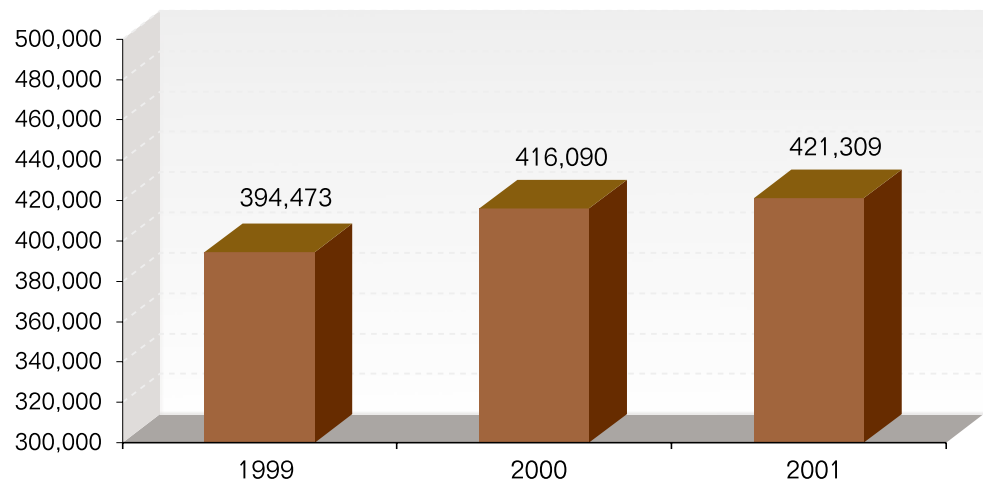
Sustainable Coffee in Japan

The overall market context

Japan's imports are divided 3/4 being arabica and 1/4 robusta. It has a long-standing relationship with many of the American arabica producers and sources more than 90 percent of its arabica there. Brazil is its primary supplier followed by Indonesia and Colombia that together supply about 60 percent. Guatemala and Vietnam follow in importance. Overall, approximately 40 countries regularly ship some coffees to Japan.

The All Japan Coffee Association coffee survey notes an overall increase in the market, with instants moving up slightly to 28 percent of the market after a downward trend, roast and ground tending upward at about 40 percent share and liquid and canned demand remaining stable at about 32 percent after a decade of strong growth averaging more than 4 percent per year (figure 13.1). The coffee

Figure 13.1 Total Japanese coffee consumption (Metric tons green)



shops have done well but the overall out-of-home consumption has stagnated recently. However, at-home consumption has grown steadily at more than 3 percent per year over the last decade, giving food retailers a greater edge in the market.

Roasted coffee for industrial use, to make ready to drink beverages for example, accounts for about 40 percent of total consumption. Institutional and out of home sales account for about 32 percent, while at home consumption comprises 28 percent of the total.

Although Japan is a major buyer of coffee, its per capita consumption is low compared to many other consumer countries (figure 13.2). Traditionally a tea-drinking nation, its coffee-culture was slow to develop. During the last decade, nevertheless, the market enjoyed very healthy growth, with per capita consumption increasing from 2.4 kg in 1990 to 3.2 kg currently. In recent years the internationalization of Japanese tastes helped spur strong growth in retail coffee shops, and ready-to-drink canned coffees are a Japanese invention that has become more popular than in any other country. Better-quality coffees are slowly replacing soluble,

which was the mainstay of most home consumption.

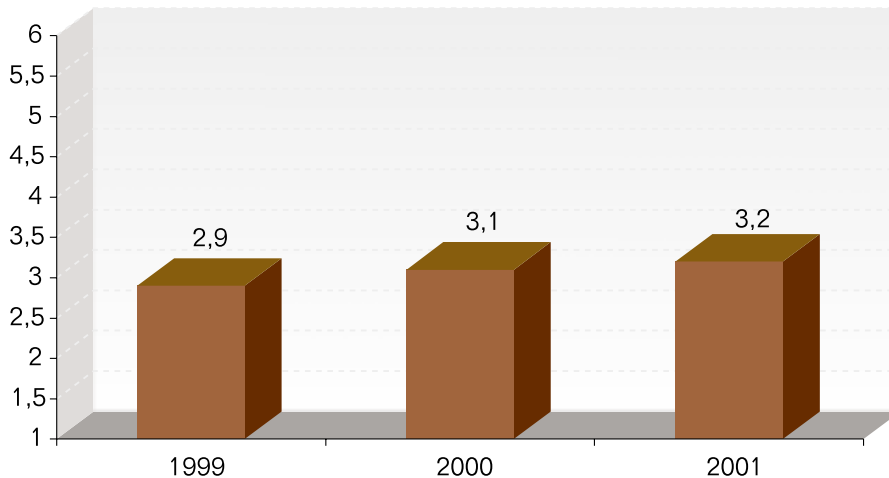
Today Japan acquires some of the world's finest coffees from nearly every origin. The market has a particular affinity for "origins with a story", and as such it is one of the largest buyers for Hawaii's Kona, Colombia's Emerald Mountain, Jamaica's Blue Mountain, Guatemala's Antigua, and Cuba's Crystal Mountain.

But this high-quality end of the market plus all of the other differentiated coffees together represent only a small percentage of the total volume, perhaps in the range of 10 - 12 percent.

The Japanese market for the eco-friendly, organics, and fair trade

Japan is the largest Asian market for organic products and especially for coffee, although Taiwan, Hong Kong, Thailand, Singapore, and Korea are also beginning to show an interest with modest imports. However the Japanese market is complex and not easily understood.

Figure 13.2 Total Japanese per capita consumption (Kg green)





Various estimates have put the overall Japanese growth-rate for organics at about 20 percent, but these appear to be based on general estimates rather than data analysis, since these data simply do not exist. Senior Ministry of Agriculture (MAFF) officials, however, state that the government is capturing data on the organic market from October 2002.⁴⁶ There is potential for confusion in this market since the Japanese term for organic products, “*yuki*”, also includes conventional products that, although produced in a more environmentally friendly manner, are not certified organic. In the mid - nineties one estimate from Twyford - Jones (1998) put the total market value for *yuki* products in Japan at about US\$500 million. The International Trade Commission (2001) now notes that market to have grown considerably to an estimated US\$2.5 billion for 2000. However, the market for certified organic *yuki* is estimated to be about 10 percent of the total *yuki* (Masuda, 2000).

Introduction of the organic Japanese Agricultural Standard (JAS)⁴⁷ for coffee in 2001 made the market very uncertain and appears to have reduced the quantities of organic coffee that enter the country. It is very likely, according to several expert observers, that certified organic coffees have for some time been very considerably supplemented by uncertified supplies. According to one unofficial estimate from a top coffee trade association, approximately 4000 to 5000 tons of organic coffee were imported in 2001. Those certified as organic were estimated to be approximately 1320 tons. With the new standard in place and positive responses from certifiers and suppliers, it remains to be seen whether the market converts its current use to certified organics. Preliminary reports indicate that the certified volume has increased very

considerably for 2002 to about 4500 tons with more than 4000 tons of organic certified coming from Latin America alone. This makes Japan’s the second-largest market for organic coffees after the U.S.

A number of Japan’s leading coffee trading and roasting companies currently purchase Rainforest Alliance-certified coffee and promote the concept in Japan. These include: *Itochu*, *Kanematsu*, *Ajinomoto General Foods*, *Volcafe Japan*, *UCC Ueshima*, *Kohikan Roasters* and the *Sumitomo Corporation*. Volume figures are difficult to confirm but are estimated to be less than 100 metric tons in 2002.

Eco-friendly coffee is not regulated by the new government standard since of course its claims are distinct from those made for organic products. This may or may not limit its growth and that will in part be determined by whether there will be ready availability of certified organic coffee at competitive prices. Eco-friendly coffee is often priced below organic.

Fair trade is also projected to grow steadily but from a much smaller base. The fair trade movement dates back to 1989 with the founding of Alter Trade Japan Inc. By 1991 both organic and Fair trade coffees made headway in the Japanese market and in 1993 Transfair Japan was established. In 2001 they reported fair trade sales of 7.7 tons, a nearly 17 percent increase but still a very small quantity. 2002 figures show 9.5 tons and a more recent estimate for 2003 is 50 tons and accounts for the entry of new Transfair participants such as Starbucks Coffee Japan, Wataru, and Ogawa. Most of the country’s fair trade sales are outside of the FLO system. We estimate the volume to be in excess of 300 tons,

⁴⁶ Early investigations unfortunately indicate that the organic beverages category is divided only into tea and other beverages. Unless this changes, it is impossible to extract the coffee portion from juices, soy milk, etc.

⁴⁷ The Japanese Agricultural Standard is similar to the EC regulation on organics or the new U.S. regulation and represents a change from privately managed organic standards and sales to government regulation of these standards and their representation in the marketplace.

Figure 13.3 Sustainable coffees by type in 2001 & 2002 (Metric tons green)



with one firm alone responsible for at least 170 tons in 2001. This is slated to increase considerably according to long-term contractual obligations whereby 2002 estimates easily top 400 tons and projections for 2003 are in excess of 600 tons. The volumes of the major sustainable coffee types are summarized below (figure 13.3).

Certification

Standards and certification systems will likely become clearer as market participants familiarize themselves with the new Japanese Agricultural Standard. Nearly all of the respondents - 95 percent - felt that the system was unclear and confusing. By October 2002 nearly 700 firms were officially registered under the JAS.

The confusion about the distinctions between the different certifications and what they represent is believed to widely apply to consumers as well.

Currently there are only two parties registered to the FLO system (Transfair Japan): the *Wakachiai* project and *Dai-ichi* Coffee Corporation. The rest constitutes the vast majority of sustainable coffee businesses and typically operates without third-party verification.

Premiums

Japanese traders appear content to pay premiums of 20 percent or more for average to good quality organics and several respondents said they regularly pay a good deal more if quality is exceptional. Approximately 75 percent of respondents believed that organic premiums would probably diminish in the next two years while 15 percent believed they would stay the same.

For fair trade many participants are uncomfortable with the present price structure to farmers and therefore continue to operate outside of the internationally recognized FLO register for fair trade coffees.

Retail prices

There is a considerable range of retail prices from US\$5.98 per kilo for discount coffee, to \$15 for average supermarket-quality, \$28 for Starbucks House Blend, and up to \$38 for better coffees in specialty shops.⁴⁸ The All Japan Coffee Association annual survey⁴⁹ shows that retail prices have slipped with the average consumer paying approximately \$12.50 per kg. Several

⁴⁸ This does not include the estate or superpremium coffees and like Jamaica Blue Mountain that fetch considerably higher prices but are relatively minor part of the market.

⁴⁹ "Basic survey about the demand trend of coffee". The sample is 6000 persons.

companies mentioned that sustainable coffees would be more viable if they were positioned at prices near to the average supermarket-quality and below Starbucks.

Significant supplying countries for sustainable coffees

There are a number of supplying countries that have shipped uncertified coffees to Japan, but with the recent JAS-law the organic market underwent a significant shift. To date Colombia, Brazil, and Guatemala are its largest organic suppliers, Peru, Uganda, Bolivia, Mexico, Papua New Guinea, Ethiopia, Nicaragua, the Dominican Republic and El Salvador have all supplied this market.

Many of the same countries, plus Ecuador, also supply fair trade coffees.

Eco-friendly (shade-grown) coffees are imported from several countries, particularly Uganda, Ethiopia, Papua New Guinea, Peru, and El Salvador. Only the Salvadoran coffees were third party certified until recently. Now, certified eco-friendly coffees (Rainforest Alliance or SMBC) are available from El Salvador, Mexico, Nicaragua, Guatemala, Costa Rica, and Panama.

The Japanese market structure

The value-based market share ranking of the major conventional coffee players is led by Ueshima Coffee Company (UCC) and followed by KEY, Ajinomoto General Foods (AGF), COOP that together account for nearly half of the market. The rest of the market is shared by several hundred regional and local firms, most of which have a market share of less than 1 percent. See Table 13.1. Nestlé dominates the instant market and, with AGF, UCC, and KEY,

Table 13.1 Top 15 Companies

| Top 15 Companies (conventional ground or whole bean) | |
|--|------|
| UCC | 17.2 |
| KEY | 10.9 |
| AGF | 10.1 |
| COOPs | 6.4 |
| Nagoya Seiraku | 2.4 |
| Ogawa | 2.3 |
| MJB | 1.6 |
| Doutor | 1.3 |
| Hills Japan | 1.2 |
| Toho | 1.1 |
| Kunitarou | 1.1 |
| Mitsumoto | 1.1 |
| Hamaya | 1.0 |
| Kataoka bussan | 0.9 |
| Morinaga | 0.9 |
| Others | 40.6 |

data calculated from INTAGE Consumer Index 2002 value

together make up more than 90 percent of the market. The market share for canned coffee in Japan is about 24 percent. This product is supplied through existing distribution networks, and the beer and soft drink suppliers are therefore dominant. Most of these are large companies, but so far they do not sell any organic products. The biggest brand is Coca-Cola - owned "Georgia", whose suppliers are KEY Coffee and Art Coffee. Other major brand - owners include AGF, Nestlé, UCC, Nagoya, Suntory, Kirin, Daydo, and Asahi.

The dominant player in sustainable coffees is Alter Trade Japan, a company composed of several cooperatives. Another fair trade entity, Namakemono, primarily through arrangements with Ecuadorian farmers, sold about 100 tons in 2002 and expects to more than double that over the next two years. There are also a few fairly large fair trade shops such as Fair Trade Company, Nepali Bazar, and Grass Roots, but it is estimated that they each sell only a few tons of coffee.

Overall Japan's demand growth seems to be slowing and while most out of home sales are relatively flat, institutional sales, particularly office coffee services, are growing.

Many organic products offered in Japanese markets are foreign since the relatively new Japanese certifiers are unfamiliar to many consumers. Imported products therefore have an advantage in terms of trust and credibility.

Coffee shops in 2001 showed strong sales, with market leader *Doutor* Coffee owning 1049 stores, Starbucks, which started in 1996, owning 382, Pronto 119, Cafe de Curie 117, Veloce 97, and others like Tullies and Seattle's Best having a smaller but growing presence. Several of these chains have recently started selling organic coffees and Starbucks officially put fair trade on the menu in September of 2002.

Although traditionally sold in some health food shops, and through vending channels as a ready

to drink product, organic and eco-friendly coffees are increasingly being sold in supermarkets. Supermarkets see their share of the coffee category slowly increasing, and this now accounts for about 64 percent of retail sales.

UCC is launching a line of certified coffee that will be sold through the 600 Family Mart convenience stores with locations throughout Japan. Kohikan Roasters launched their line of Rainforest Alliance-certified coffees late last year thereby making eco-friendly coffees available and highly visible with posters, menus and table tents in more than 400 cafes throughout Japan. (figure 13.4)

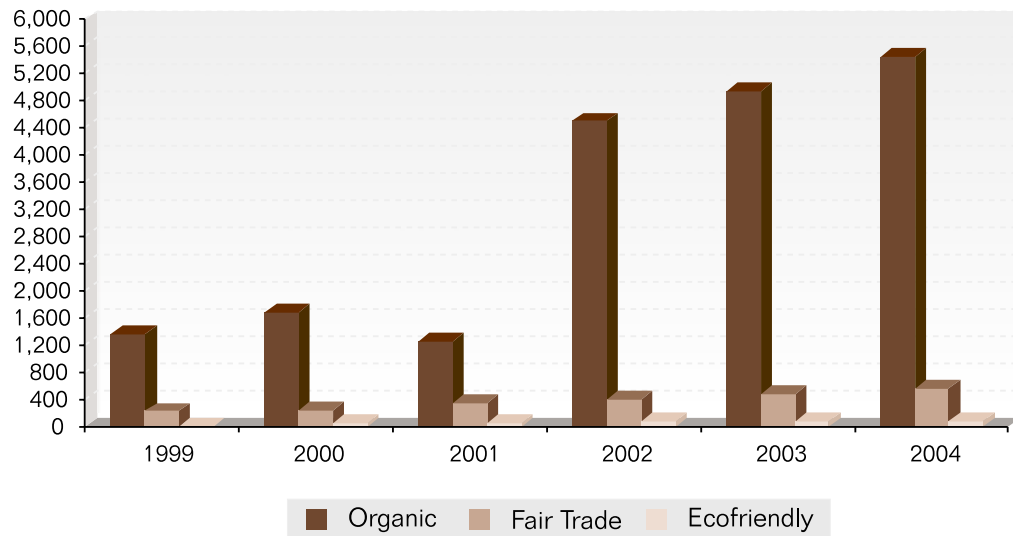
Japan is one of the few countries whose consumer labeling laws require the identification of coffee origins at the retail level.

Trends in the Japanese market

Increasing fears of GMO-products and food safety issues may drive Japanese consumers to be more interested in sustainable coffees in the future, although this interest will probably be more for organic than for other categories. Although one report indicates that in the past consumers may have lost some confidence in organic coffee because of high prices relative to cup quality, this is not borne out in the evidence of strong growth in 2002 of certified organic imports.

Of the companies doing business in sustainable coffees that responded 69 percent expect to increase organic coffee, 18 percent expect to decrease, 13 percent may not continue with it. Seven companies want to increase eco-friendly coffees, but most did not know about this concept. Only a very few expressed interest in Fair trade.

As the figure shows, organic sales are forecast to recover quickly from a dip in 2001, and remain at a far higher sales level than fair trade sales. Eco-friendly or shade-grown coffees also

Figure 13.4 Japanese sustainable coffee consumption and projections (Metric tons green)

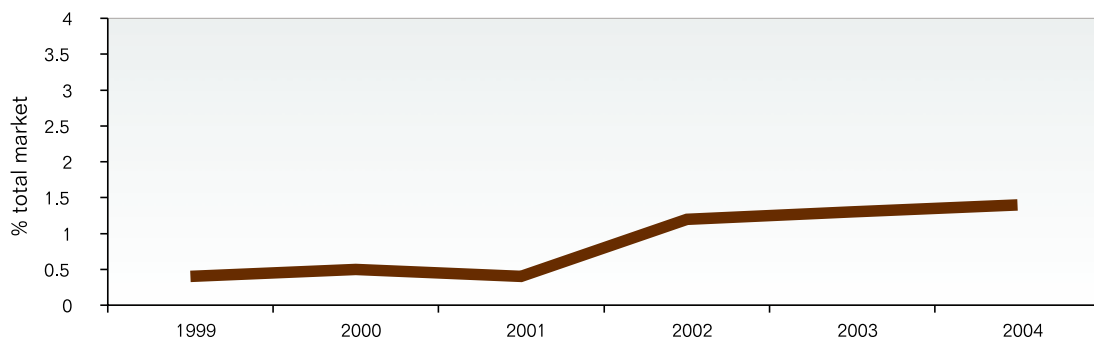
constitute a larger segment than certified fair trade, and are expected to grow quickly. Unofficially, members of Transfair Japan consider that a good portion of the fair trade being conducted outside of their particular certification process would meet many of their requirements. Transfair is currently seeking to incorporate these groups under their umbrella and the projections after 2002 take into account a modest level of success.

Although the overall Japanese market is growing, the share of sustainable coffees is expected to increase from 0.4 percent in 1999 to about 1.4

percent in 2004 assuming a two percent annual growth in the total market and modest 10 percent growth in organics for 2003-04 (figure 13.5).

Constraints in the Japanese market

Difficulties in transitioning to the Japan Agricultural Standard (JAS) system have caused considerable consternation among companies and in the 2001-2002 season a number of companies preferred to wait and see rather than

Figure 13.5 Sustainable coffee share of the Japanese market

import coffees whose paperwork and certifications might be problematic. This confusion appears to have cleared by the end of 2002 as of certified imports attest. It remains to be seen whether all of the difficulties of this transition are truly resolved by 2003.

Since most sustainable coffees are sold as premium coffees, they must offer superior cup quality. Since a number have reportedly been quite inconsistent in this regard, there is a sense of disappointment in the market and the belief that there are fewer repeat sales than expected.

The survey results show that a majority of the companies responding considered organic coffee to be of lower than expected quality.

Key factors for further growth

Members of the industry were asked to “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

▼ **Quality** of cup

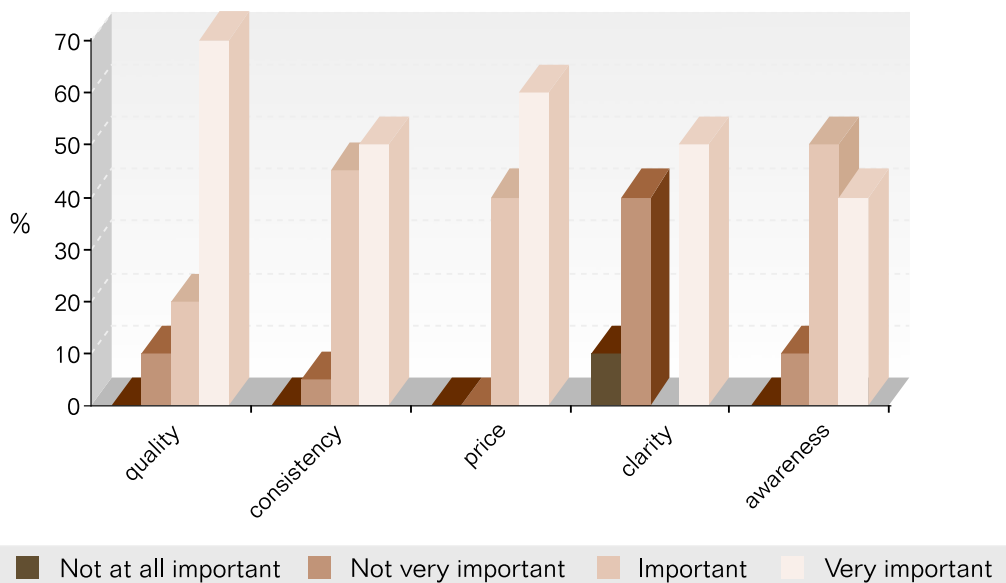
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 13.6).

Fully 70 percent of the companies responding expressed that their most important concern was quality. The lack of clarity and confusion on the market was listed as the primary constraint to growth by half of the respondents. A little more than half the companies felt the most important constraint was the very high price and this may be valid considering that organic coffees in Japan are among the most expensive in the world.

Only 40 percent expressed that consumer awareness was a major constraint.

