

# FT versus Mainstream

Robert Simmons  
LMC International

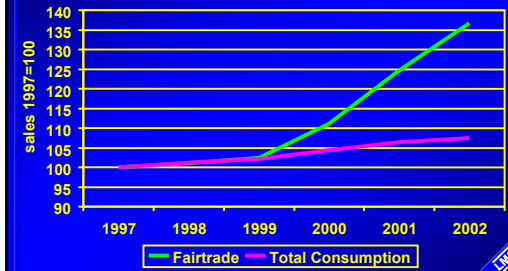


## Outline

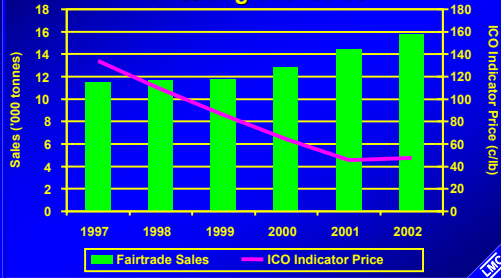
- Importance of FairTrade to global coffee sales
- Differences between FairTrade and the Mainstream
- Conclusions



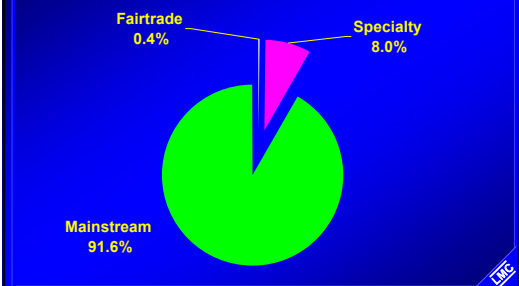
## FT sales are growing at 7% to 8% per annum.



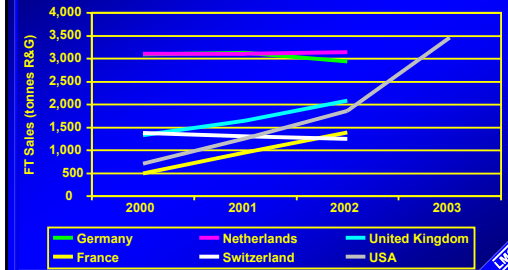
## However, FT sales account for around 0.4% of global sales



## Importing Country Sales, 2003



## US, UK and France fastest growing FT markets



### High proportion of organic coffee sales

- Around 51% of the imported FT volume was organic in 2002.
- Excluding North America, 44% of the FT volume was organic
- In the USA, about 85% of volume is organic.

LMC

### FT versus Mainstream

Two Major issues:

- Fixed minimum price versus market determined price
- Direct Sales

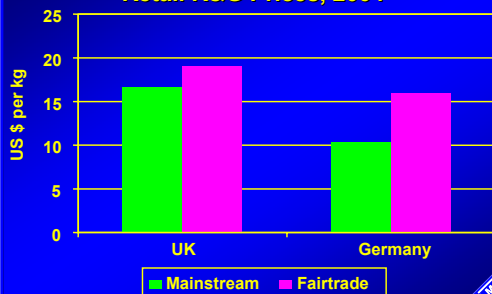
LMC

### Fixed price versus market determined price

- FT minimum US\$ 1.26 per lb (arabica)
- Possible as buyers are able to raise f.o.b. price and retail price
- Competes with higher priced R&G coffee products
- Washed arabica based products
- Greater attraction to growers in low price periods.

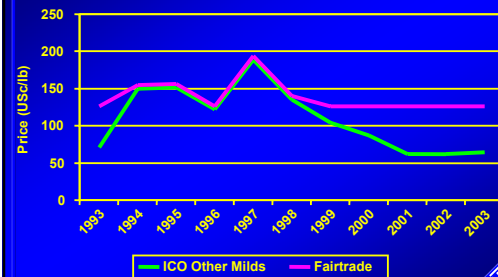
LMC

### Retail R&G Prices, 2004



LMC

### Export Price Comparison



LMC

Mainstream initiatives at market differentiation are based on raising price premiums:

- Market based certification schemes: Rainforest Alliance, Utz Kapeh Foundation, Organic, etc.
- Minimum prices: some specialty buyers

However, once remove premium/specialty coffees, bulk of coffees are traded for mainstream brands. Price is determined by the market.

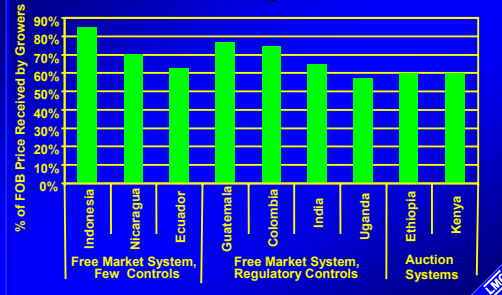
LMC

### Direct buying

- FT buys directly from democratic cooperatives, long term relationships
- Mainstream buy from anyone
- No evidence that direct buying on its own reduces costs.
- Middlemen, with competition, service a valuable market function.



### Marketing Costs



Some similar initiatives in mainstream:

- Specialty Market
- Nestlé where it operates soluble plants at origin



### Conclusions

Differences between mainstream and FT are primarily based on a different understanding of role of markets:

- FT price equates to production costs
- Mainstream prices related to supply and demand.



- Increased differentiation in market (including FT). Provides options for premium prices to be paid to some growers and greater choice for consumers.
- Anything that grows the market whether it be mainstream or FT has to be beneficial in redressing the market imbalance.

