

## **A Fairtrade perspective on equitable trading and the world coffee economy**

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I would like to focus this presentation on the aspects of fair trade that are relevant to the discussion on equitable trading in the coffee market. I will therefore give only a very brief overview of the international Fairtrade Labelling system that has been developed over the past 15 years as a standards, certification and marketing tool aimed at improving the position of disadvantaged and marginalized producers in developing countries. Phil King of cafedirect will be making a complementary presentation on their experience of how Fairtrade can be integrated into a viable commercial model.

Although the Fairtrade Labelling system now covers a wide range of major agricultural commodities such as tea, cocoa, fresh fruits and juices, rice and sugar it was originally developed specifically for coffee and this crop is still the most important item in the Fairtrade system. It accounts for 24% of the total trade in Fairtrade products by volume (20,000 MT of coffee out of a total volume of 82,000MT of all products in 2003) and of the 370 producer organisations certified, 197 of these are co-operatives of coffee growers.

In the notes circulated in your packs I have provided summary information on the standards and certification system of Fairtrade Labelling, and the current scope of the international Fairtrade coffee programme. I have also provided the web address of FLO International where further information, including the Fairtrade coffee standards, are freely available.

Fairtrade labels are now active in 18 markets across Europe, North America, Japan with the most recent launch in Mexico. Work has also started in Australia and New Zealand. The national organisations in these markets operate through an umbrella organisation (FLO International), based in Bonn, which sets the Fairtrade standards and manages the work of producer certification and international trade auditing.

Fairtrade standards for coffee apply to co-operatives or associations of smallholders. These co-operatives need to be democratic and accountable to their members, and be able to facilitate the continual improvements in social and environmental conditions that Fairtrade aims to promote. Trading standards for certified Fairtrade coffee require that purchasers pay a minimum fob price to the co-operatives of 126 cents per lb. for washed arabica beans – and if the market price is higher than this then they have to pay at least 5 cents per lb. above the market price.

In addition to nearly 200 registered co-operatives, we also work with 33 export partners, although many co-operatives now undertake export themselves which helps them to retain more of the fob price. There are also 105 importers and roaster, plus 402 licensees involved in marketing the products in the 18 countries belonging to Fairtrade Labelling. In 2003, 19,900 metric tonnes of coffee was traded as Fairtrade certified, an increase of 26% on the previous year. Three-quarters of Fairtrade producers are based in Central and South America, with 14% currently in Africa, and just under 10% in the Caribbean and Asia.

The biggest markets for Fairtrade coffee are the USA (where sales have doubled in the past year), and the Netherlands. Great Britain is also experiencing rapid growth and is now the third largest market for Fairtrade coffee. A good selection of certified Fairtrade coffees can now be found in virtually all supermarkets in this country. Several brands, including Percol, Clipper and Union Coffee Roasters, compete in the sector. Cafedirect is the largest brand to be exclusively Fairtrade certified and it is now the sixth largest brand in our market. Retailer

private labels are also becoming important and last year, the Co-op supermarket switched all its Own Brand coffee to Fairtrade. In the out-of-home sector, Starbucks, Costa and Pret a Manger now serve some Fairtrade coffee, and a growing number of employers and public bodies have adopted Fairtrade for their catering supplies. We estimate that Fairtrade accounts for 18% of all roast and ground sales.

Clearly although Fairtrade coffee is achieving rapid growth it remains a very small part of the global market – less than 0.5%. One can debate about the extent to which the Fairtrade model can be adopted by the world market, but I believe there are a number of lessons that can be taken from the Fairtrade system in developing a more equitable market for all coffee. I have grouped these under three headings but they are heavily inter-dependant –

1. The need for new thinking on markets.
2. A more cohesive approach to sustainability.
3. The importance of demand factors and the need to engage with consumers.