Figure 13.6 Key factors for the expansion of sustainable coffees





Carrying a baby and coffee harvest

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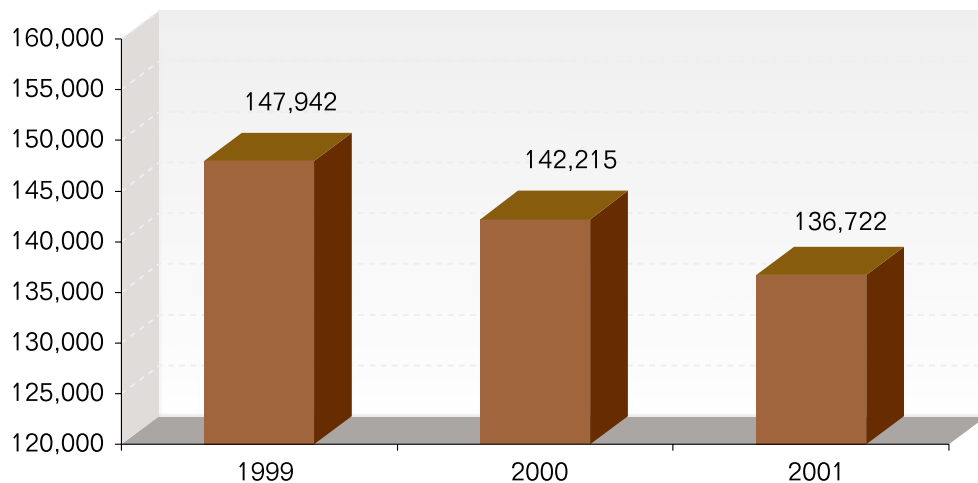
Sustainable Coffee in the Netherlands

The overall market context

In 2002, the total Dutch importation of green coffee somewhat stabilized after several years of significant decreases. In 2001 green imports totaled 136,722 metric tons while roasted imports slipped slightly to just over 21,000 metric tons.

In 2000, the out - of - home consumption continued to grow to 44 percent (from 41 percent in 1999) at the expense of the consumption at home. The out of home consumption includes consumption at work, in restaurants and cafes. Over the last 5 years, 1/3 of the consumption in restaurants and cafes consisted of espresso-based coffee beverages (figure 14.1).

Figure 14.1 Total Dutch coffee consumption (metric tons green)



Source: *European Coffee Federation, 2002.*

The market for soluble coffees in the Netherlands is traditionally small with only 8 percent drinking instant coffee regularly and 64 percent never drinking it. However, the popularity of new instant specialties like cappuccino and *wiener melange*, has led to an increase in at-home consumption in recent years. Despite this upswing, consumption overall has declined from 10.3 kg per capita in 1990 to less than 9 kg at the turn of this decade. See figure 14.2

The Dutch market for organics and fair trade

The Netherlands is one of the pioneering countries for fair trade coffee. In 1973 the Alternative Trade Organization (ATO) SOS Wereldhandel (now called Fair Trade Organisatie) imported one of the first fair trade coffees from Guatemala and in 1988 the first Max Havelaar label was launched.

Organic coffees were first introduced to the Netherlands in 1985. The large specialty coffee

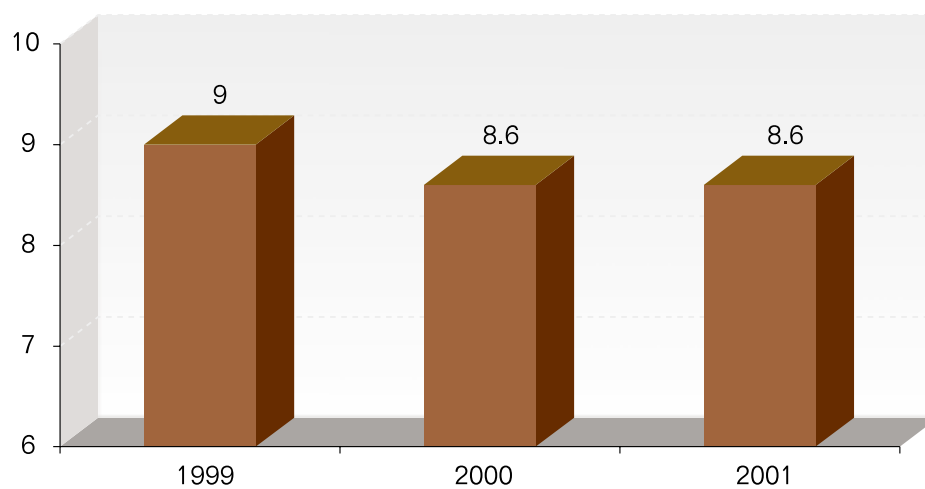
roaster *Simon Levelt* was one of the pioneers in this field. Organic coffees are now widely offered in supermarkets, organic food stores and in specialty coffee and tea stores.

Although organic coffee is growing while fair trade is in a stagnant or even declining phase, fair trade coffee still has much larger volume. The Dutch fair trade market, most of which is sold under the Max Havelaar brand, in 2001 measured 3,726 metric tons of green coffee.

The Max Havelaar market reached its peak in 1998, both in terms of volume and market share. Although sales volume has since declined by 8 percent in the face of an overall market decline, its market share remained almost the same. In 2001 the downward trend in volume stopped and it may increase with recent promising supermarket placements.

Even a modest increase will improve its market share since the overall coffee market is not expected to grow. In 2003 the Max Havelaar label, along with major participating roasters, plans to launch a new and uniform style of

Figure 14.2 Total Dutch per capita consumption (Kg green)



Source: *European Coffee Federation, 2002.*

Figure 14.3 Sustainable coffees by type in 2001 (Metric tons green)



promotion and packaging so that these will be more coherent and recognizable irrespective of the supplier. With this the label hopes to reap the fruits of its strong image that is in some cases comparable to leading brands.

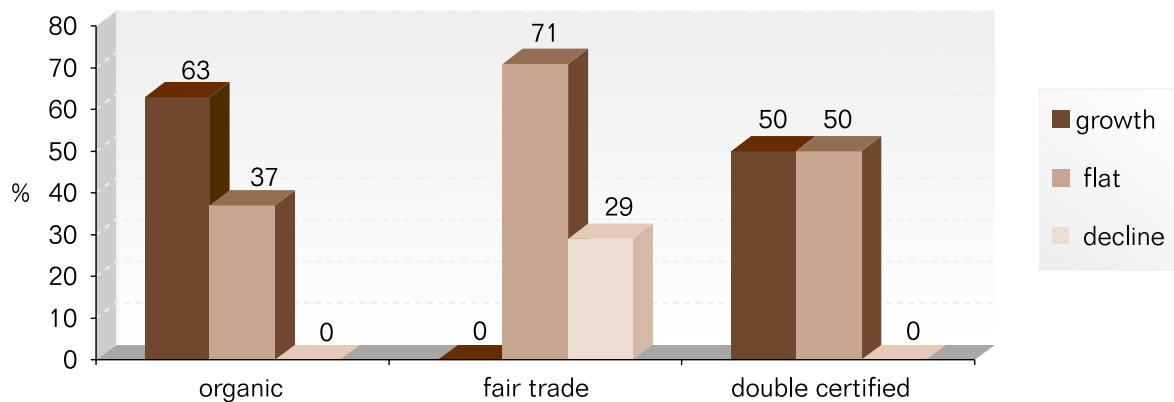
The Dutch organic coffee market is estimated at 828 tons of green coffee in 2001, which corresponds to 0.6 percent of the total coffee market (figure 14.3). About half of this is also fair trade certified, i.e. double certified. These estimates are based on an aggregate of reported sales volumes and trader's estimates.

Over 90 percent of all sustainable coffee is mainstream quality blended coffee, and thus

competes directly in this largest market segment. The remainder is gourmet coffee and to a very small extent soluble. The share of gourmet coffees in double certified coffees, however, is as high as 42 percent, and in all organic coffees it is 28 percent. In absolute volumes, on the other hand, fair trade gourmet coffees sell in higher volumes (270 tons) than organic coffees (214 tons).

Whereas organic traders generally reported growth or strong growth over 2001, most suppliers of fair trade coffees reported a flat market performance. Double certified coffees performed well for half of the respondents, but the other half reported flat sales (figure 14.4).

Figure 14.4 Dutch sustainable coffee growth in 2001



Certification

Organic coffee is 100 percent certified according to EU regulations and for fair trade there are currently no significant alternative labeling schemes to FLO labeled coffee sold with the Max Havelaar label.

A high-profile alternative positioned as a sustainable coffee is an initiative called *Utz Kapeh*, a foundation originally developed by the Ahold Group. Ahold is one of the world's top food retailers and the Ahold Coffee Company is one of the largest Dutch roasters. Utz Kapeh defines itself as an integrated sustainable coffee purchasing program, incorporating basic social and environmental elements based on the EUREP-GAP guidelines.

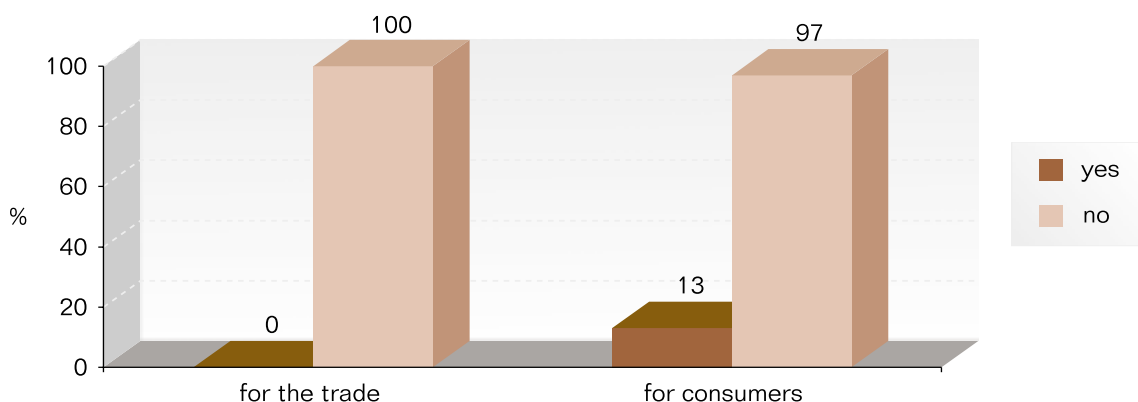
It differs with most organic or fair trade or eco-friendly programs in that its standards are lower and that a much smaller premium is paid to growers for these coffees. While the lack of a substantial premium to producers has raised criticism and some consider this to undermine the efforts of the other certified coffees, the impact both on the market and in the field may

be substantial, since it is estimated that it certified approximately 30,000 tons in 2002.

About half of all Dutch organic coffees also have fair trade registration. SKAL is the most important organic certification agency in the Netherlands. The EKO label owned by SKAL is for many consumers the hallmark for organic products. Most roasters choose to use this label, and therefore most coffees will have to be certified or recertified by SKAL. In addition to SKAL, two other labels were mentioned: the French Agriculture Biologique (AB) label and the German Naturland label.

Most respondents (75 percent) do not consider certifications to be confusing for them, although several mentioned that it can often be a bureaucratic nightmare (figure 14.5). More than half (58 percent) do consider that certifications and labels are confusing to consumers. The respondents who find the certifications confusing consider that there is a large number of terms and labels like organic, ecological, biological, fair trade, sustainable, responsible, which partly overlap and may cause confusion. So even if people know the labels, they may not know exactly what they stand for.

Figure 14.5 Are certifications considered to be confusing?



Premiums

The median values of the low and high quotes for the organic premiums were in between US\$0.15 and \$0.35 per lb. The overall median value was 24 cents per lb. Several buyers indicate that *gourmet organic coffees* may receive organic premiums of as much as 70 cents per lb, or may be traded at fixed prices, regardless of the world market situation.

As to the fair trade premiums, all participating buyers follow at least the official FLO regulations on prices. With current market prices, this translates in a fair trade premium of around US\$0.70 per lb for mild coffees.⁵⁰

The majority of respondents finds the organic premium “reasonable”, but only 24 percent considers that the fair trade premium or minimum price is reasonable (figure 14.6). 73 percent find this premium unreasonable. The premium (minimum price) for the double certified product,

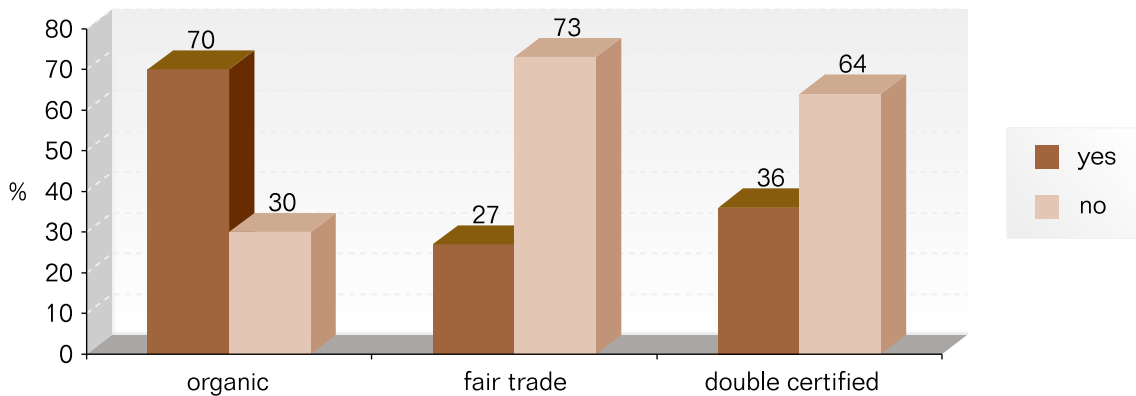
which like the fair trade premium is defined by FLO, is considered reasonable by only 36 percent of respondents, and unreasonable by a majority of 64 percent.

Over the next few years a small majority of respondents (55 percent) expects that the organic premium will continue while a small majority of respondents (58 percent) predict that fair trade premiums may not continue or that alternatives will arise if they continue to be so much higher than the current market price (figure 14.7).

Retail prices

The marked green bean differentials especially for fair trade coffees have not led to proportional differences in retail prices. At the end of 2002 fair trade–only certified coffees sold at a median retail price of EUR 8.42 per kg in October 2002, against conventional coffees selling at €6.80 per kg, a difference of 24 percent.⁵¹ The median retail

Figure 14.6 Are current premiums considered to be reasonable?

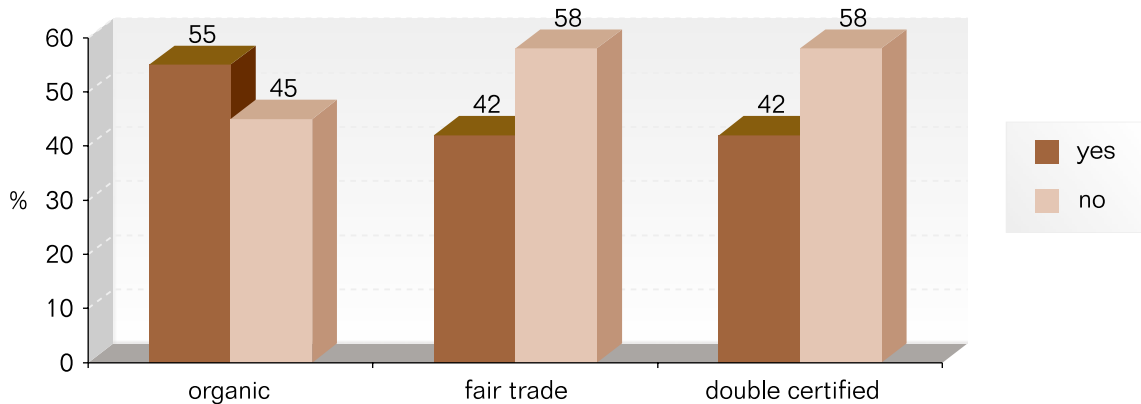


⁵⁰ The FLO guaranteed minimum price is set at 126 US\$ cents per lb for other milds and 106 cents for robustas (FOB origin). For fair trade coffee which is also certified organic an additional premium of 15 cents should be paid, which sets the minimum price respectively at 141 or 121 US\$ cents per lb depending on the coffee type.

⁵¹ The Dutch Coffee Roasters Association VNKT quotes an average roast and ground coffee price of euro 5,88 per kg over 2001. The difference with our figure stems from the fact that the first is a weighted average. Their average coffee price is very close to the price of the Douwe Egberts Roodmerk (red blend), the leading retail coffee, which is currently sold at euro 5.76 per kg.



Figure 14.7 Will premiums continue at their current levels in the medium term?



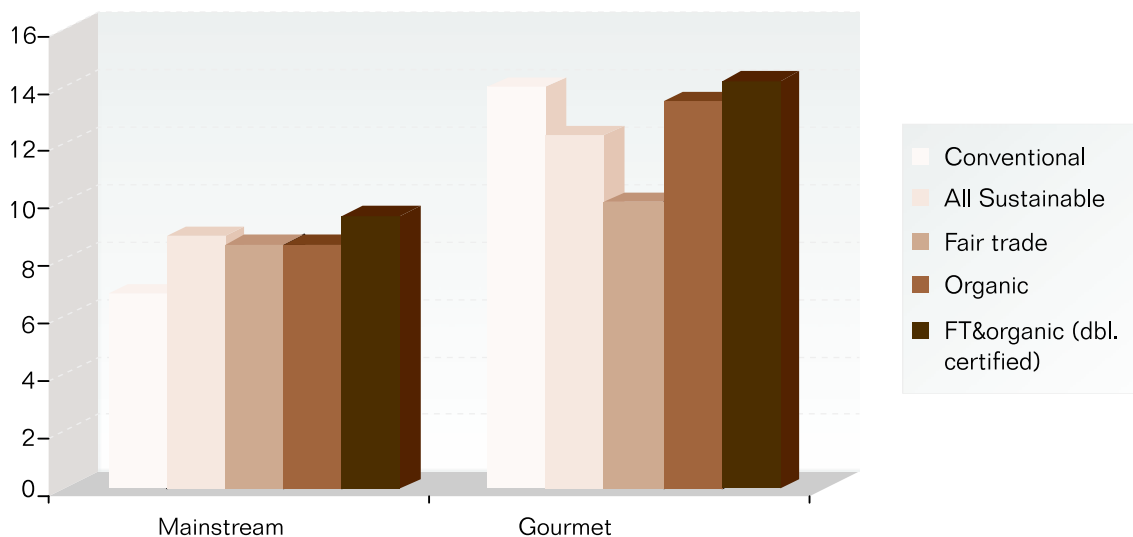
price of all sustainable coffees is a little bit higher (€8.76), due to the double certified coffees selling at €9.67 (figure 14.8).

Most of the sustainable coffees in our sample and also on the market belong to the mainstream roast and ground segment.⁵² In the gourmet quality segment the median retail price of sustainable

coffees is substantially lower than that of conventional coffees: €12.24 against €14.08 per kg. The difference is caused especially by fair trade-only gourmet coffees, which are sold relatively cheap.

But even the double certified coffees are offered at prices which are similar to conventional prices.

Figure 14.8 Median retail prices of Dutch coffees by type (€/kg)



⁵² The table is based on a sample of 50 sustainable coffees and 38 conventional coffees offered in retail outlets in October 2002.

Although the premiums for sustainable mainstream coffees are substantial, they are offered at substantially lower prices than the gourmet conventional coffees. This indicates that these coffees are indeed positioned as expensive (“quality”) mainstream coffees, rather than as gourmet coffees.

The instant coffees in our sample were offered at a median price of euro per kg 38.50, or well above the average instant price of 23.60 (VNKT 2002). Very little sustainable instant coffee is sold in the Netherlands, and our sample only consisted of 2 coffees.

Although the higher green bean prices do not lead to proportional increases in retail prices, the retail price differential stands at an almost historic high (figure 14.9). The graph shows the development of retail prices of two benchmark coffees in the Max Havelaar (fair trade) and the conventional segment, which have been followed since the launch of the Max Havelaar label in 1988.⁵³ Since

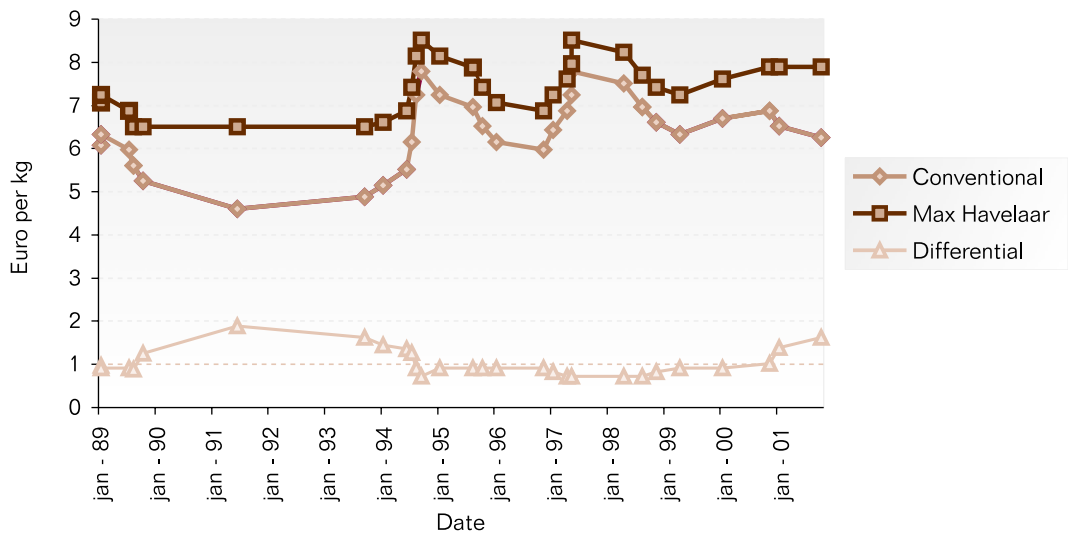
its all-time low of 0.73 euro per kg in September 1994 the differential has tended to increase. At the current level of € 1.63 (+33 percent) it has reached the highest level since 1991 when it was €1.89 (+41 percent).

Significant supplying countries for sustainable coffees

Mexico is the most popular supplier of sustainable coffees, followed very closely by Peru and then Bolivia. Each of these countries is quoted to supply both fair trade and organic coffees. Other important suppliers include Costa Rica, Guatemala, and Nicaragua for their fair trade coffee, and Colombia, Tanzania, and Uganda which supplied fair trade and very little organic.

Although the trade is generally content with the increased supply base of sustainable coffees,

Figure 14.9 Retail prices and differential of Max Havelaar and conventional coffees



Source: *The Netherlands Max Havelaar Foundation*

⁵³ Both coffees are of roodmerk (“red blend”) quality, which is the most popular blend in the Netherlands, containing both robusta and arabica coffees. Both coffees are also predominantly sold in the mainstream (supermarket) channel.



there is clearly an unfulfilled demand for “brazils” (unwashed arabicas). Organic and fair trade versions of this coffee type are hardly available.⁵⁴

Brazils will typically be used in blended coffees of mainstream quality, which is the largest segment of the sustainable coffee business, as it is of the conventional. Similar to the need for brazils, there is a need for robustas. Supply of robustas is especially limited if the need for specific quality characteristics is considered. Traders require very specific robustas, depending on the purpose and blend they will use it for. Uganda and India were mentioned as potential supplying countries.

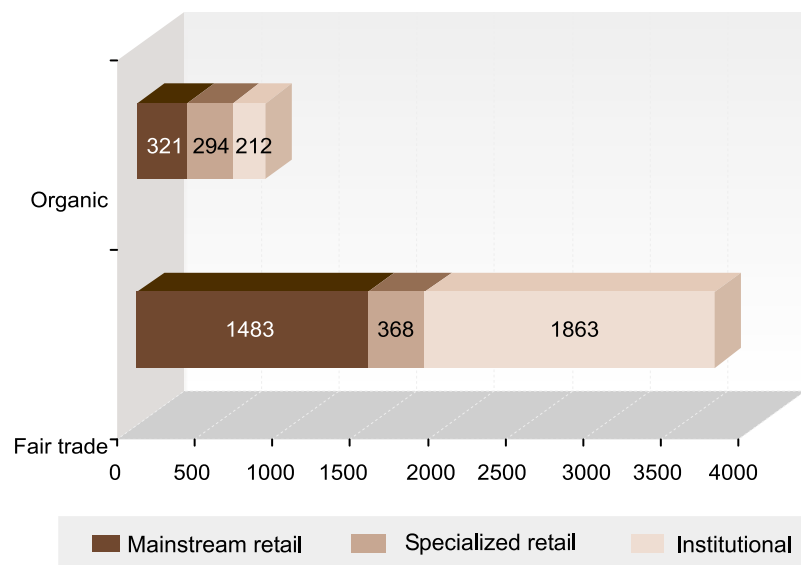
Buyers complained about uneven quality from some of the milds origins, particularly Colombia, Honduras, and Nicaragua and efforts are already underway in all three countries to improve quality. Variable quality was also mentioned as a problem for more than one African origin.

The Dutch market structure

Important outlets for sustainable coffees are specialized retail stores, supermarkets, and the institutional market. Whereas 56 percent of all coffee is consumed at home and 44 percent outside the home, for fair trade coffees as much as 50 percent is consumed out of home (figure 14.6).

Most of this is consumed in institutions and work-places, which fair trade suppliers and promoters have targeted right from the start. Government institutions were among the first to convert to fair trade. For organic coffee the out of home consumption is much lower and stands at about 25 percent. However, this is precisely the channel that will experience the strongest growth of organic coffee according to our survey. Fair trade sales are expected to remain stable in out of home and mainstream retail, but to decline by 5 to 10 percent in the specialized retail channel.

Figure 14.10 Market channels for sustainable coffees by type. Tons of green coffee equivalent



⁵⁴ There are only 2 very small cooperatives in the FLO producer register. The supply of organic Brazils is largely exported to the USA for premiums that are not affordable for European traders.

Major specialized retail stores in the Netherlands that sell sustainable coffee include *Wereldwinkels* (World Shops) and fair trade shops; both of these are exclusively dedicated to fair trade products including coffee. Specialty organic food shops pioneered the trade in organic products and continue to be an important outlet for organic coffee. The Netherlands count a significant number of specialized coffee and tea stores, for example the modern style franchise chain of *Simon Levelt* stores, offering both fair trade (Max Havelaar) and organic coffees.

Mainstream food retail in the Netherlands is mainly through supermarkets with about 50 organizations competing. Due to government restrictions there are very few hypermarkets, although this is expected to change. A few major groups with integrated buying and logistics management dominate the business. The leading food retail group in the Netherlands is Ahold that owns *Albert Heijn* and C1000 supermarket chains. Like the French Carrefour and the U.S. Wal-Mart, Ahold is a global player, whose foreign interests include supermarkets in the Americas, Asia and Europe. Its new sustainability initiative called Utz Kapeh (see Certification Section above for details) might be applied to increasing quantities of Ahold's coffee purchases.

Laurus, the number two supermarket operator, owns *Super de Boer*, *Konmar*, and others. A number of smaller, independent supermarket chains have formed a purchasing consortium called *Superunie* in order to compete with the giants. *Dirk van den Broek* and the German *Aldi* are the dominant players in the low-price segment of the market.

In 2001 the overall Dutch organic market increased by 30 percent as compared to the year

before, which is especially due to the increased availability of organic products in supermarkets and strong promotional campaigns. With the exception of operations that focus primarily on low price, each of the supermarket chains now offer a range of a few hundred organic products covering most product groups. In 2000, Albert Heijn started an important campaign to increase the sales of organic products, which gave a strong impetus to the organic market. In 2001, organic sales through supermarkets amounted to €150 million and for the first time surpassed specialized organic retail sales that totaled €145 million. Coffee has also followed this overall pattern and supermarkets are becoming a more important outlet in terms of volume. This increased retail distribution is helping organic products to increase their market shares. Organic fruit and vegetables have a 3 percent market share; while dairy has 2.5 percent; and bread 2.0 percent (Platform Biologica, 2002).

Although a number of large conventional companies like Ahold have begun to participate in the sustainable coffee market; the country's major roaster has not. *Douwe Egberts*, the leading brand in the Netherlands and part of the multinational corporation Sara Lee DE, holding 70 percent of the market, has not entered the category. This could change as Sara Lee Corp. has responded to demand in other markets such as the U.S. where it has begun to supply fairly traded coffee to its institutional accounts.⁵⁵ Van Weely, a subsidiary of JTH Douqué, and Simon Levelt are the largest importers of sustainable coffees into the Netherlands. Van Weely is one of the very largest European importers in these categories. The *Fair Trade Organisatie*, the leading brand-owner in sustainable coffees, stopped buying directly from producing countries in 2001, and now buys its coffee from importers.

⁵⁵ Sara Lee, the world's third-largest coffee roaster, introduced some fair trade coffee in response to student petitions at universities like UCLA and Villanova where certified fair trade coffees are now served throughout the dining halls. (Oxfam Exchange. Spring 2002. Oxfam America. Boston. Page 13)

Trends in the Dutch market

The very strong 2001 growth of organic sales, which was caused especially by the number of introduction and promotions of organic products in the supermarkets, seems to have slowed down in 2002. The positive climate regarding organic food nevertheless persists, and will probably be enhanced by the start of a task force on organic food products in 2002, which is supported by the government, the food industry the agricultural and the retail sector. The vast majority of organic suppliers expects that growth will continue on the medium term. The decline in fair trade appears to be slowing and projections for 2003 - 04 show a recovery (figure 14.11).

Roasters and traders mentioned the following trends that could affect the sustainable coffee market:

- ▼ The institutional segment continues to grow and gain in importance.
- ▼ Specialty coffee consumption is increasing, although not at the pace of the explosive U.S. market.
- ▼ Espresso coffee and espresso-based beverages continue to increase in popularity.

- ▼ Consumption of instants and so-called new instants that offer new flavors and better quality continues to rise.
- ▼ Per capita coffee consumption is decreasing in volume and so is the overall coffee consumption.
- ▼ There is growing interest in sustainable business practices as these become more evident with high profile corporations who seek to better position their companies and better manage their public image.
- ▼ There is growing interest in organic products overall, primarily because of concerns about health and food safety.

The industry projections indicate that the volume of sustainable coffees will be fairly stable, with organic showing continued growth, but from a relatively low base, and fair trade showing a recovery from 2003 onwards (figure 14.12).

Major roasters report the organic coffee market to have grown at a rate of 15 - 20 percent in 2001. Growth is particularly strong in the mainstream retail channel and in the specialty coffee shops. Growth in the organic food stores is a bit slower. The corresponding graphs and tables reflect more

Figure 14.11 Near term growth forecast (2004/2005)

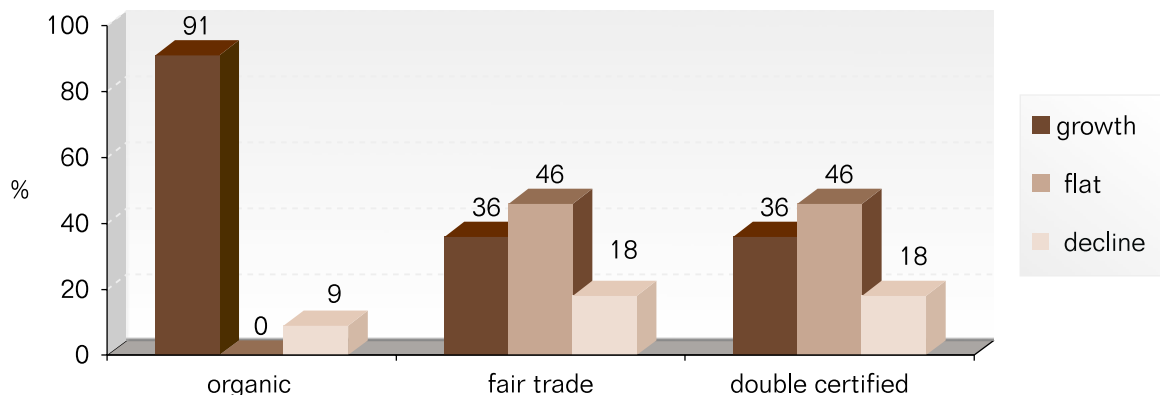
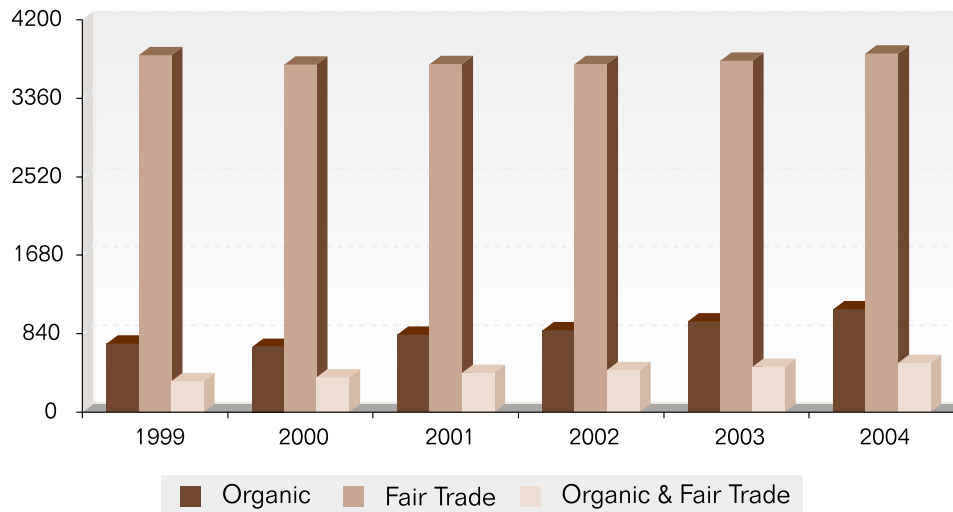


Figure 14.12 Dutch sustainable coffee consumption and projections (Metric tons green)



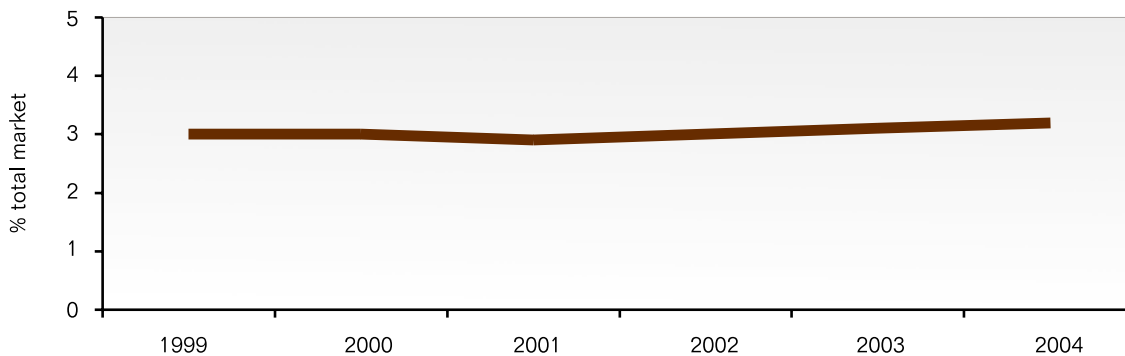
modest estimations of 10 - 15 percent growth in organics for the years 2002 through 2004. 2002 organic sales are expected to increase with 2.5 and 5 percent in the retail channels, but with 12 percent in the institutional channel. In 2003, the pace of growth will increase to 10 percent in mainstream retail, 7.5 percent in specialized retail and 15 percent in the institutional channel. Mid-term growth for organic products overall was also estimated by the ITC at 10 - 15 percent.

Sustainable coffees market share will only increase slightly, and is expected to reach 3.2 percent in 2004 (figure 14.13).

Constraints in the Dutch market

Few constraints were mentioned regarding the Dutch organic market, apart from the trade difficulties inherent in the different bureaucratic processes imposed by governmental regulating bodies. Nevertheless, the organic market is much less developed than fair trade, with the exception of the specialized retail channel. One possible explanation for this is that major organic suppliers do not primarily target the major sales channels, but concentrate on the specialized retail. Organic coffee sales may also be affected by the dominance of fair trade. The following

Figure 14.13 Sustainable coffees share of the Dutch market





factors constrain the fair trade market according to roasters and importers:

- ▼ Although the retail price difference between sustainable and conventional coffees is historically high, it is still only 24 percent for fair trade coffees—a level generally considered to be acceptable for labeled products.
- ▼ The considerable price differential on green beans, which is currently as much as 100 percent, has induced roasters and other suppliers to reduce their margins on fair trade and some of them will therefore invest less in the promotion of these coffees.
- ▼ Consumers may not be receiving a simple and cohesive message. The absence of a unified fair trade promotion strategy among the participating roasters and suppliers, or even a unified Max Havelaar product, makes this more difficult. The product is now not easily recognizable by the consumer. This is partly due to the very nature of the label that is not developed as a brand, although it is often perceived as such.

Key factors for further growth

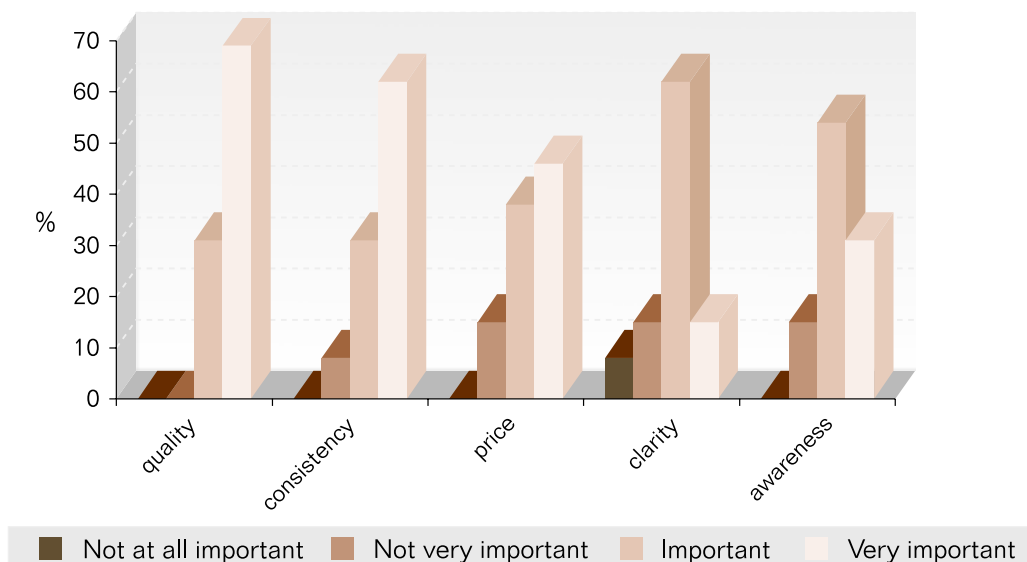
Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 7.13).

The highest importance was given to cup quality, closely followed by consistency of supply. Price and customer awareness of sustainable coffees were the next most important.

Figure 7.13 Key factors for the expansion of sustainable coffees





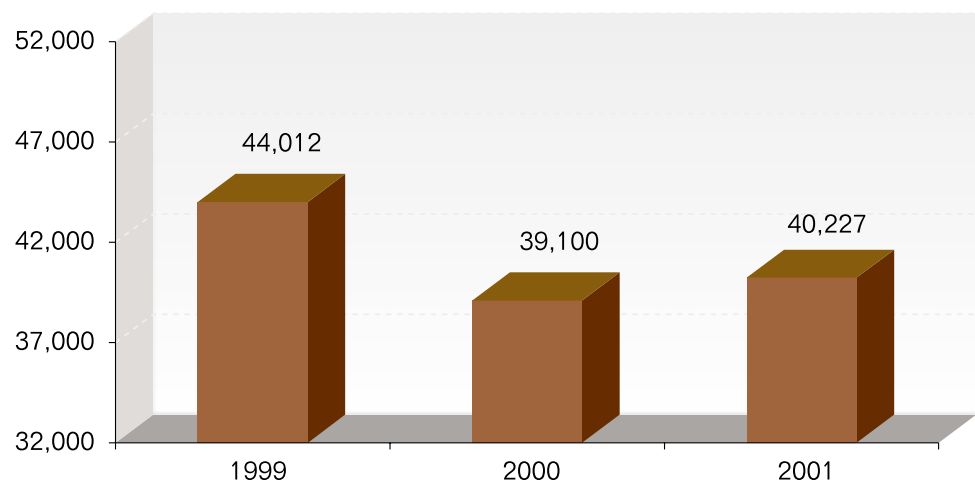
Sweeping coffee cherries to dry naturally

Sustainable Coffee in Norway

The overall market context

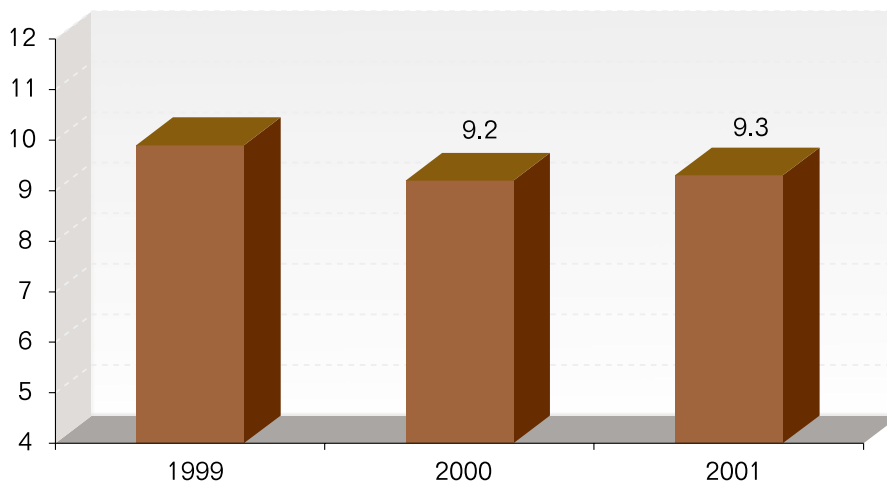
Norway's small market (population 4.5 million) consumed about 40,000 tons of coffee in 2001. Although imports showed a substantial increase over the previous year, much of this could be credited to stock buildup to take advantage of lower prices rather than significant consumption growth. Over the last decade total imports averaged 45,000 tons of green coffee equivalents but this number has trailed down in recent years (figure 15.1) and so has per capita consumption (figure 15.2).

Figure 15.1 Total Norwegian coffee consumption (Metric tons green)



Source: *European Coffee Federation, 2002.*

Figure 15.2 Total Norwegian per capita consumption (Kg green)



Per capita consumption inched slightly up to 9.3 kilos in 2001 but remains well below the average of more than 10 kg that was common in the early 1990s (figure 15.2).

The market consumes arabica almost exclusively. Brazil is the largest single supplier; its naturals hold more than 40 percent of the market. When combined with Colombia and Guatemala - the number two and three suppliers - these three origins have about 75 percent of the total market. Mexico is also a strong supplier with a growing market share. Soluble coffee holds 9.1 percent of the market.

The Norwegian market for organics and fair trade

The sustainable coffees represented approximately 1.1 percent of total consumption in 2001. Organic coffee amounts to less than 0.5 percent of the total market for coffee in 2001.

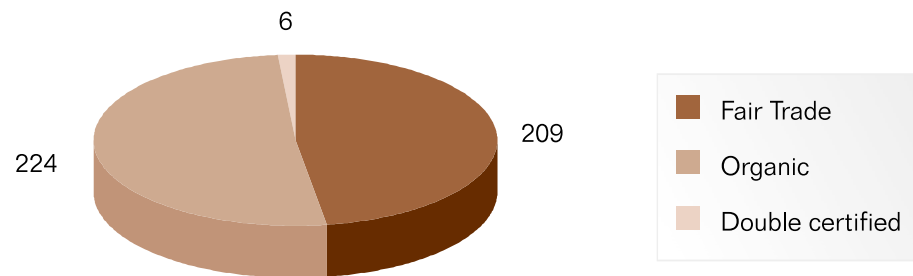
This figure, which in the Scandinavian context is relatively low, according to one researcher⁵⁶ reflects the absence of a positive Norwegian consumer attitude towards organic products in general. Max Havelaar Norway was founded in 1997 and is the certifier for most of the country's fair trade coffee. Fair trade coffee is expected to soon amount to about 1 percent of the total market. In both 2000 and 2001 most roasters experienced strong growth in fair trade coffees. Early reports for year 2002 indicate very strong growth as well. In the same period organic showed flat or very small growth according to their estimates. The rapid growth is mainly due to its ability to secure a broad distribution from the major roasters. The Max Havelaar-registered suppliers account for the entire fair trade volume of 215 tons, while the organic segment measures 213 tons (figure 15.3).

The Max Havelaar group has secured a place with the major roasters and the retailers. With such solid distribution and a developed roaster network, the next challenge will be to motivate a

⁵⁶ Alf Kramer, personal communication December 20, 2002.



Figure 15.3 Sustainable coffees by type in 2001 (Metric tons green)



larger number of consumers to switch. That may well be their hardest challenge.

The vast majority of sustainable coffees are sold as mainstream coffees that are not distinguishable from others in terms of quality or flavor characteristics. There is still a lingering perception that their quality is mediocre although now a percentage of these coffees (less than 50 tons) have entered the gourmet category and they are primarily organic.

are not many competing labels or claims of sustainability. The national market is fairly well educated especially concerning ethical commerce, an issue that has recently been raised by retailers.

None of the roasters finds that certifications are confusing or a problem. Only 13 percent of the industry respondents felt that consumers experienced confusion in these markets (figure 15.4).

Certification

The market seems to be fairly transparent and well-organized in regard to certification and there

Debio is the primary national certifier for organic coffees. Max Havelaar certifies most fair trade coffees, although some firms claim that their coffees are traded under similar ethical standards. *Coop Norge Kaffe* engage *Det Norske Veritas*,

Figure 15.4 Are certifications considered to be confusing?