With regard to market operations and the crucial mechanism of price, the most frequent criticism of the Fairtrade model is that the adoption of a minimum price for all coffee would encourage further over-production. This has tended to polarise the discussion rather than looking at how fair trade principles could be applied more widely. From our perspective it is clear that a sustained period of low prices has not had the corresponding effect in reducing production that the classic free market model envisages. There are two reasons for this –

- (a) The fact that many small growers are almost totally dependent on coffee production for their livelihoods. Not only do they not have the means of investing in alternative production (whether skills, information or capital) but their market opportunities are limited, often by the trade barriers of developed countries. In fact, as the ICO and others have pointed out, the dependancy on coffee means that many small farmers will increase output at the expense of quality in an attempt to compensate for lower prices. We should not forget the caveat that is applied to most economic rules such as output responding to price - "*ceteris paribus*" (other things being equal). Clearly in world trade things are not equal and this is why fair trade sees part of its role as mobilising consumers in the campaign for trade justice and the honouring of the pledge for the current round of WTO negotiations to be the "development round".
- (b) The other problem with the classic market model applied to coffee is that the bulk of consumption is in well-developed and mature markets, which limits the potential for of low prices to stimulate demand.

Conversely, our experience in fair trade suggests that price support need not increase production if it is matched to market requirements and linked to other sustainability measures such as diversification and quality improvements. The minimum Fairtrade price is not something that is just given by purchasers, it is part of the trading relationship and places obligations on producers in respect of complying with Fairtrade standards and improving quality and sustainability.

The final factor in the price discussion has to be the distinctive structure of the coffee market, which touches the lives of millions of people at both the production and consumption end but is heavily consolidated in the centre through commodity trading, roasting and retailing. Again we see a model that does not conform to the classic free market model of a large number of independent buyers and sellers operating with equal information and power and with no barriers to new entrants. This is not to open an argument about whether or not companies are exploiting their position – merely to suggest that we need new thinking of how markets

can best work with the structure that has developed in order to best serve the needs of all participants in the chain.

My second point is that sustainability initiatives need to be considered in their broad social and economic context. Clearly diversification and reduced reliance on coffee by growers is important in helping to make production more responsive to market conditions, but this can only become a reality if producers have markets for alternative crops. Sustainability also focuses on quality improvements but there is a real challenge in making the knowledge and skills necessary for improved quality accessible to weaker producers who are the ones most likely to be producing low-grade coffee. Our experience in fair trade strongly suggests that the co-operative model can provide a good opportunity to encourage best practice among small farmers, and that they can also get involved further along the supply chain to improve information exchange and cost-efficiency. However, all these measures, especially developing the capacity of co-operatives to work effectively, require investment which is a real problem for producers who are not recovering their cost of production in the current market. People cannot think about investment for future years when they are struggling to put food on the table tomorrow, and this is something that the Fairtrade price addresses.

Finally, I would like to stress the very important role of Fairtrade in engaging with consumers and the development of an equitable coffee market must consider demand factors as well as supply ones. We have always seen Fairtrade as a way of reconnecting producers and consumers and believe that this can add to the perceived value of the product by making it less of a commodity. We have demonstrated that many consumers are prepared to pay more for products like coffee if they are given a good reason to do so. And in this respect, education about quality is also vital in the consumer market so that the range of different coffees can be more differentiated, and so that consumers can be encouraged to trade-up to higher value products. However, this has to be more than just marketing hype – it needs to be reflected in the business practice of companies in order to have credibility. In the UK, the Fairtrade Foundation has spent 10 years in establishing the credibility of the FAIRTRADE Mark, so that it can support the work of our licensees in promoting their products. We have just announced our latest research on awareness of the FAIRTRADE Mark among the UK population, which has increased from 25% to 39% over the past 12 months, making it one of the most widely recognised labels in the consumer market.

In conclusion, I would like to thank you for your attention and to express the hope that today's meeting will lead to more discussion and collaboration on ways to develop a more equitable market for coffee. The challenges facing us are immense – but we can be sure that the costs of not rising to that challenge will be even greater.