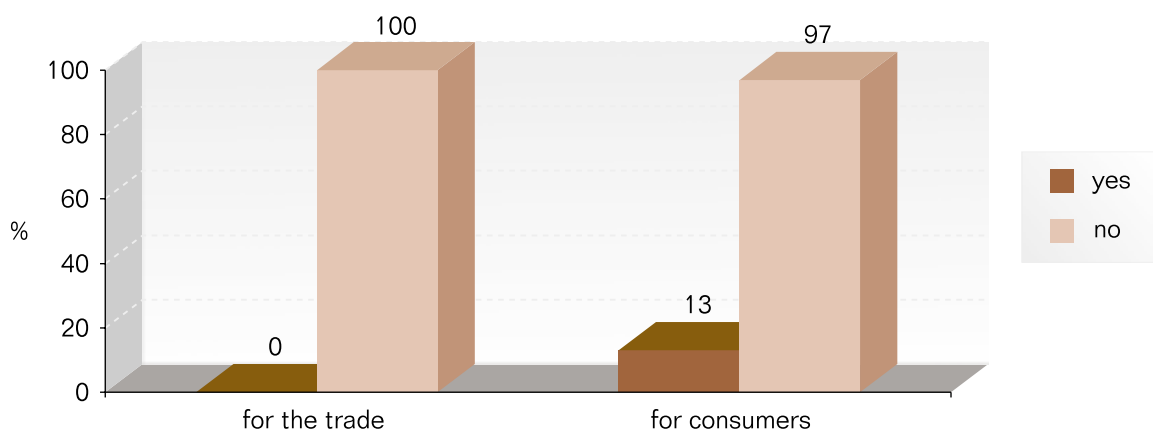
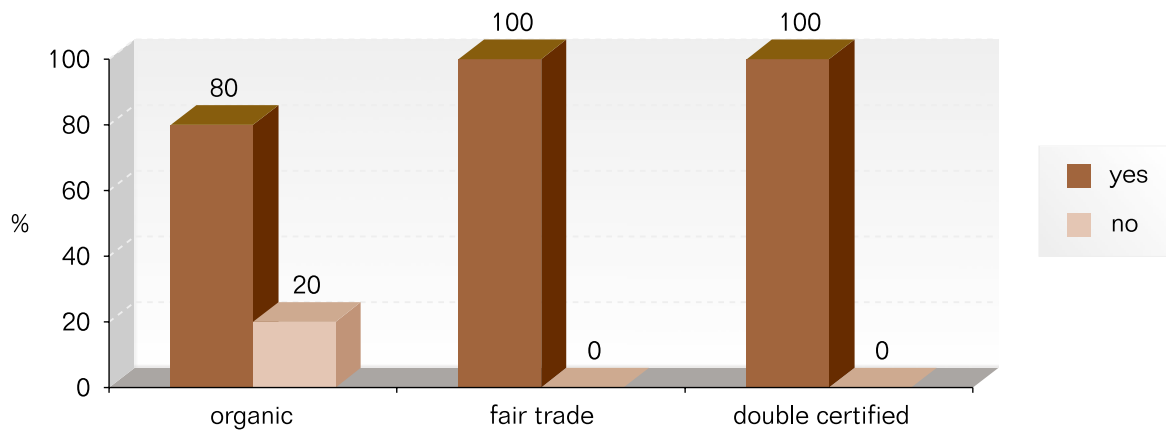


Figure 15.5 Are current premiums considered to be reasonable?



an independent certifying organization, to verify their fair trade sourcing practices in the field. Some of the roasters are showing a keen interest in what are called “relationship coffees”. These indicate a direct and mutually beneficial relationship between the producer and the roaster but usually do not adhere to quite the same criteria or price levels of fair trade coffee. These coffees pre-suppose a high level of trust between the grower, the buyer, the roaster, and the consumer since they do not always have independent third party certification of their practices.

Premiums

Premiums for organic green beans range from US\$0.10 to \$0.35 per pound, with \$0.25 given as the median. Fair trade buyers pay the minimum price defined in the FLO standards, \$1.26 per pound for most imports. In the current markets, this represents approximately 50 percent more than conventional coffee.

Of the responding firms, nearly all feel that these premiums are reasonable across the board for both organic and fair trade coffees (figure 15.5).

All of the respondents believe that fair trade prices would continue unchanged for the next few years. A strong majority of more than 80 percent expects that organic premiums will not continue at their current levels over the next few years (figure 15.6).

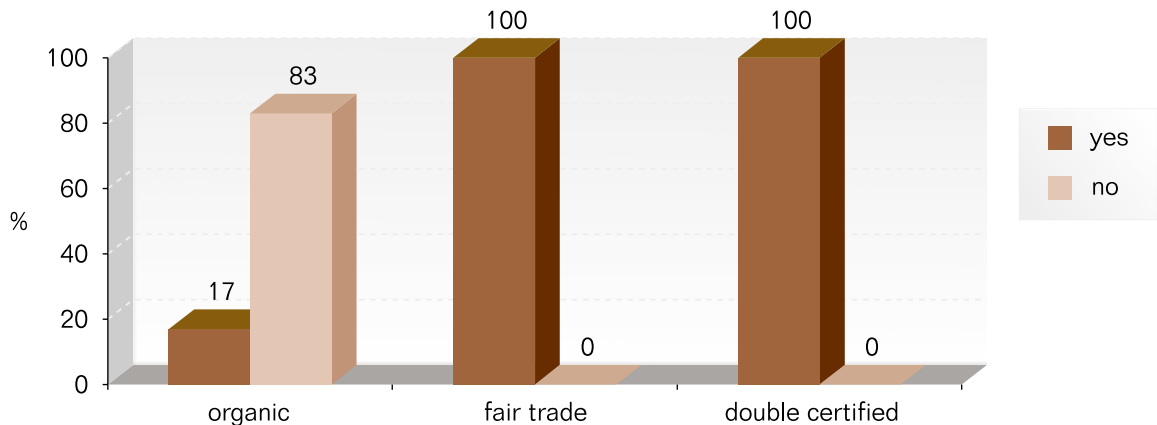
Retail prices

One company dominates organic coffee sales in Norway and while their organic coffee is not cheap it is positioned to sell at a price that is 10 percent lower than their premium brand.

Because Norway’s retail prices for conventional coffees are relatively high the price differences between them and fair trade are not pronounced. Despite this reasonable parity, there has not been a noticeable surge in fair trade sales. Although this is not the result of rigorous analysis, it could nonetheless indicate that having similar prices between fair trade and conventional coffees may not necessarily stimulate more fair trade sales. Unlike most of the other European markets, Norwegian consumers did not respond quickly to double certified coffees. There is unanimous opinion in the industry that this category will



Figure 15.6 Will premiums continue at their current levels in the medium term?



grow although the market for these is now very small.

There is increasing trend among roasters to deal more directly with origins, sometimes through European brokers.

Significant supplying countries for sustainable coffees

The primary suppliers for these markets have been Mexico, Peru, Guatemala, Brazil and Papua New Guinea. Mexico and Peru are the dominant suppliers by far. Others include Colombia, East Timor, Bolivia, and India.

Three large retail groups dominate this landscape and are responsible for more than 80 percent of all coffee sales. There are also approximately 400 specialty retailers. Most of these are covered by the small and medium roasters.

The high-end or specialty trade is well developed through quality roasters and a widespread network of retailers and coffee bars selling high quality fresh roast & ground coffee. This trend has spread to leading retailers that are establishing “shop in shop” fresh roast coffee outlets.

The Norwegian market structure

The Norwegian market channels are relatively simple. Three main roasters and importers, all Norwegian owned, account for 85 percent of the market. Two medium size roasters cover 10 percent of the market and 3 small roasters essentially share the specialty or gourmet market. There are also a modest number of in-shop roasters with small volumes. One importer covers the soluble market that averages approximately 3 percent of the market (1300 tons). The importation of roasted coffee is small and amounts to less than 5 percent of total imports.

With regard to fair trade, the Max Havelaar registered roasters account for almost the entire volume provided to the market. Fair trade coffees are mainly sold to consumers through grocery retail outlets. It is hardly sold in the high - end or specialty coffee market, probably because its quality has often not been considered good enough. All the large roasters now have a separate fair trade brand in the market. *Hakon, Rema* and *NorgesGruppen* cover about 3/4 of the market and Coop Norge Kaffe covers much of the rest so basically FT coffee is offered in every supermarket in Norway and has distribution access to almost 90 percent of the grocery retail stores. There is also a small but growing

While there are three strong traders in the market, they have little interest in sustainable coffees.

(institutional) market among community and charitable organizations as well as among public corporations and governmental agencies (figure 15.7).

Organic coffee is primarily sold in grocery retail. One company accounts for the vast majority (approximately 90 percent) of the volume. Both fair trade and organic that are distributed through the mainstream grocery channels are expected to grow, although at a different pace, of about 5 percent for organic and well over 10 percent for fair trade.

Fair trade is also expected to continue its inroads in the institutional channel at a pace of about 5 percent annual growth in 2002 and 2003.

Trends in the Norwegian market

▼ The total market for coffee is estimated to remain stable in the 2002-04 three-year period, while fair trade and organic coffees are estimated to grow toward a joint market share of about 1.6 percent in the period.

- ▼ After some initial reluctance, all major roasters now offer both organic and fair trade coffees.
- ▼ Charitable, community and governmental organizations seem to be an increasing market for fair trade coffee.
- ▼ There is only modest optimism for organic coffee among roasters and retailers and this is reflected in the forecasts for little growth.
- ▼ There may be an emerging market for “relationship coffees” or uncertified fair trade coffees that are not third party certified but, there has been little volume thus far.
- ▼ Some retail chains have decided upon a “green policy”, thereby introducing an alternative to organic and fair trade.
- ▼ In 1999 the consumer awareness of the Max Havelaar label was only 6 percent whereas in May 2002 it registered 30 percent awareness.⁵⁷

Figure 15.7 Market channels for sustainable coffees by type. Tons of green coffee equivalent

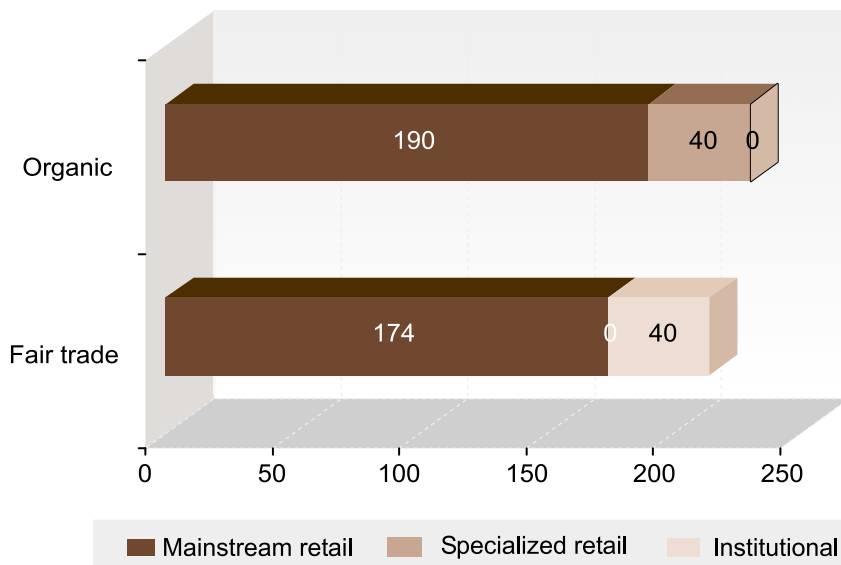
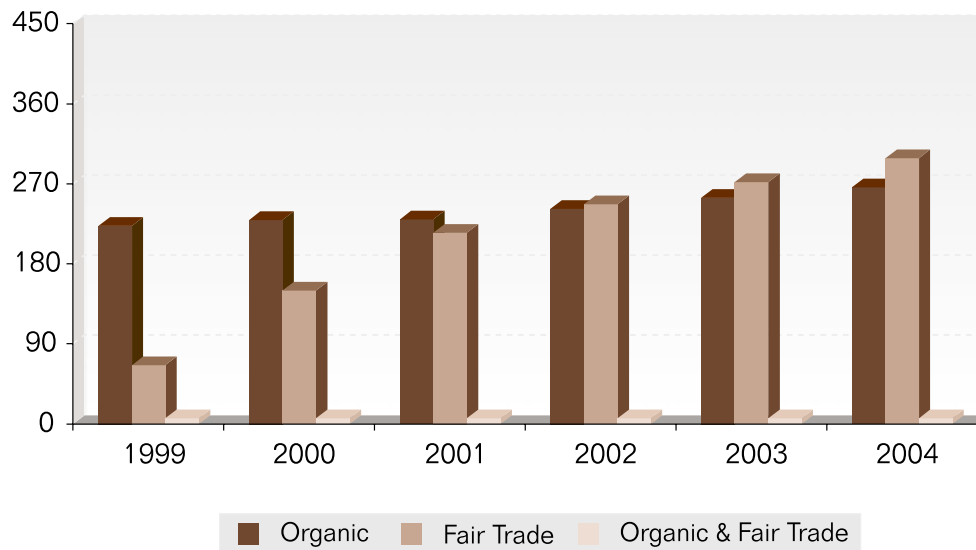




Figure 15.8 Norwegian sustainable coffee consumption and projections (Metric tons green)



Industry has a positive outlook for fair trade coffee over the next few years, expecting reasonably strong growth of between 10 and 15 percent per annum.

Sales figures for 2002 fair trade coffees already show healthier increases of about 30% for that year.

Expectations for organic are more muted and while some expect modest growth, others project reasonably flat sales. As conveyed in figure 15.8, the Norwegian sustainable market should almost double by 2004 from its 1999 level.

This growth does not represent a large shift in volume, yet Norway's sustainable market does represent the average in terms of market share – projected to be 1.3 percent by 2004 (figure 15.9).

Constraints in the Norwegian market

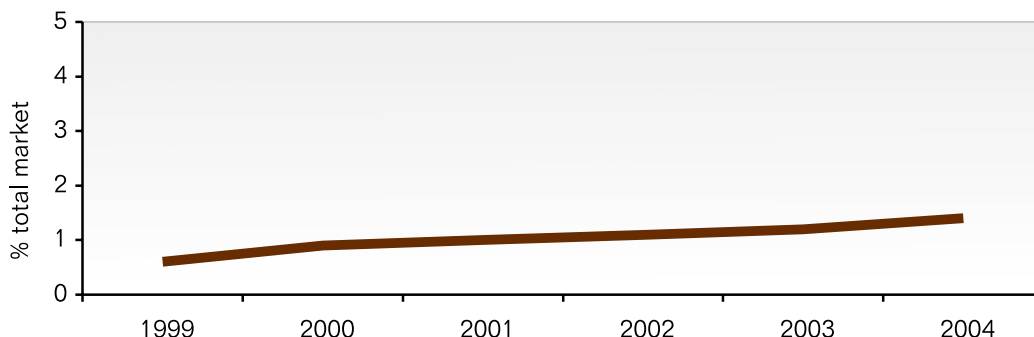
- ▼ The few dominant retail grocery chains are price-driven and have a conservative space management policy. If sustainable coffees do not gain sufficient market share their life on the shelf may be cut short.
- ▼ Although these products currently have broad distribution, no one, including the stores carrying them, has made many marketing efforts.

Key factors for further growth

Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

⁵⁷ Personal communication with John Aurtande, Product Coordinator of Max Havelaar Norge citing their surveys. Feb. 18, 2003

Figure 15.9 Sustainable coffees share of the Norwegian market



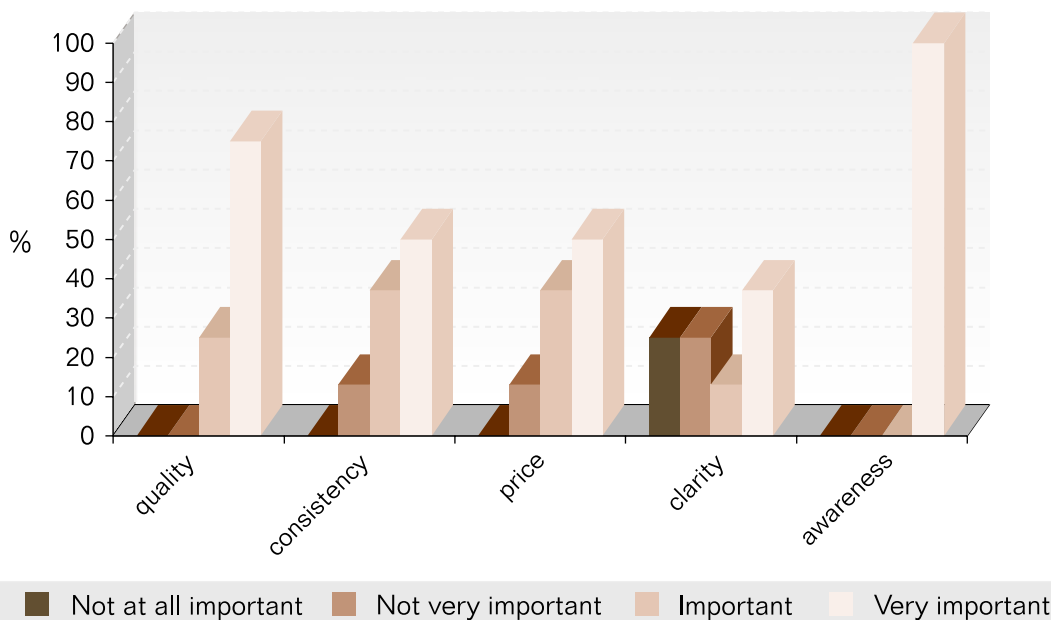
- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 15.10).

According to the industry respondents clarity about certification and labels is the least important factor in Norway. Consumer awareness is clearly number one in importance followed by cup quality. Norwegian consumers already seem to find that many of the sustainable coffees meet their quality demands and if consumer awareness improves, due to their presence in multiple channels of distribution, they may have a positive long-term future.

If the industry does not fulfill these factors it is likely that its future growth will be constrained.

Figure 15.10 Key factors for the expansion of sustainable coffees





Harvesters gathered with the morning pickings

16.

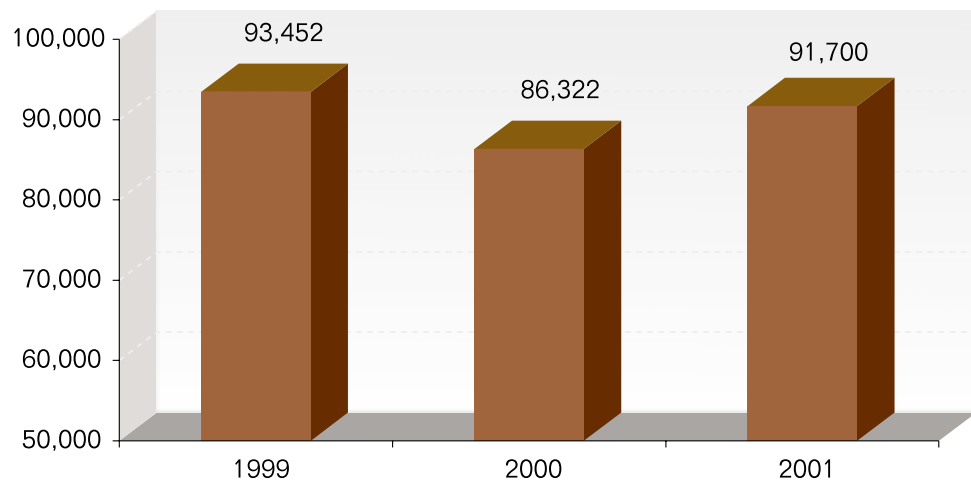
Sustainable Coffee in Sweden

The overall market context

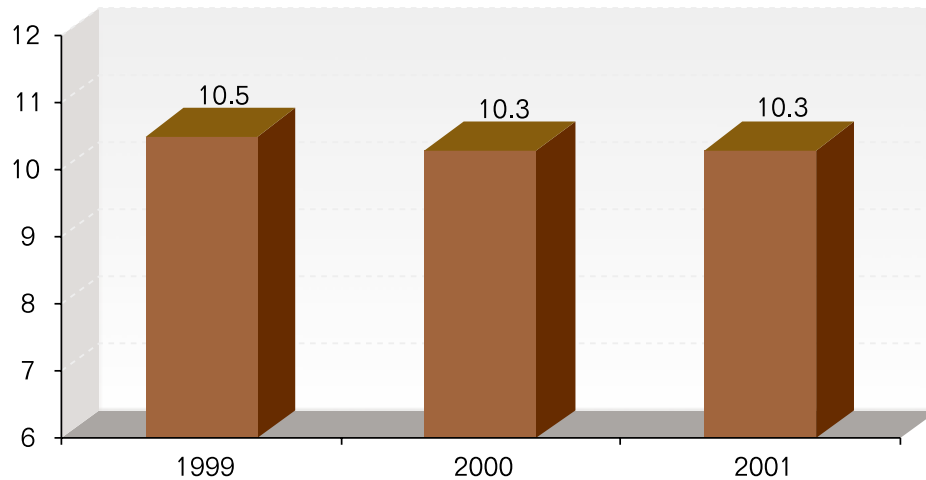
With its approximately 9 million inhabitants Sweden is the leading Nordic coffee nation in terms of volume. However, its small increase in 2001 belies a ten-year decline in consumption. Per capita consumption was 11.6 kg in 1990, but it has in recent years been sliding backwards, and its average annual consumption is just over 10 kg (figure 16.2). Overall consumption appears to be stable or slightly decreasing and in 2001 total consumption was approximately 91,700 tons (figure 16.1) and importation was approximately 99,000 tons (green bean equivalent).

Sweden's consumers buy arabica coffees almost exclusively with robusta representing just 1 percent or so of green bean imports.

Figure 16.1 Total Swedish coffee consumption (Metric tons green)



Source: *European Coffee Federation, 2002.*

Figure 16.2 Total Swedish per capita consumption (Kg green)

Source: Sweden Statistics and Swedish Coffee Information in ECF, 2002.

Brazil with just over 40 percent of the market share and Colombia with just over 20 percent are by far the dominant suppliers. The high-end or specialty sector although small, is increasing rapidly. Soluble coffees typically account for a small percentage of total consumption but this is growing.

The Swedish market for organics and fair trade

Organic coffees dominate this market with approximately 1500 tons of green coffee sold in 2001. It has broad acceptance and has recently achieved more wide distribution through supermarkets and mainstream grocery stores. Fair trade had a slow start in the 1990s but is now growing at an even faster pace than organic coffees. Its volume was only slightly above 300 tons of green coffee in 2001, all of which was double certified (figure 16.3).

Sustainable coffees hold 1.6 percent of the total market for coffee in Sweden. Organic coffees

hold an equal share of 1.6 percent, of which 0.4 percent is also fair trade certified (double certified).

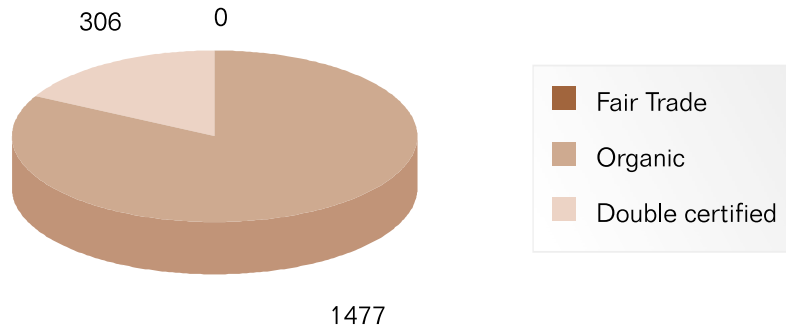
In terms of quality it appears that as much as 90 percent of the sustainable coffees are classed as mainstream standard coffees with smaller amounts going into the gourmet or specialty segment. There are very few instant coffees and these are all imported.

Although the roaster's coffee brands are important, it is the retailers with their control over distribution who decide what products are featured and set the tone for what the roasters will provide. Some have attempted to position themselves as green businesses and therefore demand sustainable coffees to fulfill this profile.

Certification

Fair trade got off to a good start in Sweden with a good professional organization that has widespread support and acceptance. Max Havelaar is far away the dominant certifier.

Figure 16.3 Sustainable coffees by type in 2001 (Metric tons green)



Several of the coops have now started to use a general certifier such as Bureau Veritas as an alternative to confirm the independent standards that they set for their coffee trade. There is some concern about coffees that are “ethically labeled” by corporations - sometimes without third party certification and always with lower benefits for farmers - since these could thereby dilute the fair trade impact and confuse consumers. So far there has been limited consumer response to these.

Retailers increasingly demand that sustainable coffees are both fair trade and organic certified,

and as a consequence many coffees bear both of these labels. Since the double certification increases green bean prices this may have an effect in a price-conscious market.

The industry appears clear about certification but are likely responding more to their confidence in the national certification bodies rather than their knowledge of the distinct characteristics of each certification and how these work from a business standpoint (figure 16.4). The majority also felt that consumers were well educated on this topic and trust the national certifiers. Since there are very few competing labels, confusion

Figure 16.4 Are certifications considered to be confusing?

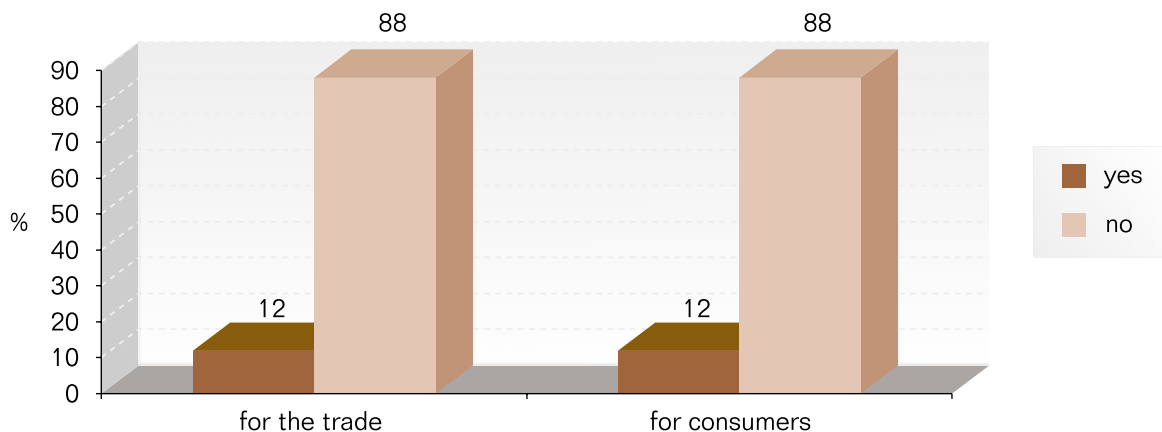
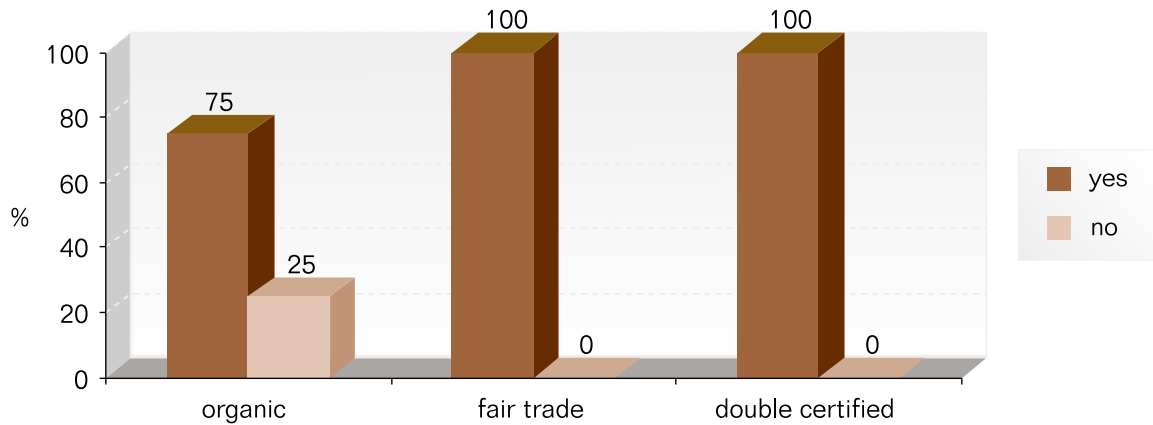




Figure 16.5 Are current premiums considered to be reasonable?



is reportedly limited to a less than complete understanding of the distinctions between the sustainable labels.

prices are paid by those buyers who are licensed by FLO.

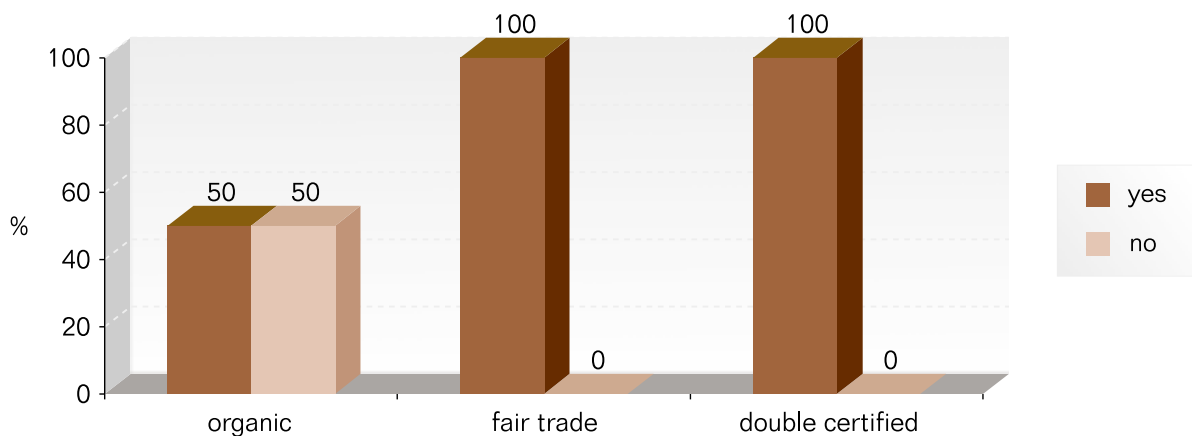
The great majority of those responding felt that the current levels of premiums or minimum prices are reasonable (figure 16.5).

Premiums

Quoted premiums for organic green beans range from a low of US\$0.20 to a high of \$0.80 per pound with an average of approximately US\$0.30. For fair trade, standard minimum

While most felt that these would continue unchanged over the next two to four years for fair trade and double certified coffees, 50 percent felt that organic premiums were likely to decline somewhat (figure 16.6).

Figure 16.6 Will premiums continue at their current levels in the medium term?



Significant supplying countries for sustainable coffees

Peru is by far the dominant supplier of sustainable coffees to the Swedish market. It is followed by Guatemala, then Mexico, Bolivia, Costa Rica and Uganda. This is one of the few countries where Brazilian organic coffee has begun to find its way into the market. Because of its typical consistency and the potentially lower price structure, most roasters claim they would readily incorporate more into their blends.

The Swedish market structure

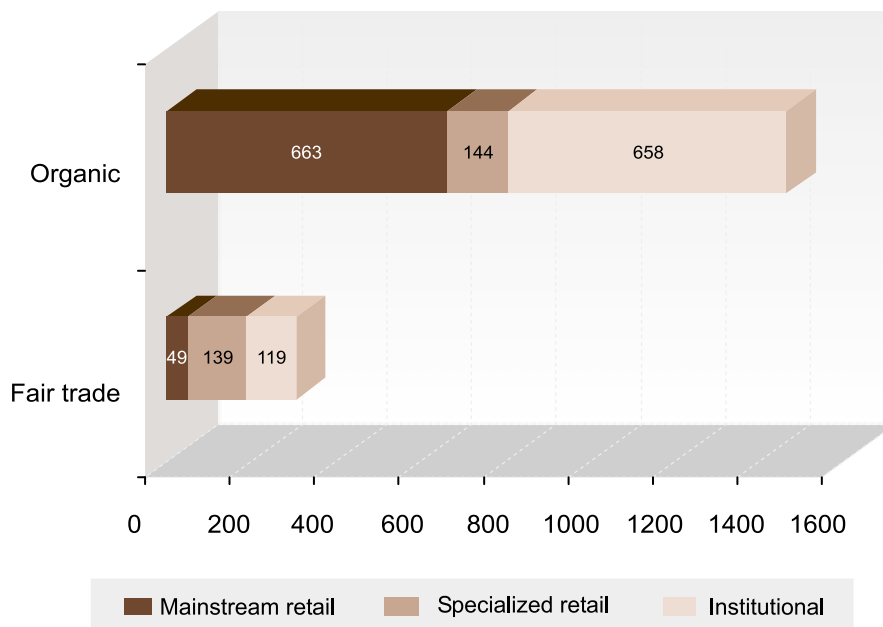
The Swedish market has a considerable international influence compared to its neighbors Finland and Norway. Like most of the Nordic countries over the last decade, it has experienced a concentration in the roasting industry where a small handful account for most of the roasted coffee sold. Four large roasters cover 85 percent of the market and two of them are multinational concerns. Many of the surviving roasters have

been in business for decades and are dominant forces even in the organic and fair trade business. The large roasters include *Merrild DE*, *Kraft*, *Løfbergs Lila*, *Zoegas* (Nestlé), and *Nordquist*. Nearly all of the market leaders express optimism about the future of these coffees, while smaller players are more cautious. There are 3 significant trader/brokers, but they have only a limited involvement in sustainable coffees.

Six small to medium roasters and a number of micro roasters cover the specialty part of the market. All roasters have at least one organic coffee in their product lines, and one of the national roasters has made organics a priority. Distribution of these organic coffees occurs primarily through supermarkets, but most market channels including specialty stores and coffee bars are included (figure 16.7).

Similar to many other countries, Sweden is experiencing an ongoing concentration in the large-scale retail grocery trade. Four retail groups dominate the marketing landscape and account for up to 90 percent of Sweden’s total coffee sales. This supermarket channel accounts for

Figure 16.7 Market channels for sustainable coffees by type Tons of green coffee equivalent





about two-thirds of retail sustainable coffee sales while the institutional market accounts for about ¼ and the specialty trade through coffee shops, specialty coffee retailers and fair trade shops take about 5 to 10 percent. Grocery retailers are steadily moving toward specialty products and many now have single origin and flavored selections alongside the sustainable coffees.

The large retail groups are strong chains for whom coffee has become a recognized loss leader. In this price-oriented position, quality has suffered. Indeed, like many that follow this marketing approach with coffee, overall sales appear to not have significantly increased. The consequence to sustainable coffees can be significant since this heavy discounting of conventional coffees creates a greater price gap with sustainable coffees.

There are several hundred specialized retailers and most of these are coffee shops whose primary business orientation is toward espresso based beverages. There are also a considerably smaller number of specialized retailers with a strong fair trade focus. Specialty retailers have a relatively small percentage of the sustainable coffee

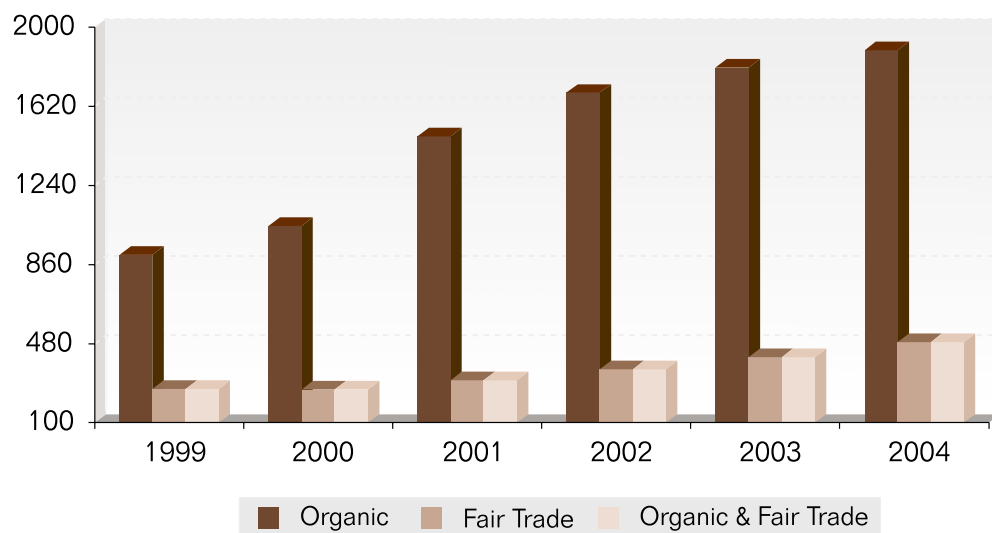
business. This is likely to expand as the quality and selection of sustainable coffees improves to accommodate the requirements for exclusivity and excellent flavor in these outlets.

In the institutional channel, sustainable coffee has limited outlets in restaurants and cafes but is often sold to government and civic institutions at both the national and local levels. Many of these have in their bylaws that a certain amount of the coffee shall be fair-traded.

Trends in the Swedish market

- ▼ The industry estimates that organic coffees will soon take between 2 percent and 3 percent of the market.
- ▼ A higher growth rate is forecasted for fair trade than in other Nordic countries due to the business skills and degree of commercial integration of the fair trade organizations.
- ▼ Unlike other consumers in the Nordic region, Swedes do not feel that organic and fair trade coffees are necessarily lower quality.

Figure 16.8 Swedish sustainable coffee consumption and projections (Metric tons green)



- Organic and fair trade are gaining a stronghold in retail chains that are implementing a “green policy”.

The near-term forecast over the next two to three years is mixed. The market leaders certainly appear optimistic and they expect healthy growth rates for organic and fair trade. The double certified coffees gathered most optimism, with expectations that their growth rates will exceed 15 percent per annum. However, a minority including some of the smaller firms expect flat or modest growth.

By 2004, the Swedish sustainable market should have more than doubled its volume from 1999. This growth would represent a significant shift in volume to 1890 tons green and 2.0 percent market share.

Fair trade has had a much smaller share of the coffee market (only 0.4 percent in 2001), and is expected to have a higher growth rate in the next couple of years. The fair trade organization projects 1 percent of the market by 2004 - 05 although roasters think it may be less (figures 16.8 and 16.9)

Both fair trade and organic coffee are increasing despite a stable or slightly decreasing overall coffee market. This reflects a positive overall trend for organic and cause-related products in

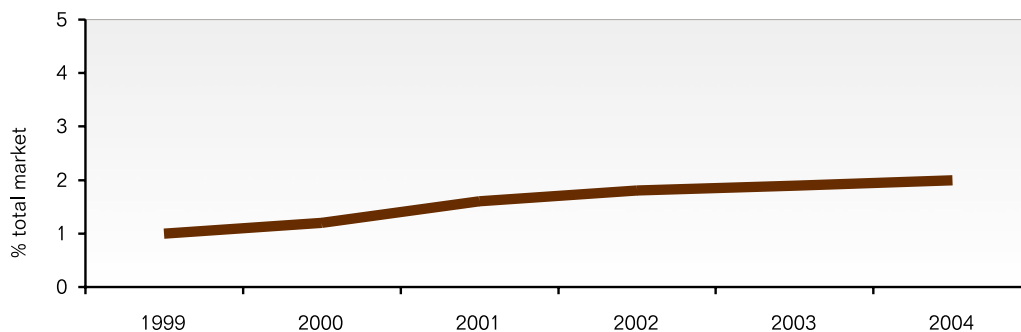
general. There is strong distribution now and an increasing commitment to the category from both the roaster and retailer levels. Mid-term growth for organic products overall was estimated by the ITC at 20 - 25 percent.

The organic market leaders showed modest growth (5 to 15 percent) over the past year for both organic and double certified coffees while smaller players showed little growth or no growth at all. Fair trade grew strongly (20 percent) but from a much more modest base.

Constraints in the Swedish market

- Current price differences particularly between fair trade and regular coffee may be hindering the growth of fair trade except among very committed consumers.
- The added cost level imposed by the market requirement that fair trade coffee must also be certified organic, at least in the grocery retail trade, further aggravates the price-gap problem.
- A few retail chain stores, which are price driven and have a conservative space management policy, dominate the market.

Figure 16.9 Sustainable coffees share of the Swedish market





Their “prices first” orientation may not offer the sustainable coffee market much time to grow and develop a broader clientele.

Key factors for growth

Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

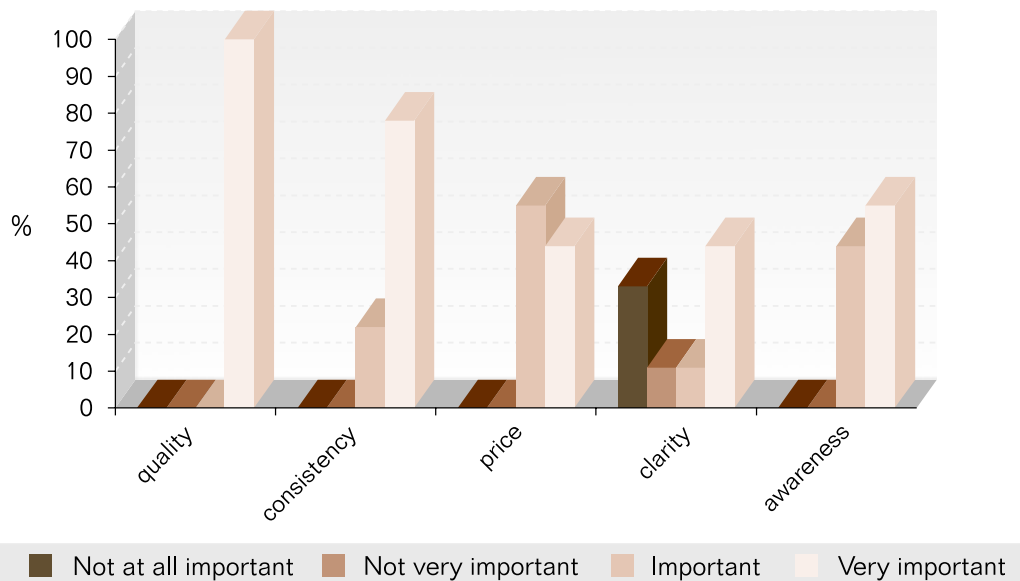
If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 16.10).

Clearly for the Swedish industry cup quality is the dominant issue followed by consistency and then customer awareness and price. Swedish firms share a primary concern for quality and consistency with most of the other countries in this study. It seems that the sustainable coffee industry is meeting at least one of these needs since for both organic and fair trade, there does not seem to be an apparent concern over the actual current quality levels of these coffees.

It is not clear whether the Swedish roasters may be buying better quality sustainable coffees or if the market’s quality demands are lower than in surrounding Nordic markets that have in the past considered some of the sustainable coffees to be of unremarkable or below average quality although this is now changing almost universally.

Many roasters may not admit that price is a top priority. In reality it probably is, especially in a market with already very low prices. Competition with the Swedish market leader, especially among many of the larger players, appears to be conducted on the basis of price.

Figure 16.10 Key factors for the expansion of sustainable coffees





Bringing fresh harvest down from the mountain

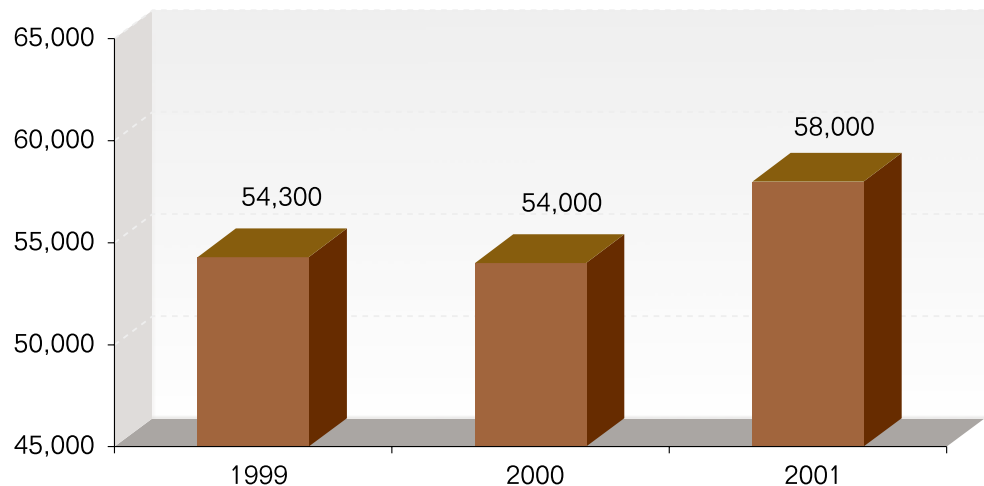
Sustainable Coffee in Switzerland

The overall market context

Switzerland has experienced a steady increase in both imports and exports of coffee over the last few years. Its green imports from origin grew from 66,640 metric tons in 2000 to 69,744 in 2001. A relatively high volume of this green coffee is imported through other countries rather than directly. However it is clear that Brazil is still the primary supplier averaging about 15% of the total followed by Colombia with a steady 10 percent and then Mexico, India, and 20 others with smaller shares. Arabica coffees hold more than three-fourths of the market but have slipped slightly in recent years to the advantage of lower-cost robustas. Domestic consumption is about 30 percent lower, and was reported to be 58,000 tons green in 2001 (figure 17.1).

The Swiss are among the highest per capita consumers of coffee in the world and quality levels are reasonably high. Nevertheless, consumption

Figure 17.1 Total Swiss coffee consumption (Metric tons green)



has slipped in the past decade, from 8.3 kg per head in 1990 to well under 8 kg by the late 1990s and recovered a bit to 8.1 kg in 2001 (figure 17.2). The Swiss have two very distinct types of consumption within their borders. The Germanic north prefers light to medium roasts with distinct acid profiles similar to much of northern Europe. The French and Italian influenced parts of the country prefer less acidic and darker roasted coffees. However, this preference for darker roasts is now being felt in the north as well, where espresso is the typical coffee served outside the home. Another indicator of this shift is the very high percentage of Swiss households owning espresso machines (60 percent).

The Swiss market for organics and fair trade

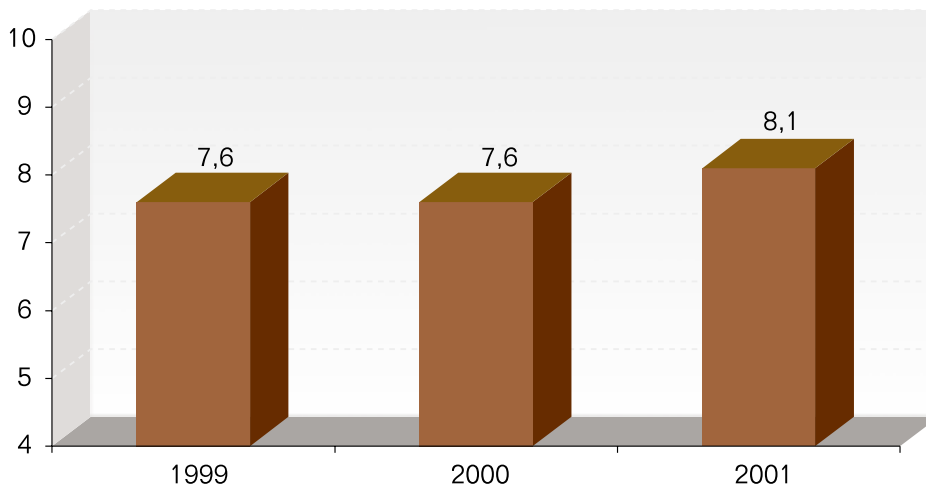
The sustainable coffee market in Switzerland has been particularly active and successful in the last decade. The total market share of sustainable coffees was at 2.8 percent in 2001, one of the

highest market shares in Europe.⁵⁸ In some ways it could be considered one of the more mature markets since overall volume appears to have reached a plateau. With strong retail distribution including the major supermarket outlets, sustainable coffees have already achieved a consistent presence and accepted quality level for most consumers. Very reasonable retail selling prices have minimized most consumer resistance to price in the past but this may be changing. It appears that their continued growth may be slower than in the past although still faster than the conventional market.

The Swiss sustainable coffee market grew constantly until the year 2001, when consumption decreased although this was primarily due to an important client, Swiss Air, no longer buying fair trade coffee because of its financial difficulties.

Fair trade are by far the dominant type in Switzerland. About 1/4 of the sustainable coffees are certified organic, while nearly all of the organic coffees are fair trade certified. There is

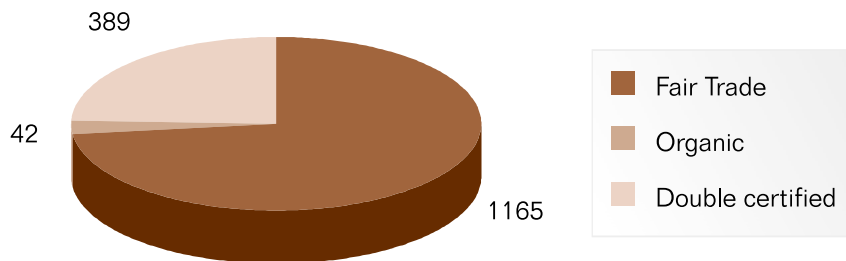
Figure 17.2 Total Swiss per capita consumption (kg green)



⁵⁸ Max Havelaar Switzerland gives a figure of 3.5 percent Max Havelaar market share, and a retail share of 5.5 percent, which are probably based on value rather than volume.



Figure 17.3 Sustainable coffees by type in 2001 (Metric tons green)



also a clear tendency for fair trade to be certified as organic in response to client demand, especially from the large supermarket-chains (figure 17.3).

Sustainable coffees are generally considered to be of high quality. Most are 100 percent arabicas. However, robustas are increasingly used for the growing espresso-market. While roasters typically characterize their coffees as gourmet quality, their retail positioning and price points indicate that about three-fourths of the total are mainstream or average to good quality coffees. About a fourth actually have the flavor profiles to be considered gourmet (figure 17.4).

Certification

The national organic law regulates the use of the term therefore organic coffees must be properly certified –similar to the situation in the EU. Production of organic coffee in the countries of origin is inspected and certified by (in order of importance) IMO, SKAL, Certimex, Biolatina, Ecocert, BCS and Krav. Retailers and traders are not very concerned about the selection of the certifier in the country of origin, as long as proper entry of the goods is assured. Final certification is done by the national certification organization *Bio Inspecta* or the German *Naturland*. Bio

Figure 17.4 Sustainable coffee types in Switzerland

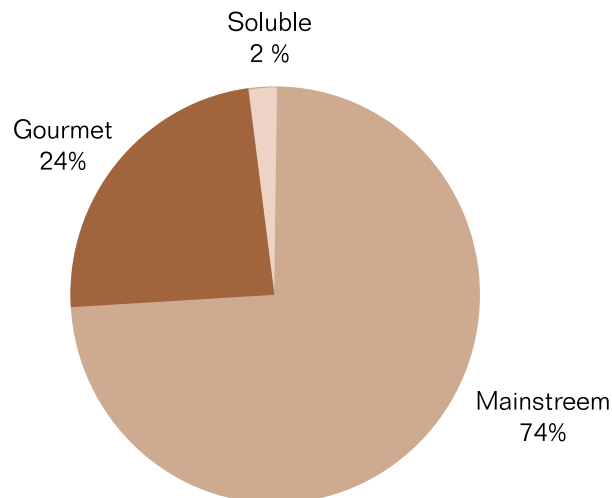
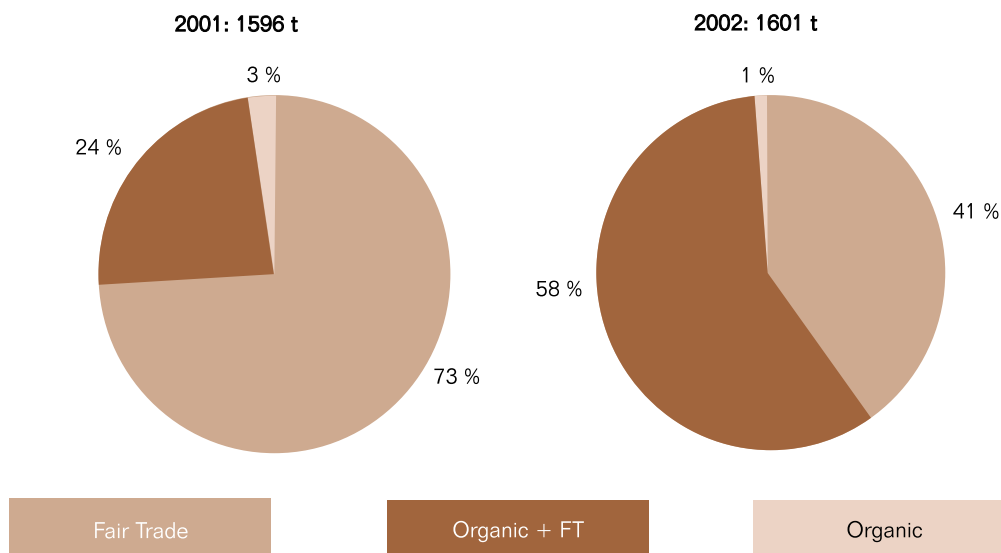


Figure 17.5 Rapid Shift in Certification Requirements



Inspecta is the national certification organization and the most important certifier in Switzerland.

Bio Suisse is by far the most used and best-known label for organic coffee products. It is owned by the organic farmers association. They re-certify organic products from abroad, e.g. organic coffee. Some distributors require the biodynamic Demeter label.

Max Havelaar certifies and labels nearly all fair trade coffee products sold in Switzerland and it is a member of FLO.

The majority of the Swiss coffee industry (nearly 70 percent) finds that the different certification programs are not particularly confusing to them. However, the same proportion also believes that consumers find the certifications confusing. It was reported that many confuse fair trade and organic criteria with each other.

Due to the changing market demands, the certification requirements for sustainable coffees are rapidly changing. Retailers especially want more coffees with both certifications. While in

2001 most of the sustainable coffee was only fair trade certified and only 1/4 it was organic, in 2002 more than 1/2 carried the organic certification (figure 17.5)

Premiums

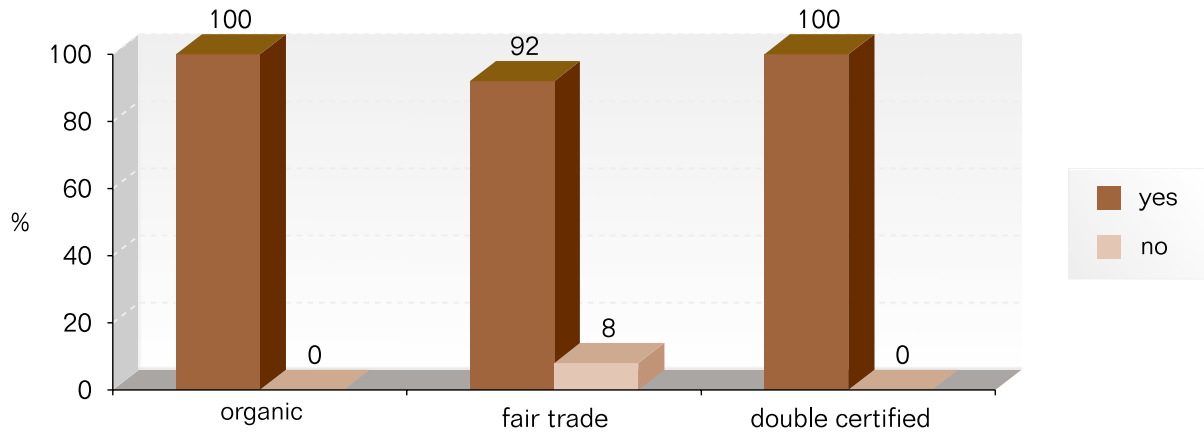
The industry agrees almost unanimously that the premiums for organic and fair trade coffees are reasonable (figure 17.6).

Most also feel that these levels of premium will persist (figure 17.7). Only 27 percent feel that organic premiums will decline in the near term and only 18 percent believe that these will decline for double certified coffees, while nearly half (45 percent) predict that fair trade prices will decline somewhat.

Several respondents stated that they believe sustainable practices will soon become an industry norm and that premiums will therefore eventually be marginal and serve simply to cover the costs of certification.



Figure 17.6 Are current premiums considered to be reasonable?



Retail prices

Switzerland's retail pricing is somewhat unique in that some of the sustainable coffees, particularly fair trade, are priced on a par with conventional coffees. Although sustainable coffees are typically higher, fair trade only averages up to 10 percent more while organic and double certified coffees can range up to 25 percent more than conventional.

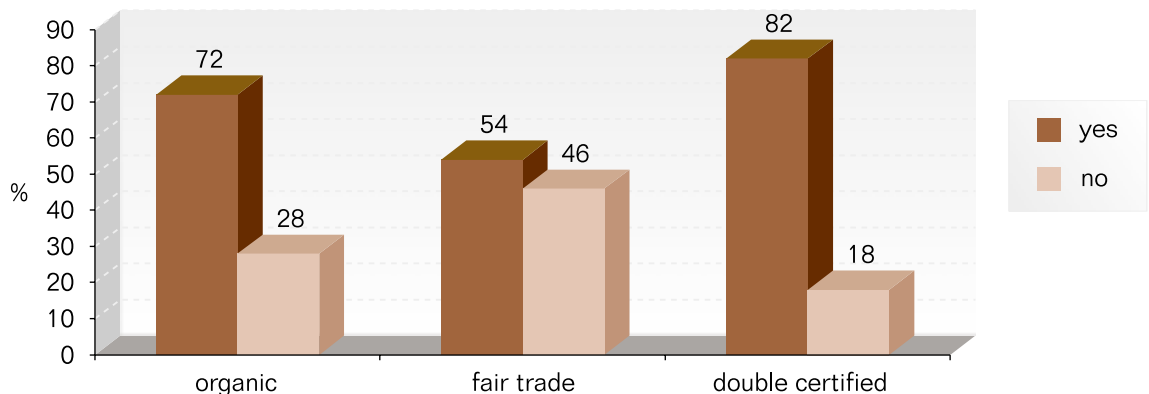
Fair trade coffees have therefore not had the disadvantage of a significant retail price

resistance, but this may be changing as the more expensive double certified coffees are increasingly being demanded by retail chains.

Significant supplying countries for sustainable coffees

The major suppliers of fair trade double certified fair trade and organic coffees are Mexico, Colombia and Venezuela. Other significant suppliers include: Guatemala, Congo and

Figure 17.7 Will premiums continue at their current levels in the medium term?



Nicaragua, Peru, Bolivia, Costa Rica, Honduras and Tanzania also hold a position in this market.

The Swiss market structure

Although a large number of Swiss coffee companies are involved in sustainable coffee, Nestlé one of the largest coffee companies whose headquarters is in Switzerland, only handles conventional coffee. Migros is the dominant domestic roaster with its own retail distribution. Six percent of its total coffee sales are certified as organic

Supermarkets dominate the distribution of sustainable coffees selling about 74 percent of the total. Nearly all of those coffees are of standard mainstream quality. The leading chains are: Coop, Migros, Manor, and VOLG. Switzerland's mainstream sustainable coffees are considered to be of good quality even though they tend to be price oriented for the mass market channels. Approximately 24 percent of all sustainable coffee is sold as gourmet coffee mostly through specialty stores, and only 2 percent is instant.

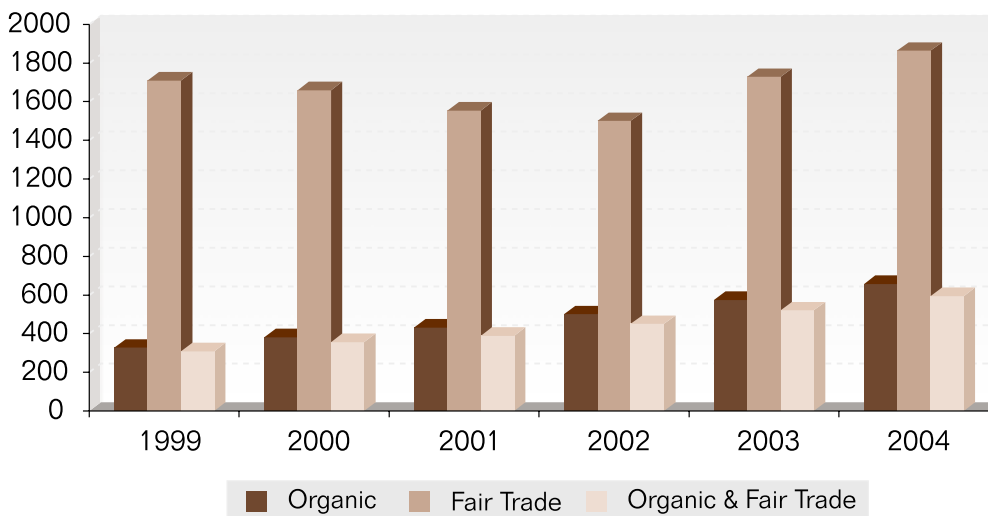
Sustainable coffees in the mainstream retail channels have enjoyed steady growth in recent years and now expect very modest growth in 2003, most of this likely to occur in the double certified coffees. Much of the industry is considerably more optimistic for the midterm beyond 2003. Specialized retailers that were responsible for the original popularity of sustainable coffees have continually lost market share to the larger retailers and their sales are projected to be flat with little growth.

The most powerful brands in this channel - names like Lavazza and Starbucks - do not sell these coffees in Switzerland. Although very small, the institutional or out of home consumption of sustainable coffees appears to have great potential and this channel is expected to grow the fastest in the next few years.

Trends in the Swiss market

It seems clear that specialized retailers are finding it difficult to compete with supermarkets and multiple store chains in this coffee category. Without the personal attention of specialized

Figure 17.8 Swiss sustainable coffee consumption and projections (Metric tons green)





retailers however, it will become increasingly important to substitute branding, promotion, and advertising strategies in order to increase sales and market share in the larger mainstream retail outlets.

Firms involved with sustainable coffee generally expect slow growth in the near term. In 2003 the industry is mildly optimistic but cautious about organic coffees and neutral or slightly pessimistic about the potential for those coffees that are only fair trade certified.

The industry estimates that mid-term sales prospects 2004-2005 will be more positive (figure 17.8). Double certified coffees in particular are expected to show the highest rates of growth. Organic coffees are expected to do well although these will likely not be stellar performers and fair trade will slowly recover with modest growth.

Because sustainable coffees, along with other certified sustainable foods, have attained a relatively high market share on the Swiss market, it has been closely watched. Its recent plateau has been called a glass ceiling by some and there is speculation that there may be a rather small maximum size of market for these products. Some believe that increasingly larger price differentials due to more double certified coffees are slowing growth. Others feel this is a

temporary setback due in part to difficult economic times.

As shown in figure 17.9, market share decreases until 2002 when it picks up again.

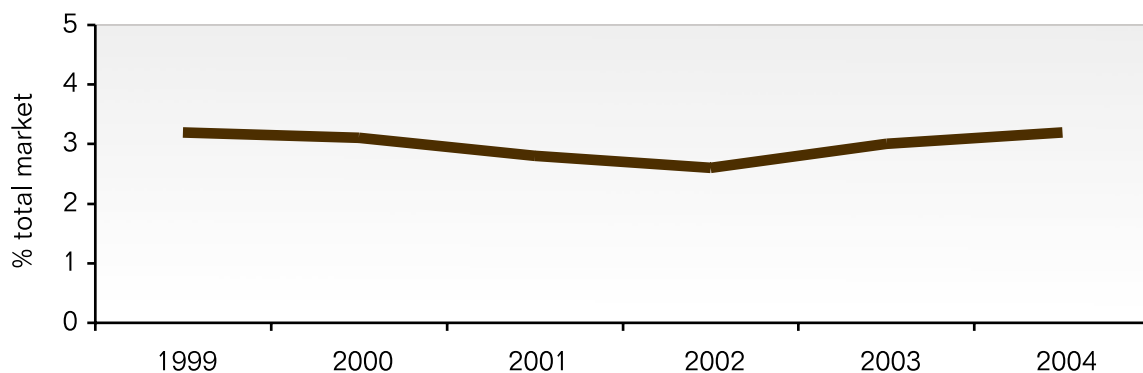
Constraints in the Swiss market

Swiss are quality conscious and buyers note that they are willing to pay more for a product of good quality. Nevertheless, in some cases the higher prices for the double certified coffees will likely mean that their retail differential against conventional coffees could be significant in the near future and could impact their rate of growth. This may in part explain the recent slowdown in growth whose timing has somewhat correlated to the dramatic increase of double certified coffees.

A lack of visibility, particularly the paucity of promotion and branding efforts around the sustainable coffees appear to limit market demand as these coffees compete with other heavily promoted mainstream brands.

Reliability of sustainable coffee suppliers has been a major drawback dampening the enthusiasm of Swiss coffee buying firms. There have been a number of cases where contracted volumes and delivery dates were not respected as well as failures to present appropriate

Figure 17.9 Sustainable coffees as a percentage of the Swiss market



certificates and documentation. There were several mentions of bureaucratic problems and delays in obtaining import licenses from Bio Suisse and the Swiss Ministry. These administrative barriers encourage importation from other European countries rather than direct from origin.

Concerns about the clarity of certification standards arose, as they did in many countries, particularly concerning fair trade and how the benefits of these standards are not sufficiently apparent or transparent to the buyer. Some in the industry claim that there is concern, even among their own buyers, about whether and how the fair trade price “premium” is actually conveyed to the grower.

Further education about the workings and benefits of sustainable coffees directed toward the mainstream coffee industry could pay substantial dividends.

Key factors for growth

Members of the industry were asked to, “Rate the importance or value of the following factors for expanding your sustainable coffee business.”

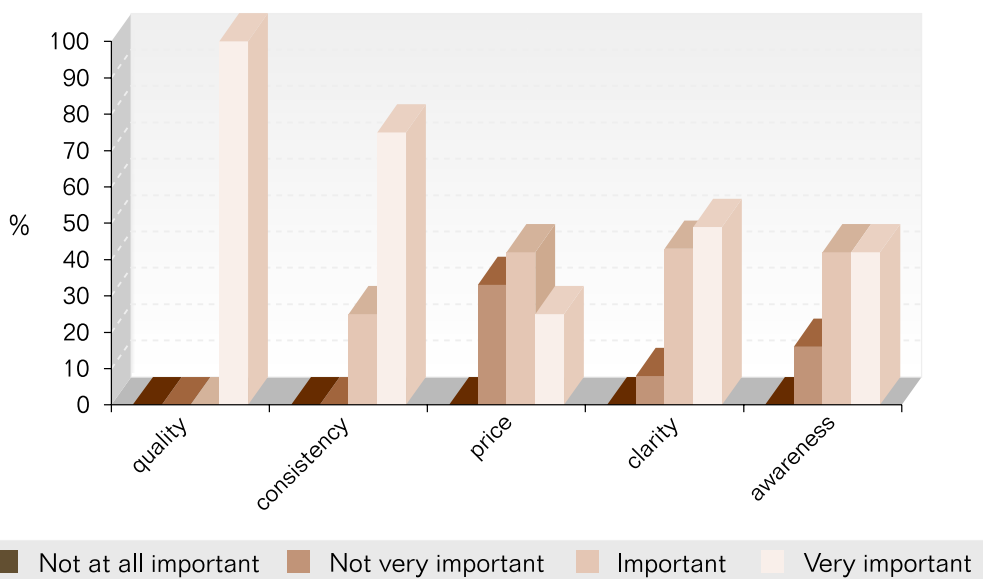
- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

If the industry does not fulfill these factors it is likely that its future growth will be constrained.

Respondents were offered 4 choices ranging from “not at all important” to “very important” (figure 17.10).

The Swiss coffee industry agrees that, after quality, consistency and reliability are of paramount importance. Many concurred that quality has been laudable in recent years, particularly for organic coffees, and that this factor has helped secure a strong market share. Consumer awareness about sustainable coffees is considered quite high in the Swiss market and is therefore not considered a limiting factor. Price is considered the least important factor for these coffees.

Figure 17.10 Key factors for the expansion of sustainable coffees





Local device for raking coffee to cure - dry

18.

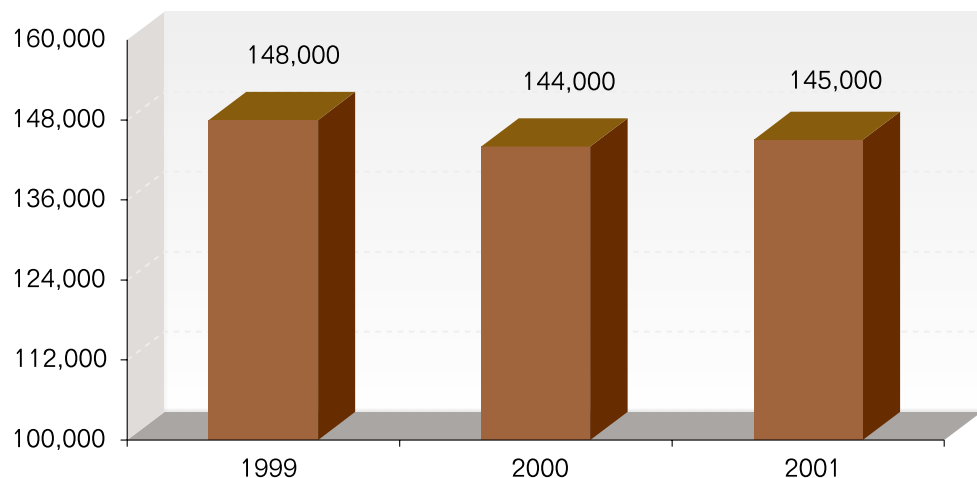
Sustainable Coffee in the United Kingdom

The overall market context

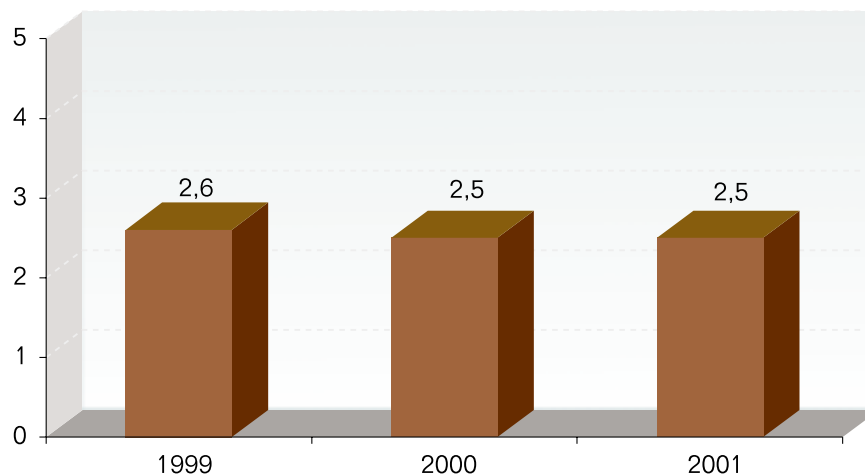
The UK market is unique in Western Europe for its predominance of instant coffee. The market is also relatively small, due to the low per capita sales. The British are primarily tea-drinkers and coffee has traditionally been considered a luxury product. In the past, coffee was rarely discounted to attract customers, although this has started to change. The higher overall price level has provided sustainable coffees a better opportunity to compete than in other EU markets such as Germany, where coffee is often discounted and positioned as an inexpensive consumer item.

Over the last two years both the overall market volume and per capita volume sales have declined slightly (figures 18.1 and 18.2). Compared to the 1990 level of 2.2 kg, however, per capita sales

Figure 18.1 Total UK coffee consumption (Metric tons green)



Source: *European Coffee Federation, 2002 and industry sources.*

Figure 18.2 Total UK per capita consumption (Kg green)

Source: *European Coffee Federation, 2002.*

have increased. Notwithstanding the overall decline, specific segments such as higher quality coffees and out of home consumption have expanded. The sustainable segment is also growing rapidly.

While roast and ground (R&G) coffee accounted for 13 percent of total sales, instant coffee accounted for 87 percent of sales by value and 83 percent by volume. The latter category experienced a decline of 6 percent by value and 2 percent by volume on the previous 12 months. Soluble coffee also lost market share against R&G, of approximately 1 percent by value. Annual sales of R&G according to industry sources will top US\$100 million in 2002, an increase of 2 percent in value and 1 percent in volume.

Sales of instant coffee of all types (freeze-dried, granules, powder and novelty products, conventional, decaffeinated, organic and fair trade) were \$700 million in 2001, with granules being the biggest-selling product type, by a shrinking margin over the increasingly popular, and more expensive, freeze-dried. Freeze-dried coffee accounts for 36 percent by value and 18

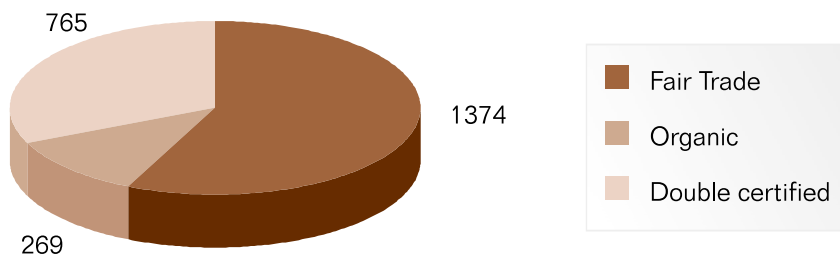
percent by volume of the total coffee market, 41 percent by value and 22 percent by volume of the instant market.

The UK's green coffee imports in 2001 were up just a bit from 2000 figures without a noticeable corresponding increase in per capita consumption. Although the market relies heavily on robusta coffee, a slim majority of the UK imports (53 percent of total) is still arabica. There was a reduction of about 10 percent for the mild coffees in 2001 and primarily unwashed arabica and some robusta replaced these. Vietnam is still the dominant supplier by far followed by Brazil, Colombia, and Indonesia. Together these four supply two-thirds of the total conventional market.

The UK market for organics and fair trade

The British market for sustainable coffee is dominated by fair trade, which is about twice as big as organic (figure 18.3). 60 percent of all sustainable coffees are roast and ground, the rest

Figure 18.3 Sustainable coffees by type in 2001 (Metric tons green)



is instant. For conventional coffees, this is the other way around, with instant coffees accounting for over 80 percent of the total market. Since roast and ground is considered a luxury segment in the UK, this indicates that sustainable coffees belong to the upper part of the market.⁵⁹ Most sustainable instant coffees on the market are freeze-dried - the best quality instant - but there are several granule products and few powder coffees as well. The latter type is sold at very low volumes.

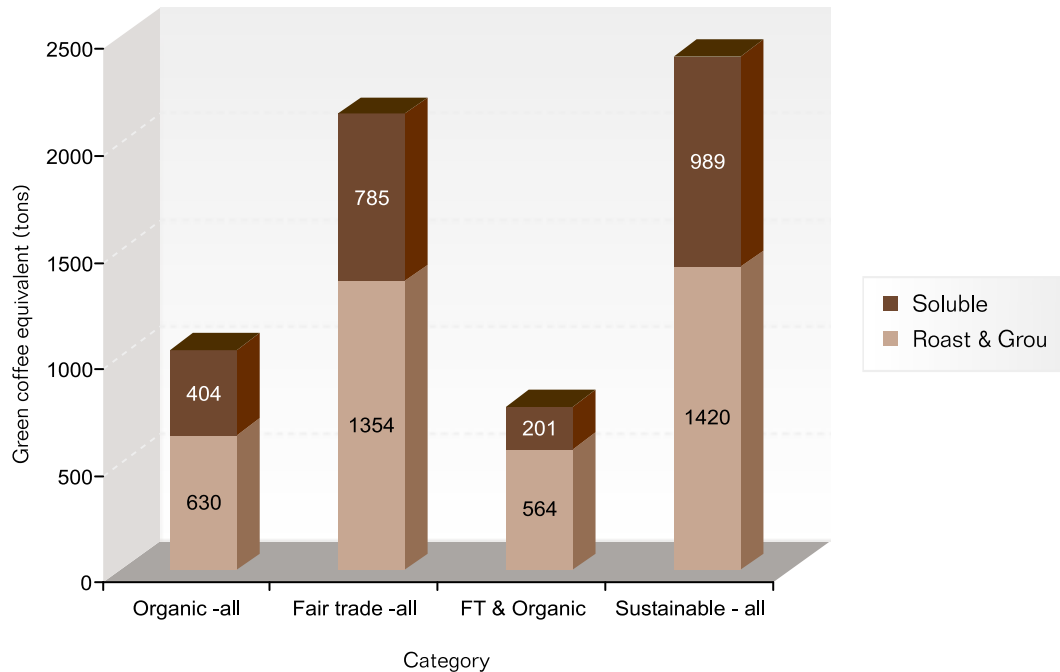
As the figure shows, there is considerable overlap between the organic and fair trade segments in the UK. Over 70 percent of certified organic sales are also certified fair trade. Information from the Soil Association - the UK's leading organic certifier - indicates that almost 90 percent of companies processing fair trade coffees are also processors and distributors of organic coffees. A number of people in the industry are not familiar with the term "sustainable coffee" although organic and fair trade are quite widely known. It is important to note that this market is still in its relative infancy, with many of the interviewees having been involved for an average of only three years.

In addition to sustainable coffee which is externally certified, as noted in figure 18.3, the amount of non-certified sustainable coffee was estimated at about 1000 tons (green coffee equivalent). Most of this coffee is sold by Taylors and Harrogate and falls into the category of roast and ground.

As was mentioned before, in the overall market instant coffee sales are decreasing, whereas R&G shows modest growth. In sustainable coffees, according to industry sources, soluble is growing rapidly (20 percent in the 12 months to June 2002) and R&G is growing very rapidly (double certified about 40 percent and all fair trade 42 percent). Organic coffee is growing more strongly than fair trade, although from a smaller base. Consumption increased significantly in 2001 with 24 percent growth, while 2002 should see 18 percent. Mid-term growth for organic products overall was estimated by the ITC (1999) at 25 - 30 percent.

Fair trade consumption, as given by the Fair Trade Foundation, grew 24 percent in 2001 to 1648 tons of roasted coffee. Between 1994 and 2001 total fair trade sales (including coffee), as

⁵⁹ An important part of the UK sustainable roast and ground coffees are gourmet coffees. The exact share of this category, however, could not be verified. As an informed guess, we would venture that the gourmet share of sustainable roast and ground lies somewhere between 20 and 40%. This is based on our store visits, where we found that just over 50% of the sustainable coffees classify as gourmet, and our consideration that these coffees typically sell at lower volumes than their more ordinary counterparts.

Figure 18.4 Sustainable coffees by type

monitored by the Fair Trade Foundation, grew from \$5 million to \$65 million. According to the same source, fair trade coffee has a 2.5 percent share of the freeze-dried soluble coffee market in 2002, worth an estimated \$7 million, and a 10 percent share of the R&G market. These figures only refer to certified fair trade and does not consider company certified or ethical traded coffee (figure 18.4).

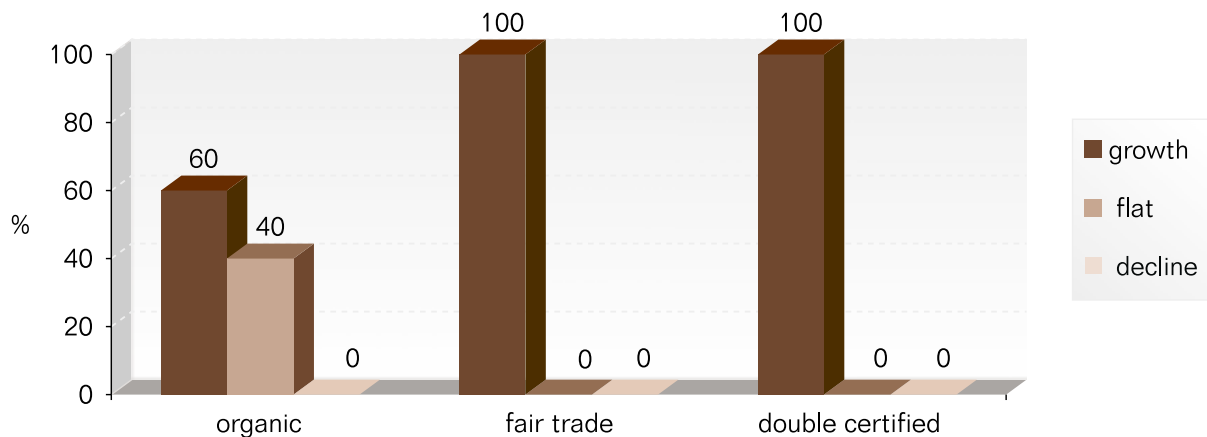
In the context of a declining overall market, the share of sustainable coffees have increased rapidly, from 1.0 percent in 1999 to 1.7 percent in 2001.

The emphasis in fair trade is now very firmly on quality. Until relatively recently, fair trade suffered from a consumer perception of poor or unpredictable quality, resulting from its origins in the solidarity movement, when quality was not the paramount issue. Since that time, some fair trade coffee businesses have worked very hard to improve the quality of their products and have even won professionals tasting awards.

In the search for quality, fair trade has gone “up market”. There are no cheap fair trade coffees on sale in UK. Although this strategy may seem to restrict the volume of sales achievable, industry players believe that this is the most sustainable business strategy in the longer term. At the moment, it is certainly producing impressive growth figures, although the UK base level is still modest compared to countries like the Netherlands, Switzerland and Denmark. This performance may also have been facilitated by the fairly reasonable price differentials between fair trade and conventional coffees in the UK market, compared to some other countries, e.g. Germany.

Most participants in our survey experienced growth or strong growth in 2001 and none experienced decline. Fair trade led the way with considerable advances, especially in the latter part of the year while nearly two-thirds of organic purveyors showed growth and more than one-third experienced flat sales over the previous year (figure 18.5).

Figure 18.5 UK sustainable coffee growth in 2001



Certification

Fair Trade Labeling Organizations International (FLO) in Bonn is the only third-party fair trade certifier for coffee labeled as fair trade for sale in UK. FLO-labeled coffee is sold in UK under the auspices of the Fair Trade Foundation, which is the UK national member of FLO. Organic certification is in line with EU rules and legally regulated.

In the UK there are several popular initiatives that can arguably be classified as sustainable coffees although these are not independently certified. One of the most important is the Ethical Trading Initiative (ETI). It concentrates on the working conditions of employed estate workers rather than on small farmer organizations and their members. Most ETI members are large-scale retailers and brands although some importers also participate. Members undertake to work towards compliance with ETI codes of practice over a period of time. ETI does not keep statistics on products traded under its codes, and it does not certify either producers or products, rather it is a membership organization comprised of businesses and organizations in consumer countries. The basic ETI code includes the following conditions:

- ▼ Freedom of association and the right to collective bargaining are respected
- ▼ Working conditions are safe and hygienic
- ▼ No child labor and no forced or bonded labor is allowed
- ▼ Living wages are paid to all workers
- ▼ Working hours are not excessive
- ▼ No discrimination is practiced in any working conditions and workers must not be physically, sexually or verbally intimidated
- ▼ Regular employment is provided, through formal contracts

There is also some self-certified coffee on the market, where the importer/roaster offers the producer a premium above the cost of production. While this is laudable, it is not clear whether it significantly contributes to sustainability because the process is not always transparent. Its detractors claim that this unfairly rides on the coattails of established systems like fair trade and can contribute to confusion among consumers. Although, in most cases this is not currently being



used as a retail marketing tool by the companies practicing it, the volume is believed to be significant (about 1000 tons of green coffee) and growing. The biggest practitioner is Taylors of Harrogate, the fifth-largest coffee brand in UK. A new brand, Union Coffee Roasters, recently came into the market advertising themselves as sustainably sourced, but offering no external certification of this claim.

Until recently Oxfam, a large UK charity, sold its own self-certified “fair trade” coffee products through a national network of shops. In order to avoid confusion and out of solidarity with other like - minded organizations, its independent product ranges are being discontinued and replaced with FLO-certified branded products such as those of Cafédirect. Similarly, Traidcraft, another large fair trade organization, is in the process of re-launching its previously self - certified range of coffees as FLO registered coffees.

Among the certification and inspection companies that are used by the organic coffee industry, the Soil Association is by far the most popular. It is also the best-known among consumers and, regardless of the certifier at origin, its seal will usually be on the coffee. The next most popular certifiers are Organic Farmers

and Growers, KRAV (Sweden), OCIA (USA) and Naturland/IMO (Germany). Other participants include Ecocert (France), Biolatina (Latin America), and Öko-Kontroll (Germany).

There was a recent move, led by Soil Association, to investigate combining organic and fair trade certification in the UK market but, as the date of publication, nothing concrete has developed.

In spite of the dominance of the major certifiers (Fair Trade Foundation and Soil Association), fully half the members of the coffee industry admitted that certifications were confusing to them. Almost everyone (93 percent) thought that consumers were confused by the different certifications (figure 18.6).

Premiums

In October 2002, organic green bean premiums varied from a low of 10 cents per lb to a high of 80 cents per lb. With the higher premiums, a proportion of the premium is often in respect of better quality. The median premium in the survey was 15 cents per lb. For fair trade coffee, all participating buyers pay at least the official FLO minimum prices, and one or two pay slightly more. With current market prices, the FLO price

Figure 18.6 Are certifications considered to be confusing?

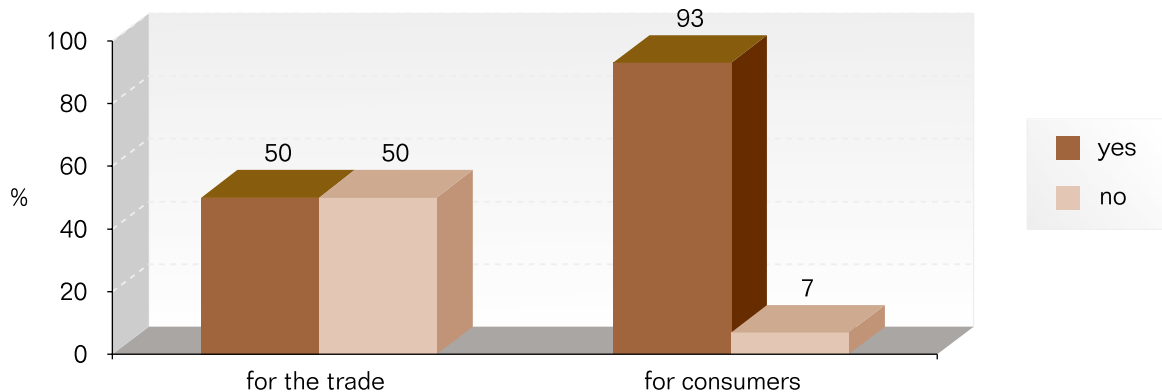
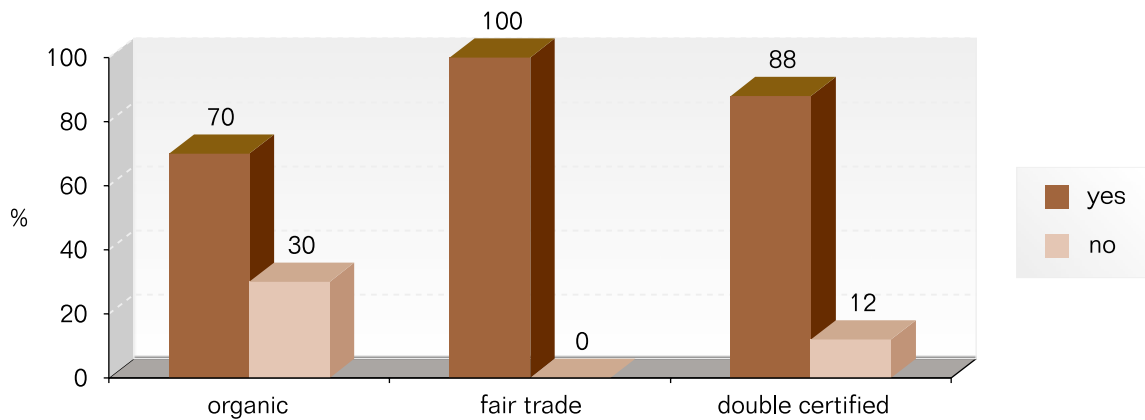


Figure 18.7 Are current premiums considered to be reasonable?



translates to a fair trade premium of around 70 cents per lb for mild coffees.

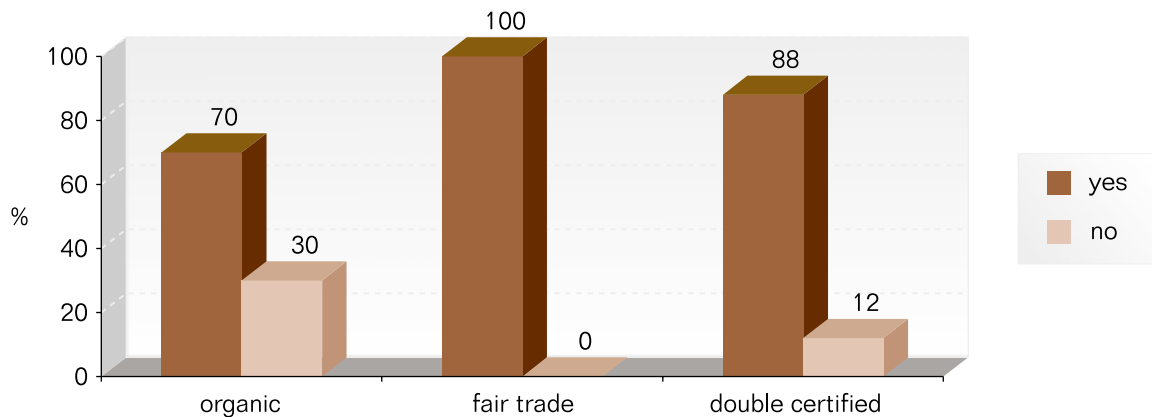
Approximately 90 percent of respondents found both the organic premiums and the fair trade minimum floor prices to be reasonable. All respondents felt that dual certified coffees carried reasonable premiums (figure 18.7).

Both organic and fair trade premiums or minimum prices were expected to continue at their present levels by most of the participating

firms (figure 18.8). Some of the respondents consider that they ought to be reconsidered, even though they expect them to continue. This was particularly the case for robusta coffees, which under FLO rules enjoy a very high differential.

The results of this survey may be skewed a little by the fact that some traders that were not involved in trading for example fair trade coffee, did not answer the question. It may be that they do not trade it because they consider the premiums too high for their market, thereby

Figure 18.8 Will premiums continue at their current levels in the medium term?



resulting in a self-selected positive grouping of comments.

Retail prices

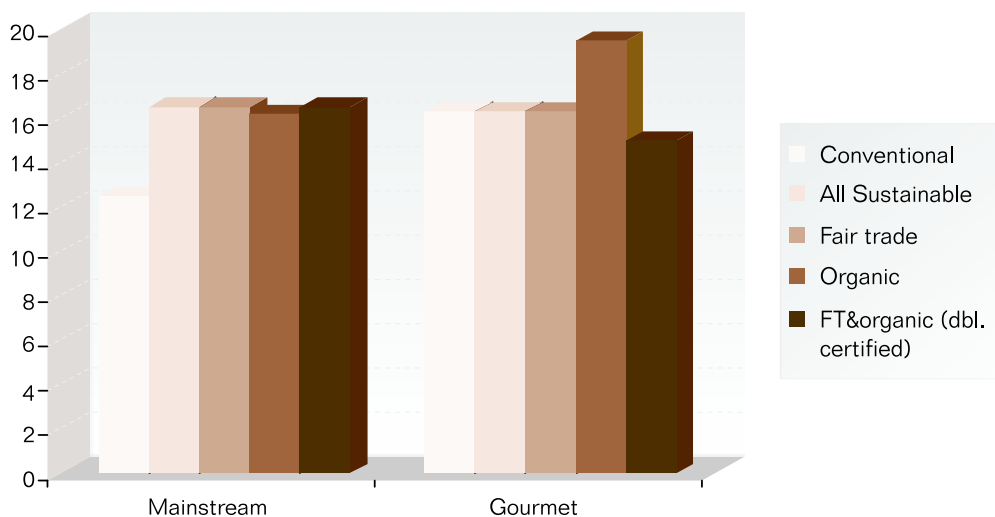
At the retail level price differences between fair trade and conventional coffees appear quite reasonable, especially for gourmet coffees (figure 18.9).⁶⁰

Whereas sustainable coffees of gourmet quality sell at the same median price as conventional coffees, mainstream sustainable coffees sell at a premium of 30 percent. Organic, fair trade and double certified coffees sell at median prices

which are remarkably similar (around €16.45 per kg). Only certified “organic-only” gourmet coffees are sold a bit more expensively, at €19.75 per kg.

This information clearly indicates that most UK sustainable coffees fall into the gourmet category in terms of price, even if they are qualitatively classified as mainstream coffees. It confirms the earlier observation that these coffees “have gone up market”. It also explains why UK sustainable coffees are much more expensive than their continental European counterparts, where sustainable coffees of mainstream quality are sold at median prices of EUR/kg 8.52 (for Belgium), 8.76 (in the Netherlands) and 11.96 (in Germany).⁶¹

Figure 18.9 Retail prices of UK coffees by type (€/kg)



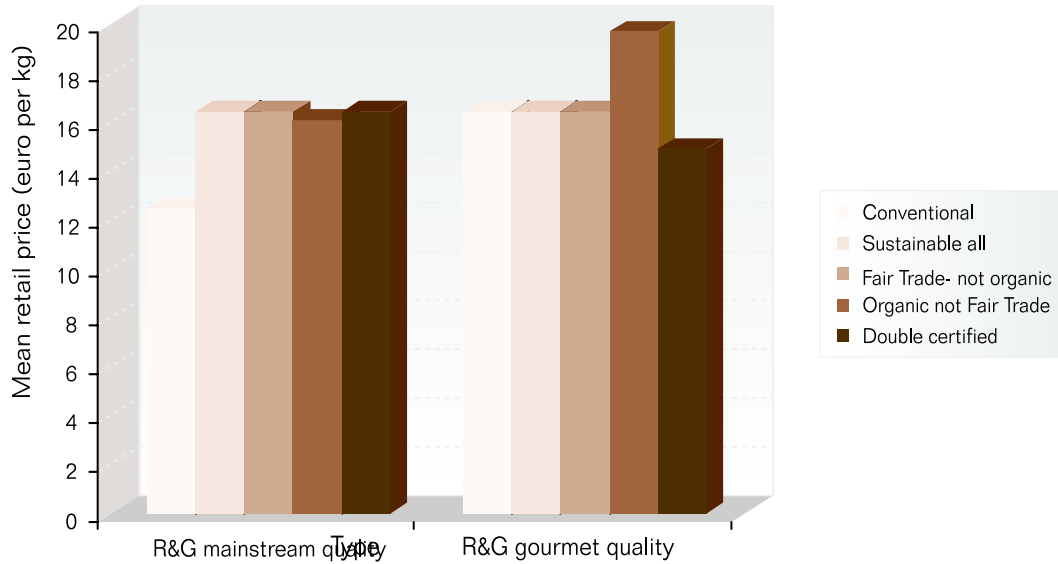
⁶⁰ Based on our sample of 30 sustainable and 103 conventional roast and ground coffees obtained from store visits in October 2002.

⁶¹ The German prices are relatively high due to a special tax on roasted coffee of EUR/kg 2.20 (ECF, 2002).

⁶² Based on our sample of 10 sustainable instant products and 96 conventional instant coffees. The sample included both freeze-dried, agglomerate and powder instants, although most sustainable instants are freeze dried. Sustainable new instants (e.g. cappuccino) were not identified.

⁶³ ECF (2002) quotes the 2001 ICO average instant price over 2001 of \$11.567/lb or 25.51 euro per kg, but this includes new instants which are relatively cheap and it is based on a weighted average.

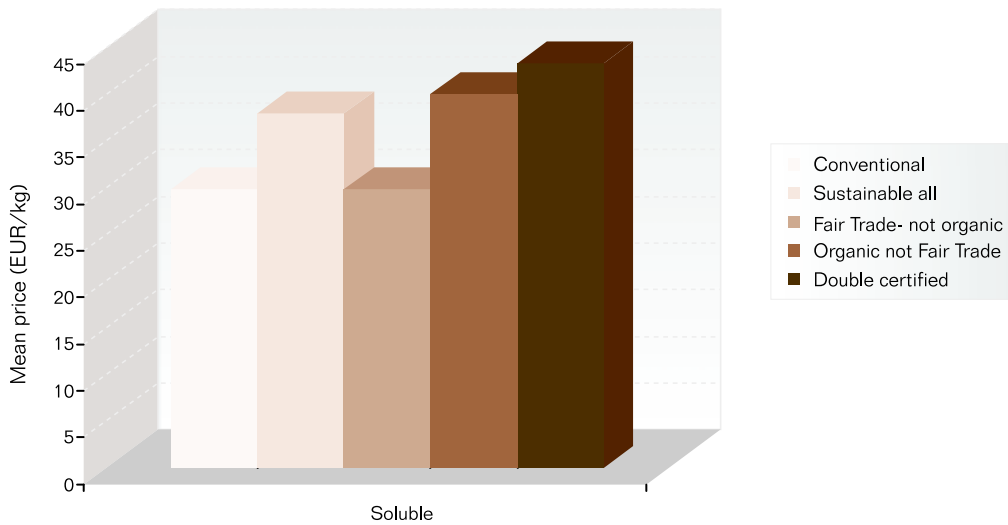
Figure 18.10 Retail prices of Roast & Ground coffees by type



Sustainable instant coffees are sold at a retail premium of 30 percent, just as R&G (figure 18.10).⁶² The median retail price for sustainable instants was EUR/kg 37.99 in 2002, as against 29.85 for conventional instants (figure 18.11).⁶³ The organic and

double certified instants are relatively expensive, and the fair trade instants relatively affordable. It should be noted that all but one of the organic coffees were freeze-dried, whereas some of the fair trade coffees were of the agglomerate and powder varieties.

Figure 18.11 Retail prices of soluble coffee (traditional instants) by type



Significant supplying countries for sustainable coffees

Mexico, Peru and Colombia are the most popular suppliers of these coffees, followed by Uganda and Costa Rica. Of the 16 other origins mentioned, Tanzania, Ethiopia, Nicaragua, Indonesia, Bolivia, Guatemala, Cameroon and Zimbabwe are the most popular.

A number of traders mentioned that certain sustainable coffees are currently undersupplied in the UK market. Among these were: reliable quality from Ethiopia, Indonesia (robusta), India (robusta), organic fair trade unwashed arabica (Brazil), organic Cuban, organic Java, top African organics like Kenya and good quality Tanzania.

More than one trader considered that real top quality coffee from all origins was almost always in short supply, and that there would always be a demand and a premium for the best coffees. One roaster said that UK importers were offering a very limited range, mainly Mexico, Guatemala, Nicaragua, and that he couldn't source the range of coffees he wanted.

The UK market structure

Most UK coffee, both sustainable and conventional, is sold in major supermarket chains, mainly in 100g glass jars (soluble) or 227g soft foil packs (R&G). Out - of - home consumption (coffee shops, workplaces and other institutional environments) is increasing, but is still a relatively small market segment.

About three-fourths of the food in UK is sold through a few national supermarket chains that dominate food retailing. These are Tesco, Sainsbury, Safeway, Asda, Waitrose, Co-op, Somerfield and Morrisons. In order to be on their shelves, a sustainable coffee business in UK has to be very professional: offering a range of products, excellent quality, large volumes (so that

products can be on the shelves in all stores), and total reliability of supply. This is one reason why most sustainable coffee in the UK is marketed by a small number of larger brands, such as Percol, Cafédirect, and Taylors of Harrogate. Larger roasters now handle the vast majority of fair trade coffees (about 92 percent).

Sustainable coffees, particularly fair trade, have built nationally recognized quality brands with broad distribution and backed by high-profile campaigns such as the Fair Trade Fortnight. Consumers associate some of these brands with the social goodwill of the fair trade movement and branding is an important strategy.

The conventional soluble segment is also dominated by powerful brands such as Nescafé (Nestlé), Douwe Egberts (Sara Lee/DE), Kenco (Kraft) and Maxwell House (GF). Supermarkets usually have their own - label versions of the biggest - selling products of these brands. Nescafé is the market leader and tends to set the product trends for the others, including some sustainable coffee products. It offers a soluble organic coffee from Mexico (one of the few such products from a major roaster) that is reportedly not very successful although the reason why is not clear. Some speculate that it has not been promoted, others that the quality is inferior, and one researcher suggested that it suffers from the failure to be fair trade certified.

Apart from the soluble segment, a much smaller roast and ground segment (about 10 percent by volume) is dominated by private labels that account for nearly half of its volume (mostly supermarkets), whereas major brands hold less than one-quarter of this market. Two of the major retailers (Sainsbury and the Co-operative) launched their own-label certified fair trade R&G products in 2002 indicating their commitment to this growing segment. The remaining quarter of the volume is distributed among many smaller companies.

Whereas fair trade coffees are distributed mainly through supermarkets (mainstream retail), organic coffees have traditionally been marketed

through the specialized retail channel (figure 18.12). Roasters of organic coffees used to avoid supermarkets because they tend to push prices down. As supermarkets have added to their overall organic offerings, however, they have increasingly included organic coffees.

Currently, the mainstream retail channel is by far the most important in the UK, followed by specialized retail and out of home. The out of home or food service channel is rather underdeveloped.

The popularity of Seattle-style cafes has helped the specialty segment to grow and this appears to be stimulating the specialty or premium segments of the soluble category as well. A recent study of coffee shops (Commodity Expert 2002) notes that by March of 2002 there were about 1,300 such cafes in the UK. The four market leaders: Costa Coffee, Starbucks, Coffee Republic and Caffe Nero together own 63 percent of these outlets. The branded outlets expanded rapidly posting a 27 percent growth rate for the 15 months ending in March 2002. Some of this growth has come at the expense of smaller cafes

and coffee shops but it is expected to continue growing, albeit more slowly.

The UK sustainable coffee market is expanding in each of the channels and segments. This goes for both instant coffee and R&G. One segment, however, is static, according to industry sources. This is the (sub) segment of non-fair trade organic, both instant and R&G.

Trends in the UK market

Consumer awareness of sustainable food products is certainly increasing, which is partly due to the food scares of recent years, and partly to the increased participation of retailers in this segment. The recent entry of major supermarkets greatly increases the visibility of fair trade and organic products and their opportunity to gain market share.

Should consumer awareness continue to increase, consumer behavior will be largely determined by three factors: cup quality, retail price and branding. There is no doubt that cup quality and

Figure 18.12 Market channels for sustainable coffees by type Tons of green coffee equivalent

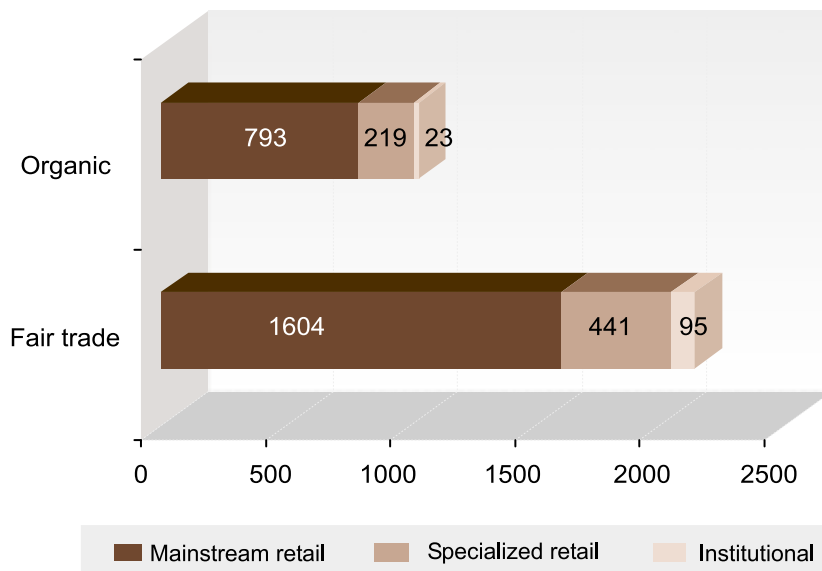
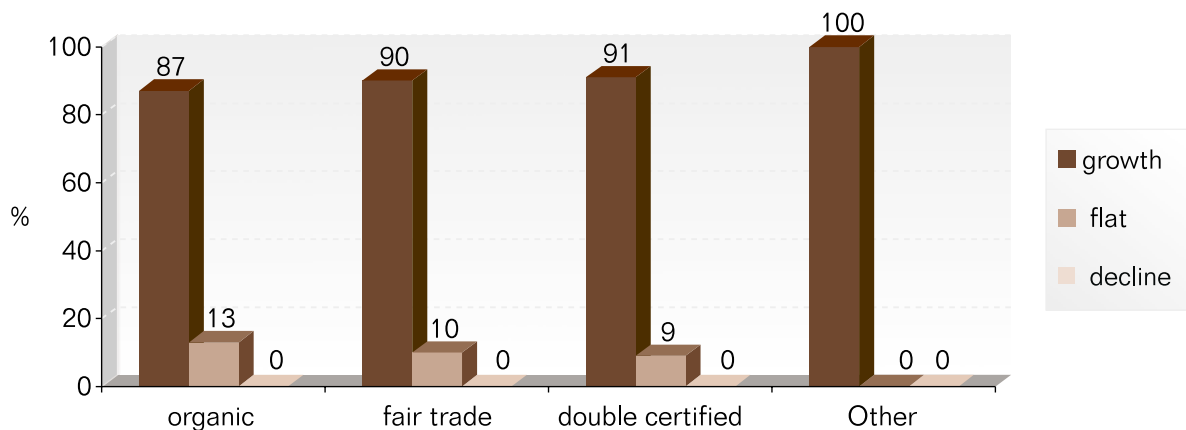




Figure 18.13 Near term growth forecast (2004/2005)



the variety of sustainable coffees have improved drastically over the past decade. Early quality standards, however, especially for organic coffee, have reportedly been low and thereby put off many potential coffee buyers. The substantially higher prices of sustainable coffees - sometimes 30 to 50 percent more - have also presented a considerable barrier in the past, but this has now improved. This study finds that median retail prices of mainstream sustainable coffees are currently 30 percent above conventional, but for gourmet coffees the price difference is zero.

When asked for their near to medium term outlook, coffee traders responded positively across the board with the vast majority predicting strong growth (figure 18.13). The “other certifications” referred to were coffee expected to be traded via the Ethical Trading Initiative and Rainforest Alliance certification (formerly Eco-OK).

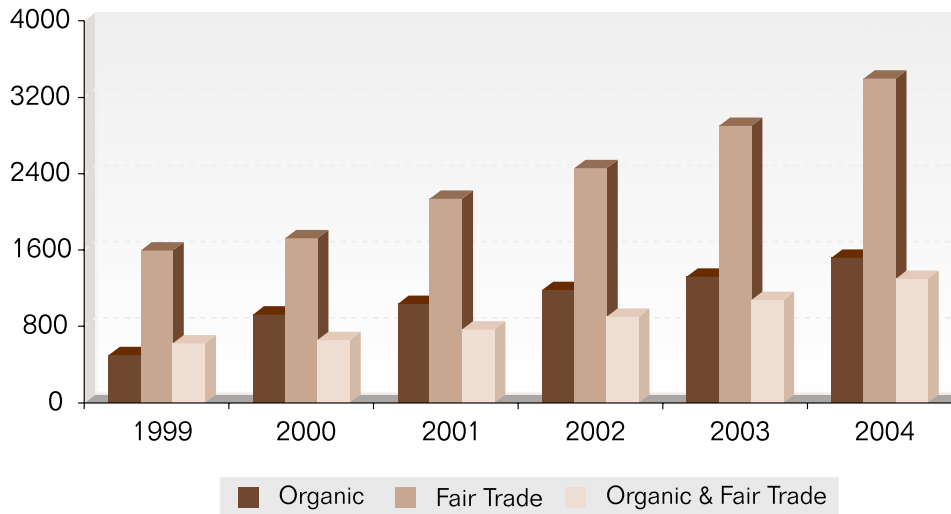
The overall prognosis for the near term future of the sustainable coffee market is optimistic. Fair trade predictions expect a year on year average growth of 20 percent for the period 2001 - 2004. Organic industry predictions are strong as well with 18 percent growth projection in 2002, while leveling out a bit but remaining over 10% in 2003 and 2004 (figure 18.14).

On the basis of these projections sustainable coffees market share will increase from 1 to 2.5 percent between 1999 and 2004 (figure 18.15).

Constraints in the UK market

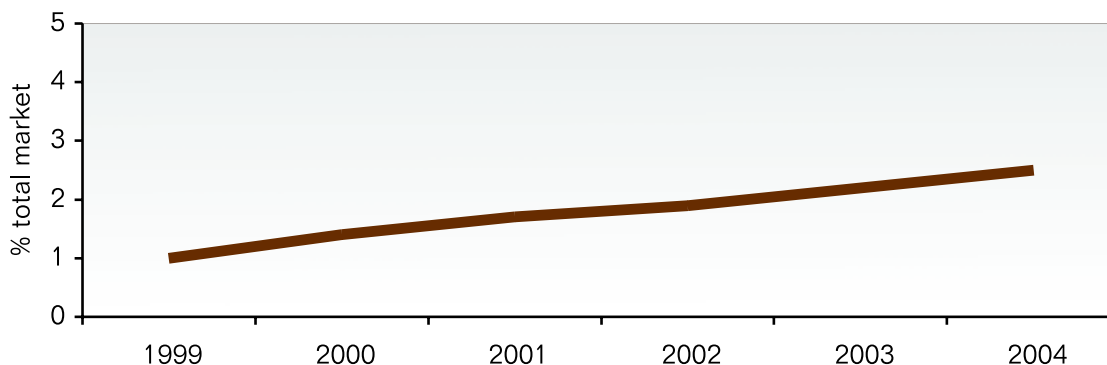
- ▼ The cup quality of sustainable coffees has improved drastically over the last decade. There is some consensus that before that these coffees were of below average quality. Small businesses tend to believe that the quality is still inferior while larger businesses attend to state that the cup quality has already improved to a degree that it is competitive with non-sustainable coffees.
- ▼ The variety (blends, country of origin, etc.) of sustainable coffees available to consumers is still much smaller than that of non-sustainable coffees. This currently limits the spectrum that can appeal to consumers.
- ▼ The lack of a clear or consistent message to consumers concerning the benefits of sustainable coffees, particularly organics, risks diminishing the category’s market position to merely a trendy or lifestyle choice.

Figure 18.14 UK sustainable coffee consumption and projections (metric tons green)



- ▼ Lack of clarity at the retail level, with competing sustainable propositions that sound the same to consumers who have a very limited understanding of the different types of certifications.
- ▼ An increase of companies selling “sustainable” coffees without third-party certification.
- ▼ The overall demand for coffee in the UK market is shrinking, so any expansion of sustainable coffees means taking market share away from conventional mainstream brands and products, a much harder and slower task than if the overall market was growing.
- ▼ The certification process was widely mentioned as one of the most difficult hurdles to overcome for the supply side of the organic coffee market in the UK. There are three main areas of concern:
 1. The time and effort required in order to be certified organic appears excessive to some importers or roasters especially when most have little understanding of

Figure 18.15 Sustainable coffees as a percentage of the UK market





the process. As a result a number of firms in the industry reportedly deal in organic coffee that is not certified or simply do not deal in organic coffee at all.

2. The lack of a single unified Certification Agency has resulted in confusion for both the supply and demand sides of the sustainable coffee market in the UK. This confusion frustrates and probably limits the number of potential importers, processors, distributors and retailers of sustainable coffee in the UK.
3. Supply chain certification currently requires keeping a separate industrial unit equipped exclusively for roasting, grinding and packaging of organic coffees. Many, in particular the small roasters, find this difficult and a considerable barrier to entry.

for expanding your sustainable coffee business.”

- ▼ **Quality** of cup
- ▼ **Consistent** and reliable supply
- ▼ **Price** relative to conventional coffee
- ▼ **Clarity** between different types of certifications, criteria, and labels
- ▼ **Awareness** of consumers about these coffees

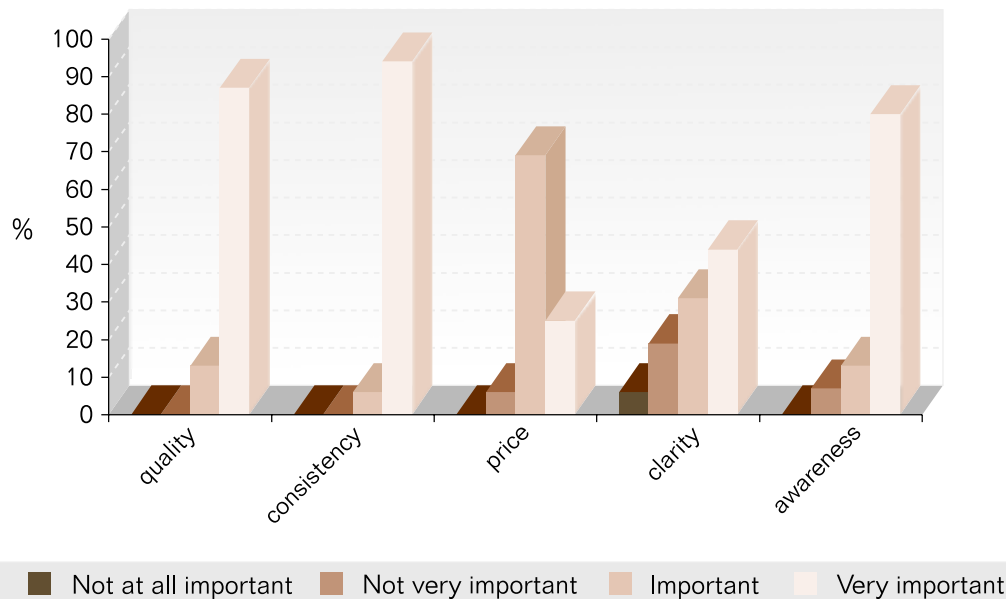
If the industry does not fulfill these factors it is likely that its future growth will be constrained. Respondents were offered 4 choices ranging from “not at all important” to “very important” (Figure 18.16).

The highest importance was placed on *consistency and reliability of supply*, followed closely by *cup quality* and *customer awareness*. *Clarity* was seen as least important overall, but this reflects the fact that many survey respondents are selling to other industry members, who already know what they are buying.

Key factors for growth

Members of the industry were asked to, “Rate the importance or value of the following factors

Figure 18.16 Key factors for the expansion of sustainable coffees



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